Introduction

Kuhoo Finance Private Limited (the "Company") is registered with RBI as a Base Layer NBFC. The company is primarily engaged in the retail lending activities primarily in the segment of student education. The company offers a wide range of educational loans through completely its application.

As per the company's strategy, its target markets are primarily students and its lending products include education loan for tuition fees and living expenses and other education related expenses, etc. . For smooth functioning of its lending activity the company understands the requirement to adhere with RBI guidelines issued from time to time

This policy is prepared in line with the requirements prescribed by Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and various RBI notifications / directions ["RBI Regulations"] issued in this regard

Scope

1. Identification of Loan Repayment Stress: Procedures for recognizing and assessing stress in the repayment of loan accounts for outstanding credit facilities
2. Classification of Lending Accounts: Guidelines for classifying accounts as Non-Performing Assets (NPA) or Special Mention Accounts (SMA) according to the Reserve Bank of India (RBI) regulations.
3. Compromise Settlement Mechanism: Development of a structured process for compromise settlements involving NPA and SMA accounts.
4. Asset Write-Off Procedures: Criteria and conditions for writing off assets covered under this policy when appropriate.

BASIC FRAMEWORK:

Definitions

1. **Non-Performing Asset (NPA)**
   As per para 14.3 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023:

   1.1. Accounts whereby Interest has remained overdue for a period of 90 days (Secured / unsecured loans).
   1.2. Term loan inclusive of unpaid interest, when the instalment is overdue for a period of 90 days or more or on which interest amount remained overdue for a period of 90 days or more;
   1.3. Any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of 90 days or more
   1.4. In the case of loans and advances, the outstanding balance under these credit facilities (including accrued interest) provided to the same borrower or beneficiary will be classified as a non-performing asset when any of the credit facilities becomes non-performing.

2. "**Non-cooperative borrower/customer**" is defined as one who does not provide necessary information required by the Company to assess its financial health even after 2 reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; or is hostile/ indifferent/ in denial mode to negotiate with the Company on repayment issues; or plays for time by giving false impression that some solution is on horizon; or resorts to vexatious tactics such as litigation to the timely resolution of the interest of the Company.
3. "**Special Mention Account**" are accounts identified as incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA)
4. "**Compromise settlement**" is a negotiated agreement between the company and a borrower where the borrower offers to pay less than the total amount owed on a loan.
5. **"Write-Off"** shall mean removing an asset or part thereof from the books of the company

Roles and Responsibilities

1. Board of Directors

As the highest decision-making body within the organization, the Board of Directors allocates key corporate resources. The Board of Directors will deal with all provisioning issues and take the advice of the Finance Department for any specific issues. The responsibilities in relation to provisioning are as below:

1.1. Overview of the company procedure for classification of a borrower account or borrower as Non-Performing Asset.
1.2. Quarterly analysis of Compromise Settlement and Technical Write-offs availed during the quarter.
1.3. Review and Updation of policy to ensure compliance with applicable RBI regulations

2. Risk Management Committee

2.1. Identification of Stress in Loan Accounts based on information provided by the credit and/or collection team.
2.2. Recommend loan accounts for settlement as well write-offs.
2.3. Determine risk faced by the company due to NPA / SMA and recommend changes in credit appraisal mechanism.
2.4. Recommend & authorise the amount of Compromise Settlement.
2.5. Risk Categorization of the loan accounts classified as NPA / SMA.

Identification of Special Mention Account and Non-Performing Assets

1. Recognition of Special Mention Account

Standard assets which are showing signs of stress as identified below shall be separately tagged as 'Special Mention Accounts' (SMA) immediately on default and monitored for prompt and effective corrective actions. Indicative list of circumstances resulting in incipient risk is highlighted in **Annex A**

SMA Sub-categories	Basis for classification
SMA – 0	Principal, interest, or any other payment overdue for less than 30 days.
SMA – 1	Principal, interest, or any other payment overdue between 31 – 60 days
SMA – 2	Principal, interest, or any other payment overdue between 61 – 90 days

Essential points for recognition of a borrowable account to be treated as SMA / NPA :

1. Asset classification will be customer/borrower-wise and not facility-wise. All the facilities granted to the customer/borrower will be treated as non-performing and not any particular facility or part thereof which has become irregular.
2. The customer's account shall be moved from the NPA classification to standard only on repayment of the entire outstanding balance in the loan account.
3. In case, any fraud is reported in any of the accounts, 100% will be provided in such accounts irrespective of the asset/accounting classification at that stage and relevant reporting/intimation shall be made to the RBI.
4. The customer/borrower's accounts shall be flagged as overdue as a part of their day-end processes for the due date, irrespective of the time of running such processes.
5. Classification of borrower accounts as SMA as well as NPA will be done as part of the day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run.
6. The account to be treated as NPA / SMA shall be inclusive of interest overdue and penal charges, if any
7. The customer shall not be able to use look up period / cool-off period post treatment of loans as SMA / NPA

