



## **Fair Practices Code for Lenders**

**May 10, 2023**

**Corporate office Address:**

**Ujjivan Small Finance Bank Ltd.**

**Grape Garden, No. 27, 3rd A Cross, 18th Main**

**Koramangala 6th Block, Bengaluru 560 095**

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Ujjivan Small Finance Bank Ltd**

## **FAIR PRACTICES CODE FOR LENDERS OF UJJIVAN SMALL FINANCE BANK (“the Fair Practice Code”)**

The Fair Practices Code for UJJIVAN SMALL FINANCE BANK (“the Bank”) seeks to provide transparency and clarity to the Bank’s borrowers with regard to their transactions with the Bank. These guidelines relate only to the domestic banking business of the Bank.

The Bank’s policy is to treat all its clients/customers consistently and fairly. The Bank’s employees will offer assistance, encouragement and service in a fair, equitable and consistent manner. The Fair Practice Code would be made available to all customers of the Bank at its branches and through its website, currently, [www.ujjivansfb.in](http://www.ujjivansfb.in) (“the Website”).

### **Non - Discrimination policy**

The Bank shall not discriminate among its customers on the basis of race, caste, colour, religion, sex, marital status, age (over that of majority), financial status or physical disability.

### **Code of Conduct for Direct Selling Agents (“DSAs”)**

The Bank shall adopt below Code of Conduct for DSAs and include the same in agreement with the concerned DSA. As the Bank’s arrangement for lending, sourced through Digital Fintech Partnerships are also classified as DSA, below Code of Conduct shall be applicable to the Bank’s Fintech partners for Digital Lending. The Bank had adopted the Model Code of Conduct for DSAs prepared by IBA aligning with the current business model. The other aspects of the model code of conduct shall be adopted whenever the Bank ventures into the respective Business models.

- A prospective customer is to be contacted for sourcing the product of the Bank only under the following circumstances:
  - When prospect has expressed his/her/its desire to acquire a product of the Bank through the Website or the call centre of the Bank or any Branch of the Bank or through Relationship Manager of the bank or has been referred to by another prospect or existing customer, or is an existing customer of the Bank who has given consent for accepting calls from or on behalf of the Bank on other products of the Bank.
  - When the prospect's name / telephone no / address is available with the Bank and has been taken from one of the lists / directories / databases approved by the DSA Manager / Team leader, after taking the consent from prospect.
  - When the prospect / customer on his/her own accord approaches the fintech through their app, website, physical presence, contact centre or any other such touch point as part of their acquisition strategy or model
- DSA should not call any person/entity whose name / contact number is flagged in any "do not disturb" list available with the DSA.
- Telephonic contact must normally be limited between 09:30 Hrs and 19:00 Hrs. However, it may be ensured that a prospect is contacted only when the call is not expected to cause inconvenience him / her. Calls earlier or later than the prescribed time period (as above) may be placed only under the condition when the prospect has expressly authorized DSA to do so either in writing or orally.
- DSA should respect a prospect's privacy. The prospect's interest may normally be discussed only with the prospect and any other individual / family member such as prospect's accountant / secretary / spouse, authorized by the prospect.

