

# Valar Aditi Social Finance Private Limited

(A Micro Finance Initiative)

## FAIR PRACTICES CODE.

(Revised version of the Fair Practices Code approved  
By the Board of Directors on .....

VALAR ADITI SOCIAL FINANCE PRIVATE LIMITED.  
FAIR PRACTICES CODE.

### 1. Introduction:

Valar Aditi Social Finance Private Limited (VASF) is a company registered under the companies act 1956 and VASF received its Certificate of Registration from the Reserve Bank of India on 22nd March 2002 which licensed it to commence business as a Non-Banking Finance Company (NBFC) with no public deposit mobilization. Later consequent to the introduction of Microfinance regulations by RBI in 2011, VASF obtained a Certificate of Registration from RBI as NBFC-MFI (Non- Banking Finance Company- Micro Finance Institution) on 23/08/2017. Currently, Valar Aditi Social Finance Private Limited operates among the women community in the State of Tamil Nadu and Puducherry.

Valar Aditi Social Finance Private Limited had taken the capital contributions through the Mutual Benefit Trusts (MBTs), which were promoted by the Self Help Group members developed by St. Joseph's Development Trust (SJDT), a registered charitable trust in south Tamil Nadu established in 1992 for pursuing rural development. St. Joseph's Development Trust was founded by Rev. Dr. I. Sebastian, a dedicated social worker with more than 35 years of experience in development and welfare activities focused at uplifting the marginalized, abandoned, and vulnerable sections of the society.

Valar Aditi Social Finance Private Limited is following the "Credit plus" model of Microfinance i.e. delivering financial services to the clients and also facilitating the delivery of non-financial services like capacity building services through the NGO SJDT. Rev. Dr. I. Sebastian is the Managing Director of the VASF. This Fair Practices Code has been revised by the Board of Directors of VASF, in line with the provisions of the guidelines of RBI on Fair Practices Code vide its circulars RBI/DNBR/2016-17/44 Master Direction DNBR.PD.007/03.10.119/2016-17 September 01, 2016 (Updated as on December 29, 2022) and RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 March 14, 2022.

## **2. Objectives:**

The objectives of Fair Practices Code are to

- i. Ensure that the staff of VASF follow the responsible lending practices at all stages of lending processes.
- ii. Build the Customer confidence on the VASF.
- iii. Ensure client protection and fair practices while dealing with the customers.
- iv. Enable greater transparency to ensure the customers have a better understanding of the products and take an informed decision.

## **3. Applications for Loans:**

- i. VASF shall ensure that all communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- ii. Loan application forms of VASF shall include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs/MFIs can be made and informed decision can be taken by the borrower.
- iii. VASF loan application form shall indicate the documents required to be submitted with the application form.
- iv. VASF shall devise a system of giving acknowledgement in a 'Tear-off' for receipt of all loan applications by the Field Officers.
- v. Preferably, the time frame (within 15 days from the receipt of the loan application) within which loan applications will be disposed of by the VASF shall also be indicated in the acknowledgement.
- vi. VASF requests borrowers to submit required information like KYC proof for identification of the borrowers as per RBI norms.

## **4. Loan appraisal:**

- i. VASF shall train all its field staff on how to assess the household income of the prospective borrowers so as to make the due diligence process so objective.
- ii. VASF shall check with Credit Bureaus for knowing the existing liabilities of the prospective borrowers and to ensure that their borrowings including the proposed borrowing are within the limit to fulfil the eligibility norms prescribed by the VASF.
- iii. VASF shall comply with all RBI norms like FOIR (Fixed Obligations to Income Ratio) of the household of the members not exceeding 50%, while doing the appraisal for loan.
- iv. VASF shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.
- v. In accordance with the VASF's appraisal norms, loan application will be considered and loan amount will be sanctioned after applying internal credit appraisal norms.

## **5. Loan agreement:**

- i. Borrowers may not be fully aware of the terms and conditions of the loans including rate of interest at the time of sanction of loans, either because the NBFC does not provide details of the same or the borrower has no time to look into detailed agreement. Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is an unfair practice and this could lead to disputes between the NBFC and the borrower with regard to the terms and conditions. VASF, shall furnish a copy of the