Provisioning requirements:

The Company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided here under: -

Loans, advances and other credit facilities including bills purchased and discounted-

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Class of Asset	Provision as a % of Outstanding amount of debt (Outstanding Principal and Interest)	Cumulative Timeframe from date of default in existing regulations (unsecured loans)	Cumulative Timeframe from date of default (Secured loans)
Standard Asset	0.25% (Provisioning for standard asset will be created even if the borrower has not defaulted)	0-3 months	0-3 months
Sub-Standard Asset	10%	3-24 months	3-24 months
Doubtful asset:			
a. Not covered by security (Unsecured)	100%	24+ months	NA
b. Covered by security (Secured)	Asset considered doubtful for 1 year – 20%	NA	More than 24 months up to 36 months
	Asset considered doubtful for 1 year to 3 years – 30%	NA	More than 36 months up to 60 months
	Asset considered doubtful for more than 3 years – 50%	NA	More than 60 months
Loss Asset*	100%		

**Loss Asset shall mean:"*
(a) an asset which has been identified as loss asset by the company or its internal or external auditor or by the regulator during the inspection, to the extent it is not written off by the company; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

Note: *Principal, interest, or any other payment overdue for a period of 90 days, will be treated as Non-performing assets and the company will confiscate those securities as per the policy. An* *accelerated / stringent provisioning may be followed by the company for specific loan accounts with records maintained in writing.*

Accelerated provision for Sub Standard Asset

The provisioning applicable in such cases shall be at the rate of 5 percent, if it is a standard account and accelerated provisioning, if it is an NPA:

Asset Classification	Period as NPA	Period as NPA For NBFCs as per RBI	Revised accelerated provisioning (%) for the Company
Sub-Standard Asset (secured)	Up to 6 months	-	10% (same as above)
	6 months to 1 year	6 months to 1 and half year	25%
Sub-standard (unsecured ab-initio)	Up to 6 months	-	25%
	6 months to 1 year	6 months to 1 and half year	40%
Doubtful I	2nd year	1 to 3 year (secured portion)	40 (secured portion)
		Up to 1 to 3 year (unsecured portion)	100 (unsecured portion)
Doubtful II	3rd and 4th year	More than Three Years	100 for both secured and unsecured portions
Doubtful III	5th year onwards	-	100%

Disclosure in Financial Statements

The provisioning made for the Class of Assets shall ensure disclosure, without netting the provisions from the income or against the value of assets, unless the applicable Financial Reporting Framework states otherwise.

Further, a loan asset shall be written off from the books after the approval of the appropriate committee/ Auditor/ Applicable Financial Reporting Framework

Reporting Responsibilities:

1. **Credit Information Companies**
   Company will report all loan assets/advances having aggregate fund based exposure shall be reported in terms of Para 66 of the Master Directions to all the Credit Information Companies namely, Credit Information Bureau (India) Limited, Equifax Credit Information Services Private Limited, Experian Credit Information Company of India Private Limited and CRIF High Mark Credit Information Services Private Limited, and including any companies that may be granted a Certificate of Registration by the RBI to operate as a CIC.

2. **Information Utility**
   The loan assets/advances shall also be reported to the Information Utility (National E-Governance Services Limited, and any future entities categorised as an Information Utility) as per the RBI notification dated December 19, 2017 titled 'Submission of Financial Information to Information Utilities'.

3. **Consumer Education on SMA/ NPA**
   The Company shall place educational material (including documents and videos) approved by the appropriate committee on its website and/or app to improve awareness of the concepts of NPA/SMA/overdue (including day-end processes) and upgradation of account with examples and the salient features of the asset classification to promote good credit behaviour.

   The Company shall also ensure that its front-line officers educate borrowers about these concepts with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

4. **CERSAI**
   In case of default in case of a secured loan facility, the Company shall intimate CERSAI for invocation of its interest. Other regulatory approvals shall be obtained by the Company (e.g. depository, registrar, etc.) if needed.

Recovery of Non-Performing Assets

All loans outstanding beyond their validity period will be written off within six months from the expiry of the loan period or within the timeframe prescribed by applicable law. To facilitate this, the Company requires an effective monitoring, follow-up, and disposal mechanism. Accordingly, Company ensures proper monitoring and facilitates the speedy recovery of all loans that have exceeded the stipulated loan tenure.

1. Identification of potential overdue loans by the Credit Team and informing the same to recovery team and recovery agents.

