

# **Auction Policy**

## **I) INTRODUCTION**

Best Finance Corporation Limited, ('Company') has formulated various lending schemes against the collateral security of Gold ornaments. Borrowers have to repay the loan amount together with the accrued interest and other charges due (if any) latest by the end of the tenure fixed as per norms prevailing in each schemes. The assets pledged under the loan accounts with nil/part repayment (including interest and other charges) within the fixed tenure, shall be taken for public auction after complying with herein laid down process and procedures, as per the RBI norms and regulations. Auction can be also initiated whenever probability of a short fall in the releasable value of the security pledged at the prevailing market rate from the total dues payable by the borrower, is anticipated. However, the Company will take all possible efforts to persuade the Borrowers to release the jewellery by repaying the dues so as to avoid auction.

Notwithstanding anything stated herein, the Company reserves its right to call up the loan and auction the gold without waiting for expiry of the sanctioned period stipulated above in case of eventualities leading to probable loss on account of shortfall in the value of security due to fluctuations in Gold price or any other reasons or any other contingencies, after giving a minimum of 14 days' notice to the borrower.

However, the Company shall make earnest efforts to reduce the number of auctions by sending periodic communications to Customers for persuading them to pay interest periodically and release the jewellery by paying the dues before the due date or renew the loan by paying the interest up-to date and the differential in eligible loan amount as per the then prevailing LTV.

The auction policy of the Company and procedure of the auction shall be as follows:

## **II) AUCTION PROCEDURES**

### **A) Public Auction**

The term "Auction" used in the policy shall mean realization of the security pledged through Public Auction only.

### **B) Organisation Structure for Auction Proceedings**

The Company shall have a dedicated Auction Department at the Head Office (Auction Dept) to initiate, supervise and monitor the auction procedure including adherence to the approved policy. The Department will function under the overall control of authorized officer.

### **C) Identification of Accounts for Auction**

The Auction Department has to identify the “Loan Accounts” for auction and to initiate & complete the auction process as per the auction policy of the Company. In normal circumstances “Loan Accounts” for auction will be identified as below:

### **D) Auction in the Normal Course (after completion of tenure of the loan)**

Auction process must be commenced in respect of all accounts on completion of the tenure of the loan as per the norms of the Schemes on which interest due has not been serviced in FULL or where the account has not been settled.

All gold loan accounts which has been classified as NPA in accordance with the policies laid down by the Company will be taken into account for auction.

*The auction will be completed within a period of three Months of completion of the tenure of the loan.*

Discretionary powers to defer auction in accounts is vested with the authorized officer which has to be confirmed by authorized officer before auction takes place.

An auction can be deferred at the request made by the customers on reasonable ground subject to the maximum of one month. The powers to allow such extension are with the Company.

### **E) Authorization for Auction of Gold**

Once the accounts have been identified and listed for auction by the Auction Department, the proposal shall be put up to Authorized Officer for approval. The Auction Department shall ensure that the list is accurate, complete and in compliance with the approved Auction Policy

### **F) Mode and Periodicity for Sending Notices, Intimation to the Borrower**

- i. Ordinary Notice with auction date for probable loss accounts shall be sent to the customers one month before the loan due date (i.e. at the end of 11<sup>th</sup> month).
- ii. Registered Notice with auction date for probable loss accounts identified as decided by the Company will be sent requesting clients to settle immediately.

- iii. Intimation cum Auction Letter - A notice in the local language, in an approved format, shall be sent to “Actionable” pledges furnishing the date & venue of auction at least 15 days before the proposed date of auction by registered post AD requesting the borrower to immediately pay the full dues failing which the security would be liable to be put on auction, without further notice, for recovery of the dues.
- iv. If the AD card is not received within a reasonable period, the concerned branches shall apply to the post office and obtain a certificate of delivery to the addressee from the post office. Alternatively, if the AD card is not available the auction notice may be served on the borrower personally by an employee of the Company and signature of the borrower obtained in the duplicate copy of the notice.
- v. If any such notices returned undelivered to the borrower, intensive action should be taken to locate the borrower, reconfirm the KYC documents and re-evaluate the asset pledged. The responsibility for ensuring the compliance would be vest with the concerned branches from where the loan was processed, unless otherwise instructed by the Company.
- vi. The acknowledgment card or unopened, undelivered letters etc. should be preserved and systematically stored for future retrieval. The responsibility to ensure the compliance with the above policy guideline shall vest with the Auction dept.

