

NPA Policy

This NPA policy has been approved by Board of Director in their meeting held on 13th January 2020. Any revision made to this policy shall be with approval of Board of Directors only.

Applicability

This policy shall apply to all loans uin the Company. All officer /staffs involved in the sanction, disbursement and recovery of loans shall comply with NPA policy guidelines.

Objectives

- To stipulate a cut off date within which the repayment of loan shall be demanded or called up.
- To fix normal tenor of loans and to ensure proper communication is made in this regard, to the customers while sanctioning the loans/advances
- To reduce the Company's NPA level in absolute terms by preventing slippage of accounts and accelerating recoveries in the existing NPAs.
- To take a pro-active approach in finding solutions which could involve restructuring of loans if intent of borrower is positive.
- To make correct asset classification under RBI norms applicable to Company.
- To bring the practices in the Company relating to NPA in line with general practices and also within the premises of applicable RBI norms.

Definitions

1.Non-Performing Asset (NPA): NPA is a loan or advance for which principal or interest payment remained over due for a prescribed period of time and fails to generate any returns or income to the Company, more detailed in clauses of this policy.

2.Deemed NPA : the term "Deemed NPA" is used to refer is small tenure loan for which collection of interest or principal or part of principal/interest is performed by the company on daily basis which are deemed as NPA on completion of 6 months from date of maturity.

3.Overdue: Any amount due to the Company under any credit facility is 'overdue', if it is not paid on the due date fixed by the Company or as agreed between the customer and the company.

4.Compromise: Compromise means a negotiated settlement between the Company and the customer wherein efforts are made by company to recover the dues relating to loss assets/NPA accounts to the maximum extent possible at minimum expense and within shortest possible time frame.

Non-Performing Asset (NPA)

NPA is vital parameter to measure the financial position and future prospects of any NBFC/ Bank. To be categorized NPA, the loan shall fall under the definition of "NPA" or Deemed NPA". Time limits/cut off dates has to be followed for each loan product as per this policy.

As per present guidelines & prudential norms, "NPA means

- (a) an asset, in respect of which, interest has remained *overdue for a period of six months or more*;
- (b) a term loan inclusive of unpaid interest, when the instalment is *overdue for a period of six months or more* or on which interest amount remained *overdue for a period of six months or more*;
- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
- (d) a bill which remains overdue for a period of six months or more;

- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;
- (g) the lease rental and hire purchase instalment, which has become *overdue for a period of twelve months or more*;
- (h) In respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset:

Provided that in the case of lease and hire purchase transactions, an NBFC may classify each such account on the basis of its record of recovery;

Execution of policy

The overall responsibility of implementation of policy and its review lies on the Board. However, the operational responsibility lies on the Loan Recovery team/collection Department, Loan Department and finally, the Accounts department.

Classification of Assets

The Company shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets. The following criteria and provisioning shall be followed by the company, subject to the accounting standards applicable to the Company.

a. Standard Asset means an asset that is not classified as an NPA or deemed NPA. Thus a standard asset means an asset where there are no defaults in repayment of principal or interest and does not carry any risk above normal risk. Provision shall be made at 0.25% of the outstanding.

b. Sub-standard asset is the one that has remained NPA/deemed NPA for a period not exceeding 18 months. an asset where the terms of the agreement regarding interest and / or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms General Provision shall be made at 10% of total outstanding.

c. Doubtful assets are accounts that have remained as NPA/deemed NPA for a period exceeding 18 months.

Provision requirement shall be 100% of the extent to which the advance is not covered by realizable value of security. In regard to secured portion-

Up to one year after treated as doubtful asset – 20%, one to three years – 30% and more than 3 years – 50%.

The realisable value is to be estimated on a realistic basis

Loss assets are those where the loss has been identified by the Company or auditors, but the amount has not been written off wholly or partly. Loss Asset is

(a) an asset which has been identified as loss asset by the non-banking financial company or its internal or external auditor or by the Bank during the inspection of the applicable NBFC, to the extent it is not written off by the applicable NBFC; and

(b) an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for. If the realizable value of security is less than 50% of the outstanding, the asset should be classified as doubtful and if it goes below 10% , it should be categorised as loss asset.

On the basis of guidelines of RBI as outlined above, provisioning requirements should be assessed at HO depending on the financial status of an account. In the case of loss assets, proposal should be submitted to the board for approval for write off. Wherever the Board feels that there could still be a possibility for recovery, 100 % provisioning has to be done in such cases.

The Company shall separately disclose in its balance sheet the provisions made as per these Directions without netting them from the income or against the value of assets.

Income Recognition

Income including interest/ discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

Communication

As per company policy, the Company shall communicate the cut off dates and tenure both formally written manner and also orally. The terms and conditions shall be communicated in vernacular language at the time of disbursement of loans. This will help in avoiding non-repayments arising out of lack of knowledge of terms and conditions.

