NAVODIT FOUNDATION

(Microfinancing for You)

Fair Practice Code

Version 2.0

2022

1. Introduction & Objective

NAVODIT FOUNDATION (company) is registered under the companies Act, 2013 (18 OF 2013) and that the company is limited by shares.

Company started its microfinance operations by adopting the "Joint Liability Group (JLG) Model" leveraging technology and new adaptations.

The Fair Practice code has been developed with an objective of:

- Ensuring fair practices while dealing with customers.
- Greater transparency enabling customers in having a better understanding of the product and taking informed decisions.
- Building customer confidence in the institution.

2. Target Audience

The Fair Practice Code shall be available in public domain at company's website and shall also be placed at the notice board of all the offices.

3. Regulatory Reference

Pursuant to the RBI Master Direction- (Regulatory Framework for Microfinance Loans) Directions, 2022 updated circular RBI/DOR/2021-22/89 DoR.FIN.REC. 95/03.10.038/2021-22 dated March 14, 2022 (Annexed) and RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 1, 2015, company has adopted the following guidelines as regulatory reference RBI and approved in the Company's Board meeting.

4. Applications for loans and their processing

- The Application form/ appropriate documents of company to indicate the list of documents required to be submitted by the borrowers along with the application form.
- Company would inform the borrower about the loan products with complete detail within reasonable periods of time or at the time of loan application/ sanctioning of loan.
- Each client will be appraised with all necessary information's of process, loan features and term & condition in language (local language) understood by clients at the time of submitting application for loan. Client shall be provided with contact no. of the field staff or branch manager to enquire about the status of loan applications.
- There will not be discrimination of its clients based on caste, creed, religion, language and regions.
- Company will provide all necessary details of the loan product along with terms and conditions in the loan application. The product details and terms & conditions will be displayed on website and branch premises prominently in language which is understandable by the borrower. The loan application shall provide KYC documents required for availing the loan.
- Company will furnish the acknowledgement for receipt of loan application. The time frame of 10 days within which loan application will be disposed of shall also be indicated in the acknowledgement.

5. Loan appraisal and terms/ conditions

- Loan applications shall be subject to guidelines from RBI and the company's credit appraisal processes which are to be adopted in terms of RBI instructions and framework.
- Upon approval of the loan, a sanction letter indicating the amount of loan sanctioned, rate of interest applicable, method of interest calculation along with other terms and conditions shall be conveyed to the loan applicant in writing in **vernacular language.** A **written acceptance** of such terms and conditions will be taken from the borrower.
- Loan appraisal will adhere to the method of assessing income and repayment capacity mentioned in RBI's directions RBI/DOR/2021-22/89 DoR.FIN.REC. 95/03.10.038/2021-22 dated March 14, 2022.

FACT Sheet -Each borrower will be provided all pricing related information (including any fee, charge, penalty or any other amount deducted) in the factsheet.

- Loan agreement shall disclose following information –
  - All the terms and conditions of the loan, that the pricing of the loan as mentioned in fact sheet, that there will be no penalty charged on prepayment of any loan (incentive for on time payment or payment holiday)
  - that no Security Deposit / Margin is being collected from the borrower,
  - An assurance that the privacy of borrower data will be respected.
- A copy of the loan agreement along with the fact sheet will be furnished to all the borrowers.

6. Disbursement of loans including changes in terms and conditions

- We shall give 3 months' notice in local language to the Borrowers of any changes to the terms and conditions, fact sheet, including disbursement schedule, interest rates, service charges, prepayment charges and all other charges/ deductions which may arise as per the company policy. (Exemption will be for any regulatory directives to be implemented with specified timelines which may be earlier than 3 months)
- Changes in the interest rates and other charges shall be effected prospectively other than under circumstances arising from regulatory instructions. Retrospective changes shall as far as possible be avoided and shall be implemented only within the framework define in the Loan Agreements.
- LOAN CARD- Company shall issue loan card containing following information -
  - Borrower's photograph, KYC details and other relevant information
  - Fact sheet on pricing
  - All terms and conditions attached to the loan
  -
  - Company acknowledgement for the repayments including installments received and final discharged.
  - All the entries in the loan card shall be in the local language or in the language understandable by the borrower
  - Details of grievance redressal system, including the name and contact number of nodal office of the company , SRO and RBI
  - Fee structure and details of any non-credit product
  - We shall prominently display our Grievance Redressal System including the Toll free no. 18003097991 and designation of the nodal officer apart from Branch address and telephone number of the branch.

