



LOAN RECOVERY POLICY

Policy on Collection of dues From defaulting borrowers and security repossession & Auction for realization of dues

The Corporation is putting in place a comprehensive Loan Recovery Policy with main focus on Post Disbursement Monitoring and NPA Monitoring & Management to attain the twin objective of effecting timely recovery of dues and preventing slippage of standard accounts into NPA by taking up remedial measures immediately after the stress in the account is observed.

As we are all aware that Recovery of loan dues is the most crucial area to which other areas of resource mobilization are subservient. It is only timely recovery of loans which can ensure consistency in lending activity and defraying of establishment expenses. Recovery management, be it of fresh or old loans, is central to NPA management. The management of assets needs to be started at the initial stage of granting the loan itself. Effective management of NPAs should comprise two pronged strategy, first relating to arresting of the defaults and the second is to handling of loan delinquencies. Recovery of loans should be done vigorously with effective follow up and supervision. Written communications, telephonic reminders, SMS's & regular visits by the Officials/Officers to the borrower's place or residence should be used as recovery follow up measures, The District Heads should take necessary care for ensuring health and security of the loan portfolio and they should take immediate steps to prevent deterioration of the assets financed by the Corporation. Borrowers should be contacted the very moment a payment becomes overdue. Necessary corrective measures, whatsoever required, should be taken immediately so as to prevent the account from becoming NPA. Recovery management is an area requiring expeditious and effective action as bad debts have blocked a significant portion of the Corporation's funds in unproductive assets, the value of which deteriorates with the passage of time.

The Corporation has powers vested under Section 29, Section 31, and Section '32' of the SFC's Act 1951 to resort to legal action after all efforts aiming at recovery of dues, in the event of default, fail. To initiate action under Section 29, proper procedure is followed to complete the exercise as per the procedure defined as under, though it is not laid down in the shape of a documented policy:-

Final opportunity is being given to the defaulting concern for settlement of the loan account giving "15" days time period. In case, it evokes no response, the Corporation after carrying out the inspection of the Unit ascertains the status of the mortgaged assets. Thereafter, the possession of the assets is being taken over by the Corporation either in presence of the promoter, and where possible, two independent witnesses. A proper inventory of taken over assets is being prepared and signed by the Officers of the Corporation and by the promoter or witnesses (as the case may be). The possession notice of the assets is being published in one /two local dailies for information of general public. The value of the existing assets is got assessed by the approved valuer of the Corporation to fix the MRV of the assets. Accordingly, the auction notice is published in two or more local dailies having wide circulation and bids are invited for purchase of assets. Where deemed necessary publication, may be made on wider scale on national level. After accepting the highest bid and after approval is accorded by the Competent Authority, the promoter is given a reasonable opportunity for settlement of the loan account. In case he fails to do so, the possession of the auctioned assets are being transferred to the successful bidder after he deposits the full and final payment of the bid amount. The Corporation files a recovery suit against the promoter and guarantors of loan under Section 31 (a) (a) of SFC's Act for recovery of remaining balance outstanding.

The Corporation usually takes recourse to section 31 of SFC's Act when action under section 29 still leaves an unrealized amount against a unit's total outstanding or when for one reason or the other it is not possible for the Corporation to take action under Section 29.

Under Section 31 of the SFC's Act, legal notice is being served through the concerned legal advisor to the defaulter giving "15" days time for settlement of the loan account with the Corporation. In case the notice does not evoke any response, the Corporation files an application (suit)

against the promoter before the Competent Court of Law for attachment of mortgaged assets.

In terms of Section 32 of the SFC' Act, the Hon'ble Court passes an interim direction for attachment of the concern by the Court and the attached assets remain under the custody of the Court. Thereafter the promoter is being given opportunity for filing of objections and after completion of all legal proceedings provided under Section 32, the attachment order is being made absolute and the Court through open auction makes sale of the mortgaged assets in presence of the Corporation and the promoter. The sale proceeds are being transferred to the Corporation. In case the Corporation does not realize its full dues out of the sale proceeds, the Corporation takes recourse to Section 31 (a) (a) of SFC's Act and invokes the guarantee of the loan. Under the said provision, the Court in terms of Section 32 of the SFC's Act has power to attach the personal assets of the guarantors for sale of the same and to deposit the sale proceeds with the Corporation for adjustment in the loan account of the default concern.

