

INDIA HOME LOAN LIMITED



COLLECTIONS, MANAGEMENT OF DELINQUENT ACCOUNTS/NPA ACCOUNTS AND POST DISBURSEMENT MONITORING POLICY

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TABLE OF CONTENTS

SR. NO.	PARTICULARS	PAGE NO.
1	OBJECTIVE OF THIS POLICY	4
2	ROLES AND OBJECTIVES OF COLLECTION TEAM	4
3	CHALLENGES WITH COLLECTIONS AND DELINQUENCY MANAGEMENT	4
4	RESPONSIBILITIES OF COLLECTION MANAGER	5
5	CODE OF CONDUCT FOR COLLECTION AND RECOVERIES	5
6	NACH & PDC MANAGEMENT	6
7	COLLECTION & DELINQUENCY	7
8	REASON FOR DEFAULT	7
9	NOTICE, COUNSELLING, HARD COLLECTION	9
10	PAYMENT COLLECTION	10
11	POST DISBURSEMENT MONITORING PROCESS	11
12	NHB GUIDELINES FOR ENGAGING RECOVERY AGENTS	17
13	TAKING POSSESSION OF PROPERTY MORTGAGED TO HFCS	19
14	PERIODICAL REVIEW, MONITORING AND CONTROL	20
15	GENERAL	20

I. OBJECTIVES OF THIS POLICY

- To serve as a ready reckoner and guide for entire gamut of collection activities, managing delinquent & NPA accounts and effective post disbursement monitoring.
- The entire collection practice encompassing all activities will be detailed and available as a ready reference to all the relevant employees.
- To standardize and facilitate ease of understanding of entire collection related activities.
- Ensuring transparency and bringing objectivity in day to day operations.
- To define control mechanism for various activities so as to minimize chances of frauds, errors.

II. ROLES AND OBJECTIVES OF COLLECTION TEAM

- To proactively review the potential delinquencies through early warning signals by way of FPD (first payment default)/ SPD (second payment default).
- To monitor various delinquency parameters and strive to ensure the delinquency is at the lowest level by benchmarking against industry standards.
- To ensure achievement of highest standard of collection efficiency. The best and ideal measure is to collect promptly when the amount is due.
- To minimize credit related losses.
- To maintain optimal customer relationship.
- To periodically review fresh CIBIL, Security, and Sourcing capacity of all delinquent cases.
- To minimize cost of collections.
- To display high level of transparency, objectivity, integrity in dealing with both internal and external customers.
- To adhere to “Code of Conduct”, Procedures, Policies and guidelines of the company & NHB.

III. CHALLENGES WITH COLLECTIONS AND DELINQUENCY MANAGEMENT

- Some of the customers have poor wealth management skills, weak banking practices. As a result, repayment capacity of the targeted customers is under pressure and they are prone to defaults. Customers are getting overleveraged due to aspirations for better life style and consumerism has led to increase in defaults even amongst customers with good repayment record in past. Thus, there is a challenge for collection team to keep delinquency and losses under control under the present economic environment.
- To keep pace with growth in volumes from business.
- To manage the complexity of collection across geographical distance, states and districts.
- LTV ratios are increasing which in turn increases the asset risk and losses in the event of possession (in case of decreasing property value). Thus if the collection team possesses asset on default, chances of losses are on higher side. Hence the challenge is to execute

smart possession strategy, liquidate at best possible prices and also to possess on a timely basis.

- Customer sensitivity and sentiments coupled with media / social activism, there are risks of adverse publicity. Hence collection matters need to be handled in a professional and transparent way.

