



**THE ZOROASTRIAN CO-OPERATIVE BANK LTD.**

**POLICY ON COLLECTION OF DUES AND REPOSSESSION  
OF SECURITY – 2019-20**

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## **POLICY ON COLLECTION OF DUES AND REPOSSESSION OF SECURITY.**

### **I. PREAMBLE**

- The Banking Codes and Standards Board of India (BCSBI) – an independent and autonomous authority set up with the purpose of providing fair treatment to all customers and of which the Bank has voluntarily taken up membership, calls for a Policy on Collection of Dues and Repossession of Security to be drawn up and approved by the Board of Directors.
- The Bank is required to display the Policy on Collection of Dues and Repossession of Security on its Website for the information of the customers.
- The Bank has adopted the model policy formulated by the IBA with a few modifications.

### **II. OBJECTIVES OF THE POLICY**

- To ensure fair treatment to the customers during the course of collection of dues and repossession of security with the aim of fostering customer confidence and long term relationships.
- To ensure that the Bank does not follow policies that are unduly coercive in collection of dues.
- To apprise staff members involved in the recovery process about the code of conduct to be adopted while in the process of recovery of dues.

### **III. OWNERSHIP OF THE POLICY**

The ownership of the “Policy on Collection of Dues and Repossession of Security” lies with the Recovery Department.

The Policy will be periodically updated as per the requirements, by the Recovery Dept., subject to the approval of the Competent Authority.

**IV. VALIDITY OF THE POLICY:-**

This Policy will remain in force for Financial Year 2019-20 when the next Policy will be ratified by the Board or any changes required in the interim are approved by the Board.

**V. APPLICABILITY OF THE POLICY:-**

The Policy will be applicable to all the branches, Administrative Offices and all the Departments handling Recovery matters.

On its approval the same will be circulated to all branches and Departments. The Policy will also be displayed on the Website of the Bank for the information of all customers.

**VI. INTRODUCTION:**

The debt collection policy of the bank is built around dignity and respect to customers. Bank will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment and persuasion. The Bank believes in following fair practices with regard to collection of dues and repossession of security and thereby fostering customer confidence and long-term relationship.

The repayment schedule for any loan sanctioned by the bank will be fixed taking into account repaying capacity and cash flow pattern of the borrower. The bank will explain 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 will be appropriated against interest and principal due from the customers. The bank would expect the customers to adhere to the repayment schedule agreed to and approach the bank for assistance and guidance in case of genuine difficulty in meeting the repayment obligations.

Bank'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 bank for follow up and recovery of dues and repossession of security will be inconsonance with the law.

Presently, Banks classify a loan account as Non-Performing Asset (NPA) based on 90 day delinquency norms. In terms of recent circular of RBI DBR.No.BP.BC.100/21.04.048/2017-18 dated February 07, 2018, with implication of GST adversely impacting the cash flows of the smaller entities during the transition phase with consequent difficulties in meeting their repayment obligations to Banks, as a measure of support to these entities in their transition to a formalised business environment, the exposure of the Bank to a borrower classified as micro, small and medium enterprise under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, will be classified as a Standard Asset in the books of Banks subject to the following conditions:

- i. The borrower is registered under the GST regime as on January 31, 2018.
- ii. The aggregate exposure, including non-fund based facilities, of banks and NBFCs, to the borrower does not exceed Rs. 250 million as on January 31, 2018.
- iii. The borrower's account was standard as on August 31, 2017.
- iv. The amount from the borrower overdue as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates.
- v. A provision of 5% shall be made by the Bank against the exposures not classified as NPA in terms of this circular. The provision in respect of the account may be reversed as and when no amount is overdue beyond the 90 day norm, as the case may be.
- vi. The additional time shall be provided for the purpose of asset classification only and not for income recognition, i.e., if the interest from the borrower is overdue for more than 90, the same shall not be recognised on accrual basis.

**VII. CONTOURS OF THE POLICY:**

All the members of the staff or any person authorized to represent our Bank in the collection of dues and/or repossession of security will follow the guidelines set out below:

- i) The 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.
- ii) The identity and authority of persons authorized to represent the Bank for follow up and recovery of dues will be made known to the borrowers at the first instance. The Bank staff or any person authorized to represent the Bank in the collection of dues and/or repossession of security will identify himself/herself and display the authority letter issued by the Bank upon request.
- iii) The Bank will respect the privacy of its borrowers.
- iv) The Bank is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and the Bank will adopt civil manners for interaction with borrowers.
- v) Normally, the Bank's representatives will contact the borrower between 0700 hrs and 2000 hrs, unless the special circumstance of his/her business or occupation requires the Bank to contact at a different time. Customer may also be contacted later if unable to establish contact during specified calling hours and under specific circumstances where the customer is refusing to pay/non contactable/non cooperative/disputing earlier commitments.
- vi) The Borrower's requests to avoid calls at a particular time or at a particular place will be honoured as far as possible.
- vii) The Bank will document the efforts made for the recovery of dues and the copies of communication sent to customers, if any, will be kept on record.
- viii) Inappropriate occasions such as bereavement in the family or such other occasions will be avoided for making calls/visits to collect dues.