- DSA must not accept bribes of any kind from prospects. Any BDE (Business Development Executive) offered a bribe or payment of any kind by a customer must report the offer to his / her management.
- DSA shall upfront disclose the Borrowers that they are interacting with them on behalf of the Bank and any loan if extended to them shall be extended by the Bank only.
- DSAs engaged for collection of dues for the Bank, must have internal policies and procedures, including training, that educate staff/agents on process of dealing with customers at each stage of default and on how to behave with Customers to ensure that they are treated with high ethical standards
- The staff/agents involved in processing loan application, collection of dues and dealing with default customers shall sign a declaration on adherence to Code of Conduct prescribed by the DSA (similar to IBA's Code of Conduct), either at the time of joining formalities or as a separate exercise.
- Must ensure transparency in the maintenance of books of accounts and reporting / presentation and disclosure of financial statements to qualified auditor/s and the Bank.
- Must have thorough information about the product of the Bank.
- DSA should not -
  - Mislead the prospect on any service / product offered by the Bank;
  - Mislead the prospect about their business or organization's name, or falsely represent themselves.
  - Make any false / unauthorised commitment on behalf of the Bank for any facility / service.
- Precautions to be taken on visits / contacts  
 DSA should:
  - Respect personal space - maintain adequate distance from the prospect.
  - Not enter the prospect's residence / office against his / her wishes;
  - Not visit in large numbers - i.e. not more than one BD(Business Development Executive) and one supervisor, if required.
  - Respect the prospect's privacy.
  - If the prospect is not present and only family members / office persons are present at the time of the visit, he / she should end the visit with a request for the prospect to call back.
  - Provide his / her telephone number, supervisor's name or the concerned bank officer's contact details, if asked for by the customer.
  - Limit discussions with the prospect to the business - Maintain a professional distance.
- Any communication sent to the prospect by DSA should be only in the mode and format approved by the Bank.

### **Loans Sourced by Banks over Digital Lending Platforms:**

With reference to RBI circular - Loans Sourced by Banks and NBFCs over Digital Lending Platforms: Adherence to Fair Practices Code and Outsourcing Guidelines dated June 24, 2020, the Bank, irrespective of whether lend through own digital lending platform or through an outsourced lending platform, must adhere to the Fair Practices Code guidelines in letter and spirit and must also meticulously follow regulatory instructions on outsourcing of financial services and IT services.

Wherever the Bank engages digital lending platforms as its agents to source borrowers and/ or to recover dues, they must follow the following instructions:

- a) Names of digital lending platforms engaged as agents shall be disclosed on the website of the Bank.
- b) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the Bank on whose behalf they are interacting with him.

- c) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the Bank.
- d) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.
- e) Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the bank.
- f) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

### **Loan application and agreement**

The Bank shall ensure that the Loan application forms are comprehensive in respect of all categories of loans irrespective of the amount of loan sought by the borrower. The Bank shall provide a checklist of documents to be submitted (compliant with legal and regulatory requirements) along with the loan application form to enable the customer to submit the application complete in all respects.

In case the Bank offers / approves a credit facility over the telephone, the Bank shall credit the customer's account with the amount only after receiving customer's acceptance in writing or their consent is obtained through authenticated electronic means / after necessary validation. The Bank shall not offer any unsolicited pre-approved credit facility in any form.

The Bank shall have a system of giving acknowledgement for receipt of all loan applications along with explicitly mentioning timeline to process the loan application.

### **Loan assessment and appraisal**

The Bank shall conduct proper assessment of credit application of the borrowers and should not use only margin and security stipulation as a substitute for due diligence on credit worthiness of the borrower. The Bank shall convey to the borrower the credit limit along with the applicable terms and conditions. Terms and conditions and other caveats governing credit facilities given by the Bank arrived at, after negotiation with the borrower shall be reduced in writing and duly certified by the authorised official of the Bank. The Bank shall keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.

In the case of lending under consortium arrangement, the participating lenders should evolve procedures to complete appraisal of proposals in the time bound manner to the extent feasible, and communicate their decisions on financing or otherwise within a reasonable time.

### **Information exchange with CICs with respect to loan applications**

The Bank shall explain to the customer the role of Credit Information Companies (CICs), checks undertaken with the CICs and the effect that the information the CIC provides, can have on the customer's ability to avail credit.

The Bank may furnish a copy of the credit information report obtained from the CIC on request from the customer and on payment of the prescribed fee.

The Bank shall provide information about credit availed by the customers to the CIC at periodic intervals on any defaults in repayment and then update the regularisation of the loan account in the next report.

