Idf Financial Services Private Limited

FAIR PRACTICES CODE

Developed on the basis of the guidelines issued by the Reserve Bank of India vide their circular DNBS.CC.PD.No.266 /03.10.01/2011-12

Adopted by the Board of Directors of the Company in the Meeting held on 20th April 2012

INTRODUCTION

To elucidate the practices that IDF Financial Services Pvt Ltd follows in all its dealings with its clients and other stakeholders, practices that are fair to the client, practices that are transparent, unambiguous and non-detrimental to the interests of the clients.

FAIR PRACTICES CODE

Pursuant to the directions laid down by the Reserve Bank of India vide its circular **DNBS.CC.PD.No.266 /03.10.01/2011-12** in setting up Fair Practices Code, IDF Financial Services Private Limited adheres to the following Fair Practices Code.

The Fair Practices code applies to the following areas:

I. Applications for loans and their processing
II. Loan appraisal and terms/conditions
III. Disbursement of loans including changes in terms and conditions
IV. Interest Rates charged by the NBFCs
V. Disclosures in loan agreement / loan card
VI. Non-coercive method of recovery
VII. Internal control system
VIII. Other general provisions

I. <u>Applications for loans and their processing</u>

- ✓ All the borrowers will be fully apprised of the terms and conditions attached to the loan so that she/he will be able to make a comparison of the terms and conditions offered by other NBFCs and take an informed decision. The applicants will be provided with standard loan application forms including the below mentioned information:
  - ➢ Description of all costs associated with the product(s): price—including the total cost of the loan—the interest rate, and all associated fees.
  - ➢ All loan terms and conditions, including necessary documentation, eligibility criteria, conditions, any compulsory programs (e.g. insurance, savings), the use of client savings in the case of credit default, and how client data is used.

- ✓ Receipt of completed application forms will be duly acknowledged.

- ✓ The acknowledgement would include the approximate date by which loan applications will be disposed of.

- ✓ All loan applications will be disposed of within a period of 15 days from the date of receipt of duly completed loan applications i.e. with all the requisite information/papers.

- ✓ In case of rejection of loan application, irrespective of category of loans or threshold limits, the same would be conveyed in writing along with the main reason(s), which led to rejection of the loan application.

II. <u>Loan appraisal and terms/conditions</u>

- ✓ In accordance with IDF FSPL's prescribed assessment procedures, each loan application will be assessed and suitable margin/securities will be stipulated based on such assessment and Company's existing guidelines, however without compromising on due-diligence.

- ✓ The sanction of loans along with the terms and conditions thereof is conveyed to the borrower in writing by means of a sanction letter and borrower's acceptance of such terms and conditions will be obtained in writing on the copy of the sanction letters and kept on record

- ✓ The copy of the loan agreements along with a copy of each of the enclosures quoted in the loan agreements will be made available to the borrowers at the time of sanction of loans.

- ✓ IDF FSPL shall be under no legal obligation to consider increase/additional limits/facilities without proper review/assessment.

III. <u>Disbursement of loans including changes in terms and conditions</u>

- ✓ Disbursement of loans sanctioned will be made immediately on compliance of terms and conditions including execution of loan documents governing such sanction.

- ✓ Any change in the terms and conditions, including disbursement schedule, interest rate and other charges / levies will be informed to the borrowers.

- ✓ The changes in interest rates and charges shall be effected only prospectively. A suitable condition in this regard has been incorporated in the loan agreement.

- ✓ Before taking a decision to recall/accelerate payment or performance under the agreement or seeking additional securities, IDF FSPL would give reasonable notice to the borrower.

- ✓ All securities pertaining to the loan would be released on receipt of full and final payment of the loans subject to borrower satisfying any legitimate right/any other claim that IDF FSPL may have against the borrowers.

- ✓ If such right is to be exercised, borrowers would be given due and proper notice along with full particulars about the remaining claims and the conditions under which the company would be entitled to retain the securities till the relevant claim is settled/ paid.

IV. <u>Interest Rates charged by IDF FSPL</u>

- ✓ Appropriate internal principles and procedures in determining interest rates and processing and other charges have been put in place taking into account relevant factors such as, cost of funds, margin and risk premium, etc.

- ✓ The Board has adopted an interest rate model to determine the rate of interest to be charged for loans and advances.

- ✓ The rate of interest would be disclosed to the borrower in the application form and also communicated explicitly in the sanction letter.

- ✓ The rates of interest and the approach for gradation of risks are made available on the web-site of the company. The information published in the website shall be updated whenever there is a change in the rates of interest.

- ✓ The annualized rates of interest charged is communicated to the borrower so that he/she is aware of the exact rates that would be charged to the account.

V. <u>Disclosures in loan agreement / loan card</u>

- ✓ The company has a Board approved, standard form of loan agreement drafted in vernacular language.

- ✓ The loan agreement discloses the following information.
    - All the terms and conditions of the loan,
    - 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),
    - that there will be no penalty charged on delayed payment,
    - that no Security Deposit / Margin is being collected from the borrower,
    - that the borrower cannot be a member of more than one SHG / JLG,
    - the moratorium between the grant of the loan and the due date of the repayment of the first installment
    - An assurance that the privacy of borrower data will be respected.

- ✓ The loan card reflects the following details
  - the annualized effective rate of interest charged
  - all other terms and conditions attached to the loan
  - information which adequately identifies the borrower and
  - Acknowledgements by the Company of all repayments including instalments received and the final discharge.
  - the grievance redressal system set up by the company and also the name and contact number of the nodal officer
  - Non-credit products issued is with full consent of the borrowers and fee structure is to be communicated in the loan card itself.
  - All entries in the Loan Card are to be in the vernacular language.

