

**By Speed Post/Fax**

N0. NHB(ND)/DRS/**POL-No-16**/2006  
September 5, 2006

TO ALL REGISTERED HOUSING FINANCE COMPANIES

Dear Sir,

**GUIDELINES ON FAIR PRACTICES CODE FOR HFCs**

In keeping with best practices in this regard, the National Housing Bank has framed guidelines on a Fair Practices Code for Housing Finance Companies (HFCs). The Code seeks to promote good and fair practices by setting minimum standards in dealing with customers, increase transparency so that the customer can have a better understanding of what he / she can reasonably expect of the services, encourage market forces, through competition to achieve higher operating standards, promote fair and cordial relationship between customer and HFC and foster confidence in the housing finance system.

2. Based on these guidelines, each HFC may formulate a suitable Fair Practice Code to be adopted by it with the approval of its Board, by September 30, 2006. In doing so, HFCs will have the freedom to enhance the scope of the Code without sacrificing the underlying spirit.

3. HFCs may display the code in all their branches and on their web-site for the benefit of their customers / prospective customers.

Yours faithfully

Sd/-  
(R.Bhalla)  
General Manager  
Department of Regulation & Supervision

Encl: a/a

Annexure to Circular No. NHB(ND)/DRS/**POL-No-16**/2006  
dated September 5, 2006

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## **GUIDELINES ON FAIR PRACTICES CODE FOR HFCs**

### **1. OBJECTIVES & APPLICATION**

#### **1.1 Objectives of the Code**

Housing Finance Companies (HFCs) which are a part of the financial system contribute to the economic growth by increasing the outreach of the housing credit delivery mechanism. To provide for transparency in transactions between the institutions and the end users and also to provide for well informed business relationships, some broad guidelines have been considered necessary. In this backdrop, the National Housing Bank, has framed the Guidelines on Fair Practices Code for HFCs to serve as a part of best corporate practices and to provide transparency in business practices. The Code has been developed to:

- a. **promote good and fair practices** by setting minimum standards in dealing with customers;
- b. **increase transparency** so that the customer can have a better understanding of what he/she can reasonably expect of the services;
- c. **encourage market forces**, through competition, to achieve higher operating standards;
- d. **promote a fair and cordial relationship** between customer and HFC; and
- e. **foster confidence** in the housing finance system.

#### **1.2. Application of the Code**

All parts of this Code apply to all the products and services, whether they are provided by the HFCs or subsidiaries across the counter, over the phone, by post, through interactive electronic devices, on the internet or by any other method.

### **2. COMMITMENT TO CUSTOMERS**

#### **2.1 To act fairly and reasonably in all dealings with customers, by ensuring that:**

- a) They meet the commitments and standards in this Code for the products and services they offer and in the procedures and practices their staff follows.
- b) Their products and services meet relevant laws and regulations in letter and spirit.
- c) Their dealings with customers rest on ethical principles of integrity and transparency.

#### **2.2 To help customers understand how their financial products and services work, by:**

- a) Giving customers information about their products and services in any one or more of the following languages: Hindi, English or the appropriate local language.
- b) Ensuring that their advertising and promotional literature is clear and not misleading
- c) Ensuring that customers are given clear information about their products and services, the terms and conditions and the interest rates / service charges, which apply to them.
- d) Giving customers information on what are the benefits to them, how they can avail of the benefits, what are their financial implications and whom they can contact for addressing their queries and how.

**2.3 To help customers to use the products and services by:**

1. Providing them regular, appropriate updates.
2. Keeping them informed about changes in the interest rates, charges or terms and conditions.

**2.4. To deal quickly and sympathetically with things that go wrong, by:**

- a) Correcting mistakes promptly and canceling any charges applied due to the HFCs' mistake.
- b) Handling customers' complaints promptly.
- c) Telling customers how to take their complaint forward if they are still not satisfied.
- d) Providing suitable alternative avenues to alleviate problems arising out of technological failures.

**2.5 To treat all personal information of customers as private and confidential**

HFCs shall treat all personal information as private and confidential subject to matters mentioned in paragraph number 5 below.

**2.6. To publicise the code HFCs shall:**

- a) provide existing and new customers with a copy of the Code
- b) make this Code available on request either over the counter or by electronic communication or mail;
- c) make available this Code at every branch and on their website; and
- d) ensure that their staff are trained to provide relevant information about the Code and to put the Code into practice.

**2.7 To adopt and practice a non - discrimination policy**

HFCs shall not discriminate on the basis of age, race, caste, gender, marital status, religion or disability.

