



Collections & Recovery Policy

Introduction

The Collections & Recovery Policy of Shivalik Small Finance Bank Ltd. (hereafter referred to as “SSFB”) shall aim at making the recovery process robust, so that gross NPA level and overdues are maintained within the risk appetite of SSFB.

Objectives & Principles

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

Key objectives

- 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 considered, towards the collection, recovery and resolution of loans through rehabilitation and compromise settlements etc.
- Monitoring the health of the accounts continuously to minimize slippage to non-performance status
- Recovering of maximum possible amount of impaired advances at minimum cost and within the least time
- Upgrading the accounts wherever the activity is going on subject to adhering to all parameters
- The Policy also proposes an approach for cleansing of NPA portfolio through judicious write-offs
- Enhancing the provisions against accounts which are difficult to recover or where there is likely to be delay in recovery

Guiding principles

- SSFB recovery procedure shall be based on good manners, impartial treatment and persuasion
- SSFB shall treat its defaulters with respect and dignity
- SSFB shall contact people other than the customers only to locate the borrower or to seek help/guidance towards recovery of overdue amount
- Representatives of SSFB shall not harass or abuse borrowers with threats or offensive mannerisms /Language
- SSFB shall follow only ethical practices and will not resort to unduly coercive tactics in the process of recovery of NPAs
- SSFB 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
- SSFB shall not initiate any legal or recovery measures including repossession of the security without giving due notice to the borrower in writing
- SSFB 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

Policy Review and Approval Process

The Policy would be reviewed and updated based on the following mechanism. The minutes of meeting of the Board and Management Committees would be documented.

Item	First Review	Second Review	Approval	Frequency
Regular Policy Review	Head – Recovery	Executive Committee	Board of Directors	Annual
Regulatory and other updates	Head – Recovery & Head – Credit	Executive Committee	Board of Directors	As and when required

Key Definitions

Default

Default is considered to have occurred when an asset is classified as non-performing asset ('NPA')

Non-performing assets

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank. A "Non-performing Asset" (NPA) is a loan or an advance where:

Credit Facility	NPA Criteria
Term Loan	Interest and/or instalment of principal remain overdue for a period of more than 90 Days
Overdraft/Cash Credit Limit	The account remains 'out of order' for a period of more than 90 days
Agriculture Loans	a. Short Duration Crops (crops with a crop season of less than one year): The instalment of principal or interest thereon remains overdue for two crop seasons b. Long Duration Crops (crops with a crop season of longer than one year): The instalment of principal or interest thereon remains overdue for one crop season
Securitization Transaction	Applicable to transactions undertaken on the basis of the extant guidelines on securitization. The amount of liquidity facility remains outstanding for more than 90 days.
Other	Any amount to be received remains overdue for a period of more than 90 days.

'Out of Order' status²:

An account should be treated as 'out of order' if:

- The outstanding balance remains continuously in excess of the sanctioned limit/drawing power
- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, the account would be treated as 'out of order', if:
 - There are no credits continuously for 90 days, or
 - If credits are not enough to cover the interest debited during the same period

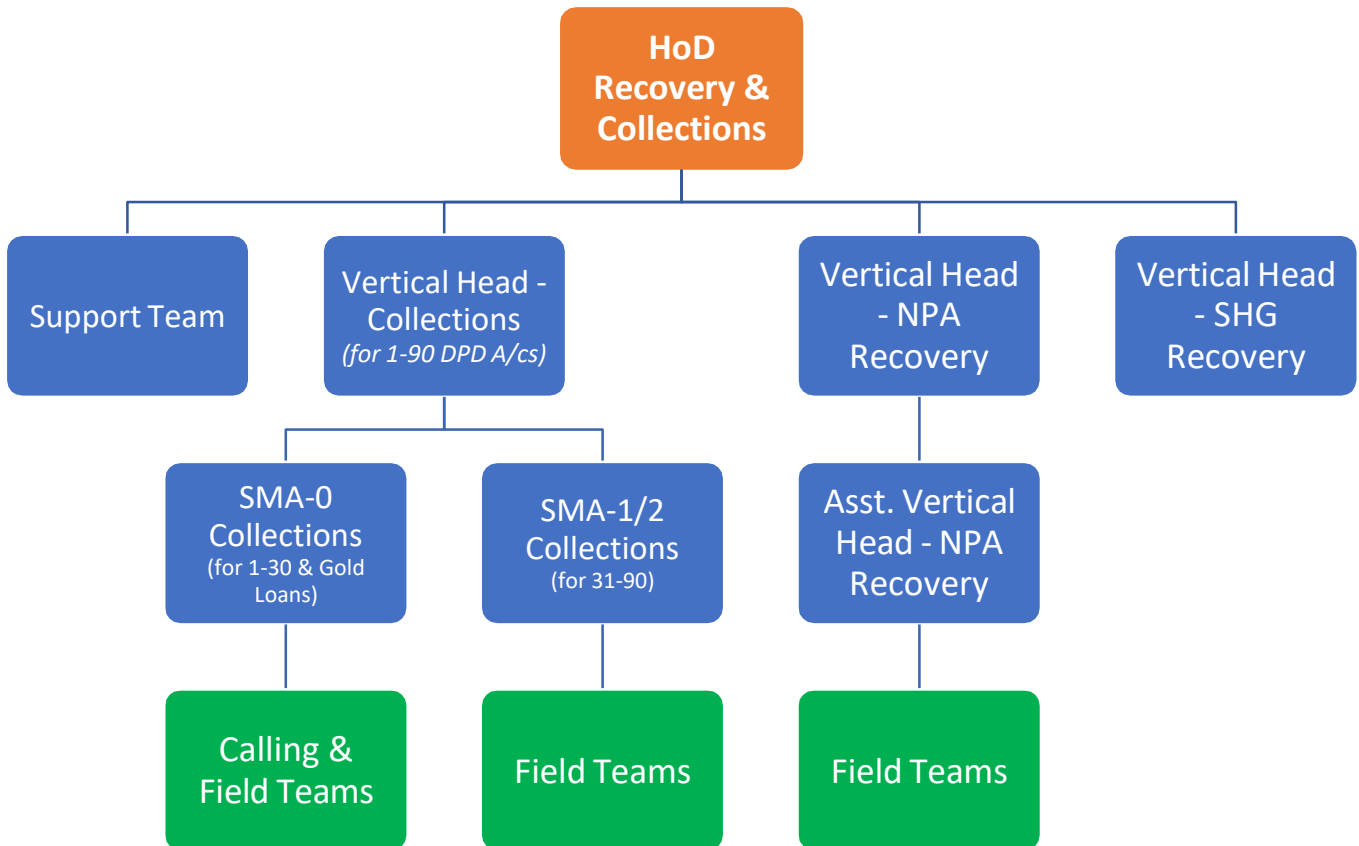
'Overdue'³

Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank.

Collections and Recovery – Governance Framework

Organization Architecture⁴

The collections and recovery responsibilities of the organization are split between multiple teams which have distinct roles and responsibilities and have different reporting lines (but ultimately reporting to Collections and Recovery Head) which are outlined in the department architectures shown below:



1. Boxes in Orange and Blue color are central positions at HO level, while those in Green are field positions at cluster level.
2. Field Teams will comprise In-charge at cluster level (Cluster Collections/Recovery Manager) supported by field executives (Collection/Recovery Executives).
3. There will be a separate call center team that will support collections and recovery teams for the purpose of making calls to concerned persons for making collections and recoveries. The number of persons to be deployed in calling team will depend upon the workload, i.e., the number of calls to be made per day/week/month.

