Credit Policy

Prayas Financial Services Pvt Ltd

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Contents

Introduction:

Microfinance loans are a type of financial service that provides small-scale loans to individuals with low-income and hailing from underprivileged communities. Micro finance loans are designed to help individuals who do not have access to traditional banking services or who may not qualify for larger loans due to a lack of collateral or credit history. These loans are intended to support entrepreneurship, promote economic development, and alleviate poverty. These loans have proven to be a powerful tool for empowering individuals and communities, particularly in the developing countries, by providing access to capital and financial services that can help them achieve their financial goals and improve their standard of living.

Prayas Financial Services Private Ltd. (PFSPL) follows the Joint Liability Group (JLG) model of microfinance. Clients are organized in a group of 4-25 individuals who take joint responsibility for the loans disbursed in the group. Clients meet weekly/fortnightly/monthly as per the chosen frequency of loan repayment.

Objective:

Here are some of the key objectives of credit policy for microfinance loans:

1. Financial inclusion: One of the primary objectives of microfinance loans is to promote financial inclusion by providing access to credit to those who are typically excluded from the formal banking system. PFSPL targets the same customer segment.
2. Entrepreneurship promotion: Microfinance loans provide funding to small businesses and entrepreneurs, helping them to start or expand their businesses and generate income.
3. Sustainable lending: The credit policy of PFSPL ensures that lending is done responsibly and sustainably, considering the financial capacity of borrowers, and that loans are affordable and repayable.
4. Risk management: The credit policy includes robust risk management practices to ensure that the institution's lending activities are sustainable.

Overall, the objective of this credit policy is to provide responsible and sustainable financial services that support economic development and promote financial inclusion for underprivileged communities.

Coverage:

The credit policy applies to all the microfinance loans originated on the balance sheet of PFSPL. The credit policy shall also apply to all microfinance loans disbursed by PFSPL under co-lending arrangements with other Financial Institutions / Banks. However, for managed portfolio (as BC partner), all disbursements shall be done as per the lending criteria of the funding partner. All concerned staff of PFSPL involved in the provision of credit services under 'own loan portfolio' are expected to refer to this policy document and abide by it.

Target Segment:

The target segment of microfinance, considering the income of up to Rupees three lakh per annum, would typically include low-income individuals and farmers who do not have access to traditional banking services. These individuals typically reside in rural and semi-urban areas and have limited access to financial services, including credit, savings, and insurance.

- **Segments:** Women in Joint Liability Group
- **Channels:** Direct Lending
- **Exclusion:** Men and Unmarried women less than 30 years of age

Note: Loan purpose should not be from the negative profile list of PFSPL (See Annexure 1N egative Profile list).

Sourcing:

The employees of PFSPL should source all the microfinance loans directly from the women members. There shall not be any involvement of agents and third parties in originating or managing the loans.

Features of the Product/Process:

Joint Liability Group Loans are for meeting the credit needs of a low-income segment having loan requirements for income generation, sanitation, and consumption purposes. The table below dictates the product and credit policy:

Sr. No	Particular	Policy
1.	Borrower	Joint Liability Group with minimum 4 members and a maximum of 25 members
2.	Loan Limit	The loan amount will be based on FOIR calculations. FOIR conditions state that the outflow on account of repayment of monthly instalments from all sources shall not exceed 50% of the household income.
3.	Indebtedness	For PFSPL, the maximum indebtedness per individual member of a group shall be Rs. 1,50,000. (Including the proposed PFSPL loan)

