

LOAN POLICY

1. Preface

This paper has been drawn by way of consolidation, updation and additions to our existing lending norms with a view to present a comprehensive policy document for favour of the Board's approval. The policy seeks to maintain consistent improvement in asset quality, improvement in net interest margins and operational efficiency particularly in the areas of compliances and risk management.

2. Regulatory regime

As a Non Banking Financial services company registered under the Reserve Bank of India Act , our lending policy is guided by the directives and guidelines issued by The Reserve Bank of India from time to time . As such, this policy document is subject to review based on periodic changes in regulatory norms.

1. Single / Group Exposure norms - Lending to any single borrower will not exceed 15% of owned funds and to any single group of borrowers not to exceed 25% of owned funds.
2. Maintain a Capital to risk weighted asset ratio of 15%.
3. Prudential lending norms - Asset classification, provisioning requirements as per RBI Prudential norms.
4. Fixation of maximum loan per gram based on the Loan to Value (LTV) guidelines of RBI
5. Compliance with Anti money laundering / countering financing of Terrorist Activities as elucidated in our Anti Money Laundering (AML) policy

3. Risk management

We have a zero tolerance policy on risk. The different tiers of control already implemented, begins at the branch level. Regional Managers, Audit Managers, Operational Managers and Vigilance Managers have a clear job role to enforce routine check on enforcement of quality assurance measures. CO functionaries will also undertake random check on related issues, whenever they visit the branches.

The Risk Management Committee, constituted with the board's approval, is entrusted with the task of identification, measurement, monitoring and mitigation of the risk factors on an ongoing basis.

As a part of our ongoing risk mitigant initiatives, the Company has implemented rating matrix system to assess vulnerability at branch as well as at corporate office levels. This rating exercise will be a part of periodic audits.

Notwithstanding, given the short term nature of our Loan assets cushioned well by net interest margins, the secured nature of business, vulnerability to credit, operational as well as market risks is limited.

4. Resources

Our funding needs are presently sourced out of debentures and also partly through working capital facilities from Banks. Reckoning our ambitious growth plans, steps have been initiated to source additional banking facilities, in addition to periodical issue of non-convertible debentures.

As a part of our initiative to raise cheaper source of funds and also to draw parity with our assets maturity profile, alternative short term sources of funding would also be added to the resources.

5. Loan Pricing policy

The interest rates on gold loans will be fixed by the company on the basis of the following internal valuations.

1. The company lends varying amounts per gram of the gold (LTV) depending upon the market value and the purity of the gold. As per the risk assessment of the company a higher LTV is riskier than a lower LTV. Accordingly, lower LTV attracts lower rate of interest and higher LTV attracts higher interest rate. Further, in case of schemes where the interest rate varies with tenor of the loan, the borrower can remit the monthly interest alone and continue to enjoy the loan at lower interest rate.
2. In terms of RBI guidelines, maximum LTV rate that can be fixed should not exceed 30-day average of the closing rate for standard gold (22k) fixed by Indian Bullion and Jewellery Association.
3. No allowance has been provided for add-ons such as making charge, sales tax, etc.
4. The maximum permissible LTV (Loan-to-Value) of the pledged ornaments will, however, be within the ceilings stipulated by RBI from time-to-time (The maximum permissible LTV is 75% at present).
5. Cost of funds: Interest on loans will be levied as a mark up on the current cost of funds. The current cost of funds for this purpose means the incremental cost of borrowings of the company, its operating cost, loan loss provision and taking into account the operating margins required for growth of the Company.
6. The interest rates charged by the Company shall be expressed in compound rates with monthly rests.

6. Products

The Company's assets are advances granted against the security of gold. Therefore the products profiles are reviewed regularly with a view to customize products in line with market expectations, availability of funds and competitor analysis. Variants of loan products through

different schemes within the policy framework are done after periodic review of market conditions, duly approved by the board.

Gold loan schemes of the company are extended for a period upto 12 months from the date of initial sanction except EMI loans which are granted upto a maximum of 24 equated monthly installments.

The existing Gold loan products are described below:-

i) Mahila Loan

Women customers are one of the targeted segment of our Company. Through Mahila Loan we help them to empower by providing timely credit which will satisfy their immediate requirement without waiting too much. The targeted customers under women are self-help groups, women engaged in making handicrafts, tailoring, vegetable dealers, women drivers and all other working women in the country. Muthoottu Mini Mahila Loan is a solution which will speed up her efforts to support her family. We are also inclined towards giving additional benefits to women because we believe the rate of repayment is better. Loan period of Mahila Loan is defined as 12 months (360 days).

ii) MM Aaswas

Targeted segment of this product is basically the borrowers who enquire about gold loans at low rate of interests. This product will meet the immediate requirement of those who want to pledge at low rate of interests. The purpose of implementing this product is to increase the walk-ins in the branches. The Company will get better customer mix also. Loan period of MM Aaswas Loan is defined as 3 months (90 days).

iii) LTV Loan schemes

The company lends varying amounts per gram of the gold (LTV) depending upon the market value as detailed by RBI direction and the purity of the gold. As per the risk assessment of the Company a higher LTV is a riskier than a lower LTV. Accordingly, lower LTV attracts lower rate of interest and higher LTV attracts higher interest rate. Similarly, interest rates varies with the period of loan ie the rate of interest progressively goes up with the increase in the period of loan.