7. Non-Coercive Methods of Recovery

- As specified in the NBFC-MFIs (Reserve Bank) Directions, 2022, recovery shall be made only at a central designated place. Field staff will be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.
- Company will ensure that a **Board approved policy** is in place with regard to **Code of Conduct** by field staff and systems for their recruitment, training and supervision. The Code shall lay down **minimum qualifications** necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behavior towards borrowers without adopting any threatening or abusive or coercive debt collection / recovery practices/ harassing of relatives, friends or coworkers / publishing the borrowers name / any sort of violence/any misleading information to the borrower wrt debt or consequences of non repayment. Compensation methods for staff should have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery.
- Calling for collection will be held between 9:00am to 6:00 pm
- Generally only employees and related party employees and not outsourced recovery agents be used for recovery in sensitive areas.

8. General

- The Fair Practice Code in vernacular language shall be displayed in all offices and branch premises.
- The minimum/ maximum interest charged and the grievance redressal system shall be displayed in all the offices and in the literature issued by the company (in vernacular language)and on the website,
- The KYC Guidelines of RBI will be complied with. Due diligence shall be carried out as per the regulatory framework and company policies to ensure the repayment capacity of the borrowers,
- As specified in the NBFC-MFIs (Reserve Bank) Directions, 2022, all sanctions and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function,
- Company will take adequate steps may be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.
- In case of receipt of request from the borrower for transfer of borrower account, the consent or otherwise i.e. objection of company if any is generally conveyed within 21 days from the date of receipt of request. Such transfer will be as per transparent contractual terms in consonance with all the applicable laws.

9. Internal Audit and Control

As the primary responsibility for compliance with the Directions rest with the NBFC-MFIs, company has made necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.

10. Complaint and Grievance Redressal Mechanism

Company has laid the appropriate grievance redressal mechanism within the organization to resolve the disputes arising in this regard. All grievances will be addressed to designated officials assigned by the Company. The compliances of fair practice code and functioning of grievance redressal mechanism will be reviewed by the Board A consolidated report of such reviews may be submitted tothe Board at regular intervals, as may be prescribed by it.

Channel 1: Physical receipt of the complaint by the Company's officials
Channel 2: Complaint to State Nodal Officer
Channel 3: Toll free number
Channel 4: SRO toll free number
Channel 5: RBI telephone number

The details of each channel are as follows:

Channel 1: Receipt of the complaint by the Company's officials

Customer may contact the Branch Head or contact at Toll Free Number or may also use Complaint/Suggestion Box or Complaint Book available at Branch for submitting complaints.

Every Branch is required to have the following:

- Feedback cum Complaint Register
- Display of the name, address and details of Toll-Free number
- Display of the name, address and details of SRO Toll – Free number
- Display of the name, address and details of phone number of RBI

The process of the complaint's redressal unit will ensure closure of all the complaints within a timeframe of 30 working days. If customer is not satisfied with the action against the complaint or branch level staff fails to close the case within the duration of 30 working days, then customer can escalate the complaint to the toll-free number.

Company has put in a robust mechanism to handle these complaints. Company reviews all the complaints which are at the branch level on regular basis and understand the reasons for the complaint and it will be ensured by the State Head and Zonal Business Head to put this process in place to avoid the escalation and ensure non occurrence of such complaints in future.

Channel 2: Complaint to State Nodal officer Client may contact the State Nodal Officer. If the client is not satisfied with the response received from the Branch/ Toll free number, she may contact the State Nodal Officer at the contact details provided on the website or displayed on Branch Notice Board.

Channel 3: NAVODIT FOUNDATION's Toll-Free Number

At Head Office Level, customer can directly approach to Customer Grievance Cell, where company has a dedicated **Toll-Free Number (1800-309-7991)** and a dedicated team that complies, addresses and escalates customer's calls every day. The necessary steps to assure customer grievance redressal are as follows:

The customer or her / his representative shall report to Customer Care Executive (CCE) in case she has any complaint. CCE will seek the information from the customer and visa -vis the customers have to disclose the details to the CCE which are as presented in the table.

