



## FAIR PRACTICES CODE FOR LENDING

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## Fair Practices Code for Lending

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## FAIR PRACTICES CODE FOR LENDING

### I. Introduction

KLM Axiva Finance Limited (the Company) is committed to adopt and implement fair practices in its business operations with total commitment to the ethics of business. All the officials of the Company, including the officials working in the Corporate Office and all other offices and branches across geographies shall be duty bound to conduct business operations in strict conformity with the Fair Practices Code adopted by the Board of Directors.

### II. Objectives of Fair Practices Code for Lending

- Adopting best practices followed by other entities engaged in similar financial and service sector while dealing with stake holders.
- Keeping customers informed of practices followed by the company in respect of services and financial facilities offered to its customers.
- Following fair, transparent and legally tenable practices by setting standards while dealing with customers.
- Ensuring customers have better understanding about the services offered by the company.
- Establishing and continuing fair and cordial relationship with the customers of the company.

Fair Practices Code covers different stages of lending, such as loan application, appraisal and processing, sanction and disbursal, collections and recovery, closure of loans in full and final settlement, return of documents to the borrower, etc.

### III. Fair practices while receiving applications for loans and processing of loan applications

- a) All communication to the borrower shall be in the vernacular language or a language as understood by the borrower.
- b) Loan application forms shall 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 an informed decision can be taken by the borrower. The loan application form shall indicate the documents required to be submitted with the application form.

- c) If any additional documents / information is required from the customer it shall be communicated to the customer immediately and in one stretch.
- d) In the case of loans other than gold loans, an acknowledgement for receipt shall be given to the applicant indicating the time frame within which loan application shall be disposed.
- e) If the company cannot provide the loan to the customer, it shall be communicated to the customer. In case customer demands in writing the reason for rejection, it shall be provided in writing.

#### IV. Fair practices during loan appraisal, sanction and disbursal

- Key fact statement - Loan appraisal and terms / conditions applicable shall be conveyed in writing to the borrower in the vernacular language understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.
- The company shall furnish a copy of the loan agreement in a language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.
- The company shall mention the penal charges, if any, that would be charged for late payment in the loan agreement.

a) Penal charges in loan accounts

- RBI in their Circular of Aug, 18, 2023 on “Fair Lending Practice” have reviewed the practice of charging Penal Interest and have issued the following instructions for adoption with effect from 01.01.2024.
- Penalty charged for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as “Penal Charges” and shall not be levied in the form of “penal interest” 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 shall be computed on such charges. However, this shall not affect the normal procedures for compounding of interest in the loan.
- There shall be no additional component to the rate of interest.
- The quantum of penal charges shall be reasonable and commensurate with non-compliance of material terms and conditions of loan account without being discriminatory within a particular loan / product category.

- The quantum and reasons for penal charges shall be clearly disclosed to the customer in the loan agreement and most important terms and conditions, Key Facts.
- Statement as applicable, in addition to being displayed in the Website under Interest Rates and Service Charges.
- The penal charges in case of loans sanctioned to “individual borrowers for purposes other than business” shall not be higher than the penal charges to non-individual borrowers for similar non-compliance of material terms and conditions.
- Reminders sent for non-compliance of material terms and conditions of loan, shall disclose the applicable penal charges.
- Communication for levy of penal charges shall disclose reasons for the same.

b) Disbursement of loans and changes in terms and conditions

- The company shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. The company shall also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard shall be incorporated in the loan agreement.
- Decision to recall / accelerate payment or performance under the agreement shall be in consonance with the loan agreement.
- The company shall release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim they 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 company is entitled to retain the securities till the relevant claim is settled / paid.

c) Release of movable / immovable property documents on repayment / settlement of personal loans

- Company shall release all 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.
- The borrower shall be given the option of collecting the original movable / immovable property documents either from the branch where the loan account was serviced or any other office of the NBFC where the documents are available, as per her / his preference.
- The timeline and place of return of original movable / immovable property documents shall be mentioned in the loan sanction letters issued.
- In order to address the contingent event of demise of the sole borrower or joint borrowers, company shall have a well laid out procedure for return of original movable / immovable property documents to the legal heirs. Such procedure shall be displayed on the website of the company along with other policies and procedures for customer information.

