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1. BACKGROUND

This Policy is based on the requirements mentioned in RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, dated September 01, 2016 and as amended from time to time and Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, dated March 14, 2022.

2. POLICY OBJECTIVE

The objective of this Code is to -

- Follow good, fair and transparent business practices by setting reasonable standards in dealing with customers;
- Encourage market forces, through fair competition, to achieve higher operating standards;
- Relate to the Customer in such manner so as to promote a fair and cordial relationships;
- Strengthen mechanisms for redressal of Customer grievances;
- Conduct recovery and enforcement, where necessary, by following due process of law.

Further, in this policy Light Microfinance Private Limited will be referred as “LIGHT” or “the Company”.

3. DEFINITION

3.1. Customer

For the purpose of this Policy, Customer is defined as a person who has availed or is availing at least one of the loan products of the Company.

4. APPLICABILITY

- 4.1. The Code is applicable to all persons offering the products and services of the Company or interacting with the Customers as an employee or otherwise in any manner and/or by any mode.
- 4.2. The Code is applicable under a normal operating environment except in the event of any *force majeure*.
- 4.3. The Code is based on ethical principles of integrity and transparency and all actions and dealings shall follow the spirit of the Code.

5. RESPONSIBILITIES OF THE COMPANY

- 5.1. The Company shall at all times do its best to act fairly, reasonably and meet the standard practices prevalent in the industry.
- 5.2. The Company shall abide by all the relevant laws, regulations and meet the ethical principles of integrity and transparency during its interaction with Customers.
- 5.3. The Company shall provide a copy of this Code, at request, to the Customer. The Code will also be made available on its website and at every branch / office.
- 5.4. The Company shall not discriminate on the grounds of sex, caste and religion in the matter of lending.
- 5.5. The Company shall treat the information relating to Customers as strictly confidential and shall not share any information, unless required under law or waived or permitted by the Customer.
- 5.6. The Company shall take necessary steps to inform its Customers of their right to information regarding their account and the facilities available to them.
- 5.7. The Company shall not indulge in any act which is discriminatory among equals.
- 5.8. The Board of Directors of the Company shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.
- 5.9. The Company in the normal course of its business shall endeavour at all times to guide its Customers about the process and procedure to be followed for availing a loan.

- 5.10. The Company shall ensure that all its product and services are provided to Eligible Customers and are in compliance with RBI guidelines and other applicable laws.
- 5.11. The Company shall use Customer information strictly for loan related transactions and it can be disclosed to a third party after due consent from the Customer or as a legal requirement.

6. COMMUNICATION WITH CUSTOMER

- 6.1. While interacting with Customers, the Company shall take all steps as may be required to provide clear information either in English or the appropriate vernacular language as understood by the Customer regarding:
- Its various products and services
 - the terms and conditions, the interest rates/service charges and the provisions pertaining to penal charges , benefits available to Customers and the implications, if any.
 - Contact persons for addressing the queries, if any.
- 6.2. The Company shall be clear and not misleading in any of its advertising and promotional materials.
- 6.3. The Company shall inform its Customers of all financial information such as rates of interest, charges,(including penal charges) method of calculation etc. during the course of meeting with the Customers etc. prior to entering into any transaction.
- 6.4. The Company shall endeavour to keep its Customers informed of any change in the terms and conditions of the loan. For this purpose, the Company shall give notice to the Customer through letters or any other form of general or public announcement or displays, in English or vernacular language or any language understood by the Customer of any change in the terms and conditions including disbursement schedule, interest rates, service charges, etc.
- 6.5. The Company shall communicate to the Customers, at periodic intervals, through SMS, emails or any other mode of communication, the amount outstanding and the date of repayments. The Company shall inform new Customers about the organization's policies and procedures to help them understand their rights as Customers. Further, the Company shall refrain from interference in the affairs of the Customer except for the purposes provided in the terms and conditions of the loan agreement.
- 6.6. The Company shall not take advantage of any unintentional or clerical error made by the Customer while transacting business.
- 6.7. All products delivered by the Company are based on the principles of joint Liability of Group and all terms and conditions related to product and insurance linked with the product are communicated to the Customers in vernacular language.

