



## FAIR PRACTICE CODE

Version	4.0
Owned By	Head – Operations
Approved By	Board of Directors
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## 1. INTRODUCTION

The Reserve Bank of India ("RBI") has issued Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 which includes Fair Practices Code for Non-Banking Financial Companies ("NBFCs") thereby setting standards for fair business and corporate practices to be adopted by NBFCs while dealing with their customers. In compliance with the master direction issued by RBI, Capital India Finance Limited, ("Company") has formulated this Fair Practice Code ("Code") setting out fair practice standards to be followed by the Company while dealing with its customers ("Customers").

## 2. PURPOSE

- a) To promote good and fair practices by setting minimum standards in dealing with the Customers;
- b) To increase transparency so that the Customers can have a better understanding of what they can reasonably expect of the services provided by the Company and take informed decisions;
- c) To facilitate the customers to take informed decisions in respect of the financial facilities and services to be availed by them and will apply to any loan that the Company may sanction and disburse; and
- d) To promote a fair and cordial relationship between the Customer and the Company.

## 3. LOANS APPLICATIONS AND PROCESSING THEREOF

- a) The Company offers various financial products, including project finance, working capital term loan, loan against property, lease rental discounting among others.
- b) The loan application form / appropriate application documents, by whatever name called, for each product offered by the Company may differ depending upon the requirement of each product and will include all information that is required to be submitted by the prospective Customer. Necessary information in relation to the relevant product of the Company shall be provided by the Company to each of its prospective Customers to facilitate such Customer in making a meaningful comparison with the terms & conditions offered by other NBFC's and taking an informed decision based on the aforesaid comparison.
- c) The Company shall give acknowledgement for receipt of loan applications and shall dispose all loan applications within a reasonable time frame and the time frame within which loan applications will be disposed of shall also be indicated in the acknowledgement
- d) All communications with the Customers shall be in the vernacular language or a language as understood by the Customers.

## 4. LOAN APPRAISAL AND TERMS & CONDITIONS; AND KEY FACTS STATEMENT FOR LOANS AND ADVANCES:

- a) All communications with the Customers shall be in the vernacular language or a language as understood by the Customers.
- b) The loan / sanction applications received by the Company shall be assessed and approved

or rejected in accordance with the Company's credit policy.

- c) The approval of the loan shall be communicated to the Customers in writing through a sanction letter. The sanction letter shall contain the amount or limit sanctioned along with the broad terms and conditions governing the loan, including the annualized rate of interest and method of application thereof. Each Customer shall give a written acknowledgement to the Company in token of its acceptance of the terms and conditions governing the loan, which shall form part of the loan documents.
- d) A copy of all the loan documents including loan agreement and annexures thereof shall be made available to the Customer in accordance with the conditions stipulated in the related RBI guidelines along with Key Fact Statement (KFS) to all prospective clients/borrowers. It is imperative that the contents of the KFS are explained to the borrower, and their acknowledgment of understanding is obtained.
- e) Details in relation to any penal charges / penalties, by whatever name called, charged for late payment / repayment by the Customers shall be mentioned in bold in the loan agreement.

## 5. PENAL CHARGES IN LOAN ACCOUNTS

- a) Penalty, if 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 capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- b) The Company shall not introduce any additional component to the rate of interest and company will ensure compliance to these guidelines in both letter and spirit.
- c) The Company shall update and follow the existing board approved policy on interest rate or penal charges or similar charges on loans by whatever named called.
- d) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- e) The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- f) The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company's website by whatever named called.
- g) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- h) The Company shall carry out appropriate revisions in the policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges

regime shall be ensured on next review or renewal date or six months from the effective date of these instructions, whichever is earlier.

## **6. DISBURSEMENT OF LOANS, INCLUDING CHANGES IN TERMS AND CONDITIONS**

- a) In case of any change in the terms and conditions of the loan granted to the Customer, including any variation in the disbursement schedule, interest rate, service charges, prepayment charges, etc., the Company shall give a written notice to the Customer. The said changes in the interest rates and/or charges would be with prospective effect. The loan agreement shall include a specific clause in this regard.
- b) Any decision of the Company to recall / accelerate payment or performance of loan shall be in consonance with the terms of the relevant loan documents.
- c) The Company shall release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim 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 NBFCs are entitled to retain the securities till the relevant claim is settled/paid.

