

Fusion Finance Limited

(formerly known as Fusion Micro Finance Limited)

FAIR PRACTICE CODE (RBI GUIDELINES)

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Fusion Finance Limited (Formerly known as Fusion Micro Finance Limited) is classified as an NBFC-MFI under RBI directives. The Company is committed to adopting and implementing fair practices across all its activities and transactions with the stakeholders. To promote ethical conduct and transparency, the Company has adopted a Fair Practices Code that sets minimum standards for client interactions. This ensures that clients have a clear understanding of the services provided. Fusion Finance Limited is dedicated to consistently applying these fair practices across all its operations.

Methodology of extending microfinance loans to Joint Liability Groups

The loan delivery process begins with a motivation/projection meeting organized in villages, where women are briefed on loan procedure and disbursement details. They are then encouraged to form groups of three to seven members of their choice. Around 4 - 10 such groups collectively form a center or Joint Liability Group (JLG). Fusion Finance does not influence the selection of group members, the choice of income generation activity, or the loan amount requested. Customers can request the loan amount as per their choice; however, as per company policy, the loan amount is capped based on the loan cycle or other internal guidelines.

Once the group is formed, the Relationship Officer collects the ID, address proofs, and any other mandatory details to initiate the Credit Bureau enquiry. Upon receiving positive Credit Bureau results, CGT (Continuous Group Training) is conducted to educate members on procedures, loan products, insurance, financial literacy, the importance of avoiding ringleader involvement, and to clarify that Fusion does not charge any commission at any stage. After CGT, a Group Recognition Test (GRT) is conducted by authorized personnel (ABM/BM/PQM/AM etc) to assess the group's readiness. The group members also commit to mutual responsibility for loan payment. Following successful GRT completion, the application moves to Credit and Operations for loan appraisal, and loan documents are sent to HO/RPC for entry into MIS and sanctioning.

Once sanctioned, the Branch Manager/Officer coordinates with customers for disbursement, and loans in the centre are accordingly scheduled. Loan documents are generated from the system (Sanction Sheet, Loan Passbook, JLG, DPN, KFS). Upon successful completion of the verification and signing process, the loan disbursement transaction is posted in the LMS. Accordingly, the LPF is generated and handed over to the customer, with another copy retained at the branch. For all loan accounts where the disbursement transaction has been posted in the system, the Accounts Team initiates the fund transfer, and the amount is credited to the customer's bank account.

Centre meetings are conducted as per the schedule generated in the Loan Passbook—weekly, fortnightly, or monthly in their villages at a time and place convenient to them. Relationship Officer facilitates loan utilization, repayments and credit discipline. Branch managers, Area managers and Regional managers conduct surprise visits to verify field operations. Senior management from the Head office also conducts periodic visits.

The clients have easy access to senior field staff of the Company to raise any concerns or grievances, and these staff members have been empowered to take immediate action to address them. Fusion enables customers to raise grievances through multiple channels, including a toll-free number printed on every loan passbook. A complaint register is also available at each branch, which customers can use to lodge their complaints. Customers can also reach out to the regulator (Self-Regulatory Organization) regarding their concerns if needed. The Company has also employed a dedicated team of telecallers at the Head Office who gather feedback from new

clients on the loan origination process. Further, telecallers continue to engage with centre leaders and members throughout the loan tenure to assess the service quality and centre functioning.

Fair Practices Code for all lending activities

In accordance with the RBI Regulations, the Company has implemented the Fair Practice Code (FPC) with the approval of its Board. The FPC is displayed at all Company offices along with its branches and is available on the website: www.fusionfin.com. It is displayed in the language understood by the borrower.