7. LOANS TERMS AND RELATED DOCUMENTATION

- 7.1. Terms of the loan products extended by the Company shall be as per the Credit Policy of the Company.
- 7.2. The Company shall have a standard form of loan agreement in a language understood by the Customer.
- 7.3. The Company shall ensure that the loan application forms include necessary information such as interest rates, loan tenure, quantum of penal charges (in bold), nature of security/collateral required,[in case of Non-MFI loan transactions], if any, etc. The loan application form shall specifically indicate the documents required to be submitted with the application form.
- 7.4. Each application shall be considered independently on merit, upon scrutiny of all the information, documents required for verifying the title of the property, identity of the person and/or entity and the security to be offered, including guarantees.
- 7.5. The Company shall give an acknowledgement for receipt of all loan applications. The likely time frame within which loan applications will be disposed of shall also be indicated in the acknowledgement.
- 7.6. The Company shall carry out due diligence on the Customer to ascertain the credit worthiness of the Customer, which will be an important parameter in making a decision on the application before sanctioning or rejecting any loan application. For this purpose, the Company shall consider various parameters in accordance with the Credit Policy of the Company.

- 7.7. Non-credit products shall be issued only after explicit consent of the Customer is obtained.
- 7.8. Following points are disclosed in loan agreement:
- All the terms and conditions of the loan.
 - Pricing components of the loan such as interest charge, processing charge, penal charge and charges for other services such as insurance premium etc.
 - details of penal charges levied on delayed payment.(in bold)
 - That no Security Deposit / Margin is collected from the Customer.
 - That the Customer cannot be a member of more than one SHG/JLG.
 - That the moratorium between the grant of the loan and the due date of the repayment of the first instalment.
 - Assurance that the privacy of Customer data is respected.
 - Grievance redressal officer contact details
- 7.9. The following shall be disclosed in the loan passbook:
- The effective rate of interest charged.
 - Factsheet on pricing.
 - All other terms and conditions attached to the loan.
 - Information which will identify the Customer.
 - Acknowledgements for all repayments including instalments received and the final discharge.
 - The grievance redressal system, including the name and contact number of the nodal officer, in accordance with the Grievance Redressal Mechanism of the Company
 - Fee structure of non-credit products
 - All entries in the Loan card will be in vernacular language or in the language understood by the Customer.
- 7.10. The disclosure shall be done so as to ensure that the Customers are aware of all interest, charges and fees involved in processing and sanctioning of the loan. The Customer shall not be charged any amount which is not explicitly mentioned in the factsheet.
- 7.11. The Company shall convey in writing to the Customer in English or other vernacular language as understood by the Customer by means of sanction letter, loan agreement or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the Customer on its record.
- 7.12. The Company shall mention the penal charge levied, if any, for late repayment in bold in the loan agreement and other loan documents.
- 7.13. The Company shall ensure that changes in interest rates and charges are effective from a prospective date. The loan agreement shall also carry an express stipulation in this regard.
- 7.14. The Company shall furnish a copy of the loan agreement as understood by the Customer along with a copy each of all enclosures quoted in the loan agreement to all the Customers at the time of sanction / disbursement of loans.
- 7.15. The Company 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 same shall be as per the Interest Rate Policy of the Company.
- 7.16. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of Customers shall be disclosed to the Customer in the application form and communicated explicitly in the sanction letter and shall also be made available on the website of the Company. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest. Further, the Company 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.
- 7.17. The decision to recall/ accelerate payment or performance under the agreement shall be in consonance with the loan agreement.