#### **G) Part Payment**

Part payment of Principal/ Interest will be allowed at any point of time upto loan closure due date as per the loan sanction. Thereafter, part payment is not allowed.

However, auction of the collateral security in a loan account will be conducted as per Auction Policy irrespective of the part payments made.

#### **H) Selection and Approval of Auction Centres, Safe Custody, Security Arrangements**

Auction Centre shall be finalized in line with the regulatory norms/ directions and internal guidelines of the company which shall be in compliance with RBI/statutory norms. The auction shall be conducted in the same branch or town or taluka in which the branch that has extended the loan is located.

The auction can be also conducted in respective regional offices within the district and can pool gold jewellery from different branches in a district if the first auction has failed.

Auction centers should be equipped with appropriate, adequate and functional infrastructure such as space, storage arrangements, electronic weighing balance etc.

Physical transfer of gold from various branches to the regional auction centres/offices shall be carried out in line with the regulatory/internal norms/directions which shall be subject to modification from time to time.

#### **H) Public Notification/Advertisement**

- An advertisement showing the details of auction with date, time and venue shall be issued in atleast two local newspapers, one in a vernacular language and other in a national daily.
- Such notification in newspapers should be published at least 4 days before the scheduled auction date.
- Copy of the auction announcement shall be displayed in the notice board of the branch.
- Compliance of the above policy to be ensured by the Auction dept.

#### **I) Convenient Auction Lots, Fixation of Reserve Price, Security, Insurance**

Ornaments taken up for Auction must be segregated into appropriate / convenient lots to facilitate disposal based on various parameters such as assessed purity, quantity of gold, expected participation of bidders, prevailing market prices etc.

The proposal with recommendations for fixation of the reserve / floor price for each auction shall be done by the Head of the Auction Dept taking into consideration the regulatory directions in place. In order that the auction attracts bidders and is successfully completed the reserve price may be fixed at about 5% below the prevailing market price.

But in any case reserve price should not be lesser than the following:

- a) 85 per cent of the previous 30 day average closing price of 22 carat gold as declared by the Bombay Bullion Association Ltd. (BBA) or
- b) the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission and
- c) Value of the jewellery of lower purity i.e purity of less than 22 carats shall be proportionately reduced.

## **J) Due diligence on Participants, Earnest Money Deposit (EMD)**

Proper and acceptable documents for identification of the participants in an auction should be obtained before permitting them into the auction hall. The usual documents taken for customer account KYC compliance is to be accepted.

A reasonable amount of EMD should be insisted upon from every participant on such date as maybe decided by the management from time to time.

## **K) Auction Procedure**

Ornaments in unredeemed accounts listed for auction will be put up for sale through a public auction procedure wherein the prospective bidders participating in the auction shall quote their prices over and above the minimum fixed bid price in the open auction in accordance with Fair Practice Code. An auction will be carried out provided minimum 3 bidders are available as participants.

The auction of unredeemed gold will be conducted in the same branch from where the customer has availed the loan by pledging gold, giving an opportunity to the customer also to participate in the gold auction. In line with the FPC guidelines, Public Auction of the pledged security shall be carried out only through Board approved Auctioneers appointed at various centres or their authorized representatives. In case of auction at branches, the respective branch managers / authorized officer will be authorized by the Board approved auctioneer to conduct the auction on his/her behalf subject to following conditions –

- a) One can participate in branch auction subject to deposit of EMD specified and submission of acceptable documents as ID proof like PAN card copy, GST registration.
- b) A Customer who is coming to release his gold ornaments during branch auction, will be permitted to do so after paying the total outstanding or participate in the auction subject to compliance of the terms and conditions for participating in the auction.

In case of auctions scheduled at branches, the following records should be maintained irrespective of whether auctions are conducted or not. Such records should be authenticated by the Branch Manager / authorized officer as authorized representative of the Approved Auctioneer.

- a. Details of auction participants.
- b. Auction minutes.