Loan Proposal and their Processing

- a. Primary data should be collected from the borrower in the prescribed format, along with Know Your Customer (KYC) documents, according to the Company guidelines. This information must be then verified through a Credit Bureau enquiry before processing the loan proposal.
- b. The Company's authorized staff shall verify the loan application and ensure that the following details are accurately completed:
 - ✓ Date of application
 - ✓ Borrower identification particulars
 - ✓ Loan amount and product details
 - ✓ Applicable interest rate
 - ✓ Loan term
 - ✓ Repayment schedules
 - ✓ Details of existing indebtedness
 - ✓ Income details
 - ✓ Purpose of the Loan
- c. All communications with the borrower shall be conducted in the vernacular language or a language understood by the borrower.
- d. Loan application forms include all the necessary information that may affect the borrower's interest, enabling a meaningful comparison with other NBFCs and informed decision-making. The borrower is required to submit:
 - ✓ KYC document (ID Proof & Address Proof) as prescribed by the RBI
 - ✓ Customer's photograph is mandatory for the loan application and submitted digitally during the CGT process.
- e. The Company shall provide an acknowledgement for all loan applications, indicating the expected time frame for processing.
- f. All loan applications shall be processed within 10-14 days from the date of receipt of completed application and required documents, subject to compliance with prevailing rules and regulations.
- g. Non-credit products (e.g. financial, insurance or non-financial products) should be offered only with the borrower's explicit consent. Employees must ensure there is no direct or indirect linkage between the loan and any non- credit product. No non-credit product shall be sold as a pre-condition for availing a loan. Branches must prominently display that the purchase of non-credit product is entirely voluntary for microfinance borrowers.

Loan Appraisal and Terms & Conditions

The designated staff of the Company shall communicate the following details to the borrower through sanction letter or other appropriate means, written in the vernacular language or a language understood by the borrower except the customer's name and loan amount:

- ✓ The amount of loan sanctioned
- ✓ The terms and conditions of the loan
- ✓ The Annualized rate of interest
- ✓ Method of application of the annualized rate of interest
- ✓ Processing Fees
- ✓ Insurance Fees

Disbursement Procedure of loans

- a. The Company shall complete the following documentation before passing the disbursement transaction in the system:
 - ✓ Provide a signed copy of the Loan Passbook to the customer, and obtain the customer's signature on the same.
 - ✓ Ensure the system-generated Demand Promissory Note (DPN) is signed and uploaded to the customer's loan account.
 - ✓ Ensure the system-generated Joint Liability Group (JLG) document is signed by each customer and uploaded to the center pipeline.
 - ✓ Ensure the system-generated Key Fact Statement (KFS) is signed by the customer and uploaded to the customer's loan account.
 - ✓ The sanction sheet for the center must be signed by all customers scheduled for disbursement.
 - ✓ Capture a disbursement-time photograph of each customer and upload it to the center pipeline.

Once all the above checkpoints are completed, the disbursement transaction is passed in the system. The Loan Payment Form (LPF) receipt is then printed (Branch Copy and Customer Copy), and both copies must be signed by the customer and the Branch In-charge and the Customer Copy is handed over to the customer.

- b. The acceptance of the terms and conditions by the borrower, rate of interest, processing charges, repayment terms and all other terms and conditions if any. The Company shall keep the acceptance of these terms and conditions by the borrower along with all the other relevant documents on record/in the safe custody of authorized personnel.
- c. A copy of the loan agreement, including all terms and conditions and reference enclosures, shall be provided to the borrower in the vernacular language or a language understood by them at the time of loan sanction/disbursement.
- d. All loan disbursements should be done only at the branch office and more than one individual should be present at the time of loan disbursement.
- e. A Loan passbook is issued to each borrower, containing the repayment schedule, effective interest rate, processing charges, insurance premium and claim procedure details.

- f. The Company may decide to recall or accelerate payment or performance under the loan agreement, with prior intimation to the borrower.
- g. No penalty shall be charged for delayed payments, and the same should be clearly stated in the loan agreement written in the vernacular language or a language understood by the borrower.
- h. The Company provides advance notice to the borrower regarding any changes in loan terms, including disbursement schedule or interest rates. All such changes are implemented prospectively.
- i. Any revisions to interest rates and service charges are applied prospectively, are explicitly mentioned in the loan agreement and does not impact existing active loans.

