

Muthoottu Mini Financiers Limited

AUCTION POLICY

The core business of MMFL consists of lending against the collateral security of gold ornaments. For this purpose, the company has formulated various loan schemes. Under these schemes, loans are granted for 12 months. As per the schemes, the borrowers are to repay the loan amount together with accrued interest latest by the end of the tenor fixed. Most of the borrowers repay the loan in the normal course and some other are receiving reminders/notices from the Company. Still, there could be a percentage of the borrowers who fails to redeem the loan with in the normal tenure despite of all reminders and efforts. Consequently, the only option left for the company to settle such overdue accounts into a public auction and realize its dues.

AUCTION PROCEDURES

A) Norms for Identification of Accounts for Auction.

- i) All accounts in which interest remain unserved in full at the end of one year from the disbursement will be identified and listed as “eligible for auction accounts”.
- ii) An account which has been classified as a NPA account in accordance with policies laid by down the company; or
- iii)Accounts that have not completed 12 Months but a substantial erosion in the realizable value of the security to cover the dues Mark to Market cases (MTM Cases), may be taken up for auction in case, all recovery initiatives have not met with success.
- iv)Ornaments pledged under special schemes with shorter loan period shall be considered as “eligible for auction account” on completion of the tenure in the loan agreement, if the loan is not closed or renewed in the said period.

B) Intimation to the borrowers, Periodicity for Sending notices.

- i) With a view to reducing the number of auction identified accounts and a measure of customer service, Company shall be sent to all borrowers one ordinary post those who have not paid full interest in 6 months from the date of disbursement and a registered notice with acknowledgement for all borrowers those who are not redeem/renew their account in 365th day from the date of disbursement for one year scheme. A registered notice with acknowledgement shall send for the borrowers for all below one year scheme and MTM cases, who have not redeem/renew their account with in the stipulated tenure or fail to regularize the MTM difference.
- ii) Once an account has been identified as “auction accounts” a notice in the local language shall be sent to all “auction accounts” by registered post with acknowledgement card requesting the borrower to immediately pay the full dues failing which the security would be liable to be put on public auction, without further notice, for recovery of dues.

iii) When such letters are returned undelivered intensive action should be taken to locate the borrower, reconfirm the KYC documents and re-evaluate the security. The responsibility for ensuring the compliance would be vest with the branches.

iv) The acknowledgement card or unopened, undelivered letters (letter returned undelivered cases), as applicable, should be preserved and systematically stored for easy future retrieval. Such records shall be under the custody of branches up to auction. Thereafter, such records shall be transferred along with the other records for auction. The responsibility for ensuring the compliance with the above policy guidelines shall vest with the respective Regional Managers.

C) Organization structure for auction

The Company shall have a dedicated Asset Quality Department at Corporate office to initiate, supervise and monitor the auction procedure. The department will function under the overall control of Chief Operating Officer. Official from the asset quality department should present and oversee the actual auction proceeding and will entrusted the responsibility for the proper conduct thereof.

D) Auction Centers

i) The auction should be conducted in the same taluk where the branch is located. However the auction has not been successful in the branch the same auction shall be conducted at approved auction centers of the Company.

ii) Approval of Auction centers shall be accorded jointly by the Head of the Operations department and Chief Operating Officer based on the recommendations of the Regional Heads/Zonal Managers. The number of auction centers in a state will be need bases.

iii) Auction Centers should be provided with appropriate, adequate and functional infrastructure such as space, storage arrangements, CCTV cameras, electronic weighing balance etc.

iv) Physical movement of “auction accounts” from various branches to auction centers shall be done.

Option A: RMs may collect auction packet as and when they are visit branches under their control and pool the packets in his Station branch and Keep it in the safe custody of RM. At the prescribed time they may transfer the packets to auction center. The mode of transport, timing, fixation of limit and number of officials to accompany will decide based on the quantity and approval from corporate office.

Option B: Branches may transfer the “auction accounts” to the RMs station branch on a prescribed date and format given by corporate office with proper authorization. RM may collect the packet after verification and kept under his custody. The mode of transport,

timing, fixation of limit and number of officials to accompany will decide based on the quantity and approval from corporate office.

Option C: Setting up a dedicated auction team for receiving auction packets from branches on a specified date given by corporate office. Verification, lot creation and grading shall be done by the auction team as and when the packets are received and kept the same on joint custody of Auction team and RM concerned.

E) Auction Announcement:

The list of accounts taken up for auction shall be announced through advertisement in National daily and in a vernacular language. Such notification in the newspapers should be published at least 14 calendar days before the scheduled auction date. Copy of the auction advertisement shall be displayed in the branch and compliance of which must be ensured by the respective regional Managers and monitored by Asset Quality Department and Marketing Department.