2. Sending first notice to borrowers latest by 15 days prior to the loan becoming overdue via email or SMS or written letter
3. Personal visit by staff member / outsourced vendor on the defaulting customer within 5 days from the date of notice wherever feasible.
4. If no result forthcoming, serving of second repayment notice after a maximum gap of 15 days from the date of personal visit if done and/or the first notice, whichever is later
5. If the loan remains outstanding even after this, legal recovery proceedings shall be initiated against the customer after internal consultation with Collection, Credit & Legal team
6. As further concession to customers, the Company may also consider settlement of loan dues by way of concessions in interest as a one-time settlement on a case-to-case basis with approval
7. The Company or any of its officers does not resort to undue harassment, use muscle power for recovery of loans, or any other such tactics for loan recovery. The Company staff are adequately trained to deal with the customers, ensuring that no harassment or rude behaviour is undertaken by the staff.
8. The officers shall abide by the DSA/DMA and Recovery Agents Code of Conduct

Compromise / Settlement

Before considering a loan for write off, the Company officials shall make concerted effort for negotiating a one-time settlement with the borrower.

One-time settlement refers to a negotiated settlement where a borrower offers to pay and the Company agrees to accept in full and final settlement of its dues, an amount less than the total amount due to the Company under the relative loan contract.

Company shall put in place a mechanism for Compromise Settlement, on basis of following grounds:

1. Initiation and Evaluation

1.1. Identification of Settlement Candidates:

1.1.1. **Criteria:** Assess loans that are problematic or non-performing, and evaluate whether they meet the criteria for settlement.

1.1.2. **Suo-motto:** The company shall approach eligible customers for settlement of their loan account on being treated as SMA / NPA **Application:** The company may accept the request of the customers for settlement of their loan accounts. (Note: Money obtained from a loan facility cannot be used to offset other loan account which has defaulted)

1.1.3. **Initial Assessment:** Analyse the borrower's financial situation, outstanding amount, and the likelihood of recovery.

1.2. Borrower Engagement:

1.2.1. **Communication**: Reach out to the borrower to discuss the possibility of a settlement or in case the customer has made a request for settlement. Initiate a communication channel through physical / digital mode of communication

1.2.2. **Documentation**: Customer shall be required to submit information to evaluate their current financial position.

2. **Settlement Proposal Preparation**

2.1. **Financial Analysis:**

2.1.1. **Valuation:** Conduct a valuation of collateral and any other assets based on regulatory guidance or matrix developed by credit team

2.1.2. **Recovery Analysis:** Determine the estimated recovery amount versus the outstanding loan balance.

2.2. **Proposal Formulation:**

2.2.1. **Settlement Offer:** Develop a settlement offer based on the customer's financial capacity and the company's recovery expectations. The outstanding loan amount to be sacrificed shall be determined by the committee / person authorized by the board

- If settlement is under 3 months the company shall continue to classify the customer based on the days past due of the defaulted loan as per RBI instructions
- IF the settlement tenure exceeds 3 months, it shall be ensured that a process as per Prudential framework on Resolution of Stressed Assets dated June 7, 2019 shall be initiated.

2.2.2. **Terms:** Define the terms of the settlement, including the reduced amount, payment schedule, and any additional conditions.

3. **Approval Process**

3.1. **Internal Review:**

3.1.1. **Documentation:** Prepare a comprehensive settlement proposal document including all necessary financial and legal details.

3.1.2. **Review:** The proposal is reviewed by relevant internal departments namely Risk Management, Legal Team as well as compliance team.

3.1.3. Approval: The proposal is discussed and approved by the Delegated Authority

4. **Execution of Settlement**

4.1. **Agreement Formalization:**

4.1.1. **Settlement Agreement:** Draft and finalize a formal settlement agreement outlining all terms and conditions.

4.1.2. **Legal Review:** Ensure the agreement is reviewed and approved by the legal department.

4.2. **Payment Collection:**

4.2.1. **Execution:** Coordinate with the customer the collection of the agreed settlement amount according to the terms.

4.2.2. **Documentation:** Confirm receipt of payment and update loan accounts accordingly.

5. **Post-Settlement Actions**

5.1. **Reporting:**

5.1.1. **Internal Reporting:** Report the settlement to senior management and relevant internal departments.

5.1.2. **Regulatory Reporting:** Ensure compliance with regulatory requirements and report the settlement to regulatory bodies if necessary.

5.2. **Follow-Up:**

5.2.1. **Ongoing Monitoring:** Continue to monitor the borrower's situation, if applicable, to ensure compliance with settlement terms and conditions.

5.2.2. **Feedback Collection:** Gather feedback to improve future settlement processes and customer interactions.

6. **Reporting-**

6.1. Internal- reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority as authorized by the board

6.2. Regulatory-report to the Credit Information Companies / NeSL and any other intermediary prescribed by RBI regarding the settlement of loan account.

7. **Documentation-** appropriate documentation shall be maintained for the settled accounts and maintained at least till the expiry of cooling period or statutory requirement as per PMLA 2002 whichever is later.

8. **Legal Provisions**

The company shall undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.