- Compensation for delay in release of movable / immovable property documents- 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, company shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the company, it shall compensate the borrower at the rate of Rs. 5000 for each day of delay.
- In case of loss / damage to original movable / immovable property documents, either in part or in full, company shall assist the borrower in obtaining duplicate / certified copies of movable / immovable property documents and shall bear the associated costs, in addition to paying compensation at the rate of Rs. 5000 for each day of delay. However, in such cases, an additional time of 30 days shall be available for the company to complete this procedure and the delayed period shall be calculated thereafter (i.e. after a total period of 60 days).
- The compensation provided above shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

d) Reset of floating interest rates

- At the time of sanction, company shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and / or tenor or both. Subsequently, any increase in EMI / tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
- At the time of reset of interest rates, company shall provide the option to the borrowers to switch over to a fixed rate as per policy. The policy, inter alia, shall also specify the number of times a borrower shall be allowed to switch during tenor of the loan.
- The borrower shall be given the choice to opt for (a) Enhancement in EMI or elongation of tenor or for a combination of both options; and, (b) To prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges / pre-payment penalty shall be subject to extant instructions.
- All applicable charges for switching of loans from floating to fixed rate and any other service charges / administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of charges / costs by the company from time to time.
- Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortization.
- Company shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. Company shall ensure that the statements are simple and easily understood by the borrower.
- Apart from EMI based loans, these instructions would also apply, mutatis mutandis, to all EMI based loans of different periodicities.

e) General terms

- The company 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 information, not earlier disclosed by the borrower, has been noticed).
- In case of receipt of request from the borrower for transfer of borrower account, the consent or otherwise i.e., objection of the company if any, shall 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.
- In the matter of recovery of loans, the company shall not resort to undue harassment viz., persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. If the complaints from customers include rude behavior from the staff of the company, the company should ensure that the staffs are adequately trained to deal with the customers in an appropriate manner.
- As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers, Company shall not charge foreclosure charges / pre-payment penalties on any floating rate term loan sanctioned for purposes other than business to individual borrowers, with or without co-obligants.

V. Grievances Redressal Mechanism

- a) The Company shall lay down the appropriate grievance redressal mechanism within the organization. Grievance Redressal Mechanism shall 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.
- b) The Company shall conduct 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 shall be submitted to the Board of Directors, at regular intervals.
- c) Complaints against the company shall be heard and disposed of by the Branch Manager (BM) concerned. If the customer is not satisfied with the decision of the BM, the customer shall have the option to escalate the grievance to the Regional Manager (RM) concerned. If the customer is not satisfied with the RMs

decision, matter can be further escalated to Grievances Redressal Cell at Company's Corporate Office at Edappally, Kochi.

- d) The Grievances Redressal Cell shall be headed by a senior official in the Corporate Office, designated by the Chief Executive Officer (CEO), as Customer Grievances Redressal Officer of the Company.
- e) Presently, the following officials shall be the Grievances Redressal Officials at Corporate Office.

**Mr. Praveen Kumar**

Nodal Officer  
KLM AXIVA Finvest Ltd,  
KLM Grand Estate, Bypass Road,  
Edappally, Kochi PIN: 682024  
Tel: 0484-4281156  
Email Id: [praveen.kumar@klmaxiva.com](mailto:praveen.kumar@klmaxiva.com)

**Mrs. Minni Sajan**

Principal Nodal Officer,  
KLM Axiva Finvest Limited,  
KLM Grand Estate, Bypass Road,  
Edappally P.O., Erakulam, Kerala – 682024  
Tel: 0484 428 1116  
Email Id: pno@klmaxiva.com

- f) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Ombudsman under the Reserve Bank Integrated Ombudsman Scheme, 2021 not later than one year from date of receipt of response.  
The complaint may be lodged online through the portal designed for the purpose (<https://cms.rbi.org.in>).  
The complaint may also escalate to the Ombudsman, Reserve Bank of India, Bakery Junction, P.B. No. 6507, Thiruvananthapuram - 695 033.

