



POLICY ON WILLFUL DEFAULTERS AND LARGE DEFAULTERS

Version 01

Version Control

Version Control Number	Date Effective	Recommended By	Approved by	Version Description and modifications
01	22-03-2025	CEO	Board of Directors	As Mandated by RBI

SASVITHA HOME FINANCE LIMITED

Policy on Willful Defaulters and Large Defaulters

1. Background:

Reserve Bank of India (RBI) issued the Master Direction on Wilful Defaulters and Large Defaulters via Circular No. RBI/DoR/2024-25/122.DoR.FIN.REC.No.31/20.16.003/2024-25.

These guideline outline the regulatory framework and procedures for classifying borrowers as wilful defaulters.

This Master Direction reflects the RBI's proactive approach to mitigate risks associated with wilful defaulting and contribute to a more stable financial environment.

2. Objective

The primary objective is to establish a non-discriminatory and transparent procedure for the classification of a borrower as a wilful defaulter by the Individuals. In doing so, it emphasizes adherence to the principles of natural justice, ensuring that all borrowers are treated fairly and equitably throughout the process.

Further, this policy aims to implement a robust system for disseminating credit information about identified wilful defaulters. By sharing this critical information with other lenders, the policy seeks to caution them against extending further institutional finance to these borrowers. This proactive approach not only protects the interests of lending institutions but also augments more responsible lending environment, ultimately contributing to the overall stability and integrity of the economy.

Definitions

3.1. Diversion of Funds

The following occurrences will be considered as Diversion of Funds;

- deploying funds availed using home loan facility for the creation of assets other than those for which the credit was sanctioned;
- transferring funds availed using Home Loan Facility to the others, by whatever modality, without approval of the Sasvitha Home Finance .

- investing funds availed using Home Loan Facility in companies/entities by way of acquiring equities/debt instruments; and
- shortfall in the deployment of funds vis-à-vis the amounts disbursed/ drawn under the Home Loan Facility and the difference not being accounted for.

3.2 Identification committee

The Identification committee will comprise of;

- Chief Executive Officer
- Business Head
- Cluster Heads
- Credit Monitoring Inspection Incharge

3.3 Review Committee

The Review Committee will review the proposals of the Identification Committee and will comprise of;

- Chairman
- Chief Executive Officer
- Business Head

3.4 Large Defaulter

Large Defaulter means a defaulter with an outstanding amount of ₹1 Crore and above and, where suit has been filed or whose account has been classified as doubtful or loss.

3.5 Siphoning of Funds

Siphoning of funds means any funds availed using Home Loan Facility from Sasvitha Home Finance are utilised for purposes unrelated to the purpose of the borrower.

3.6 Wilful Default

Wilful Default means when the borrower defaults in meeting payment / repayment obligations to the Sasvitha Home Finance and any one or more of the following features are noticed:

- The borrower has the capacity to honour the said obligations;
- The borrower has diverted the funds availed under the Home Loan Facility from the Sasvitha Home Finance to some other purpose;

- The borrower has siphoned off the funds availed under the Home Loan Facility from the Sasvitha Home Finance ;
- The borrower has disposed of immovable or movable assets provided for the purpose of securing the Home Loan Facility without the approval of the Sasvitha Home Finance ;
- The borrower or the promoter has failed in its commitment to the Sasvitha Home Finance to repay EMI despite having the ability to repay, although Sasvitha Home Finance has provided loans or certain concessions to the borrower based on this commitment and other covenants and conditions.
- If the guarantor does not honour the guarantee when invoked by the Sasvitha Home Finance , despite having sufficient means to make payment of the dues or has disposed of immovable or movable assets provided for the purpose of securing the credit facility, without the approval of the Sasvitha Home Finance .

3.7 Wilful defaulter

- Borrower or a Guarantor who has committed wilful default and the outstanding amount is ₹25 lakh and above, or as may be notified by Reserve Bank of India from time to time, and
- Where the borrower or a guarantor committing the wilful default is a Company, its promoters and the director (s). In case of entity (other than companies), persons who are in charge and responsible for the management of the affairs of the entity.

