# COMPREHENSIVE LOAN POLICY

**The following shall be the updated Comprehensive Loan Policy reviewed and approved at the meeting of the Board of Directors held on 25th May, 2024 as per the guidelines of Reserve Bank of India.**

## I. PURPOSE OF THIS POLICY

**The policies and procedures outlined in this document provide a framework within which the company is to operate its principal business of financing. This manual is meant to be a working document and a set of guidelines to be used by Credit Officer and Credit Appraisal Team. These policies and procedures are flexible to enable the loan program to be responsive to market demands and are designed to be amended from time to time. The Board of Directors is responsible for approving and amending the Loan Policy.**

## II. MISSION AND PURPOSE

**The Loan Policy was drafted keeping in mind our Vision to be the most inspired global holistic financial institute and our Mission to be an Indian Multi National Company providing innovative, integrated hassle free, value added financing solutions**

## III. CONFIDENTIALITY

**All staff members of the company to acknowledge that all information collected from or on behalf of any Borrower / Applicant, including analysis done based on such information, is private and confidential. They also acknowledge that this information should only be disclosed for the purpose of carrying out the provisions of this policy to Credit Officer, Credit Appraisal Team or Board of Directors; Technical Assistance providers; and select funding sources.**

## IV. LOAN PRODUCTS

**The Company to advance under various categories of funding viz.,**

1) **Hire Purchase**
2) **Secured Loans**
3) **Hypothecation Loans**
4) **Leasing**
5) **Mortgage Loans**
6) **Unsecured Loans**

**This loan product list is intended to be only illustrative and not exhaustive. Depending on the opportunities available new products may be developed from time to time and added to these Loan Products following approval of the Board of Directors. The first five categories being different variants of secured loans & advances, the company can decide on the ideal product mix/portfolio diversification looking into the pros and cons of each of the above category. However the last category being the unsecured loans with higher degree to risk the company should take utmost care in proposal evaluation before disbursement and risk categorization and delinquencies management post disbursement.**

**V. NEGATIVE SECTORS: As a thump rule the company to abstain from advancing for sensitive sectors such as lending for investment in capital market, lending for investment in real estate sectors etc., where the possibility/risk of variation in prices is very high and wide ranged. Since our company is primarily into automobile financing, the company to decline all proposals from the two most sensitive sectors mentioned above.**

**VI. PORTFOLIO DIVERSIFICATION**

**BASICS OF LENDING : For a Finance Company, Money is the raw material as well as end product. To put it differently, a Finance Company accesses funds from various sources and sell the same to the customers. As such the Company has to ensure that various borrowings will have to be properly serviced and the repayment will also have to be made promptly which necessitates prompt and punctual repayment by its customers. To ensure prompt repayment by customers there should be a full pledged system for recovery of dues, even more is the selection of customers to whom money is to be lent. If due care is taken in the selection of customers, a good part of the Company's efforts with regard to collections would have been taken care of. The need for a good credit appraisal system therefore gains more importance in this context. Keeping this in mind the Company has drafted it Loan Policy covering Credit Appraisal and Documentation and Procedure for better business based on its experience and experimentation over the period of time. Each Company has its own risk appetite which determines the extent to which it can stretch its limits. The major question to address is whether one should avoid risk or manage risk. Once an organization is clear as to its goals, it becomes easier to draw the credit policy to enable its employees to administer the finance business. The credit policy of the Company comprises the following details**

1. **General guidelines outlining the various products on offer and the requirements to be met to consider the proposal for finance.**

2. **Mandatory documents to be collected under each category of customers**

3. **Negative areas with respect to industry, profession, assets etc**

4. **The circumstance under which deviations if any if permitted and if so the procedure to the followed under such instances**

**The activities involved are categorized into two major heads viz., pre-disbursement and post disbursement. Proper document forms major part of the pre-disbursement procedure and recovery plays a major role in post disbursement segment.**

**No matter how big or small the loan, no matter whether it is to an individual or to the largest multi-national corporation, we follow certain principles of lending. This can be listed and remembered by the mnemonic IPARTS:**

| | |
|---|---|
| **I** | **NTEGRITY** |
| **P** | **URPOSE** |
| **A** | **MOUNT** |
| **R** | **EPAYMENT** |
| **T** | **ERM** |
| **S** | **ECURITY** |

