

Policy for Lending to Micro and Small Enterprise (MSE) Customers

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1. BACKGROUND

1.1 Background

The Hongkong and Shanghai Banking Corporation Limited (the "Bank") stands for fair and transparent dealing with its customers. It is the Bank's endeavor to ensure that all customers dealing with it are informed about its products, procedures and what they can expect from it.

This policy is aimed at explaining the tenets of lending to the Micro or Small Enterprise (MSE) customers. In this Policy, the borrower, as a Micro or Small Enterprise, would understand the Bank's approach towards understanding the needs of its business. This policy shall also outline the Bank's commitment to promote a fair and transparent dealing in all matters relating to loans and advances and related services.

The Bank believes that a fair and transparent process relating to lending clearly outlining its commitment and intent towards working for assisting the borrower's business shall be mutually beneficial in the long term.

1.2 Applicability

This policy is applicable to businesses categorized as Micro or Small enterprise as per the Micro, Small and Medium Enterprises Development Act (MSMED) Act 2006.

1.2.1 Micro (manufacturing) Enterprises

Enterprise engaged in the manufacture/ production or preservation of goods and whose investment in plant and machinery[#] does not exceed Rs. 25 lakh, irrespective of the location of the unit.

1.2.2 Micro (service) Enterprises

Enterprise engaged in the providing/rendering of services and whose investment in equipment[#] does not exceed Rs. 10 lakh.

1.2.3 Small (manufacturing) Enterprises

Enterprise engaged in the manufacture/ production or preservation of goods and whose investment in plant and machinery[#] does not exceed Rs. 5 crore

1.2.4 Small (service) Enterprises

Enterprise engaged in the providing/rendering of services and whose investment in equipment[#] does not exceed Rs. 2 crore.

[#]Certain assets are to be excluded while calculating this eligibility. For more details on the definition, please refer the MSMED Act 2006.

If the borrower is such a business, this Policy shall guide the borrower on what the borrower can expect from the Bank during dealing with the Bank for the borrower's requirement of financial assistance. Please be guided that this policy is directed at only those customers who fall under the above definitions and are desirous of availing financial assistance from the Bank.

For details and information on any products / services apart from those which would be discussed herein under, please refer to the Bank's website <http://www.hsbc.co.in>.

2. APPLICATION PROCESS

2.1 Application Process

2.2 Application Form: The borrower's loan applications shall, to the extent possible, be dealt through a single point of contact so as to maintain continuity. The process for considering loan / other facilities start with an application form.

2.2.1 The Application form is made available at the Bank's branches free of cost;

2.2.2 The form contains a checklist of documents required for the application process so that the borrower submits the application complete in all respects.

2.2.3 The Bank's executives shall assist the borrower in understanding the requirements of the form, if the borrower so require.

2.2.4 Along with the application form, the Bank shall also provide information on the current prevailing interest rates, fees / charges that are payable for processing the application, on pre-payment and other transactions / details so that the borrower can compare the offering with other banks

2.2.5 The Bank shall acknowledge in writing the receipt of the complete application for the facility /(ies).

2.3 Normally, all information / documents required for processing the borrower's request shall be collected from the borrower at the time of the application. The Bank shall, normally, ask for any further information within 7 working days from the date of the receipt of application. However, during a particular credit appraisal, the Bank may have to get in touch with the borrower beyond that period for additional clarification/ information.

2.4 The Bank would keep the borrower updated on the status of its application on an ongoing basis. This may be through either SMS alerts / via phone /email / personal visit / website or other means of communication.

2.5 The Bank shall not charge any processing fees for loan / limits aggregating to Rs 5 lacs, if the said application is rejected.

2.6 Normally, the borrower can expect a decision to be taken on an application for a loan/facility up to Rs 2 lacs within 2 weeks, up to Rs 5 lacs within 4 weeks and beyond that within reasonable time frame, from the date of receipt of the complete application along with documents as specified in the application form and other information sought by the Bank during the credit assessment process.

3. CREDIT ASSESSMENT

The sanction of credit facility(ies) to the borrower will be at the sole discretion of the Bank. Credit assessment shall be carried out at the Bank's end on receipt of the borrower's application and shall include;