### **Timelines for Credit Decisions**

The Bank shall have a defined procedure for disposal of loan proposals, with appropriate timelines (30 working days from the date of receipt of the loan application for loans up to Rs. 20 lakhs) and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. The Bank shall make suitable disclosures on the timelines for conveying credit decisions through their websites, notice-boards, product literature, and such other modes

The Bank shall verify the loan applications within a reasonable period of time and intimate the borrowers immediately in case of additional details/ documents are required.

In case of rejection of any loans, the Bank shall convey in writing, either through SMS or a letter, the main reason/reasons for rejection of the loan applications within stipulated time. For fintech based digital lending, rejection reason/s may be informed to the customer directly by the Bank or via the fintech lender as mutually decided between the bank and the fintech lender.

### **Procedure to be followed on sanction of loan**

The Bank shall give a written receipt for all documents to title taken as security/ collateral for any loan. The Bank shall not insist on collateral security for credit limits up to Rs. 1.6 lakh for Agricultural Loans and Bank shall not accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector. The Bank shall explain the repayment schedule, viz. amount, tenure and periodicity of repayment at the time of sanction of loans and shall have a defined process for collection of dues. The Bank shall give the customer the option to let equated periodical instalments (EPIs) stay constant and changed tenure or vice-versa when the interest rate changes. The Bank shall explain the methodology for calculation of interest on loans.

The Bank shall furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to the borrower at the time of sanction/disbursement of loans. The loan agreement shall clearly stipulate credit facilities are solely at the discretion of the Bank without having any obligation to meet the further credit requirements of the borrowers on account of growth in business. The Bank may use digital signature facility for loan agreements to be signed by customer and Ujjivan bank. Exceptions to this shall be documented with proper justification. The Bank shall provide the customer with an annual statement of loan account if requested by the customer.

The Bank shall not interfere in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the Bank).

### **Transparent and honest dealing with customers**

The Bank shall ensure that its advertising and promotional literature is clear and not misleading. The Bank shall ensure that the customer is given clear information about its products and services, the terms and conditions and the interest rates/charges, which apply to them. The Bank shall provide information on the facilities provided to the customer and how the customer can avail of these and whom and how they may contact for addressing their queries.

### **Disbursement of loans**

The Bank shall ensure timely disbursement of loans sanctioned in conformity with the applicable terms and conditions. The Bank shall give notice of any change in the terms and conditions including interest rates and such other service charges, which shall be effected only prospectively.

The Bank shall have a constructive post disbursement supervision mechanism particularly in respect of loans up to Rs 2 lakhs to take care of any genuine difficulties faced by the borrower. The Bank shall take a decision to

recall / accelerate payment or performance under the loan document or seek additional securities after giving due notice to borrowers. The Bank believes in following fair practices with regard to collection of dues and repossession of security thereby fostering customer confidence and long-term relationship and thereby ensures that there is no coercive practice followed while collecting the dues.

### **Fees and charges in respect of loans**

The Bank shall disclose, in sanction letter/ loan agreement, all information about fees / charges payable for processing the loan application, whether the amount of fees/charges are refundable if loan amount is not sanctioned / disbursed, pre-payment options and charges, if any, penalty for delayed repayments if any, existence of any interest reset clause and any other matter which affects the interest of the borrower.

The Bank shall display information on rates of interest, service charges and other fees on the Website for all categories of loan products. The branches of the Bank shall have a copy of the Tariff Schedule, the availability of which shall be notified by way of a notice on the Comprehensive Notice Board.

The Bank shall inform 'all-in-cost' to enable customers to compare the rates charges with other sources of finance. The Bank shall ensure that such charges/ fees are non-discriminatory. The Bank shall inform its customers of changes in interest rates on its loan products by means such as letter, email or SMS.

### **Takeover of Loans by other Banks**

The Bank shall convey any objection in respect of borrowal accounts which are being taken over by other banks/ financial institutions within 21 days from the date of receipt of the request.

