

FAIR PRACTICE CODE FOR LENDERS

❖ Preamble :

In the present scenario of banking and financial reforms, the banks are given freedom to respond to the changing needs of business. The banks are free to decide interest rates and service charges. They have freedom to a greater extent to form guidelines to finance different sectors of industry. Considering the need for transparency in the field of lending, Reserve Bank of India has issued broad guidelines on fair practice for lenders. Central Bank of India has adopted the following **Fair Practice Code**.

❖ Application for loans and their processing

- Application, fees / charges etc. : Loan application forms in respect of all categories of loans irrespective of the amount of loan sought by the borrower shall be comprehensive. Same shall contain information regarding the fees / charges payable for processing the loan application, the amount of fees refundable if loan amount is not sanctioned/disbursed, prepayment options and charges, if any, penalty for delayed repayments if any, conversion charges for switching loan from fixed to floating rates or vice versa, existence of any interest reset clause and any other matter which affects the interest of the borrower. The disclosure of 'all in cost' inclusive of all such charges involved in processing/sanction of loan application in a transparent manner will enable the customer to compare the rates/charges with other sources of finance.
- Acknowledgement : The borrower shall get acknowledgement for receipt of loan application. However, same would be given on receipt of application being complete in all respect along with copies of the documents, if any required to be attached. The acknowledgement shall indicate time frame, within which final decision will be taken.
- Disposal of application : Bank has fixed a time frame, within which loan application has to be disposed off. The time frame so fixed, depends on the size of the loan and the level of the sanctioning authority up to which proposal has to go. The mechanism for recording the date of receipt of application, movement of the application and final disposal date is put in place for effective monitoring by the Controlling Authorities.
- Rejection : In case of application for loan of all categories irrespective of any threshold limits including credit applications, the applicant shall be informed in writing reasons for rejection and same shall be done within the time frame as approved by the Board.

❖ **Loan Appraisal and Terms / Conditions :**

- Bank shall ensure that there is proper assessment of credit application taking into account various guidelines issued from time to time and take decision to sanction or to reject the application.
- If credit facility is sanctioned, the Bank shall invariably convey the same to the borrower mentioning, the details of credit facility sanctioned and all the terms and conditions and other caveats governing the same. The sanction letter shall be signed by the authorized official and acknowledgement of the same, mentioning that the borrower has agreed to abide by all the terms and conditions as mentioned there in, shall be obtained.
- A copy of the loan agreement along with a copy of each of all enclosures quoted in the loan agreement shall be furnished to all the borrowers at the time of sanction /disbursement of loans.
- In case of our Bank being leader of consortium, the Bank shall complete appraisal of the proposal in time bound manner to the extent feasible and shall communicate decision within reasonable time.
- The Bank shall specifically indicate that the credit facilities are given solely at the discretion of the bank. This includes allowing drawing beyond sanctioned limits, allowing drawings against cheques in clearing / collection, honoring cheques issued for purposes other than specifically agreed in the credit sanction, disallowing drawings in the account classified as non performing asset or on account of non compliance of terms and conditions of sanction. The bank is not under obligation to meet further requirement of the borrower on account of growth of business etc. without proper review of credit limit.

❖ **Disbursement of loans including changes in terms and conditions.**

- Bank shall ensure timely disbursement of loan sanctioned, in conformity with the terms and conditions governing such sanction.
- Whenever the rates of interest on our products are changed the same will be updated on our web site within three working days.
- Whenever any of our existing charges are changed or new charges are introduced the same will be notified at least one month before the revised charged are levied / become due.

❖ **Post Disbursement Supervision.**

- In post disbursement supervision, particularly in case of loan up to Rs. 2 lac, the Bank shall take constructive view and take care of any 'lender-related' genuine difficulty.

➤ Before taking decision to recall the advance or to seek additional security, the bank shall give notice of reasonable period to borrower.

➤ **“Release of Movable / Immovable Property Documents (w .e. f. 01.12.2023)**

The Bank shall release the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account.

In order to address the contingent event of demise of the sole borrower or joint borrowers, bank shall have a well laid out procedure for return of original movable / immovable property documents to the legal heirs.