IV. RESPONSIBILITIES OF COLLECTION MANAGER

1.	To control the portfolio which is in delinquency parameters such as 30+ DPD, 60+ DPD, 90+ DPD buckets. Regular field visits on chronic and regular defaulters. Not allowing any case to enter 30+ bucket. Initiating legal activities on all 90+ cases.
2.	For preventive cure and correction - a letter from customer mentioning reason of bounce and commitment letter of no future bounces & photograph of customer with company officials to be obtained. Customer service and sales related issues in such cases , should be highlighted to proper officers.
3.	Ensure proper allocation of cases, follow up as per collection strategy and keep track of manual allocation, re- allocation in the collection system
4.	To Provide regular feedback to Policy, Risk, FCU on Negative Areas / Profiles / Negative Industry Trends.
5.	To conduct periodical review of all 30+ cases, fraudulent cases.
6.	Adhere to collection policies, procedures and code of conduct and ensure proper training to collection staffs, agencies personnel.
7.	Regular review of various collection MIS generated through collection system. Maintaining collection dashboard and presenting it to senior management time to time.
8.	Regularly visiting legal Agencies. Holding regular meeting with lawyers for reviewing their performance.
9.	Optimally use collection system features. Train collection personnel, staff for Company process and policy, integrity, compliance and spirit.

Training

Periodical training should be conducted. The purpose is to ensure all collection team personnel are well aware of company's policies, process, system, plan, targets and code of conduct.

V. CODE OF CONDUCT FOR COLLECTION AND RECOVERIES

- To abide all laws governing that place, adhere to all regulations and policies.
- To ensure secrecy of all collection related data and not to share it with outsiders.

- Apply consistent approach in all collection activities.
- All sales team (collections team – when required) needs to abide by Collection policy, operating instructions before commencing any collection activities and they need to give in writing that they shall abide by laws, regulations, and policies.
- Collection team should ensure proper maintenance of registers and files.
- All sales team members should be dressed neat and tidy, Employee identity cards need to be carried at all collection related visits and locations.
- As and when customer disputes the debt, the same should be immediately referred to company superiors for resolution.
- Customer should be treated with dignity and should not be abused. No written or verbal threats are permitted.
- All collection activities should preferably be carried out between 7 am to 7 pm only.
- Customer debt should not be discussed with other competitors.
- Customer should be ordinarily contacted at residence, customer may be contacted in office, in case the customer objects, alternative place of discussion should be decided and discussion should be carried out at the specified place.
- Do not enter customer residence against his/her wishes.
- Don't have any discussion of personal nature with the customer.
- Customer request for complete information should be honoured at all times.
- Leave the message if customer is not available at home or office. Do not discuss financial matters or harass other family members who are not party to the loan.
- Don't make any unauthorized commitments on behalf of the company for any waivers/ settlements/ compromise/ schemes/ extension of time.
- As far as possible, talk to the borrower in the language which she/he is more comfortable with.
- Always thank the customer for the time you spent with him.
- Report immediately to the superiors in case customer tries to entice with any kind of gifts/ bribe with an intention of stalling the efforts of recovery.

VI. NACH & PDC MANAGEMENT

The repayment of loan is paid by customer in the form of EMI (Equated Monthly Instalment). The EMI covers both principal and interest portion. The repayment is made on a monthly basis. The tenure of the loan varies from product to product. Maximum tenure for each product category is given below:

Product	Maximum Tenure [#]
LAP	15 Years
Home Loan	20 Years
Project Loan	7 Years

The EMI Payment is made in one of the following ways:

- NACH
- Post Dated Cheques – PDC's
- Cash

VII. COLLECTION & DELINQUENCY

Collection is art of collecting money from defaulted / broken EMI customers, where in educating them about consequences of default is very important. The collections process is defined as the set of coordinated, appropriate, and timely activities aimed at full collection of loans from clients. Collections reduce losses incurred by the company.

An account is marked delinquent when EMI gets bounced or the same is unpaid. Delinquency refers to customer who has defaulted on his contractual obligations to make payments when due and as agreed in the agreement at the time of availing the loan. Therefore, customer delinquency is measured in terms of number of days past due the agreement date or contractual date and popularly referred as DPD (Days past due).

The delinquent accounts for convenience of operations / finance and credit team are segregated into DPD and their segments are referred as buckets. The collection strategy or curing of delinquency varies depending on days past due or buckets. The bucket definition for the sake of other departments is given below:

BUCKET	DAYS PAST DUE BAND (DPD)
SMA 0	1 – 30
SMA 1	31 – 60
SMA 2	61 – 90
NPA	Above 90

VIII. REASON FOR DEFAULT

It is important to understand why customer defaults. Most of the customers intend to pay their debt. The repayment of EMI is a function of customer ability and intentions. External and internal conditions would impact customer serviceability of EMI. The external conditions are uncontrollable. Internal conditions are controllable and collection team should strive to control these factors so as to collect promptly when due. The collection department will have to pursue different strategies keeping in mind the following set of customers:

- Customer who pay promptly,
- Customer who are habitually late and who require lots of persuasion and follow up.
- Customer facing temporary financial hardship due to loss in business, loss in job, medical expenses, marriage in family, unusual high expenses etc.
- Customer who are fraudulent and with bad intentions (Fraud = Multiple funding / forged credentials / forged property papers).