However it is now proposed to lay down the Policy of Recovery as under:-

The Debt Collection Policy (Recovery Policy) of the Corporation is built around dignity and respect to borrowers. The Corporation will not follow policies that are unduly coercive in recovery of dues from borrowers. The policy is built on courtesy, fair treatment and persuasion. The Corporation believes in following fair practices with regard to recovery of dues from borrowers and taking possession and auction of security (properties/ assets charged to the Corporation as primary or collateral security) (known as security repossession and Auction) and thereby fostering confidence and long-term relationship.

Note:- On exceptional occasions such as bereavement in the family or such other calamitous occasions making calls/ visits to collect dues will be avoided

The Corporation's Security Repossession & Auction Policy (taking possession of the mortgaged properties and Auction of the security under SFC's Act) aims at recovery of dues in the event of default and is not

aimed at whimsical deprivation of the property. The policy recognizes fairness and transparency in repossession, valuation and Auction of security. All the practices adopted by the Corporation for follow up and recovery of dues and repossession & Auction of security will be in consonance with SFC's Act and other relevant laws.

The collections Policy of the Corporation shall begin simultaneously with the process of disbursal of loan and end up when a loan account gets closed in the Books of the Corporation and shall accordingly consist of following phases:-

- 1. Implementation phase;*
- 2. When an instalement of loan and or interest is falling due;*
- 3. When a default in payment of instalment of Principal and /or Interest actually takes place.*

Phase-1

Implementation Phase:

The recovery behaviour of a constituent of the Corporation shall largely be determined by the implementation phase which involves disbursal of loan and execution of the scheme.

In this phase the Corporation has put in place well defined mechanisms to see and ensure timely disbursal of loan so that the scheme gets implemented on schedule. Any delay in implementation or disbursal of loan is fraught with negative consequences because it leads to overrun in time and costs which can adversely impact the viability and cash generating capacity of a unit. The Corporation therefore is required to follow the following procedure during this phase:

- 1. Provide proper guidance and counsel to the promoter while remaining closely associated with the execution of the Scheme.*
- 2. Disburse instalments of loan on achievement of prescribed milestones and/or other approved norms without loss of time.*

3. *Any difficulty /infirmity/signs of a problem during implementation as may be identified needs to be addressed to and resolved with a sense of urgency and in a given time frame.*
4. *Provide help to the promoter in obtaining various sanctions from other Government/Non-governmental Agencies such as:-*
 - *Power Sanction from Power Development Department, Working Capital sanction from some Commercial Banks and any other related sanctions/clearances for which commitments need to be obtained at the very appraisal stage.*

Phase-2

1) When an instalment of Principal /Interest is becoming due:-

Every District Office will maintain a Due Date and a Demand Register which should remain in the custody of the Incharge of the Office. Following procedure shall be followed during this phase:-

- 1.1 *'10' days advance notice in case of an instalment of Principal and /or interest falling due during the month with an SMS, if possible;*
- 1.2 *Two SMSs after '5' days from the date of above notice;*
- 1.3 *A phone call one day ahead of the date of instalment.*

2. Trigger Point-1:

In case the instalment of Principal /interest is not deposited on the scheduled date and the account starts showing signs of stress the account should be categorized as falling in Grey Zone Area and this needs to be taken as a Trigger Point-1.(to be called Trigger Point-1) under this situation following procedure shall be followed:-

(A) Giving Notice:-

- 2.1 *The Field Office should immediately send a notice per bearer/ courier/registered post advising the party to clear the overdues within 'one month.*
- 2.2 *After '15' days from the date of the notice, the Branch Incharge should personally visit the factory site and /or the residence of the borrower to ascertain as to what promoted the borrower to commit the default. In case the borrower is facing certain genuine problems, the Field Office should immediately draw up*

a plan for remedial measures and have it put through within '30' days.