- 3.1** Verification of the details given by the borrower in the application form. This could be through the Bank's staff or through external agencies duly appointed by it for carrying out such activities.
- 3.2** The Bank shall make references to credit reference and other agencies and any past recorded history of credit delinquency with any bank / institution related to the borrower / its business may be treated as a negative for considering the application and may lead to a rejection of requested facilities. The Bank shall have the sole discretion on deciding on the outcome of an application basis the credit reference agencies report
- 3.3** While assessing the borrower's application, focus would be on understanding whether the borrower would be able to repay the loan / be able to service the facility. This shall be done through an in-depth due diligence and credit appraisal.
- 3.4** During this process, the Bank would satisfy itself about the reasonability of the projections / assumptions that the borrower has stated in the application form. This assessment may include, amongst other things, looking at the following:
 - Information the borrower gives the Bank, including the purpose of borrowing.
 - The borrower's business plan.
 - The borrower's business cash flow, profitability and existing financial commitments supplemented, if necessary, by account statements.
 - The borrower's personal financial commitments.
 - How the borrower has handled its finances in the past. The borrower's past loan data may be asked for.
 - Information the Bank gets from credit reference and other agencies where the Bank would make a reference.
 - Ratings assigned by reputed credit rating agencies, if the borrower has been rated by any of these.
 - Information from others, such as other lenders /creditors and may include talking to the borrower's suppliers / customers to understand the financial discipline.
 - Market reports, which could be regarding the current industry outlook / geography / demographic issues that might affect the borrower's ability to sustain the debt.
 - Checks like, but not limited to, valuation / legal title search for any security offered for the facility.
- 3.5** The Bank will not insist on collateral for credit limits up to Rs 5 lacs and in special cases (at its sole discretion) consider collateral free lending up to Rs 25 lacs based on the borrower's credit assessment, if the Bank is satisfied inter-alia with the borrower's past record of repayment, financial position etc.
- 3.6** The Bank will consider lending to the borrower for its business requirement, with a minimum of 20% of the projected turnover, provided the credit assessment (including substantiating the projected annual turnover) is satisfactory and the borrower's working capital requirement demands such funding. This shall be subject to minimum margin of 5% of the projected turnover being brought in by the borrower for working capital.

- 3.7** The Bank shall consider enhancement in the borrower's current working capital limits, in case the borrower's requirements exceed earlier projections, subject to the funding falling with the Bank's policy. This shall however be subject to a credit assessment by the Bank.
- 3.8** In case where a third party has offered a personal guarantee or other security against the loans /facilities granted to the borrower, the Bank shall seek the borrower's consent to divulge confidential information about the borrower and its finances to such third party / their legal advisers etc. The Bank shall not be obliged to, but on a best effort basis, encourage the third party to seek an independent legal advice to ensure that they understand their commitment and the possible consequences of their decision. The Bank will also incorporate such recommendation in the documentation being signed by the guarantor. The Bank will tell such third party that it/ he/she is liable for the loan / facility in the same way as the borrower is.

4. SANCTION / REJECTION

- 4.1** The assessment of the borrower's application shall be independent of the deposits that the borrower has / may hold with the Bank.
- 4.2** On sanctioning / enhancing Overdraft limits, the Bank shall inform the borrower whether the facility is repayable on demand or otherwise.
- 4.3** All the sanctioned facilities shall be advised to the borrower through a Facility Advice Letter (FAL) and/or agreement which shall contain all terms and condition guiding the sanctioned facilities.
- 4.4** The Bank would provide the borrower with a copy of the said FAL.
- 4.5** The Bank shall also provide the borrower with authenticated copies of all the loan documents along with the enclosures.
- 4.6** Should the Bank be unable to consider the borrower's request favourably for facilities requested, the Bank shall provide to the borrower, in writing, the reason for not sanctioning the loan / facility
- 4.7** The Bank's loan / facility appraisal process is designed with various parameters like vintage of the business, profitability, financial leverage etc. This varies from product to product depending on the nature of the loan / facility / tenor / security offered etc. Please note that the above parameters listed do not comprise an exhaustive list and are only indicative.
- 4.8** The Bank will permit pre-payment on loans up to Rs 5 lacs without charging any penalty for such prepayment
- 4.9** The Bank shall disburse the loan sanctioned to the borrower within 2 working days from the date of receipt of completed set of executed documents and fulfillment of other pre disbursement conditions governing the sanction.
- 4.10** The Bank shall ensure periodic review and renewal of the borrower's facilities.