VI. Non-Coercive Methods of Recovery

The company ensures that the recovery of loans is normally made only at a central designated place.

Field staffs are 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 2 or more successive occasions.

The detailed guidelines for staff recovery practices have been laid down in the staff training manual.

VII. Internal control system:

The company has resolved that a senior official of the Company be designated to ensure the adherence of the Fair practices code of the company by all the staff concerned. The Official so designated shall establish systems of internal control including audit and periodic inspection. The Official so designated shall prepare such periodical returns which adequately reflect the implementation of the Fair practices adopted by the Company and shall submit its report to the Board of directors once in a quarter.

VIII. Other General Provisions

- ✓ The Company has made necessary arrangements to ensure that the Fair Practices Code shall be displayed at the Registered office, Administrative office and all the branch offices in vernacular language

- ✓ IDF FSPL would refrain from interference in the affairs of the borrower except for what is provided in the terms and conditions of loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of IDF FSPL as the lender).

- ✓ In case of request for transfer of borrowal accounts by the borrower, IDF FSPL's consent or otherwise shall be conveyed within 21 days from the date of receipt of request.

- ✓ Any such transfer made shall be as per transparent contractual terms and in consonance with law.

- ✓ In the matter of recovery of loans, IDF FSPL would resort to the usual measures as per laid down guidelines and extant provisions and would operate within the legal framework

- ✓ The company will not resort to undue harassment viz., persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. in the matter of recovery of loans.

- ✓ The company has displayed a statement declaring their commitment to transparency and fair lending practices in the premises and in the loan cards provided to clients.

- ✓ Field staff are trained to make necessary enquiries with regard to existing debt of the borrowers,

- ✓ Trainings offered to the borrowers are free of cost. Field staff are trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products,

- ✓ The company prominently displays the effective rate of interest charged and the grievance redressal system set up in all its offices and in the literature issued by it and on its website,

- ✓ The company has made a declaration that it shall be accountable for preventing inappropriate staff behavior.

- ✓ Timely grievance redressal mechanism is mentioned in the loan agreement and also in the Fair Practices Code displayed in its office/branch premises,

- ✓ The company has also undertaken to comply with the KYC guidelines of RBI and to carry out due diligence to ensure repayment capacity of borrowers.

- ✓ The company ensures that all sanctioning and disbursement of loans is done only at a central location and more than one individual be involved in this function. In addition, there is close supervision of the disbursement function.

ANNEXURE

RBI Guidelines on Fair Practices Code

(**Circular No DNBS.CC.PD.No.266 /03.10.01/2011-12 dated 26th March 2012)**

Guidelines on Fair Practices Code for NBFCs

A. (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 may indicate the documents required to be submitted with the application form.

(c) The NBFCs should devise a system of giving acknowledgement for receipt of all loan applications. 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 NBFCs 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. As complaints received against NBFCs generally pertain to charging of high interest / penal interest, NBFCs shall mention the penal interest charged for late repayment in bold in the loan agreement.

It is understood that in a few cases, borrowers at the time of sanction of loans are not fully aware of the terms and conditions of the loans including rate of interest, either because the NBFC does not provide details of the same or the borrower has no time to look into detailed agreement.

Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is an unfair practice and this could lead to disputes between the NBFC and the borrower with regard to the terms and conditions on which the loan is granted.

NBFCs are, therefore, advised to 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) <u>Disbursement of loans including changes in terms and conditions</u>

(a) The NBFCs 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. 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) NBFCs 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.

(iv) <u>General</u>

(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 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 borrowal 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. 3

(c) In the matter of recovery of loans, the NBFCs should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc<u>. As complaints from customers also include rude behavior from the staff of the companies. NBFCs shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.</u>

(v) The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. 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.

(vi) Fair Practices Code (which should preferably in the vernacular 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 this 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.

(vii) Complaints about excessive interest charged by NBFCs (issued vide CC No. 95 dated May 24, 2007)

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.

(viii) Regulation of excessive interest charged by NBFCs (Notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009)

(a) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc 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 rates so that the borrower is aware of the exact rates that would be charged to the account.

(ix) Clarification regarding repossession of vehicles financed by NBFCs (issued vide CC No. 139 dated April 24, 2009)

NBFCs 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 borrowers 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.

B. NBFC-MFIs:

In addition to the general principles as above, NBFC-MFIs shall adopt 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 an NBFC-MFI in its office and branch premises,

b. A statement shall be made in vernacular language and displayed by NBFC-MFIs 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,

d. 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 loan / other products,

e. The effective rate of interest charged and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website,

f. A declaration that the MFI will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,

g. The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,

h. As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, all sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function,

i. 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. All NBFC-MFIs 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 there will be no penalty charged on delayed payment,

iv. That no Security Deposit / Margin is being collected from the borrower,

v. that the borrower cannot be a member of more than one SHG / JLG,

vi. The moratorium 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),

vii. 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.

(i) The effective rate of interest charged

(ii) All other terms and conditions attached to the loan

(iii) Information which adequately identifies the borrower and

(iv) Acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.

(v) 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

(vi) Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

(vii) All entries in the Loan Card should be in the vernacular language.

iii. <u>Non-Coercive Methods of Recovery</u>

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 2 or more successive occasions.

NBFC-MFIs 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 on cases of non-compliance of field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.

iv. <u>Internal control system:</u>

As the primary responsibility for compliance with the Directions rest 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.

C. 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. The policy shall also cover putting in place 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. As a policy, loans against the collateral of gold 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. The Board approved policy with regard to auction of jewellery in case of non-repayment shall be transparent and adequate prior notice to the borrower should be given before the auction date. It should also lay down the auction procedure that would be followed. 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 2 newspapers, one in vernacular language and another in national daily newspaper.

h. As a policy the NBFCs themselves shall 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.