- State name, Branch name and Village Name
- Applicant and Co- Applicant Name as written in the loan Card
- Centre ID and Customer ID as written in the loan card
- Contact Details
- Product and Service to which complaint is related
- Details of Complaint
- Other details as required by CCE

Upon the receipt of the calls, CCE registers the complaint based on the criticality that is complaint, service request and queries and speaks to the relevant company's officials to validate the complaint raised by the customer. If CCE finds that the complaint is genuine and needs to be addressed immediately, then CCE mobilize immediate support and ensures timely redressal of the complaint with the help of company's officials. In case of third-party product, the Customer Care Executive provides the concern party mobile number so that customer can directly register their complaint to the third-party provider and take the follow up with customer regarding the resolution and satisfaction.

The details of this channel are as follows:

Toll-Free Number: - 1800-309-7991

9 am to 6 pm on weekdays (except second and fourth Saturdays) & National Holidays.

Company has committed to the SRO guideline on CGRM. Therefore, company has categorized the calls in three levels which is based on the nature of concern raised by the customer which are as follows:

1. Complaints
2. Service Request
3. Queries

Complaints

Definition: A call is to be categorized as a complaint when the caller or the person on whose behalf the caller is calling, is an existing customer or past customer of the organization who has the grievances related to the guideline defined by SRO regulations from time to time. Further, the complaint may call for redressal or for addressing of issues.

Service request

Definition: A call to be categorized as a service request when it is from an existing customer who has availed a loan and wants to avail a service with respect to the loan taken.

Queries

Definition: A call to be categorized as a query when the caller is an existing or potential customer and wants to either avail information regarding products offered in general or wants any specific information regarding the existing loan that she/ he may have availed.

Company has not only done the categorization of calls but also defined the timeframe to resolve each caseon time along with proper escalation mechanism. All categories of call will be resolved within the timeframe of 30 working days. #**For Insurance claim cases:** TAT is 60 days basis on the respect of correct documents & verification related process conducted by insurance company.

Customer Grievance Redressal team maintains a call log / control sheet of all the calls received on the toll-free number in MS excel, where all the details of the query / complaint is fed along with the subsequent escalation and action taken to resolve the grievance. Status of the case is also updated in the log as

- Closed: Closed cases are all those cases which are resolved by the Grievance Redressal team either by sharing relevant information with the customer or by immediate intervention of regional operations team at the branch level, to the satisfaction of customer.
- Open: All those cases are open which could not be resolved or flagged by the line department and further action needs to be taken to resolve the open cases.

Monthly CGRM report will be prepared by the CGRM team and will be shared by the Senior Management. A summary of all such complaints are prepared and presented periodically in the board meetings so that the board can appraise and guide the management on best practices on grievance redressal to enable company to be a customer centric organization. Similarly, Management regularly reviews KPIs such as percentage of cases resolved, average time to resolve cases and take corrective action to resolve mis – handled cases and improve systematic shortcomings.

Apart from the Toll-free number, customer may use the below mentioned platforms:
Write (to us at the below mentioned address)**:**
NAVODIT FOUNDATION -
Grievance Redressal Officer Mr. Vivek Singh (HR)
Mobile No: +91- 7522826551
SA,15/121, 1st floor,
Mawaiya, Ashapur, Sarnath Road, Varanasi ,U.P -221007
Or
Email (us at): - grievance.navoditmfi@outlook.com

Channel 3: SRO toll free number

We ensure a response to letters/emails received through this channel within 30 working days. If the complaints/dispute is not redressed within a period of given time frame, the customer may appeal to the below mentioned contact details:
Micro-Finance Institutions Network (MFIN),
PSP 4-003, 4-004, 4th Floor, Emaar Palm Spring Plaza,
Golf Course Road, Sector – 54,
Gurugram -122003, Haryana
Toll Free Number 1800- 102- 1080
Tel. No.: +91 124 – 4576800
Email: contact@mfinindia.org