Security/ Collateral

The Company does not charge any security/ guarantee from microfinance borrowers.

General

- a. The Company shall not interfere in the affairs of the borrower, except as outlined in the terms and conditions of the loan agreement, or when new information previously undisclosed by the borrower, comes to the Company's attention.
- b. If borrower submits a request to transfer their loan account, the Company will communicate its consent or otherwise within 21 days of receiving the request. Any such transfer will be carried out in accordance with transparent contractual terms and applicable law.
- c. The Company does not engage in undue harassment of borrower such as persistently contacting at inappropriate hours or the use of coercive methods for loan recovery.
- d. The Company will ensure that its staff is adequately trained to interact with the customers in a respectful professional manner, avoiding any form of rude or inappropriate behavior.

Engagement of Recovery Agents

The Company may appoint external agencies for the recovery of dues from its borrowers. Such engagement shall be in accordance with the applicable regulatory guidelines and ethical standards prescribed by RBI.

Responsibilities for outsourcing activities

The Company declares that –

- a. Outsourcing of any activity by the Company does not diminish its obligations. The responsibility for compliance with applicable directions and regulations shall solely rest with the Company.
- b. The Company shall be held accountable for any inappropriate behaviour by its employees or its representatives from the outsourced agency. It shall ensure that timely and effective grievance redressal mechanism are in place.

Grievance Redressal Mechanism

- a. The Company has implemented a dedicated Grievance Redressal Mechanism to address recovery related grievances. In case of any misconduct by the Company's staff, immediate disciplinary action shall be taken.

The contact details of the Branch Manager and Relationship officer are provided in the center file. Customers may contact them directly or visit the branch to lodge a complaint in the complaint register.

- b. If the customer is not satisfied with the action taken by the branch manager, they may escalate the complaint by calling the toll-free number 18001037808 on working days between 09:30 AM to 5:30 PM.
- c. A client(s) can also contact the Nodal Officer, between 09:30 AM to 5:30 PM on all working days on 011-46646634 or send email at nodalofficer@fusionfin.com. At the time of making calls the clients must provide the information of their client ID and name of the branch. In case the client has not been provided a loan but has submitted the loan application, they can quote the loan application no mentioned on the acknowledgement slip of loan application form.
- d. A client can also escalate their concerns to the Principal Nodal Officer by calling on – 011-46646608 or by emailing details of their grievance at pno@fusionfin.com in case the complaint is not resolved within 21 days of sharing with the Nodal Officer.
- e. If the complaint/dispute is not redressed within one month, the borrower/complainant may appeal to the General Manager, Regional office of Department of Supervision of Reserve Bank of India (RBI) at 6, Sansad Marg, New Delhi-110001. Phone: 011-23715097 fax no. 011-23358224.
- f. All the branches have a complaint register where the clients can register their grievances.
- g. Clients shall have access to senior field-level staff (Branch Manager, Area Manager and Divisional Manager) to raise and discuss their issues. These staff members shall be empowered to take necessary actions to address client concern promptly.
- h. The complete grievance redressal procedure is available on the Company's website www.fusionfin.com.

Review of the Compliance of the Fair Practices Code

- a. The CEO/COO of the Company will review the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism once in a quarter.
- b. A report on the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism will be placed before the Board of Directors of the Company once in a quarter.
- c. The Board of Directors of the Company shall review the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism at various levels of management once in a quarter.

Measures/ Regulations against Charging of Excessive Interest

- a. The Board of Directors of the Company shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.
- b. The Company shall adhere to the guidelines regarding transparency of loan terms & conditions, as outlined in its Fair Practice Code and in accordance with the direction issued by RBI.
- c. The Company shall adopt an interest rate model approved by its Board of Directors, taking into account relevant factors such as the Cost of Funds, Operational Costs, Margins, and Risks Premiums.
- d. Any variation in interest rates across different loan products shall be clearly disclosed in the loan application form, loan sanction letter, and loan card/fact sheet provided to the borrower.

