

INDIA HOME LOANS LTD

RECOVERY POLICY

1. INTRODUCTION

Management of non-performing assets (NPAs) and recovery of impaired loan assets has got significance and importance as it has a direct impact on the company's income/ profitability. National Housing Bank (NHB) has advised that a housing finance company (HFC) should formulate its own policy on the recovery of its loans. Such a policy would enable HFC to take suitable steps for monitoring asset quality, taking timely action to prevent deterioration in asset quality, arresting the trend of NPAs and help in the recovery of its loans including the impaired ones. As advised by NHB, the recovery policy is required to be in consonance with the directions and/or guidelines issued by NHB from time to time. In view of the guidelines and the directions issued by NHB in this regard, the Recovery Policy of India Home Loans Ltd (IHLL) is amended to read as under.

2. OBJECTIVES

- i. To set procedure for NPA management and reporting thereof.
- ii. To set procedures for compromise / settlements.
- iii. To minimize the provisioning in respect of NPA advances and to arrest the rising trend of NPAs.

3. DEFINITIONS

Sub-Standard: Sub-Standard asset means (i) an asset, which has been classified as non-performing asset for a period not exceeding twelve months;

(ii) an asset, where the terms of the agreement regarding interest and/or principal have been re-negotiated or rescheduled after release of any installment of loan or an inter-corporate deposit which has been rolled over, until the expiry of one year of satisfactory performance under the re-negotiated or rescheduled terms:

Provided that where a delay in completion of a project is caused on account of factors beyond the control of the project implementing agency, terms of the loan agreement regarding interest and/or principal may be rescheduled once before the completion of the project and such loans may be treated as standard asset, subject to the condition that such reschedulement shall be permitted only once by the Board of Directors of IHLL and that interest on such loan is paid regularly and there is no default;

Provided further that where natural calamities impair the repaying capacity of a borrower, terms of the loan agreement regarding interest and/or principal may be rescheduled and such loans shall not be classified as sub-standard; the classification of such loans would thereafter be governed by the revised terms and conditions.

Any advance account downgraded from Standard category to Sub-standard category has adverse effects on the company's profitability as it has the effects, namely; i) stoppage of interest application and ii) requirement of provisioning. Therefore, IHLL would endeavor to upgrade the sub-standard assets to standard category.

Doubtful Assets: Doubtful asset means a term loan or a leased asset or a hire purchase asset or any other asset, which remains a substandard asset for a period exceeding twelve months.

Therefore, NPAs after completion of 12 months in sub standard category will slip to doubtful category. To check slippage of NPA advance from Sub-standard asset to doubtful asset will be the endeavor of IHLL. According to the prudential norms as specified by NHB, provisioning requirement for doubtful assets is stricter than the requirements in respect of substandard assets. Assets slipped to doubtful category are a strain on company's profitability for reasons amongst others, as under;

- a. 100% provision to the extent to which the advance is not covered by the realizable value of the security to which IHLL has a valid recourse shall be made. The realizable value is to be estimated on a realistic basis.
- b. In addition to item (a) above, depending upon the period for which the asset remained doubtful;, provision to the extent of 20% to 50% of the secured portion shall be made on the following basis:
 - 20% in the case of an asset lying doubtful for a period up to one year,
 - 30% in the case of an asset lying doubtful for a period from one year to three years and
 - 50% in the case of an asset lying doubtful for a period more than three years.

Loss Assets: Loss asset means (i) an asset which has been identified as loss asset by HFC or its internal or external auditor or by NHB, to the extent it is not written off by IHLL; and

(ii) an asset which is adversely affected by a potential threat of non recoverability due to any one of the following, namely:

- (a) Non-availability of security, either primary or collateral, in case of secured loans and advances;
- (b) Erosion in value of security, either primary or collateral, established;
- (c) Insurance claim, if any, has been denied or settled in part;
- (d) Fraudulent act or omission on the part of the borrower;
- (e) The debt becoming time barred under Limitation Act, 1963 and inchoate or defective documentation.

It may clarified that mere right of IHLL to file a suit against the borrower and/or guarantor for recovery of dues does not debar NHB or the auditors to consider the asset or part thereof as loss asset due to aforesaid reasons. Loss assets would attract 100% provisioning. Any recovery from such loss assets would help IHLL to improve its profitability.

