



# Home Finance Collection Policy

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## Document Control

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# 1. INTRODUCTION

The purpose of the collection policy is to create a set of standardized policies and procedures for collection activities. An effective collection policy is essential to keep a strong control on the portfolio of the IKFHFL and thereby ensuring that the credit expense of the organization is low. It is essential to adopt effective collection strategies that promote on – time repayment as well as manage delinquencies better.

The essential component of a sound NPA management system is quick identification of non-performing advances, their containment at minimum levels and ensuring that their impingement on financials of IKFHFL are minimum.

Thus the Collections Policy of IKF Home Finance Limited., (hereafter referred as “the IKFHFL” or “IKFHF”) shall aim at making the recovery process faster, so that Gross NPA level is maintained within the risk appetite of the IKFHFL.

## 1.1. Scope Objectives and Principle

The quality and performances of advances have a direct bearing on the profitability of IKFHFL. Despite an efficient credit appraisal, disbursement and monitoring mechanism, problems can still arise due to various factors and Non-Performing Asset (NPA) may arise. These factors may be internal or external.

- ▶ Policy outlines structured collection mechanism for all recognized critical and stressed accounts.
- ▶ The Loan Review Mechanism to be triggered on detection of early warning signals to ensure an effective and expeditious response for correction.
- ▶ The Policy emphasizes a broad approach, including critical parameters to be taken into account, towards the collection, recovery and resolution of loans through rehabilitation, compromise settlements etc.
- ▶ The Policy also proposes an approach for cleansing of NPA portfolio through judicious write-offs.

### Objectives:

- ▶ To minimize delayed payment post due date (or bounce rate of PDC/ECS).
- ▶ To ensure lower forward flow from initial bucket (from 0-30 DPD to >30 DPD).
- ▶ To reduce the impact of provision and losses on different secured products.
- ▶ To reschedule customers who have short term genuine repayment inability with the right intent of payment.
- ▶ To educate customers the benefits of prompt repayment and consequences of non-payment
- ▶ To ensure collection cost is under control
- ▶ To provide inputs to credit policy based on collection experience.
- ▶ To ensure compliance with regulations and applicable Code of conduct
- ▶ To manage collection of penalty fees based on IKFHFL norm.

## 1.2. Guiding Principles of Collection: Code of Conduct

“The debt collection policy of the IKFHFL is based on principle of dignity and respect to customers. The IKFHFL believes in following fair practices with regard to collection of dues and repossession of security thereby fostering customer confidence and long-term relationship and thereby ensures that there is no coercive practice followed while collecting the dues.

The repayment schedule for any loan sanctioned by IKFHFL is fixed taking into account repayment capacity and cash flow pattern of the borrower. The IKFHFL explains to the customer upfront the method of calculation of interest and how the Equated Monthly Instalments (EMI) or payments through any other mode of repayment are appropriated against interest and principal due from the customers. The IKFHFL expects the customers to adhere to the repayment schedule agreed to and approach it for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

The IKFHFL’s Security Repossession Policy aims at recovery of dues in the event of default and is not aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and realization of security. All the practices adopted by the IKFHFL for follow-up and recovery of dues and repossession of security are in consonance with the Law. The security repossession procedure is set in motion only after all attempts by the IKFHFL to discuss with the borrower the ways and means to overcome the financial hurdles/default in payment have failed. As an exception, it is to be noted that the IKFHFL has the right to possess the financed asset, as a preventive measure, even in instances where there has been no default but violation of the terms and conditions of the Loan Agreement.

- ▶ IKFHFL's recovery procedure shall be based on good manners, impartial treatment and persuasion.
- ▶ IKFHFL shall treat its defaulters with respect and dignity.
- ▶ All communications to the customer are in writing, by telephone or through personal visit. The customer is contacted by telephone on the numbers (residence/work place/mobile) provided by him/her in the application form filled in at the time of taking the loan/modified subsequently as intimated to the IKFHFL. If the customer is not responding/not reachable over telephone or not paying even after telephonic request, the IKFHFL's representatives make personal visits to the customer's residence/workplace during reasonable hours of the day.
- ▶ IKFHFL shall contact people other than the Borrowers only to locate the borrower
- ▶ The IKFHFL staff or any person authorized to represent the IKFHFL in collection of dues or/and security repossession identifies himself / herself and displays the Identity card/authority letter issued by the IKFHFL upon request.
- ▶ Representatives of IKFHFL will not harass or abuse borrowers with threats or offensive mannerisms /language at given time
- ▶ The IKFHFL is committed to ensure that all written and verbal communication with its borrowers are in simple business language and the IKFHFL adopts civil manners for interaction with borrowers
- ▶ IKFHFL shall follow only ethical practices and will not resort to unduly coercive tactics in the

process for recovering NPAs.