Thus, understanding reason of default is very pertinent to apply right kind of collection strategy and collect the dues effectively.

FLOW:

The movement of accounts, from one DPD to another, month to month is called flow. The rate of that flow is called roll rate. The new flow is combination of 3 movements as given below:

1. **Normalisation:** Movement of a contract from a higher DPD to current, means – customer has paid all outstanding EMI's. Example – If a contract is in 31-60 DPD with present month EMI bounce and if he clears / paid off all EMIs, that contract will be considered as Normalised.
2. **Forward Flow:** Movement of contract from lower to higher DPD. Example form 31-60 to 61-90. This means that no EMI is collected in current month for this account.
3. **Stabilization:** The account that does not change its DPD in the next month. This could be due to either collection of 1 EMI but default of current month EMI or clearance of current month EMI but non- collection of previous month EMI.
4. **Roll back / Back Flow:** If more than one EMI is collected in the same month and depending on the number of EMI's collected, the account flows back in the corresponding DPD. For instance if any account is in 90-120 DPD, if 2 EMI's are collected it flow backward in 30-60 DPD.

WRITE OFF:

Delinquent accounts moving into certain DPD are considered write off in the books of accounts. The quantum of write off is linked to DPD and product category. Write off happens under following circumstances:

1. **Flow Loss:** Any account where no payment has been received for more than particular DPD.
2. **Settlement Loss:** Loss incurred when an account is foreclosed at a value lower than the outstanding amount.
3. **Accelerated Loss:** This happens when a contract is declared as Fraud and case can be marked under this loss irrespective of movement of bucket as decided by management.

- 4. Loss on Sale:** This happens when a property is sold at a price lower than total principal outstanding on that account. Gap between sold amount and outstanding amount is known as Loss on Sale.

The collection process for recovery will be as under:

- Post sale notice for possessed asset or legal notice for skip/ fraudulent cases will be sent to customer, co applicant and guarantor.
- Legal notice is followed by counselling by collection team member
- Hard collection through agencies will be pursued.
- Legal cases such as Sec 138, Sec 156, arbitration, civil summary suits, winding up petition for companies will be filed against customers and pursued for further recovery.

IX. NOTICE, COUNSELLING, HARD COLLECTION

The collection strategy or the follow up process is lined to the nature of product, ageing in terms of number of days, profile of the customer and also on timing of default.

The collection strategy though is predominantly based on DPD or buckets, also depends on the products because of the characteristics of the product. The collection strategy for different product is summarized below: -

<i>1-30 Bucket</i>	Awareness calling between T-5 days for live book and T-2 days for repeat bouncing cases. Also SMS to be sent to all live customers by T-5 days.
	On receipt of bounce and failed PTP by customer 2 times Field Visits will be commenced for all cases.
	Tele-calling will be done. Tele-callers will organize pickup for payments and allocate the same to the concerned sales executive
	In case of service issues or sales related commitment issues, branch manager/ area manager to be immediately informed and his help to be taken for resolving such cases. FPD– Sales Team will address the issue with credit and collection team & prioritize collection activity for such cases. The sales team will ensure collection of EMI in same month. Also proper cure and correction of such cases needs to be initiated by CREDIT so that such cases are not repeated for future bounce – SPD /TPD. Visit of Area Collection Manager will be mandatory on such cases.
<i>31-60 Bucket</i>	100% field collection by Collection Team along with collection Manager. Visit on SPD cases will be prioritized. Legal to be initiated on the 60 th day of bounce. Legal action in for of notice of criminal case shall be immediately initiated on fraudulent cases or customer with bad intentions.