**INTEGRITY :**

**The integrity of the customer is an important factor in determining whether a loan will be repaid or not. There are many examples of customer having enough money to repay a loan but not feeling obliged to honor the debt. In these circumstances the Company may have to spend time and money (at times even take legal action) to recover the debt. There are customers who will make repayments to the bank as soon as they have sufficient cash flow to cater to their loan debt and there are customers who will cut down on other spending to ensure that a loan is repaid. This type of INTEGRITY in the customer is a preferred factor in lending.**

**PURPOSE :**

**Besides wishing to avoid anything illegal, the Company checks on the financial, legal and practical viability of the purpose for which the loan is to be used. As the Company is mainly into automobile financing we ascertain the need and necessity for the acquisition of the Asset by the borrower and ensure profitable use of the same to ensure generation of income to cater to the repayment schedule.**

**AMOUNT:**

**Determination of the RIGHT Amount? The Company has to make sure that the customer has not overestimated his requirements nor more importantly underestimated his requirements. As in the former instance he will end up paying for credit not needed and in the latter case may end up unsuccessful in procuring the asset. Although there is no single standard pro-format for ascertaining the quantum of loan amount to be disbursed, based on the experience and expertise of our credit appraisal team and other relevant factors and the generally accepted proven methods prevailing in the industry efforts are taken to ensure that a good business is not lost nor a loss making proposition is entertained. The credit Appraisal Team is provided with a extensive Data Sheet terms Customer Proposal Form which gathers almost all relevant facts and the Credit Appraisal Manger makes a prudential decision based on the information's collected and authenticated thru supporting documental evidence. The Company ensures that the debt service coverage ratio is at least 2 meaning to say the income arising from the asset should be at least two times that of the interest or finance charges and the installments put together per month, so as to ensure prompt repayment of the loan.**

**Based on the ability of repayment the proposals can be categorized into the following categories.**

**If the borrower is able to generate sufficient income from the asset that is bought to repay the loan amount and the interest and have sufficient surplus to take care of his personal financial requirements such type of loans are the best and categorized as Number One.**

**If the borrower is able to repay the loans party out of the income generated from the assets that is bought and partly from income from own sources of income, then the advance is second best which are advisable in case of fleet owners etc.**

**If the asset does not directly generate any income but the loan is repaid out of the income of the borrower from other sources then the advance is third category meant for Consumer Durables.**

**If the asset is able to generate income only to repay a part of monthly installments as such possibility of Non Performance is on the higher side such categories are not to be entertained.**

**If there is no income from the asset but the asset can be repaid either in part of full only by the sale of asset, then the advance is rated poor category.**

**The last category is where even after sale of the asset the balance outstanding is doubtful of recovery and the company has to resort to sale of other assets putting both the borrower and the company into trouble**

**The categorization itself clearly helps in making a prudential decision as to whether to advance or not on the proposal.**

**For sentimental reasons at times proposer (customer)'s prefer to have the assets registered in the name of their mother/ wife / daughter (borrowers) who may not have the source of income to service the emi, in those cases agreement needs to be put in the name of the mother/wife/daughter based on the servicing capacity of the customer and categorization needs to be done accordingly making sure that the proposer is roped in either as co-applicant or guarantor.**

## REPAYMENT

**Scheduling of repayment is an important part of lending and the Company has to ensure that the borrower can and will make the repayments on due dates. For the said purpose the Company needs to obtain the Credit Information reports of borrower(s)/guarantor(s) for appraisal and sanction the loan after ensuring the credit worthiness of the borrower(s)/guarantor(s). As a thump rule those instances where there are no sufficient information available to enable informed decision making the scheduling of repayment needs to be finalized with great care and due diligence based on the documents collected authenticating source of income and known obligations. Also the Loan Sanction intimation letter to provide the rate of interest both absolute & annualized and repayment schedule containing breakup of principle & interest components for each of the Loan EMI.**

## TERM

**The longer the loan the greater the interest payments and thus profits to the Company, the long term involves greater risks of something going wrong. Hence a proper balance needs to be arrived keeping both the above facts in mind.**