4. FOLLOW UP OF IRREGULAR / OVERDUE / NPA ADVANCES

Generally irregular payments and/or default on the payment of installments and/or interest would turn the loans and advances into NPAs, if timely adequate care is not taken for their recovery/regularization. Interest on such NPAs should not be recognized by IHLL. This would affect the profitability of IHLL adversely. As such, IHLL, as a policy, will always make an endeavor to contain the number of NPAs and with a view to arrest the trend of the accounts turning NPAs, IHLL prescribes the following steps to be initiated by its recovery personnel.

- i. In respect of a housing loan, if any monthly installment remains unpaid, the borrower will be personally contacted and/or a notice demanding the due installment(s) will be issued simultaneously.

- ii. If after taking the step mentioned at (i) above, the account is not regularized/renewed and it has turned into NPA, documents of such a loan should be thoroughly examined and discrepancies found if any, should be got rectified. Acknowledgement of debt wherever necessary should be obtained from the borrower(s) and the guarantor.
- iii. The borrower and the guarantor be constantly followed up for recovery/ regularization of the account and in case no desired response is received, a legal notice through an advocate borne on the panel of IHLL should be issued to the borrower(s) and the guarantor within six months from the date of identification of the account as NPA with prior approval of the Board of Directors.
- iv. Considering the genuine difficulties of the borrower, on his request, an NPA account may be rescheduled and/or restructured with the approval of the proper competent authority of IHLL.
- v. While classifying such a rescheduled / restructured account, IHLL will comply with the guidelines of NHB issued from time to time in this regard.
- vi. In case a borrower is ready and willing to pay the entire outstanding amount of the loan in one lump sum, his request may be considered sympathetically and if the payment is made from out of his own resources, i. e., not from the borrowed fund, the penal interest applicable for late payment may be waived. Such a proposal should be approved by the Board of Directors of IHLL.
- vii. It should be ensured that a statement showing the position of NPAs for each year ending on the 31st March should be prepared and placed before the Board of Directors of IHLL. The statement should be thoroughly scrutinized and based on the statement, targets for recovery of NPAs during the following year, will be fixed in consultation with Board of Directors.

5. CONTROL OVER IRREGULAR ADVANCES

In respect of the loans with irregular payments, the following actions will be initiated;

- i. A housing loan in respect of which monthly installments have remained unpaid, such an account will be classified as irregular account.
- ii. All the accounts which have been classified as irregular will be reported to the Board of Directors in a statement. Reasons for default in payment of monthly dues would be indicated in the statement. The status/position as regards the post dated cheques in respect of the loan may also be stated in the statement showing therein the action taken, if any, in respect of the cheques that are returned unpaid by the bank with whom it was deposited for collection.
- iii. Besides, all the loans and advances will be suitably classified into four categories as per the norms prescribed by NHB namely; a) Standard, b) Sub-standard, c) Doubtful assets and d) Loss Assets. The classification made by IHLL should be verified by the Internal Auditors and/or the Statutory Auditors of IHLL.
- iv. The position of recovery in respect of the NPA accounts will be reviewed on monthly basis and placed before the Audit Committee in its periodical meetings.
- v. The position of NPA accounts along with a statement showing details of the recovery effected if any, and the provision made for the NPAs will also be placed before the Board of Directors of IHLL on quarterly basis.
- vi. Recoveries made in respect of doubtful and loss assets are first appropriated towards principal.

6. COLLECTION OF DUES AND SECURITY REPOSSESSION POLICY

The debt collection mechanism of IHLL is built around dignity and respect to customers in consonance with NHB's guidelines relating to Fair Practices Code (FPC). IHLL will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment and persuasion. The Company believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long term relationship with the borrower. The repayment schedule for any loan sanctioned by IHLL will be fixed taking into account paying capacity and cash flow pattern of the borrower. IHLL will explain to the customer upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment will be appropriated against interest and principal due from the customers. IHLL would expect the customers to adhere to the repayment schedule agreed to and approach IHLL for assistance and guidance in case of genuine difficulty in meeting repayment obligations. The Security Repossession Policy of IHLL aims at recovery of dues in the event of defaults and is not aimed at whimsical deprivation of the property. The policy recognized fairness and transparency in repossession, valuation and realization of security. All the practices adopted by IHLL for follow up and recovery of dues and repossession of security will be inconsonance with law.