Channel 4: RBI telephone number

If the case is not resolved by Micro Finance Institutions Network, then the customer may contact the Reserve Bank of India. The case will be taken by the Officer-in-charge of the Regional Office of Department of Non-Banking Supervision of RBI under whose jurisdiction the registered office of company falls. The details of DNBS are as given below:

Dy. General Manager, Department of Non-Banking Supervision (DNBS)
Reserve Bank of India, 6, Parliament Street,
New Delhi-110001
Tel. No.: +91 011-23714456/0538
Email: - dnbsnewdelhi@rbi.org.in

Complaints that are received at our end will be seen in the right perspective and would be analyzed from all possible angles. The communication regarding company's stand on any issue will be communicated to the customers. Complaints that require some time for examination of issues involved will be acknowledged promptly and responded as per defined response time.

During quarterly Internal Audit process, the internal audit team also checks the Customer Complaint Register available at branches and its resolution is carried out by the branch team for the closure of the complaint.

i. Mandatory Display Requirements

Company has the following in all our branches:

- Appropriate arrangement for receiving complaints and suggestions.
- Display of the name, address and contact number of the Complaint Redressal Officer

The process of the complaints redressal unit will ensure closure of all the complaints to the customers' satisfaction.

They will ensure that the complaint is escalated to the appropriate levels in case it is not possible to resolve at his/her level. Whilst the ultimate endeavor is to ensure we reach a situation where our customers don't have to complain to senior management to get an effective redressal, we have put in a robust mechanism to handle these complaints, review them from a point of view and understand the reasons for the complaint and for the escalation and working on prevention of recurrence thereof.

ii. Time Frame

To register complaints, the customers may use any of the channels mentioned above (refer point (a) on Internal Machinery to handle the customer complaints). If the complaint has been received in writing, Company will endeavor to send an acknowledgement/response within a week. Once the matter is examined, Company endeavor to either send a final response to the customer or an intimation seeking more time within one month upon receipt of complaint.

Complaints that are received at our end will be seen in the right perspective and would be analyzed from all possible angles.

The communication of Company stand on any issue will be provided to the customers. Complaints that require some time for examination of issues involved will be acknowledged promptly.

The aforesaid policy will be reviewed periodically/ revised as and when there are many new changes incorporated by company in handling complaints/ grievances of the customer which includes introduction of new grievance channels, if any.

iii. Regulation of Excessive Interest Charged

The company has laid down appropriate internal principles and procedures in determining interest rates and processing fees and other charges.

The company has adopted an interest rate model taken into accounts - cost of funds, margin and risk premium for determining rate of interest to be charged for loans and advances.
The rate of interest will be annualized so that the borrower is aware of the exact rates that would be charged to the account.

11. Confidentiality of Client Information's

NAVODIT FOUNDATION will maintain the privacy and confidentiality of client's personal and financial information's.

12. Glossary

Abbreviations	Details
DNBS	Department of Non-Banking Supervision
Dy.	Deputy
JLG	Joint Liability Group
KYC	Know Your Customer
MD	Managing Director
MFI	Micro Finance Institution
NBFC	Non-Banking Finance Company
No.	Number
RBI	Reserve Bank of India
NAVODIT FOUNDATION	NAVODIT FOUNDATION

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RBI/DOR/2021-22/89
DoR.FIN.REC.95/03.10.038/2021-22

March 14, 2022
(Updated as on July 25, 2022)

All Commercial Banks (including Small Finance Banks,
Local Area Banks and Regional Rural Banks) excluding Payments Banks
All Primary (Urban) Co-operative Banks/ State Co-operative Banks/
District Central Co-operative Banks
All Non-Banking Financial Companies (including Microfinance Institutions
and Housing Finance Companies)

Madam/ Dear Sir,

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

Please refer to paragraph 8 of the Statement on Developmental and Regulatory Policies announced as a part of the Bi-monthly Monetary Policy Statement for 2020-21 dated February 5, 2021, regarding review of the regulatory framework for microfinance.

2. A consultative document on regulation of microfinance loans was issued for public comments on June 14, 2021. Based on the feedback received, it has now been decided to put in place the directions for microfinance loans which are enclosed.