**VIII. GIVING NOTICE TO THE BORROWER:**

- While written communications, telephonic reminders or visits by the Bank's representatives to the borrower's place or residence will be used as loan follow up measures, the Bank will not initiate any legal or other recovery measures including repossession of security without giving 8 days due notice in writing.
- The Bank will consider any genuine representation received from the borrower before initiating the recovery proceedings.
- The Bank will follow all such procedures as required under law for recovery/ repossession of security.
- In the event of circumstances leading for repossession of security, the borrower/guarantor will be informed that he has defaulted in meeting repayment obligation and advised to regularize the account.
- Borrower will also be specifically advised that the costs incurred by the Bank to effect recoveries will be borne by him/her. He/she will also be advised that in the event of sale proceeds falling short of the amount due, the balance will be recovered from his/her personal effects.
- The notice to the borrower will be sent by registered post and/or courier with proof of delivery.
- If the Bank has reasons to believe that the borrower or his close family members are avoiding the service of notice or for any other reason the notice cannot be served, a copy of the notice will be affixed on the outer door or some other conspicuous part of the house or business premises.
- If the borrower responds to the notice and regularizes the account or the appropriate authority permits him further time or a compromise settlement is reached, no further action would be necessary.

**IX. REPOSSESSION OF SECURITY:**

- Repossession of security will be 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. The Bank will take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business and the necessary cost will be charged to the borrower.
- The Security Re-possession procedure will be set in motion only after the attempts made by the Bank to discuss with the borrower the ways and means to overcome financial hurdles have failed.
- Before initiating the process of repossession of the asset financed by the Bank, the borrower will be served with another notice by the Bank Official/Authorized Officer stating therein to handover the asset along with related documents to the Bank / Authorized Officer or else regularize the account.
- If the notice to hand over the asset by the borrower is not complied with by the borrower, the process for the repossession of the asset will be initiated.
- The repossession of the asset will be taken in the presence of two witnesses, a Panchnama will be drawn up containing full details of the assets seized. The repossession will be made only through legally permitted means.

**X. VALUATION AND SALE OF PROPERTY:**

- Required notices with acknowledgement due will be sent to the borrowers and guarantors informing them about the repossession of the security demanding closure of the account within a specified period failing which the repossessed assets will be disposed off.
- Valuation and sale of property repossessed by the Bank will be carried out as per law in a fair and transparent manner. The Bank will have the right to recover from the borrower the balance due if any, after sale of property. The excess amount if any, obtained on sale of property will be returned to the borrower after meeting all the related expenses, provided the Bank is not having any other claims against the customer.

- In the case of hypothecated assets, after taking possession, if no payment is forthcoming, a sale notice of 7 days time to respond will be sent to the borrower. Thereafter the Bank will arrange for sale of the hypothecated assets in such manner as deemed fit by the Bank. In respect of cases under SARFAESI Act as per the provisions of the Act, 30 days notice of sale will be sent. When public auction or by tender is envisaged, the same will be published in two leading news papers out of which one will be in a local vernacular paper.
- Valuation of the repossessed assets will be carried out as per extant instructions of the Bank and would be valued by approved valuer of the Bank.
- Sale of Assets will be carried out by any of the transparent modes to secure fair price of the seized assets i.e., by public auction, by inviting tenders, by obtaining quotations from parties dealing in the assets seized etc.
- Before the date of actual sale, the borrower will be issued a notice of sale giving him reasonable time (depending upon the nature of security) say 7 days. For perishable items a shorter notice period will be given.
- The Bank will handover the possession of the asset to the borrower any time after repossession and before concluding sale transaction of the asset in case the borrower has liquidated Bank's dues in full or a compromise settlement has been reached between the borrower and the Bank.

**XI. OPPORTUNITY FOR BORROWER TO TAKE BACK THE SECURITY:**

- As indicated earlier in the Policy document, the Bank will resort to repossession of security only for the purpose of realization of its dues and as the last resort and not with intention of depriving the borrower of the property.
- Accordingly the Bank will be willing to consider handing over possession of the property to the borrower any time after repossession and before the sale transaction of the property takes place, provided the Bank's dues are cleared in full.