## SECURITY

**Security for a loan is an insurance against the risk of default by the customer. The Company prefers to take security that does not fluctuate in value and easy to realize as it will then have an asset which it can sell to recover the loan amount .**

## LOAN POLICY OF THE COMPANY FOR VARIOUS LOAN PRODUCTS

**The disbursement in respect of new Heavy Motor Vehicles and Light Motor Vehicles including two wheelers be restricted between 50% and 75% of the Market Value of the vehicle depending upon the credit worthiness of the Customer. For old customers with good rating 5% - 10% additional disbursement may be considered.**

**The rate of interest in respect of the new vehicles be fixed depending upon the bank lending rate and be revised from time to time with changes in Base Rate.**

The disbursement in respect of old Heavy Motor Vehicles and Light Motor Vehicles be restricted between 50% and 65% of the Market Value of the vehicle with the age of the vehicle not exceeding seven years, condition of the vehicle, kilometers covered, credit worthiness of the Customer.

The rate of interest in respect of the old vehicles be fixed depending upon the bank lending rate and is reversely co-related to the age of the vehicle and be revised from time to time with changes in Base Rate.

For ascertaining the market Value of old (used vehicles) due reference needs to be made the grid value of the vehicle from established from market reports web portals and if needs a valuation certificate be obtained from an experienced mechanic.

**DEMAND LOAN (PERSONAL LOANS):**

The Demand Loan will be for a maximum period of 12 months and be secured by the Demand Promissory Note and Post Dated Cheques. The rate of interest for the Demand Loan will be directly co-related to the Base rate.

**MORTGAGE LOAN:**

Disbursement of Mortgage Loan can be taken up only on completion of the registration of Simple Mortgage in favour of the Company. The disbursement in respect of Mortgage Loan and determination of the quantum of loan amount will be based on the value of the property offered as security and legal opinion of an advocate be taken to establish the valuable title of the Mortgagee and if needed valuation of the property be undertaken by a qualified valuer. The amount of finance is restricted to 70% of the Market Value of the property mortgaged.

To ensure a proper and sustainable balance between Risk & Return to the Company it was decided that the ratio of unsecured loans to secured loans should always be not less than 1 : 4. It was also decided that the loan amount sanctioned to one party can't exceed 15% of the net owned funds of the company. The Loan amount which a person can borrow is decided by his/her repayment capacity. Repayment capacity takes into consideration factors such as income, age, qualifications, number of dependents, spouse's income, assets, liabilities, stability and continuity of occupation and savings history. The Company's concern is to make sure whether the borrower can comfortably repay the loan amount.

In all cases the credentials of the borrowers is ascertained by taking the credit report of the borrowers thru the four Credit Information Companies. The Company keeps the above draft as an illustrative and not as a exhaustive one keeping itself open for modification as an when needed.

**Documents to be collected before of Sanction of Loan**

**Importance of Know Your Customer (KYC) The KYC guidelines are followed precariously at the company. One of the following documents is taken as the identity proof**

- **Aadhar Card**
- **PAN card**
- **Driving licence**
- **Voter's ID 9**
- **Company identity card**
- **Bank passbook carrying photo**
- **Passport**

**The residence proof is established through a utility bill (electric / water / telephone) and/or ration card. Two latest colour photographs are collected.**

**For establishing his/her credentials, the customer is required to submit –**

- **IT returns (Saral /Form 16)**
- **Bank statement for 6 months**
- **Salary certificate for last 3 consecutive months**
- **Savings details (Bank, FD, Shares, MF, PPF & Insurance policies (Life cover / property cover / medical insurance))**
- **Other immovable property details (house, plots)**

**The customer also needs to submit the details of the co-borrower and guarantor. For the Valuation of the property, legal documents like Sale Deed, approved map from the local authority, Corporation tax receipt , Deed of Declaration (between owner & Builder), Building Permit (covering letter of the sanctioned map), Property card needs to be submitted**

**The KYC Compliances & address verification is undertaken by the company official who has been trained for this purpose.**

**Exceptions - There are certain exceptions defined to make the process smoother for the borrower while ensuring that the overall risk exposure of the company is only marginally impacted. The exceptions are –**