- ▶ Normally the IKFHFL's representatives will contact the borrower between 0700 hours and 1900 hours, unless the special circumstance of his/her business or occupation requires the IKFHFL to contact at a different time.
- ▶ Tele callers will ensure simple business language, decorum and persuasion while making follow-up calls
- ▶ Borrower's requests to avoid calls at a particular time or at a particular place are honoured as far as possible.
- ▶ The IKFHFL documents the efforts made for the recovery of dues, as far as possible and the copies of communication sent to customers, if any, are kept on record
- ▶ All assistance is given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner
- ▶ Inappropriate occasions such as bereavement in the family or such other calamitous occasions are avoided for making calls/visits to collect dues
- ▶ The IKFHFL provides the loan account statement to its customers on request basis when changes in period of loan, quantum of EMI etc. take place. Changes in the rate of interest are communicated to the customers as and when they are effected
- ▶ The IKFHFL bears the cost of getting duplicate sale deed in case the original furnished to it is misplaced at its end on account of any eventuality
- ▶ Collections team can disclose the loan obligations only to the customer, co-borrower or the co-guarantor.
- ▶ If the customer is not present and only minors/elderly / infirm are present at the time of the visit, the Collections Representative should end the visit with a request that the customer call back. He should not enter the house unless invited. He should not wait for the customer in the customer's residence unless specifically asked to do so by the customer or family.
- ▶ IKFHFL representatives shall not make false, deceptive, or misleading claims for the purpose of collecting repayments. This includes misrepresenting his/her identity or falsifying facts about debt status or consequences of non-repayment or claiming any monetary or non-monetary awards post tracing of the customer.
- ▶ IKFHFL shall not initiate any legal or recovery measures including repossession of the security without giving due notice to the borrower in writing. IKFHFL shall follow all such procedures as required under law for recovery/repossession of the security.
- ▶ Repossession of security is aimed at recovery of dues and not to deprive the borrower of the security. Repossession, valuation and realization of security shall be done in a fair and transparent manner within the purview of RBI's Guidelines.
- ▶ All communication/letters to the customer either through mail or through telegrams shall be handled directly by the IKFHFL as appropriate. Mail dunning / telegrams/ Posts/ phonograms/SMS etc. shall be in a format approved by Collections Unit of the IKFHFL.
- ▶ Customer's questions should be answered in full. They should be provided with information requested, given assistance and issues resolved. Accounts with unresolved issues are to be escalated to management.
- ▶ Customer or third party requests for supervisor names or requests to speak with supervisor should always be honored.

- ▶ Customers may use IKFHFL’s grievance Redressal mechanism/ escalation matrix in case of any concerns or grievances pertaining to collection of dues & recovery
- ▶ The Policy also proposes an approach for cleansing of NPA portfolio through judicious write-offs.

### 1.3. Collection Dos and Don’ts

DO’S	DON’TS
<ul style="list-style-type: none"> <li>✓ Do dress in formal clothes and carry the company identity card during work hours positively</li> <li>✓ Do be punctual and available at Centre Meetings and in the Branch Office</li> <li>✓ Visit and analyze the customer situation</li> <li>✓ Do talk in a pleasant, polite and non-aggressive manner at all times. Answers should be factual and to the point</li> <li>✓ Collection interactions should be based on fair conduct and persuasion</li> <li>✓ Present all the information required by the customer in an appropriate manner</li> <li>✓ Do answer borrower’s query to the satisfaction of the borrower</li> <li>✓ Keep records of interactions with the customer in the IC4</li> <li>✓ Do provide a valid receipt for each loan installment payment received (partial or full) and record the payment in the borrower’s loan passbook/loan card immediately after the transaction and educate customers to keep all the receipts for all future references.</li> <li>✓ Visit the Customer on Promise to Pay dates given by them on working days only</li> <li>✓ Maintain a reasonable distance from the customer</li> <li>✓ Contact customer at appropriate hrs. Timings: Earliest- 7.00 AM &amp; 7.00 PM</li> <li>✓ Do keep borrower information confidential and use it only for permissible purposes defined by IKFHFL</li> </ul>	<ul style="list-style-type: none"> <li>✗ Do not get personal, tough or aggressive or abusive</li> <li>✗ Do not use coercion of any sort to make recovery of payments.</li> <li>✗ Do not humiliate borrowers in public places by discussing their loan over dues with third parties/neighbors</li> <li>✗ Do not threaten that assets will be seized</li> <li>✗ Do not pressurize the members &amp; make unrealistic demands</li> <li>✗ Do not claim that the personal documents collected earlier will form part of collateral</li> <li>✗ Do not force the customers to make payments by not giving them an alternative option</li> <li>✗ Do not humiliate the customer, lose temper, get angry or irritated irrespective of the situation</li> <li>✗ Tone should not be harsh or loud</li> <li>✗ Do not have unending center meetings till payments are made</li> <li>✗ Do not give false promises to customers like promising higher loans in case of part payments, providing jobs to family members etc.</li> <li>✗ Do not seize customer assets or any personal documents e.g. Voter ID, ration card etc.</li> <li>✗ Do not share customer’s information with other member borrowers/customers</li> <li>✗ Do not call borrowers at inappropriate times such as bereavements, illness, social occasions such as marriages, births etc.</li> <li>✗ Do not visit or call borrowers between 7 pm to 7 am positively</li> <li>✗ Do not discriminate on the basis of caste and religion</li> <li>✗ Do not go for collections in a group of more than 2 staff members at a time</li> <li>✗ Do not visit the customers on weekly or public holidays</li> </ul>

