

**PALMA DEVELOPMENT FINANCE PRIVATE LIMITED (PALMA)**

**LOAN POLICY**

Revised by the Board of Directors in their meeting held on 18<sup>th</sup> December 2024

## A. INTRODUCTION

Extending credit facilities to customers is one of the important functions of the Company. The Company has to mitigate risk involved in appraisal and disbursement of loans and build a healthy credit portfolio to maximise the returns of the Company. This loan policy is expected to guide the Company in ensuring profitability and stability in operations relating to appraisal, disbursement and recovery of loans. The objectives of the lending policy are to –

- To address the genuine credit needs of the existing customers /prospective customers in maximum profitable manner and at low costs.
- To ensure clear cut classification of loan assets
- To ensure balance between loan disbursements, quality of assets and operating profits of the Company and achieve sustained growth.
- To lay down internal controls and other risk management practices/systems to monitor credit disbursement and recovery on a continuous basis.
- To improve the skills set of the employees and officers connected with loan portfolio at various levels.
- To ensure that socio-economic obligations cast upon the Company are fully met.
- To ensure maximum utilisation of Company's resource for achieving objectives of the Company.
- To ensure compliance of guidelines/directives issued by the RBI/Government authorities on credit matters, from time to time.

## B. Scope

This policy would cover main aspects of credit appraisal, sanction and disbursement for all credit related exposures, fund and non-fund based and prescribes acceptance criteria for all forms of credit dispensation. Also the policy will be a basic document for imparting knowledge to all staff along with other policies/rules laid down by the Company. All the employees and staff engaged in departments relating to loan appraisal, sanction and disbursement shall be under duty to read, understand and comply with guidelines laid down in this policy along with NPA policy, interest rate policy, Fair practice code, customer grievances policy and other company policies, as the case may be.

## C. Revision

The policy shall be reviewed/ revised/ renewed from time to time, to adapt to the changing environmental demands and to incorporate and implement any changes in the credit strategy of the Company, with the approval of the Board/ Committee of Board.

## D. Customer Acceptance policy:

### a. Account opening and identification

The Company shall ensure that -

- i. No account is opened in anonymous or fictitious/benami name.

- ii. Parameters of risk perception are clearly defined in terms of the nature of business activity, location of the customer and his clients, mode of payments, volume of turnover, social and financial status, etc. so as to enable the bank/FIs in categorizing the customers into low, medium and high-risk ones.
- iii. Documents and other information to be collected from different categories of customers depending on perceived risk and the requirements of PML Act, 2002 and instructions/guidelines issued by Reserve Bank from time to time.
- iv. Not to open an account where the Company is unable to apply appropriate customer due diligence measures, i.e., the Company is unable to verify the identity and /or obtain required documents either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer. The bank/FI may also consider closing an existing account under similar circumstances.
- v. Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out in conformity with the established law and practice of banking.
- vi. The Company branch shall have suitable systems in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanction lists circulated by the Reserve Bank.

b. Restrictions/Prohibition on lending to certain categories of customers/sectors

- i. Loan to staff members: The Company may grant gold loan to staff in case of personal urgency. Loans to staff members shall have same terms and conditions applicable to common public. Any deviation in terms shall require approval of Managing Director/Board of Directors. Unpaid amount of interest or principle or both shall be recovered from the salary account of the employee/staff subject to HR policy and terms and conditions of the scheme.
- ii. Loans to borrowers in “black list” or having history of pledging spurious/stolen gold ornaments or has a background of financial frauds or who has deliberately tried to cheat the Company and created any loss to the Company, shall not be sanctioned. The Company shall electronically and/or physically maintain an updated list of customers identified by the Company as “persistent defaulter” or “blacklisted”/ “Caution” customers. The Company may also check whether the customer is blacklisted or identified as caution customer by any credit agencies/ government/competent authorities. Where the Company officials fails to identify at the first instance, but realises that the customer is a person with such a background, then procedures for freezing or blocking of customer ID of that person shall be initiated by the concerned officer. Relevant clauses of auction policy, fair practice code and NPA Policy shall be referred for more clarity.
- iii. Loans to persons/customers having higher than normal risk shall be avoided/reduced. Eg. Loans to goldsmiths, Jewellery owner etc or any other persons.

The staff shall refer to Company’s respective policies on customer acceptance, KYC and fair practice code for more information in this regard.