The company shall ensure that the settlement / compromise is contemplated in compliance with other legal provisions applicable to the customer.

9. **Cooling Off Period**

There shall be a cooling period before the company can assume fresh exposures to such borrowers of minimum 12 months

10. **Accounting Treatment**

The Accounting Treatment of such loans shall be as per the guidance provided by RBI in the notification from time to time.

Write-Off

A defined procedure as approved by the board shall be developed based on following parameters:

1. **Initial Assessment**
   1.1. **Identify the Loan for Write-Off:**
      1.1.1. **Review Accounts:** Identify loans that have deteriorated to the point where recovery is deemed unlikely.
      1.1.2. **Criteria:** Assess the client's credit quality, repayment history, and current financial status to confirm the need for write-off.
      1.1.3. **Suo motto:** Based on evaluation the company may on its own identify accounts for write-off.
      1.1.4. **RBI:** On specific instruction of the RBI in its inspection the company shall write off a customer account from its books.

   1.2. **Exhaust Recovery Options:**
      1.2.1. **Recovery Efforts:** Ensure all feasible recovery methods have been exhausted, including legal actions, asset repossession, and collection efforts.
      1.2.2. **Documentation:** Document all attempts and measures taken to recover the loan balance.

2. **Financial and Legal Evaluation:**
   2.1. **Valuation:** Conduct a final valuation of any collateral or assets related to the loan.
   2.2. **Legal Review:** Consult with legal experts to confirm that all legal avenues have been explored and document any ongoing or concluded legal proceedings.

3. **Approval Process**
   3.1. **Internal Review:**
      3.1.1. **Departmental Review:** Submit the proposal to relevant internal departments such as Risk Management, Finance, and Legal / compliance for review.
      3.1.2. **Compliance Check:** Ensure the acceptance of proposal adheres to the regulatory ratios, internal policies and regulatory requirement for write-off.
      3.1.3. **Approval: The proposal is approved by the Delegated Authority**
4. **Execution**

   4.1. **Process Write-Off:**
      4.1.1. **Accounting Entry:** Record the write-off in the financial statements. **Update Records:** Adjust internal records to reflect the write-off and close the loan account and initiate legal proceedings against the customer wherever feasible.

   4.2. **Inform Relevant Stakeholders:**
      4.2.1. **Notification:** Notify all relevant stakeholders, including auditors and regulatory bodies if required.

4.2.2. **Customer Communication:** Communicate with the borrower regarding the write-off and any remaining obligations.

5. **Reporting and Documentation:**
   - **Internal Reporting:** Report the write-off details to senior management and other relevant internal departments
   - **Regulatory Reporting:** Ensure compliance with regulatory reporting requirements and submit necessary reports to regulatory authorities i.e. to credit information companies, NeSL and other intermediaries prescribed by RBI

Cooling Off Period

There shall be a cooling period as determined by the Board / Risk Management Committee before the company can assume fresh exposures to such borrowers of minimum 12 months as determined by the board or Risk Management Committee

Reporting Format

Board Approved reporting Format based on following parameters shall be developed.

1. trend in number of accounts and amounts subjected to compromise settlement and/or technical write-off quarter on quarter basis;
2. out of (i) above, separate breakup of accounts classified as fraud, red-Flagged, wilful default and quick mortality accounts;
3. amount-wise, sanctioning authority-wise, and business segment / asset-class wise grouping of such accounts;
4. extent of recovery in technically written-off accounts.

Exception Handling

The policy shall always be updated with extant regulatory provisions. However, in case of conflict between the Policy and regulations, the regulatory provisions shall always supersede the policy.

The updated policy shall be adhered to at all times and exceptions if any to the policy shall be approved by the board of directors after recording a reason in writing.

Annex A

Indicative list for conditions highlighting stress in repayment

- **Payment Delays:** Late payments or missed installments are strong indicators of financial distress.
- **Decreased Income**: Any significant drop in a customer's income, such as job loss or reduced hours, can lead to repayment challenges
- **Frequent Requests for Rescheduling**: Customers frequently asking to reschedule payments or renegotiate terms may be struggling to meet their obligations.
- **Increased Loan Applications**: A spike in loan applications, especially from the same customer, may indicate they are seeking funds to cover existing debts.
- **Decline in Credit Score**: A noticeable drop in a customer's credit score can signify financial trouble.
- **Changes in Spending Behavior**: Increased reliance on credit cards or personal loans for everyday expenses can indicate stress.
- **Utilization of Emergency Funds:** Tapping into savings or emergency funds suggests that a customer is in a tight financial spot.
- **Family or Personal Issues:** Life events such as divorce, illness, or unexpected expenses can contribute to financial stress.
- Treatment of client as SMA / NPA by other bank / NBFC
- **Application under IBC or insolvency:** If CIRP proceedings have been initiated or implemented can be an indicator of stress