

PENAL CHARGES ON LOANS AND ADVANCES

Introduction

The Reserve Bank of India (“RBI”) has issued the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 (as amended from time to time) [‘the Master Direction’] and issued circular on Fair Lending Practice – Penal Charges in Loan Accounts dated August 18, 2023 (as amended from time to time) to ensure reasonableness and transparency in disclosure of penalties to the customers.

The Board hereby formulates and adopts the following policy:

Penalties Levied on customers

- Penalty, if charged by the Company, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as ‘penal charges’ and shall not be levied in the form of ‘penal interest’ that is added to the rate of interest charged on the advances. Default in repayment by the borrower is also a type of non-compliance of material terms and conditions of loan repayment contract by the borrower and penalty, if charged, for such default may only be levied in the form of penal charges and not penal interest. Penal charges, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, and the same will be communicated to the borrowers by way of bold letters in the loan agreement and Penal charges, if any, for non-compliance of any agreed terms and conditions mentioned in the Transaction documents will be applied on the outstanding loan amount.
- There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- The Company shall not introduce any additional component to the rate of interest.
- The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan/product category.
- The penal charges in case of loans sanctioned to ‘individual borrowers, for purposes other than business’, shall not be higher than the penal charges to non- individual borrowers for similar non-compliance of material terms and conditions.
- The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions/Key Fact

Statement (KFS) as, in addition to being displayed on websites of NBFCs under Interest rates and Service Charges.

- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- This shall, however, not apply to Credit Cards, External Commercial Borrowings, Trade Credits and Structured Obligations.
- Since instructions related to GST are issued by Central Board of Indirect Taxes & Customs (CBIC), instructions and clarifications, if any, issued by CBIC with regards to Penal Interest to be followed by the Company.
- The Policy shall be implemented in respect of all the fresh loans availed from April 01, 2024 onwards.
- In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date falling on or after April 01, 2024, but not later than June 30, 2024.

The Policy shall be reviewed from time to time or as and when there are any amendments in the applicable guidelines.