E. Loan schemes, application and related documents (All types of loans)

1. All Loan schemes shall be devised in conformity with the loan policy, interest rate policy, NPA policy and fair practice code of the Company and also directives of RBI as applicable to the Company, from time to time.
2. To maximum possible extent, documentations and all communication shall be in a language understood to the customer (to be specific, Vernacular language).
3. An acknowledgement shall be provided for receipt of application.
4. The concerned officers/staff of the Company shall ensure that they have obtained duly filled in and signed loan application with requisite information and attachments from loan applicants.
5. Each loan application shall have a unique number for identification purposes. Documents as per KYC compliance shall be collected at the time of creating unique customer id. KYC norms as per RBI guidelines shall be followed in this regard.
6. Loan application and related documents shall be prepared as per the Fair Practice Code and KYC Policy of the Company.
7. Loan schemes and its suitability to the customer's requirements shall be explained to the prospective borrower and all assistance for selecting the right scheme/product shall be offered by the concerned officers/staff.
8. Borrowers will have flexibility with regard to repayment periodicity and it should be informed to the borrowers at the initial stages of loan application itself.
9. Suitable clauses shall be inserted while drafting the loan documents/agreement and the signature of the Customer/applicant shall be obtained before disbursement of loan.
10. The officers/staff shall ensure that they issue loan sanction letter duplicate, upon sanction of loan. The sanction letter shall contain the terms and conditions of the loan. A sanction letter shall serve as a document indicating application process, security appraisal process and sanction process is duly completed. An acknowledged copy of the sanction letter shall be kept along with loan application for record keeping and future reference purpose.
11. At the end of the day, the question is whether the loan processing is done according to the applicable guidelines and without creating risk or loss at the first instance.
12. The branch manager in the respective branch shall be responsible for ensuring compliance with the above procedures. But this shall not exclude other staff or officers from being answerable in failure to deliver their duties. Hence, the entire branch shall have duty to ensure compliance with applicable procedures.
13. In case of any clarification or doubts relating to loan procedure, the branch manager/officers/staff shall contact the Branch co-ordinator/Concerned officers in Head Office, without any hesitation.

#### Risk gradation

The branch manager/Asst manager/officer shall ensure that each loan is given a risk grade based on the background and credit worthiness of the customer. The branch shall ensure that gradation is done as normal risk, high risk and low risk on the application form itself based on the information collected from the customer. The interest rates are subject to change based on perceived risk and/or as the situation warrants and are subject to management decision based on the merit of individual cases.

#### H.O Officers/ Staff for loan

The HO (Loan Department) shall have Loan executives, Appraisal officers, Assistant Managers, Documentation staff and an Approval team for smooth functioning of gold loan process. The contact number of all these persons shall be provided to branch staff and all possible assistance shall be given without fail.

#### Classification of customers and sharing of information

1. The Company has to establish proper system for identifying blacklisted/caution/ non-cooperative customers and reporting to the Central Repository that may be set up as per RBI/Government requirements.
2. The Company shall be member of 4 Credit Information Companies or such organisations as may be prescribed by RBI/ competent authorities from time to time. Company shall submit data to them in the prescribed format and within the specified time limits. The Company shall appoint a principal officer/nodal officer who shall ensure this.

## I JOINT LIABILITY GROUP LOAN (JLG)

### Loan Features and Terms

#### a) Loan Features and Eligibility- 8P

8 P	Parameter	Details
Product	Broad client Segment	A female customer (in group) from the age group of 18 to 58 years, residing in the captive area of the branch
	Loan Amount	<ul style="list-style-type: none"> <li>i) The group loan caters to individual needs and has a maximum cap of INR 75000 to the first-time customer. The total eligible loan amount with a cap of INR 200000.</li> <li>ii) The total indebtedness of the borrower shall not exceed Rs.200000/- (as per RBI guidelines).</li> <li>iii) In case of 2<sup>nd</sup> loan and above, a higher loan amount than what is prescribed above is subjected to family of the borrower having minimum two earning members.</li> </ul>
	Loan term	Loan terms are between 6 to 24 months
	Repayment frequency	Weekly, Bi-weekly, Monthly- As per borrower's choice
	Methodology	<p>Application has to be made in groups. All group members have to be women.</p> <p>Note- Family members residing at the same place (under the same roof) cannot be financed in the same group/centre.</p>
	Co-borrower	<p>Only a relative who is considered a blood relation can become a Co- borrower. Relevant documents are required to prove the relationship.</p> <p>Co-borrower should compulsorily be an earning member.</p>
	Purpose	Minimum 50% of aggregate amount of loans for income generating activities.
	KYC Documents	<p>The following are treated as KYC Documents:</p> <p><b>Primary KYC (KYC-1)</b></p> <p>Physical Aadhar Card issued by UID (Masked)</p> <p><b>Secondary KYC (KYC-2)</b></p> <p>Voter ID Card</p>