- If satisfied with the genuineness of the borrower's inability to pay the loan instalments as per the schedule which resulted in the repossession of security, the Bank will consider handing over the property, after receiving the instalments in arrears. However, this will be subject to the Bank being convinced of the arrangements made by the borrower to ensure timely repayment of the remaining instalments in future.
- If the amounts are repaid, either as stipulated by the Bank or dues settled as agreed to by the Bank, the possession of the seized assets will be handed back to the borrower within seven days after getting permission from the competent/sanctioning authority, or court/DRT concerned if recovery proceedings are filed and pending before such forums.

## **XII. INSOLVENCY AND BANKRUPTCY CODE:**

The **Insolvency and Bankruptcy Code, 2016 (IBC)** is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy.

The bankruptcy code is a one stop solution for resolving insolvencies which at present is a long process and does not offer an economically viable arrangement. The code will be able to protect the interests of small investors and make the process of doing business a cumbersome-less process.

### **Key Features**

**Insolvency Resolution :** The Code outlines separate insolvency resolution processes for individuals, companies and partnership firms. The process may be initiated by either the debtor or the creditors. A maximum time limit, for completion of the insolvency resolution process, has been set for corporates and individuals. For companies, the process will have to be completed in 180 days, which may be extended by 90 days, if a majority of the creditors agree. For start ups (other than partnership firms), small companies and other companies (with asset less than Rs. 1 crore), resolution process would be completed within 90 days of initiation of request which may be extended by 45 days.

## **Procedure**

The Bank shall submit a plea for insolvency to the adjudicating authority. The max time allowed to either accept or reject the plea is 14 days. If the plea is accepted, the tribunal shall appoint an Insolvency Resolution Professional (IRP) to draft a resolution plan within 180 days (extendable by 90 days) following which the Corporate Insolvency Resolution process will be initiated by the court. For the said a say in the management of the insolvent company. The IRP, if required, can seek the support of the company's management for day-to-day operations. If the IRP fails in reviving the company the liquidation process will be initiated.

## **Insolvency Adjudicating Authority:**

The adjudicating authority will exercise jurisdiction over cases by or against the debtor.

- The Debt Recovery Tribunal (“DRT”) shall be the adjudicating authority (“Adjudication Authority”) with jurisdiction over individuals and partnership firms other than Limited Liability Partnerships (“LLPs”). Appeals from the order of the DRT will lie to the Debt Recovery Appellate Tribunal (“DRAT”);
- The National Company Law Tribunal (“NCLT”) shall be the Adjudicating Authority with jurisdiction over companies, other limited liability entities (including LLPs.). Appeals from the order of NCLT shall lie to the National Company Law Appellate Tribunal (“NCLAT”); and
- NCLAT shall be the appellate authority to hear appeals arising out of the orders passed by the Regulator in respect of insolvency professionals or information utilities.

**Moratorium:** One of the most significant features of the Code is the grant of moratorium during which creditor action will be stayed. This is not automatic and has to be granted by the Adjudicating Authority on the recommendation of the Resolution Professional.

**Priority:**

The following debts will be paid in priority given below:

1. Insolvency Resolution cost and liquidation cost
2. Debts to secured creditor (who have relinquished their security interest) and workmen's dues (for 24 months before commencement)
3. Wages and unpaid dues to employees (other than workmen) (for 12 months before commencement)
4. Financial debts to unsecured creditors and workmen's dues for earlier period
5. Crown debts and debts to secured creditor following enforcement of security interest
6. Remaining debts
7. Preference shareholders
8. Equity Shareholders or partners
9. The priority being given to secured creditors relinquishing security needs specific attention, especially on account of the same having the potential to be misused, especially if the debtor and the secured creditor can collide and impair the collateral.

**XIII. ENGAGEMENT OF RECOVERY AGENTS:**

Generally the Bank does not utilize the services of Recovery Agents. The Bank may, however, utilize the services of Recovery Agents, whenever warranted, for collection of dues and repossession of securities. Recovery agents will be appointed as per regulatory guidelines issued in this regard. The name and address of all Recovery Agents on the Bank's approved panel will be placed on the Bank's website for information of all concerned.

- i. Only Recovery Agents from the approved panels will be engaged by the Bank.
- ii. In case the Bank engages the services of such Recovery/ enforcement/ seizure agents for any recovery case, the identity of the agent will be disclosed to the borrower.
- iii. The Recovery Agents engaged by the Bank will be required to follow a code of conduct covering their dealings with customers.

**XIV. PUBLICATION OF PHOTOGRAPHS:-**

The Bank will publish photographs of the defaulter borrower / guarantor in newspapers in which the notices are published.

Centralized Recovery Dept. will publish the photographs of the defaulting borrower / guarantor after prior approval of the Audit, Accounts & NPA Management Committee of the Board.

**XV. MISCELLANEOUS:**

It will be ensured that the Security documents contain the repayment schedule as also a clause regarding Bank's unconditional right to repossess security in the specified events.