Scope of different teams:

The broad division of scope between the Credit Monitoring Team (under the Risk Management Department) and Collections/Recovery Team shall be as follows:

Credit Facility	Credit Monitoring Team
Post-disbursement compliances for all facilities	Credit Monitoring Team
Monitoring of non-financial compliances for all facilities	Credit Monitoring Team
DL/OD against bank deposit, NSC, KVP, LIC	Credit Monitoring Team (1-90 DPD) Collections/Recovery Team (NPA stage)
Gold Loans	Collections/Recovery Team
All other facilities (TL, CC, OD etc.)	Collections/Recovery Team

The scope of work for different teams in the Collections and Recovery Department shall be as follows:

Credit Facility	Stage	Credit Monitoring Team
DL/OD against bank deposit, NSC, KVP, LIC	NPA	NPA Recovery Team
Gold Loans	1-90 DPD	SMA-0 Collections Team
	NPA	NPA Recovery Team
Term Loans/RCDM	0-30 DPD	SMA-0 Collections Team
	31-90 DPD	SMA-1/2 Collections Team
	NPA	NPA Recovery Team
Any other facility	0-30 DPD	SMA-0 Collections Team
	31-90 DPD	SMA-1/2 Collections Team
	NPA	NPA Recovery Team

Prudential Norms on Income Recognition, Asset Classification and Provisioning

Income recognition, asset classification, provisioning, reversal of income, appropriation of recoveries and other clauses related to IRAC norms have been covered in the Credit Policy (Section 10).

Asset Classification**Categories of NPAs**

Banks are required to classify non-performing assets into the following three categories based on the period for which the assets have remained nonperforming and the realizability of the dues.

- Sub- standard Assets
- Doubtful Assets
- Loss Assets

Guidelines for classification of assets

Classification of assets into the above categories is to be done taking into account the degree of well-defined credit weaknesses and the extent of dependence on collateral security for realization of dues. Bank has established appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs by automating the NPA marking system in CBS

Account with temporary deficiencies

The classification of an asset as NPA should be based on the record of recovery. Bank shall not classify an advance account as NPA merely due to the existence of some deficiencies mentioned above which are temporary in nature such as, death or illness of a family member, sudden cash needs, late payment of salary, slowdown in business balance outstanding exceeding the limit temporarily non-availability of adequate drawing power based on the latest available stock statement

- Balance outstanding exceeding the limit temporarily
- Non-submission of stock statements and non-renewal of the limits on the due date, etc.

In all the cases related to temporary deficiencies, SSFB shall ensure that concerned officials immediately investigate such cases for the following items:

- Relevant officials shall investigate the cause of overdue and persuade the borrower to clear the dues
- Relevant officials shall visit overdue borrowers to assess their financial situation by analyzing income documents/cash-flows.

For Working Capital Accounts, ensure that drawings in the working capital accounts are covered by the adequacy of current assets, since current assets are normally appropriated first in times of distress. Drawing power is to be arrived based on the stock statement which is current (not older than 3 months)

For other loans such as SHG, Term Loans, Retail Loans (Business Loans, Education Loan, Gold Loan, Vehicle Loan etc.), Credit Officer/ Recovery Executive shall investigate the cause of overdue and persuade the borrower to clear the dues. In all the cases related to temporary deficiencies, SSFB shall ensure that concerned officials immediately investigate such cases and take appropriate corrective actions as per guidelines as covered in the Bank's Credit Policy. In case of a SHG facility, Microfinance Executive /Loan Officer shall investigate the cause and ask the group to repay overdue. Microfinance Executive /Loan Officer shall constantly follow up with the customer and their group members for recovery of overdues in case of SHG.

Upgradation of loan accounts classified as NPAs

Accounts can be upgraded from NPA category to 'standard' assets under the following circumstances. An account which is has been marked NPA due to multiple reasons (financial and/or non-financial) must clear all the reasons before it can be marked as 'standard'.

- Financial Reasons:
 - Payment of arrears of interest and principal by the borrower
 - Overdraft / cash credit limits are brought in line with drawing power
- Non-Financial Reasons:
 - Delivery of required financial documents such as stock statements, book debt statements, etc. as required by the Credit Policy of the bank
 - Renewal of an expired account

These instructions are not applicable for restructured NPA accounts for which separate guidelines exist.

Accounts regularized near about the balance sheet date:

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without any scope for subjectivity. It should be ensured that,

- Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as an NPA
- In other genuine cases, the banks must furnish satisfactory evidence to the statutory Auditors/ inspecting Officers about the manner of regularization of the account to eliminate doubts on their performing status if demanded by the auditors

Asset Classification to be borrower- wise and not facility wise

- All the facilities granted by a bank to a borrower/ against any of the securities issued by the borrower will have to be treated as NPA and not the facility or part thereof which has become irregular
- If the debits arising out of development of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning
- Bills discounted under LC may not be classified as NPA when any other facility granted to the borrower is classified as NPA. However, documents under LC are not accepted on presentation or the payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed and outstanding will be classified as NPA w.e.f. the date other facility was classified as NPA
- The overdue receivables representing positive mark to market value of a derivative contract will be treated as NPA if they remain unpaid for 90 days or more. In case the over dues arising from forward contracts and plain vanilla swaps and options become NPAs, all other funded facilities granted to the client shall also be classified as NPA
- In cases where the contract provides for settlement of the current mark – to –market value of derivative contract before its maturity, only the current credit exposure (not the potential future exposure) will be classified as NPA after an overdue period of 90 days. In these cases, as the overdue receivables would represent unrealized income already booked on accrual basis, after 90 days of overdue period the amount should be reversed from income account

Advances against Term Deposits, NSCs, KVP/IVP

- Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and Life Insurance policies need not be treated as NPAs, provided sufficient margin is available in such accounts
- Advances against gold ornaments, government securities and all other securities are not covered by this exemption

Loans with moratorium for payment of interest

- In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected
- In case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/ advances should be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates

Agricultural advances

- A loan granted for short duration crops will be treated as NPA, if the installment of principal or

interest there on remains overdue for two crop seasons

- A loan granted for long duration crops will be treated as NPAs if the installment of principal or interest there on remains overdue for one crop season (Long duration crop would be crops with crop season longer than one year). The crop season for each crop, which means the period up to harvesting of crops raised would be determined by the SLBC. Depending upon the duration of crops raised by an agriculturist the above NPA norms would also be made applicable to agricultural terms loans availed by him
- Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-scheduling of the repayment period and the sanctioning of fresh short term loan subject guidelines of RBI circular FIDD.NO.FSD.BC.52/05.10.001/2014-15 dated March 25, 2015
- In such cases of conversion or re- scheduling, the term loan as well as fresh short-term loan may be treated as current dues and need not be classified as NPA. The asset classification of these loans would thereafter be governed by the revised terms and conditions and would be treated as NPA if interest and/ or installment of principal remains overdue for two crop seasons or one crop season as the case may be
- While fixing the repayment schedule in case of rural housing advances granted to agriculturists under Indira Awas Yojana and Golden Jubilee Rural Housing Finance Scheme, the interest/ installment payable on such advances are to be linked to crop cycles
- Document of SLBC and where the timelines will be available

Government guaranteed advances

- The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of government guaranteed advances as NPA is not for the purpose of recognition of income
- The requirement of invocation of guarantee has been delinked for deciding the asset classification and provisioning requirements in respect of State Government guaranteed exposure. With effect from the year ending 31-3-2006 State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/ or principal or any other amount due to the bank remains overdue for more than 90 days
- Investments where IRAC norms are applicable will be governed by Investment policy
- Project under implementation

For all projects financed by the FIs/ banks, the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project should be clearly spelt out at the time of financial closure of the project and the same should be formally documented. These should also be documented in the appraisal note by the bank during sanction of the loan.

