

Fair Practice Code

POLICY DOCUMENT – 009

Policy on 009- Fair Practices Code

Action	Entity	Signature
Created by	Compliance	
Reviewed by	Operations, Product and CEO	
Approved by	RMC	
Approved by	Board	
Release Date	Effective from April 01, 2024	
Version	5	

CONTENTS

Section	Particulars
1	Introduction
2	Applications for loans and their processing
3	Loan appraisal and terms/conditions
4	Disbursement of loans including changes in terms and conditions
5	Collection of Dues
6	Information Secrecy
7	Regulation of excessive interest
8	Loans sourced over Digital Lending Platforms
9	Additional norms in case of Lending against collateral of gold jewellery
10	Re-possession of financed vehicles
11	Grievance Redressal Mechanism (GRM)
12	Periodic Review

1. Introduction

FAIR PRACTICES CODE ("FPC") has been devised by Arka Fincap Limited ("AFL" / "Company") with an aim to achieve synchronization of best practices when the Company is dealing with its Customers. It is AFL's endeavor towards customers which includes a commitment to the communities in which their businesses operate and also includes a responsibility for ensuring that those businesses operate according to the highest legal and ethical standards.

This Fair lending practices applies across all aspects of the operations including marketing, loan origination, processing, servicing and collection activities. AFL's commitment to Fair Practice Code shall be demonstrated in terms of employee accountability, monitoring and auditing programs, training and technology. This Fair Practices Code applies to all categories of products and services offered/to be offered by AFL. The FPC inter alia, covers general principles on adequate disclosures on the terms and conditions of a loan and also adopting a non-coercive recovery method.

The essence of FPC lies in the following and AFL shall strive to follow them:

- Ensuring the fair practice and transparency in dealing with customers and also to comply with RBI/statutory guidelines on fair practice on time to time basis;
- To provide assistance to customers in understanding of the product, applying for loans, taking informed decision, making them aware of the terms and conditions;
- To not discriminate the customers on grounds of religion, caste or language.
- To attempt in good faith to resolve any disputes or differences with customers;
- Greater transparency in dealing with the borrowers;
- To comply with all the regulatory requirements in good faith
- Enhancing customer confidence and supporting them; and
- Ensure compliances relating to Indian laws relating to fair practices as may be prescribed under AFL's policies and practices and Fair Practices Code stipulated by RBI for non-banking financial companies (NBFC).

2. Applications for loans and their processing:

- i) All communications to the borrower shall be provided in English language and shall be explained in language as understood by the borrower, if requested by borrower.
- ii) In case, the borrower is not conversant in English language, the borrower shall provide a letter in the regional language that he has understood the terms and conditions of the application form and he shall abide by it. Further in case the borrower is going to use his thumb print or sign in any other language other than English, he shall provide an undertaking for the same.
- iii) The Application form shall include necessary information which affects the interest of the borrower so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower and also shall indicate the documents required to be submitted by the borrower. As part of the process, AFL provides all necessary information to the customer along with the term sheet/application as the case may be like fees/Charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which effects the interest of the customer so that informed decision can be taken by the customer.

- iv) Along with the details of relevant products, the borrower would also be explained about an end to end details of the processes involved till sanction, disbursement and closure of the loan.
- v) The Customer would be informed of the names and the phone numbers of office and the persons whom he can contact for the purpose of loans to suit his needs.
- vi) AFL shall define the time frame within which the loan applications shall be disposed off shall be indicated in the acknowledgement/ term sheet or similar document.

3. Loan appraisal, terms and conditions, and sanction

- i) AFL shall convey in writing to the borrower in English or in vernacular language /the language as understood and confirmed by the borrower, the status of the loan application by means of sanction letter or otherwise. In case of sanction of loan, the sanction letter shall contain the amount of loan to be sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof.
- ii) The acceptance of the terms and conditions communicated by the borrower shall be preserved by AFL on its records and copy of the same shall be provided to the borrower upon its request.
- iii) AFL shall convey in writing to the borrower in English or in the vernacular language as understood by the borrower and conditions including monthly/quarterly/annualized rate of interest (as the case maybe) and method of application thereof and keeps the acceptance of these terms and conditions by the borrower on its record.
- iv) AFL shall furnish a copy of the loan agreement either in English or language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement.
- v) AFL shall refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement, unless new information, not earlier disclosed by the borrower, has come to its notice. If the customer is found indulging into activities which are harmful to the environment, public health, safety, non-committed to compliance with applicable national, state, and local labor laws; non supportive to the payment of competitive wages and benefits to employees and not providing a safe and healthy workplace in conformance with national and local laws; or finds that funds are being utilized for child or forced labor, the loan application shall be rejected.
- vi) AFL shall convey in writing to the customer by means of sanction letter or otherwise, the amount of loan, details of penal charges payable by the customers, terms and conditions and other caveats governing the credit given by AFL, all other information which is relevant from the point of view of the transaction and all the parties involved.
- vii) All the fees / charges / interest would be payable as per mutual agreement. AFL shall mention the penal charges, if any, charged for late repayment in bold in the sanction letter and loan agreement.