### **Recovery of Loans**

In the matter of recovery of loans, the Bank shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. The Bank shall not initiate any legal or recovery measures including repossession of the security without giving due notice to the borrower in writing.

The Bank's approach for recovery shall be practical and non-prejudiced. Fair treatment and persuasion are the basic principles of recovery mechanism. Enforcement of security will be undertaken only where restructure / rehabilitation has failed or impossible. The Bank shall follow all such procedures as required under law for recovery/repossession of the security.

Fair practices pertaining recovery of loans are further detailed in "Collection of Dues and repossession of Securities" policy, hosted on the Website.

Bank while engaging outsourced Recovery Agents should ensure adherence to Fair Practice Code for Lenders in the matters of collection of loan due activities, in reference to RBI guidelines on Outsourcing of Financial Services - Responsibilities of Regulated Entities Employing Recovery Agents dated August 12, 2022.

### **Levy of Foreclosure Charges /Pre-payment Penalty on Floating Rate Term Loans**

In reference to RBI circulars DBOD.No.Dir.BC.107/13.03.00/2011-12 dated June 5, 2012 and DBOD.Dir.BC.No.110/13.03.00/2013-14 dated May 7, 2014, the Bank shall not charge foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned, for purposes other than business, to individual borrowers with or without co-obligant(s).

## **Release of Security on Closure of Loans**

The Bank shall release all securities on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim the Bank may have against such borrowers. The Bank shall return to its customers all the securities/ documents/ title deeds of mortgaged property within 15 days of the repayment of all dues agreed to or contracted, subject to any legitimate right or lien for any other claim the Bank may have against such customers. The Bank shall give notice to borrowers if it decides to exercise the right of set off. The notice shall have full particulars about the remaining claims and the documents under which the Bank is entitled to retain the securities till the relevant claim is settled/ paid.

## **Customer Grievance Redressal**

The Bank has established a mechanism for redressal of grievances of borrowers, which is further detailed in Customer Grievance Redressal Policy hosted on the Website or available with branches of the Bank.

An annual review of the compliance with the Fair Practices Code (FPC) for lenders and the functioning of the grievance redressal mechanism will be presented to the Customer Service Committee of the Board of the Bank.

## **Enhancements to Fair Practice Code for Lenders in reference to Master Direction- Regulatory Framework Microfinance Loans March 14, 2022**

According to the said master direction, a microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. The master direction has set compliance requirements for banks as follows:

1. The Bank shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet. Refer Annexure 1 for illustrative factsheet.
2. Any fees to be charged to the microfinance borrower by the Bank and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
3. There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
4. The Bank shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
5. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
6. There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.
7. Bank shall provide loan card with capturing details including the name and contact number of the nodal officer and all entries in the loan card consisting of information which adequately identifies the borrower, simplified factsheet on pricing, all other terms and conditions attached to the loan, acknowledgements by the Bank of all repayments including instalments received and the final discharge and details of the grievance redressal system, including the name and contact number of the nodal officer.
8. All entries in the loan card should be in a language understood by the borrower.
9. Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.

10. the Bank shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the website/branch premises/office.

11. The guidelines on the loan recoveries are suitably factored in Bank's Collection Policy.

**Annexure 1:**

**Illustrative Factsheet on Pricing of Microfinance Loans**

(to be provided in a language understood by the borrower)

**Date:** XXX                      **Lender's Name:** XXX      **Applicant Name:** XXX

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	
(a)	Processing fees (in Rupees)	
(b)	Insurance charges (in Rupees)	
(c)	Others (if any) (in Rupees)	
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	
(vii)	Loan term (in months)	
(viii)	Repayment frequency by the borrower	
(ix)	Number of instalments of repayment	
(x)	Amount of each instalment of repayment (in Rupees)	
<b>Details about Contingent Charges</b>		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

**Detailed repayment schedule**

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)