	<p>Place notice Board at house door</p> <p>Charges INR 1000 + GST, send debit note and take customer signature on it</p> <p>INR 200 incentive to the person who is putting board on collection of this money</p>
<i>61-90 buckets</i>	<p>Pressure should be created on co-applicants/guarantors (Spouse/mother PDC to be banked) for Sec 138.</p> <p>In fraudulent cases, Criminal proceedings may be initiated against customer, co applicant, and guarantor.</p> <p>Visit by Business Head, Senior Collection Manager, Regional Head shall be mandatory for all accounts in this bucket</p> <p>Customer facing temporary cash flow problems, loan extensions or rescheduling may be considered subject to approval of Risk and Business Head.</p> <p>Recall notice will be given to customer– notice validity 15 days, branch staff will send this notice, branch address need to be mentioned, debit note of INR 5000, (20% incentive will be given to branch staff on collection of this money)</p>
<i>90+</i>	<p>Pursing legal cases under Sec 138, Sec 9, and Civil recovery under arbitration for creating pressure on customer.</p> <p>SARFAESI notice (Demand Notice)- validity 45 days- this notice will be given by authorised officer only, debit note INR 20000 (10% incentive on collection of this money)</p> <p>After expiry of 45 days of demand notice</p> <ul style="list-style-type: none"> ○ New paper notice for symbolic possession (debit note of actual newspaper charges) ○ If property is empty and unlocked (no goods in house) – we can proceed for physical possession without panchnama ○ If property is empty but locked – we can proceed for physical possession with panchnama ○ If property is occupied – push him to give peace full possession if not agreed, then go for safasi filing with collector/ CMM <p>- After physical possession of the property through any of the above processes action should be initiated for selling out the property by way of auction or otherwise</p> <p>Property attachment/ possession under ARBITRATION/ SARFAESI proceedings shall be liquidated as per process dictated by court defined in manual.</p>

X. PAYMENT COLLECTION

While accepting payments from customer below mentioned points needs to be notice.

- Cash can be collected from customer if he/she is unable to pay by any of the below methods
- Payments can be collected, in form of NEFT / RTGS / IMPS / DD / PAY
- ORDERS / BANKERS CHEQUE made from account of customer, co-applicant
- , guarantor.
- Company's customer profile is of low income segment and there will always be a risk of funds being spent by customer before paying full EMI. In that scenario – part EMI collection will be allowed.

XI. POST DISBURSEMENT MONITORING PROCESS

- Welcome Call (Mentioning Loan Amount, Tenor, ROI etc.)
- Awareness calling for both before pre-EMI presentation and EMI presentation.
- Tele-calling and counselling
- Dunning (Letter, Email, SMS).
- Field visits to Delinquent Customers.
- Legal Action for 90+ cases
- Possession.
- Sale of property.
- Filing Loss on Sale.

Awareness Calling

Awareness calling is to make customer aware through tele-calling about his/her first EMI date. It therefore, serves as a gentle reminder to the customer to make arrangement of funds in his bank account on or before the due or cycle date. Case wise detail of loan disbursed is being sent to the collection team by operation/ finance department or can be generated from the system. The queues for the same should be defined in the collection system. The tele-callers will call these customers for creating awareness about first EMI date.

The objectives of Awareness Calling are as follows:

- Information to customer about his / her EMI date.
- Reduce default and EMI bouncing
- Confirmation on customer contact ability
- Confirmation of address and contact numbers
- Confirming delivery of asset or disbursement amount
- Understanding initial customer service related issues or disputes
- Early warning about probable nonstarters or skips.

Overall it is a proactive and important strategy to reduce defaults, and iron out customer service related issues in the initial phase. It will also facilitate future contractibility through confirmation and capturing of contact details. It is also important that data

collected during the awareness calling is captured in an organized way so as to facilitate its usage subsequently. The same can be captured in the collection Management system.

Awareness Calling Strategy is mentioned below: - (T is presentation date).

Pre EMI		EMI	
Calling	T-2	T-5	T-2
SMS		T-5	T-2 and T0

Also Collections staff to visit on such repeat bouncing cases to know reason of bounce, educating customer about default , bounce , how clearing emi from bank will help customers , what is CIBIL , legal tools used , their advantages and disadvantages for customer .

