

Policy Framework for Micro and Small Enterprises

1. Purpose

1.1 The policy seeks to establish the framework that would be followed by the bank in determining lending norms to Micro and Small Enterprises ('MSE') in compliance with the Code of Bank's Commitment to Micro and Small Enterprises ('Code') established by Banking Codes and Standards Board of India ('BCSBI') in May 2008.

2. Definitions

2.1 *Micro enterprise*

An enterprise engaged in the manufacture or production of goods pertaining to any industry where the investment in plant and machinery does not exceed Rs.25 lakh or an enterprise engaged in rendering services where investment in equipment does not exceed Rs.10 lakh.

2.2 *Small enterprise*

An enterprise engaged in manufacture or production of goods pertaining to any industry where the investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore or an enterprise engaged in rendering services where investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore.

2.3 *Services*

In respect of small and micro service enterprises, services refer to small road and water transport operators, small business, professional and self-employed persons, and all other service enterprises.

3. Scope

3.1 Loans given to Micro and Small Enterprises under the lending program for the following products would be governed by this policy –

- (1) Mortgages
- (2) Small ticket business loans
- (3) Business Lending

4. Framework

4.1 General

Loans are sanctioned on the basis of established underwriting criteria that is detailed in the internal policy manual of the bank. These policies are based on the bank's experience of credit performance of its existing portfolio. Further all policies are periodically reviewed and approved by the board of the bank. Credit officers diligently ensure adherence to policies while approving credit proposals.

4.2 Factors that are considered prior to the loan sanction include –

- (1) Best available information about the borrower's ability to pay
- (2) Type of loan
- (3) Security and / or collateral available
- (4) Tenor of the loan and
- (5) Quantum of the loan

In order to make an assessment of borrower's ability to pay, underwriting policies for sanctioning any credit facility should place reliance on factors like availability of satisfactory documents, positive contact verification results and customer interaction. In addition, sanctioning process should take into account factors like income, debt burden, credit reference agency verification and / or proven performance on other facilities as it is indicative of the cash flow position of the prospective borrower assisting in establishing the repayment capability.

4.3 The key parameters of the bank's lending policy is as follows:

- (1) Target Market
- (2) Demographic criteria
- (3) Credit Bureau verification criteria
- (4) Minimum income requirement or other indicator of ability to repay
- (5) Loan eligibility amount
- (6) Minimum / maximum loan amount
- (7) Tenor
- (8) Required Documents
- (9) Pricing
- (10) Repayment
- (11) Verification requirement
- (12) Maximum LTV (Secured Loans)
- (13) Collateral type (Secured Loans)

4.4 Norms for loans to Micro and Small Enterprises covered under the respective product lending programmes would be in alignment with the requirements of the Code established by BCSBI.

4.5 These norms will inter alia include specific coverage of the following provisions -

Sanction

- (1) Provision to extend loans upto Rs.5 lakhs without any collateral.
- (2) Provide for computing working capital limits on basis of minimum of 20% of annual projected turnover.
- (3) Consider collateral free limit upto a loan amount of Rs. 25 lakhs basis sound track record and financial position.

Disbursal

- (1) Ensure disbursal within 2 working days from the date of sanction.
- (2) No processing fee charged for rejected loans where the loan value is less than Rs. 5 lakhs. Only sanctioned loans will be charged processing fees.
- (3) Reach the customer for any additional information / documentation within 7 working days.

Repayment

- (1) No pre-payment penalty on loans of less than Rs. 5 lakhs.
- (2) Release all securities immediately and not later than one week of repayment done by the customer.

5. Communication

This policy will be made available on the website and branches for customer's perusal

Bank would need to comply with the policy in respect of all products.