**3. DISCLOSURE AND TRANSPARENCY**

**3.1 HFCs should provide information on interest rates, common fees and charges through any one of the following:**

- a) Putting up notices in their branches;
- b) Through telephone or help-lines;
- c) On the company's website;
- d) Through designated staff / help desk ;or
- e) Providing service guide / tariff schedule.

**3.2 In respect of prospective customers HFCs shall:**

- a) provide clear information explaining the key features of their services and products that customers are interested in;
- b) provide information on any type of product and service offered, that may suit the customer's needs;
- c) tell the customers about the various means through which products and services are offered [for example, on the Internet, over the phone, in branches and so on] and tell them how to find out more about them;
- d) tell the customer what information is needed from him / her to prove his / her identity and address, for complying with legal, regulatory and internal policy requirements.

### **3.3 To those who have become customers, HFCs shall:**

- a) provide more information on the key features of the products, including applicable interest rates / fees and charges;
- b) provide extra information on his / her rights and responsibilities especially regarding availing of nomination facility offered on all deposit accounts;
- c) automatically register the customer's name under a 'Do Not Call ' Service. HFCs should not inform / extend through telephone calls / SMSs / emails any new product / service unless and until the customer inform the HFC in writing his / her consent to avail of this information / service.

### **3.4 Interest rates**

HFCs shall give information to the customer on:

- a) the interest rates which apply to his/her accounts, both deposit and loan.
- b) when interest is paid on his / her deposits, or charged on his / her loan accounts.
- c) how interest is applied to his / her account and method of calculation of interest.

### **3.5 Changes in interest rates**

HFCs shall inform their customers when they change interest rates on their products.

### **3.6 Fees & charges**

- a) HFCs shall display in their branches:
  - i. a notice about the tariff schedule. Customers can ask to see this free of cost;
  - ii. a list of services which are rendered free of charge.
- b) HFCs shall give their customer all details in their tariff schedule of any charges applicable to the products and services chosen by him / her.
- c) HFCs should provide their customers information about the penalties liable to be levied in case of non-observance / violation of any of the terms and conditions governing the product / services chosen by them.

### **3.7 Changes in fees & charges**

If an HFC increases any of these charges or introduce a new charge, it will be notified one month prior to the revised charges being levied / becoming effective.

### **3.8 Terms and conditions**

- a) Customer availing a product / service for the first time, should be advised the relevant terms and conditions for the service he / she has asked HFC to provide.
- b) All terms and conditions shall be fair and will set out respective rights especially with regard to nomination facility and liabilities & obligations clearly and as far as possible in plain and simple language.

### **3.9 Changes to Terms and Conditions**

- a) Customers should be told of changes to terms and conditions through any of the following channels :-
  - i. Personal intimation
  - ii. Notice Board at each branch
  - iii. Internet, including email and website
  - iv. Newspaper
- b) Normally, changes should be made with prospective effect giving due notice
- c) If any change is made without notice, the change shall be notified within 30 days. If such change is to the disadvantage of the customer, he/she may

within 60 days and without notice close his / her account or switch it without having to pay any extra charges or interest.

- d) Major change or a lot of minor changes in any one year, shall be informed to the customer on request and provide a copy of the new terms and conditions or a summary of the changes.

#### **4. ADVERTISING, MARKETING AND SALES**

##### **4.1 HFCs shall:**

- a) Ensure that all advertising and promotional material is clear, and not misleading.
- b) In any advertising in any media and promotional literature that draws attention to a service or product and includes a reference to an interest rate, HFCs shall also indicate whether other fees and charges will apply and that full details of the relevant terms and conditions are available on request.
- c) If HFCs avail of the services of third parties for providing support services, HFCs shall require that such third parties handle customer's personal information (if any available to such third parties) with the same degree of confidentiality and security as the HFCs would.
- d) HFCs may, from time to time, communicate to customers various features of their products availed by them. Information about their other products or promotional offers in respect of products / services, may be conveyed to customers only if he / she has given his / her consent to receive such information / service either by mail or by registering for the same on the website or on customer service number.
- e) Prescribe a code of conduct for their Direct Selling Agencies (DSAs) whose services are availed to market products / services which amongst other matters require them to identify themselves when they approach the customer for selling products personally or through phone.
- f) In the event of receipt of any complaint from the customer that HFC's representative / courier or DSA has engaged in any improper conduct or acted in violation of this Code, appropriate steps shall be initiated to investigate and to handle the complaint and to make good the loss.