Project loans

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring/ rescheduling of loans by banks. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations. For this purpose, all project loans have been divided into the following two categories:

- Project loans for infrastructure sector
- Project loans for non-infrastructure sector

For the purpose of these guidelines, 'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Further, infrastructure sector is a sector as defined in extant harmonized master list of infrastructures of RBI.

Provisioning Norms

Loss Asset

The entire asset should be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

Sub Standard and Doubtful Assets

100 per cent of the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse, and the realizable value is estimated on a realistic basis.

In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 15 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%) Secured	Provision requirement (%) Unsecured
Sub Standard	15	25
D1 – Up to one year in doubtful category	25	100
D2 – One to three years in doubtful category	40	100
D3 – More than three years in doubtful category	100	100

Valuation of security for provisioning purposes:

- For NPAs with balance of Rs. 5 Crore and above, Stock audit at annual intervals should be done by external agencies, appointed as per the guidelines approved by the Board in order to enhance the reliability on stock valuation
- Collaterals such as immovable properties charged in favor of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

Standard assets

The provisioning requirements for all types of standard assets shall be as per extant guidelines of RBI. The provisions on standard assets should not be reckoned for arriving at net NPAs. The various other guidelines on netting off, provision for Medium Enterprises, etc. are provided in the Master Circular of RBI.

Collections

Introduction

- The Collection and Recovery policy of SSFB is built around dignity and respect to customers. Bank shall not follow policies that are unduly coercive in collection of dues
- The policy is built on courtesy, fair treatment and persuasion. SSFB believes in following fair practices with regards to collection of dues and thereby fostering customer confidence and long-term relationship
- The repayment schedule for any loan sanctioned by SSFB shall be fixed taking into account the paying capacity and cash flow pattern of the borrower

- SSFB shall keep the customer informed of 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
- SSFB would encourage the customers to adhere to the repayment schedule agreed to and approach SSFB for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

Collection Guidelines

If the customer does not adhere to the repayment schedule, a defined process in accordance with the laws of the land and the customer's contract with the Bank will be followed for recovery of dues. The process will involve reminding the customer by sending him/her a notice or by making personal visits/calls and/or repossession of security if any;

- Periodical visits/calls/follow-ups shall be made by the staff responsible to ensure collection
- Late repayment fees shall be collected along with the instalment due as specified under the product program
- SSFB would respect privacy of its borrowers
- SSFB is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and bank will adopt civil manners for interaction with borrowers
- Normally SSFB's representatives will contact the borrower between 0700 hrs. and before dusk. Unless the special circumstance of his / her business or occupation requires SSFB to contact at a different time
- 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 or at the place of business / occupation
- Identity and authority of persons authorized to represent bank for follow up and recovery of dues would be made known to the borrowers at the first instance. SSFB staff or any person authorized to represent the bank in collection of dues or / and secured assets, repossession will identify himself / herself and display the authority letter issued by the SSFB upon request
- Borrower's request to avoid calls at a particular time or at a particular place would be honored as far as possible
- SSFB will document the efforts made for the recovery of dues and the copies of communication set to customers, if any, will be kept on record
- Inappropriate occasions such as bereavement in the family or such other calamitous occasions and important social functions such as marriages will be avoided for making calls / visits to collect dues
- If any staff is found to violate appropriate collection practices, then he/she will be liable for disciplinary actions as per HR policies of the organization.

Recovery and Resolution of NPAs

Introduction

Continuous and focused follow up on a regular basis is the underlying principle for good recovery and also for identifying genuine problems of the borrowers so that timely assistance can be extended to correct any temporary mismatch of the cash flow/ review of repayment schedule etc

- Endeavour should be to prevent the asset from becoming NPA rather than applying remedial measures at post NPA stage
- Timely restructuring / rehabilitation in deserving cases should be ensured

- Bank may opt for One Time Settlement where chances of entire recovery are remote /time consuming
- Bank may consider Sale of NPA assets to ARCs/Banks/FIs
- Bank will enforce the provisions of identifying and declaring willful defaulters in accordance with R.B.I guidelines¹. General consistency in approach is expected while dealing with willful defaulters.

Resolution Mechanisms

Upgradation of NPA Accounts

As soon as an account turns in to NPA, efforts should be made by the branch to collect all the arrears such as interest or overdue EMI in the account to avoid further slippage in the asset class. When all the arrears, including interest and/or installments/overdue EMI and all suspended outgoings in the NPA account are fully paid, the Recovery Unit should consider upgrading the account. However, in case of accounts where review of credit facilities are prescribed or drawing is linked to drawing power, bank should take up review of the limits with the concerned authority with all required documents and only on renewal of the limit the accounts should be upgraded and allowed to be continued.

Accounts where deficiencies observed are due to temporary in nature SSFB may consider such accounts for restructuring upon request of the borrower and the account will be upgraded post satisfactory conduct of the account for the period of one year from the date of restructuring.

Closure of NPA Accounts

As soon as an account turns into NPA, efforts should be made by the branch to upgrade an account. However, many times the efforts of the branches to upgrade the account proves to be futile due to willful default, poor financial position etc. of the borrower. Branches and Recovery department must identify such accounts and act immediately post NPA for recalling the NPA account and start legal actions as mentioned in para 6.4.

Write off/Waiving of Legal action

- If the borrower has no means to pay and SSFB is convinced that the dues are irrecoverable, SSFB shall waive legal action and write off the amount
- Waiver of legal action/write off can be permitted only when the authorized functionary is satisfied that the borrower has no tangible security or any attachable assets, has no adequate income for repayment and no useful purpose will be served by resorting to legal recourse. However, initiation of Revenue Recovery measures (wherever applicable) may be explored before waiver of legal action
- For proposals backed by Govt. sponsored schemes, waiver of legal action shall be obtained from one level higher than the sanctioning authority
- Write-offs shall be approved by the designated approval authorities as per the Delegation of Authority of the SSFB
- Norms for prudential write off and technical write off are mentioned in Recovery and Collections Manual.

¹ Master Circular on Wilful Defaulters

https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9044

Exit Strategy

SSFB may consider exit/exposure reduction on accounts gone into recovery or on accounts where the return on capital is not commensurate with their overall strategy. Since an exit strategy result in cessation of the relationship with a customer, approval for the same shall be obtained as per the Recovery and Collections Manual.

Tools for Recovery

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

- Rehabilitation
- Rescheduling/Restructuring
- Corrective action plan for MSME
- Settlement/ Compromise
- Legal Action
- Write-off
- Engagement of Collection Agency, Recovery Agents, Detective and Investigative agencies
- Sell down to Asset Reconstruction Company (ARC) / other entities
- Other Tools.

Rehabilitation

This represents those accounts where the borrower is willing to repay his dues to SSFB but does not have the capacity/funds to do so right away. In such cases, the recovery team should examine the causes of sickness and recommend the course of action. The first focus of NPA management in such cases will be possible up gradation of the loan, by rehabilitation of the borrower's business.

The rehabilitation option will be examined in cases where there is prima facie scope for restoring viability of the business. The action plan will be put in place in such cases where it is possible to bring the unit back into good health by extending minimum additional funds and marginal concessions by which the unit will be able to meet its obligations fully within a maximum period of 5-7 years.