		<p><b>Address Proof (KYC-3)</b></p> <ol style="list-style-type: none"> <li>1. Electricity bill of the existing address where the customer resides.</li> <li>2. Ration Card in case both photograph and Address is available. (Only if the borrower's name is mentioned on the Ration Card)</li> </ol> <p><b>For Bank A/c transfer</b></p> <ol style="list-style-type: none"> <li>1. Latest bank account passbook (ideally with at least 3 months' transaction details)</li> <li>2. Joint account passbook in case of both Applicant and RO-applicant being account holders can be considered</li> </ol> <p>For the Co-borrower any one of the above KYC-1 documents can be submitted. In case the residential address is different, the Co-borrower shall attest on the KYC document submitted.</p>
Prices	Interest fees	Upto 36% per annum on diminishing balance (subject to revision by Senior Management)
	Other fees	Processing fee: 2% + GST (18%)  Insurance Fee: Actual basis
Promotion		<ul style="list-style-type: none"> <li>• Marketing campaigns (awareness meeting at village/town)</li> <li>• Direct door to door marketing</li> <li>• Word of mouth &amp; recommendation of existing clients</li> <li>• Brochure and Pamphlets</li> </ul>
Places	Office	Client residence to be less than 45 minutes travel from branch location
	Transaction	Disbursement at branch Repayment at the group meeting at client location
Position	Image	Close proximity (doorstep, personalized, and "When you need it") Quick and easy loan process Affordable Fast approval Group guarantee with no other collateral Responsible lender who follows client protection principles
People	Strategic and overall Management	<b>Zonal Manager (ZM):</b> Market segmentation, commercial strategy, branding, product development and refinement, monitoring and control, training and capacity building needs, client relationship

		management, Product design, Branch visits, training to staff
	Operations and Implementation	<p><b>Area Manager (AM):</b> Identifies branch at suitable locations, leads marketing campaigns and projection meetings, implements the business plan for the unit, engages in staff recruitment, sanction loans, deviation approvals, conducts group verification tests on sample bases, cross-checks loan application form, oversee branch-based disbursements, liquidity management, monitors staff and clients, Delinquency management (if it arises)</p> <p><b>Branch Manager (BM):</b> Branch manager conducts group reorganization test, restate product features and member's responsibilities during branch-based disbursements, plans and implements operational activities, monitors staff and clients, Delinquency management (if it arises)</p> <p><b>Credit Officer (RO):</b> acquire and register new clients, follow potential client leads, promoting products, client registration, conducts customer training, house visit, conducts group meetings, collect repayments at branch, follow-up on defaults</p> <p><b>Risk Officer:</b> Acts as checker for all BM activities (GRT, Loan utilization check, residence verification), conducts 100% customer appraisal confirming the loan utilization.</p> <p><b>Branch Officer:</b> Quality check on customer application form and other internal &amp; legal documentation, KYC correctness, cash management, branch level reconciliation</p>

The details of loan product under different loan cycles are as follows:

Product	Loan Amount
Micro Loan- Cycle I	10000 to 35000
Micro Loan- Cycle II	10000 to 50000

- For interest rate and other pricing details please refer interest rate policy.

**b) Group Formation**

A group is a set of three individual women from similar economic backgrounds or occupations,



who know and trust each other and come together to become customers of **PALMA**. Women should form these groups independently after the customer mobilization meeting.

### **Rules for Group Formation**

- These women should know and trust each other and be willing to support each other in times of difficulty
- All members should be between 18 to 58 years of age (if the customer is above 58 years old, but less than 60 years old, then health and occupation should be considered, these cases require approval from the Zonal Manager)
- Members should be residents of the same area/ locality for a minimum of 2 years. If the customer's spouse has lived in that area for 3 years (or more) and the customer recently got married and shifted into that area, she should have resided in that area for at least one year.
- Group must ensure that they only select members who are not likely to move in the next one year.
- Group member selection should be self – selection, i.e., by customers themselves. There are no restrictions on the religion break up in the group.
- Proximity of group members (all members should live within 1 kms. of each other). A deviation to this criterion can be made after the approval of Zonal Manager (ZM). The Area Manager (AM) is authorised to take this deviation. The AM has to clearly investigate the case and verify that the customers know and trust each other and only then approve the group. Approval from the ZM has to be given by mail. The mail should clearly state the Branch Name, Area, Centre name and No. for which the deviation is being approved. A copy of this mail will be sent to the credit department who will keep a record of this in an excel tracker.
- Members in a centre should not be blood or close relatives. Blood relatives include the following relationships:
  - Mother – Daughter
  - Mother-in-law – daughter in law
  - Sisters
  - Sisters in law
  - RO - sisters (brother's wives)
- Only one member from a household can be a Palma borrower
- Members should meet PALMA target market characteristics in terms of income & occupation.
- Group members should be like-minded people having similar financial backgrounds (avoid negative occupations: chit funds, liquor vendors, unrecognized social workers, political worker in the family etc.)
- Group members must have a common goal and share their problems
- All the members of the group should be homogeneous in character. Homogeneity not to be understood as common community/caste or common education
- Loan which is disbursed to a borrower with household annual income not exceeding Rs.300000 and it should be assessed based on the internal Credit Assessment Methodology for house hold income assessment. (This can be verified from alternate sources also.)
- All members should be willing to attend periodic Centre Meetings
- Group should not have been introduced or formed by any third party or 'agent'

### **Group Unity, Responsibility and Liability**

- Group unity means solidarity (commitment to each other and the group at all times) to PALMA. All group members should have a good relationship and there should be mutual

cooperation & respect; there should be no dominant group member. The group should be one in good times and bad.

