

**RBI / 2006-07 /138
DNBS (PD) CC No. 80 / 03.10.042 / 2005-06**

September 28, 2006

All Non-Banking Financial Companies
(including Residuary Non-Banking Companies)

Dear Sir,

Guidelines on Fair Practices Code for Non-Banking Financial Companies

The Reserve Bank of India, being satisfied that for the purpose of enabling it to regulate the credit system of the country to its advantage, it is necessary to do, hereby, in exercise of powers conferred under Section 45 L of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and of all the powers enabling it in this behalf, hereby prescribes the broad guidelines on fair practices that are to be framed and approved by the Board of Directors of all Non- Banking Financial Companies (including RNBCs). The fair practices code so framed and approved by the Board of Directors should be published and disseminated on the web-site of the company, if any, for the information of the public. The Fair Practices Code based on guidelines outlined in the Annex 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.

2. Please acknowledge receipt of this circular to the Regional Office of DNBS under whose jurisdiction the registered office of the company is situated.

Yours faithfully

(P. Krishnamurthy)
Chief General Manager – in – Charge

Guidelines on Fair Practices Code for NBFCs

- (i) Applications for loans and their processing
 - (a) 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.
 - (b) 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 by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.

- (iii) Disbursement of loans including changes in terms and conditions
 - (a) The 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. 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 realisation 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) General
 - (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.
 - (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..
- (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 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.