Privacy of Client Information

- a. The Company shall keep personal client information strictly confidential.
- b. The Company shall disclose client information to a third party only under the following conditions:
 - ✓ Client has been informed about such disclosure and permission has been obtained in writing.
 - ✓ The party in question has been authorized by the client to obtain client information from the Company.
 - ✓ It is legally required to do so.
 - ✓ This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).

Notice for Setting Off the Overdue Against the Securities

The Company will give borrower two weeks' notice with full particulars before setting off the loan outstanding.

Fair Practices Code specifically for microfinance activity

In addition to the general principles as above, as the Company belongs to the category of NBFC-MFI it adopts the following fair practices that are specific to its lending business and regulatory framework.

General Practices

- a. The Fair Practices Code in vernacular language / language understood by the borrower shall be displayed by the Company in its office and branch premises.
- b. A statement articulating the Company's commitment to transparency and fair lending practice shall be displayed in the Company's premises and on loan cards, in vernacular language or a language understood by the borrower.
- c. The Company's field staff shall be trained to make necessary enquiries about existing debt of the borrowers.
- d. Training if any, offered to the borrowers shall be free of cost. The field staff shall be trained to offer such training and make the borrowers fully aware of the procedure and systems related to loan / other products.
- e. The effective rate of interest charged, and the grievance redressal shall be prominently displayed at all branch premises in vernacular language or a language understood by the borrower, along with the Company's website.
- f. A declaration that the Company is accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the Fair Practice Code displayed in its office/branch premises.
- g. The Company shall comply with the KYC Guidelines of RBI and due diligence shall be carried out to ensure the repayment capacity of the borrowers.
- h. All loan disbursements should be done only at the branch office and more than one individual should be present at the time of loan disbursement and there shall be close supervision of the disbursement function.
- i. The Company shall not collect any security on any loan provided under the microfinance activity.

Disclosures in loan agreement / loan card

- a. The Company will have a Board approved, standard form of loan agreement which should preferably be in vernacular language / language understood by the borrower.
- b. The loan agreement of the Company shall disclose the following details:
 - ✓ All the terms and conditions of the loan.
 - ✓ Pricing of the loan which involves only three components i.e., the interest charge, the processing charge and the insurance premium.
 - ✓ No penalty is charged on delayed payment.
 - ✓ No pre-payment charges will be collected.
 - ✓ No Security Deposit / Margin is being collected from the borrower.
 - ✓ The borrower cannot be a member of more than one SHG / JLG.
 - ✓ Moratorium between the grant of the loan and the due date of the repayment of the first instalment as provided in the NBFC-MFIs (Reserve Bank) Directions, 2011 and as amended in future.
 - ✓ An assurance that the privacy of borrower data will be respected except as agreed with the borrower.
- c. The loan card provided by the Company shall reflect the following details:
 - ✓ The effective rate of interest charged.
 - ✓ All other terms and conditions attached to the loan.
 - ✓ Information which adequately identifies the borrower.
 - ✓ Simplified factsheet on pricing.
 - ✓ Acknowledgements by the Company of all repayments including instalments received and the final discharge.
 - ✓ The loan card will prominently mention the details of the toll-free number and the contact number of the Nodal Officer for Grievance redressal.
 - ✓ Non-credit products shall be issued only with full consent of the borrowers and fee structure shall be communicated in the loan card itself.
 - ✓ The loan card should be in vernacular language / the language understood by the borrower.
- d. The Key facts statement provided by the Company shall reflect the following details:
 - ✓ Along with the sanction letter Fusion shall issue the Key Fact Sheet (KFS), to all prospective borrowers in vernacular language or language understood by them to help them take an informed view before executing the loan contract/documents.
 - ✓ The KFS shall be provided with a unique proposal number and shall have a validity of three working days, contents of KFS shall be explained to the borrower and an acknowledgement shall be taken on the understanding of KFS and sanction letter for further processing/documentation.
 - ✓ Fusion shall be bound by the terms of the loan indicated in the KFS, if agreed to by the borrower during the validity period. In scenarios where the customer gives consent on KFS post the validity date, then Fusion has the sole right to take the decision on further processing of the loan with the conditions mentioned in KFS or to change conditions by processing a new KFS.
 - ✓ Part 1 of the KFS shall include computation sheet of annual percentage rate (APR), and the amortisation schedule of the loan over the loan tenor. APR will include all charges which are levied by the Company forming part of the loan arrangement. Part 2 of the KFS shall contain the other