In case of delay in releasing of original movable / immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, bank shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the Bank, it shall compensate the borrower for delay as per RBI guidelines.

In case of loss/damage to original movable / immovable property documents, either in part or in full, bank shall assist the borrower in obtaining duplicate/certified copies of the movable / immovable property documents and shall bear the associated costs, in addition to paying compensation

However, in such cases, an additional time of 30 days will be available to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).

The compensation provided under these directions shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law. “

➤ **Penal Charges for various kind of Credit facilities (Applicable w.e.f. 01.04.2024)**

As per RBI Guidelines, Penal interest levied on the borrowal accounts has been implemented as “Penal Charges” and its application shall be as per the charges levied in the loan accounts. Penal charges shall not be added over and above the applicable rate of interest.

As such Penalty, if charged, for non-compliance of material terms and conditions of loan contract of the borrower, shall be treated as Penal charges and shall not be levied in the form of ‘Penal Interest’ and that is added to the rate of interest charged on the advances. There shall be no capitalization of penal charges i.e., no further interest computed on such charges.

It shall also to be ensured that no additional component to the Rate of Interest is introduced and ensure compliance to the guideline in both letter and spirit. In order to instil a sense of credit discipline in the conduct of borrowal accounts, penalty shall be levied in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned

It is advised to the branches to ensure that penal charges on Loan accounts and quantum and reason for penal charges shall be clearly disclosed to the customers in the Loan Agreement/Sanction Letter and most important terms & conditions/ Key Fact Statement (KFS) as applicable.

These guidelines shall not be applicable to Credit Cards, External Commercial Borrowings, Trade Credits and Structured Obligations, which shall be governed by bank's extant guidelines issued in this regard.

The following charges have been identified as penal charges for various kinds of Credit facilities being provided by the Bank at present.

#	Nature of charge	Quantum of Penal charge						
FINANCIAL PARAMETERS								
1	Default in repayment of dues including Principal, interest service charges, retirement of bills etc.	<table border="1"> <thead> <tr> <th>Sanction Amount</th> <th>Penal Charges</th> </tr> </thead> <tbody> <tr> <td>Up to ₹ 30000.00 (financed for less than 24 months)</td> <td>NIL</td> </tr> <tr> <td>Above ₹ 30000.00</td> <td>2.00 % on the amount of default</td> </tr> </tbody> </table>	Sanction Amount	Penal Charges	Up to ₹ 30000.00 (financed for less than 24 months)	NIL	Above ₹ 30000.00	2.00 % on the amount of default
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<p>In respect of Agriculture Term Loans Penal Charges will not apply up to 3 months from due date of default</p> <p>Penal charge is to be charged only on delayed payments (installment and/or interest) for the overdue period and not on the entire liability. Penalty shall be charged for the actual number of days of default.</p>								
2	Irregularities in Cash Credit/Overdraft accounts	2.00% from the date of default or interest /service charges not paid in time on irregular amount.						
3	Penalty for excess of drawing power /sanctioned	2.00 % on the overdrawn portion till the account is regularized. Penalty shall be charged for the						

	limit (including expired limits)	actual number of days of overdrawn.
4	Export Bill if not paid on due date; will be subjected to penal interest rate for overdue period till realization.	Advance allowed against Usance export bill payable certain number of days after sight will have due date of usance period plus transit period of 25 days plus grace period where applicable. 2.00% will be penal charges applicable for overdue if not paid on such due date.
5	Penal charges for Pre-Payment of Loan	4.00% shall be collected on the prepaid amount and may be imposed on the outstanding liability to the borrower makes request for transfer of his loan account to other banks/FIs wherever applicable. However, Foreclosure charge/Pre payment charge shall not be charged in case of all floating rate term loans sanctioned, for purposes other than business, to individual borrowers with or without co-obligants, all micro & small enterprise borrowers to fall in line with MSE Code 2015 and loans prepaid by the borrowers from their own sources.