- loan agreement as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.
- ii. As complaints received against NBFCs generally pertain to charging of high interest / penal interest, VASF shall mention the penal interest charged for late repayment in bold in the loan agreement.
  - iii. Loan agreement shall have the following.
    - a. The interest rate to be charged, method of application thereof, the processing fee charged and the insurance premium applicable for member.
    - b. VASF shall always adopt interest rate model as per the Pricing Policy considering relevant factors such as cost of funds, margin and risk premium, etc., duly approved by the Board of Directors of VASF. The VASF shall disclose minimum, maximum and average rates of interest for different set of products through formal communications, display in all offices/branch premises, Company's website and other literature issued by the VASF.
    - c. The VASF shall communicate the rate of interest explicitly in the sanction letter / loan card.
    - d. The rate of interest and the approach for gradations of risk and rationale for charging different rates of interest to different categories of borrowers shall be disclosed to the borrower in the application form and communicated explicitly in the sanction letter / loan card / fact sheet.
    - e. The VASF shall not levy any pre-payment charges for Group lending borrowers and shall not stipulate any Security Deposit/ Margin.
    - f. The VASF shall provide a minimum moratorium of one instalment between the grant of loan and due date of the first instalment.
    - g. The VASF shall assure the privacy of borrower's data except for sharing the same with all Industry Associations, Credit Bureau, Lenders to the company and any statutory/regulatory/rating agencies.
    - h. Loan Agreement shall include the decision to recall / accelerate the repayment whenever the borrower commits a gross deviation of any of the terms and conditions of the loan.
    - i. Loan Agreement shall also contain a clause to release all securities and repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim the Company may have against the borrower. Under such conditions when the right of set off is to be exercised, the Company shall serve a notice period of 7 (seven) days about the same with full particulars about the remaining claims and the conditions under which the Company is entitled to retain the securities till the relevant claim is settled/ paid.
    - j. VASF declare its accountability for any inappropriate staff behavior and timely Grievance Redressal of the borrowers. Grievance redressal channels shall be available on the loan cards issued to the borrowers, as well as displayed at all branches of the VASF.
    - k. The VASF shall give options of repayment frequency to all its customers to choose between weekly, biweekly, or monthly depending on their cash flow.
    - l. In addition to the loan sanction letter, a loan card, shall be made available to the borrowers.

#### **6. Disbursement of Loans including changes in terms & conditions:**

- i. VASF shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.
- ii. VASF shall also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard must be incorporated in the loan agreement.
- iii. VASF shall ensure that the decision to recall/ accelerate payment or performance under the agreement shall be in consonance with the loan agreement.
- iv. VASF shall release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim they may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which applicable NBFCs are entitled to retain the securities till the relevant claim is settled/ paid.
- v. The VASF shall issue loan card in the language understood by the borrower for MFI Loans:

## **7. Non-coercive recovery:**

- i. The VASF shall collect all its recoveries at the Group Meetings which is decided mutually by borrowers and the Company. Only in case the borrower fails to attend the group meeting on 2 or more successive occasions, the Company's field staff shall visit the place of residence or place of work of the borrower for recovery.
- ii. The VASF shall ensure that a uniform systems and procedure approved by the Board as a policy in the matter of staff recruitment, training and supervision is in place.
- iii. The VASF's policy shall focus on training field staff through training programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection / recovery practices.
- iv. The VASF shall have a policy of appraisal of field staff, where the compliance of code of conduct and customer satisfaction shall be one of the parameters for appropriate compensation.
- v. The VASF shall initiate necessary disciplinary action against staff who abuses any of the items under Code of conduct.
- vi. The VASF shall not engage/outsourced any recovery agents for recovery.

## **8. General:**

- i. The VASF shall refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless information, not earlier disclosed by the borrower, has been noticed).
- ii. In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e., objection of the VASF, if any, shall be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- iii. In the matter of recovery of loans, VASF shall not resort to undue harassment viz., persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. As complaints from customers also include rude behaviour from the staff of the companies, VASF shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.
- iv. As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, VASF 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).
- v. The VASF will not discriminate loan applications based on grounds of sex, caste, colour, creed and religion.

## **9. Responsibility of Board of Directors:**

The Board of Directors of VASF shall also lay down the appropriate grievance redressal mechanism within the organization. Such a mechanism shall ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors of VASF shall also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews shall be submitted to the Board at regular intervals, as may be prescribed by it.

## **10. Grievances Redressal Mechanism:**

At the operational level, VASF shall display the following information prominently, for the benefit of its customers, at its offices/places where business is transacted:

- i. The name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the clients for resolution of complaints against the VASF.

First Level Branch Manager,  
Second Level Area Managers  
Third Level Divisional Manager

The name, email ID and contact number of Divisional Manager, Area Manager and name, email ID and contact number of Branch Manager shall be displayed.