Collection Follow up through Tele-calling

Tele calling as one of the collection strategy is an important tool for collecting effectively and efficiently in various bucket. The objective of tele-calling primarily is to get a commitment on payment collection in stipulated date and time. This strategy is very important in controlling delinquency in all the products. Normally experience shows that customer pays promptly to the creditors who constantly follow up. The lenient creditors are generally ignored and made to wait. Thus, tele-calling as one of the follow up tool has to be structured, result oriented, focused, well documented in the collection system module.

The purpose is to maintain structured approach and pursue sequentially, but the telecaller should be flexible to adapt according to the customer's mood. Each call is unique in its own way. However, uniqueness and flexibility in the approach is to be maintained within constraints of policies, procedures and systems.

Tele-calling activity will accomplish following objectives:

- Initially the customer needs to be intimated about the EMI bounce. If customer is not available, this information needs to be provided to the family member or the key contact person at the office.
- If the contact ability is not established, correct telephone no. to be ascertained through references mentioned in Application Form , Guarantor's Mobile number etc. If the telephone no's or addresses are changed, the same needs to be updated in the collection system.
- If payment is ready, the same needs to be collected. Here the role of tele-caller is to organize appointment for pickup of EMI.
- If payment is not ready, obtain promise to pay commitments. The PTP (promise to pay) commitments should not be later than 30 days from the date of calling.

- The tele-caller will follow up again with customer on PTP date for payment. The tele-caller should not take more than 2 PTP's for an EMI.
- There could be possibility that tele-caller may not be able to establish contacts with customer. The tele-caller will continue to make attempts to establish contact. If tele-caller fails to establish contact even after four attempts, the case will be referred to field visit.
- Such referral or allocation will be done by collection team depending on the action codes available in the system by tele-caller.
- The tele-caller should update all the action codes after each attempt at tele-calling in the collection system. The collection manager will record tele-calling efforts and the same can be captured from the system through various reports. The various reports available in the collection system gives information regarding collector performance with regard to generation of PTP's, establishing contacts, PTP success rate, pickup established and success rate. The performance review of the tele-caller is on the basis of such reports.

Tele Calling Concepts

The below topic explains some of the concepts which will assist tele-caller in making effective telecalls to the delinquent customers. The tele-calling process can be divided into following:

Steps

- Preparation before making call
- Opening a Call
- Listening
- Problem solving
- Closing the call.

Preparation before making Call

- From the collection sheets, get the details about the customer/ owner of property such as contact no, loan amount, EMI details, Principal Outstanding, Property address , Past track details, bounce EMI details, Bank account details etc. Prior preparation helps in making calls effective and to the point.
- The tele-caller may also refer past action codes on the same customer in the collection sheets to get an idea about customer trait with regard to repayment of loan.

Opening Call

The objective here is to greet the customer pleasantly, introduce yourself and make sure that you are speaking to right person on the other side. Identifying the customer is very important. In fact, financial details of the customer should not be discussed with anyone apart from the customer or close family members.

The purpose of call should also be explained using telecalling script. Script should clearly mention about presentation date / date of maintaining balance. "T-1" - T is date of presentation.

The important point while greeting is to smile so that voice conveys the same across telephone. Establishing conducive terms at this stage with the customer is very important.

Listening

Here the important point is to listen after opening a call and this will help the telecaller to understand reasons for default.

The telecaller should take care to not to interrupt while customer is making a point and try to be patient.

The telecaller should also be responsive and should try to get more details by asking open ended questions such as How/When/Why/What.

Problem Solving

At this stage, telecaller tries to gain control over conversation and try to impress upon the customer that he needs to pay and accordingly obtain commitments from the customer.

- Telecaller may take help of previous action codes in the system to impress upon the customer regarding his past repayment, commitments, failure to honor commitments etc. The telecaller by being factual and using the details on system can improve his/her negotiation skills and improve his/her prospects to obtain commitment from the customer for payment.
- The problem solving can be achieved through proper handling of objections. It is important that misconception, suspicion of the customer needs to be allayed. The misconception may be due to lack of information and due to fact that he might be misled by DSA or by our own colleagues. It is important to educate the customer with necessary information and clear doubts if any. It will be a mistake to assume that customer knows everything about financial details and other terms.
- The customer does not trust and may always be suspicious because of the past customer service issues. The telecaller need to take responsibility for earlier mistakes and apologize and solve immediate problem with care and urgency. This will help to remove suspicions and help the telecaller earn respect of customer.