#### **5. PRIVACY AND CONFIDENTIALITY**

**5.1** All personal information of customers shall be treated as private and confidential [even when the customers are no longer customers], and shall be guided by the following principles and policies. HFCs shall not reveal information or data relating to customer accounts, whether provided by the customers or otherwise, to anyone, including other companies entities in their group, other than in the following exceptional cases:

- a) If the information is to be given by law
- b) If there is a duty towards the public to reveal the information
- c) If the HFCs' interests require them to give the information (for example, to prevent fraud) but it should not be used as a reason for giving information about customer or customer accounts [including customer name and address] to anyone else, including other companies in the group, for marketing purposes
- d) If the customer asks the HFC to reveal the information, or with the customer's permission

- e) If HFCs are asked to give a reference about customers, they shall obtain his / her written permission before giving it.
- f) The customer shall be informed the extent of his / her rights under the existing legal framework for accessing the personal records that an HFC holds about him /her.
- g) HFCs shall not use customer's personal information for marketing purposes by anyone including HFCs unless the customer specifically authorizes them to do so.

## **5.2 Credit reference agencies**

- a) When a customer opens an account, HFCs shall inform him / her when they may pass his / her account details to credit reference agencies and the checks HFCs may make with them.
- b) HFCs may give information to credit reference agencies about the personal debts the customer owes them if:
  - i. The customer has fallen behind with his / her payments;
  - ii. The amount owed is not in dispute; and
  - iii. The customer has not made proposals that the HFCs are satisfied with, for repaying his / her debt, following HFCs' formal demand
- c) In these cases, HFCs shall intimate the customer in writing that they plan to give information about the debts the customer owes them to credit reference agencies. At the same time, HFCs shall explain to the customer the role of credit reference agencies and the effect the information they provide can have on customer's ability to get credit.
- d) HFCs may give credit reference agencies other information about the customer's account if the customer has given them his / her permission to do so.
- e) A copy of the information given to the credit reference agencies shall be provided by the HFC to a customer, if so demanded.

## **6. COLLECTION OF DUES**

**6.1** Whenever loans are given, HFCs should explain to the customer the repayment process by way of amount, tenure and periodicity of repayment. However if the customer does not adhere to repayment schedule, a defined process in accordance with the laws of the land shall be followed for recovery of dues. The process will involve reminding the customer by sending him / her notice or by making personal visits and / or repossession of security if any.

**6.2** The HFCs' collection policy should be built on courtesy, fair treatment and persuasion. HFCs should believe in fostering customer confidence and long-term relationship. HFCs' staff or any person authorized to represent them in collection of dues or / and security repossession shall identify himself / herself and display the authority letter issued by the HFC and upon request, display his / her identity card issued by the HFC or under authority of the company. HFCs' shall provide customers with all the information regarding dues and shall endeavor to give sufficient notice for payment of dues.

**6.3** All the members of the staff or any person authorised to represent the HFC in collection or / and security repossession should follow the guidelines set out below:

- a) Customer would be contacted ordinarily at the place of his / her choice and in the absence of any specified place at the place of his / her residence and if unavailable at his / her residence, at the place of business / occupation.
- b) Identity and authority to represent the HFC should be made known to the customer at the first instance.
- c) Customer's privacy should be respected.
- d) Interaction with the customer shall be in a civil manner
- e) HFCs' representatives shall contact the customers between 0700 hrs and 1900 hrs, unless the special circumstances of the customer's business or occupation require otherwise.
- f) Customer's request to avoid calls at a particular time or at a particular place shall be honored as far as possible.
- g) Time and number of calls and contents of conversation would be documented.
- h) All assistance should be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- i) During visits to customer's place for dues collection, decency and decorum should be maintained.
- j) Inappropriate occasions such as bereavement in the family or such other calamitous occasions should be avoided for making calls/visits to collect dues.

## **7. COMPLAINTS AND GRIEVANCES**

### **7.1 Internal Procedures**

- a) If the customer wants to make a complaint, he/she should be told:
  - i. How to do this
  - ii. Where a complaint can be made
  - iii. How a complaint should be made
  - iv. When to expect a reply
  - v. Whom to approach for redressal
  - vi. What to do if the customer is not happy about the outcome.
  - vii. HFCs' staff shall help the customer with any questions the customer has.
- b) Customer should be told where to find details of HFC's procedure for handling complaints fairly and quickly.
- c) If a complaint has been received in writing from a customer, an HFC shall endeavour to send him/her an acknowledgement / response within a week. If the complaint is relayed over phone at HFC's designated telephone helpdesk or customer service number, the customer shall be provided with a complaint reference number and be kept informed of the progress within a reasonable period of time.
- d) After examining the matter, an HFC shall send the customer its final response or explain why it needs more time to respond and shall endeavour to do so within six weeks of receipt of a complaint and he/she should be informed how to take his/her complaint further if he/she is still not satisfied.