- viii) In case of equated instalment based floating rate personal loans¹, following additional norms shall be complied with:
- At the time of sanction clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to change in repayment instalment and / or tenor or both. Subsequently, any increase in the repayment instalment / tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
 - At the time of reset of interest rates, options for switching over to fixed rate and choice between elongation of repayment instalment / tenor / other, shall be provided to the borrower in accordance with the Interest Rate Policy of the Company
 - All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Company from time to time.
 - share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The Company shall ensure that the statements are simple and easily understood by the borrower.
- ix) AFL shall furnish copies of security creation documents/ agreements along with a copy of each of the enclosures quoted in each of the security creation documents/ agreement to the borrower, at the time of execution of the loan agreement including the enclosures in English or in vernacular language /or the language as understood by the borrower.

4. Penal Charges in Loan Accounts

- i) Wherever penalty is charged for non-compliance of material terms and conditions of loan contract by the borrower, it shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding interest in the loan account.
- ii) The Company shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.
- iii) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- iv) The penal charges in case of loans sanctioned to individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

¹ Personal Loans shall be as defined in the RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 on "XBRL Returns – Harmonization of Banking Statistics" dated January 04, 2018.

- v) The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and Key Fact Statement (KFS) as applicable, in addition to being displayed on the Company's website.
- vi) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated to customers.

5. Disbursement of loans including changes in terms and conditions

- i) AFL shall give notice to the customer in English or in vernacular language/ the language as understood by the borrower of any changes in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. Changes in interest rates and charges shall be effected only prospectively and a suitable condition in this regard must be incorporated in the loan agreement.
- ii) Decision to recall / accelerate payment or performance under the agreement shall be in consonance with the loan agreement.

6. ²Release of movable / immovable property documents on repayment / settlement of loans

- iii) AFL shall release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim AFL may have against borrower. Further if any such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which AFL is entitled to retain the securities till the relevant claim is settled/paid.
- iv) AFL shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account.
- v) The borrower shall be given the option of collecting the original movable / immovable property documents either from the branch where the loan account was serviced or any other office of AFL where the documents are available, as per her / his preference.
- vi) The timeline and place of return of original movable / immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date.
- vii) In order to address the contingent event of demise of the sole borrower or joint borrowers the following procedure shall be followed for return of original movable / immovable property documents to the legal heirs –
Upon receipt of written intimation of death of the Borrower/Co-borrower/s by the Company from the legal heirs along with the copies/certified copies of supporting documents like death certificate, legal heir certificate, will, succession certificate or the order of court of competent jurisdiction, the decision on release of original title documents to the legal heir/s will be taken by the Company with approval of Legal Head.
- viii) In case of loss/damage to original movable / immovable property documents, either in part or in full, the Company shall assist the borrower in obtaining duplicate/certified copies of the movable / immovable property documents and shall bear the associated costs, in addition to paying compensation as prescribed by RBI.

² applicable to all cases where release of original movable / immovable property documents falls due on or after December 1, 2023.

In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of AFL, if any, shall be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms entered into with the borrower and in consonance with statutes, rules, regulations, and guidelines as may be applicable from time to time.

7. Collection of Dues:

- i) If the customer does not adhere to the repayment schedule, a defined process in accordance with the laws of the land shall be followed for recovery of dues. This process shall involve timely reminders and follow-up with the customer.
- ii) AFL collection policy is built on courtesy, fair treatment, and persuasion. It believes in building customer confidence and strive hard long-term relationship and would put in best efforts to achieve them.
- iii) Pre-payment options may also be available to the customer and the penalty payable shall be mutually agreed as a case-to-case basis policy and procedure of the AFL. The Company shall not charge foreclosure/ pre-payment penalties on any floating rate term loan sanctioned for the purposes other than business to individual borrowers, with or without co-obligant(s).
- iv) AFL in the matter of recovery of loan, shall resort only to remedies which are legally and legitimately available to it.
- v) AFL shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, rude behavior from the officers/ staff of the Company etc.
- vi) AFL shall in its KYC form have a column for the contact details of the persons to be contacted for recovery along with the possible hours to call in case the borrower is not traceable.
- vii) AFL shall ensure that the staff is adequately trained to deal with the customers in an appropriate manner.