4 Treatment of Wilful Defaulters

4.1 Mechanism for Identification and Classification of Wilful Defaulters

Sasvitha Home Finance will identify and classify a person as a '**wilful defaulter**' by following the procedure.

The identification of the wilful default will be made keeping in view the track record of the borrower and not based on isolated transactions/incidents. The default will be categorised as wilful only if it is intentional, deliberate and calculated.

4.1.1 Process for Identification and Classification of Wilful Defaulters;

- The evidence of wilful default will be examined by an Identification Committee

- If the Identification Committee is satisfied that an event of wilful default has occurred, Sasvitha Home Finance will issue a show-cause notice to borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity, and call for the submissions from them within 21 days of issuance of show cause notice. Sasvitha Home Finance will disclose all the material facts and information on which show cause notice is based.

Note - Director (s)/ persons who are in charge and responsible for the management of the affairs of the entity means who were associated with the Company / entity at the time when the acts of omission or commission by the Company / entity led to the default.

- After considering the submissions and where satisfied, the Identification Committee will make a proposal to the Review Committee for classification as a wilful defaulter by explaining the reasons in writing.

- The borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity shall thereafter be suitably advised about the proposal to classify them as wilful defaulter along with the reasons therefor.

- An opportunity will be provided to borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity for making a written representation to Review Committee within 15 days of such a proposal from the Identification Committee.

- The proposal of the Identification Committee along with the written representation received will be considered by the Review Committee.

- The Review Committee shall provide an opportunity for a personal hearing also to the borrower /guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity. However, if the opportunity is not availed or if the personal hearing is not attended by the borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity, the Review Committee shall, after assessing the facts or material on record, including written representation, if any, consider the proposal of the Identification Committee and take a decision.

- As the above classification process is an in-house proceeding, the borrower/ guarantor/promoter/ director/ persons in charge and responsible for the management of affairs will not have the right to be represented by a lawyer.

- The Review Committee will pass a reasoned order and the same will be communicated to the wilful defaulter.

Note- If the Identification Committee concludes that the borrower/ guarantor/ promoter/director/ persons who are in charge and responsible for the management of the affairs of the entity, do not qualify for classification as a wilful defaulter, such cases will not be referred to the Review Committee.

4.1.2 Only following designated person can issue the show cause notice and serve written order on behalf of the Identification Committee and Review Committee respectively.

- Chief Executive Officer
- Company Secretary

The show-cause notice and the order served by the above designated official will clearly state that this has the approval of the competent authority, i.e., Identification/ Review Committee.

4.2 Review of accounts for identification of wilful default

- The Sasvitha Home Finance will examine the 'wilful default' aspect in all Non-Performing Assets (NPA) accounts with outstanding amount of ₹25 lakh and above or as may be notified by Reserve Bank of India from time to time. If wilful default is observed in the internal preliminary screening, the Company will complete the process of classification/ declaring the borrower as a wilful defaulter, within six (6) months of the account being classified as Non-Performing Assets (NPA).
- In respect of accounts where 'wilful default' was not observed during the initial examination, the aspects regarding 'wilful default' will be subsequently re-examined Quarterly.

5. Specific measures against wilful defaulters

5.1 Initiation of Criminal proceedings by the lenders

Based on the facts and circumstances of each case, the company will examine whether initiation of criminal proceedings against wilful defaulters under the provisions of the applicable law, is warranted. In cases where criminal proceedings have been initiated, removal of the name of a wilful defaulter from the List of Wilful Defaulters (LWD) will be without prejudice to the continuation of criminal proceedings against the wilful defaulter.

5.2 Publishing of photographs of wilful defaulters

Based on the merits of the case the Sasvitha Home Finance may publish photographs of persons classified and declared as wilful defaulter.

5.3 Penal and other measures against wilful defaulters

5.3.1 Penal measures

5.3.1.1 No additional Home Loan Facility will be granted to a wilful defaulter or any entity with which a wilful defaulter is associated.

5.3.1.2 The bar on additional Home Loan Facility to a wilful defaulter or any entity with which a wilful defaulter is associated will be effective for a period of one (1) year after the name of wilful defaulter has been removed from the List of Wilful Defaulters (LWD) by Sasvitha Home Finance .

