

LEASEINDEX INDIA LTD, HEAD OFFICE, THRISSUR

Guidelines on Fair Practices Code introduced for the company

A. (i) Applications for loans and their processing

1. All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
2. 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 may indicate the documents required to be submitted with the application form.**
3. **The application forms received from customers should be acknowledged and the acknowledgement should mention the time frame within which the loan application will be disposed of.**

(ii) Loan appraisal and terms/conditions

1. **The loan sanction should be informed to the borrower in a vernacular language incorporating the terms of sanction viz:, annualized rate of interest, its method of calculation and the acceptance of the terms by the borrower should be kept as record.**
2. **Penal interest, if any, for default payment should also be mentioned in the Sanction letter**
3. **Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is considered as an unfair practice. Hence a copy of the agreement to be given to the borrower at the time of sanction or disbursement.**

Disbursement of loans including changes in terms and conditions

- (a) The Company(NBFCs) should give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.

- (b) Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
- (c) The Company should release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim NBFCs 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 NBFCs are entitled to retain the securities till the relevant claim is settled/paid.

General

- 1. No pre-closure/fore closure charges be levied from the borrowers on all floating rate term loans sanctioned to individual borrowers
- 2. 2(a)NBFCs 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 information, not earlier disclosed by the borrower, has been noticed).

b) In case of receipt of request from the borrower for transfer of borrowing account, the consent or otherwise i.e. objection of the NBFC, 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 muscle power for recovery of loans etc. As complaints from customers also include rude behaviour from the staff of the companies, NBFCs shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.

d) As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, it is advised that NBFCs shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to *individual borrowers*, with immediate effect.

(ii) Responsibility of Board of Directors

The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organization. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

(iii) ³Grievance Redressal Officer

At the operational level, all NBFCs have to display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:

- (a) The name and contact details (Telephone / Mobile Nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company. Sri. Mohanasundaran, Chairman and Sri Bhaskaran, Director are the authorized grievance redressal officers.
- (b) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the NBFC falls.

In short, the public notice should serve the purpose of highlighting to the customers, the grievance redressal mechanism followed by the company, together with details of the grievance redressal officer and of the Regional Office of the RBI.

(iv) Language and mode of communicating Fair Practice Code

As per the RBI circular on Fair Practices Code (which should preferably in the vernacular language or a language as understood by the borrower) based on the guidelines outlined hereinabove should be put in place by all NBFCs with the approval of their Boards within one month from the date of issue of their circular. NBFCs will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the

spirit underlying the above guidelines. The same should be put up on their web-site, if any, for the information of various stakeholders.

(v) Regulation of excessive interest charged by NBFCs

- a) The Board shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. 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 of the companies 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 rate so that the borrower is aware of the exact rates that would be charged to the account.

(vi) Complaints about excessive interest charged by NBFCs

The Reserve Bank has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs. Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs are, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans are to be kept in view.

(VII) Clarification regarding repossession of vehicles financed by NBFCs

The Company must have a built in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement should also contain provisions regarding: (a)

notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for taking possession of the security;

(d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property;

(e) the procedure for giving repossession to the borrower; and

(f) the procedure for sale / auction of the property. A copy of such terms and conditions must be made available to the borrower in terms of circular wherein it was stated that NBFCs may invariably furnish a copy of the loan agreement 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, which may form a key component of such contracts/loan agreements.

In addition to the general principles as above, the company is adopting the following fair practices that are specific to their lending business and regulatory framework.

(i) General

- a)The FPC in vernacular language shall be displayed by the company in all the office and branch premises,
- b)A statement shall be made in vernacular language and displayed by the company in their premises and in loan cards articulating their commitment to transparency and fair lending practices,
- c)Field staff shall be trained to make necessary enquiries with regard to existing debt of the borrowers,

Training if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loans.

- d)The effective rate of interest charged and the grievance redressal system set up by the company should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website,
- e)A declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,
- f)The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,

g)As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, all sanctions and disbursement of loans (excluding Gold Loans) should be done at Head Office Level and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function,

h)Adequate steps may be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

(ii) Disclosures in loan agreement / loan card

a)The company shall have a Board approved, standard form of loan agreement. The loan agreement shall preferably be in vernacular language.

b) In the loan agreement the following shall be disclosed:

- i. all the terms and conditions of the loan,
- ii. that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
- iii. that the borrower cannot be a member of more than one SHG /JLG,
- iv. the moratorium period between the grant of the loan and the due date of the repayment of the first installment(as guided by the NBFC- MFIs(Reserve Bank) Directions,2011),
- v. an assurance that the privacy of borrower data will be respected.

c)The loan card should reflect the following details as specified in the Non- Banking Financial Company - Micro Finance Institutions (Reserve Bank) Directions,2011:

- vi. the effective rate of interest charged,
- vii. all other terms and conditions attached to the loan,
- viii. information which adequately identifies the borrower and acknowledgements by the company of all repayments including installments received and the final discharge,

- ix. The loan card should prominently mention the grievance redressal system set up by the MFI and also the name and contact number of the nodal officer,
- x. Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself,
- xi. All entries in the Loan Card should be in the vernacular language.

(iii) Non-Coercive Methods of Recovery

As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.

The company shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection /recovery practices. Compensation methods for staff should have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed in cases of non- compliance by field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.

(iv) Internal control system

As the primary responsibility for compliance with the Directions rests with the NBFC-MFIs, they shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.

B. Lending against collateral of gold jewellery

While lending to individuals against gold jewellery, NBFCs shall adopt the following in addition to the general guidelines as above.

(i) They shall put in place Board approved policy for lending against gold that should inter alia, cover the following:

- (a) Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,
- (b) Proper assaying procedure for the jewellery received,
- (c) Internal systems to satisfy ownership of the gold jewellery,
- (d) Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans should not be extended by branches that do not have appropriate facility for storage of the jewellery,
- (e) The jewellery accepted as collateral should be appropriately insured,
- (f) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There should be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,
- (g) The auction should be announced to the public by issue of advertisements in at least two newspapers, one in vernacular language and another in national daily newspaper,
- (h) As a policy, the company themselves should not participate in the auctions held,
- (i) Gold pledged will be auctioned only through auctioneers approved by the Board,
- (j) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

(ii) The loan agreement shall also disclose details regarding auction procedure.