(B) Demand Notice:-

2.3 *In case, however, the borrower is found to be averting /delaying the deposition of the instalement deliberately and willfully, the F/o should on expiry of the given time as at 2.1 serve a Demand Notice both to the borrower/s and the guarantors calling upon them to clear the dues within '15' days and the Recovery Official should closely follow-up with them.*

3. Trigger Point-2:

In case the borrower and /or the guarantor does not come forward and the signs of stress seem to be deepening it should be categorized as falling in yellow zone which needs to be taken as Trigger Point-2.(called Trigger Point-2). The situation obviously becomes grave and following measures should be taken:-

Publication of Notice:-

3.1 *The Field Office should, then, have a notice with photographs of the borrower and the guarantor published in 1/2 local Newspapers having very wide circulation in the area, advising the debtors to clear the dues of the Corporation within '15' days.*

Legal Notice:-

3.2 *If the above action evokes no response a legal notice should be served upon the borrower/guarantor for payment of dues within '15' days.*

Final Opportunity Notice

3.3 *If the payments are not forthcoming yet again a final opportunity notice should be served upon the loanee/guarantor to straighten the loan account within '15' days.*

4. Trigger Point-3:

In case the above action evokes no response or when the amount of loan is not properly recovered or received and the situation persists for '90' days and the account turns NPA, the account should be placed in the Red Zone. The situation

obviously turns grim and this should be taken as the Trigger Point-3 called (Trigger Point-3) for initiating action of the last resort. During the period of the foregoing action, the District Office should do due diligence in the matter of action of last resort by analyzing the situation critically and appraising thoroughly as to decide what further action can be initiated optimally under the provision of SFCs Act to recover the dues of the Corporation. In case it is decided to take action under the provisions of Section '29' of the SFCs Act, the action should be taken forthwith as per the procedure laid down hereinbelow:

- 4.1 *Branch Head to be the authorized Officer to initiate the action;*
- 4.2 *A prior approval of the Managing Director of the Corporation to be taken and the authority letter as above to be signed by the General Manager.*
- 4.3 **Giving notice to borrowers- under Section '29' of SFCs Act:-**

While written communication, telephonic reminders, SMS's or visits by the Recovery Teams to the borrowers' place or residence will be used as recovery follow up measures, the Corporation shall not initiate any legal or other recovery measures including auction of the security without giving prior notice in writing to the borrowers and/or the guarantors. The Corporation will follow all such procedures as required under law for recovery / repossession & auction of security.

- a) *A notice be issued accordingly to the borrower/ guarantor under Section '29' of the SFCs Act giving '10' days time to the borrower to liquidate the dues of the Corporation;*

4.4 Repossession of Security:

Repossession of security shall be aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve seizure, valuation of security and auction of security through appropriate means. All these would be carried out in a fair and transparent manner. Seizure shall be done only after serving prior notice as discussed above. Due procedure under law shall be followed while taking repossession of the property. The Corporation will take all reasonable care for ensuring

the safety and security of the property after taking custody, in ordinary course of the business.

a) On expiry of the above '10' days (given under 4.3(a), the Field Office shall take over the possession of the mortgaged property in presence of two independent witnesses and /or the borrower, draw-up a detailed and comprehensive inventory of assets taken over and have the same signed by the officials of the Corporation as well as the independent witnesses and /or borrower as the case may be;

4.5 *On the same day the unit shall be handed over to the Private Security Agency under agreement with the Corporation to provide watch and ward of the assets thus taken over who will position optimal guards at the site to safeguard the interests of the Corporation. There should be a proper takeover of the assets by the said Agency, as per the inventory of assets seized by the Corporation, which should be signed by the officials of the Corporation and the functionaries of the Security Agency;*

4.6 *On the following day a 'possession notice' should be issued through press for information of the General Public, giving the borrower yet another opportunity to clear dues of the Corporation before the unit is put to sale;*

4.7 Opportunity for the borrower to take back the security:

*As stated earlier in the policy document, the Corporation will resort to action under section 29 only with the purpose of realization of its dues as the last resort and not with the intention of depriving the borrower of the property. Accordingly, the Corporation shall be willing to consider handing over possession of property to the borrower any time after repossession but before **concluding sale transaction of the property**, provided the Corporation dues are paid in full. If satisfied with the genuineness of borrower's inability to pay the loan installments as per the schedule which resulted in the repossession of security, the Corporation may consider handing over the property after receiving the installments in arrears. However, this would be subject to the Corporation being convinced of the arrangements made by the borrower to ensure timely repayment of remaining installments in future.*

4.8 Valuation of Property:

The assets of the security thus takeover should be valued by valuer on the panel of the Corporation for assessing the market value, minimum reserve value and the distress value of the said property as per laid down procedure having no legal lacuna and in a fair and transparent manner. However where, for any reason or due to the nature of the security available, re-possession is not possible, the mortgaged assets can be put to auction on “as is where is basis’ without physical takeover of the property and the procedure laid down under this clause and henceforth shall be followed in such cases also.

