

RBI/2008-09/454

DNBS (PD) CC.No.139 /03.10.001/2008-09

April 24, 2009

All Non-Banking Finance Companies

Dear Sir,

Clarification regarding repossession of vehicles financed by NBFCs

Please refer to [DNBS \(PD\) CC No. 80 / 03.10.042 / 2005-06](#) dated September 28, 2006, advising NBFCs to put in place a Fair Practices Code with the approval of their Boards which, inter alia, covers recovery of loans.

2. In this connection, it is further clarified that, with particular reference to queries raised regarding repossession of vehicles, NBFCs must have a built in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement should also contain provisions regarding: (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for taking possession of the security; (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property; (e) the procedure for giving repossession to the borrower and (f) the procedure for sale / auction of the property. A copy of such terms and conditions must be made available to the borrowers in terms of DNBS.PD/ CC. No. 107 / 03.10.042 /2007-08 dated October 10, 2007 wherein it was stated that NBFCs may invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans, which may form a key component of such contracts/loan agreements.

Yours sincerely,

(P.Krishnamurthy)
Chief General Manager-In-Charge