7. GENERAL GUIDELINES

All the members of the staff or any person authorized to represent IHLL in collection and/or security repossession would follow the guidelines set out below:

Collection of Dues:

At the time of disbursement of loan the customer will be explained the repayment process including amount, tenure and periodicity of repayment detailed in the repayment schedule. If the customer does not adhere to repayment schedule, a defined process in accordance with the laws of the land shall be followed for recovery of dues. The process will involve reminding the customer by sending him/her notice or by making personal visits and/or repossession of security if any. IHLL's collection policy has been built on courtesy, fair treatment and persuasion, fostering customer confidence and long-term relationship. IHLL's representative or any person authorized to represent IHLL in collection of dues and/or security repossession shall identify himself/herself and display the authority letter so issued. They will provide customers with all the information regarding dues and endeavor to give sufficient notice for payment of dues. In the process of collection of dues, IHLL and/or its authorized Agents shall:

- Respect customer's privacy.
- Display and inform the customer of his/her identity and authority to represent IHLL in the first instant.
- Remind the customer by sending him/her notice or by making personal visits.
- Provide customers with all the information regarding dues and shall endeavor to give sufficient notice to payment of dues.
- Use legal means to repossess the Asset- Both immovable and movable property.
- IHLL and /or its authorized representatives shall not use abusive language and/or force while undertaking collection/repossession activity.
- Not speak to anyone else except the customer for recovering the outstanding dues.
- Not contact or speak to anyone except the customer for collection of outstanding dues.
- Always be polite to all the customers.
- Customer's request to avoid calls at a particular time or at a particular place shall be honored as far as possible.
- Contact the customer ordinarily at the place of his /her residence and if unavailable at his/her residence, at the place of business/occupation between 0700 hrs and 1900 hrs,

unless the special circumstances of the customer's business or occupation require otherwise.

- Document time and number of calls and contents of conversation.
- Provide all assistance to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- Maintain decency and decorum during visits to customers' places.
- Not visit on inappropriate occasions such as bereavement in the family or such other calamitous occasions to collect dues.

Giving Notice to borrowers:

While written communications, telephonic reminders or visits by the representatives of IHLL to the borrowers' place or residence will be used as loan follow up measures, IHLL will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. IHLL will follow all such procedures as required under law for recovery/repossession of security.

Repossession of Security:

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Repossession will be done only after issuing the notice as detailed above. Due process of law will be followed while taking repossession of the property. IHLL will take all reasonable care for ensuring the safety and security of the property after taking custody, in the course of the business.

Valuation and Sale of Property:

Valuation and sale of property repossessed by IHLL will be carried out as per law and in a fair and transparent manner. IHLL will have right to recover from the borrower the balance due if any, after sale of property. Excess amount if any, obtained on sale of property will be returned to the borrower after meeting all the related expenses provided IHLL is not having any other claims against the customer.

Opportunity for the borrower to take back the security:

As indicated earlier in the policy document, IHLL will resort to repossession of security only for the purpose of realization of its dues as the last resort and not with intention of depriving the borrower of the property. Accordingly IHLL will be willing to consider handing over possession of property to the borrower any time after repossession and before concluding sale transaction of the property, provided the dues of IHLL are cleared in full. If satisfied with the genuineness of borrower's inability to pay the loan installments as per the schedule which resulted in the repossession of security, IHLL may consider handing over the property after receiving the installments in arrears. However, this would be subject to IHLL being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in future. The extract of this "Collection of dues & security repossession Policy" will be given to the customer on demand.

Norms in respect of filing of suits:

Considering the long drawn process in the litigation and difficulties in executing the decrees, action for filing suit will be taken as the last resort. Following norms be observed before filing of a suit.

- i. After making all the efforts such as personal contacts and demand notice made if IHLL comes to the conclusion that there is no alternative but to file a suit for recovery, a suit will be filed.
- ii. Before filing of a suit it should be ensured that the loan documents are complete in all respects and that the suit is well within the limitation period. The position of documents will be got examined form the approved advocate of IHLL.
- iii. Before filing of the suit final notice through the advocate of IHLL will be issued.
- iv. Any earnest money and/or security deposit obtained from the borrower may be got appropriated towards the outstanding before filing of the suit.
- v. Any other assets such as shares, insurance policies assigned and/or kept in the custody of IHLL may be disposed of and the sale proceeds be appropriated towards the outstanding in the account and the suit be filed for recovery of the residual amount.
- vi. Suit will be filed only through an advocate borne on the panel of IHLL.
- vii. Before filing of the suit, information regarding movable/immovable assets of the borrower and the guarantor will be ascertained and steps will be taken for attachment of these properties before judgment.
- viii. In areas where "Lok Adalats" are working, IHLL may approach such Lok Adalats for speedy disposal of the cases. However, in case if the suit is to be compromised in the Lok Adalat, the compromise terms be got approved from the Board of Directors.
- ix. Delegation of powers: With a view to accelerating the recovery process by way of filing suits, the Chairman and Managing Director and the Board of Directors are vested with powers for filing suits as under.