4.9 Sale of Property:

- a) *Publish the auction notice in the local dailies with wide circulation inviting bids for sale of the unit within ‘15’ days. Detailed Auction /Tender Notice should be posted on the official Website of the Corporation for wider publicity to promote transparency and induce competition;*
- b) *In case there is no response to the auction notice the date should be extended and the Recovery Officials should make efforts to hunt for a buyer before re-publishing the auction notice;*
- c) *In case adequate response is received, the bids should be opened by the Auction Committee at the unit level in presence of the bidders who wish to be present, following the due process;*
- d) *Bids thus received should be placed before the Auction Committee for proper examination and their recommendations for acceptance or otherwise;*
- e) *The recommendations of the Auction Committee-1st should immediately be placed before Auction Committee 2nd for acceptance;*
- f) *After acceptance of the bid, an opportunity should again be provided to the borrower as required under law to deposit the bid amount and in the meanwhile spell out the programme to square up the remaining balance in the loan account (balance outstanding – bid amount) within ‘15’ days;*
- g) *In case there is no response from the borrower, the Corporation should immediately realize the bid amount from the highest bidder as per terms of the bid and adjust the bid proceeds in*

the loan account on pro-rata basis after adjusting the other norms [in the ratio of Principal and Interest outstanding].

All steps should be taken to put the security to auction within '30-45' days from the date of seizure of the unit in a time bound manner.

4.10 The Corporation can thereafter invoke realization of additional security /surety, as the case may be, to recover the pending balance outstanding in the account, if any.

Other remedies available under the provisions of the SFCs Act as discussed herebefore can be explored depending on the situation and efficacy of the action. However any action contemplated should be time-bound.

- 4.11 a) Should the Corporation decide to file a recovery suit under Section '31' of the SFC Act proper procedure laid down in the Act needs to be followed.
- b) The Legal Section in the Head Office shall be responsible for ensuring robust follow up of the cases in the different Courts of Law. Accordingly responsibility of the officials needs to be fixed for adequate follow up;
- c) Proper Diaries need to be maintained at the District Level /Head Office level for close monitoring and follow-up.

However, recovery is sometimes adversely affected due to factors which are mostly beyond the control of the Corporation. The reasons can be as follows:

- **Highly contaminated loan portfolios.**
- **Loan Accounts not backed by adequate security.**
- **Prolonged delay in vacation of stay/restrain order from Courts.**
- **Slow disposal of seized assets due to obsolescence of technology, locational disadvantages, levy of taxes/arrear statutory dues and other charges.**
- **Delay in payment of settlement amount under OTS schemes and DRC mandate by number of borrowers.**

The entire old portfolio of the Corporation being highly infected falls under the above category. In order to effect recovery from these loans following measures need to be initiated forthwith:-

- i. *Settlement under a declared Settlement-cum-Rehabilitation Policy and /or under the mandate of Competent Authority of the Corporation;*
- ii. *Where security available is indentified to be adequate, marketable and realizable, action under the provisions of Section '29' of the SFCs Act as per procedure laid down hereinbefore be taken in a time-bound manner;*
- iii. *Where necessary surety needs to be invoked under Section 31(AA) of SFCs Act.*
- iv. *The Corporation can, after satisfying itself, and without prejudice to any other mode of recovery under Section 32(a) of the SFCs Act make an application to State Government to recover the amount due as arrears of land revenue.*

1) Appointment of Recovery Teams:-

These shall be special teams appointed by the Corporation in its different field Offices and in the Head Office. The District Head along with other Officials/Officers will be appointed mainly for debt recovery purpose besides doing their routine Official duties. When the amount of loan is not properly recovered or received then those loan accounts shall be treated as probable NPAs and categorized as yellow zone and if the situation persists for longer time, the accounts should be treated as NPAs in the red zone. In order to overcome this difficulty, the recovery team of the Field Office in association with the Centralized recovery team of Head Office shall take measures with regard to collection of dues and auction of security depending upon gravity and individual circumstances of each case.