## **8. KNOW YOUR CUSTOMER (KYC) GUIDELINES**

### **8.1 HFCs shall carry out due diligence as required under "Know Your Customer" (KYC) guidelines of the company before account opening and operation**

- a) Ask the customer to submit or provide necessary documents or proofs to do so;
- b) Obtain only such information to meet with HFC's KYC, Anti Money Laundering or any other statutory requirements. In case any additional information is asked for, it will be sought separately and we will specify the objective of obtaining such additional information. Providing such information will be voluntary;
- c) Provide the account opening forms and other material to the customer. The same shall contain details of essential information required to be furnished and documents to be produced for verification and/or for record for meeting the KYC requirements;
- d) explain the procedural formalities and provide necessary clarifications sought by the customer while opening a deposit account;

## **9. DEPOSIT ACCOUNTS**

### **9.1 Information:**

- a) When a customer opens a Deposit Account, he/she shall be informed of the rate at which interest is paid on his/her fixed/recurring deposit, how it is calculated and its periodicity. For deposit products like Recurring Deposit Account, the customer should be informed about charges which will be levied in case of the delayed payment of periodical instalment/s in the account by the customer. Details of the charges should be included in the Tariff Schedule.
- b) Customer should be informed of different type of accounts that can be opened with the HFC such as term deposits recurring deposits, etc. HFC shall explain the implications of opening accounts in various styles, such as Single, Joint, Joint (Either or Survivor), Joint (Former or Survivor), Joint (Latter or Survivor), or in any other style, or with nomination facilities at the time of opening of the account.

### **9.2 Premature-withdrawal of deposits**

- a) The procedure pertaining to premature withdrawal of Term Deposits should be informed to the depositor disclosing the interest rates policy for premature withdrawal of term deposit.
- b) The brokerage paid to the broker for mobilising deposits, should not be recovered from the borrower if the borrower decides to pre-close his deposit with an HFC for whatever reason.

### **9.3 Renewal of Overdue Term Deposits**

HFCs should inform their customers the interest rate applicable in case they renew the deposits after the date of maturity.

### **9.4 Advances against Deposits**

HFCs should clearly explain the facility of loan available against term deposits, if any.

### **9.5 Accounts of minors**

HFCs should tell their customers, on enquiry, how a Deposit Account can be opened in the name of a minor.

## **9.6 Special accounts**

HFCs shall endeavor to make their best efforts to make it easy and convenient for their special customers like **senior citizens**, physically challenged persons and illiterate persons to deal with them. This will include making convenient policies, products and services for such applicants and customers. An HFC shall inform the procedure for opening of the account and other terms and conditions to blind / other physically challenged persons provided he / she calls on its branch personally along with a witness who is known to both such person and the branch.

## **9.7 Settlement of claims in respect of deceased account holders**

### **a) Accounts with survivor/nominee clause**

In case of a deposit account of a deceased depositor where the depositor had utilized the nomination facility and made a valid nomination or where the account was opened with the survivorship clause ("either or survivor", or "anyone or survivor", or "former or survivor" or "latter or survivor"), the payment of the balance in the deposit account to the survivor(s)/nominee of a deceased deposit account holder shall be made provided

- i. the identity of the survivor(s)/nominee(s) and the fact of the death of the account holder, is established through appropriate documentary evidence;
- ii. there is no order from a competent court/other statutory authority restraining the company from making the payment from the account of the deceased; and
- iii. it has been made clear to the survivor(s) / nominee that he would be receiving the payment from the company as a trustee of the legal heirs of the deceased depositor, i.e. such payment to him shall not affect the right or claim which any person may have against the survivor(s) / nominee to whom the payment is made.

The payment made to the survivor(s) / nominee, subject to the foregoing conditions, would constitute a full discharge of the company's liability. In such cases, payment to the survivor(s) / nominee of the deceased depositors will be made without insisting on production of succession certificate, letter of administration or probate, etc. or obtaining any bond of indemnity or surety from the survivor(s)/nominee, irrespective of the amount standing to the credit of the deceased account holder.

