Fair Practices Code for Lenders

The Fair Practices Code for QNB India seeks to provide transparency and clarity to the Bank's borrowers with regard to their transactions with the Bank.

1. Loan applications and processing

The loan application forms would be comprehensive to include information about processing fees and other charges, fees refundable in the case of non-acceptance of application, pre-payment options and charges, if any, penalty for delayed repayments, if any, conversion charges for switching loan from fixed to floating rates or vice versa, existence of any interest reset clause and any other matter which affects the interest of the borrower. Further, such information would also be made available to the customer through the product information brochures and such other communication containing the product related features, in addition to being an integral part of the facility terms. QNB India would also inform the all-in-cost to the customers.

A system would be devised, whereby acknowledgment for receipt of loan application forms would be given. However, in case of wholesale banking, for the credit proposals which originate through detailed interaction with the borrowers, an application/ acknowledgment process may not be followed. QNB India would ordinarily verify the loan applications received within 2 month from the date of receipt of loan applications. If additional details / documents are required, QNB India would intimate the borrowers. The business team of QNB India will convey in writing, the main reason(s) which led to the rejection of the loan application normally within 2 months from the date of receipt of loan applications.

Timelines for Credit Decisions for MSME Sector– Timely credit is critical to the growth of a healthy MSE sector. Towards this Reserve Bank has issued several guidelines. Direction of RBI to make suitable disclosures on the timelines for conveying credit decisions through their websites, notice-boards, product literature, etc shall be complied with. QNB India may comply with the following timelines for disposing of (regular, additional / ad-hoc credit facilities and restructuring of accounts, if considered viable) for MSE borrowers in line with the loan policy of the QNB India Operations.

Loan applications from units under MSME sector will be disposed off within a reasonable time as mentioned below, provided such applications are complete in all respects.

Application for a credit limit or enhancement in existing credit limit up to INR 0.5 MN	Within 2 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above INR 0.5 MN and upto INR 2.5 MN	Within 4 weeks from the date of receipt
Application for a credit limit or enhancement in existing credit limit above INR 2.5 MN	Within 4 weeks from the date of receipt

Application for additional / ad-hoc credit facilities and restructuring of accounts, if considered viable from units under MSME sector will be disposed off within a reasonable time as mentioned below, provided such applications are complete in all respects.

Application for a credit limit or enhancement in existing credit limit up to INR 0.5 MN	Within 10 working days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above INR 0.5 MN and upto INR 2.5 MN	Within 20 working days from the date of receipt
Application for a credit limit or enhancement in existing credit limit above INR 2.5 MN	Within 20 working days from the date of receipt

2. Loan appraisal and terms/conditions

QNB India will ensure that there is proper assessment of credit requirement and creditworthiness of borrowers. Stipulation of margin and security will be based on due diligence and creditworthiness of borrowers in line with extant Credit Policy of QNB India. The methodologies for assessment have been detailed in the various policy/product notes of QNB India. The assessment will be based on all credit related and such other information as may be called for/collected by QNB India. QNB India would convey to the borrower the credit limit and details of facilities along with the terms and conditions thereof and keep the borrower's acceptance with dual record. Terms and conditions and other caveats governing credit facilities given by QNB India, would be reduced in writing between QNB India and the borrower and communicated to the borrower, under the signatures of authorized official. A copy of the facility terms along with related documents would be furnished to the borrower.

As far as possible, the facility terms will stipulate terms & conditions relating to the credit facilities that are solely at the discretion of QNB India. These may include approval or disallowance of facilities, such as drawings beyond the sanctioned limits, honouring cheques issued for the purpose other than specifically agreed to in the credit sanction and disallowing drawing on a borrower account on its classification as a nonperforming asset or in the event of default or on account of non-compliance with the terms of sanction. QNB India would not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.

In case of lending under consortium arrangement where QNB India is a participant, QNB India would endeavor to complete appraisal of proposals in a time bound manner to the extent feasible and communicate to the client the decision on financing or rejection of the proposal within a reasonable time.

3. Disbursements of loans including changes in terms and conditions

QNB India will ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction. QNB India will give notice of any change in the terms and conditions including interest rates, service charges etc. QNB India would ensure that changes in interest rates and charges are effected only prospectively (unless otherwise required by regulation/law).

4. Copy of loan agreement to be furnished to borrowers

QNB India will ensure that a copy of the executed loan agreement and all addition documents would be provided to the borrower on written demand by the borrower. QNB India would ensure that any changes / amendments in the existing facility structure would be intimated to the borrower and would have the borrower's concern on the same (unless otherwise required by regulation/law).

5. Post disbursement supervision

The post disbursement supervision by lenders, particularly in respect of loans up to Rs. 0.2 million would be constructive with a view to taking care of any "lender related" genuine difficulty that the borrower may face. Inappropriate occasions such as bereavement in the family or events of similar nature will require being avoided for making calls or visits. Before taking decision to recall / accelerate payment or performance under the facility terms or seeking additional securities, QNB India would give notice to borrowers, as specified in the facility terms or a reasonable period if no such condition exists in facility terms (unless the security is in jeopardy). QNB India would release all securities on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim lenders may have against borrowers. If such right of set off is to be exercised, borrowers will be given 3 notice about the same and the documents under which lenders are entitled to retain the securities. The Bank's approach towards application of penal charges for non-compliance of material terms and conditions of the Loan / Credit Facilities contract entered into between the Bank and the Borrower are elaborated in Annexure A.

