

**GTP FINANCE LIMITED**  
**(GOLD LOAN DIVISION)**

**CIRCULAR NO :55**

**DATE : 22-06-19**

**TITLE : Auction policy – Revised**

**DEPARTMENT : GOLD LOAN DIVISION**

**Auction policy- Revised**

The auction policy of the company duly approved by the Board has been circulated vide our circular No 37 Dated 19-09-2018.

The Director (Operations) has proposed certain amendments to the auction policy which was examined by the board in its meeting dated 30-05-2019 and the modifications proposed were approved by the board.

The auction policy duly revised is attached.

Branches must familiarize with the contents and the operating staff must strictly comply with the revised auction policy.

The copy of the amended Auction Policy must be put up in the Branch Notice Board and confirmed to us in writing.

A copy of the revised Auction policy is being published in the company's website.

**GTP Finance Ltd,**

**Director (Operations)**

## **AUCTION POLICY - REVISED**

### **INTRODUCTION**

The gold loan business of the company consists of lending against the collateral security of gold ornaments which are essentially “household jeweler”. The inherent strength of such security is that it gets promptly repaid on account of the emotional attachment to such assets.

Most of the borrowers repay the loan in the usual course and after receiving reminders/notices. Yet there could be a few borrowers who despite reminders/ registered notices /personal contacts and persuasion may not come forward to liquidate the dues within the normal tenure.

In respect of such accounts, the company is left with no option than realizing the dues by selling the securities pledged through public auction.

The normal tenure of the loan now prescribed by the company is nine calendar months and our policy would be to get all these accounts settled within two months after expiry of the maturity date.

The Reserve Bank of India vide circular DNBS.CC.PD. NO266/03.10.01 /2011-12 Dt 26th March 2012 titled “FAIR PRACTICES CODE “had advised all NBFCs to put in place an auction policy duly approved by its Board for compliance.

In accordance with the above guidelines, this auction policy is framed and will be in force on approval by the Board.

## **OBJECTIVES**

The broad objectives of the policy will be as under.

1. to ensure financial health of the company with focus on asset quality and income recognition and asset classification norms as prescribed by RBI
2. To encourage and ensure adherence to the agreed repayment terms by the borrowers and to liquidate the loans with out pushing the company to resort to auction.
3. To ensure that auction be the last resort for realization of the dues.
4. To follow a transparent policy in the conduct of the auction after giving suitable proper and adequate notice to the borrower.
5. To ensure compliance with the regulatory requirements, legal and taxation requirements.
6. To put in place proper organizational structure to initiate, monitor and control the auction process.
7. To identify and implement necessary internal controls to mitigate
8. risks.

## **FACTORS THAT MAY RESULT IN AUCTION OF SECURITIES**

1. Recalcitrant and non co operative borrowers
2. Substantial erosion in the value of the securities
3. NPA/Provisioning norms
4. Market price and volatility
5. Cash flows of the company

## **AUCTION PROCEDURE**

### **A. PUBLIC AUCTION**

1 “Public Auction’. The term Auction used elsewhere in the policy will mean only “public auction”.

2. The auction process will be initiated for all accounts wherein the interest has not been serviced in FULL through out the loan period and in other cases as stated otherwise in the policy.

### **B. ORGANISATION STRUCTURE FOR AUCTION PROCEEDINGS**

1. The company will designate a senior functionary to approve, initiate, monitor and supervise the auction proceedings. The Director (operations) will be the designated authority for the time being.

2. The Director (operations) can identify, delegate and assign the work relating to the auction to lower functionaries.

### **C. NORMS FOR IDENTIFICATION OF ACCOUNTS FOR AUCTION**

1. Accounts where interest is not serviced in FULL till maturity date of the loan will be identified as an auction able pledge.

2. However as a measure of customer satisfaction, the company may permit extension of time for auction for these accounts, subject to the following:

a. Extension by one month if at least thirty percent of the interest is paid immediately on receiving the auction notice

b. Additional extension of one month if at least fifty percent of the interest due till date is paid

c. Extension by one more month if the entire interest is paid in full.

d. Notwithstanding the above extension and payment of interest, if the borrower does not settle the entire principal and subsequent interest, within one calendar month of the last extension, the company will resort to auction to get the loan realized.

e. Every extension with the terms and condition will be advised to the borrower and got acknowledged.

3. Accounts that remain unsettled after the maturity date with interest serviced in part / principal serviced in part will also be classified as an auctionable pledge, if they are not settled within sixty days of the maturity date. The company after suitable notices may proceed with auction

4. Accounts where the asset to value ratio has fallen below one hundred and twenty percent of the current market value will also be classified as auctionable pledge. Such instances may occur owing to sudden crash of the gold prices and the interest of the company getting affected. In such instances the borrowers will be notified and will be given one month's time for settling the dues and releasing the pledges. In the event of the borrowers not releasing the securities, the company will proceed further with auction.