Loan Period Full LTV (ie 100% LTV) – 9 months (180 days)
 90% of LTV – 12 months (270 days)
 80% of LTV – 12 months (270 days)

iv) EMI schemes

a) EmZEE Gold Loan 12 (EMI):-It is an EMI scheme (Equated Monthly Installment) where the borrowers have the option to borrow money at lump sum and pay back on a monthly basis by pledging his/her ornaments. Maximum repayment period under this scheme is 12 months from the date of loan. The applicable rate of interest is 15% on a flat rate method. Minimum loan amount is Rs. 10000 under this scheme.

b) **EmZEE Gold Loan 24 (EMI)**:-It is also an EMI scheme. The borrowers have the option to borrow money at lump sum and pay back on a monthly basis by pledging his/her ornaments. Maximum repayment period under this scheme is 24 months from the date of loan. The applicable rate of interest is 14.5% on a flat rate method. Minimum loan amount is Rs. 25000 under this scheme.

c) **MM Eze Daily**

A scheme which attracts the traders and daily income segments of the society. Minimum loan amount is fixed Rs. 10000 and maximum as Rs. 50000. USP of this product is that the customers can repay the loan in daily installment. The borrower can close the loan by remitting daily installments in 99 working days).

v) **MM Premier Loan**

MM Premier Loan is best suited for customers who require higher loan amount and are very sensitive in interest rates. Targeted segment will be the traders, business people, people engaged in constructions and all those people who require higher loan amount with enough gold jewels in their hand. HNIs needs are very different as compared to normal customers. HNIs may need fund for business, construction, trading and all other higher fund requirement activities.

vi) **MM PrePay**

Customers are always looking for interest rates and value for their gold to get maximum loan amount to meet the financial requirement. MMFL have come with a solution for this for a shorter period to maximize the customer satisfaction and gold loan business. MM Pre Pay is a solution to meet the financial requirements of the people by paying the interest in advance without the burden of accumulating interest by the end of the loan period and to maximize the customer satisfaction and improve the gold loan business.

vii) **MM Lite Eazy 15 & MM Lite Eazy 30**

MM Lite Eazy series are basically short term loan products introduced for those who require fund for very short period. Loan period of MM Lite Eazy 15 is fixed as 15 days and MM Lite Eazy 30 is fixed as 30 days.

7. **Purpose**

While we are not required to ascertain the purpose of the loan, since KYC requirements are met, it will be essential to confirm that the funds raised out of our gold loans are not to finance terrorist activities and or for money laundering purposes.

8. Quantum of advance and discretionary limits

While no minimum loan level is prescribed, company has stipulated that the minimum quantum of gold ornaments that can be ledged at one time will be two grams of gold content.

Maximum loan - no maximum cap, though individual loans of Rs 5.00,000/- and above should bear the respective RM's prior approval. RMs can approve loans to individual borrowers upto RS 25,00,000/- (Twenty five lakhs only) subject to strict compliance with quality as well as rate per gram criteria (LTV). In such cases RMs should reconfirm that KYC norms have been fully complied with .

Loans to individuals above the value of Rs 25 lakhs should bear Regional Head's prior approval. While approving such loans will ensure compliance with ceiling linked to our net owned funds, fixed by RBI.

9. Repledger Loans

The Company has decided to stop giving gold loan to repledgers. Branches are prohibited from extending loans to repledgers.

10. Margin

Maximum loan amount is restricted to 75% of market value on the date of advance. Rate per gram in all cases will be as per CO guidelines issued from time to time. Branches do not have the discretion to offer different per gram rates than the one circulated. Company has decided to adhere to the maximum rate per gram LTV computed on the basis of monthly average rate of 22 carat gold published by Indian Bullion and Jewellers Association(IBJA).

11. Verification of Ownership of Gold

Where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams, branch shall keep a record of the verification of the ownership of the jewellery. The ownership verification need not necessarily be through original receipts for the jewellery pledged but a suitable document shall be prepared to explain how the ownership of the jewellery has been determined, particularly in each and every case where the gold jewellery pledged by a borrower at any one time or cumulatively on loan outstanding is more than 20 grams.

12. Standardisation of Value of Gold

The gold jewellery accepted as collateral by the company shall be valued by the following method:

- a) The gold jewellery accepted as collateral by the Company shall be valued by taking into account the preceding 30 days' average of the closing price of 22 carat gold as per the rate as quoted by the Indian Bullion and Jewellers Association(IBJA).

- b) If the purity of the gold is less than 22 carats, the Corporate Office shall translate the collateral into 22 carat and state the exact grams of the collateral. In other words, jewellery of lower purity of gold shall be valued proportionately subject to the condition that the purity of the ornaments is not below 19 carats.
- c) Company, while accepting gold as collateral, should certify that they have assayed the gold and state the purity (in terms of carats) and the weight (gross and net weights) of the gold pledged with suitable caveats to protect themselves against disputes during redemption. The certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction

13. General Conditions

1. Muthoottu Mini Financiers Ltd refrains from interference in the affairs of the borrower except for the purpose of loan provided in the terms and conditions of the agreement unless a new information not earlier disclosed by the borrower has come to the notice of the company.
2. All gold loans will be sanctioned on the basis of a preliminary assaying of the purity of the pledged ornaments. These will be verified later on by qualified/ experienced gold assayers appointed by the company and in case the purity of the pledged ornaments are below the minimum accepted level of purity approved by the company, the company reserves the right to recall such loans without delay or notice.
3. Since gold loans are sanctioned instantaneously, no acknowledgment of loan application will be given.
4. The company does not resort to use muscle power or unlawful coercion methods for recovery of loans granted by the company.
5. All loans are sanctioned at the sole discretion of the company
6. The pledged ornaments will be stored in pucca strong rooms and will be duly insured against theft, dacoity, etc.

14. Way forward

We realize the need to constantly review and upgrade lending policy to review the products profile as well as terms to be able to be competitive in the market.

With our vision to become a preferred service provider in the financial services segment and to migrate to become a financial supermarket, product innovation, customization, addition and modification will remain a continuing process.
