

FAIR PRACTICES CODE FOR NBFCs – LOAN TRANSACTIONS

The Fair Practice Code for Company's lending business is made in line with NBFC guidelines issued by Reserve Bank of India vide its circular no.DNBS.CC.PD.No.266 dated 26th March 2012.

The objective of Fair Practice Code is to ensure that the borrower gets full information of their borrowing transactions with the Company.

(i) Applications for loans and their processing

- (a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- (b) Loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form should indicate the documents required to be submitted with the application form.
- (c) An application form should be serially numbered.
- (d) An acknowledgement for receipt of all loan applications should be given. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement.

(ii) Loan appraisal and terms/conditions

The Company should convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.

The Company shall mention that the penal interest charged for late repayment in bold in the loan agreement.

A Company should furnish a copy of the loan agreement preferably in the vernacular language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

(iii) Disbursement of loans including changes in terms and conditions

- (a) On the sanction of loan application, the Company should disburse the amount of the loan amount sanctioned by way of account payee cheque/demand draft/pay order etc.
- (b) The Company should provide repayment schedule, interest rate, details of the processing and documentation charges, to the borrower.

- (c) The Company should provide the receipt for the amount received towards processing and documentation charges, the copy of the signed loan agreement and other documents, if any, to the borrower.
- (d) The Company should give notice to the borrower in the vernacular language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. The Company should also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.
- (e) Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
- (f) The Company should release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim Company may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which a Company is entitled to retain the securities till the relevant claim is settled/paid.

(iv) Determination of Interest Rates:

- (a) For determining the rate of interest to be charged for loans and advances relevant factors such as cost of funds, margins and risk premium should be considered. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- (b) The rates of interest and the approach for gradation of risks shall also be made available on the web-site or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.
- (c) The rate of interest should be annualized rates so that the borrower is aware of the exact rates that would be charged to the account.

(v) General

- (a) A Company should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).
- (b) In case of receipt of request from the borrower for transfer of borrower account, the consent or otherwise i.e. objection of the Company, if any, should be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- (c) In the matter of recovery of loans, the Company should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans

etc. The Company shall ensure that the staff is adequately trained to deal with the customers in an appropriate manner.

A Grievance Redressal Committee to be formed within the organization to resolve the disputes arising from the loan transactions. The Committee should consists of Chief Executive Officer/Whole-time director and Chief Financial Officer.

The Board of Directors to review the compliance of Fair Practice Code periodically and also to review the functioning of Grievances Redressal Committee.

The reports on Compliance of Fair Practice Code and reviews by Grievances Redressal Committee be placed before the Board in its quarterly meetings.