The rehabilitation approach will generally be adopted provided SSFB is satisfied that:

- Eligibility criteria and regulatory guidelines with respect to restructuring are fulfilled
- The loan has become an NPA due to factors other than lack of integrity on the part of the promoters
- Genuineness of the obligor and viability of the proposal is established
- There is prima facie case for considering such a proposal

The following steps can be taken to rehabilitate the unit so that it may gain enough strength to service the borrowings over a period of time:

- Revision of interest and/or reschedule of instalments
- Making available need based minimum additional funds. SSFB may explore taking additional securities for such exposure
- In cases where the credit requirements of a borrower are being met by a number of institutions under consortium/multiple banking arrangements, SSFB shall be in continuous touch with other lenders to the borrower and shall keep a close watch over their contemplated actions

Rescheduling/Restructuring

Types of Rescheduling

Loan Rescheduling

The appropriate authority shall be entitled to authorize a change in repayment terms and structures of a customer's loan post thorough assessment of the customer's inability to repay as per the original terms.

- New rescheduled loan shall be opened by aggregating the sum of principal and all outstanding loans
- The current rate of interest shall be taken into account
- Tenor shall be determined basis the finalized instalment amount.
 - Procedural Rescheduling
Procedural/ Technical rescheduling shall include repayment window changes, product type changes and incorrect loan bookings
 - Repayment Holiday
Repayment holiday is a special provision which shall be given to customers who are exposed to economic losses caused by natural or man-made disasters, e.g.: demolition drives from the Govt, flood or fire destructions or sudden strikes or bandhs. As an instant relief measure, customers shall be allowed to skip repayment of interest or principle or all/other dues for a specified period depending on the extent of distress caused to the customer and the surroundings
 - Change in repayment schedule due to RBI/government guidelines

Procedural Guidelines for Restructuring due to borrower's inability to pay

This approach will be adopted by SSFB:

Only if the borrower is not a willful defaulter. However, the Committee may review the reasons for classification of the borrower as a willful defaulter and satisfy itself that the borrower is in a position to rectify the willful default. The decision to restructure such cases shall have the approval of the Board, along with the recommendation of the Committee which has classified the borrower as willful defaulter.

- If there is commitment from the promoters for extending their personal guarantee along with their net worth statement supported by copies of legal titles to assets
- It should be noted that any deviation from the commitment by the borrowers affecting the security of recoverability of the loan may be treated as a valid factor for initiating recovery process
- Cases of Frauds and Malfeasance will be ineligible for restructuring. However, in cases of fraud / malfeasance where the existing promoters are replaced by new promoters and the borrower is totally delinked from such erstwhile promoters / management, banks and the Committee may take a view on restructuring of such accounts based on their viability, without prejudice to the continuance of criminal action against the erstwhile promoters/ management
- Further, such accounts may also be eligible for asset classification benefits available on refinancing after change in ownership, if such change in ownership is carried out under guidelines contained in circular on "Prudential Norms on Change in Ownership of Borrowing Entities(Outside Strategic Debt Restructuring Scheme)"
- If there are crisis of the borrower is temporary in nature and committee is satisfied of the future source of income of the borrower
- The restructuring package shall stipulate the timeline during which certain viability milestones such as improvement in certain financial ratios may be achieved (only applicable for business loans)

Corrective Action Plan for MSMEs2

Rectification- This approach will be adopted by SSFB after:

- Obtaining a commitment, specifying actions and timelines, from the borrower to regularize the

account so that the account comes out of the SMA status or does not slip into the NPA category

- The commitment should be supported with identifiable cash flows within the required period and without involving any loss or sacrifice on the part of the existing lenders
- The process should ideally be borrower driven but in certain exceptional cases the Committee³ may consider providing need based additional finance intended only for meeting unavoidable increased working capital requirement
- Such additional finance should be regularized within a maximum period of 6 months
- Repeated rectification with funding within a year, will be treated as restructuring
- No additional finance to be sanctioned where the account has been reported as fraud by any lender.

Settlement/Compromise⁴

- Compromise settlement refers to a negotiated settlement where a borrower offers to pay and SSFB agrees to accept in full and final settlement of its dues an amount less than the total amount due to them 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 designated approval authorities as per the Delegation of Authority of SSFB
- 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:
 - Bank may take up a compromise 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 SSFB 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 SSFB
 - In case the borrower has other group, companies dealing with the SSFB, 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
 - At the time of One Time Settlement negotiation when OTS amount is proposed to be paid in instalments 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

² Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)
https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10304

Details of MSME account monitoring and subsequent CAP are covered in the Credit Policy

³ Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises (MSMEs)

⁴ Refer Appendix VII for more detail and process

- 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, salability 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, MD and Chief Risk Officer jointly will be the permitting authority for such modifications
- In the case of sacrifice of undebated Interest, the same may be calculated at SSFBs prevailing Base Rate (Simple) or the contracted rate/interest claim in the plaint/decreed rate (simple)
- 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
- Wherever OTS amount is funded by other Banks/Financial Institutions/NBFCs/ARC or any other entities/individuals, SSFB may assign the debt/ securities in their favor. In such cases, the guidelines framed for sale of financial assets will not apply
- Steps in this direction may be initiated at any stage, keeping the best interests of the bank. The borrowers approaching for settlement under this may be given graded preference for arriving at the amount of sacrifice, depending upon which stage the impaired assets is in the recovery path/asset class-i.e. Sub-standard/doubtful/suit filed but in early stages/suit filed on the verge of decree or decreed and DC obtained etc. bank may consider write off of a part of the loan balance amount/remission of interest/waiver of interest or a combination of the same for arriving at the negotiated settlement.

Legal Action

Legal Recovery proceedings would be initiated against the borrower/ guarantor wherever exit, restructuring and rehabilitation or settlement / compromise have been exhausted or are not possible.

All legal recovery actions shall be approved by the designated approval authorities as per the Delegation of Authority of the SSFB in recovery and collections manual. In cases of willful default, (e.g. diversion and siphoning of funds), fraud and malfeasance on the part of the borrower, legal action may be the first and only option for recovery, as any other option of recovery would not be appropriate.

The legal recovery options in respect of NPA borrowers are summarized below:

Action under SARFAESI Act 2002

The provision of SARFAESI Act 2002 has proved an effective tool in recovering the dues in assets wherever they are secured by security assets and the outstanding is above Rs 1 lakh without much of additional expenditure/ delay. Action under SARFAESI Act should be initiated if the recall letter does not evoke the desired results as per the procedure laid down in the Act. The recovery teams should submit the details of the account in the prescribed format given in Recovery and Collections Manual, to the Legal Department for initiating the action.

Wherever possible action for enforcement of security under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest ("SARFAESI") Act, 2002⁵ should be taken as per the

procedures defined in the Recovery and Collections Manual.

