

CREDIT POLICY

MICROFINANCE

2022-2023

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1. PRODUCT OVERVIEW

Microfinance loans are collateral free loans given to Female clients having annual household income up to ₹3,00,000 on the basis of joint liability. Loans are repayable in equated instalments over a period of time. Loans are given for declared legal end use, like business expansion, working capital needs, purchasing raw material, purchasing animals, debt consolidation etc. Clients are organized in Centres Of females and each woman takes joint liability for the other members of the Centre. The center is further divided into Groups where same loan amount, same cycle or same products will be put together for operational convenience. The minimum Centre size is Two. The clients have weekly/fortnightly /monthly meetings where they pay back the loans to the field officers called Relationship Executives of the company. All process and procedures are formulated based on RBI's MFI guidelines issued from time to time.

2. PRODUCT FEATURES

Parameter	Remarks
1st Cycle	Upto Rs.80,000
2nd and Subsequent Cycles	Upto Rs.1,20,000
Loan Tenure	Upto Rs.30,000 - 1 year
	Above Rs.30,000 but upto Rs.80,000 – 2 year
	Above Rs.80,000 – 3 Years
Processing Fee	1.5 % of Loan Amount
Geographical Limit	1.5 Km from Centre
Eligibility for next Cycle	After 3 months based on Eligibility
Age limit	18 – 63 for all cycles

3.TARGET SEGMENT

Group of 2 - 25 economically active married women having total household income up to Rs.3,00,000/- are eligible to apply for loan.

- Self -managed businesses
- Small shop keepers
- Vegetable Vendor
- Animal husbandry business
- Tailoring business
- And profiles with regular and sustainable cash flows

Loan cannot be used for illegal, speculative or anti-social activities

4.NON TARGET SEGMENTS

The following are not eligible for a loan

- Political Leaders
- Big Land lords.
- Wine/Liquor shop owners
- Police & lawyers and their immediate family members
- People running finance & chit funds business
- People involved in real estate business.
- People with bad credit history.
- Government employees
- Temporarily rehabilitated people
- Staffs & Relatives of Muthoottumini.

5. GEOGRAPHICAL LIMITS FOR LENDING

Up to 25 Km Radius from the Microfinance branch and 1.5 km radius from the centre place.

6. REPAYMENT MODE

Weekly /Monthly instalments to be paid in cash / as digital methods at centre meetings to the Relationship Officer. In no circumstances coercive methods should be used against clients for recovery of dues/ defaults.

7. REPAYMENT SCHEDULE / FIRST INSTALLMENT DATE

A specific day in a week to be to be fixed at the time of GRT (group recognition test) for collecting the instalments and the same day is to be set followed as the collection day throughout the cycle. 1st instalment is to be paid in the immediate next week after 7 days of cooling period from the date of receipt of loan

8. CREDIT NORMS – MICROFINANCE

The credit decision will be taken based on following criteria.

a) Financial Criteria

1. Annual Household income only up to Rs.300,000/-
2. Total monthly Household obligation including proposed Loan only up to 50% of monthly Household Income. The details can be cross verified using Credit Bureau report, Bank statement etc.

b) Non- Financial Criteria

1. Age : 18- 63 Years for both applicant and Co Applicant at entry
2. Health Condition
3. Residence Stability : Minimum 6 months for own and minimum 1 year for rented house
4. Group Guarantee
5. Composition : 2 - 25 members in a Centre with further division to sub - groups for same loan amount /same cycle category for operational convenience.
6. Blood Relation : Only 1 member from same house allowed. More than 2 members allowed if staying in different houses
7. Kin Relation: Only 1 member from same house allowed .More than 2 members allowed if staying in different houses. We are considering following relations as kin relations: Mother-in-law – Daughter-in-law, Sister-in-law, Co-Sisters
8. Group Dynamics
 - i) Group has been made by the clients themselves and not by the staff.
 - ii) All the clients at a centre are willing to take each other responsibility and give mutual guarantee.
 - iii) Members should attend periodic Center Meetings.

