

## **Fair Practices Code for Pradakshana**

### **1. Applications for loans and their processing**

- All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- 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.
- Pradakshana has developed a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of is also indicated in the acknowledgement.

### **2. Loan appraisal and terms/conditions**

Sanction terms should be conveyed 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 many NBFCs generally pertain to charging of high interest / penal interest, Pradakshana 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. It is, 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.

### **3. Disbursement of loans including changes in terms and conditions**

- Pradakshana will 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. Pradakshana also ensures that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard is incorporated in the loan agreement.
- Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
- Pradakshana 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 Pradakshana 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 Pradakshana is entitled to retain the securities till the relevant claim is settled/paid.

#### **4. General**

- Pradakshana will 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).
- In case of receipt of request from the borrower for transfer of borrower bank account, the consent or otherwise i.e. objection of the Pradakshana, if any, will 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.
- In the matter of recovery of loans, Pradakshana will not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. As complaints from customers also include rude behaviour from the staff of the companies, Pradakshana ensures that the staff is adequately trained to deal with the customers in an appropriate manner.

#### **5. Grievance Redressal Mechanism**

The Board of directors of Pradakshana laydown 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 will 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.

Board further approved the following Escalation Matrix for resolving customer grievance

Level 1: [pramod@pradakshana.com](mailto:pramod@pradakshana.com)

Level 2: [afroz@pradakshana.com](mailto:afroz@pradakshana.com)

Level 3: [kishorepuli@pradakshana.com](mailto:kishorepuli@pradakshana.com)

#### **6. Fair Practices Code**

(Which should preferably in the vernacular language as understood by the borrower) based on the guidelines outlined hereinabove will be put in place by Pradakshana with the approval of the Board within one month from the date of approval. Pradakshana will strive to improve further, 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 Pradakshana web-site, for the information of various stakeholders.

#### **7. 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.

Board of Pradakshana has, therefore, laid 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 issued by RBI are kept in view.

## **8. Regulation of excessive interest charged by NBFCs**

- The Board of Pradakshana adopted an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc and determined the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and the rationale for charging different rates 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.
- The rates of interest and the approach for gradation of risks are also made available on the website of Pradakshana. The information published in the website or otherwise published will be updated whenever there is a change in the rates of interest.
- The rate of interest should be annualized rate so that the borrower is aware of the exact rate that would be charged to the account.

## **9. Clarification regarding repossession of vehicles financed (if any) by Pradakshana**

Pradakshana will 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:

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