3. Frequently asked questions (FAQs) on these directions are available at following link: Reserve Bank of India - Frequently Asked Questions (rbi.org.in)

Yours faithfully,

(J.P. Sharma)
Chief General Manager

Department of Regulation, Central Office, 2nd Floor, Main Building, Shaheed Bhagat Road, Fort, Mumbai-400 001
Email: cgmicdor@rbi.org.in

DoR.FIN.REC.95/03.10.038/2021-22 **March 14, 2022**

Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

In exercise of the powers conferred by Section 21, Section 35A and Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934; and Sections 30A and Section 32 of the National Housing Bank Act, 1987, the Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the directions hereinafter specified.

1. Short Title and Commencement

These directions shall be called the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

These directions shall be effective from April 01, 2022, subject to stipulations as at paragraphs 5.3 and 9.3.

2. Applicability

The provisions of these directions shall apply to the following entities:

(i) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;

(ii) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and

(iii) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

The entities mentioned at points 2.1(i) to 2.1(iii) above are hereafter referred to as 'Regulated Entities (REs)' for the purpose of these directions.

3. Definition of Microfinance Loan

A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

The REs shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

4. Assessment of Household Income

Each RE shall put in place a board-approved policy for assessment of household income. An indicative methodology for assessment of household income is provided in **Annex I**.

Self-regulatory organizations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

Each RE shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

5. Limit on Loan Repayment Obligations of a Household

Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.

The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income

shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

Existing loans, for which outflows on account of repayment of monthly loan obligationsof a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

Each RE shall provide timely and accurate data to the CICs and use the data availablewith them to ensure compliance with the level of indebtedness. Besides, the RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

6. Pricing of Loans

Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

(i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;

(ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;

(iii) The range of spread of each component for a given category of borrowers; and

(iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

Each RE shall disclose pricing related information to a prospective borrower in a standardized simplified factsheet (in accordance with the illustration provided in **Annex II**).

Any fees to be charged to the microfinance borrower by the RE 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.

The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

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.

Each RE 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. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.

Any change in interest rate or any other charge shall be informed to the borrower wellin advance and these changes shall be effective only prospectively.

As part of their awareness campaigns, SROs/ other industry associations may publishthe range of interest rates on microfinance loans charged by their members operating in a district. SROs/ other industry associations may also sensitize their members against charging of usurious interest rates.

RBI would also make available information regarding interest charged by REs on microfinance loans.

7. Guidelines on Conduct towards Microfinance Borrowers

General

A fair practices code (FPC) based on these directions shall be put in place by all REs with the approval of their boards. The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.

There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.

Each RE shall provide a loan card to the borrower which shall incorporate the following:

(i) Information which adequately identifies the borrower;

(ii) Simplified factsheet on pricing;

(iii) All other terms and conditions attached to the loan;

(iv) Acknowledgements by the RE of all repayments including instalments received and the final discharge; and

(v) Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE.

All entries in the loan card should be in a language understood by the borrower.

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.

Training of Staff

Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring. This policy shall, inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers. Training to employees shall include programs to inculcate appropriate behavior towards customers. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.

Field staff shall be trained to make necessary enquiries regarding the income and existing debt of the household.

Training, if any, offered to the borrowers shall be free of cost.

Responsibilities for Outsourced Activities

Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE.

A declaration that the RE shall be accountable for inappropriate behavior 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 FPC displayed in its office/ branch premises/ website.

Guidelines related to Recovery of Loans

Each RE shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.

Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the RE. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.

RE or its agent shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

(i) Use of threatening or abusive language
(ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.
(iii) Harassing relatives, friends, or co-workers of the borrower
(iv) Publishing the name of borrowers
(v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
(vi) Misleading the borrower about the extent of the debt or the consequences of non-repayment

Each RE shall have a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower at the time of loan disbursal.

Engagement of Recovery Agents

Recovery agents shall mean agencies engaged by the RE for recovery of dues from its borrowers and the employees of these agencies.

The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. REs shall ensure that the recovery agents engaged by them carry out verification of the

antecedents of their employees, which shall include police verification. REs shall also decide the periodicity at which re-verification of antecedents shall be resorted to.

To ensure due notice and appropriate authorization, the RE shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from the RE along with the identity card issued to him by the RE or the agency. Further, where the recovery agency is changed by the RE during the recovery process, in addition to the RE notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.