**1. If the loan value is less than Rs. 2,00,000, submission of the valuation report and search report is not mandatory.**

**2. If the loan value is less than Rs. 5,00,000 and the Loan to Value (LTV) ratio is less than 70%, submission of valuation report and search report is not mandatory.**

**VII. Credit Officer and Credit Appraisal Team**

A. **Credit Officer is responsible for implementing the lending components of the mission outlined in Loan Policy of the Company. Specific responsibilities of Credit Officer includes analyzing and recommending loans to the Loan Committee and the Board of Directors, executing loans, monitoring portfolio risk, collecting repayments and managing defaults and foreclosures. All of the activities of Credit Officer to be carried out in accordance with this Loan Policy and at the direction of the Executive Director and the Board of Directors.**

**The Credit Officer executes the responsibilities outlined above by separating his duties into**

Financial Counselor, Credit Officer, Portfolio Manager and Finance Manager. These roles may be assigned to one or more staff member depending on their skills and experience; alternatively, multiple staff members may be needed to manage a single area based on the number of loans in the pipeline or portfolio.

Upon receipt of the application, Credit Officer/s confirms the following are true that the loan requested is consistent with the Loan Product(s) offered, Eligibility Requirements, Portfolio Diversification Restrictions and Funding is available for the proposed loan. He has to ensure that all necessary documentation has been submitted by the applicant.

Once a complete loan package is received, the Chief Credit Officer conducts complete and thorough due diligence of the proposed loan, which includes reviewing cash flow projections; the assumptions to the projections; and the business plan received from the applicant. The Credit Officer researches the industry, researches borrower's credit rating and structures the loan payment schedule to meet the borrower's needs. He also undertakes financial inspection visit to authenticate the information's stated and gathered.

If the due diligence results are not acceptable, the Credit Officer to notify the applicant with a letter containing the reason for the denial and possible changes that could make the loan acceptable upon re-application. If the applicant does not wish to reapply and express his wish to have the documents returned, the Credit Officer returns all documents received (other than the application) and other information received in connection with the application back to the borrower with a letter informing the Borrower that the loan request is considered withdrawn. If the applicant fails to remit documents or materials requested by the Loan Officer within 14 days of the date of the application, the Loan Officer sends a denial letter to the applicant along with all original documents (other than the application) and other information received to date.

If the due diligence results are acceptable, the Credit Officer prepares a Credit Memorandum in the prescribed format and submits the same to Credit Appraisal Team for its review and needful action

B. **Credit Appraisal Team** is a standing committee that provides oversight to the Credit Officer/s and carries out the responsibility of Credit Appraisal and Loan Sanctioning function. Actions of the Credit Appraisal Team are to be reported at the Board's regular meetings. Composition of the Credit Appraisal Team is to be determined with regard to quantum of proposals to be reviewed and can be varied from time to time depending on the change in requirements. The Credit Appraisal Team is to meet whenever there is a proposal for business is received can also meet otherwise to discuss on the general course of business conduct. Credit Appraisal Team meetings can be held in person or be held via telephone or other electronic method. One of the members is to be the Chairman to officiate the meeting and the business conducted thereat and proper note of proceedings there at are to be noted and kept in records.

The Responsibilities of Credit Appraisal Team is to critically access and analyze proposal of credit, approve or reject, review portfolio risk, review delinquent loan status and approve foreclosure and collection actions. Also includes assisting the Board of Directors in formulation and modification of Loan Policy of the Company in changing business environment.

On approval of a proposal by the Credit Appraisal Committee, the "Loan Approved" stamp is affixed and the Credit Appraisal Team Chairman signs the Credit Memo in token thereof.