7.18. No penal charge shall be levied for pre-payment of the loan by the Customer, in case of MFI loans. For delayed payments, the Company may levy penal charges on the overdue amount of the loan (principle +interest). A statement providing “We do not charge any penal interest or charges for any delayed payment or pre-closure of loans” shall be mentioned in bold in relevant communications to the Customer, including loan agreement, in case of MFI loans.

7.19. Requirements with respect to penal charges:

- i Penal charges will be levied as per the Policy on ‘Microfinance Pricing Policy’ of the Company.
- ii The penalty will be charged in case of non-compliance of material terms and conditions of loan contract by the Customer.
- iii The Company will not levy penal interest in case of a default. There will be no capitalisation of penal charges i.e. no further interest will be computed on the penal charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- iv The Penal Charges would be in addition to the overdue interest charged at the contracted rate of interest for the period of delay on the outstanding principal. Further, the levy of penal charges does not prevent the Company from taking any legal action and repossessing the asset by issuing a notice to the Customer.
- v There will be no discrimination in the levy of penal charges within a particular loan / product category. For instance, the penal charges in case of loans sanctioned to the individual Customer for purposes other than business and shall not be more than that levied on non-individual Customer for similar non-compliance of material terms and conditions. The quantum and reason for penal charges shall be clearly disclosed to the Customer in the loan agreement and sanction letter/Key Fact Statement (KFS) as applicable, and be displayed on the website under Interest rates and Service Charges. In addition to the upfront disclosure about the applicable penal charges, intimation shall also be sent to the Customer about the applicable penal charges whenever reminders for non-compliance of material terms and conditions of loan are sent.
- vi Any instance of levy of the penal charges along with the reasons therefor shall be communicated to the Customer.

7.20. All the loans will be sanctioned and disbursed at a central location and more than one individual will be involved in this function. Also, close supervision of disbursement should be maintained.

7.21. Loan disbursement shall be done as per pre-determined time schedule.

8. DISBURSEMENT OF LOAN

8.1. All loans are disbursed directly to Customer’s bank account and all disbursements are in accordance with the RBI guidelines.

8.2. Light releases all securities, if any on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim it has against Customers. In case such right of set off is exercised Light gives notice to the Customer about the same with full particulars about the remaining claims and the conditions under which securities are retained till the relevant claim is settled/paid.

9. KNOW YOUR CUSTOMER GUIDELINES:

9.1. The Company shall explain the requirements of Master Direction - Know Your Customer (KYC) Direction, 2016, issued by RBI and as amended from time to time (“KYC guidelines”), to its Customers and inform them about the documents required for establishing the identity of the customer before loan sanctioning, account opening and operation.

9.2. The Company would obtain only such information to meet with Company's KYC, Anti-Money Laundering as per its relevant policies in this regard or any other statutory requirements. In case any additional information is asked for, it will be sought separately and shall specify the objective of obtaining such additional information.

10. RECOVERY AND COLLECTION OF DUES

10.1. The Company shall undertake collection and recovery practices in the manner prescribed in the Collection Policy of the Company.

11. COMPLAINTS AND GRIEVANCES

11.1. The grievances redressal mechanism adopted by the Company shall be as approved by the Board of the Company from time to time. Complaints and grievances of the Customer shall be dealt and redressed in the manner provided under the Grievance Redressal Policy of the Company.

12. GENERAL

- 12.1. In case of receipt of request from the Customer for transfer of borrowed account, the consent or otherwise i.e. objection of the Company, if any, shall be conveyed within 21 (twenty-one) days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- 12.2. The Company shall not make untrue claims and release misleading advertisements as to availability of loans.
- 12.3. The Company shall ensure that documentation across all branches is conducted in a standardized manner.
- 12.4. Light deals with all defaulter Customer as per RBI guidelines.
- 12.5. The Company shall not collect shortfall in collection of Customer from employees, except in the cases of proven fraud.