In case of sale by auction conducted at branches/ regional offices / head office / auction centres, the following registers / records also have to be maintained in addition to above:

- a. Bid register indicating the bid rate of all bidders
- b. Sales Invoice
- c. Detailed auction record

All the records maintained at the auction centre should be authenticated by the Board Approved Auctioneer who conducts the auction or his authorized representative.

In case the auction could not be conducted at the branch on the scheduled auction day due to any reasons like lack of minimum number of bidders etc then the branch will display in the branch notice board, the centralized location where the next auction will be carried out subsequently with date of subsequent auction and the gold items will be lifted to the centralized location where the same will be sold through public auction. Auction will take place on date specified in newspaper or on subsequent dates.

#### **L) Mode of Payment by Successful Bidders & Delivery of Gold to Successful Bidders**

The bid shall be confirmed in favor of the bidder making the highest bid. In the eventuality of the bidders ganging up or forming a cartel for taking undue advantage etc., the right for postponement of the auction, to another date/ centre shall be exercised.

The mode (cash or banking channels) of receipt of bid amount shall be decided by the management from time to time taking into consideration the market conditions and AML risks involved.

A minimum percentage of the bid amount as decided by the management from time to time including the EMD lying with the Auctioneer shall be insisted upon from the successful bidders on the date of the auction itself. The balance shall be payable on such date as the management may decide from time to time from the date of auction. If the full amount is not received within the permitted time limit, the bid shall be treated as cancelled and suitable penalty levied on the bidder and intimated. The penalty shall be recommended by the Auction Dept and approved by the authorized officer.

Delivery of gold to successful bidders should be made only after confirmation of full receipt of payment or realization of cheque / draft along with taxes due. Proper acknowledgement by the bidder for receipt of gold, with the signature duly verified by an officer of the Company should be ensured.

Loans to bidders against such auctioned gold shall be not permitted.

## **K) Auction under Exceptional Circumstances**

### **1) Auction Due to Depletion in Security Value (auction before completion of tenure of the loan)**

Auction department shall regularly monitor the realizable value of gold and in any instance where the realizable value of gold is less than the actual value, such accounts shall be taken up for auction even before the completion of the tenure of the loan and in accordance with the directions laid down by the management from time to time.

The Board approved authorized officer shall be empowered to approve modifications to the points mentioned above, from time to time, inter alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company. Such modifications shall be reported to the Board in the next meeting for information.

### **2) Auction of Gold Ornaments Identified as Spurious / Low Quality**

a) Accounts in which pledge of spurious / low quality gold ornaments have been detected subsequent to disbursement may be taken up for auction even before the completion of the tenure of the loan, from date of pledge subject to the under mentioned compliances. *The said procedures shall also be followed for spurious/low quality accounts/pledges, identified at the auction centre or after completion of the tenure of the loan.*

b) Proper notice/intimation shall be served upon the borrower as mentioned in **point K (2)**.

c) Before serving the above notice the purity of the gold ornaments shall be re-verified internally through a competent officer / auditor. When the amount of initial estimated loss is Rs.1.00 lakh (Rupees one lakh) or above the services of an external expert appraiser shall be obtained before serving the above notice. Melt test (assaying) of a small portion of the pledged gold may be resorted to for re-confirming the purity or in the “difficult- to- assess” cases.

d) The Board approved authorized officer shall be empowered to grant extended time for repayment to the borrower on a case to case basis on the recommendations of the Head of the Operations Dept, Head Office.

e) The reserve price for such spurious / low quality ornaments must be fixed keeping in view the reconfirmed assessed purity and the RBI directions issued from time to time. Expert internal / external opinion should be obtained to arrive at a realistic reserve price.

f) Auction of normal/spurious or low quality gold ornaments shall not be taken up when police or criminal case has been filed against the borrower or when there is any other legal impediment. Suitable internal guidelines regarding filing of police cases should be formulated and approved by the Board