9. DOCUMENTATION

Application form	Duly filled and signed application form in vernacular required .
Photograph	2 Colored passport size photograph of applicant along with spouse signed across on the front of the photograph.
Proof of identity/ existence	<p><u>Primary Document</u></p> <p>UID (ADHAAR) is Optional. A consent letter from client to be obtained if UID is given as primary ID .If UID is not available Voter ID as per EC website can be accepted.</p> <p><u>Secondary Document</u></p> <ul style="list-style-type: none">• Voter ID first choice• Ration card in respective customer's name with photo.• Pan Card• Passport• Driving license• Scheduled Bank passbook with applicant's photograph and seal.• Letter issued by /Revenue Officer/ Village Administrative Officer.• Letter from a recognized public authority or public servant. <p>KYC documents' photo copies only need to be taken. (Originals not required)</p>

Proof of identity/ existence	KYC documents must be self- attested.
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Address Proof	<p><u>Primary Document</u></p> <p>UID (ADHAAR) is Optional. A consent letter from client to be obtained if UID is given as primary ID .If UID is not available Voter ID as per EC website can be accepted.</p>
Address Proof	<p><u>Secondary Document</u></p> <ul style="list-style-type: none"> • Voter ID • Driving License • Ration Card • Passport • Utility Bills like Electricity , Telephone , Water bills not older than 90 days • Life Insurance Policy or latest Premium receipt • Rental agreement duly renewed • Consumer Gas Connection Card/Book • Bank statements / Passbook cover page with address being mentioned with an updated mini statement • Letter from a recognized public authority or public servant.

	<p>If customer is living in a rented house then ensure the proof of their permanent address. Also address proof of relative who lives in branch area should be collected and verified by the loan officer.</p>
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Credit documents	<ol style="list-style-type: none"> 1. Contact Point Verification form (CPV) filled and signed by both Credit in charge And Branch in charge 2. KYC documents should be verified with originals and need to mark as OSV (Original Seen & Verified) and duly signed by Credit In charge / Branch In Charge. 3. Annexure I for Household Income 4. Loan Sanction Letter 5. Loan Agreement 6. Fact sheet as per Annexure II 7. If any deviation is taken then it should be attached with the respective application.
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10. COMPREHENSIVE GROUP TRAINING (CGT) AND GROUP RECOGNITION TEST (GRT)

Each applicant should undergo a comprehensive group training (CGT) irrespective of loan cycle. Relationship Officer is primarily responsible for CGT. The focus of the training should be on:

- a) Developing Group responsibility and joint liability among the members.
- b) Informing clients about terms and condition of the loan like interest rate, processing fee, insurance premium, loan documents etc.
- c) To check that all the members know each other
- d) To check whether the house of the client is not located more than 1.5 km from the Center meeting place

Group Recognition Test (GRT)

All customers who have attended CGT) should appear for the test called GRT conducted by the Credit in Charge / Branch in charge .The purpose of GRT is :

- a) To check that all members are meeting the credit criteria.
- b) To understand that all client are familiar with each other.
- c) To ensure there are no agents involved in sourcing and all applicants are willing to take each other's responsibility for repayment.
- d) To check that all documentation norms with respect to KYC are met or not.

During the GRT, Credit In charge/ Branch in charge needs to verify the given ID and Address proofs with originals and need to sign with date on KYC and need to give an impression as OSV (Original Seen and Verified).