- The Group must ensure that they only select members who are not likely to migrate in the next one year, should be part of PALMA. If they do migrate, the other members will make sure that member repays the loan before going. If a member migrates without repaying then the group members will help in finding the member to collect the loan; otherwise, group members will have to repay the loan

**Before CGT, RO must:**

- Ensure that all the rules of group formation are adhered to
- Ensure group solidarity, liability and willingness to attend the weekly/ monthly Centre Meetings

**House Visit**

RO will conduct 100% house visit for all groups at the prior to the start of the CGT to ensure that non target customers and groups are eliminated at this stage itself. When the RO is absent, the BM will authorize either the ABM or any other RO of the branch to conduct House Visits. The BM will inform the branch staff and the Area Manager by mail whom he / she has authorized to conduct house visits prior to the RO's absence. The AM will keep a record of this in Excel.

The RO will verify the following 9 criteria during his house visit and subsequently fill the Customer Profile form:



**Non-financial Information**

- Group Guarantee
- House condition
- Occupation
- Lifestyle
- Existence in current area
- Health
- Age



**Financial Information**

- Outside Borrowings
- Income (personal and family)

**Criteria 1 - Group Guarantee:**

Group Guarantee can be observed by assessing if the group is homogeneous and cohesive. In order to assess Group Guarantee the following have to be observed:

- Do the members know and trust each other?
- Are they ready to assist each other in time of financial need?
- Do they agree for single repayment frequency?
- Do they agree to attend periodic centre meetings?
- Are the members from similar economic backgrounds and occupations?

- Do all members live in close proximity to each other (within 1 km)?
- Did the members form the group on their own without interference from any third party (agents)?

If the answer to all the above questions is “Yes” the RO will not approve the members on this criterion. Group Guarantee is the foundation of our lending model, so if group guarantee is not observed the RO should reject the group at this stage itself.

### Criteria 2 – House Condition

During the house visit the RO must ensure that the housing conditions do not put the customer in the middle-income class or very low-income class category. The RO will complete the following activities during the house visit:

- Check the original address proof document provided by the customer and verifies that the copy is authentic and the address mentioned is correct.
- Check if the customer is residing with her family members in the house & all members details captured accurately in the application form

### Criteria 3 – Occupation

The loan amount and loan product a customer is eligible for in her repeat loan cycle will depend on the occupation category of the customer.

#### *Acceptable occupations*

Occupation Type	Acceptable Occupation	Acceptable if satisfied with income
<b>Salaried</b>	<ul style="list-style-type: none"> <li>○ Angadwadi Teacher</li> <li>○ Laborer</li> <li>○ Housemaid</li> <li>○ Cook</li> <li>○ Helper</li> <li>○ Teacher</li> <li>○ Factory Worker</li> </ul>	<ul style="list-style-type: none"> <li>○ Supervisory Jobs</li> <li>○ Government Jobs</li> </ul>
<b>Self employed</b>	<ul style="list-style-type: none"> <li>○ Vegetable Vendors</li> <li>○ Fancy Item Vendors</li> <li>○ Utensil Vendors</li> <li>○ Flower Vendors</li> <li>○ Fruit Vendors</li> <li>○ Petty Shops</li> <li>○ Saree Business</li> <li>○ Tailor (1 - 2 machines)</li> <li>○ Canteen in Shop</li> <li>○ Cloth Business</li> </ul>	<ul style="list-style-type: none"> <li>○ Provision Stores</li> <li>○ Agarbathi Contractor</li> <li>○ Hotel Business</li> <li>○ Slipper Maker</li> <li>○ Tailor (&gt;2 employees or &gt;2 machines)</li> <li>○ Tailor (direct Contract from factory and employ tailors on piece work basis)</li> </ul>
<b>Piece Work</b>	<ul style="list-style-type: none"> <li>○ Agarbathi Roller</li> <li>○ Buttawork</li> </ul>	