**3) Notice to borrowers identified in K (1) – Depletion in Security Value and K (2) – Spurious/Low Quality Gold.**

<b>Letter Type</b>	<b>Depletion in Security Value</b>	<b>Spurious/Low Quality: Identified at the branch or before completion of the tenure of the loan</b>	<b>Spurious/Low Quality: Identified at the auction centre or after completion of the tenure of the loan</b>
Intimation Letter	A notice in local language should be sent to the borrower within 15 days of identification of loss in the account by registered AD calling upon the borrower to settle the loan within a maximum of 2 weeks from the date of receipt of such notice or replenish the security with additional gold failing which the company may dispose the gold through auction without any further notice.	A notice in local language should be sent to the borrower within 15 days of detection as spurious / low quality by registered AD calling upon the borrower to settle the loan within a maximum of 30 days from the date of such notice. The registered AD notice should refer to the rights conferred on the Company to dispose of the security by virtue of the undertaking of the borrower in the loan application form and clauses in the loan sanction letter (pawn ticket).	<p>A notice in local language should be sent to the borrower within 5 days of detection as spurious/low Quality by registered AD. The registered notice should clearly provide reference to the following details, inter alia:</p> <ol style="list-style-type: none"> <li>1. Completion of tenure of the loan.</li> <li>2. That auction notice had already been sent after completion of the tenure of the loan.</li> <li>3. That the Company had undertaken only a preliminary verification of the gold at the time of disbursing the loan and as per the right conferred on the Company as per the terms and conditions of the loan, to further check the purity / weight of the gold internally or by experts at any time, the purity of the gold was re verified at the auction centre prior to auction and was found to be of Inferior quality.</li> <li>4. That the Company is proceeding with auction has already Intimated.</li> </ol>



Final Letter	Nil	In the case where the account remains unsettled after the issue of the above notice, an auction notice will be served on the borrower atleast 15 days before the proposed date of auction.	
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#### **4) Re-auction of Gold Ornaments Not Successfully Auctioned (Normal Gold/Spurious or Low Quality Gold)**

If the gold ornaments find no bidders at the reserve price the course of action as under should be adopted:

- i) When the Company does not receive or meet the Reserve Price as per the guidelines of Reserve Bank of India, Auctioneer / his/her authorized representatives can cancel the auction in the first auctioning centre and Re-auction at the Regional office or Registered Office.
- ii) The Auctioneer / his/her authorized representatives shall submit in writing that no bid was made at the reserve price fixed due to the poor quality of gold or difficulty in assessing the correct purity. This shall be certified by the Company's official in charge of overseeing the Auction.
- iii) Such gold ornaments shall be taken up for melting, either in-house or through a reliable outside agency, in the same lots as taken up for auction.
- iv) The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.

#### **L) Refund of Surplus, Recovery of Shortfall**

Appropriate accounting entries should be put through in the customer loan accounts within 30 working days after the full receipt of auction proceeds.

Surplus, if any, arising in individual accounts should be refunded to the customer within 45 days from the date of auction or within such time as may be directed by the regulatory authorities from time to time, either through crossed account payee cheque or electronic transfer. However, a rightful lien on such surplus may be retained, subject to proper notice, in case the borrower has other unsettled liabilities to the Company.

Legal action for recovery of shortfall in individual accounts may be considered where required and justified after a cost-benefit analysis is done and put up to Authorized officer for approval.

Customers whose pledges have been put to auction and where the company had suffered a loss the respective customer ids may be blocked based on the directions provided by the management from time to time.

### **M) Bidding for Gold by Company / Related Entities, Maintaining Arm's Length Relationship**

The Company or any of its related entities shall not participate in the Auctions. Further, there shall be an arm's length relationship in all transactions during the auction including with group companies and related entities.

### **N) Maintenance of registers / records**

All registers and records mandatorily required under law and as per instructions issued by the Company shall be properly maintained and updated under the safe custody of a designated senior official and subject to periodical internal audit. Suitable instructions should be issued in this regard. Compliance shall be ensured by the Head of the Auction Dept.

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- <sup>1</sup> NPA: Non Performing Assets
  - KYC: Know Your Customer
  - RBI: Reserve Bank of India
  - EMD: Earnest Money Deposits
  - GST: Goods & Service Tax
  - PAN: Permanent Account Number
  - AML: Anti-Money Laundering
  - AD card: Advertisement Card
  - LTV: Loan-to-Value