Tenor

For gold loans normal tenor shall be upto a period of 12 months from the date of advance. In that case the loan shall be overdue one month after the maturity date.

For business loans and other loans, tenor shall be a period not exceeding 36 months.

For Term loans, the tenure shall be a period not exceeding 36 months.

Reasons for NPA

1. Wrong assessment of security/collateral and inadequate due diligence. Acceptance of low quality gold/security.
2. Failure to comply with KYC norms, loan policy and internal instructions of the Company.
3. Lack of follow up post-disbursement of loan
4. Lack of proper risk management/internal control systems
5. Inadequate loan documentation
6. Lack of staff accountability in acceptance and preliminary checking of Gold/Security.
7. Fraud/confiscation by police with respect to stolen gold/any crime .

Precautions/ measures

1. Strict adherence to KYC guidelines and applicable instructions/policies
2. Proper due diligence and analysis of credit worthiness of the applicant
3. Addressing/resolving discrepancies at the time of application/documentation and making the documentation fool proof.
4. Field visits, face to face meeting, reminders and frequent contact with borrowers to ensure repayment of loans
5. To be more cautious while giving high value loans
6. Proper and cautious assessment of security/ gold at the time of application
7. Updated knowledge and training facilities from HO.

Well defined Internal Audit Procedures and dedicated team

The Company shall have an internal audit team/vigilance team who shall periodically verify the security, loan applications, documentation and the entire system to reduce errors/mistakes/shortcomings. The team shall give their findings report to the loan department and/or Managing Director, as and when required.

The Company may have an inspection team which makes surprise visits to branches and suggests rectification of shortcomings at the earliest.

Zero tolerance policy to Frauds

Fraud means any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Any act of any person in Company which is biased to a third party or an outsider and which results in financial loss to the Company shall also be treated as fraud. The Company has zero tolerability to frauds and fraudulent behaviour. The Company believes fraudulent act affects not only the financial position but also loss of reputation to the Company.

Every employee shall report to the senior officers/management about any actual/planned behaviour of a staff or superior or junior or customer which has elements of fraud, without fail. The Company shall issue a list of acts which is considered as unethical during the course of work. Reporting shall be made based on the policies of the Company.

Stolen Articles

Where any articles given as security is confiscated by police on the allegation that the same is stolen property, then the Branch has to intimate the team at HO. In such cases a special team shall conduct enquiry as to staff accountability and where any lapses/serious negligence in duty is found in such enquiry, then such staff shall be required to make good such loss based on the report of the enquiry team. However the team shall have proper reasons/proof to believe that the staff(s) under enquiry is responsible for such losses.

Repayment of loans & adjustment of dues

In case of EMI/EDI's (Business Loan/Term loan) a payment of interest/instalment is considered as "paid" or "Complete" if the full amount due is paid on the respective date. "Part payments" shall be subject to penal interest/charges. Any money paid by customers shall first be adjusted/ charged against penal interest, if any, outstanding interests or any other charges as per the agreement and then against principle amount. In case of gold loans interest is charged on diminishing balance and interest rates vary over time (Say 0-30 days, 31-60 days, 61-90 days etc) depending upon the time slabs set in the scheme. Repayment of interest/principal shall be according to terms and conditions of the scheme as agreed between the customer and the Company.



To illustrate, in case of business loan, if the interest amount/instalment to be paid on 25th February is Rs.1,000/- and if the customer pays only Rs. 950/- on the said date, then the payment is considered as “partly paid”. In such cases, penal interest shall be charged on full amount of Rs.1,000/- as per the rates applicable to scheme/ Terms & conditions in the agreement. So, the Company staff is expected to convey the same to the loanee/customers during loan sanction time. However, there is no penal charges for gold loan for delayed payments.

The Company may also exercise lien over any other property/assets of the defaulting party (including cash paid or assets pledged in any other loan accounts maintained with the Company) under its custody. The Company may sell such physical assets for recovering the dues after issuing intimation notice of 12 days. However, the agreement/documentation shall contain a clause to this effect and the borrower should have understood and signed the agreement.

Recovery of NPA

The Company is committed to ensure that all written and verbal communication with its borrowers will be in simple business language and Company will adopt civil manners for interaction with borrowers. The Company has a proper loan monitoring, follow up & disposal mechanism in place. The Company will document the efforts made for the recovery of dues and gist of interactions with the borrowers.

The Company shall have a team at HO for recovering overdue loans called “Overdue Loans Recovery Team” (OLRT). The constitution of OLRT shall be as follows-

1. Head/ Chairperson.-Officer who co-ordinate the entire team
2. Executive members – Reporting to HoD and directing Active members
- 3.Active Members – Followup with collection executives.