Closing the Call

The tele-caller needs to close the call positively. Collection calls often are not pleasant. It is important to end the call pleasantly. It is important to be courteous while closing the call. The tele-caller should summarize the entire call and counter check whether the customer has noted down the information given during the call. Some of the phrases which can be used while closing the call:

- Mr. _____ Can we expect payment by X-date of this month?
- Mr. _____ valuable client like you can always contact us on this telephone no for any matter.
- Courteous note at the end could be “Have a Nice day “or it was pleasure talking to you or Thanks for your valuable time.

Tele-calling Do’s and Don’ts

All the customers and other parties concerned deserve to be treated with dignity. One should avoid communications bordering on abuse/rudeness etc. No written or verbal threats, abuse or rudeness is permitted. Only acceptable business language should be used at all times.

The Telecalling agents should always identify themselves and the company they are representing when speaking with the customers.

Customers are entitled to privacy therefore the following to be kept in mind at all times.

- Customer should be preferably contacted between 0900 hrs and 1900 hrs.
- Customer should not be called more often than is reasonable.
- The customer should ordinarily be contacted at his/her residence however if the office address is provided as mailing address, then attempt to contact him/her may be made there.
- Customer requests that calls/visits to place of work be stopped are too honored if he/she provides a suitable alternate place where they may be reached during working hours.
- Customer’s debt/obligation may be discussed with the customer and the customer’s spouse or any other third party (Lawyer / accountant etc) only if permitted by the customer specifically and records of such permission should be available on record.
- Customer request for the complete information to be honored at all times.
- Do not restrict/harass the customer in any way.
- The agents should not mislead the customer on the proposed action and consequences thereof.
- Do not have any discussion of a personal nature with the customer.

- Do not use means that are unfair like for example collect sums in excess or using threat of physical harm, wrong application of payment received in case the customer has multiple debts.
- Where the customer disputes the debt same should be immediately referred to the company for resolution of the dispute/ fraud case.
- Customer debt information cannot be shared with the third parties except as agreed by the customer in the terms and conditions of the loan mentioned in the agreement.

Counselling

The counselling approach during telecalling helps in making customer aware about importance of paying up on time. Idea is to install message in the mind of the customer that paying for loan should be his/her first priority.

Some of the points which can be highlighted are given below:

The benefits of prompt repayment can be highlighted to the customer who could be as under:

- No payment of bounce charges & penal charges. Thus, saving on extra charges.
- No collection calls and follow up activities and hence mental peace
- Higher social status
- Credit rating with other companies also better through prompt repayment, CIBIL updation and hence good credit history. This can be leveraged in future by the customer to negotiate better interest rates.

By highlighting the above points, the customer will see merits and demerits of maintaining proper repayment track.

Dunning Notice

Dunning is an effective collection follow up tool. Dunning is a written communication to remind customer to pay overdue EMI. The written communication should be polite, to the point and firm and should impress upon the customer to fulfill his obligations to repay the loan on timely basis.

The impact of written communication is quite effective at times as compared to verbal communication. At latter stage, such written correspondence could be useful for legal cases. The collection system has facility of generating dunning letter and same should be used.

The key points pertaining to this strategy is given below:

- To be done after receipt of second bounce (1-30 DPD) . Preferably it should be done after PTP is broken or a tele calling attempt of customer fails to establish any contacts.

- There is a possibility that Dunning Notices may return. Such notices without opening the envelopes should be filed by the collectors at Branch with Branch Manager for easy retrieval at the time of filing legal cases at subsequent stage.
- These Dunning Notices could be sent by company appointed lawyers or by in house collection employee . The collection system has facility of generating SMS, email, letters and these features should be used to create firm pressure on the customers for paying up the overdue EMI.