All assets hypothecated to SSFB may be seized / repossessed subject to the following:

- Assets hypothecated/mortgaged to SSFB under all NPA borrowal accounts may be seized/ repossessed provided such seizure / repossession is legally permitted
- A Notice under section 13(2) indicating the proposed action should be served to the borrower giving them due time to regularize / close the account and only on failure of the borrower to comply, the action should follow
- Hypothecated/mortgaged assets should be seized as soon as possible after the expiry of the notice period if the account is not closed
- After a certain period has passed post taking possession of the assets, if the borrower does not come for regularization/closure/settling the dues, valuation of the assets seized shall be obtained through SSFB's board approved valuers
- Arrangement to dispose-off the assets seized shall be made for taking possession of such assets upon failure of the borrower to clear the dues and getting the assets released
- Assistance of professional seizing agents may be availed for the purpose of seizure and safe keeping of the assets seized

Use of Judicial Process

Revenue Recovery:

- In the case of advances that are not covered sufficiently by collateral security, if the accounts are not regularized within the recall notice period, the branches will consolidate details of all their accounts and send it to the Legal Department who will make an application to district authorities to initiate Revenue Recovery measures wherever RR Act is in force. The process of initiation of Revenue Recovery measure should be completed within 45 days of classification of the account as NPA so that dues are recovered as early as possible without going to Civil Court
- In the case of loans under Government sponsored accounts, the fact of the account turning in to NPA, the non-availability/loss of assets financed by the bank should be brought to the notice of the concerned agency also who have recommended/implemented the scheme such as Dist. Industries Center etc. and their help should be sought in solving the issue

Civil Suits and DRT:

- It is experienced that sometimes the process of persuasion or even action through SARFAESI Act fails to evoke the desired result of recovery/upgradation in the impaired accounts in some cases. In such cases and also under certain circumstances it may become necessary to resort to legal measure for recovering the dues to the bank. In all cases where legal action in civil courts/DRTs is contemplated the recovery process shall be initiated immediately in case limitation period is expiring or after reaching a conclusion that rehabilitation and other avenues of recovery have been exhausted. In case it is observed that the borrower is trying to dispose-off the securities, or the value of securities is eroding for some other reasons, to protect SSFB's interest and prevent dilution of securities, suits should be filed against the borrower/guarantors forthwith. The Bank may approach the courts for granting attachment before judgement⁶ whereby the Bank shall be able to realize the amount of the decree
- Simultaneous with filing of suits, efforts would be made, through process of law, for forcing the borrower/guarantor to declare all their assets on oath and towards obtaining the

⁵ Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

<http://www.drati.nic.in/Docu/Securitisation-Act.pdf>

injunction/garnishee against disposal of assets/receivables and for realization of available securities and impounding the passports of the borrower/directors/guarantors. Necessary application for this purpose shall be filed with DRT/competent courts. Attempts shall also be made for obtaining interim decrees on the basis of admission of debt at any stage by the borrower

- Suit should be filed before courts/DRT as the case may be in the following cases:
 - Where documents are getting time barred by limitation before 30 days
 - Where there are chances of removing of the hypothecated assets by the borrower (praying attachment before judgment) on the same day
 - Where the borrower or the creator of EM is indulging in activity to defeat the interest of the bank on the security property on the same day of knowing about it
 - Wherever fraud is reported on the same day of knowing about it
 - Wherever the borrower/guarantor is engaged in delaying tactics with regard to either paying the dues or any other recovery measures initiated by the bank within 7 days
 - In any other case the bank feels it fit within 7 days
- However, decision to file suit for recovery monies should be taken as a last resort after exhausting all persuasion measures including SARFAESI proceedings and after due consideration of the securities/assets/means available with the borrower/guarantor. Filing of suit should be decided by the delegates as per the powers conferred on them based on the Recovery and Collections Manual.
- In applicable cases, along with the action under SARFAESI Act, filing of cases in DRT shall happen to exert pressure on the borrower

Arbitration:

Wherever it is not feasible to file the case in DRT/ Civil Suit, SSFB will file the case under arbitration for relief.

Criminal Suit:

- Initiating criminal action against borrowers wherever it is found that the borrower has been fraudulent in his dealings with SSFB and there is a case of misrepresentation and/or diversion, cheating, criminal breach of trust, using forged documents, dishonest or fraudulent removal or concealment of property etc.
- Cases under section 138 of CRPC for cheque bouncing. The bank may also consider filing of case under Section 25 of PSS Act for dishonor of ECS/NACH mandate due to insufficient funds

NCLT:

- Wherever feasible, winding up petition shall be filed against the companies as a measure of recovery of money as well as for exerting pressure upon the defaulting borrowers
- SSFBs may also consider filing of Insolvency Petitions against individual borrower/ guarantors or companies

Engagement of Collection Agency, Recovery Agents, Detective, and Investigative agencies:

SSFB may utilize the services of external agencies for collection of dues, repossession of securities and other activities to support collections & recoveries. Agents will be appointed as per regulatory guidelines⁷ issued in this regard. In this respect:

- The name and address of all Outsourced Agents on SSFB's approved panel will be placed on their website for information

⁴ Refer Order XXXVIII, Arrest and Attachment Before Judgement, The Code Of Civil Procedure, 1908

- Only agents from the approved panels will be engaged by SSFB
- In case bank engages service of such recovery/enforcement/seizure agent for any recovery case, the identity of the agent will be disclosed to the borrower
- The recovery agents engaged by SSFB will be required to follow a code of conduct⁸ covering their dealings with customers

Sell down to Securitization/ Restructuring Company/other entities

- In some NPA accounts, recovery proceedings reach a stalemate for various reasons due to which resolution of such NPA gets delayed. This is particularly so in consortium/multiple finance accounts, where the borrowers take advantage of the lack of consensus among member banks to stall the recovery proceedings. In such cases, debt aggregation by an ARC/aggregator Bank may be the better way out for an early resolution of the NPA
- It is also an established practice in Banking Industry to Sell NPAs on portfolio-basis/segment-wise viz., Retail Credit advances such as: Housing Loans, Vehicle loans etc. Individual accounts under these segments though small in value but very voluminous in nature warranting valuable time of SSFB for follow-up and recovery
- It is also observed recently that there are situations where majority of the lenders have classified the accounts as NPA with a few lenders classifying the said account as Standard Assets. There is also situation where majority of the lenders have classified financial assets as SMA-2 which is reported to Central Repository for Information on Large Credit as per RBI guidelines⁹ and is expected to become NPA within a short period. In order to reap higher return from ARCs, RBI is encouraging banks to consider sale of such assets at the initial stage and has offered incentive by spreading the losses over a period of two years
- The basic strategy underlying the approach to management of problem accounts is to focus on initiation of appropriate preventive corrective action at the right time. All stressed accounts shall be closely and continuously monitored
- Policy on sale of non-performing assets to ARC has been separately framed and got approved by the board. This policy aims to address operational issues in portfolio sales of NPAs as well as standard assets. Asset selection for the purpose of sale under this policy shall be done by Recovery Department at CO in consultation with Cluster Heads. All NPA accounts shall be eligible for sale. Managing Director and CEO shall decide on the assets that can be brought to sale to ARC. A note on this shall be placed before the Board for approval of the upset price. The modus operandi and other details on asset valuation and pricing, preparation of data sheets, expression of interest, offers and fixation of reserve price, approval of sale price, and accounting for sale have been covered in detail in Recover and collection manual
- The condition “acceptance of a bid which is above the reserve price and a minimum of 50% of sale proceeds is in cash is mandatory” set out in the Master Circular on IRAC norms dated 01.07.2014 of Reserve Bank of India has been accepted by Bank in principle. The individual cases are referred to Board for approval

⁵ RBI Circular on Recovery Agents engaged by Banks

<https://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?I347>

7

⁶ “Recovery Agents should adhere to extant instructions on Fair Practices Code for lending (Circular DBOD. Leg. No. BC.104 /09.07.007 /2002-03 dated 5th May 2003) as also their own code for collection of dues. If the banks do not have their own code they should, at the minimum, adopt the Indian Banks Association's code for collection of dues and repossession of Security”. Refer Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks, RBI/2006/167 DBOD.NO.BP. 40/ 21.04.158/ 2006-07 dated November 3, 2006 <https://rbi.org.in/scripts/NotificationUser.aspx?Id=3148&Mode=0>

Other Tools:

- Exercise right of general lien and set off, in respect of all accounts of borrower at any of the branches, before initiating legal proceedings but after giving due notice to the concerned
- The guarantors may be pressurized to expedite repayment of the dues. Separate meetings with guarantors can be arranged for this purpose where repercussions of legal actions upon them and need for their exerting pressure upon borrowers for repayment/regularization may be explained at length
- Reporting the borrower/directors as willful defaulter to RBI after following prescribed procedure

Miscellaneous

Giving notice to borrowers

While written communications, telephonic reminders or visits by SSFB's representatives to the borrowers' place or residence will be used as loan follow up measures, SSFB 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 SSFB before initiating recovery measures. Bank shall follow all such procedures as required under law for recovery / repossession of secured assets.