	<ul style="list-style-type: none"> <li>○ Beedi Roller</li> <li>○ Artificial Chain Maker</li> <li>○ Chamki Work</li> <li>○ Package</li> <li>○ C-Grade Factory</li> <li>○ Worker (physical strain)</li> <li>○ Flower Tying</li> <li>○ Embroidery Worker</li> <li>○ Tailor</li> <li>○ Any work where payment is given on a per piece basis</li> </ul>	
<b>Housewife</b>	<ul style="list-style-type: none"> <li>○ Husband Occupation</li> <li>○ Own Auto &amp; Drive</li> <li>○ Rent Auto &amp; Drive</li> <li>○ Drivers</li> <li>○ Factory Workers</li> <li>○ Plumbers</li> <li>○ Bar benders</li> </ul>	<ul style="list-style-type: none"> <li>○ Husband Occupation</li> <li>○ Supervisory Jobs</li> <li>○ Government Jobs</li> <li>○ Provision Stores</li> <li>○ Own &gt;1 Auto</li> <li>○ Tailor (&gt;2 employee)</li> <li>○ Hotel Business</li> <li>○ Agarbathi contractor</li> </ul>

**List of High-Risk Occupations**

- Chit Fund Operators
- Pawn Brokers
- Liquor Vendor
- Social Workers
- Other MFI Staff
- Politicians
- Cable Operators
- Lawyers
- Financial Products/ Transaction Agents
- Prostitutes

**If Customer, Child or Spouse living in the same house are indulged in a High Risk Occupation:**

- Fresh Loan = Reject
- Replacement Customers = Reject

**Criteria 4 – Lifestyle:**

Ensure that the living conditions & household goods do not put the customer in the middle/high class category. The RO will make a note of the household assets owned by the customer (e.g. colour TV & CD/DVD, fridge, washing machine, sofa set, AC/cooler, land line phone etc.). If household assets exceed 10, the customer will be rejected. If there is a deviation in this criterion the case can be escalated to the Area Manager and above for approval.

**Criteria 5 – Number of years of stay in that area:**

The customer or her spouse must have lived in that area for at least 3 years. If the spouse has lived in that area for 3 years (or more) and the customer recently got married and shifted into that area, she should have resided in that area for at least one year. If not, the loan will be rejected.

**Criteria 6 – Health:**

If the customer is not healthy and is suffering from a terminal or prolonged illness such as cancer or AIDS, the customer will be rejected. The health status of a customer should be verified by checking with other group and centre members and by observing the customer. This can also be verified by investigating the monthly health expenses recorded in the application form, as appropriate.

**Criteria 7 – Age:**

- If customer's age between 18 - 58 years the loan will be approved
- If customer's age is between 58 – 60 years the case will be escalated to the AM.

The AM will make a decision based on the health and occupation of the customer

**Criteria 8 – Outside Borrowings:**

Customers should be questioned in detail regarding their outside borrowings. Borrowings from MFIs should also be verified from alternate sources such as group and centre members and market intelligence.

A customer should be rejected if:

- If the borrower didn't meet the annual house hold income not exceeding Rs.3,00,000/-;
- Her total loan outstanding is >INR 200000

**Distance between Group Members**

After completing the house visit of all the group members the RO must ensure that all the customers stay within one km radius of each other. If the RO is satisfied with the group and all the group members, he / she will give go ahead with the **CGT (Continuous Group Training)**. RO must put a Verification Seal on the Customer Photo attached to the Customer Profile during the House Visit after he or she has verified the customer's information.

If a customer has moved house, the RO should verify the same during the House Visit and ensure that the other Group members have visited the customer's new house at least once. An address proof or residence declaration form reflecting the new changes should be submitted and kept for branch records.

**Blood Relatives**

- Only one member from the household can be a PALMA borrower
- Blood relatives cannot be in the same Group – No deviation

### **Group Recognition Test- Process**

GRT is a test to verify the customers' understanding of:

- Group Responsibility
- Product & services
- Benefits
- Procedures
- Terms and conditions

GRT must be conducted only by assigned person (CO/BM, AM). Not more than five GRTs should be conducted in a day by any person. GRTs must be conducted in the area customers live, not at the branch.

#### **GRT Guidelines**

- Check center members knowledge on about PALMA, amount eligible as loan, rate of interest, insurance charges and coverage, processing charges, EMI payable, group guarantee, meeting center guarantee, etc.
- Credit Officer or Branch Manager Questions the group and rates the group quality based on the responses
- Ask questions to specific member in the group and rotate other questions to all members and give score based on parameter listed in GRT report
- Prepare GRT report
- Do house visits
- Approve the batch if the score between 12 to 15
- Suggest for re-training and re-evaluation if score is <12

### **Credit Checks**

As a final step credit department will verify all the repeat loan applications sent to the HO and make a final credit decision on the loan. The following will be done by credit:

- Check the customer's repayment track record in the system and verify that it is the same as recorded in the repeat loan checklist
- Verify if the customer's name appears in the past overdue list and the credit bureau.
- Ensure that the required relevant documents are in place e.g. address proof if customer has changed residence
- Verify the repayment regularity of the other group members
- Review all the criteria in the Repeat Loan Checklist and tick approve / reject based on the above credit approval guidelines
- Verify other changes in the details of the new information – change in the occupation, change in the income, low surplus, etc. and arrange a visit to the customers if the changes are substantial or a cause of concern

- Check whether the customer resides in a Negative Area or is a Negative Customer.

