# FAIR PRACTICES CODE FOR LENDERS

## 1. FAIR PRACTICES CODE FOR LENDERS

As directed by the Reserve Bank of India, from time to time through its circulars, the Bank has adopted this Fair Practice Code for Lenders as approved by the Board of Directors. The salient features of the same are:

### 1.1. Applications for Loan

1.1.1. In the loan application form/ terms and conditions in the sanction letter, the Bank shall provide comprehensive information including information about fees / charges payable for processing the loan application, the amount of fees refundable if loan amount is not sanctioned / disbursed, pre-payment options and charges, if any, penalty for delayed /repayments if any, conversion charges for switching loan from fixed to floating rates or vice versa, existence of any interest reset clause and any other matter which affects the interest of the borrower irrespective of the amount of loan sought by them. Such information shall also be displayed in all its offices and on the website of the Bank for all categories of loan products.

1.1.2. The Bank shall inform 'all-in-cost' to the customer to enable him/ her to compare the rates charges with other sources of finance. It shall also be ensured that such charges / fees are non-discriminatory.

1.1.3. The amount of fees to be refunded under certain circumstances shall be governed by extant RBI guidelines.

### 1.2. Processing

1.2.1. The Bank shall provide acknowledgement for receipt of all loan applications. In case of loan applications up to Rupees two lakhs, the Bank shall also indicate the time frame within which the application will be disposed of in the acknowledgement. The timeframe from the date of receipt of completed loan application shall be as per the following table:

| | |
|---|---|
| **Up to Rs.50000** | Within 2 weeks |
| **Above Rs.50000 and up to Rs.2.00 lakh** | Within 2 weeks |
| **Above Rs.2.00 lakh and up to Rs. 25 lakh** | Within 3 weeks |
| **Above Rs. 25 lakh** | Within 8-9 weeks |

1.2.2. The Bank shall verify the loan application within a reasonable period and if additional details/ documents are required; these will be sought from the applicant.

1.2.3. For all categories of loans and irrespective of any threshold limits, the Bank shall process the application without delay on its part. In case the application is turned down, the Bank shall convey in writing to the applicant the reasons for rejection within one month.

### 1.3. Loan Appraisal and Terms and Conditions

1.3.1. The sanctioning authority shall ensure proper assessment of the credit application as per the extant instructions and credit policy of the Bank. The availability of adequate margin and security shall not be a substitute for due diligence on the creditworthiness of the customer.

1.3.2. The Bank shall convey to the borrower/guarantor the credit limit along with the terms and conditions thereof and obtain the borrower's/guarantor's acceptance of these terms and conditions given with his/ her full knowledge on record.

1.3.3. In case of approved credit proposals, terms and conditions and other caveats governing credit facilities given by the Bank shall be reduced in writing and duly certified by a Bank official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all the borrowers at the time of sanction / disbursement.

1.3.4. There shall be a standard form of the loan agreement for all loans in a language understood by the borrower.

1.3.5. The sanction letter / loan agreement will clearly state that the credit facilities will be extended solely at the discretion of the Bank and that drawings under the following circumstances will be solely at the discretion of the Bank:

1.3.5.1. Drawings beyond the drawing power / sanctioned limits.

1.3.5.2. Honouring of cheques issued for the purpose other than specifically stipulated in the sanction.

1.3.5.3. Drawings in an account once it is classified as NPA.

1.3.6. No drawings will be allowed in case of non-compliance of the terms and conditions by the borrower.

1.3.7. Meeting further requirements of the borrower on account of growth in business will be subject to proper review of the credit limits.

**1.4. Disbursement of loans including changes in Terms and Conditions**

1.4.1. The Bank would ensure timely disbursement of loans sanctioned in conformity of terms and conditions governing such sanction.

1.4.2. Any changes in the terms and conditions of the sanction such as interest and service charges shall be notified to the borrower before effecting the changes.

1.4.3. Any changes in interest rate and service charges shall be effected only prospectively.

1.4.4. The Bank will provide a loan card to the Microfinance borrower which will cover the following aspects:

1.4.4.1. Information which adequately identifies the borrower;

1.4.4.2. Simplified factsheet on pricing;

1.4.4.3. All other terms and conditions attached to the loan;

1.4.4.4. Bank shall provide acknowledgements for all repayments including instalments received and the final discharge.-

1.4.4.5. Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.

1.4.4.6. All entries in the loan card should be in a language understood by the borrower.

1.4.5. All non-credit products shall be issued with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

**1.5. Post Disbursement Supervision**

1.5.1. The post disbursement supervision, such as submission of periodical reports and periodic inspection, will be stipulated at the time of issue of the sanction letter. The sanction letter would also mention whether the Bank or the borrower will bear the cost of inspection. Such supervision shall be constructive with a view to taking care of any "lender-related" genuine difficulty that the borrower may face, particularly in respect of loans up to Rupees two lakh.

1.5.2. Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, the Bank shall give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exists in the loan agreement.

1.5.3. The Bank shall release all securities on receiving payment of loan. However, the Bank may decide to exercise the right to set off any legitimate right or lien for any other claim against borrower. If such right of set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the documents under which the Bank is entitled to retain the securities till the relevant claim is settled/ paid.