5.3.1.3 No Home Loan Facility will be granted for floating of new ventures to a wilful defaulter or any entity with which a wilful defaulter is associated for a period of five (5) years after the name of wilful defaulter has been removed from the LWD by Sasvitha Home Finance .

5.3.1.4 Wilful defaulters or any entity with which a wilful defaulter is associated will not be eligible for restructuring of credit facility. Subsequent to removal of the name of wilful defaulter from the List of Wilful Defaulters (LWD), the wilful defaulter or any entity with which a wilful defaulter is associated will be eligible for restructuring.

Note:

If the wilful defaulter is a Company, another Company will be deemed to be associated with it, if that Company is;

- Subsidiary Company as defined under clause 2 (87) of the Companies Act, 2013
- Falls within the definition of a joint venture or an associate of Sasvitha Home Finance under clause (6) of Section 2 of the Companies Act, 2013.
- If the wilful defaulter is a natural person, all entities in which he is associated as promoter, or director, or as one in charge and responsible for the management of the affairs of the entity will be deemed to be associated.
- The penal provisions mentioned above, will not be applicable on the associated entities when they are no longer associated with the wilful defaulters.

5.3.2 Incorporation of covenant

- There is a covenant in the agreement while extending Home Loan Facility to a borrower that they shall not induct a person whose name appears in the LWD or as a person in charge and responsible for the management of the affairs of an entity.

- Under no circumstances the company will renew/ enhance/ provide fresh credit facilities or restructure existing facilities provided to such a borrower so long as the name of its promoter and/or the director (s) and/or the person in charge and responsible for the management of the affairs of the entity remains in the LWD.

5.3.3 Initiation of legal action

The company will initiate legal action (wherever warranted) against the borrowers/ guarantors for foreclosure/ recovery of dues expeditiously.

6. Role of Internal Audit

- The internal auditor will specifically look into adherence to instructions for classifying a borrower as a wilful defaulter.
- The Audit Committee will periodically review the cases of wilful default and recommend steps to be taken to prevent such occurrences and their early detection should these occur. The Audit Committee will focus on identifying root causes of wilful default and addressing deficiencies, if any, in the wilful defaulter classification process adopted by the Sasvitha Home Finance .

7. Liability of a Guarantor

- If company has a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor will be immediate.
- In case the said guarantor refuses to comply with the demand made by the Company, such guarantor will also be considered for classification as a wilful defaulter.
- While dealing with the wilful default of a single borrowing Company in a Group, the Sasvitha Home Finance will consider the track record of the individual company, with reference to its repayment performance to its lenders.

8. Reporting of Wilful Defaulters and Large Defaulters

8.1. Reporting and Dissemination of Credit Information on Large Defaulters

The Company will submit information in Annex I to all credit information companies (CICs) in respect of the large defaulters at Quarterly intervals:

- List of suit filed accounts of large defaulters; and
- List of non-suit filed accounts of large defaulters whose account has been classified as doubtful or loss

For calculating the threshold of ₹1 crore, the unapplied interest, if any, will also be included. In the case of suit-filed accounts, the threshold will relate to the amount for which the suits have been filed.

Note –

Accounts will be treated as suit filed if any application, appeal or execution is pending in continuation of the original recovery proceedings.

Suit filed accounts will include accounts in which SARFAESI proceedings or any other proceedings for recovery of the dues from the borrower or any other person liable to make payment of a debt under Acts governing co-operative societies are initiated and pending and will include the account of a debtor against whom resolution or liquidation proceedings have been initiated and are continuing.

9. Reporting and Dissemination of Credit Information on Wilful Defaulters

Sasvitha Home Finance will submit information in Annex II at Quarterly intervals to all CICs in respect of the wilful defaulters:

- List of wilful defaulters (LWD) in respect of suit filed accounts
- LWD in respect of non-suit filed accounts

Sasvitha Home Finance will inform all CICs about removal of the name of wilful defaulter from the LWD, promptly and not later than 30 days from the date when the outstanding amount falls below the threshold of ₹25 lakhs.