The head of team shall be under duty to appoint atleast 3 members under him to carryout the functions relating to recovery of overdue loans. The Head of OLRT shall communicate the developments in loan recovery to the Managing director/Board of Directors of the company from time to time, at regular intervals.

This team will interact with branches for speedy recovery of loans which has exceeded abovementioned tenor for loans. Normally the following steps are taken by OLRT and Loan collection department/Loan Department to identify, report and recover accounts showing slippage to NPA category -

Business loan

1. Identification of overdue loans/loan based on the information from branches
2. Sending reminders to the borrower in advance to loan becoming overdue
3. Sending formal notice to borrower within 30 days on loan becoming overdue.
4. Face to face meeting with borrower by branch heads and collection executive.
5. Dispatch of legal notice on completion of 60 days of overdue date.
6. Face to face meeting with guarantors and borrowers by branch manager and considering the request, the Company may grant flexibility to payoff the loan (and all dues) within a fixed time frame decided upon during the meeting.
7. Initiate Legal formalities on failure of customer to act as per point 6.

Gold Loan

1. Identification of overdue loans/loanbased on the information from branches.
2. Sending reminders over phone or mail by branches to the borrower in advance to loan becoming overdue

3. Face to face meeting with borrower by branch heads on default exceeding 60 days.
4. Face to face meeting with Loan department and other concerned officers at H.O on default in interest payment exceeding 90 days, to reach amicable settlement.
5. If all above efforts fail, then the Company may move on to auction procedure.

Term loans

In case of loans with shorter tenure where daily collection is to be done by Company, the Company shall do the following-

1. Identification of overdue loans/loan based on the information from branches
2. Sending reminders to the borrower in advance to loan becoming overdue till 30 days
3. Sending formal notice to borrower within 30 days on loan becoming overdue.
4. Face to face meeting with borrower by branch heads and from H.O, if required.
5. Dispatch of special notice on completion of 50 days of overdue date.
6. Legal formalities.

The Company may also conduct adalats at various regions to enable the customers to communicate with company officials face to face and reach amicable settlement. In case of legal measures taken by company, the provisions of the relevant laws shall apply irrespective of the content of this policy.

Finalisation of financials

While drawing up final financials for the financial year, the treatment of standard assets, substandard assets, loss assets, NPA and overdue accounts shall be as per accounting standards of ICAI.

Compromise and settlements

In exceptional cases if there are genuine difficulties being faced by certain borrowers, their accounts may be rescheduled/ restructured preferably prior to such loans becoming NPAs. *No rescheduling/ settlement/ restructuring/ waiver of interest or charges or any part of principal shall be effected without formal **prior** approval of Managing Director or Board of Directors and a committee authorised by Board in this regard, shall review/note such cases.*

1. Joint proposal made by loan collection department and loan department to the Managing director or Board of Directors or committee as the case may be, with following attachments-
2. Formal Report on the financial aspects (Dues, interest amount, penalty, loss of interest etc) of the loan prepared by accounts department /CFO.
3. A report on the loan shall be submitted by heads of Loan department/Loan collection department which
 - Present Details (eg.job, assets, financial position etc) of customer(loanee) and guarantor to be provided.
 - Reasons for opting settlement.
 - Period of loan and actions taken to recover dues till date
 - Suits if any initiated by company (details obtained from Legal Dept) or any other company, revealed from public information sources
 - Details of surety and his/her financial position
 - Face to face meetings, if any, conducted by concerned departments and outcome
4. Only interest amount be sacrificed and no relief be granted in principal amount. However, in deserving cases relief in principal amount may also be considered subject to special approval of Board and a committee of Board authorised in this regard.
5. All such waivers shall be taken note of in the audit committee and/or any other committee authorised by Board in this regard.



6. Once approval of Board is obtained the Loan department/ Loan collection department shall create sufficient documentation wherein customer and the company gives their mutual consent for waiver/rescheduling/restructuring by signing.
7. The accounts department/CFO shall not accept any payments in settlement without obtaining copies of aforesaid documents/approvals.
8. All reports and proposals prepared under this policy shall be signed by respective heads/officers. All settlements shall be updated in the software within 2 days of receipt of money from customer.

Auction of gold ornaments

In case of failure for recovering interest/principal/ or a part of it, the Company may resort to auction of gold ornaments pledged with the Company by the defaulting customer. The Company may also resort to auction in case of spurious / low quality gold ornaments detected subsequent to disbursement before completion of tenure of the loan. The procedure of auction is detailed in the auction policy of the Company.

Changes in legislation and overriding effect

Where any of the clauses in this policy becomes contrary or inconsistent due to changes or subsequent amendments in any applicable laws/rules/regulations, then the new provisions of the particular laws/new statute shall have overriding effect on such inconsistent /erroneous clauses of this policy, till the policy is revised by the Board of Directors in a duly constituted Board meeting.

For JMJ Finance Limited

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