5. Pledges identified as spurious/low quality will also be classified as actionable pledge. Upon identification in such instances, the borrowers will be advised in detail by registered letters with AD and be requested to settle the dues within fifteen days on receipt of the notice.

Besides, the borrowers in such cases will be persuaded for a smooth settlement. In the event of the efforts failing, the company will resort to auction of the pledges as per the auction procedures prescribed.

6. In the case of pledges of outstanding above Rupees one lac under the above category (spurious/low quality), the pledges will be got assayed by an approved external agency and their certificate held on record.

7. Pledges in respect of which the company has initiated criminal action against the borrower/ staff will not be brought under auction proceedings under normal circumstances. Such cases will be legally examined and after the company is satisfied about the legal impediments, only will be put under auction. The decision of the Director (operations) will be final in these cases.

#### **D .AUCTION CENTRE**

The gold ornaments identified for auction will be auctioned in the respective branch premises where the pledge was made by the borrower, or at a common center located within the revenue taluk of the respective branch .

#### **E. MODE AND PERIODICITY OF SENDING NOTICES AND INTIMATION TO THE BORROWERS**

1. In order to ensure utmost transparency and also to minimize the auction , upon classification of the account as “actionable , a registered notice with AD in vernacular language will be sent to the borrower informing the proposals of the company to auction the pledge and calling him upon to settle the dues within a fortnight of the date of the letter. The notice will also indicate that no further intimation will be given to the borrower in the event of non settlement of dues within the prescribed date. The draft of such notice will be approved by the Director (operations).

2. The acknowledgement card upon receipt should be carefully preserved and kept along with the security documents.

3. In the event of the notice returning undelivered, , the KYC documents of the customer must be scrutinized for the correctness of the address and a second notice to be sent as a matter of additional precaution.

4. Before proceeding to auction, for notices where acknowledgements are not received, a certificate of delivery should be requested and obtained from the post office where the registered notice is booked.

5. In the case of notices returned undelivered for reason “Addressee deceased”, the account should be marked separately and removed from the immediate auction list.

6. In such cases, the company may utilize the services of the security officers concerned working with the company and try to identify the known legal heirs and to be dealt with appropriately. After exhausting the recourse to the legal heirs, such pledges may be put up for auction and in such cases registered notices as mentioned above will be served to all known legal heirs.

7. All Reasonable Expenses relating to the Sending of Notices and Publication of Auction notice will be charged to the borrower’s account.

#### **F. PUBLIC NOTIFICATION OF AUCTION AND DISPLAY OF INFORMATION**

1. The list of accounts taken up for auction with the name of the borrower , details of the ornament, and date auction will be Displayed in the respective branch Notice board at least fifteen calendar days before auction. A confirmation for having done so along with a copy of the notice will be obtained from the Branch Manager concerned and kept on record.

2. The conduct of auction, date, time, venue and the description of ornaments will be announced through a notification in one of the leading local newspaper in vernacular language and in a National Daily in English .The full details relating to the description of the ornaments weight etc., could be published in the company's website and the notification in the English news paper could be quoting the website notification for full details. The paper notification must clearly indicate the place, date and time of auction . All such notifications will be issued at least Two Calendar days prior to the date of auction. If the auction is to be rescheduled to a revised date, a fresh condensed notification has to be published in the same news paper in the same manner.( See F (2) below .)

3. The Director (Operations) could standardize a format for such notifications with the contents as mentioned above.

4. The notification must also contain the identification documents to be produced for verification by the participants (bidders) which will normally be the KYC documents.

5.The notification should also mention that the auction will be on "as is where "basis.

#### **F (1 )POSTPONEMENT /DEFERRING OF AUCTION**

1. The company reserves its right to postpone or defer the auction to a future date based on requests received from the customers. The decision to postpone / defer the auction will be approved by the Director (operations) based on the recommendations of the Admin at Head office.

2. Whenever the auction is postponed /deferred to a future date based on explicit requests from customers, NO fresh auction notice will be issued to the customers. The Newspaper notifications will also be brief and will be made indicating the earlier date of notification. The entire cost arising



out of such postponements and fresh auction will have to be borne by the concerned borrowers

**G. FIXATION OF RESERVE PRICE, LOTS, SECURITY AND INSURANCE.**

1. Pledges taken up for auction will be auctioned packet wise ie., the entire contents of the pledge under a particular loan will be treated as a lot and will not be segregated.
2. Each packet will be separately taken up for bidding one by one for better realization and for appropriating the value to the respective loan.
3. Participants shall have the right to inspect the gold ornaments proposed to be auctioned in the presence of the authorized representative of the company. If necessary, the company official may perform an appraisal in the presence of all the bidders.
- 4 .Adequate security arrangements should be made available in the location to avoid any untoward incident. The Director (operations) may also arrange for insurance if needed.
5. Participants must be informed that apart from the bid amount, applicable taxes must also be paid.
6. The reserve price will be fixed by the Director (operations) and “The Reserve Price for the pledged ornaments shall not be less than 85% of the previous 30 days average closing price of 22 carat gold as declared by the Bombay Bullion Association”.
- 7.Incase there are no successful bidders for the said reserve price , The Director (Operations) may suitably downwardly revise the Reserve Price in the subsequent Auctions.