Fourth Level  
Mr. C.Antonisamy, Chief Operating Officer,  
Contact Number: 9486505361  
Email ID: [coo@valaraditi.in](mailto:coo@valaraditi.in)

- ii. If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of Department of Supervision of the Bank (with complete contact details), under whose jurisdiction the registered office of VASF falls.
- The General Manager In-charge,  
Department of Supervision  
Reserve Bank of India, Regional Office,  
Fort Glacis, 16, Rajaji Rd, Fort St George  
Chennai, 600 001.  
Phone no: 044- 25399112  
Email: [ssmnbfc2che@rbi.org.in](mailto:ssmnbfc2che@rbi.org.in)
- iii. RBI's Integrated Ombudsman scheme 2021.
- If the complainant does not receive any reply from VASF within 30 days from the date of the complaint lodged or receives the non-satisfactory reply from VASF, then she/he can register her/his complaint with the RBI Ombudsman.
  - The complainant can write/Mail/Call to RBI Ombudsman for registering his/her complaint (under a centralized Complaint Management System).
  - The complaint may be directly registered by the complainant in the complaint management portal (<https://cms.rbi.org.in>) developed by RBI.
  - The hard copy of the same complaint shall be sent to the following address  
Address: Centralized Receipt and Processing Centre Reserve Bank of India, 4th Floor, Sector 17, Chandigarh – 160017
  - Contact Centre with toll free number 14448 (9.30 AM to 5.15 PM)
  - For the purpose of Integrated Ombudsman scheme 2021 of RBI, VASF's Managing Director will be the Principal Nodal Officer to represent the VASF to the Ombudsman.
- iv. In case of any complaints /grievances, that is not resolved satisfactorily or responded by the VASF, client may escalate to the Grievances Redressal Officer of Sa-Dhan, Self-Regulatory Organization approved by RBI to get it resolved.
- Mr. Ardhendu Nandi,  
Grievances Redressal Officer,  
Sa-Dhan,  
Head Office, A1- 248, III floor,  
Safdarjung Enclave, New Delhi. 110 029.  
Phone: 011-47174405  
Email: [nandi@sa-dhan.org](mailto:nandi@sa-dhan.org)
- v. Additionally, the information sought from each customer should be relevant to the risk perceived in respect of that particular customer, should not be intrusive and should be in line with the guidelines issued by the RBI in that behalf.

### **11. Language and Mode of communication of FPC:**

Fair Practices Code will be in the vernacular language as understood by the borrower. VASF shall display the Board approved Fair Practices Code in all places having customer interface. This Board approved FPC may enhance the scope of the relevant RBI directions but in no way sacrifice the spirit underlying these directions. The same shall be put up on website of VASF, for the information of various stakeholders.

### **12. Regulation of excessive interest:**

- i. The RBI has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFC. Though interest rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. VASF shall lay out appropriate internal principles and procedures in determining interest rates and other charges.
- ii. The Board of VASF shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- iii. The rates of interest and the approach for gradation of risks shall also be made available on the website of the VASF. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.
- iv. The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

### **13. Additional guidelines for Microfinance:**

In addition to the general directions of RBI on Fair Practices Codes for NBFC, RBI has prescribed Fair Practice Code guidelines specific for microfinance loans through its circular RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 March 14, 2022. VASF puts in place these additional guidelines also in its Fair Practice Code for adoption by the VASF team to protect the clients interest and ensure the transparency of microfinance operations.

- i. The FPC should be issued in a language understood by the borrower.
- ii. There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.
- iii. VASF shall provide a loan card to the borrower which shall incorporate the following:
  - a. Information which adequately identifies the borrower.
  - b. Simplified factsheet on pricing.
  - c. All other terms and conditions attached to the loan.
  - d. Acknowledgements by the VASF of all repayments including instalments received and the final discharge.
  - e. Details of the grievance redressal system, including the name and contact number of the Grievances Redressal Officer.
  - f. All entries in the loan card should be in a language understood by the borrower.
  - g. 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:**

- a. VASF shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring.

- b. This policy shall, inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers.
- c. Training to employees shall include programs to inculcate appropriate behaviour towards customers.
- d. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.
- e. Field staff shall be trained to make necessary enquiries regarding the income and existing debt of the household.
- f. Training, if any, offered to the borrowers shall be free of cost.

**Guidelines related to Recovery of Loans:**

- a. VASF 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.
- b. Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the VASF. 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.
- c. VASF or its agent shall not engage in any harsh methods towards recovery.
- d. 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 or visiting the overdue 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
  - (vii) VASF 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.

**14. Administration and Review:**

The Managing Director of VASF shall be responsible for the administration, interpretation, application and review of this policy. The Managing Director of VASF also shall be empowered to bring about necessary changes to this Policy, if required at any stage with the due approval/ratification, as the case may be, of the Board of the Directors of VASF.

**15. Disclosure:**

The details of Fair Practice Code shall be disclosed by the VASF in its website.

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