

# “CREDIT POLICY”

**FINMEN ADVISORS PRIVATE LIMITED**

**"CREDIT POLICY"**

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## 1. OBJECTIVE AND SCOPE OF THE POLICY:

- i. FINMEN ADVISORS PRIVATE LIMITED (**FAPL/Company**) is registered with Reserve Bank of India (RBI) as a non-deposit taking Non Systemically Important NBFC. Being an NBFC, it has to comply with Guidelines / Directions issued by RBI from time to time. The Company's Credit Policy is the framework, which defines the principles for its lending business. The Company shall duly implement and keep the Credit Policy including the Appendices and any amendments thereto up to date, in accordance with any regulatory, corporate or other legal requirements.
- ii. The objectives of this Policy are as below:
  - The Credit Risk Policy is the governing and guiding document for credit appraisal, approval, disbursement and post-approval and disbursement monitoring and enforcement. The Policy will therefore be the reference document on any issues related to credit appraisal, approval, disbursement, post-approval and disbursement monitoring and enforcement and process connected / related to the same. The purpose of the Policy is also to ensure that the financing portfolio of the Company remains of sound quality, the portfolio growth is supported and that the Company is in a position to manage its Credit Risk in a manner that minimizes creation of NonPerforming Assets (NPAs) and/or Stressed Assets.
  - The Credit Risk Policy shall be read and followed in consonance with the relevant laws and regulations governing the business of the Company and in the case of any conflict or divergence between the Credit Risk Policy and relevant regulations and laws, the regulations and laws shall override the Credit Risk Policy.
  - The Credit Risk Policy must also be read with other risk and process guidelines of the Company as may be relevant.
  - The Credit Risk Policy will be reviewed periodically and will be amended /updated from time to time in the light of changing business dynamics, economic environment and regulatory changes. The Credit Risk Policy shall be reviewed at least every 12 months and any amendments in the Policy shall be approved by the Board.
  - It is also an objective of the Credit Risk Policy that the Company continues to provide financings where the returns reflect the risk taken, and are positive from a Return on Equity and Return on Capital Employed perspectives. The business seeks to be profitable and add value to all its stakeholders viz. – the Shareholders, Management, employees and its clients /customers.
  - It is reiterated that all times the Company and its employees will follow and comply with the applicable / necessary regulations and guidelines issued by the regulators i.e. the Reserve Bank of India, Ministry of Finance, the Ministry of Corporate Affairs etc.
  - To establish underwriting framework- including maximum credit limits, risk limits, etc.
  - To ensure thorough Credit appraisal and proper monitoring of all outstanding Credits. This includes both; supervision of outstanding Credits as well as recovery of overdue

Credits.

- This Credit policy provides an overall description of all stages of the lending process.
- In pursuing its business, **FAPL** will operate according to the highest ethical and compliance standards and constantly seek to follow best practices in the industry. Under no circumstances will contravention of laws and relevant regulations would be tolerated.

## 2. BUSINESS STRATEGY AND BUSINESS OPERATIONS:

i. **FAPL** business operations need to be financially sustainable i.e., all expenses shall have to be met from income essentially from interest earned on credit extended in addition to income from investments and fees collected from services extended to customers. The Company may give credit to any individual, Self Employed Non-Professionals (SENP), Self-Employed Professionals (SEP), Proprietary Firms, Partnership Firms & LLPs, Private Limited or Limited Companies, Salaried Individual.

### ii. Business Segments

- Lending to Enterprises : **FAPL** aims to extend Credits, to the non corporate business entities for working capital, expansion, purchase of goods, purchase of equipment, repayment of high ROI existing loans, improving business operations etc. The Credit Policy enumerates on the customer segments, purpose of Credit, process of Credit approval and disbursal, interest rate determination of the Credit disbursal and charges to be borne by the borrower. The detailed Credit policy on MSMEs shall be taken up consequently.
- Corporate Lending: The Company can further extend Credits to any Body Corporate(s), firm(s), non-individual entities engaged in business for working capital, expansion, purchase of goods, purchase of equipment, repayment of high ROI existing loans, improving business operations, expansion of existing business or set up new business.
- Other Segments / Credit Products: The Committee/Board can further determine product parameters for retail lending and set limits on total book size for each product. The Credit policy has been framed in line with the Fair Practices Code prescribed by RBI.