5. POST DISBURSEMENT

- 5.1** Upon disbursement of the loans / avilment of facilities the Bank shall make periodic visits and inspection to the business premises / factory of the borrower and / or seek such information as may be required, as per the terms of sanction or on some new information about the borrower's business being coming to the Bank's knowledge.
- 5.2** The Bank shall be constructive in its monitoring process and sympathetically deal with genuine difficulties that the borrower may face in dealing with the Bank.
- 5.3** Where ever required, the Bank shall obtain periodic information from the borrower on an ongoing basis on;
- A comparison of the forecasts in the business plan with the actual results.
 - Progress on important aspects of the business plan.
 - Annual accounts such as Balance Sheet and Profit and Loss Account and other supporting documents.
 - Age-wise break up of stocks, creditors and debtors and the amounts involved.
- 5.4** The Bank shall allow the borrower to draw the accounts against the limits with normal safeguards / checks.
- 5.5** If some external / internal circumstances change, the Bank shall convey to the borrower, its requirement for additional information from the borrower, as the case may be.
- 5.6** The Bank shall ensure that all changes in the interest rates for the borrower's loan /overdraft facility following a change in banks internal policy / economic environment / regulation /law shall be communicated to the borrower within 7 working days of the decision.
- 5.7** On receipt of a request for transfer of an account / loan from the borrower or a bank desirous to takeover the facility from the Bank, the Bank shall inform the borrower and/or the requesting bank within 2 weeks its consent or otherwise about such a move.
- 5.8** The Bank shall release all securities held by it on receipt of such entire payment from the borrower / other banker within a week, except in case of any legitimate unsettled claim that the Bank may have over a security.
- 5.9** In such a case, the Bank shall give notice about the details of such an exercise of right to set off and full particulars of the remaining claims against the borrower and the documents under which the Bank is entitled to do so.
- 5.10** The Bank shall effect pledge and deliveries on the same day as the receipt of request, if the request is received during working hours at any branch of the Bank, where such request is made.
- 5.11** If, for the increase in drawing power, as per agreement with the Bank, the customer is required to lodge additional security, the Bank shall effect revised drawing power within one working day from the lodgment of such additional security. This will however not include stock statements, the effect of which shall be effected within a reasonable time as per the Bank's internal procedure.
- 5.12** The Bank shall inform the borrower of debits to the borrower's account arising out of interest application, fees and charges by way of statements of accounts /SMS alerts.

5.13 The Bank shall monitor the progress made by the borrower through any or more of the following modes:

- 5.13.1 Scrutinizing periodic statements of stocks the borrower holds / creditors and debtors on the borrower's book;
- 5.13.2 Monitoring the transactions in the borrower's account with the Bank.
- 5.13.3 Visits by either the Bank's staff or authorized representative to the borrower's premises for verification of the stocks and/or assets financed.
- 5.13.4 Obtain wherever necessary market reports on the progress of the borrower's business.

5.14 Non Fund Based Facilities

- 5.14.1 The Bank may offer non - fund based facilities for purchase of capital equipment or raw materials/ consumables etc. through issuance, advising, confirmation, negotiation, discounting etc. of Letters of Credit (LCs) subject to credit assessment and terms and conditions as per the policies of the Bank.
- 5.14.2 The Bank may issue Guarantees towards the borrower's financial obligations on the borrower's behalf to third parties as may be required by the borrower subject to credit assessment and terms and conditions as per the policies of the Bank.
- 5.14.3 The Bank may help the borrower in collection of export bills and domestic outstation trade and service bills.

6. FINANCIAL DIFFICULTIES

6.1 Business cycles are linked to the economy of the region and there might be ups and downs in the performances. Any financial difficulty that the business faces and the causes for the same can be identified by the borrower. If the borrower is to identify any such deviation / discrepancy, the borrower shall let the Bank know at once. If the Bank notices a change or a problem it shall communicate to the borrower in any or all possible ways (written / oral / telephonic). This will help the Bank to consider the borrower's business difficulty early and treat it sympathetically. This might prompt the Bank to do some adjustments / changes in the terms so as to reduce the impact of the difficulty faced by the borrower.

6.2 The borrower shall inform the Bank promptly about occurrence of the following indicative, but not exhaustive, events which may affect the borrower's business:

- A delay in commencement of commercial production and if there is cost overrun etc.
- If there are large increases or decreases in the borrower's business turnover.
- If there is a stoppage/ suspension of work for an unreasonably long time.
- If the borrower is incurring loss.
- If the borrower suddenly loses a business partner or co-promoter or a key customer or employee.
- If the borrower sells a large part of its business.
- If the borrower uses credit facility/ies for purposes other than those agreed with the Bank or diverts the funds for purposes other than intended business.
- If the bills drawn by the borrower on its customers return unpaid frequently.

