

Analysis of RBI's Responsible Lending Conduct Directives -2023-24/60 dated September 13, 2023, regarding Release of movable and immovable property documents upon repayment or settlement of loans.

**Mumbai, September 18, 2023.**



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## RBI Notification dated 13<sup>th</sup> Sept'23 on Release of Documents

### ❖ Background on Responsible Lending Conduct – Release of Movable / Immovable Property Documents on Repayment/ Settlement of Loans: -

In terms of the guidelines on the Fair Practices Code issued to various Regulated Entities (REs) since 2003, REs have been required to release all movable/immovable property documents upon receiving full repayment and closure of the loan account. However, it has been observed that the Regulated Entities follow divergent practices in the release of such movable/immovable property documents leading to customer grievances and disputes. To address the issues faced by the borrowers and promote responsible lending conduct among the REs, Directions are being issued on RBI/2023-24/60 DoR.MCS.REC.38/01.01.001/2023-24 dated September 13, 2023.

## ❖ Applicability :

- These Directions shall be applicable to all cases where the release of original movable /immovable property documents falls due on or after December 1, 2023.
- The above Directions are issued under sections 21, 35A, and 56 of the Banking Regulation Act, 1949, sections 45JA and 45L of the Reserve Bank of India Act, 1934, and section 30A of the National Housing Bank Act, 1987.
- This is applicable to all the following entities:
  - All Commercial Banks (including Small Finance Banks and Regional Rural Banks, excluding Payments Banks)
  - All Local Area Banks
  - All Primary (Urban) Co-operative Banks
  - All State Co-operative Banks and District Central Co-operative Banks
  - All NBFCs (including HFCs)
  - All Asset Reconstruction Companies

## ❖ Release of Movable / Immovable Property Documents:

- The Regulated Entities shall release all the original movable/immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/settlement of the loan account.
- The borrower shall be given the option of collecting the original movable/immovable property documents either from the banking outlet/branch where the loan account was serviced or any other office of the RE where the documents are available, as per her/his preference.
- The timeline and place of return of original movable/immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date.
- To address the contingent event of the demise of the sole borrower or joint borrowers, the RE shall have a well-laid-out procedure for the return of original movable /immovable property documents to the legal heirs. Such procedure shall be displayed on the website of the REs along with other similar policies and procedures for customer information.

## ❖ Compensation for delay in release of Movable / Immovable Property Documents

- In case of delay in releasing original movable/immovable property documents or failure to file charge satisfaction form with the relevant registry beyond 30 days after full repayment/ settlement of the loan, the RE shall communicate to the borrower the reasons for such delay. In the case where the delay is attributable to the RE, it shall compensate the borrower at the rate of rs.5,000/- for each day of delay.
- In case of loss/damage to original movable/immovable property documents, either in part or in full, the REs shall assist the borrower in obtaining duplicate/certified copies of the movable/immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated at paragraph 6 above. However, in such cases, an additional time of 30 days will be available to the REs to complete this procedure, and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).
- The compensation provided under these directions shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

# Insights

## ❖ Actionable Insights for executive management before 1<sup>st</sup> December 2023

- a) REs may be required to immediately amend their Policies, SOPs, and IT applications to give effect to the new RBI directions on Responsible Lending Conduct – Release of Movable / Immovable Property Documents on Repayment/ Settlement of Loans
- b) REs may need to develop robust internal control systems, and internal auditing / concurrent auditing checklists and amend their IFC-related RCMs to give effect to these new guidelines.
- c) REs may need to develop centralized tracking and monitoring MIS - for 30-day TAT timelines to avoid per day penalty of Rs. 5,000/-
- d) As a good governance measure REs may need to take up one-time special projects to clean out the back log for previous years specially in case of demised customers, where about un-known customers and ensure that releases of mortgaged documents are completed prior to 1<sup>st</sup> December 2023.

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