### iii. Credit Approval Authority

- Board of Directors (herein after referred to as 'Authority' or 'the Board') shall be the credit approval authority. Authority may delegate its power to the credit committee with defined set of credit rule to approve the proposal from any other sector on case- to-case basis covering the entire spectrum of aspects viz. Purposes, size, interest rate, term, repayment terms, and security required and any other conditions will be as decided by the Board.
- All credit approval and delegation of credit approval authority shall rest with Credit Committee.
- The powers of credit committee shall also include any subsequent deviation from approved credit terms in respect of the borrowers of the company. Any such deviation approved by the credit committee shall be brought to the notice of the Board or the Risk Committee in the immediate next meeting for their record and review.
- The sanctions accorded by the credit manager shall be placed before the board ensuing

meeting for the purpose of review and ratification.

- The Board may directly approve any particular Credit or any other feature of the Policy.

#### Diagram of Credit Committee

##### Role

- All proposal must be presented and approved by credit committee.
- The Credit Committee must be responsible for monitoring and reviewing the existing loan portfolio and taking action in response to credit worthiness of existing borrowers.
- Credit Committee is expected to keep updated on emerging threats to the company operating environment and other issues related to the portfolio's credit policy.

##### Composition

- Board will constitute and nominate members including at least one director as member of the committee.

##### Quorum

- The quorum of the committee must be minimum two members

##### Meeting Frequency

- The credit Committee shall meet as and when required and at least once in a month.

### **3. PURPOSE OF CREDIT:**

- i. In the long term, it is envisaged that the lending business will reach out to both existing customers as well as open market customers and fulfil their financing needs for purposes as wide ranging as Credits for working capital, cash credits, and the gamut of curated lending products.

### **4. CUSTOMER SELECTION:**

Credits shall be provided to:

- Self Employed Non-Professionals (SENP)
- Self-Employed Professionals (SEP)
- Proprietary Firms
- Partnership Firms & LLPs
- Private Limited or Limited Companies
- Salaried Individual.

### **5. CREDIT UNDERWRITING:**

The process from the receipt of customers' request and communication of the final approval of facility will be as under:

- i. Credit Approval process:-

The process will start from the receipt of customers' request and the processing of same, including approval of the credit facility. The process ends with the communication of an approval or rejection of facility to the customer through a sanction letter.

- **Credit Application:** The customer shall submit loan application form offline (through company representative/DSA) or through mobile application or web portal to inform the Company regarding the interest in a certain Credit product.
- **Document Verification:** The documents submitted by the customer will be required to be analysed either using competent technological or human resources.
- **Credit Appraisal:** This step involves arriving at a decision to provide the Credit or not. FAPL shall require review and validate
  - Duly Completed application form
  - KYC
  - Job Confirmation Proof
  - Ownership Pattern
  - Business profile
  - Income Proof
  - Authorisation letter, Bank Statement/Passbook
  - Existing Loan
  - Declarations, consent and undertakings duly signed by all applicants and guarantor.
  - Review of FOIR
  - Consideration and review of non income proof cases

ii. Final decision on Sanction: -

The final decision to provide the Credit or not will remain with FAPL after all the previous steps.

Since a major focus in retail Credits shall be unsecured and unsecured Credits, the underwriting shall be strengthened such that Credits shall only be granted after the ability and intention to pay of the individual is assessed to an extent as much as possible. Unconventional sources such as alternative data modelling, CMA Data etc. to arrive at the credit worthiness of the entities can also be used.

iii. Processing Fee:—

FAPL has decided to charge a processing fee at applicable rates from time to time. Any revision in these charges would be implemented on prospective basis with due communication to customers. These charges would be decided upon by the respective business / Function heads in consultation with Operations, Finance, Compliance and Legal Heads.

iv. Other Charges:—

The below charges shall be as applicable for each product line.

- Prepayment Charges/Credit Foreclosure
- Penal Charges on late payment
- PDC/ECS swap charges
- Credit cancellation charges
- EMI Bounce charges
- Legal charges
- Collection Charges / Visit Charges
- Overdue / Penal Charges
- Insurance Charges

## 6. TENOR:

The retails Credits shall be granted for a tenor of not more than 7 years.

## 7. DETERMINATION OF INTEREST RATES:

- i. The base interest rate comprises of the cost of funds, operational costs and the minimum rate of return desired. The further spread will take into account the factors in the creditworthiness of the customer in the form of risk premium.
- ii. Other relevant factors have been enumerated below:
  - Interest shall be accrued and charged periodically but not less than monthly rests. Fees/ charges may be levied upfront or at other specific intervals as per the agreed terms and conditions.
  - Some fees or commissions may have to be paid before the commencement of a facility; the customer shall be required make advance payment of such funds to FAPL.
  - In all cases, the effective interest rate shall be clearly communicated to the customers, all fees, commissions, interest rates and their calculations shall be transparent and explained in a manner that could be understood by the customers, in compliance with the FPC, and sanction letter duly signed shall be obtained from the borrowers in token of acceptance of the terms and conditions of the facility.
  - Interest Rate policy will be reviewed periodically to take into account market forces, inflation and risk factors.
  - Interest rate structure may vary among borrowers depending upon the risk factors & need for achieving operational & financial sustainability. The Credit Authority will go through the rate recommended and give approval in all such cases.
  - The credit appraisal authority shall record specific reasons in writing at the time of sanctioning Credits, in case no interest is stipulated or a moratorium for principal or interest is granted for any period or any deviation or exception duly approved.
- iii. The rate of interest shall majorly depend on three overarching major factors:

### (a) Company factors:

- The cost of funds: Currently, both equity and debt funding are provided by the FAPL, at an internally decided rate. Going forward, FAPL shall opt for bank borrowings, debentures and commercial papers.
- Operational costs: This would include the cost of using manpower, for applicant's checks and document processing/verification, and if any face-to-face interaction, outsourcing cost for documents collection, verification of documents and field investigations, reference check, call center charges, legal and professional expenses, recovery charges and all other administrative expenses.
- Technology costs would also be factored in for CIC check, personal data verification, data storage and computing cost, technology outsourcing cost etc.
- Forecasting and planning objectives: FAPL shall have an Annual operating Plan with certain Return on equity/Return on Assets targets. Thus, the interest rate would have a margin for fulfilment.

**(b) Customer Factors based on the risk categorization (low, medium, high) of the customer:**

- Credit Bureau rating: All customers with existing trade lines shall be partly evaluated on the basis of their credit score. A cut-off score shall be defined with risk categorization and associated interest rates.
- Customer history: If a customer already has a Credit account with FAPL, the performance of the individual on the existing repayments shall be evaluated. This is also a subset of the credit score.
- Customer Alternate data results: Going forward, FAPL shall heavily invest in developing strong technological capabilities to analyze bank statements, spending behavior, financial commitments, social reputation, creditworthiness in public domain media content via partnerships, Information sourced from electronic devices via mobile-based application permissions to understand the linkages between the declarations made by the customer and the reality reflected by his/her financial transactions and actions.
- Applied Amount and Tenor of the Credit: The interest rate shall also factor in the amount of Credit and the number of months that the Credit shall be repaid in.

**(c) External Factors:**

- Possibility of linkage of Credit rates with benchmarked rates
- Competition Credit Rates: FAPL shall be mindful of the interest rates charged by its peer group companies for the benefit of the customer as well as for being ahead of the curve in terms of sound business sense.

**(d) Other Important factors:**

- The rate of interest shall be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

- The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.

**(e) Repayment:**

The Credit may be repayable in one or more instalments as per the terms agreed upon. However, the cut-off date for repayment may be extended by the credit appraisal authority for any particular case. Where such cut-off date for repayment is extended

beyond a period of one year from the due date, the authority shall record specific reasons in writing for such extension.

**(f) Collaterals:**

In case secured loans, ownership verification, valuation and insurance of the collateral security and or hypothecation will be considered.

**8. CUSTOMER JOURNEY:**

FAPL, shall have two ways in which the customer can reach out for the services.

- 1. Offline Application :** This shall be through manual process of filling the application form, submission of all information's and data at branch level.
- 2. Assisted through web/offline:** This shall be in both online and offline modes (in affiliated stores) and branches, if any, opened in future.

**9. PRE-APPROVED CUSTOMERS:**

In this case, FAPL may approach the customer based on the determined credit worthiness from alternative sources of data obtained via application permissions, credit bureau and enabling the decision engine to identify customers.

This would then simply be a consent to the offer made by FAPL. From acceptance of the offer to actual disbursement, it could be independent or assisted.

**10. GENERAL INFORMATION:**

- All customers shall be informed in detail regarding the features, terms and conditions including all charges of the Credit before the sourcing of the application. In case of credit facility availed over online or telephonic mode, no Credit application shall be processed

without a written consent from the customer.

- ii. FAPL shall not discriminate the sanctioning of Credits based on gender, caste or religion. However, it may choose to develop lending schemes for specific sections of the society.
- iii. After the sanction of the Credit, the Credit terms and conditions, sanctioning letter, repayment schedule and all other such relevant documents shall be sent in any chosen mode and explained to the customer.
- iv. Endeavour shall be made to inform the customer regarding status of the account prior to it turning into an NPA.

**11. REPORTING TO CICS:**

FAPL shall ensure submission and updation of credit information for its borrowers regularly to all the Credit Information Companies (CICs) on a Fortnightly basis.

**12. PERIODIC UPDATION:**

The Credit Policy shall be reviewed annually or as and when required necessary.