10. Treatment of compromise settlements

- Any account included in LWD, where the Sasvitha Home Finance has entered into a compromise settlement with the borrower, shall be removed from the LWD only when the borrower has fully paid the compromise amount. In cases where the Sasvitha Home Finance decides to cancel the settlement due to non-adherence to the terms of the settlement and revises the amount payable by the borrower, the reporting will be with reference to the revised amount.
- Till such time as only part payment is made, name of the borrower will not be removed from the LWD even if the outstanding amount becomes less than the threshold of ₹25 lakh.
- The compromise settlement will be without prejudice to the continuation of criminal proceedings against the wilful defaulter.

11. Reporting of Directors

- In case of business enterprises registered as companies under the Companies Act, 2013, Sasvitha Home Finance will also report in the Director column of Annexures, the full names of the directors to facilitate better identity of persons concerned.
- In order to ensure that directors are correctly identified and in no case, persons whose names appear to be similar to the names of directors appearing in the LWD are wrongfully denied credit facilities on such grounds, Sasvitha Home Finance will include the Director Identification Number (DIN) as one of the fields in the Annexures to CICs.

12. Preventive Measures and Role of Auditors

12.1 Credit appraisal

Following point to be verified while carrying out the credit appraisal;

- Whether the name the person/directors of a company/ guarantors/ persons in charge of the management of affairs of the entity appears in the list of large defaulters/ LWD by way of reference to DIN/ PAN, etc.

In case of any doubt arising on account of identical names, Sasvitha Home Finance will use independent sources for confirmation of the identity of directors rather than seeking a declaration from the borrower.

13. Monitoring End Use of Funds

- Sasvitha Home Finance to monitor the end-use of funds and obtain certificates from borrowers certifying that the funds have been utilised for the purpose for which they were obtained. In case of the wrong certification by the borrowers, Sasvitha Home Finance will initiate appropriate legal proceedings, including criminal proceedings wherever necessary, against the borrowers.
- In cases of project financing, Sasvitha Home Finance will ensure end use of funds by, inter alia, obtaining certification from a Civil Engineer for the purpose.

14. Role of Statutory Auditors

- In case any falsification of accounts on the part of the borrowers is observed by Sasvitha Home Finance and the auditors are found to be negligent or deficient in conducting the audit, the Sasvitha Home Finance may consider lodging a formal complaint against the statutory auditors of the borrowers with the National Financial Reporting Authority (NFRA)/ Institute of Chartered Accountants of India (ICAI) to enable them to examine and fix accountability of the auditor.

- Pending disciplinary action by NFRA/ ICAI, the complaints will be forwarded to the Reserve Bank (Department of Supervision, Central Office) and Indian Banks' Association (IBA). Before reporting to the Reserve Bank and IBA, Sasvitha Home Finance will confirm the involvement of concerned auditors and also provide them with an opportunity of being heard.
- With a view to monitoring the end-use of funds, the Sasvitha Home Finance may take a specific certification from the borrowers auditors regarding diversion/siphoning of funds by the borrowers, Sasvitha Home Finance will award a separate mandate to the auditors for the purpose.
- In addition to the above and with a view to preventing diversion/ siphoning of funds by the borrowers, Sasvitha Home Finance may engage their own auditors for such specific certification without relying on certification given by borrowers' auditor.
- Depending upon the nature of the borrowers acts underlying the wilful default and the quality of evidence available with the lenders in the normal course, Sasvitha Home Finance may consider commissioning a forensic audit of the affairs of the borrowers and their books of accounts, in respect of accounts with an outstanding above ₹25 lakh and above.

15. Role of third parties

In case of wilful defaults, there should be some accountability for the third parties engaged by the Sasvitha Home Finance , if they have played a vital role in credit sanction / disbursement and are found negligent or deficient in their work or have facilitated the wilful defaulter for the obtaining the loan by the borrower.

16. Review of Policy

Policy will be reviewed from time to time and any revisions will be updated annually or as necessary.

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01	22-03-2025	CEO	Board of Directors	As Mandated by RBI