## **G. DUE DELIGENCE ON PARTICIPANTS AND EARNEST MONEY DEPOSIT**

1. Identification of the participants will be a pre requisite and for identification the participant must produce the acceptable copy Of the KYC documents for verification along with the original for verification by the auctioneer.
2. A minimum of ten percent of the Reserve price will have to be deposited as EMD. The said amount either in cash ( amount up to which cash could be accepted will be in line with the regulatory / legal requirements) or in the form of a demand draft or banker's cheque favoring the company must be handed over the auctioneer which will be acknowledged by him.
3. The EMD so deposited will be returned back after every auction to all the unsuccessful bidders

## **H. DELIVERY OF GOLD ORNAMENTS TO SUCCESSFUL BIDDERS**

1. A Minimum of 25 percent including EMD will be insisted for payment immediately for confirming the auction. Electronic payment mode will be encouraged and will be acceptable subject to the condition that the credit is received in the company's Bank account. Payment in cash will be subject to the prevailing regulatory directives. The successful bidder upon payment of the 25 Percent bid amount will be given a letter confirming the auction detailing the ornaments, net weight and the amount payable along with the terms and conditions.
2. The balance amount shall be payable within the next two working days before the close of Banking hours either by electronic payments or by banker' cheque / demand draft.

3. In the event of nonpayment of the balance amount, the EMD amount will be forfeited and a fresh auction will be conducted as per the procedure applicable and mentioned above.

4. Delivery of Gold ornaments to successful bidders will be made after realization of the full bid amount along with applicable taxes. Proper acknowledgement for receipt of gold will be obtained from the successful bidder with his signature duly verified by the company officials.

#### **I. REFUND OF SURPLUS AND RECOVERY OF SHORTFALL**

1. Appropriate accounting entries will be passed in the borrower's account by placing the proceeds of the auction within the next seven working days and the borrower will be notified through a registered letter advising him of the amount realized and amount appropriated to the loan account.

2. Surplus if any, will be refunded to the borrower either by electronic mode or by means of a banker's cheque within the next seven working days after closure of the loan account without waiting for any request from the borrower.

3. However the company may exercise its lien on such amounts for other rightful liabilities of the borrower subject to proper notice to the customer.

4. Legal action as deemed fit may also be initiated to recover shortfall if any from the customer. The company may exercise lien on other securities if any pledged by the borrower for recovery of the shortfall.

5. The Director (operation) will be the authority to take a final decision on legal action as mentioned above.

## **J. EMPANELMENT OF AUCTIONEER, HIS ROLE, RESPONSIBILITY AND COMMISSION PAYABLE**

1. In line with the Guidelines of Reserve Bank of India, the auction will be conducted by the auctioneers empanelled for this purpose by the company and the company will adopt a hands free policy in such auctions.

2. The Director (operations) is authorized to empanel the auctioneers after due diligence and in a transparent manner. In the absence of registered auctioneers, experienced advocates may be empanelled as auctioneers. The details of the empanelment may be reported to the board for ratification in due course.

3. An agreement duly covering the role / responsibilities of the Auctioneers may be got drafted and vetted by the legal advisor of the company and got executed.

4. The performance of the auctioneer must be reviewed by the Director (operations) and shall be reported to the Risk management committee of the Board or in its absence to the board annually.

5. The Director (operations) may design a fee structure for the auctioneer and may report to the Managing Director for internal approval.

**K. ELIGIBILITY FOR PARTICIPATING AND BIDDING AND GUARDING AGAINST CARTELS /GROUPS/ CORPORATE GOVERNANCE**

1. Persons, /entities having known criminal background will not be permitted to participate in the auction and the decision of the auctioneer will be final in this regard.
2. The auctioneer must devise appropriate strategy to protect against formation of cartels/groups which will ultimately vitiate the auction process or reduce the realizable value.
3. The company or its related entities shall not participate in the auction process. There shall be an arms length relationship in all transactions during the auction.

**L. MAINTAINENCE OF RECORDS AND REGISTERS**

1. All such Registers as mandatorily required will be maintained by the Auctioneer at the Branch level and all entries will be recorded by him and handed over to the branch for safe custody and internal verification.
2. The Registers will be made available for inspection by internal auditors and external agencies by the respective branches.
3. An approved copy of the auction policy will be published in the official website of the company.