### 1.6. Penal Charges

1.6.1. Penalty on non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this shall not affect the normal procedures for compounding of interest in the loan account.

1.6.2. The Bank shall not introduce any additional component to the rate of interest.

1.6.3. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.

1.6.4. The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

1.6.5. The quantum and reason for penal charges shall be disclosed by the Bank to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable and displayed on the Bank's website.

1.6.6. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

1.6.7. The above shall not apply to Credit Cards, External Commercial Borrowings, Trade Credits and Structured Obligations which are covered under product specific directions.

### 1.7. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans

1.7.1. At the time of sanction of EMI based floating rate personal loans, the Bank shall take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received.

1.7.2. At the time of sanction, the Bank shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.

1.7.3. At the time of reset of interest rates, the Bank shall provide the option to the borrowers to switch over to a fixed rate as per the Board approved policy of the Bank.

1.7.4. The borrowers shall be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.

1.7.5. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Bank from time to time.

1.7.6. The Bank shall ensure that the elongation of tenor in case of floating rate loan will not result in negative amortisation.

1.7.7. The Bank shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The Bank shall ensure that the statements are simple and easily understood by the borrower.

1.7.8. Apart from the equated monthly instalment loans, these instructions shall also apply to all equated instalment based loans of different periodicities. In case of loans linked to an external benchmark under the External Benchmark Lending Rate (EBLR) regime, the Bank will follow extant instructions and also put in place adequate information systems to monitor transmission of changes in the benchmark rate to the lending rate.

**1.8. Release of Movable / Immovable Property Documents on Repayment/ Settlement of Personal* Loans and compensation for delay in release of the same**

1.8.1. The Bank shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account

1.8.2. The borrower shall be given the option of collecting the original movable / immovable property documents either from the banking outlet / branch where the loan account was serviced or any other office of the Bank where the documents are available, as per the customer's preference.

1.8.3. The timeline and place of return of original movable / immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date

1.8.4. The procedure to return the original movable / immovable property documents to the legal heirs in case of demise of the sole borrower shall be displayed on the Bank's website for customer information.

1.8.5. In case of delay in releasing of original movable / immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, the Bank shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the Bank, the Bank shall compensate the borrower at the rate of ₹5,000/- for each day of delay.

1.8.6. In case of loss/damage to original movable / immovable property documents, either in part or in full, the Bank shall assist the borrower in obtaining duplicate/certified copies of the movable / immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated in 1.8.5 above. However, in such cases, an additional time of 30 days will be available to the Bank to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).

1.8.7. The compensation provided shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

**Personal loans refers to loans given to individuals and consist of: (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).*

**1.9. Charging of Interest**

1.9.1. The Bank shall charge interest from the date of actual disbursement of the funds to the customer and not from the date of sanction of loan or date of execution of loan agreement.

1.9.2. In the case of loans disbursed by cheque, interest shall be charged from the date of cheque hand-over to the customer and not from the date of the cheque.

1.9.3. In the case of disbursal or repayment of loans during the course of the month, interest shall be charged only for the period for which the loan was outstanding and not for the entire month.

1.9.4. The Bank shall not collect one or more instalments in advance.

## 1.10. General Principles

1.10.1. The Bank shall not interfere in the affairs of the borrowers except where provided for in the terms and conditions of the loan sanction documents, such as periodic inspection, scrutiny of books of accounts, verification of stocks and book debts, and scrutiny of QIS statements.

1.10.2. In case any information not disclosed earlier by the borrower has come to the notice of the Bank, the Bank will have the right to elicit the necessary information from the borrower and initiate action to protect its interest.

1.10.3. While the Bank may participate in credit-linked schemes framed for weaker sections of the society, the Bank shall not discriminate on grounds of sex, caste and religion in the matter of lending.

1.10.4. In the matter of recovery of loans, the Bank shall not resort to undue harassment such as persistently bothering the borrowers at odd hours, use of muscle power etc.

1.10.5. In the case of receipt of request for transfer of borrowal account, either from the borrower or from other banks / FIs which propose to take over the loan, the Bank's consent or objection, if any, shall be conveyed within 21 days from the date of receipt of request.

## 1.11. Grievance Redressal

1.11.1. Though the sanction of the loans will be at the sole discretion of the Bank, borrowers will have an opportunity to appeal against the decision. For this purpose, the applicant/ borrower may contact the relevant contact for grievance redressal as defined in the grievance redressal policy of the Bank (part of the customer service policy of the Bank).

1.11.2. The Bank shall be accountable for inappropriate behavior by its employees or employees of the outsourced agency and shall provide timely grievance redressal.

## 1.12. Monitoring and Reporting

1.12.1. Adherence to this code shall be reviewed on an annual basis by Head-Compliance and a report of the same shall be submitted to the Board of Directors

## 1.13. Policy implementation and update

1.13.1. This policy shall come into force from the date of approval by the board of the Bank

1.13.2. This may be reviewed annually or on an as-needed basis, but shall be effective till subsequent approval by the board of the Bank

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