F) Public auction, Creation of Convenient lots.

i) The company shall resort to realisation of the “auction accounts” only through Public auction in as is where is and as is what is condition except as otherwise stated in the auction policy.

ii) Gold loans taken up for auction must be segregated in to convenient lots to facilitate easy disposal based on the various factors such as purity, quantity, expected number of participation of bidders and prevailing market rate of Gold.

iii) Each lot shall be separately taken up for auction for the security reason and better realisation.

iv) Bidders has to the right to inspect the lot before commencement of auction in the presence of authorized officers of the company and approved auctioneer.

v) Adequate insurance coverage and security arrangements must be arranged in advance considering the quantity and number of participation involved.

vi) The proposal for fixation of the reserve price for each auction shall be above 85% of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd (Now India Bullion and Jewelers Association Ltd) and the value of the jewelry of lower purity in terms of carat should be proportionately reduced.

vii) When there are no bidders at the reserve price fixed and the reason therefore shall be ascertained and the auction will be start the highest closed bid form the participants.

G) Legal, Low quality and Spurious accounts:

i) Pledge gold suffering from legal complications due to disputes, legal cases and deceased accounts etc. shall not be taken up for auctions in normal circumstances. Such accounts shall be dealt with on a cases to case basis on the recommendation from legal Dept., operation Dept. and approval from Executive Director.

ii) In normal course branch will ascertain the purity of the collateral security (Gold) before sanctioning the loan, but due to misjudgment at the time of sanction the loan, there would be a chance for low quality or spurious items may accept as collateral security. In such instance branches shall send one registered notice to the customer, as and when such item has identified and there is no chance for normal recovery or legal recovery such accounts it may be auctioned. Legal Dept. and Operation Department also certify that there is no chance for recovery either in the way of normal as well as legal course.

iii) Spurious and low quality accounts may be include in the public auction as separate and convenient lots on “as is what is basis” based on the reserve price arrived at internal and external valuation (if required) by trained appraisers.

iv) When there are no bidders at the reserve price fixed the reason shall be ascertained and the auction held once again after collecting the highest quote in the closed bid form from the participants.

H) Earnest Money Deposit (EMD) and Documents to be submitted by the Bidder:

i) All participants has to pay rupees two lakh as EMD amount.

ii) Proper KYC documents and PAN card shall be submitted by every participant. If the participant is representing by a Co/firm, proper authorization, copy of registration and PAN card of the company shall be submitted to participate in the auction in addition to participants KYC documents.

iii) Person, entities having known criminal background shall not be allowed to participate in the auction.

iv) The company or any of its related entities shall not participated in the auction, Further, there shall be an arm’s length relationship in all transactions during the auction including with group companies and related entities.

I) Empanelment of auctioneers, their responsibilities and Qualification.

i) Auction shall be carried out only through Auctioneers empaneled by the Company with the approval of the Board of Directors. In center where such Auctioneers are not available the auction must be conducted.

a. Lawyers more than 5 year experience.

- b. Professionally qualified, work experience with auction and related activity in any financial Institution or Bank more than 5 year.
- ii) The charges, fees payable to the auctioneers shall be fixed after proper internal approvals and reviewed periodically.
- iii) Auctioneer and company will enter into a standard written agreement for conducting the auction for one year and thereafter it may renewed with mutual consent.
- iv) Considering the number of auction and the availability of auctioneers, company reserve the right of empanelling one or more auctioneers in an area.

J) Self-Bidding and Disclosure in the Annual Report and refund of Surplus, recovery of Shortfall

- i) MMFL or any of its related entities shall not participate in the public auctions.
- ii) The company will disclose in its annual report the details of the auctions conducted during the financial year including the number of loans, outstanding amount and Value realised.
- iii) After full receipt of auction sale proceeds, appropriate accounting entry will pass in the customer accounts.
- iv) If there is any surplus after adjusting outstanding loan amount, auction related expenses and notice charges arising in the individual account should be refunded to the borrower, either through crossed cheque or electronic fund transfer irrespective whether a claim is made or not.
- v) However if the borrower has other unsettled liability to the company, the surplus amount shall adjust to such account/s.
- vi) Company reserve the rights to recover the auction deficit through normal as well as legal action against borrowers considering the cost benefit analysis.

K) Registers and Records of Auction

- i) All registers and records relating to public auction will be kept in the auction center under the joint custody of RMs concerned and subject to periodical internal audit.
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