11. AGENDA FOR CGT

1. Greet the customers & Self-introduction
2. Introduce Muthoottu M Mathew group, Muthoottu Mini financiers Ltd. and other group companies and its products.
3. Give customers the address and telephone numbers of the Microfinance branch office/ Distribution of palmlet explaining no agents, no bribes etc.
4. Group and Center responsibility and liability must be clearly explained, so that it is understood by all the members during CGT.
5. Relationship Executive needs to make them understand that with joint liability the customer has to take the responsibility of repayment if any customer makes default in the centre.
6. Instruct the customers about member and group discipline.
7. Explain the need of attending centre meeting on time regularly.
8. Sign the attendance register.
9. Loan repayment in the centre meeting on time
10. Explain the importance of updating the loan cards, maintaining meeting minutes/ register and copy of scroll sheets.
11. Collect KYC documents and photos.
12. Fixing Centre meeting place, day & time
13. Complete Loan application documents duly signed
14. Explain the loan disbursement process and bank transfer
15. For any clarification/ Grievances client can contact the branch staff or in the number given in the loan card.
16. Question & Answers after discussions.

The person who can manage the responsibilities should be nominated as Centre Leader by the group members on CGT. Before approving a loan Credit In charge should ensure the following criteria are met by each individual.

- i) Group Guarantee / Joint responsibility.
- ii) Income criteria and loan Eligibility
- iii) Repayment capacity
- iv) Age and Health.
- v) Residence stability and distance from branch and centre
- vi) Documentation criteria
- vii) CGT is conducted or not for all the clients.

12. AGENDA FOR GROUP RECOGNITION TEST (GRT)

1. Verification of Loan Documents and OSV sign
2. Verification of KYC documents with Original
3. Recommendation of Credit in charge based on Credit bureau check
4. Branch Manager / In charge should sign in the CPV as part of approving the loan as per policy

13. SECOND CYCLE AND SUBSEQUENT CYCLE LOANS

All clients who have completed 3 months of current cycle are eligible for subsequent cycle as per policy.

14. LOAN DISBURSEMENT PROCEDURE

- Disbursement should only happen through direct bank credit.
- Loan can be disbursed only to customers those have passed Credit Bureau check & passed GRT.
- The date & time for disbursement should be intimated to the customers by the Collection Executive according to the instructions of Branch In - Charge .
- Ensure the clients have relevant contact numbers of branch, Branch In - Charge, Relationship Executive & Head Office.
- Relationship Officer must hand over updated Loan Card to members immediately after loan disbursement.
- After disbursement collection will start after a cooling period of 7 days /1 month as the case may be.

SEATING PATTERN

COLLECTION
EXECUTIVE

CENTRE
LEADER

1

2

3

4



Annex I (cf. Para 4.1 of RBI Directions)

Indicative Methodology for Household Income Assessment

1. For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

a) Composition of the household i. Number of earning members ii. Number of non-earning members

b) Type of accommodation (owned/ rented, etc.)

c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)

d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

a) Primary source of income

i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)

ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)

iii. Frequency of income (daily/ weekly/ monthly)

iv. Months/ days of employment over last one year

v. Self-reported monthly income

vi. Average monthly income (to be derived from (iv) & (v) above)

b) Other sources of income

i. Remittance ii. Rent/ Lease iii. Pension iv. Government transfer v. Scholarship vi. Others (specify details)

c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

a) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.) b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

2. Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

Annex II

(cf. Para 6.3 of RBI Directions)

Illustrative Factsheet on Pricing of Microfinance Loans

(to be provided in a language understood by the borrower)

Date: Lender's Name: XXX

XXX Applicant Name: XXX

Sr. No.	Parameter	Details
(1)	Loan amount (amount disbursed to the borrower (in Rupees)	10,000
(2)	Total interest charge during the entire tenure of the loan (in Rupees)	1,375
(3)	Other up-front charges (break-up of each component to be given below) (in Rupees)	320
a)	Processing fees (in Rupees)	200
b)	Insurance charges(in Rupees)	120
c)	Others (if any) (in Rupees)	-
(4)	Net disbursed amount ((I)-(3) (in Rupees)	9680
(5)	Total amount to be paid by the borrower (sum of (I), (ii) and (iii)) (in Rupees)	11695
(6)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	26 %
(7)	Loan term {in months}	12
(8)	Repayment frequency by the borrower	Weekly
(9)	Number of instalments of repayment	52
(10)	Amount of each instalment of repayment (in Rupees)	219
Details about Contingent Charges		
(11)	Borrower shall not be charged any penalty on prepayment of loan	
(12)	Penal charges in case of delayed payments (if any)	
(13)	Other charges (if any)	

