GUIDELINES ON FAIR PRACTICES CODE FOR NON-BANKING FINANCIAL COMPANIES (NBFCs)

This has reference to RBI Circular No. ***DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 1, 2015***, wherein the Reserve Bank of India (RBI) has revised the guidelines on Fair Practices Code for All Non-Banking Financial Companies (NBFCs) to implement the same

Guidelines on Fair Practices Code for NBFCs:

1) Application for Loan and their Processing:

a) Language: 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.

2) Loan appraisal and terms/conditions:

a) convey in writing to the Borrower by way of a sanction letter or otherwise, the amount of limit sanctioned along with all the terms and conditions including annualized rate of discount/ interest and method of application thereof.

b) NBFCs shall mention the penal interest charged for late repayment in bold in Loan Agreement.

3) Disbursement of loans including changes in terms and conditions:

a) NBFCs should give Notice to the Borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.

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 realisation of the outstanding amount of loan subject to any other claim by NBFCs.

4) General:

a) NBFCs refrain from interference in the affairs of the Borrower except in the terms & condition in Loan Agreement.

b) 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.

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c) In the matter of recovery of loans, the NBFCs should not resort to undue harassment.

d) NBFCs shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to *individual borrowers, with immediate effect.*

5) Responsibility of Board of Directors:

a) The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism.

b) 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.

c) A Consolidated report of such review may be submitted to the Board of Directors at regular intervals.

6) Grievance Redressal Officer:

In the present competitive scenario, excellent customer service is an important tool for sustained business growth. Customer complaints are part of the business life in any corporate entity.

All NBFCs have to display the following information prominentlyat 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.

(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.

7) Regulation of excessive interest charged by NBFCs

The Board of NBFCs shall decide the interest rate after considering the following factors:

i) cost of funds, margin and risk premium
ii) determine the rate of interest to be charged for loans and advances.

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iii) The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies

iv) The rate of interest should be annualised rate so that the borrower is aware of the exact rates.

8) **Complaints about excessive interest charged by NBFCs**

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.

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