13. ADDITIONAL REQUIREMENTS FOR DIGITAL LENDING

- 13.1. Terms used in this section shall have the same meaning as provided under the RBI Guidelines on Digital Lending (“Digital Lending Guidelines”).
- 13.2. In case of digital loans sourced through digital lending platforms, either owned by the Company or through a lending service provider, the Company shall ensure the following -
- At the on-boarding/sign-up stage, information relating to the product features, loan limit and cost, etc., are prominently displayed so as to make the Customers aware of these aspects.
 - A Key Fact Statement (KFS) to the Customer before the execution of the contract in a standardized format. The format has been provided in the Credit Policy of the Company.
 - The Annualised Percentage Rate as all-inclusive cost of digital loans for shall be disclosed upfront and shall also be a part of the KFS.
 - No fees shall be charged by the Lending Service Provider directly.
 - Names of digital lending platforms engaged as agents shall be disclosed on the website of the Company;
 - Digital lending platforms shall disclose upfront to the customer that they are interacting with the customer on behalf of the Company;
 - Digitally signed documents (on the letter head of the Company) viz., KFS, summary of loan product, sanction letter, terms and conditions, account statements, privacy policies of the Lending Service Provider with respect to Customers data, etc. shall automatically flow to the Customers on their registered and verified email/ SMS upon execution of the loan contract/ transactions.
 - Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the Company;
 - Other details and information as required under the Digital Lending Guidelines shall be duly communicated to the Customer and appropriate consents, as required under the Digital Lending Guidelines are duly taken.

14. ADDITIONAL REQUIREMENTS IN CASE OF SECURED LOANS (IN CASE OF NON-MFI LOANS)

- 14.1. Creation and perfection of security interest shall be carried out in the manner specified under applicable laws, internal policies, and procedures of the Company, in case of secured loans.
- 14.2. The Company shall ensure that:
- all original movable/immovable property documents accepted as security (‘Security Documents’) are released and registered charges are removed within 30 days of the full repayment/ settlement of the loan account.

- the timeline and place of return of the Security Documents shall be mentioned in the loan documentation.
- Where there is a delay in release of the Security Documents, due to reasons attributable to the Company, the Company shall be liable to compensate the borrower at the rate and in the manner prescribed under the applicable laws and as mentioned in the loan documentation.
- In case of any loss/damage to the Security Documents, Light shall provide assistance to the borrower in obtaining duplicate/certified copies thereof and shall bear the associated costs, in addition to paying the above-mentioned compensation.

14.3. The procedure for return of the security documents shall be specified in the loan documents, including in case of return to the legal heirs due to the demise of the original borrower. Such procedure shall also be displayed on the website.

15. TRAINING

15.1. The Company shall undertake recruitment, training and monitoring of its employees as per its HR Policy and employee training manuals. It shall be ensured that the staff is adequately trained to deal with the customers in an appropriate manner. Training to employees shall include programs to inculcate appropriate behaviour towards customers. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.

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

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

16. INTERNAL CONTROL SYSTEM

The Executive Management of the Company will be responsible for ensuring compliance of the above FPC. A system of internal control including audit and periodic inspection will be put in place to ensure the same.

17. DISCIPLINARY ACTION FOR VIOLATING THE FAIR PRACTICES CODE:

17.1. The Company values its Customers and wants each of its Employees as well as its agents to approach the Customers with dignity and adhere to the FPC while interfacing with them. Deviating from the FPC is strictly viewed and proper disciplinary action is taken by the Company against such Employees and/ or agents. Based on the severity of the violation of the FPC, action against the Employee and/or agent might range between a warning letter to a permanent termination from the roles of the organization or any other action as may be deemed appropriate.

17.2. The grievances related to sexual harassment received from the Customers will be addressed in accordance with the procedures established under the Customer Grievance Redress Policy, specific to sexual harassment. The investigation process and disciplinary actions will be in accordance with the POSH Policy (Prevention, Prohibition and Redress).

18. REVIEW OF THE CODE

The Board of Directors shall conduct periodical review of the compliance of the Fair Practices Code and the functioning of the Grievance Redressal Mechanism at various levels of management.