XII. NHB GUIDELINES FOR ENGAGING RECOVERY AGENTS

In view of the rise in the number of adverse reports about questionable practices resorted to by recovery agents in the recent past, it is felt that there is an urgent need to review the policy, practice and procedures being followed in the use of recovery agents by Housing

Finance Companies (HFCs). Accordingly, NHB has decided to issue the following guidelines for adoption by all HFCs. HFCs, as principals, are responsible for the actions of their agents. Hence, they should ensure that their agents engaged for recovery of their dues should strictly adhere to these guidelines and instructions, including the Fair Practices Code for HFCs, while engaged in the process of recovery of dues.

‘Agent’ for the purpose of these guidelines would include agencies engaged by the HFCs and the agents/ employees of the concerned agencies. It is expected that HFCs would, in the normal course ensure that their own employees also adhere to the above guidelines during the loan recovery process.

ENGAGEMENT OF RECOVERY AGENTS

HFCs should have a due diligence process in place for engagement of recovery agents, which should be so structured to cover, among others, individuals involved in the recovery process. HFCs should also ensure that the agents engaged by them in the recovery process carry out verification of the antecedents of their employees, which may include preemployment police verification, as a matter of abundant caution and HFCs may decide the periodicity at which re-verification of antecedents should be resorted to.

TRAINING OF RECOVERY AGENTS

- HFCs should ensure that, among others, the recovery agents are properly trained to handle with care and sensitivity, their responsibilities, in particular aspects like hours of calling, privacy of customer information, etc.
- In this context, the Reserve Bank of India has requested the Indian Banks’ Association to formulate, in consultation with Indian Institute of Banking and Finance (IIBF), a certificate course for Direct Recovery Agents with minimum 100 hours of training. Once the above course is introduced by IIBF, HFCs should ensure that over a period of one year all their Recovery Agents undergo the above training

and obtain the certificate from the above institute. Further, the service providers engaged by HFCs should also employ only such personnel who have undergone the above training and obtained the certificate from the IIBF.

- iii. Keeping in view the fact that a large number of agents throughout the country may have to be trained, other institutes / HFC's own training colleges may provide the training to the recovery agents duly ensuring that there is uniformity in the standards of training.

However, every agent will have to pass the examination conducted by IIBF all over India.

INTIMATING BORROWERS ABOUT RECOVERY AGENTS

- i. To ensure due notice and appropriate authorization, HFCs should inform the borrower the details of recovery agency firms / companies while forwarding default cases to the recovery agency.
- ii. Further, in some of the cases, the borrower might not have received the details about the recovery agency due to refusal / non-availability / avoidance. To ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the HFC along with the identity card issued to him by the HFC or the agency firm / company. Where the recovery agency is changed by the HFC during the recovery process, in addition to the HFC notifying the borrower of the change, the new agent should carry the notice and the authorization letter along with his identity card.
- iii. The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. HFCs should ensure that there is a tape recording of the content / text of the calls made by recovery agents to the customers, and vice-versa. HFCs may take reasonable precaution such as intimating the customer that the conversation is being recorded, etc.
- iv. Up to date details of the recovery agency firms /companies engaged by HFCs may also be posted on the HFC's website.

INCENTIVES TO RECOVERY AGENTS

Stiff targets or high incentives may induce recovery agents to use intimidator and questionable methods for recovery of dues. HFCs are, therefore, advised to ensure that the contracts with the recovery agents do not induce adoption of uncivilised, unlawful and questionable behaviour or recovery process.

METHODS FOLLOWED BY RECOVERY AGENTS

A reference is invited to Paragraph 6 of Circular No. NHB (ND)/DRS/POL-No16/2006 dated September 5, 2006 regarding Guidelines on Fair Practices Code for HFCs. In terms of these guidelines, all the members of the staff or any person authorised to represent the HFC in collection or/and security repossession should follow the guidelines set out, such as:

Customer would be contacted ordinarily at the place of his / her choice and in the absence of any specified place at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation.

- a) Identity and authority to represent the HFC should be made known to the customer at the first instance.
- b) Customer's privacy should be respected.
- c) Interaction with the customer shall be in a civil manner
- d) HFCs' representatives shall contact customers between 0700 hours and 1900 hours, unless the special circumstances of the customer's business or occupation require otherwise.
- e) Customer's request to avoid calls at a particular time or at a particular place shall be honoured as far as possible.
- f) The time and number of calls and contents of conversation should be documented.
- g) All assistance should be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- h) During visits to customer's place for dues collection, decency and decorum should be maintained.
- i) Inappropriate occasions such as bereavement in the family or such other calamitous occasions should be avoided for making calls /visits to collect dues.