qualitative information (clause concerning recovery agents, clause and details of grievance redressal mechanism, applicability on securitization, etc. in line with the RBI direction).

- ✓ Charges recovered from the borrowers by the Company on behalf of third-party service providers on actual basis, such as insurance charges, legal charges etc., shall also form part of the APR and shall be disclosed separately. In all cases wherever Fusion is involved in recovering such charges, the receipts and related documents shall be provided to the borrower for each payment, within a reasonable time.
- ✓ Any fees, charges, etc. which are not mentioned in the KFS, cannot be charged by the Company to the borrower at any stage during the term of the loan, without explicit consent of the borrower.
- ✓ The KFS shall also be included as a summary box to be exhibited as part of the loan agreement.

Avoiding Over-indebtedness

- a. The Company shall conduct proper due diligence to assess the need and repayment capacity of client before extending a loan and must only grant loans commensurate with the client's ability to repay.
- b. The Company follows MFIN guardrails with respect to lender norms
- c. The Company shall not breach the total debt limit for any client, as prescribed by the RBI or Central/State Governments.

Non-Coercive Methods of Recovery

- a. Collections shall be done in the common place where the clients can feel free for paying their instalments.
- b. The Company staff shall not contact or meet clients at odd hours, as per the RBI guidelines for loan recovery.
- c. Staff shall follow client protection guidelines adopted by the Company and should not force the clients for recoveries.
- d. Staff shall not be allowed to harass relatives, friends, or co-workers of the borrowers for recovery of loans.
- e. The staff shall not publish the names of the borrowers for loan recoveries.
- f. The staff shall neither use nor threaten to use violence or other similar means to harm the borrower or borrower's family/assets/reputation.
- g. The staff shall not mislead the borrower about the extent of the debt or the consequences of non-repayment.
- h. Staff shall not threaten or use any abusive language for recovery of loans from the borrowers.
- i. Staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on 2 or more successive occasions.
- j. Staff should not use any other persons for collection of recoveries from the clients.
- k. Staff should enter the details in the passbook after collecting the repayments or should issue the receipt to the client as evidence of repayment.
- l. The Company shall ensure that a Board approved policy is in place with regard to the Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should necessarily contain the following provisions:
 - ✓ Lay down minimum qualifications necessary for the field staff.

- ✓ Shall have necessary training tools identified for them to deal with the customers.
- ✓ Training to field staff shall include programs to inculcate appropriate behaviour towards borrowers without adopting any abusive or coercive debt collection / recovery practices.
- ✓ Compensation methods for staff shall have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery.
- ✓ The details of training and supervision of field staff on FPC may be submitted to the Board at every meeting and such reporting may also include a plan for the next quarter in this regard.

Internal control system

The Company shall establish appropriate organizational arrangements to assign responsibility for compliance to designated individuals. It shall also implement robust internal control systems, including periodic audits and inspections, to ensure adherence to regulatory and internal policies.

To ensure effective monitoring of the implementation of the revised Fair Practice Code, the Company shall incorporate this aspect into the scope of its Internal Audit process, which will be conducted regularly across all branches. Accordingly, an additional checklist of the Internal Audit covering the status of Fair Practice Code implementation at the field level shall be included.