Recruitment /Training / monitoring of Employees

Selection of Field Staff

1. Check Manpower Planning matrix once every week and identify manpower gaps.
2. Post Ad based on manpower gap and filter Resume
3. Do initial telephonic interview.
4. Schedule face-to-face interview for shortlisted candidates.
5. Cross-check Bio-data form to see whether candidate fulfils all criteria as per policy.
6. Conduct 1st round of face-to-face interview by MF HR.
7. If shortlisted, get candidate to meet CEO – MF for 2nd round.
8. Do Mandatory Credit Bureau test for candidate and reject if there is any adverse report
9. For ABM candidate or higher candidate to meet HR Head – MMFL /COO – MMFL for final round
10. If candidate clears all rounds of interview, fix DOJ for the following week
11. For ensuring conduct of the candidate is good , a back ground verification is initiated if necessary.
12. Qualifications of Field Executive
 - Minimum SSLC intermediate Qualified.
 - Fresher or 1+ Year experienced in any field.
 - Age between 18 to 38
 - Driving License mandatory
 - 2 Wheeler Mandatory
 - Aadhar card Mandator

TRAINING

1. INDUCTION

Once the employees has joined with our organization the said employee will be directly taken in to a HR introduction part on about the company & the products. The training module consists of :

- Work timing
- Leave Policy
- Attendance and payroll
- Dress code & Hygiene
- HR Policy - id card
- PROBATION period
- Disciplinary Action
- Resignation Policy
- Employee Benefits-ESI etc.
- Promotion Policy.

2. PROCESS TRAINING:

The staff will be then trained by the HR regarding the products & its process for operations to the newly joined staff.

- LOAN Product overview
- Abbreviations
- Loan Eligibility criteria
- Target segments
- Loan product features
- Loan repayments
- Group parameters
- Group composition Check list
- Overview - CGT & GRT
- Customer loan eligibility check
- In Detail CGT & GRT
- Loan documentations
- Second /Subsequent cycle loan
- Loan disbursement procedure
- Center meeting seating pattern

3. Customer Interaction Training:

- How to greet the customer.
- Induction about the company to the customer
- Brief detailed view about the products & the service.
- Collection details & how to receive the collection.
- How to deal the Arrear & NPA Customer
- How to maintain a good relationship with the customer.
- Collection updating.
- 02nd cycle loan to customers.
- Collection follow ups
- Prohibition of abusive languages / coercive measures.
- Special session on regulatory circulars , credit policies.

4. Field Training :

- Once the induction for the staff & process training is finished. The Employees will be given a field training for their practical experience for 1 week.
- How to calculate the customer's income & debt of their household.
- How to know the financial stability/ repayment capacity of the customer.

By the end of the module, the employee will be able understand:

- Company History of M. Mathew Muthoottu Group
- Understand and Recall the Vision & Mission of the organization
- Know Our Management
- Understand our business model
- Explain our product range and identify customer segments
- Know our regulators
- Understand your roles , responsibilities and compliances
- Customer interactions & activities

Disciplinary actions – Punishment Matrix

Misconduct like Misappropriation of Cash / manipulation Bank Accounts/ Financial frauds on any of the products or services offered by the Company / Indulging in activities which will tarnish the reputation of the Company- drunkenness, misbehaviour or other anti-social or unethical activities etc. will attract corrective /punitive actions . These include 1. Demotion, 2. withholding of increment. 3 Termination from service, 4. Punishment transfer 5. SCN based on the nature and quantum of misconduct.

Refresher Trainings

Periodic trainings are conducted frequently to update process & Policies through online as well as offline methods.