## 2. Collection strategy

Collection strategy for IKFHFL will be based on days past due & reasons for overdue. The primary responsibility of overdue collection lies with the branch staff. Cases are co--allocated to other functions based on reasons

Overdue Bucket	Activity	Responsibility	Monitoring
X	All overdue accounts appear collection app and allocation to Tele-Calling and field collections team.	LM/NCM	MIS
1 to 29 days	Allocation to field Collection team	LM/NCM	MIS
30 to 59 days	Allocation to field Collection team	LM/NCM	MIS
60 to 89 days	Allocation to field Collection team	LM/NCM	MIS
> 90 Days	Allocation to field Collection team and legal initiation.	LM/NCM	MIS
Legal	Legal action initiated	LM/NCM	MIS

### 3.1. Tools for Recovery

The repayment record of borrowers shall be monitored both with regard to payment of interest and repayment of principal. Whenever a borrower defaults or is likely to default, rigorous follow-up shall be made for the collection of dues / arrears. When default occurs, oral and written communications are to be sent to the borrower to regularize their accounts within a specified period. In case the loan is secured by a guarantee (personal or corporate), steps shall be taken to recover dues from the guarantor.

IKFHFL shall use any of the following broad methods for management of problem accounts:

- ▶ Restructuring, rephasement and rehabilitation
- ▶ Exit strategy
- ▶ Settlement/ Compromise
- ▶ Sell down to Asset Reconstruction Company (ARC) / other entities
- ▶ Write-off
- ▶ Legal Action & recovery – Procedure
- ▶ Invoking of the provisions of SARFAESI ACT 2002

Tool	LAP Loans	Home Loans
Restructuring, re-phasement and rehabilitation	✓	✓
Exit Strategy	✓	✓
Settlement/ Compromise	✓	✓
Sell down to Asset Reconstruction Company/ other entities	✓	✓
Write-off	✓	✓
Legal Action and recovery	✓	✓
Invoking the provisions of SARFAESI ACT 2002	✓	✓

## 5. Recovery Mechanisms --- Repossessions

The guidelines related to the Collection mechanisms for loan products offered by IKFHFL are as stated below:

### 5.1. Giving notice to borrowers

- While written communications, telephonic reminders or visits by IKFHFL's representatives to the borrower's place or residence will be used as loan follow up measures, IKFHFL shall not initiate any legal or other recovery measures including repossession of the secured assets without giving due notice in writing.
- Any genuine difficulties expressed/ disputes raised by the customer shall be considered by IKFHFL before initiating recovery measures. IKFHFL shall follow all such procedures as required under law for recovery / repossession of secured assets

### 5.2. Repossession of Secured assets

- Repossession of secured assets is aimed at recovery of dues and not to deprive the borrower of the secured assets.
- The recovery process through repossession of secured assets will involve repossession, valuation of secured assets and realization of secured assets 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 secured assets.
- IKFHFL shall take all reasonable care for ensuring the safety and security of the secured assets after taking custody, in the ordinary course of the business and relevant cost will be charged to borrower.

**5.1. Valuation & sale of secured assets**

**5.2.** Valuation and sale of secured assets repossessed by IKFHFL shall be carried out as per law and in a fair and transparent manner.

**5.3.** IKFHFL shall have right to recover from the borrower the balance due if any, after sale of secured assets.

**5.4.** Excess amount if any, obtained on sale of the secured assets shall be paid to the person entitled thereto in accordance with his rights and interests, after meeting all the related expenses, provided IKFHFL is not having any other claims against the customer.