6. General

In case of receipt of request for transfer of borrower account, either from the borrower or from a bank, which proposes to take over the account, the consent or otherwise i.e. objection of the QNB India, if any, would be conveyed within 21 days from the date of receipt of request. QNB India reserves the right to enforce security for recovery of dues in the form and manner and on the terms and conditions stipulated in the facility terms in case of default in payment or on the occurrence of any other event of default. In the matter of recovery of loans, QNB India will not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of force for recovery of loans. QNB India would refrain from intervening in the affairs of the borrowers except as provided in the terms and conditions of the facility terms, unless new information, not disclosed by the borrower, has come to the notice of the QNB India.

QNB India would not discriminate on grounds of sex, caste and religion in the matter of lending.

An appropriate grievance redressal mechanism would be put in place whereby disputes arising out of the decisions of QNB India's functionaries would be heard and disposed off.

Annexure A

Background

Reserve Bank of India (RBI) has issued Direction RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 with regard to Fair Lending Practice – Penal Charges in Loan Accounts, followed by issuance of FAQs on January 15, 2024. The circular highlights that intent of penal interest and charges is essentially to inculcate credit discipline among Borrowers, and not as a revenue enhancement mechanism.

The purpose of this document is define QNB India's (the Bank) approach with respect to application of penal charges for non-compliance of material terms and conditions of the Loan / Credit Facilities contract entered into between the Bank and the Borrower.

Scope

This document shall be applicable to all customers of the Bank that have been sanctioned credit facilities by the Bank, and for non-compliance of all terms of sanction whether they be financial or non-financial. This note shall not apply to Credit Cards, External Commercial Borrowings, Trade Credits and Structured Obligations, which are covered under product specific directions issued by RBI.

Principles governing application of Penal Charges on Non-Compliance of Terms of the Loan Contract / Documentation

(i) Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.

(ii) The Bank shall not introduce any additional component to the rate of interest and shall ensure compliance to the aforesaid RBI guidelines issued in this regard

(iii) The Bank shall implement the requirements of this note as specified later in this document. The applicable policy governing penal charges, namely the "Interest Rate on Advances" Policy shall be updated with these requirements at the time of the next annual review.

(iv) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.

(v) If at a future date, the Bank commences lending to 'individual borrowers, the penal charges in case of such loans, for purposes other than business', shall not be higher than the penal charges applicable to "non-individual borrowers" for similar non-compliance of material terms and conditions.

(vi) The loan/credit documentation of the Bank shall be updated to clearly disclose to the customer the quantum and reason for penal charges, and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Bank's website under Interest rates and Service Charges.

(vii) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

Quantum of Penal Charges to be applied by QNB India
Penal charges for non-compliance by the Borrower of non-financial material terms and conditions of the contract / loan documentation will be levied at the rate of 2% p.a. plus applicable taxes (if any) on the entire outstanding balance (funded as well as non-funded), for the entire period of non-compliance. In case of default in repayment of (principal or interest) or devolvement of Letter of Credit or Bank Guarantee, the Bank shall levy penal charges at the rate of 2% per annum on the amount in default for the period of the default. Under no circumstances shall there be any capitalization of penal charges. The standard rate of penal charges may modified as specified in the credit sanction or as approved by the credit approving authority separately. The application of penal charges shall be at the discretion of the Bank.

Applicability of GST and/or any other charges
Penal charges shall be subject to GST at the prevailing rate (@18% currently) and the same shall be borne by the customer. Any further instructions issued by the Central Board of Indirect Taxes & Customs on this matter shall be implemented.

Effective Date & Impacted Policies
The contents of this note shall become effective from 01-Apr-24, for all fresh and existing loans availed / renewed from the effective date. In case of existing loans, the switchover to new penal charges regime shall be ensured on the next renewal date falling on or after 01 April 2024, but not later than 30 June 2024.

ANNEXURE 1 – INDICATIVE LIST OF MATERIAL TERMS OF

SANCTION

1. Non-Payment / delayed payment of principal or interest for funded credit facility
2. Devolvement of non-funded Letter of Credit / Bank Guarantee / SBLC
3. Covenant Breach
4. Delay in perfection of security within stipulated timelines
5. Breach of sanctioned security coverage ratio
6. Delayed submission of stock statement, receivables statement etc.
7. Delayed submission of CA certificate for end-use monitoring, PSL requirements etc.
8. Non receipt of valuation report within stipulated timelines
9. Delayed submission of Unhedged Foreign Currency Statement as per Regulatory requirements
10. QNB facility not rated within stipulated timelines
11. Insurance renewal not done on timely basis
12. Occurrence of EOD under the relevant finance document