



Process of Dealing with Clients at Each Stage of Default

Default: Dues not paid on scheduled date and times are treated as default/delinquent accounts however dealing with the delinquency may vary with the degree of criticality. Our approach to deal with delinquency as an issue is as following:

1. Preventive measure
2. Curative measure

Preventive Measure: We are strong believer of preventive measure of managing default risk. In order to insulate ourselves against default we take the following precautions.

1. **Ensure client participation:** We learnt from our experience that there is direct correlation between client participation in microfinance program and the issues of delinquency/default. Maximizing level of attendance in cluster meetings reduces the risk of default. Hence we encourage/motivate our clients to be part of every cluster meetings and there by enforce joint liability in its true spirit.
2. **Do the basics right:** Proper client selection and screening out clients prone to default is the key to mitigate default risk. Hence we give maximum emphasis to the process to client selection and sourcing. We follow triple filtration mechanism and each single client passes through three level of filtration (a) During Screening Meeting process by the CCIC (b) During CGT process by CIC (c) During final GRT by the EDC In-Charge.
3. **Mandatory Credit Bureau checking:** All the clients appraised during the selection process are checked from industry recognized Credit Bureau and thereby reduce the risk of potential defaulting client who have negative credit history, very low or high level of income and default history with other micro finance institutions.
4. **Repeat and re-ensure joint liability in every single cluster meeting:** The joint liability aspect of the cluster is re-ensured during every cluster meeting as the same is recited as verbal contract during the beginning and closing of the cluster meeting.
5. **Quick response to early symptoms:** Our MIS generates granular and comprehensive reports of delay and default in payment. The daily reports are shared among all levels of management and any increase in non payment is immediately traced. Upon identification

of any such issues the operation team works swiftly to manage the risk before it becomes chronic.

Curative Measure: Despite our best effort to curb default before it buds, few clients may show deviant behaviour either intentionally or due to stressed situation. Our approaches to deal similar issues are as following.

Defaults can be classified as Individual defaults, Technical defaults, Defaults caused by Fraud and Mass Defaults. Outlined below are the reasons why customers default along with the action plan to be put in place for each instance.

A. Individual Defaults:

- **Temporary repayment problem:** A temporary repayment problem can arise because of the following reasons - Late payment of salary, Illness of a family member, sudden cash needs

Action Needed: Cluster members will contribute and lend to the client

- **Long -term repayment problem:** A long -term repayment problem can arise because of the following reasons like Death of an earning member, Accident leading to permanent disability of an earning member, Loss of job of an earning member

Action Needed:

- a. In case of death of member, the loan will be closed upon submission of death certificate since this is covered under LPC
 - b. If the default is caused due to the other long -term repayment problems the cluster will help the client with repayment for up to 3 instalments.
 - c. During this time the EIC will investigate the authenticity of the problem by speaking with the cluster members, neighbours and family members. If the problem is found to be genuine and the default client is still not able to recover from the repayment problem the loan will be proposed for rescheduling. The CIC and EIC will educate the client and the cluster about the loan rescheduling procedure and negotiate a more suitable payment schedule. The group has to recommend rescheduling of the default client's loan else it may create problems with group dynamics at a later stage.
- **Wilful default:** Some clients deliberately refuse to pay. Generally these are fraudulent clients with bad repayment intentions. In many cases these clients stop attending cluster meetings or abscond. If attendance of a cluster member is absent for more than 2 consecutive meetings, CIC to indicate this as an early warning and investigate the matter for early identification of such cases (**MIS report for the same will be available**)

Action Needed:

Cluster will help Mitrata find the client and get the loan repaid in case of absconding. For refuse to pay, Cluster will repay the entire loan.

Mitrata will have a dedicated Team to handle Absconding and critical PAR cases constituted by the COO as per requirement. This team will make following efforts to trace absconding customers:

- Get information of the client's whereabouts from neighbours
- Trace the client's native place and permanent address
- Send a notice of payment to the client's current and permanent residence
- Visit the client's native place to get details on the whereabouts of clients

B. Defaults caused by fraud:

- **Staff or Client Fraud:** Defaults are sometimes caused by some fraud committed by Mitrata staff themselves or by clients
- **Action Plan:** The COO will immediately investigate such cases with the help of respective AIC. If default is found to be caused because of some fraud committed by Mitrata staff or client Mitrata will then have to take strict action against the staff or client who committed the fraud including legal action.