The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the RE.

The up-to-date details of the recovery agencies engaged by the RE shall also be hosted on the RE's website.

8. Qualifying Assets Criteria

Under the earlier qualifying assets criteria[1], a Non-banking Financial Company - Microfinance Institution (NBFC-MFI) is required to have minimum 85 per cent of its net assets[2] as 'qualifying assets'. The definition of 'qualifying assets' of NBFC-MFIs is now being aligned with the definition of 'microfinance loans' given at paragraph 3 above. The minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.

Under the earlier guidelines, an NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding 10 per cent of its total assets. The maximum limit

[1] In order to be classified as a 'qualifying asset', a loan is required to satisfy the following criteria:
(i) Loan which is disbursed to a borrower with household annual income not exceeding ₹1,25,000 and ₹2,00,000 for rural and urban/semi-urban households, respectively;
(ii) Loan amount does not exceed ₹75,000 in the first cycle and ₹1,25,000 in subsequent cycles;
(iii) Total indebtedness of the borrower does not exceed ₹1,25,000 (excluding loan for education and medical Expenses);
(iv) Minimum tenure of 24 months for loan amount exceeding ₹30,000;
(v) Collateral free loans without any prepayment penalty;
(vi) Minimum 50 per cent of aggregate amount of loans for income generation activities; and
(vii) Flexibility of repayment periodicity (weekly, fortnightly or monthly) at borrower's choice.
[2] Net assets have been defined as total assets other than cash, bank balances and money market instruments.

on microfinance loans for such NBFCs (i.e., NBFCs other than NBFC-MFIs) now stands revised to 25 per cent of the total assets.

9. Exemption for 'Not for Profit' Companies engaged in Microfinance Activities

The definition of microfinance loans for 'not for profit' companies (registered under Section 8 of the Companies Act, 2013) is now aligned with the revised definition of microfinance loans viz., collateral-free loans to households with annual household income up to ₹3,00,000, provided the monthly loan obligations of a household does not exceed 50 per cent of the monthly household income.

Exemptions from Sections 45-IA[3], 45-IB[4] and 45-IC[5] of the RBI Act, 1934 have been withdrawn for those 'not for profit' companies engaged in microfinance activities that have asset size of ₹100 crore and above.

'Not for profit' companies that are not eligible for the exemptions mentioned at paragraph 9.2 above, are required to register as NBFC-MFIs and adhere to the regulations applicable to NBFC-MFIs. Such companies shall submit the application for registration as an NBFC-MFI to the Reserve Bank within three months of the issuance of this circular. Those companies that currently do not comply with the regulations prescribed for NBFC-MFIs, shall submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration.

10. Net Owned Fund (NOF) Requirement

Existing NBFC-MFIs shall adhere to the NOF glidepath indicated under paragraph 3.1 (a) of the Circular dated October 22, 2021 on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' as given below:

NBFCs	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-MFI	₹5 crore (₹2 crore in NE Region)	₹7 crore (₹5 crore in NE Region)	₹10 crore

[3] 45-IA: Requirement of registration as an NBFC
[4] 45-IB: Maintenance of a certain percentage of outstanding deposits in approved securities by deposit taking NBFCs
[5] 45-IC: Transfer of 20 per cent of net profit to reserve fund

Annex I
(cf. Para 4.1 of these Directions)

Indicative Methodology for Household Income Assessment

1. For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

a) Composition of the household
   i. Number of earning members
   ii. Number of non-earning members
b) Type of accommodation (owned/ rented, etc.)
c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

a) Primary source of income
   i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)
   ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)
   iii. Frequency of income (daily/ weekly/ monthly)
   iv. Months/ days of employment over last one year
   v. Self-reported monthly income
   vi. Average monthly income (to be derived from (iv) & (v) above)
b) Other sources of income
   i. Remittance
   ii. Rent/ Lease
   iii. Pension
   iv. Government transfer
   v. Scholarship
   vi. Others (specify details)
c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of

all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

a) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.)

b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

2. Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

Annex II
(cf. Para 6.3 of these Directions)

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)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674[6]
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
Details about Contingent Charges		
(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)
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970

[6] The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970