Reporting of Non-Cooperative Borrowers

A non-cooperative borrower is a defaulter who deliberately stone walls legitimate efforts of the lender to recover their dues. As per the RBI guidelines, the information on such a borrower is to be reported to Central Repository of Information on Large Credits (CRILC).¹⁰

Internal record keeping for blacklisted / negative individuals

The bank should maintain an internal list of accounts that are not fit to be extending credit facilities to. This would be based on the following:

- List shared by RBI and other regulatory agencies
- Past defaulters where conduct of the borrower was fraudulent
- Any other past defaulters in the organization which are recommended for inclusion in this list by relevant authority in the bank

Security type wise policy

This section outlines different recovery measures based on the type of security available in an NPA account.

Self-Occupied Property

It is noted that most of the times the borrower does not handover the peaceful possession of the security to the bank. In such scenario bank can file an application to the DM/ CMM for providing police protection to the bank officers for taking physical possession of the security under section 14 of SARFAESI Act.

Tenanted Properties / Lease hold Mortgaged properties

Tenanted/ Leased properties are the matter of great concern for the banks due to difficulties faced while taking physical possession of the security. SSFB shall follow the below process as per the Law time being in

RBI Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8754&Mode=0>

force

- Authorized Officer of SSFB has to take symbolic possession u/s 13(4) by delivering, affixing and publishing the possession notice, which will be a notice to the tenants as well
- Bona Fide tenants have to approach the authorized officer/DM/CMM for redressal of their grievances/ claims relating to tenancy and not to DRT u/s 17 of SARFAESI Act and submit their documentary proof their legal tenancy

Important guidelines laid down by the Hon'ble Supreme Court for the CMM/DM to decide on the legality of tenancy/ taking possession of property/are:

- Any lease for more than a year to be by way of registered deed only (Sec. 107 of TP Act). However, provided that such lease deed should not be for a period more than three years and if the lease if the lease is expired, it may be treated as determined
- Oral lease valid for not more than a year from the date of giving Possession
- Any lease created after the receipt of demand notice u/s 13(2) is not a valid lease
- In respect of tenancy created prior to the mortgage, possession cannot be taken till the expiry of such lease or till determination of tenancy u/s 111 of RP Act. i.e. by implied surrender
- In respect of tenancy created under section 65A of Transfer of Property Act 1882, possession cannot be taken till the expiry of such lease

Stock, Plant & Machinery and book debts/ receivables etc.

It may be noted that where security is held by way of hypothecation charge on the moveable assets of the borrower, the SSFB must enforce the security interest as we are secured creditors and have every right to file application to DM/CMM under section 14 of SARFAESI Act for taking possession of the security. Further field level functionaries should take the under- mentioned precautions/ steps to safeguard their interest:

- Before the notice under section 13(2) is issued a thorough inspection of securities that are hypothecated to the bank must be undertaken and comprehensive report should be made, detailing completely the securities available at the time of inspection. Most importantly both the bank official and the authorized signatory of the borrower must sign the inspection report
- Details of all the book debt along with the name of the parties along with address must also be obtained during inspection
- If there is an apprehension that the borrower may dispose of the asset's charges to the bank, required security arrangement (if needed) should be made to ensure that the securities charges to the bank are not disposed of, except in the normal course of business
- With regard to collection of the hypothecated receivables due to the borrower, notice needs to be issued under section 13(4)(d) of SARFAESI Act. to all secured debtors for paying the dues of the borrower directly to the bank. The amount so received from the debtors of the borrower should be credited to the NPA account of the borrower and necessary records be maintained relating to recovery from such secured debtors

Nursing Homes, Hospital, Schools etc.

It is generally observed that the officers of the banks are hesitant in taking physical possession of the secured assets of the Nursing Homes/ Hospitals/ schools mortgaged to the bank. It is considered "difficult to remove/ shift patients/ students admitted in the Nursing Homes/ Hospitals/ Schools". The job being sensitive the physical possession of the property is generally ignored in most of the cases. In this connection, it

Refer Appendix VI for more detail

is suggested, that with a view to avoid any adverse situation the bank may adopt the following system to avoid hurdles in taking the physical possession/ selling the mortgaged property. It is advisable that the bank sale the secured asset based on symbolic possession on “as is where is, whatever there is and without recourse basis”. In this connection it may be noted that as per ruling by the Hon’ble Supreme Court (in the case of M/s Transcore v/s Union of India) there is no dichotomy between symbolic and actual possession under the SARFAESI Act. In the view of said verdict bank is permitted to sell the immovable property on symbolic possession through one of the prescribed modes.

It is advisable that the Bank may take the following steps for taking physical possession of the secured assets:

- **Persuasion with the borrower:** It is also advisable that the Bank/ Court Receiver should make every possible effort to persuade the borrower for handing-over peaceful possession. It is possible that keeping in view the humanitarian grounds and to avoid the inconvenience to the patients he may agree to handover the actual possession of the premises peacefully. In case the borrower does not co-operate, the bank/ court receiver should proceed to take actual possession as per the procedure suggested hereunder:
- **Procedure for taking Actual Possession:** Looking to the sensitivity in taking the physical possession the bank may adopt the following procedure before taking the actual possession:
- The bank should apply to the DM/CMM u/s 14 of SARFAESI for the police assistance along with the appointment of a duty magistrate for taking the actual possession
- The court Receiver so appointed by the Hon’ble DM/CMM should give notice to the borrower and also affix/ display a notice at the conspicuous place of the building that the possession of the premises shall be taken on so and so date and time.
- **Notice to General Public:** The bank should give wide publicity in the local newspaper by giving Public Notice in two newspapers- one out of which should be in vernacular language, the bank may also advertise in the local news channel being run by cable operator, informing the public about the Bank’s intention of taking physical possession of the property cautioning/ requesting to the patients and relatives to make alternative arrangements before a specific date.

Caution: It may be noted that the secured creditor should make arrangements in coordination with concerned official of the Atomic Energy Regulatory Board before possession/removal of Telecobalt unit and any other such equipment which is of sensitive nature.

Possession of Abandoned Movable/ Immovable Properties:

There are cases in which the borrower leaves the property unattended and flees away without any notice. Such properties are not even properly locked and remain vacant for a long period. The bank may treat such properties as abandoned properties and may go in for taking actual possession of such mortgaged / charged property by informing the concerned police authorities before and after the actual possession to avoid adverse complaints (The authorized office may handover the copy of the written communication to respective office of the SP, if deemed necessary). Possession notice should be published in two local newspapers within seven days from the date of possession.

Undivided immovable properties

It has been experienced that in some cases immovable property mortgaged with the bank is merged with other properties and requires demarcation. The authorized officer should ensure that before taking over the symbolic/ actual possession of the specific portion of the Plot/ House/ floor etc. demarcation is available and in special case the specific property is not identifiable the authorized officer should file an application

to the concerned revenue / municipal authority/ development authority and get the property demarked as per the records of the bank i.e. as mentioned in the respective title deed(s).

