

March 6, 2007

All Scheduled Commercial Banks / All India Financial Institutions  
(Excluding RRBs)

Dear Sir,

**Guidelines on Fair Practices Code for Lenders**

Please refer to our Circular DBOD. Leg. No.BC. 104 /09.07.007/2002-03 dated May 5, 2003 wherein guidelines were issued to banks / FIs for framing the Fair Practices Code for Lenders.

2. In terms of Para 2 (i) (a) of the above Circular, banks / FIs were advised that loan application forms in respect of priority sector advances up to Rs.2.00 lakhs should be comprehensive and should include information about the fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, so that a meaningful comparison with that of other banks can be made and informed decision can be taken by the borrower.

3. With a view to achieving greater transparency and in the light of experience gained, it has been decided that the above instructions will be applicable to all loan applications **in respect of all categories of loans irrespective of the amount of loan sought by the borrower**. Banks / FIs are advised to work out a transparent policy in this regard with the approval of their Board.

4. Further, in terms of Para 2 (i) (d) of the above Circular dated May 5, 2003, banks / FIs were advised that in the case of small borrowers seeking loans up to Rs. 2 lakhs the lenders should convey in writing, within stipulated time, the main reason/reasons which, in the opinion of the bank / FI have led to rejection of the loan applications.

5. On a review, it has been decided that **in case of all categories of loans irrespective of any threshold limits, including credit card applications**, banks / FIs should convey in writing the main reason / reasons which, in the opinion of the bank / FI have led to rejection of the loan applications.

6. Necessary modifications in the Fair Practices Code based on the above instructions, with the approval of the Board, should be carried out by April 30, 2007. The modified Fair Practices Code should be placed on the bank's / FI's website and also given wide publicity.

Yours faithfully

(Prashant Saran)  
Chief General Manager-in-Charge