NON-FINANCIAL PARAMETERS

#	Nature of charge	Quantum of Penal charge
1	Non-perfection of security as per stipulated time of sanction terms & conditions.	1.00 % for delay in creation of Mortgage or Charge on the security.
2	Non-submission of stock statements	2.00% Penal charges shall be applied on after due date of stock statement on outstanding liabilities.
3	Non-submission of financial data; review/renewal of credit facilities	2.00% p.a on the on the entire liability of the party for the delayed period (except exempted category as per policy guidelines)
4	Non-submission of information in MSOD/FFS/QRS discipline	<ul style="list-style-type: none"> • 1.00% on the Fund Based liability for delayed/non-submission in respect of existing accounts as well as fresh sanctions for the delayed period. • 0.25% on the Non Fund Based liability subject to a cap of ₹ 1.00 lacs per month for parties who enjoy exclusive NFB limits.

		<ul style="list-style-type: none"> Where party is enjoying both FB & NFB limits, penalty shall be 1.00% FB liability and 0.25% on the NFB liability as above shall be charged. 						
5	Non-compliance of sanction Terms & Conditions	2.00% of default in observance of terms & conditions of the sanction.						
6	Non co-operation of appointment of ASM in eligible accounts	2.00% on the outstanding shall be stipulated in the next sanction/review/renewal besides declaring their name as Non-cooperative, as per policy guidelines.						
7	Commitment charges	<p>Commitment charges shall be reckoned from the date of execution of documentation for sanctioned limits (FB, NFB or combination including Term loans) of ₹ 10.00 crore.</p> <p>In respect of peak and non-peak limits (as permitted in the sanction), the commitment charges shall be collected as under:</p> <table border="1"> <thead> <tr> <th>Average utilization level</th> <th>Commitment Charges</th> </tr> </thead> <tbody> <tr> <td>If the average utilization during the quarter is more than 75 % of the peak /non-peak limit</td> <td>No charges</td> </tr> <tr> <td>If the average utilization during the quarter is less than 75 % of the peak /non-peak limit</td> <td>1.00% p.a. on entire unutilized portion on a quarterly basis.</td> </tr> </tbody> </table> <p>Levy of charges shall be exclusive of the overall ceiling of 2.00% p.a. penal additional interest stipulated in the normal course. All other terms & conditions are as per master credit policy (updated time to time)</p>	Average utilization level	Commitment Charges	If the average utilization during the quarter is more than 75 % of the peak /non-peak limit	No charges	If the average utilization during the quarter is less than 75 % of the peak /non-peak limit	1.00% p.a. on entire unutilized portion on a quarterly basis.
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8	Non-submission of external rating by eligible borrower	The percentage shall be at the Bank's discretion and decided on outstanding for the evasion period.						

PENAL CHARGES ON NON PERFORMING ASSETS (NPA)

Penal charges shall be treated as Unrealized Charges (URC) in NPA accounts and existing logic will be applicable in case of recovery of URC i.e., Charge portion (unpaid

charge minus unpaid GST) will be reversed from P&L and will become URC (Unrealized Charges).

Penal charges shall not be applied on the unpaid Capitalized Penal Charge plus GST or Accrued Penal Charge of the Account and existing logic will be applicable in case of recovery of URC.

❖ **Redressal Mechanism**

- The Bank has constituted different Committees, at Regional Office, Zonal Office and Central Office level to look into redressal of grievances if any of the borrower arising out of the decisions taken by the Branch, Regional, Zonal, Central Office functionaries. The Board of Directors would be reviewing the functioning of the said Committees.

❖ **General**

- The Bank shall not interfere in the affairs of the borrowers except for what is provided in the sanctioned document, unless new information, earlier not disclosed by the borrower comes to the notice of the Bank.
- The Bank in the matter of recovery, shall not resort to undue harassment viz. persistently bothering the borrower at odd hours, use of muscle power for recovery of loans etc.
- The Bank shall not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude the Bank from participating in credit-linked schemes framed for weaker sections of the society.
- In case of receipt of request for transfer of borrowal account, either from the borrower or from bank / financial institution, which proposes to take over the account, the consent or objection shall be conveyed within 21 days.

❖ **Publicity**

- The Bank shall give notice of change in terms and conditions including interest rates, service charges etc. to individual borrowers where ever possible.
- Publicity in case of major changes in interest rates / service charges etc. shall be given in the news papers / on internet and by putting up notice in the branches.
- The copy of this **Code** will be available at all the branches of our Bank.
