

FAIR PRACTICES CODE KRA LEASING LIMITED

Reserve Bank of India (RBI) vide its Circular DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015 issued guidelines on Fair Practices Code (FPC) for all NBFCs to be adopted by them while doing lending business. The Company's business would be conducted in accordance with prevailing statutory and regulatory requirements, with due focus on efficiency, customer-orientation and corporate governance principles.

In addition, the Company would adhere to the Fair Practices Code in its functioning, the key elements of which are as follows:

Applications for Loans and their Processing:

- a. The company shall make all communications to the borrower in the vernacular language or a language which understood by the borrower.
- b. Loan application forms shall 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 the borrower can take an informed decision. The loan application form may also indicate the documents required to be submitted with the application form.

The Company shall devise a system of giving acknowledgement for receipt of all loan applications. Further, generally, the time frame within which the loan application will be disposed of would also be indicated in the acknowledgement.

Loan Appraisal and Terms/Conditions:

The Company shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of approval letter or otherwise, the amount of loan approved - along with the terms and conditions, including the annualized rate of interest and method of application thereof. It would keep the acceptance of these terms and conditions by the borrower on the Company's files. Furthermore, to avoid the future disputes for excessive interest rates, Penal Interest charged for late repayment in bold in the loan agreement.

It is understood that in a few cases, borrowers are not fully aware of the terms and conditions of the loans including rate of interest at the time of sanction of loans, 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. NBFCs

are, therefore, advised to furnish a copy of the loan agreement 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.

Disbursement of Loans including Changes in Terms and Conditions:

- a. The Company shall give notice in the vernacular language or a language as understood by the borrower to all its borrowers of any change in the terms and conditions - including disbursement schedule, interest rates, service charges, prepayment charges etc. The Company shall also ensure that changes in interest rates and charges are affected only prospectively. A suitable provision in this regard shall be incorporated in the loan agreement.
- b. Decision to recall / accelerate payment or performance under the agreement shall also be in consonance with the loan agreement.
- c. The Company shall release all securities on repayment of its full dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim the Company may have against its borrowers. 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 the Company is entitled to retain the securities till the relevant claim is settled/ paid.

General:

- a. The Company shall refrain from interference in the affairs of the borrower except for the purposes provided for 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 Company).
- 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 - shall be conveyed to the borrower within 21 days from the date of receipt of any request. Such transfer shall be as per transparent contractual terms in consonance with law.
- c. In the matter of recovery of loans, the Company shall not resort to any undue harassment - such as persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. the company shall recruit adequately trained staff to deal with the customers in an appropriate manner.
- d. The company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to *individual borrowers*, with immediate effect.

Responsibility of Board of Directors:

The Board of Directors of company shall lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism shall ensure that all disputes arising out of the decisions of company's functionaries are heard and disposed of at least at the next higher level. The Board of Directors shall 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.

Grievance Redressal Mechanism:

The Company displaying the following information prominently, for the benefit of customers, at its 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.
- 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.

Language and mode of Communication Fair Practice Code

Fair Practices Code (which should preferably in the vernacular language or a language as understood by the borrower) based on the guidelines outlined herein above 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.

Regulation of excessive interest charged by the Company:

- a. The Company 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 published in the relevant newspapers. The information 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.

Complaints about excessive interest charged by the Company:

The Company shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. At the time of disbursement of loans, rate of the interest for all the circumstances will be prescribed in loan documents under the term and conditions.

Clarification regarding repossession of vehicles financed by the Company:

The Company shall 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-

- i. Notice period before taking possession;
- ii. Circumstances under which the notice period can be waived;
- iii. The procedure for taking possession of the security;
- iv. A provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property;
- v. The procedure for giving repossession to the borrower and
- vi. 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.