**c) Loan Cancellation Policy**

*Loan cancellation – before sanction*

The following cases where a Loan is cancelled before sanction:

- Fraud customers in the Group/Centre.
- Wrong data entries (like Overlapping of customer details, Wrong loan amounts etc.)
- Misunderstanding between the Group/Centre members.
- Customers not interested.
- If customers rejected from the Credit bureau or from Deviation approvals etc., other customers in the Group/centre may be step back from taking the loan.

*Loan cancellation – After sanction*

During confirmatory meeting in the branch, if customer does not agree of repayment process, the Branch Manager or the HO representative will cancel the loan.

**d) Disbursement Procedure**

- Palma believes in cashless disbursement policy; therefore, all loans will be disbursed directly to the customer bank account.
- In case of any deviation regarding cash disbursement, the ZM needs to take prior approval from the Director.
- Disbursement amount (according to disbursement report) to be counted by Branch Officer prior to customers' arrival at the branch office and made into bundles of the disbursement amounts.
- No single customer should be in the branch office for more than half an hour.
- 2 staff (CO/BM or an HO representative) to be present while disbursing a loan.
- CO/BM will conduct pre-loan disbursement talk with customer on loan purpose, amount and utilisation of loan stated.
- CO/BM should motivate customers to use the loan and make repayment as per the schedule given.
- CO/BM to clearly inform the customer to repay as per the repayment sheet. No extra instalments should be paid by the customer. She should strictly follow the repayment dates and amount given in the repayment schedule.
- Customer should arrive with ID proof – Voter ID/Aadhaar card for disbursement. Loan disbursements will not be made without proper ID verification.
- The customer should sign the loan documents. The CO/BM/HO representative need to witness the loan documents and submit it to branch officer for verification.

**e) Collection Policy**

Collections are an integral part of the credit cycle as it helps to maintain the quality of the portfolio and frees up money to lend again. For this reason, it is essential to adopt effective collections strategies that promote on – time repayment as well as manage delinquencies better.

### **Preventive Strategies**

One of the best ways to avoid delinquency problems is to address the problem before it arises by ensuring that the early lending process is conducted properly. Preventive action is less costly and more effective. Following are the different ways by which this can be done:

- Select only those customers who are able and willing to pay – i.e. customers, who have sufficient repayment capacity, a good credit history, are in need of funds and hence have the incentive to repay in order to be eligible for regular funding and are not over indebted.
- Select only those customers who know and trust each other sufficiently to be able to support each other in times of repayment problems by internal lending.
- Ensure that women form these groups on their own without any interference of PALMA or any third party.
- Stress on timely repayment behaviour right from the CGT stage. Reiterate this point at every centre meeting.
- Educate borrowers on the consequences of irregular repayment – collection penalties, denial of future loans, and legal action (only in the case of Individual Loans).
- Educate customers on the ill effects of excessive borrowings and encourage them to only apply for a loan amount that they are able to repay.
- Identify potential risks early and address them through proactive action. If you sense that the customer is facing some financial difficulties, talk to the customer and find out what the problem is, talk to the group members and encourage them to help the customer financially. If it is a long – term problem informs the customer of the loan rescheduling procedure and negotiate a more suitable payment schedule.

### **Inappropriate Collection Practices**

Though it is essential to recover over dues from customers it must be kept in mind that achieving customer repayment must **NEVER** include inappropriate techniques such as:

- Too much group pressure and unrealistic demands
- Unending centre meetings till payments are made
- Physical force
- Humiliation – using abusive language
- Contacting customers at inappropriate hours of the day
- Seizure of assets
- Holding customer's personal documents (ration card) as collateral



**f) Risk Considerations**

Risk Type	Process Controls
<p><b>Over-leverage of customers</b></p> <ul style="list-style-type: none"> <li>• Risk on account of borrower being over leveraged by availing facilities across multiple MFI / Lenders</li> <li>• Income assessment without documentary proof, hence risk of inaccurate assessment of customer's credit absorption capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Bureau rules to check on maximum leverage of 2.00 Lac across all MFI including applied loan with PALMA.</li> <li>• Given majority of transactions in cash, it is difficult to assess real income &amp; liabilities in this segment. The group governance structure ensure group members are aware of the members leverage and supported income levels.</li> <li>• As part of Branch selection process, we will restrict penetration beyond a certain limit in the addressable population</li> </ul>
<p><b>Event &amp; Product Risk</b></p> <ul style="list-style-type: none"> <li>• Natural calamity/ Political Risks/ Community related risks</li> <li>• Any action by local regulators on account of practices by MFI like high interest rate, collection practice etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk can be diversified only through presence in multiple locations which will be done.</li> </ul>
<p><b>Repayment risk</b></p> <ul style="list-style-type: none"> <li>• Gaps in customer cash flows after loan disbursal due to loss of business or health reasons</li> <li>• Discontinuity of business by PALMA in certain areas due to closure of branches</li> </ul>	<ul style="list-style-type: none"> <li>• Initial assessment of cash flows at the time of origination and continuous relationship with customers will enable to manage this risk on proactive basis</li> <li>• End use verification will indicate early warning since Risk Dept will check whether loan has been used for productive purpose or otherwise.</li> <li>• Group insurance for main income earners will mitigate loss due to death of the customer</li> <li>• The collection tracking will happen regional office in case of closure of any branch.</li> <li>• Slowdown in disbursement in phased manner and continuity of employee engagement with customers for closed branches</li> <li>• Suitable action plan for activating foreclosures of loans, encouraging bulk repayment or advance collections</li> <li>• Calibration of collection staff incentives for deeper customer engagement and effective collections</li> </ul>