- If the borrower does not honour bills drawn on the borrower by its suppliers frequently.
 - If the borrower's book debts/debtors size is increasing not in consonance with turnover.
 - If all sales are not routed through the borrower's current account with the Bank.
 - If the borrower does not comply with conditions set out in the loan agreement.
 - If another creditor brings a winding-up petition or other legal action against the borrower's business.
 - Any other changes that might severely affect the borrower's ability to repay the dues to the Bank.
- 6.3** The Bank shall endeavor to do all that the Bank can to help the borrower overcome its difficulties. As a banker, the Bank shall strive to work with the borrower's active co-operation on developing a plan for dealing with its financial difficulties, and the Bank will tell the borrower, in writing, what the Bank has agreed. This shall however, be within the Bank's limitation as a banker / regulatory framework.
- 6.4** The Bank will also endeavor to provide the borrower with credit counseling services so that the Bank can be of help to the borrower in dealing with its financial problems.
- 6.5** If the borrower is in financial difficulty, the Bank is open to considering working with the borrower and its advisers, if the borrower asks the Bank. It is important that the borrower acts in good faith, keeps the Bank informed about developments, keep to its commitments to Bank and is prepared to make necessary changes early enough.
- 6.6** Restructuring the finances in the changed environment might also require more financial information /commitments from the borrower's end so as to help the Bank work together to resolve the borrower's problems.

7. DEBT RESTRUCTURING FOR MSEs

- 7.1** The Bank will consider a nursing/ debt restructuring programme in case the borrower's borrowal account remains substandard (As per extant RBI guidelines) for over six months, or there is an erosion of networth due to accumulated losses to an extent of 50% of the borrower's networth of the previous accounting year.
- 7.2** For examining the borrower's request for rehabilitation /debt restructuring the Bank will
- 7.2.1 First see whether the borrower is viable/potentially viable.
- 7.2.2 If the borrower is found to be viable/potentially viable initiate corrective action for the borrower's revival. The decision of the viability of the business would be basis the Bank's internal credit and risk assessment procedures. This process may use information provided by the borrower as well as other market and industry related information that the Bank may gather.
- 7.2.3 In case the borrower's unit is potentially viable and is under consortium / multiple banking arrangements, and if the Bank has maximum share of limits, the Bank may consider working out the restructuring package, if the other consortium / member lending banks authorize it for the same.
- 7.2.4 Work out a rehabilitation package which will also include the borrower's contribution in accordance with RBI guidelines and implement the same within a maximum period of 60 days from the date of receipt of the customer's request. The rehabilitation package may require the borrower to consider sacrifices / additional financial and other commitments which, in the Bank's opinion, are required for successful revival of the business.

- 7.3** The Bank shall not charge interest on the Funded interest term loan account created out of the unpaid interest for a potentially viable sick SSI accounts
- 7.4** During this period of identifying and implementing the rehabilitation package, the Bank shall allow the borrower to draw funds from the borrower's cash credit account, to the extent of deposits of sale proceeds made in the account to enable the borrower to continue operations in the account
- 7.5** If the Bank does not think that the rehabilitation plan will succeed, the Bank will explain the reasons why and help the borrower and its advisors consider other options.
- 7.6** If the Bank cannot reach an agreement, the Bank will make it clear why the Bank feel unable to continue to support the borrower and tell the borrower when the Bank will withdraw its support.

8. COLLECTION OF DUES

- 8.1** Whenever the Bank give loans, the Bank will explain to the borrower the repayment process by way of amount, tenure and periodicity of repayment. However if the borrower do not adhere to repayment schedule, a defined process will be followed for recovery of dues. The process will involve reminding the borrower by sending the borrower a notice or by making personal visits and/ or repossession of security, if any.
- 8.2** In case of default, the Bank may refer the case to a recovery agent(external or other wise). The Bank will inform the borrower that recovery proceedings have been initiated. The decision on when to refer the account to an external recovery agency would be solely with the Bank.
- 8.3** On initiating recovery proceedings the Bank will also tell the borrower that in case the borrower has a complaint to make in this regard the borrower may contact the Bank's helpline number. The Bank will investigate the borrower's complaints , if any, against the Bank's recovery agents.
- 8.4** The Bank's collection policy is built on courtesy, fair treatment and persuasion. The Bank believes in fostering customer confidence and long-term relationship.
- 8.5** The Bank will provide the borrower with all the information regarding dues and will endeavor to give sufficient notice for payment of dues. The Bank's staff or any other person so authorized, deputed for collection of dues or/and security repossession will identify himself/ herself. Any person authorized to represent the Bank for these purposes will identify himself/herself and also display the authority letter issued by the Bank.
- 8.6** All the members of the staff or any person authorized to represent the Bank in collection or/and security repossession would follow the Bank's Policy on Collection of Dues and repossession of Security.
- 8.7** Details of the Bank's Collections policy can also be viewed under 'Banking Policies and Fair Practices Code' on the Bank's website <http://www.hsbc.co.in>

9. REDRESSAL

- 9.1** In case the borrower face difficulties in any of the above mentioned processes / feel that the borrower is not being given a satisfactory reply / due consideration is not being given to the borrower's request and / or the borrower feel the process mentioned above is not being followed by the officials the borrower is dealing with, the borrower may get in touch with the Bank. The details and options for the same are available on the Bank's website under the Grievance Redressal link.