- In case of demarcation of vacant plot/ Farmhouse etc. it is suggested that the authorized officer should obtain copy of relative revenue records i.e. Khatauni & Aks Sizra (Site Plan), Jamabandi etc. from the village patwari and make a submission to the concerned Revenue authority i.e. Sub Divisional
- Magistrate/ Tehsildar for demarcation of the boundaries of the property mortgaged with the bank. The mortgaged property be got physically demarcated from the village patwari on the spot and the boundaries should be got marked by the fencing or by fixing stone pillars at the boundaries. The authorized officer should also ensure that bank's lien is noted in the revenue authorities as above
- In case of multiple dwelling units situated in the municipal area, it is suggested that the necessary help of the concerned local authority i.e. municipal council/ corporation/State Development authority/ Panchayat/Village Patwari/ revenue/ other development authorities be taken for identification of specific portion of the mortgaged property and if required, a partition be got done on the spot

Sealed properties by the Government departments:

- It has been observed that in some cases it is found that the mortgaged property has already been sealed by some Govt. departments i.e. Municipal Corporation/ Income Tax/ Sales Tax or some other department against their pending dues etc. In such situation authorized officer must take photographs of the notices if found having displayed by the concerned department
- The authorized officer must gather all the information regarding the action taken by the concerned department
- On receipt of information the authorized officer should proceed further for initiating the suitable action for removal of the seals of the concerned department even, if required by filing a petition before the competent court, to protect their interest, in accordance with the prevailing laws
- **Important:** It may be noted that under provisions of section 26E of SARAFESI Act, the secured creditor shall have the priority over all other dues of State/ Central Government

Agriculture Properties

- The provisions of section 31(i) of SARFAESI Act specifically bars the secured creditors to take action on Agriculture Properties under SARFAESI Act
- Hence the Bank has to file a case against the borrower in competent court for taking possession of the Agriculture Security

Sale of secured Asset

Repossession and initiation of sale of secured asset

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. SSFB 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.

Valuation and sale of secured assets repossessed by SSFB shall be carried out as per law and in a fair and transparent manner. SSFB shall have right to recover from the borrower the balance due if any, after sale of

secured assets. 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 SSFB is not having any other claims against the customer. Bank's right to general lien and its implications shall be made clear to the borrower while executing the loan documents. Please refer to the bank's Credit Policy for details related to the valuation of securities.

In the case of hypothecated assets after taking possession if no payment is forthcoming, a sale notice of 30 days' time to respond will be sent to the borrower. Thereafter, SSFB shall arrange for sale of the hypothecated assets in such manner as deemed fit by SSFB. In respect of cases under SARFAESI Act as per the provisions of the Act, 30 days' notice of sale shall be sent. When public auction or by tender is envisaged, the same shall be published in two leading newspapers out of which one is in local vernacular paper.

Opportunity for the borrower to take back the secured assets

SSFB shall resort to repossession of secured assets only for the purpose of realization of its dues as the last resort and not with intention of depriving the borrower of the secured assets. Accordingly, SSFB shall be willing to consider handing over possession of secured assets to the borrower after repossession and before concluding sale transaction of the secured assets, provided SSFB dues are cleared in full. If satisfied with the genuineness of borrower's inability to pay the loan instalments as per the schedule, which resulted in the repossession of secured assets, SSFB may consider handing over the secured assets after receiving the instalments in arrears. However, this would be subject to giving an undertaking by the borrower to repay the remaining instalments / dues in future and to maintain the loan account as performing asset until closure of the account as per the terms of the loan agreements(s) to the satisfaction of SSFB.

If the amounts are repaid, either as stipulated by SSFB or dues settled as agreed to, possession of seized assets shall be handed back to the borrower within 7 working days after date of permission from the competent authority of SSFB or Court/DRT concerned if recovery proceedings are filed and pending before such forums.

- **Sale of different types of securities**

- Sale of Pledged Stock, Gold Etc.
- Securities such as stock, Gold etc. pledged to the credit facilities classified as NPA shall be sold according to due process of law
- It should be ensured that the securities pledged only be sold by the way of public auction
- The borrower should be advised from time to time, in writing, about the sale of the securities

- **Sale of Security under SARFAESI Act 2002.**

- After taking possession, the Authorized Officer shall obtain estimated value if considered necessary and shall fix the reserve price of the assets to be sold after taking approval from sanctioning authority mentioned in delegation of power matrix
- The valuation for the realizable value of the assets be got done by the approved valuer. The valuer must be registered under section 34AB of the Wealth- tax Act, 1957 dealing with such type of assets and duly approved by the BOD of the bank
- Sale of movables/ immovable secured assets can be affected by any of the following four modes, i.e.,
 - a) By obtaining quotation from the persons dealing with similar secured assets or otherwise interested in buying such assets
 - b) By inviting tenders from the public
 - c) By holding public auction (including e-auction mode as per Rule 6 (1) & Rule 8 (2a)) for

- d) moveable or immovable assets respectively
- e) By private treaty

- **Sale through Private Treaty & by obtaining quotations:**

- The sale conducted by SSFB under private treaty or by quotations shall be on such terms as may be settled between the secured creditors and the proposed purchaser on writing. (Rule 6 & 8)
- Thirty days' notice must be given to the borrower before effecting the sale of secured assets
- It may be noted that if the sale of secured assets by any one method specified under 6.4.2. fails and if secured assets are required to be sold again, the authorized officer shall serve the notice of 15 days to the borrower for any subsequent sale
- It is pertinent to note that after failure of the first sale of such secured assets, only 15 days' notice is required to be served for any subsequent sales
- On every sale purchaser shall pay 25% of the sale amount (including earnest money) to the authorized officer on being informed of the sale in his favor in writing and in default, the authorized officer shall forthwith resell the property
- The balance amount to be paid by the purchaser to the authorized officer on or before 15th day of sale or such extended period as may be agreed by and between bank and the purchaser, in any case not exceeding three months (from the date of confirmation of sale)
- In default of payment within the period mentioned hereinabove the deposit shall be forfeited and the property shall be resold by the authorized officer and the defaulting purchaser shall forfeit all his rights and claims to the property or any part of the sum for which it is subsequently sold

- **Sale through inviting public tender or by public auction including e-auction**

- In case sale is to be affected through tenders/ public auction/ e-auction, the authorized officer shall serve, affix and publish (in two leading newspapers, one of which should be in vernacular language having largest circulation in the locality) the notice of thirty days to the borrower before effecting the sale of secured assets
- Complete details must be mentioned in sale notice as under:
 - a) Details of borrower
 - b) Details of secured assets with quantity, identification, lot number etc.
 - c) Reserve price, time and manner of payment
 - d) Earnest money to be deposited
 - e) Time and venue of public auction
 - f) Any other issue which is considered relevant
- On every sale purchaser shall pay 25% of the sale amount (including earnest money) to the authorized officer on being informed of the sale in his favor in writing and in default, the authorized officer shall forthwith resell the property
- The balance amount to be paid by the purchaser to the authorized officer on or before 15th day of sale or such extended period as may be agreed by and between bank and the purchaser, in any case not exceeding three months (from the date of confirmation of sale)
- It is pertinent to note that after failure of the first sale of such secured assets, only 15 days' notice is required to be served for any subsequent sales