<p><b>Employee fraud risk</b></p> <ul style="list-style-type: none"> <li>• Collections in this business is done in cash and by staff of branches. Hence there exist high probability of frauds, misappropriation either by staff or even by customers. Most common frauds done by field staff in this segment involves taking bribes for loans, fake clients, misreporting information, fudging data and forgery.</li> </ul>	<ul style="list-style-type: none"> <li>• Selection of staff including profile and prior experience with other institutions.</li> <li>• Robust cash management policy with daily reconciliation process by Operations</li> <li>• Surprise checks based on early warning triggers of negative sourcing and collection performance</li> <li>• Strong disciplinary action to desist staff from resorting to unethical activity and fraud.</li> </ul>
<p><b>Ever-greening and continue financing to customers</b></p>	<ul style="list-style-type: none"> <li>• End use checks will be done post disbursement.</li> <li>• Renewal or increase in facility in higher cycle only based on repayment track and will form only lower proportion of total book</li> </ul>
<p><b>Legal &amp; Regulatory Risk</b></p>	<ul style="list-style-type: none"> <li>• Product structure to be approved by PALMA credit committee</li> <li>• The reporting of Micro loans to Credit Bureau will be done on monthly basis highlighting both standard and non-standard accounts.</li> <li>• The litigation process involves standard process of notice of debt and legal action for recovery of loan. Given the reputation risk of doing hard legal action in this segment, the litigation action will be limited in nature.</li> </ul>
<p><b>Operational &amp; System Risk</b></p>	<ul style="list-style-type: none"> <li>• Ongoing training and contingency plan for staff</li> <li>• Periodic branch audit and portfolio review</li> <li>• Implementation of defined process flow with adequate staff capacity and system support to manage increasing volumes</li> <li>• Portfolio management through system generated reports</li> </ul>

## **II TERM LOANS**

These loans are sanctioned for a particular period/term with a pre-set interest repayment schedule (Monthly/Weekly/Daily) or bullet payment method on case-to-case basis. The new loans shall be sanctioned for a period not less than 6 months and not more than 36 months. However, the tenure of a loan can be rescheduled for a longer period subject to a maximum of 60 months. Loans sanctioned prior to the enforcement of this policy shall be governed by the terms and conditions agreed with the borrower.

### **KYC requirements**

1. PAN Copy (Mandatory if the loan amount is Rs. 50,000/- or more)
2. ID proof and address proof of applicant
3. Photo of applicant.
4. ID proof and address proof of guarantor
5. Bank statement copy for past 3 months or more
6. Contact details (phone number) and landmark in address of applicant/guarantor
7. Any other documents as per the HO internal instructions.

### **Appraisal and sanction**

All the details mentioned and the Id proofs shall be verified by the manager/staff by affixing a seal.

Loan amount shall be disbursed and credited to customer SB account only via RTGS/NEFT.

Any dues from the applicant/guarantor could be settled at the time of loan application.

Signature of the applicant shall be same in all documents.

The Company will obtain credit report of customer from credit information agencies, wherever necessary.

Documents shall be signed before the branch head/officers.

Branch Manager's report mandatory while forwarding documents to HO for verification. Any other information as may be required by HO.

Where all the documents submitted are complete in all terms and verification is complete from HO, the loan shall be sanctioned within 4-5 days.