**The Credit Officer prepares and presents the Commitment Letter to the Credit Appraisal Team for its consideration and the chairman will sign the same in token of approval of the terms and conditions thereat. Then the Credit Officer presents the Commitment Letter to the applicant and reviews it with the applicant in person or over the telephone.**

**The Credit Officer undertakes / monitors the documentation process, pre-disbursement conditions and post disbursement conditions. At all times the Credit Officer maintains a list of the loans outstanding that includes the original amount of the loan, the disbursement date, the interest rate, the outstanding balance of the loan, any disbursements to be made in the future under the existing Loan Documents, the delinquency status. He is also vested with the task of Loan foreclosure and loan write off under the guidance of Credit Appraisal Team.**

**The Credit Appraisal Team was reconstituted with the following members**

1. **Mr. Naveen Galada, Managing Director – Chairman**
2. **Mrs K.R.Manimeghala , Chief Financial Officer**
3. **Mr. M. Kathick, Manager Legal & Recovery**

**VIII. Risk Categorization and delinquencies management after disbursement.**

**Delinquencies can often indicate a need for additional business technical assistance. At the first sign of a late payment, the Credit Officer reviews the file and payment history and speaks with the borrower to determine the reason for the late payment. Depending on the days of delay in repayment of loan Risk categorization needs to be done as under**

A. **5 Days Late - In the event that loan payments are more than five days late, the Credit Officer should call the Borrower to find out why the payment is late and to obtain a commitment for a payment date.**

B. **15 Days Late - In the event that loan payments are more than fifteen days late, the Credit Officer should call the Borrower to obtain a commitment for payment and mails a written notice of the delinquent payment to the borrower. An annualized late fee of 2%-3% is levied for delayed days.**

C. **30 Days Late - In the event that loan payments are more than 30 days late, the Credit Officer should call the Borrower to obtain a commitment for payment and mails a written notice of the delinquent payment to the Borrower via Certified Mail.**

   **The Credit Officer should review the file to confirm that collateral and security documentation is in place and in order and that all insurances are in place.**

   **The Credit Officer updates the Delinquency Report commonly referred to as SMA SPECIAL MENTION ACCOUNT) Report to reflect that the loan payment is more than 30 days past due which further depicts three sub categories SMA-), SMA-1 and SMA-2 based on ageing.**

D. **45 Days Late - By the 45th day of late payment, the Credit Officer makes a site visit. The goal of this meeting is to develop an agreed upon payment plan to bring the loan current.**

**E. 60 Days Late - When a payment is 60 days late, the Credit Officer calls the Borrower. He should update the Delinquency Report to reflect that the loan payment is more than 60 days past due. The Credit Officer should send letter notifying Borrower that s/he is in Default. Also the Credit Officer should intimate the levy of Default Interest on the delayed payments.**

**F. 90 Days Late - If the payment has not been received by the 90th day, the Credit Officer updates the Delinquency Report commonly referred to as NPA (Non-Performing Assets) Report, readjust the Credit Rating and reports to the Executive Director, so that he/she can adjust his loan commitment.**

**At the next Credit Appraisal Committee meeting, the Executive Director makes a full report detailing the nature of the problem and recommends actions that may include:**

**a) Inclusion of any additional sureties to the loan ;**
**b) Inspection of the Borrower's identity, operations, and asset;**
**c) Sending notice of default;**
**d) Provisioning requirements as per RBI Prudential Norms for NPA accounts.**

**G. 120 Days Late If the payment has not been received by the 120th day, the credit Officer updates the Delinquency Report and Loan Rating and reports to the Executive Director a detailed account of the borrower's operational information and a review of the collateral. The Credit appraisal Committee examines the situation and develops a strategy for further action that may include:**

**a) Restructuring the loan;**
**b) Implementing a strategy to liquidate the collateral;**
**c) Issuing a notice of default and the intention to repossess;**
**d) Draft an estimated time frame for recovery and a projected recovery amount.**

**This should be an on-going process to ensure performance of the Credit Portfolio**

- **Note : With the induction of Two Wheeler Loan in the portfolio the company, it was decided that for the said category of loans alone the requisition for guarantee by a Govt Employee / property owner is done away with and the mandate of collecting PDCs/SCs is also diluted – All other precautionary measures are retained to ensure quality of loan.**

  **From the beginning of the F.Y. 2023-24 the company had upgraded its Software to HYBRID Mode, which is also called double encrypted. As part of up-gradation the Company had designed automatic SMS Alerts. Currently the system provides SMS alerts pertaining to Advance Dues Reminder I 10 days prior to due date & Reminder II before 48 hours including Dues Outstanding-periodic , Insurance Expiry / Renewal, FC Expiry /Renewal, New products / service offers and CIBIL warning to defaulters.**