8. Information Secrecy

All personal information of the customer would be confidential and would not be disclosed to any third party unless agreed to by the customer in writing. The term Third party' excludes all Law Enforcement Agencies, Credit Information Bureau, Reserve Bank of India, other banks and financial institutions and any other State, Central or Other regulatory body.

Customer information would be revealed only under the following circumstances, namely;

- (i) If AFL is compelled by law
- (ii) If it is in the Public Interest to reveal the information
- (iii) If the interest of AFL requires disclosure.
- (iv) Pursuant to customer consent, subject to provisions of applicable laws.

9. Regulation of excessive interest:

- i) The Board of Directors has adopted an interest rate framework taking into account relevant factors such as, cost of funds, margin and risk premium, etc. and accordingly determine the rate of interest to be charged for loans and advances.
- ii) 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.
- iii) The rate of interest should be annualized rates so that the borrower is aware of the exact rates that would be charged to the account. The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers.
- iv) Board of Directors shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

10.Loans sourced over Digital Lending Platforms

Wherever digital lending platforms are engaged as agents to source borrowers and/ or to recover dues, the Company shall follow the instructions as under:

- i) To display on the Company's website the names of Digital Lending Platforms engaged as agents.
- ii) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the Company's name on whose behalf they are interacting with.
- iii) Immediately after sanction but before execution of the loan agreement, the sanction communication shall be issued to the borrower on the letter head of the Company.
- iv) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.
- v) Effective oversight and monitoring shall be ensured over the digital lending platforms engaged the Company.
- vi) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

11.Additional norms in case of Lending against collateral of gold jewellery

While lending to individuals against gold jewellery, AFL shall follow the policy approved by the Board of Directors containing inter-alia the following:

- i) Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on customer before extending any loan.
- ii) Proper assaying procedure for the jewellery received,
- iii) Internal systems to satisfy ownership of gold jewellery.
- iv) Adequate systems for storing jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewellery.

- v) The jewellery accepted as a security shall be appropriately insured.
- vi) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities.
- vii) The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper.
- viii) The auction will be only through auctioneers approved by the Board and the Company shall not participate in the auction. The auction shall be announced to the public by issuing advertisements in at least two newspapers, one in vernacular language and the other in a national daily newspaper. AFL shall not participate in auction held.
- ix) Gold pledged shall be auctioned only through auctioneers approved by the Board of Directors.
- x) Systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval. The loan agreement shall also disclose details regarding auction procedure.
- xi) Documentation across all branches must be standardized. AFL shall not issue misleading advertisements like claiming the availability of loans in a matter of 2-3 minutes.

12.Re-possession of financed vehicles:

The Company shall have a built-in re-possession clause in the loan agreement with the borrower which must be legally enforceable.

The terms and conditions of the contract/ loan agreement shall also contain provisions regarding:

- notice period before taking possession;
- circumstances under which the notice period can be waived;
- the procedure for taking possession of the security;
- a provision regarding final chance to be given to the borrower for repayment of loan before the sale/ auction of the property;
- the procedure for giving repossession to the borrower; and
- the procedure for sale/ auction of the property.

13.Grievance Redressal Mechanism (GRM):

For AFL, satisfaction of customer is always the primary focus and hence AFL believes in providing adequate services to its customers and also to attract new customers with highly fair and transparent governance system. The Board of Directors of AFL (hereinafter referred to as 'the Board') has laid down the appropriate GRM within the organization to resolve disputes arising in this regard. Such a mechanism ensures that all disputes arising out of the decisions of the company are heard and disposed of at least at the next higher level.

Mr. Jitendra Chaturvedi, Chief Compliance Officer shall be the Grievance Redressal Officer.

The Grievance Redressal Officer shall collate the grievances received by her and submit it before the Risk Management Committee of AFL and thereafter before the Board of the Company. AFL shall display on its registered office and branches and website, the name and contact details of the Grievance Redressal Officer. who can be approached for resolution of complaints against the Company.

AFL shall also display contact details of the Officer-in-Charge of the Regional Office of the Department of Supervision of the Reserve Bank of India (RBI) under whose jurisdiction the registered office of the Company falls, which can be approached to, if the complaint/ dispute is not redressed by the Company within a period of one month.

Grievance Redressal Officer and COO shall put in place a detailed SOP for implementation of Grievance Redressal Mechanism.

Complaints that are received by AFL shall be seen in the right perspective and would be analyzed from all possible angles.

14. Periodic Review:

The Board of the company shall periodically review the compliance of the Fair Practices Code and functioning of the Grievance Redressal Mechanism.

A consolidated report of such reviews may be submitted to the board at least annually.

Fair Practice Code as approved by the Board shall be put in English and in vernacular language on the website of the Company.