- **Sale of Tangible/Perishable movable property**

- If the properties are of the nature that is subject to speedy or natural decay or the cost of safe keeping them is likely to be more than the value of the goods, the Authorized Officer shall sell the same immediately after taking possession and completing formalities. Getting the property

valued will be at his discretion as delay in valuation may cost the bank heavily. Examples of such goods are chemicals, drugs, spices, groceries, etc. The Authorized Officer is required to issue sale certificate after completing the sale and if there is more than one buyer, issue separate sale certificates to each of them. The Authorized Officer shall in such cases recover full purchase price instantly. [Provisions to rule 4(3) of SARFAESI Act]

- **Caution** - A person not having a valid and proper license under the Indian Drugs and Cosmetics Act cannot sell some chemicals and drugs. Some drugs and medicines are to be sold against the doctor's prescription only which the Authorized Officer may not be knowing and yet some drugs and medicines may be having short expiry date which the Authorized Officer may not be knowing and may not come to know easily; therefore, taking possession thereof is risky. Since the Authorized Officer may not be having license in his name for sale of drugs, etc., it is advisable not to take possession of such goods
- Grocery items like spices, grains, packaged food also have limited shelf life which differs in each case and the Authorized Officer may not know expiry date with regard to each and every item. Even otherwise, rats and insects may also damage stored items which are required to be sold speedily, as these are perishable goods. [Proviso Rule 4(3) of SARFAESI Act]
- The Officer shall cause to be served upon the borrower notice of at least 30 days before starting process of sale (other than perishable goods)
- Sale shall be conducted as per the provisions of Movable and Immovable Assets

- **Sale by the way of Attachment in DRT**

- It is noticed many times that the security mortgaged with the bank does not fetch the amount required by the bank for its recovery. Or the account is unsecured, and no security is available with the bank. SSFB shall approach the DRT wherever applicable or competent court for attachment of other identified assets of the borrower
- The Presiding officer of DRT has ample powers to pass interim orders against the defendants and can pass orders for attachment of property of defendants during the pendency of proceedings

- **Sale of Movable Property**

- The RO shall issue a Proclamation in the language of the district of the intended sale, specifying time and place of sale
- The Proclamation shall be made by beating of drum or other customary method
- The sale shall take place at least 15 days after date of proclamation
- The property shall be sold by auction/public auction in one or more lots and if the amount to be realized is satisfied the sale shall be stopped for the balance lots
- The sale cannot be vitiated by any irregularity in publishing or conducting the sale, but any person sustaining substantial injury due to such irregularity may institute a suit in civil court.

- **Sale of Immovable Property**

- Attachment - The attachment shall be made by an order prohibiting the defaulter from transferring or creating a charge on it
- Service of Notice of Attachment: A copy of the order of attachment is to be served on the defaulter
- Proclamation of Attachment: The Proclamation shall be made by beating of drum or other customary method. A copy of the order is to be affixed on a conspicuous part of the property and notice board of the RO. It will be effective from the date of issue notice to pay the dues
- Other important points for conducting sale of immovable property:

- a) The RO shall issue a Proclamation of sale in the language of the district of intended sale, specifying time and place of sale
- b) The Proclamation shall be made by beating of drum or other customary method
- c) The sale shall take place at least 30 days after the date of Proclamation
- d) The property shall be sold by public auction to the highest bidder. The purchaser shall immediately pay 25 per cent of the purchase money complete the entire payment on or before 15 days of the date of sale
- e) In case of default of payment, the RO may forfeit the deposit and the property can be resold. The intending purchaser then forfeits all claims to the property.

Reassignment of Securities

For recovering the dues in NPA accounts, the bank takes measures right from follow up with the borrowers and in some cases, it goes till realization of the security assets through sale either under SARFAESI or by DRT. During the course of the process, we have come across situations where the sale was not successful even though the reserved prices fixed were much realistic. On some occasions the reserved prices were reduced over the previous sale to attract fresh bids and even then, there were no bidder for various reasons. In such situations, bank resorts to participating and bidding the secured asset in its name, to protect the interest of the bank. Thus, the secured asset gets assigned in the name of the bank. A situation may arise when the borrower may come forward on a future date with request to reassign the collateral security in his name (if he was the original owner of the asset). In that case, bank will be following the line of action/process explained below:

- It would be left to the ultimate discretion of bank whether to accept or not the offer of the borrower (original owner) and reassign the asset in his name
- If bank takes a decision to reassign the asset, the amount to be collected from the borrower (original owner of the asset), would be the higher of the following:
 - a) The market value of the asset prevailing at the time of reassignment OR
 - b) The dues payable by the borrower to bank at the time of reassignment
- The registration charges to be borne by the borrower.

Miscellaneous

Taking a lenient view in certain cases

Recovery shall be made in any manner that is deemed fit, proper and legal. The primary effort shall be to convert the impaired assets as performing ones or to get the account closed by persuasion, as far as feasible without resorting to legal action.

In cases where non-payment of the dues is due to circumstances beyond the control of the borrowers and if the bank is convinced that the unit/business can be brought back on rails, a lenient view may be taken so that remedial measures by re-scheduling/re-phasing of repayments/rehabilitation, with or without further funding, can be considered on merits.

Insurance cover for securities standing in the name(s) of borrower/co-obligants/guarantors

All assets charged to the bank as security are to be kept fully covered by insurance at all times, even after filing of civil suit for recovery of dues of the Bank. However, CMU /RU should ensure availability of the securities before renewing the policies.

Limitation

- Limitation should be kept alive at all times. Security document due date register should be

- maintained properly and all revival documents such as balance confirmation, acknowledgement of liability and acknowledgement of debt should be obtained from the borrowers/co-obligants/guarantors at regular intervals as per system in vogue. In case if there is no alternative but to initiate legal proceeding, the matter should be referred to the competent authority six months before the expiry of the limitation period. It should also be ensured that whenever remittances are made in the accounts by the obligants, they should be asked to sign the pay-in-slip in the same style and fashion in which they signed the loan documents. However, in no case limitation should be allowed to expire on the basis of documents/revival documents
- Process of revival of security document shall start 12 months before the due date of expiry and completed before 9 months of its expiry. List of accounts where revival has not happened before 6 months shall be reported to Regional Office & Central Office, Legal Department by branches.

Studies on staff lapse

An account may become non-performing on account of many reasons which may be within or beyond the control of the borrower. However, the aspect of staff accountability, if any in an account becoming NPA should be examined in respect of all accounts. The accounts are to be bifurcated into two categories:

- Quick Mortality accounts (i.e. accounts becoming NPA within six months of sanction)
- Other accounts as may be required at the close of every quarter

The study should be completed within a period of one month from the quarter. The review authority is shown below:

Examining Authority	Report to be submitted to
<p>A Committee comprising the following:</p> <ul style="list-style-type: none"> • Head-Credit Monitoring • Head – Recovery • Head – Internal Audit • Head - Credit <p>Details of the account (sanction terms, compliance, documentation, post sanction follow up etc.) from branch should be obtained as per the prescribed format provided in the Collections and Recovery Manual</p>	<p>Executive Committee of the Bank shall receive a detailed report in the prescribed format. The decision of the committee will be passed on to HR for further disciplinary action, if required.</p>

Granting of fresh loans to the NPA borrowers

Proposals for fresh credit limits to the NPA borrowers whose accounts were settled under OTS/ outstanding for any reason as indirect liability (either as individual/ proprietor or / partner/director of a firm/company or guarantor), should be considered strictly on merits by Credit Department at Head office. However, the borrowers shall not be willful defaulters or should not continue to be in the RBI defaulter’s list/CIBIL.