### **b) Accounts without the survivor/nominee clause**

In case where the deceased depositor had not made any nomination or for the accounts other than those styled as "either or survivor" (such as single or jointly operated accounts), HFCs shall adopt a simplified procedure for repayment to legal heir(s) of the depositor keeping in view the imperative need to avoid inconvenience and undue hardship to the common person. Keeping in view HFC's risk management systems, it may fix a minimum threshold limit for the amount, up to which claims in respect of the deceased depositors could be settled without insisting on production of any documentation other than a letter of indemnity.

### **c. Premature Termination of term deposit accounts**

In the case of term deposits, HFCs shall incorporate a clause in the account opening form itself to the effect that in the event of the death of the depositor, premature termination of term deposits would be allowed, subject to the provisions of the Housing Finance Companies (NHB) Directions, 2001. The conditions subject to which such premature withdrawal would be permitted may also be specified in the account opening form.

d) Time limit for settlement of claims

HFCs shall endeavor to settle the claims in respect of deceased depositors and release payments to survivor(s) / nominee(s) within a period not exceeding 15 days from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s), to the company's satisfaction.

## 10. LOANS

### 10.1 Before HFCs lend any money, they should assess whether the customer will be able to repay it.

If an HFC cannot provide the loan to the customer, it shall communicate in writing the reason(s) for rejection. If the customer wants the HFC to accept a guarantee or other security from someone for his liabilities, the HFC may ask the customer for his permission to give confidential information about his finances to the person giving the guarantee or other security, or to their legal adviser. HFCs may also

- a) encourage the customers to take independent legal advice to make sure that they understand their commitment and the possible consequences of their decision (where appropriate, the documents we ask them to sign will contain this recommendation as a clear and obvious notice);
- b) tell the customers that by giving the guarantee or other security they may become liable instead of, or as well as, him; and
- c) tell them what their liability would be.

### 10.2 Applications for loans and their processing

- a) At the time of sourcing a loan product, HFCs shall provide information about the, interest rates applicable, as also the fees/charges, if any, payable for processing, pre-payment options and charges if any and any other matter which affects the interest of the borrower, so that a meaningful comparison with those of other HFCs can be made and informed decision can be taken by you.
- b) The HFCs should devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement.
- c) Normally all particulars required for processing the loan application shall be collected by the HFCs at the time of application. In case it needs any additional information, the customer should be told that he would be contacted immediately again.
- d) HFCs shall convey to the customer the loan sanction along with the terms and conditions thereof.
- e) HFCs shall supply authenticated copies of all the loan documents executed by the customer at our HFCs' cost along with a copy each of all enclosures quoted in the loan document on request;
- f) HFCs shall not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude HFCs from instituting or participating in schemes framed for different sections of the society.
- g) HFCs shall process requests for transfer of a loan account, either from the borrower or from a bank/financial institution, in the normal course.
- h) Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, HFCs should give notice to borrowers in consonance with the loan agreement.

- i) HFCs should release all securities immediately on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim HFCs may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which HFCs are entitled to retain the securities till the relevant claim is settled /paid.

### **10.3 Guarantors**

When a person is considering to be a guarantor to a loan, he/she should be informed about

- a) his/her liability as guarantor;
- b) the amount of liability he/she will be committing him/herself to the company;
- c) circumstances in which HFC will call on him/her to pay up his/her liability;
- d) whether HFC has recourse to his/her other monies in the company if he/she fail to pay up as a guarantor;
- e) whether his/her liabilities as a guarantor are limited to a specific quantum or are they unlimited; and
- f) time and circumstances in which his/her liabilities as a guarantor will be discharged as also the manner in which HFC will notify him/her about this

HFCs shall keep him/her informed of any material adverse change/s in the financial position of the borrower to whom he/she stands as a guarantor.

### **11. GENERAL**

HFC shall give the customer information:

1. Explaining the key features of its loan products including applicable fees and charges while communicating the sanction of the loan.
2. Advise the customer what information/documentation it need from him/her to enable him/her to apply. The customer should also be advised regarding what documentation is need from him/her with respect to his/her identity, address, employment, etc. and any other document that may be stipulated by statutory authorities (e.g. PAN details) in order to comply with legal and regulatory requirements
3. Verify the details mentioned by him/her in the loan application by contacting him/her at his/her residence and / or on business telephone numbers and / or physically visiting his/her residence and/or business addresses through agencies appointed for this purpose, if deemed necessary by the HFC.
4. The customer should be informed to co-operate if the HFC needs to investigate a transaction on the customer's account and with the police/ other investigative agencies, if the HFC needs to involve them.
5. The HFC should advise the customer that if the customer acts fraudulently, he/she will be responsible for all losses on his/her account and that if the customer acts without reasonable care and this causes losses, the customer may be responsible for the same.