### **Credit Risk Mitigation Factors for Lengthy Tenure Loans**

When offering lengthy tenure loans, it is advised to implement comprehensive credit risk mitigation strategies to ensure financial stability and minimize potential losses. Below are key mitigation factors that can be employed:

- Conduct thorough credit assessments including detailed analysis of the borrower's financial statements, credit history, and repayment capacity
- Utilize advanced credit scoring models to evaluate the risk profile of borrowers accurately
- Analyze the industry or sector in which the borrower operates to assess the associated risks and economic outlook
- Secure loans with high-quality collateral such as real estate, gold, or other tangible assets

- Regularly revalue collateral to ensure it covers the outstanding loan amount throughout the loan tenure
- Insure the collateral against risks such as damage or loss
- Consider balloon payments to reduce monthly instalment amounts, particularly during initial years
- Implement periodic reviews and adjustments of interest rates to reflect market conditions and the borrower's creditworthiness
- Charge interest rates based on the risk profile of the borrower, with higher rates for higher-risk loans
- Add risk premiums for loans with longer tenures to compensate for increased risk exposure
- Continuously monitor borrower performance and loan repayment behavior through frequent reviews
- Implement early warning systems to detect signs of financial distress or potential defaults
- Set financial covenants and triggers that require immediate action if certain risk thresholds are breached
- Diversify the loan portfolio across different sectors, regions, and borrower types to spread risk
- Establish concentration limits to prevent excessive exposure to any single borrower, sector, or geographical area
- Purchase credit insurance to cover potential losses from borrower defaults
- Utilize government-backed guarantee schemes where available to mitigate risk
- Ensure all loan agreements and collateral documents are legally sound and enforceable
- Maintain clear legal recourse options for enforcing claims on collateral and recovering dues
- Provide options for loan restructuring in cases of temporary borrower distress, including extending repayment periods or reducing interest rates
- Develop standardized resolution plans for dealing with distressed loans, ensuring minimal impact on the overall loan portfolio
- Establish and adhere to robust risk management policies and procedures
- Form dedicated risk committees to oversee the loan portfolio and address potential risks proactively
- Regularly train staff on risk identification, assessment, and mitigation techniques

#### **Repayments & dues**

In case of EMI/EWI/EDI's (Term loan) a payment of interest/instalment is considered as "paid" or "Complete" if the full amount due is paid on the respective date. "Part payments" shall be subject to penal charges. Any money paid by defaulting customers shall first be adjusted/ charged against penal charges, charges, interests and then principal amount. Repayment of interest/principal shall be according to terms and conditions of the scheme as agreed between the customer and the Company.

### **Maintenance of files**

The files shall be maintained date-wise with numbering, stored in a safe and secure place to avoid damage of documents. Before putting documents into file, the branch staff/manager shall ensure that the documents/formats to be signed by the manager are duly signed. Overwriting in documents shall not be entertained as this may affect the legal validity of documents. Softcopies of documents has to be kept as per the instructions issued by Loan department at HO. Files relating to Closed/ satisfied loans shall be maintained at a separate place/cabin. The branch managers shall devise file system in accordance with HO instructions.

### **Miscellaneous**

1. The Company can give loans as secured or unsecured on case-to-case basis. The Company shall be cautious while giving unsecured loans.
2. Rate of interest shall be determined based on cost of debt, operation costs, risk factor, tenure, competition, customer background, credit worthiness, stability of earnings, collateral value etc and also considering the interests of all stakeholders associated with the Company. The Annualised interests shall be mentioned in all applicable policies and also respective loan documentations, wherever necessary.
3. The general policy of fairness and transparency in operations shall be followed. Terms and conditions of loans should be in compliance with the Fair Practices Code of the Company.
4. Loans that are granted not in the ordinary course of business shall be treated separately and compliance with applicable laws shall be ensured in that case. In such cases, approval of Board of Directors shall be sought prior to the transaction.
5. Anti-Money laundering/Antiterrorism guidelines issued by RBI/Government of India shall be complied with.
6. Internal instructions on operations and Formats issued by HO shall be strictly followed by the branches.
7. There should be effective formal and informal communications between branch staff and HO staff. The employees/staff shall be very keen and alert with regard to communications relating to loans, from concerned departments at H.O.
8. The tenure of loans shall be decided by market practices and RBI directives.
9. The branch managers and staff shall be imparted proper training in operations and Information Technology systems from time to time, as the management may deem fit.
10. KYC to be strictly followed in all cases of loans. Incomplete KYC documentation will not be acceptable for any reason.
11. The staff shall not interfere with the personal affairs of the borrower except for purpose provided in the terms and conditions of loan agreement or unless information, not disclosed by the borrower has been noticed.
12. All applicable laws relating to interest/principal payments and loan disbursements shall be followed by the Company and the staff.
13. Any formal/ written agreement containing terms and conditions like interest rate, repayment intervals, loan amounts, penalties etc and agreed between the customer and company by

signing shall be final. Any agreement, documentation and declarations signed by customer at the time of applying for loan, disbursement of loan or any other situation, shall be considered to be signed with full knowledge of terms and conditions of the particular scheme of loan.

**Interest rate policy & NPA policy**

The Company has framed interest rate policy and NPA policy as per applicable laws which are hosted on Company website and has been provided to branch managers and also Key Persons of the Company. The Company staff shall go through the same and oblige.

**For Palma Development Finance Private Limited**

**Sd/-**

**Director**

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