

Policy on Penal Charges



As per RBI directions on Fair Lending Practice - Penal Charges in Loan Accounts - RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023; the company has formulated the policy to ensure reasonableness and transparency in disclosure of penal charges.

PURPOSE - The intent of levying penal charges is essentially to inculcate a sense of credit discipline and such charges are not used as a revenue enhancement tool over and above the contracted rate of interest.

APPLICABILITY - The policy would be applicable to all the borrowers of the company.

EVENT OF DEFAULT - "Event of Default" hereby means any non-compliance of material terms and conditions of the loan contract by the borrower, as more particularly defined under the respective loan agreement.

GENERAL NORMS –

1. Penal interest shall not be levied by the Company.
2. Penalty, if charged, 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.
3. 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. No additional component shall be added to the rate of interest to ensure compliance to these guidelines in both letter and spirit.
4. The quantum of penal charges shall be reasonable and commensurate with the noncompliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
5. The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to nonindividual borrowers for similar non-compliance of material terms and conditions.
6. 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 applicable.
7. Reminders/ letters / others for non-compliance of material terms and conditions of loan sent to borrowers shall mention the applicable penal charges.
8. The above charges are excluding any applicable taxes such as GST/TDS etc. The additional tax would be levied as per statutory norms.
9. The Company have well defined authority matrix where the powers to waive the charges are defined, so that no additional burden would be levied on genuine borrowers where delay of the dues is because of technical/unforeseen circumstances beyond the control of the borrower.

REVIEW/RENEWAL OF THE POLICY - The policy would be reviewed or renewed on yearly basis. The company if required can make the amendment in the policy as and when required.

