

FAIR PRACTICE CODE FOR LENDERS

The Reserve Bank of India in consultation with Government, select banks and financial institutions has framed the guidelines on Fair Practice Code for Lenders. Accordingly, the Board of Directors of the bank have approved the following guidelines for adoption by the bank.

a) Application for loans and their processing:

1. The operative levels should convey all the relevant information like fee/charges, if any payable for processing, the amount of such fees refundable in case of non acceptance of application, prepayment options and any other matter which affects the interest of the borrowers, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.
2. Indication of the following time period for disposal of loan application while acknowledging the receipt of loan applications from the borrowers should be followed:

Upto Rs. 1.00 lacs	2 weeks
Rs.1.00 lacs to Rs.5.00 lacs	4 weeks
Over Rs.5.00 lacs	6 weeks

3. The verification of the loan application should be done within a reasonable period of time. If additional details/ documents are required, they should intimate the borrowers immediately.
4. To convey in writing, the main reason/reasons which in their opinion after due consideration, have led to rejection of the loan applications upto Rs.2.00 lacs within stipulated time.

b) Loan appraisal and terms/conditions

1. A proper assessment of credit application of the borrowers is to be made. The bank should not use margin & security stipulation as a substitute for due diligence on credit worthiness of the borrower.
2. To convey to the borrowers the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.
3. To give in writing the terms and conditions and other caveats governing credit facilities sanctioned, arrived at after negotiation by the bank and the borrower duly certified by the authorised official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.
4. As far as possible, the loan agreement should clearly stipulate credit facilities that are solely at the discretion of lenders. These may include approval or disallowance of facilities, such as, drawings beyond the sanctioned limits, honouring cheques issued for the purpose other than specifically agreed to in the credit sanction, and disallowing drawing on a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. It may also be specifically stated that the lender does not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.
5. In the case of lending under consortium arrangement, a procedure should be evolved to complete appraisal of proposals in the time bound manner to the extent feasible, and communicate their decisions on financing or otherwise within a reasonable time.

c) Disbursement of Loans including changes in terms and conditions:

The sanctioned loan should be timely disbursed in conformity with the terms and conditions governing such sanction. In case of any change in the terms and conditions including interest rates, service charges etc. the borrower should be immediately informed. The change in interest rates and charges are to be effected only prospectively.

d) Post Disbursement Supervision

1. Post disbursement supervision particularly in respect of loans upto Rs.2.00 lacs should be constructive with a view to taking care of any lender related genuine difficulty that the borrower may face.

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

3. All the securities should be released on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim bank may have against borrowers. 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 lenders are entitled to retain the securities till the relevant claim is settled/paid.

e) General

1. The operative levels should restrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).

2. No discrimination on grounds of sex, caste and religion in the matter of lending should be made. However, this does not preclude lenders from participating in credit linked schemes framed for weaker sections of the society.

3. In the matter of recovery of loans, the branches should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc.

4. In case of receipt of request for transfer of borrowal account, either from the borrower or from a bank/financial institution, which proposes to take over the account, the consent or otherwise i.e. objection of the lender, if any should be conveyed within 21 days from the date of receipt of request.

5. The rejection of the loan application should be done by the next higher authority.

Further Grievance Redressal Cells have been constituted at Zonal Office levels, which shall hear and dispose of all the disputes arising out of decision of the lower level functionaries.

The operative levels are advised to strictly adhere to the said guidelines while taking decision in disposing of the loan application from borrowers.