XIII. TAKING POSSESSION OF PROPERTY MORTGAGED TO HFCS

- i. It has been observed by the Hon'ble Supreme Court that we are governed by rule of law in the country and the recovery of loans or seizure of assets could be done only through legal means. It is emphasised in this context that HFCs may rely only on legal remedies available under the relevant statutes while enforcing security interest without intervention of the Courts. In this context, it may be mentioned that the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Security Interest (Enforcement) Rules, 2002 framed thereunder have laid down well defined procedures not only for enforcing security interest but also for auctioning the movable and immovable property after enforcing the security interest.
- ii. Where HFCs have incorporated a re-possession clause in the contract with the borrower and rely on such re-possession clause for enforcing their rights, they should ensure that the re-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such repossession clause is clearly brought to the notice of the borrower at the time of execution of the contract. The terms and conditions of the contract should be strictly in terms of the disclosed Recovery Policy and should contain provisions regarding (a) notice period before taking possession (b) circumstances under which the notice period can be waived (c) the procedure for taking possession of the security (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property (e) the procedure for giving repossession to the borrower and (f) the procedure for sale/auction of the property.

USE OF FORUM OF LOK ADALATS

The Honourable Supreme Court has also observed, inter alia, that loans, personal loans, credit card loans and housing loans with less than Rs.10 lakhs can be referred to Lok Adalats. HFCs are encouraged to use the forum of Lok Adalats for recovery of housing loans with less than Rs.10 lakh as suggested by the Honourable Supreme Court.

UTILISATION OF CREDIT COUNSELLORS

HFCs should have in place an appropriate mechanism to utilise the services of credit counsellors for providing suitable counselling to the borrowers where they become aware that the case of a particular borrower deserves sympathetic consideration.

COMPLAINTS AGAINST THE HFC / ITS RECOVERY AGENTS

- i. Complaints received by NHB regarding violation of the above guidelines and adoption of abusive practices followed by recovery agents of HFCs would be viewed seriously. Supervisory action could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any HFC or its Directors/ Officers/ agents with regard to policy, practice and procedure related to the recovery process.
- ii. Where a grievance/complaint has been lodged, HFCs should not forward cases to recovery agencies till they have finally disposed of any grievance/complaint lodged by the concerned borrower. However, where the HFC is convinced, with appropriate proof, that the borrower is continuously making frivolous / vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance/complaint is pending with them. In cases where the subject matter of the borrower's dues might be sub-judice, HFCs should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.
- iii. Each HFC should have a mechanism whereby the borrowers' grievances with regard to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at the item mentioned above.

XIV. PERIODICAL REVIEW, MONITORING AND CONTROL

HFCs engaging recovery agents are advised to undertake a periodical review of the Mechanism to learn from experience, to effect improvements, and to bring to the notice of the NHB suggestions for improvement in the guidelines.

XV. GENERAL

1. HFCs should, at least on an annual basis, review the financial and operational condition of the service providers to assess their ability to continue to meet their outsourcing obligations. Such due diligence reviews, which can be based on all

available information about the service provider should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

2. HFCs should have in place a management structure to monitor and control its outsourcing activities. It should ensure that outsourcing agreements with the service providers contain provisions to address their monitoring and control of outsourced activities.
3. Regular audits by either the internal auditors or external auditors of the HFC should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the HFC's compliance with its risk management framework and the requirements of these guidelines.
4. In the event of termination of the agreement for any reason, this should be publicized so as to ensure that the customers do not continue to deal with that service provider.
5. HFCs should constitute a Grievance Redressal Machinery within the company and give wide publicity about it through electronic and print media. The name and contact number of designated grievance redressal officer of the HFC should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly without involving delay. It should be clearly indicated that HFC's Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.
6. Generally, a time limit of 30 days may be given to the customers for preferring their complaints / grievances. The grievance redressal procedure of the HFC and the time frame fixed for responding to the complaints should be placed on the HFC's website.