Sr. No	Particular	Policy
4.	Eligibility	- Lending to JLGs only 4-25 members per group - Age Limit- 18 to 60 years on the date of disbursement - In the case of unmarried women, eligible only if they are more than 30 years of age. - All the group members should be of the same gender. - Members should not belong to the same family. The exceptions allowed are: - Mother-Daughter (Married) - Mother-in-Law-Daughter in Law - Wives of own brothers - Own Sisters (both married) - Sister and Wife of the same person - All the members of JLG should reside in the same neighborhood. - Satisfactory Credit Bureau Reports of all members in the group. - Borrowing of the customer should not cross 50% of FOIR, including the proposed loan. - Group Members must live within 750 meters radius from center meeting place.
5.	Co-Borrower	- Age Limit- 18 to 60 years on the date of disbursement - If the borrower is not an earning member, then the co-borrower must be an earning member. - If the spouse is not earning or for single women, an immediate earning family member can be the co-borrower. The following are eligible – brother, father, mother, or married sister of the borrower. - Co-borrower must reside in the same village or city as the borrower, except for a seasonal shift to nearby areas . - Co-Borrower should have satisfactory credit history.
6.	Family Members	As per RBI guidelines, Household shall mean an individual family unit i.e., husband, wife, and their unmarried children.
7.	Bureau	The borrower and co-borrower should have satisfactory credit history.
8.	Purpose	All-purposes - covers consumption, income-generating loans, and sanitation loans.
9.	Security	The loans shall be classified as unsecured loans
10.	Joint Responsibility	It would be the collective responsibility of all members to ensure timely repayment of the group's loans.
11.	Rate of Interest	As per Board approved Interest rate policy and the latest circular of the company on interest rates.
12.	Processing Fees	As per Board approved pricing policy and the latest circular of the company on fees.
13.	Tenor	Up to 36 months
14.	Repayment	Principal along with the interest to be paid in equated weekly/fortnightly/monthly instalments. A moratorium of 30-60 days may be allowed for first instalment repayment.

Sr. No	Particular	Policy
15.	Prepayment Collection	Prepayment of the loan is permitted without any penalty. The outstanding balance and the interest up to date will be collected. Prepayment is allowed for any number of members in a group. To qualify for the next loan cycle, the borrower must cover at least 50% of their previous loan tenure before pre-closing the loan. If the borrower fails to meet this requirement, they will only be eligible for the same cycle loan.
16.	Late Collection	There is no penalty for making late collections at any time. However, to qualify for a subsequent loan, members must ensure that they have satisfactory credit history with PFSPL.
17.	Disbursement	Transfer to a bank account in the name of the borrower or the joint account of the borrower and the co-borrower. The amount will not be transferred to any other account.
18.	Insurance	Transfer to a bank account in the name of the borrower or the joint account of the borrower and the co-borrower. The amount will not be transferred to any other account. • The loan amount is the minimum coverage amount, separately for the borrower and the co-borrower. • The coverage period begins on the date of disbursement and ends on the date indicated on the loan card.
19.	Credit Rule Engine	To ensure accurate assessment of the credit profiles of both the borrower and co-borrower, we have implemented a credit rule engine (Details are placed at Annexure – 2). This engine utilizes multiple rules that we have developed based on factors such as credit history, debt, NTB Clients, Repeat Loans and other financial indicators. The credit rule engine can also be customized to meet our specific needs. The following credit rules are integrated with the software and would be applied automatically: • Violation of the group condition • Violation of FOIR policy • If client eligibility conditions are not fulfilled ** Any change in rule engine will be done with approval from Business and Credit Department
20.	Loan Amount Decisioning	The approved loan amount will be the minimum of the following: • The loan amount applied. • Loan amount recommended by BCM/BM • Maximum loan amount as per FOIR.
21.	Loan Utilization Check	Loan Utilization Check (LUC) will be undertaken to verify that the loans disbursed have been utilized by the client for the purpose stated in the loan application. LUC must be done within 30 days of loan disbursement.
22.	Loan Rescheduling	Loan rescheduling must be done as per the loan rescheduling policy of PFSPL.
23.	Non-Starter	Customer who would not pay any of the first 4 EMIs, would be considered as Non-Starter Customer.
24.	Write off	Write-offs will be in accordance with the Write off Policy of PFSPL.
25.	Maximum Distance between group member's	1 kilometre – This limit is aimed at ensuring homogeneity among the group members and group cohesiveness apart from minimizing

Sr. No	Particular	Policy
	residences and centre meeting place	operational challenges in the collection process both for the loan officers and the borrowers.
26.	Geographical limit within which a branch can source business	**35-kilometre radius**. It helps to enhance operational clarity for the branches and ensures borrowers are not too far away from the branches impeding recovery efforts.