## **7. RESPONSIBLE LENDING CONDUCT – RELEASE OF MOVABLE/IMMOVABLE PROPERTY DOCUMENTS ON REPAYMENT/ SETTLEMENT OF PERSONAL LOANS**

The company shall adopt best practices in release of movable/ immovable property documents upon receiving full repayment and closure of loan account to avoid customer grievances and disputes in future.

To address the issues faced by the borrowers and towards promoting responsible lending, the following instructions are issued:

### **A. Release of movable/immovable property documents:**

- i. The Company shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days from date of full repayment/settlement of the loan account.
- ii. The borrower shall be given the option of collecting the original movable/ immovable property documents either from the banking outlet/branch where the loan account was serviced or any other office of the Company where the documents are available, as per her/his preference.
- iii. The timeline and place of return of original movable/immovable property documents shall be mentioned in the loan sanction letters issued on or after the effective date of the said circular.
- iv. In order to address the contingent event of demise of the sole borrower or joint borrowers, NBFCs 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 NBFC along with other similar policies and procedures for customer information

**B. Compensation for delay in release of movable/ immovable property documents:**

- i. 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 from date of full repayment/ settlement of loan, the 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 ₹5,000 for each day of delay.
- ii. In case of loss/damage to original movable/immovable property documents, either in part or in full, the Company 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 as indicated at clause (ii) above. However, in such cases, an additional time of 30 days will be available to the NBFCs to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).
- iii. 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.

**8. RESET OF FLOATING INTEREST RATE ON EQUATED MONTHLY INSTALMENTS (EMI) BASED PERSONAL LOANS**

- A. The company shall consider the repayment capacity of the borrowers at the time of sanction of EMI based floating rate loans to ensure that there is adequate headroom / margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the interest rates during the tenor of the loan.

The Company has put in place an appropriate policy framework to meet the following requirements for implementation and compliance:

- i. 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 the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
- ii. 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 their Board approved policy. The policy, *inter alia*, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.
- iii. The borrowers shall also 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.
- iv. 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 such charges/ costs by the Company from time to time.
- v. Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
- vi. 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. NBFCs shall ensure that the statements are simple and easily understood by the borrower.

- B. Apart from the equated monthly instalment loans, these instructions would also apply, *mutatis mutandis*, to all equated instalment based loans of different periodicities.
- C. Company shall ensure that the above instructions are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them.

## 9. REGULATION OF EXCESSIVE INTEREST CHARGED

- a) 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 gradations of risk 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
- b) The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published on the website or otherwise published shall be updated whenever there is a change in the rates of interest
- c) The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account

## 10. LOAN FACILITIES TO THE PHYSICALLY/VISUALLY CHALLENGED

Company shall not discriminate in extending products and facilities including loan facilities to physically/visually challenged applicants on grounds of disability. All branches of Company 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 programmes conducted for their employees at all levels. Further, Company shall ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up.

## 11. GRIEVANCE REDRESSAL MECHANISM

- a) The Company has formulated a grievance redressal policy setting out the procedure for receiving, registering and disposing of the complaints and grievances of the Customers with respect to the services provided by the Company.
- b) The Customers who have grievances may refer to the grievance redressal policy of the Company, a copy of which is available on the website of the Company.

## 12. GENERAL PROVISIONS

- a) The Company shall not interfere in the affairs of the Customers, except as provided in the terms and conditions governing the loan as contained in the loan documents (unless any new information, that was not disclosed earlier by the Customer, comes to the notice of

the Company).

- b) In case of receipt of request from the Customer for transfer of its loan account, the Company shall convey its consent or objection within a period of 21 (Twenty One) days from the date of receipt of such request. Such transfer should be in accordance with the terms and conditions of the loan documents entered into with the Customer and the statutes, rules, regulations and guidelines as may be applicable from time to time.
- c) In the case of recovery of loans, the Company shall resort to the usual measures, which are legally and legitimately available to it and shall operate within the legal framework. The Company shall not resort to undue harassment for recovery of loan.
- d) The Company shall conduct training sessions for training its employees and/or representatives to deal with the Customers in an appropriate manner,
- e) The Company shall not charge any foreclosure charges / pre-payment penalties on any floating rate term loans sanctioned for purposes other than business to the individual borrowers, with or without co-obligant(s)