**VI. Disclosure of interest rates and charges**

- a) The Board of the company shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine

the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradation of risk and rational for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

- b) The rate of interest and the approach for gradations of risks and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter, website of the company or published in relevant newspapers.
- c) The information published in the website or newspaper publication shall be updated whenever there is a change in the rates of interest.
- d) The rate of interest must be annualized rate so that the borrower is aware of the exact rates that would be charged to the account.

## VII. Gold loans – additions to fair practices

The Company shall adopt the following fair practices, in addition to the general fair practices, while lending against gold ornaments. The Company shall put in place Board approved policy for lending against gold which shall inter alia, cover the following:

- a) Adequate steps to ensure that the KYC guidelines stipulated by the RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan.
- b) Proper assaying procedure for the jewelry received.
- c) Internal systems to satisfy ownership of the gold jewelry.
- d) Adequate systems for storing the jewelry in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans shall not be extended by branches that do not have appropriate facility for storage of the jewelry,
- e) The jewelry accepted as collateral shall be appropriately insured.
- f) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities.

- g) The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper.
- h) The Company, its representatives or employees shall not participate in the auctions held.
- i) Gold pledged shall be auctioned only through auctioneers approved by the Board and / or as per the Auction Policy.
- j) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.
- k) The loan agreement shall also disclose details regarding auction procedure.
- l) Financing against the collateral of Gold must insist on a copy of the PAN Card of the borrower for all transaction above ₹5 lakh.
- m) Documentation across all branches shall be standardized.

#### VIII. Loans to physically / visually challenged – fair practices

Company shall not discriminate in extending products and facilities including loan facilities to physically / visually challenged applicants on grounds of disability. All Branches shall render all possible assistance to such persons for availing of the various business facilities. Company shall include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programs conducted for employees at all levels. Company shall ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up.

#### IX. Fair practices for collection and recovery of loans

- a) Important stipulations with regard to “Guidelines related to recovery of loans” specifically applicable to Microfinance, as covered in Circular No. RBI/DOR/2021-22/89 DoR/FIN/REC.95/03.10.038/2021-22 dt 14.03.22 Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 shall be followed in letter and spirit.
- b) The following guidelines shall be applicable to all recovery proceedings. Field level functionaries shall follow the guidelines and ensure that no coercive measures are adopted for recovery of dues. Any lapse on this account shall be dealt with firmly. Field and Corporate Office Officials shall monitor recovery actions and ensure that there is no violation of the Fair Practices Code.
- c) The Recovery Officials/other Officials shall not:
  - 1) Use threatening or abusive language.

- 2) Persistently call the borrower and / or call the borrower before 9 am and after 6 pm.
- 3) Visit the house of the borrower for recovery during odd hours.
- 4) Harass relatives, friends, or co-workers of the borrower.
- 5) Publish the name of borrowers.
- 6) Use or threaten use of violence or other similar means to harm the borrower or borrower's family / assets / reputation.
- 7) Mislead the borrower about the extent of the debt or the consequences of non-repayment.
- 8) Recovery shall be made at a designated / central designated place decided mutually by the borrower and the company. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated / central designated place on two or more successive occasions.
- 9) Visit the house of the borrower for recovery on the occasions of family celebrations or bereavement in the family.
- 10) Disclose the details of borrowings to neighbors or relatives of the borrowers, other than family members.

#### **X. Review and custody of the Fair Practices Code for Lending**

The Fair Practices Code shall be reviewed and modified as found necessary, by taking into account the changes in the nature business and business geographies, best practices, regulatory instructions and directions of the Board. Risk Management Department shall be the custodian of the Fair Practices Code.

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