Household Income Assessment:

Branch Credit Manager or Branch Manager, tasked with the appraisal, must carefully verify the income and expenses of each member of the household. To estimate the household income from all sources, a conservative method shall be used to account for any unanticipated risks that may have a downside risk to earnings. It is advised that the Credit Manager or Branch Manager employ a variety of evaluation techniques, including as observation, reference checks, neighbour's point of view (POV), personal discussion (PD), and verification of Kachha Pucca invoices, to arrive at a thorough understanding of the income. A more accurate estimation of the household income can be produced by triangulating the income using these techniques.

For undertaking the income assessment of a low-income household, information related to following parameters will be captured:

Parameters to Capture Household Profile	Parameters to Capture Household Income	Parameters to Capture Household Expenses
•Composition of the household •Type of accomodation •Availability of Basic amenities •Availability of other assets	•Primary Source of Income •Other Sources of Incomes	•Regular Monthly Expenses •Irregular Mothly Expenses over last one year

Deviations

Any deviation from the approved credit policy can be approved jointly by Business and Credit (not below the rank of Associate Vice President)

Annexure 1- Negative profile list/Exclusion list

The following profiles of people are not eligible for becoming clients of PFSPL.
1. Individual involved with politicians/ political parties
2. Lawyers and Legal Professionals
3. Police Employees
4. Astrologer or any person associated with the perpetration or maintenance of any organized religion, social movement/Social Worker.
5. Individual involved with Private Financiers / Money Lenders, Stockbrokers, Chit fund/Committee Operators, Collection Agents, DSA, Security Service Providers etc
6. Staff or owner of wine shops or shops of any intoxicants or bars.
7. Press (Journalist, Editor, Media, Publisher)
8. Artists involved in Film Industry, Singer, Dancer, Actors, Magician, Painting Artist, Gimmick artists, Cyber Cafe or persons associated with Entertainment and Gaming (Video Parlour) business
9. Minors.
10. Commission Agents (without separate office set up)/Lottery Agents/RTO Brokers
11. Individual / owners involved in Multi-Level Marketing (MLM)
12. Builder & Developer and real estate brokers
13. Employees of Local News Paper or Local Finance Company
14. Employees of gambling companies, casinos, and equivalent enterprises
15. Trader in wildlife or wildlife products regulated under the Convention on International Trade in Endangered, species of Wild Fauna and Flora.
16. Individual involved in pornography or the provision of products or services of a similar nature.

Annexure 2-Credit Rule Engine

Background	Automatically evaluates the CB output combined for the Client and Spouse, and generates decision recommendation for the client
No. of variables analysed	100+
Rule Heads	23 rules and over 250 sub-rules, defined separately for New and Repeat clients, falling into the following broad categories: • Overall Indebtedness • MFI Track Record • Retail Unsecured Track Record • Retail Secured and Long-term Secured Track Record • Credit History with Prayas
Output	Collating the output of all the above parameters, an overall Decision Recommendation gets generated from amongst the following possible outputs: • Approve – *the case gets approved* • Conditionally Approve – *the case does not satisfy the primary approval conditions, but upon meeting some additional conditions, the case is eligible for approval* • Refer – *the case goes out for review by the appropriate authority* • Reject – *the case gets rejected* if the case is approved; Loan Product gets updated based on the eligibility criteria set and loan packs available.
Additional Features	• Account-category wise Outstanding, Overdue, Write-off exclusions are set in addition to the rule exceptions • To avoid incorrect decisioning due to incorrect EMIs reported by the lenders, an EMI calculator based on category-wise assumptions is used to calculate the possible, actual EMI values • Recommendation generated by the engine can be overridden by the appropriate authority