2) CONDUCT OF RECOVERY CAMP:-

This shall be a kind of gathering of the Recovery teams of the Field Offices of the Corporation, Centralized Recovery Team of the Head Office and the borrowers, whose accounts stand categorized as NPA falling in to Yellow /Red Zone (NPA. Here the Centralized Recovery team shall divide the NPA account holders into different regions and districts and shall call a meeting with those Borrowers and discuss the matter and suggest them ways and means to repay the loans which they have defaulted with the Corporation.

3. COMPROMISE PROPOSAL:-

This shall be a joint agreement between the Corporation and the Borrowers, that if they agree to liquidate their loan accounts, certain concessions/reliefs shall be granted based purely on the merits of each case. Here the Corporation shall be represented by the Recovery Teams of the Field Offices. The joint agreement by these parties should necessarily be ratified by the Centralized Recovery Team. A proposal thereafter based on the above agreement shall be placed before the Competent Authority of the Corporation for their consideration and approval.

4) LOK ADALAT:

This shall be a kind of compromise settlement done between the Corporation and the borrower with the help of a court i.e. the dispute shall be settled between them by Court order. Here the Corporation and the borrower shall present the case before the Lok Adalat for settlement of loan liability and based on the evidence and legality, the Court gives a decision, which if accepted by both the parties i.e. the Corporation and the Borrower, shall be binding on them.

5) OUT OF COURT SETTLEMENT:

The Corporation should try to enter into out of Court settlement with defaulters, as far as possible. The process of getting a decree takes a long time and even if the Corporation obtains a decree in its favour, it usually encounters difficulties in executing the decree. And, even then, it is usually a distress-sale of the seized asset, which may not fetch a good price in the market. Therefore, it is better that the Corporation settles the loan account through compromise/negotiation with the defaulters based upon individual merit of each case and in terms of policies in vogue from time to time.

ACTION PLAN TO BE IMPLEMENTED

- NPA Management is one of the most priority areas of the Corporation. Considering its importance and present economic situation, the Corporation should focus to reduce NPA within a short period.
- Accordingly the Corporation shall formulate an action plan as under:
 1. Default in the current portfolio should be brought to nil at the end of every following quarter.
 2. Default in the highly infested Old portfolio should be monitored at the end of every month through Review Meetings of the Field Offices.
 - a. *Course of action with regard to these NPA's should be decided at Review Meetings with respect to auction the security, settling the loan account on merits, proceeding legally against the borrowers/guarantors as the case may be, depending upon the nature of each individual case.*
 - b. *The Centralized Recovery team of the Head Office shall in every Review Meeting present their suggestions of recovery in these cases.*
 - c. *The Recovery Teams of the Field Offices shall furnish recovery diaries to the Centralized Recovery Team after every "15" days.*
 - d. *The Centralized Recovery Team shall take up 10-15 cases every month in every Field Office and shall follow up these cases and furnish report to Management on monthly basis.*
 - e. *The Centralized Recovery Team shall have powers to issue demand notice to the Borrowers and shall have an unqualified right to disclose or publish their names alongwith their photograph/s or the name of the their guarantor/s as defaulters in such manner and through such medium as they in their absolute discretion may think fit.*
 - f. *The Centralized Recovery Team may directly enter into negotiation with the borrowers that if they agree to liquidate their loan accounts, certain concessions/reliefs shall be granted to them based purely on the merits of each case. The Centralized*

Recovery Team in association with respective Field Offices may identify cases for settlement on merits for placement before the Management for consideration.

The follow-up visit is one of the effective tools for close monitoring of the units with a view to ensure proper end use of the funds, assess progress of projects to avoid time and cost overrun, mitigate constraints faced by the unit holders. The follow-up inspection shall be conducted during implementation of the project as well as during operation of the unit to ascertain health of the enterprise and ensure timely payment of dues. The cases of incipient sickness shall be detected while conducting follow-up inspection and the Corporation shall be taking prompt remedial measures in close co-ordination with Commercial Banks for smooth running of enterprises.