1.	Chairman and Managing Directors	:	Outstanding with interest up to Rs.10.00 lakhs.
2.	Board of Directors	:	Above Rs.10.00 lakhs.

8. Norms in respect of writing off of balances in the borrowal accounts:

IHLL will follow the principles indicated below for writing off its Doubtful assets and/or Loss assets;

- i. The accounts and balances which are to be written off must have been classified as Loss Assets or Doubtful assets above three years.
- ii. Balances in the account are written off only after obtaining report about non possibility of recovery in the account.
- iii. On the basis of the report received balance in the accounts having balance up to Rs.25, 000/- be recommended to the Board for write off. However, such reports be thoroughly scrutinized before recommending for write off.
- iv. In respect of accounts where balance exceeds Rs.25, 000/- decision regarding write off be taken by Recovery Committee of the Board and the committee may recommend the writing off to the Board.
- v. The exercise of writing off of the balance be carried out in consultation with the Accounts & Operations Department and the aggregate amount to be written off be finalized with the approval of the Accounts & Operations Department.
- vi. Efforts for recovery are continued even after the balance in the account is written off. In case of a suit filed account where the balance has been written off, suit

- proceedings/execution proceedings be continued. The court cost and other incidental charges for such recovery are debited to Profit & Loss Account.
- vii. Accounting in respect of write off is done at Main Office.

9. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act

IHLL has decided to approach the Government of India, Ministry of Finance, Banking Division, New Delhi for being notified as one of the financial institutions for the purposes of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

- i. In terms of the provisions of the above referred Act, once IHLL is notified as one of the financial institutions, after giving notices to the borrower, it will be entitled to take possession of the security interest in respect of the account with outstanding dues of more than Rs.1 lakh, which has been classified as NPA. Therefore, all NPA accounts having outstanding balance of Rs.1.00 lakh and above will be reviewed from time to time and steps be taken as per the provisions of the Act.
- ii. For the purposes, among others, speedy recovery under the said Act, a notified financial institution is required to appoint an authorized officer of the rank of Scale IV and above. In view of this IHLL will appoint an officer of the Grade of Scale IV & above as an authorized officer.
- iii. For effecting recovery under the said Act, the authorized officer of IHLL will follow the procedures prescribed under the Act with due regard to the Fair Practices Code issued by NHB.

10. Compromise / Settlements

While considering a case for compromise and/or settlement, IHLL will take into account of the following;

- i. A compromise/settlement will be made only if the account has been classified as doubtful or loss assets. However, if there are any genuine reasons, compromise/settlement may be considered in the case of a sub-standard account also.
- ii. While considering for a compromise in respect of an account, IHLL will sacrifice only the amount representing interest on the loan and no remission will be granted in the principal amount. However, in an exceptional deserving case, remission in principal amount may be considered with prior approval of the Board of Directors of IHLL.
- iii. Before entering into any compromise /settlement, details of the assets of the borrower and the guarantor will be considered and the remission if found proper, may be granted.
- iv. While considering a settlement proposal, it would be ensured that the interest earned in the respective account is not less than the cost of the fund.
- v. The compromise and settlement helps in speedy recovery. With a view to accelerating the recovery process by way of compromise/settlement, the Chairman and Managing Director and the Board of Directors of IHLL are vested with powers for settlement, remission etc. as shown hereunder;

1.	Chairman & Managing Directors :	Up to Rs.10,00,000/- (including principal & interest/penal interest).
2.	Board of Directors :	Above Rs.10,00,000/- (including principal & interest/penal interest).

In case the terms of a compromise are proposed to be approved and/or passed by a Court as a compromise decree, the compromise terms will be finalized at the appropriate level and thereafter, the terms of settlement will be placed before the Court where the suit claim is filed and pending for disposal.

Certified to be True

Mahesh Pujara
CMD & Managing Director