**6. Collection Review Process:**

<b>Reviewer</b>	<b>Reviewee</b>	<b>Scope</b>	<b>Timeline</b>
Area Manager – Collection Manager	Collection Officer and Supervisors	<ul style="list-style-type: none"><li>• Allocation</li><li>• Productivity</li><li>• Performance</li><li>• Staffing</li></ul>	<ul style="list-style-type: none"><li>• Daily</li><li>• Weekly (or milestone)</li><li>• Monthly</li></ul>
National Manager – Collections & Recovery	Area Manager – Collections	<ul style="list-style-type: none"><li>• Overall Performance</li><li>• Exception cases</li></ul>	<ul style="list-style-type: none"><li>• Daily &amp; Weekly(or milestone)</li><li>• Monthly</li></ul>
National Manager – Collections & Recovery	Area Manager – Collections and Supervisors	<ul style="list-style-type: none"><li>• Collection System</li><li>• Collection MIS</li><li>• Collection Operations</li></ul>	<ul style="list-style-type: none"><li>• Weekly</li><li>• Monthly</li><li>• Weekly</li></ul>



## **Settlement/Compromise**

Compromise settlement refers to a negotiated settlement where a borrower offers to pay and IKFHFL to accept in full and final settlement of its dues an amount less than the total amount due to IKFHFL under the relative loan contract. This settlement invariably involves a certain sacrifice by way of write off and/or waiver of a portion of its dues on a one-time basis.

All settlement / compromise decisions would be approved by the following designated approval authorities.

<b>For Home Loan &amp; LAP</b>	
Recommendation	Business Head -
Approval	CEO & ED
Deviation	Managing Director

The Policy recognizes that it is not possible to lay down precise guidelines which can be followed uniformly in case of all compromise offers as each offer is unique in the context of circumstances necessitating its consideration as a recovery option.

The Policy however, lays down the following principles which are to be kept in view while considering compromise offers

- ▶ IKFHFL may take up a compromise settlement /one time Settlement (OTS) proposal for consideration, irrespective of the present stage and status of the recovery proceedings.
- ▶ Any compromise will be a negotiated settlement under which IKFHFL will endeavor to recover its dues to the maximum extent possible, with minimum sacrifice. However it is recognized that amicable settlements are possible only in a win-win situation and sacrifice is a part of settlement.
- ▶ The latest status of the activity of the borrowing entity which seeks a compromise will be taken into reckoning during the course of negotiation.
- ▶ As far as possible, an initial down-payment should be taken from the borrower as evidence of his intention to pursue the compromise settlement with IKFHFL.
- ▶ In case the borrower has other group companies dealing with the IKFHFL, influence of these companies or the parent company may be used for a better settlement and/or for getting additional security, pending realization of the entire amount of compromise.

It will be the endeavor of IKFHFL to get the entire compromise amount <<place holder for timeperiod>> from the date of settlement. In the event of a One Time Settlement, in cases where the borrower is unable to pay the entire lump sum, IKFHFL shall recover at least 25% of the settlement amount upfront. The balance shall be recovered in installments within a period of one year together with interest at the existing Prime Lending Rate from the date of settlement up to the date of final payment.

- ▶ At the time of One Time Settlement negotiation when OTS amount is proposed to be paid in installments seriousness and preparedness of the borrower to honor OTS commitments shall be looked into.
- ▶ In the case of suit filed account if need be and if practical, the terms and conditions of settlement should be finalized and consent decree from the court should be obtained.
- ▶ It is recognized that the OTS amount normally will not be less than the realizable value of securities. While considering the realizable value due consideration will be given to various factors like forced sale value, early realization of money, sale ability of the property, type, effort and cost involved & yield in the account.
- ▶ Normally no Compromise Settlement will be made with willful defaulters. However, it is recognized that, sometimes business prudence requires compromise settlement in the case of willful defaulters also, which will be considered on a case to case basis.
- ▶ In case of non-receipt of the committed compromise amount as per the terms of the settlement, the recovery proceedings already initiated before the settlement shall be continued forthwith.
- ▶ The Authority who had approved the compromise settlement earlier may consider the modification in the terms of the settlement. However, in case of settlement/compromise approved by the Board, Business Head, CEO & ED, Managing Director will be the permitting authority for such modifications.
- ▶ In the case of sacrifice of undebated Interest the same may be calculated at IKFHFL prevailing Base Rate (Simple) or the contracted rate/interest claim in the plaint/decreed rate (simple) whichever is less.
- ▶ In case of compromise settlements if the settlement amount is more than Rs.1 lakh and more than 2 months' time is given for payment of the same or the balance thereof, the Net Present Value of OTS amount will be calculated taking the prevailing 90days Treasury bill rate as the discounting factor for tangible assets.
- ▶ In compromise settlements/write off cases, the amount of sacrifice will be determined with reference to balance/dues as on the 'settlement date' which shall be indicated in the compromise settlement/write off proposals.
- ▶ In case of compromise settlements normally the amount of settlement shall be at least equal to the net balance or 75% of the Forced sale values of the immovable property securities whichever less. Any deviation in this regard shall be with the permission of the next Higher Authority up to the level of Managing Director.
- ▶ Wherever OTS amount is funded by other Banks/Financial Institutions/NBFCs/ARC or any other entities/individuals, IKFHFL may assign the debt/securities in their favor. In such cases, the guidelines framed for sale of financial assets will not apply.