

Policy For Penal Charges on Loan accounts

Introduction:

Reserve Bank of India vide its circular number RBI/2023-24/53 - DOR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 read with the subsequent circulars issued on Fair Lending Practice-penal charges in loan accounts, as amended from time to time (collectively referred as "Circular") issued guidelines to ensure reasonableness and transparency in disclosure and charging of penal interest by all Regulated Entities (RE).

Applicability:

The provision of the Circular shall be effective from April 01, 2024, for new disbursements. In case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date or falling on or after April 01, 2024 but not later than June 30, 2024.

General Principles:

The key principles, on which the penal charge structure has been framed, are in line with the Circular issued by the RBI, covers following:

- a. The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest.
- b. 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 loans.
- c. There shall be no capitalization of penal charges i.e., no further interest computed on such charges.
- d. 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.

Material Terms and Conditions/Material Obligations, Default of which will attract the Charges:

"Penal Charges" means the penalty levied by the Lender for any default or delay in payments or non-compliance by the Borrower for any material terms and conditions of the loan contract by the borrower.

Material Obligations have been grouped under the following broad categories;

1. Payment Obligations– Payment Obligation shall mean and include all obligations with respect to repayment of the loan/facility and interest there on and all monies owing to the Lender, according to the terms of the loan documents.
2. Security Obligations – Security Obligations shall mean and include all obligations with respect to Security/immovable/movable property offered as security for loan/facility.

3. Corporate /Entity Obligations–Corporate /Entity Obligations shall mean and include all obligations with respect to corporate /legal existence, management, nature, and ownership of business.
4. Documentary Obligations –Documentary obligations shall mean and include all obligations with respect to furnishing/submission of all documents as and when requested by the Lender or as stated in the Loan Documents.
5. Loan Utilization Obligations– Loan Utilization obligations shall mean and include all obligations with respect to end use/ utilization of the Loan facility.
6. Legal Obligations- Legal Obligations shall mean and include any and all obligations with respect to, including without limitation, material litigation, arbitration or other proceedings, event of default, any distress or other process of court being taken against any of the borrower's premises and/or property and/or assets, beneficial ownership or control of the borrower and others as defined, if any, in the loan document.
7. Tax/Insurance Obligations- Tax/Insurance Obligations shall mean and include all obligations with respect to insurance, taxes, assessments, dues, duties, levies and impositions, if any.
8. Regulatory Obligations–Regulatory obligations shall mean and include any and obligations with respect to applicable laws, rules, regulations, guidelines, directions etc by the regulatory and statutory authorities/bodies/ governments.
9. General Obligations–General obligations shall mean and include all obligations stated in the loan documents.

The schedule of charges including the penal charges shall be approved by any two of Chief Executive Officer or whole-Time Director or Chief Risk Officer or Chief Financial officer of the Company, as may be required from time to time and the same be published on the website of the Company.

Disclosure:

The quantum and reason for penal charges shall be clearly disclosed to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS), in addition to being disclosed on the Company website. In addition to reminders sent to borrowers for non-compliance of material terms and conditions of loan, the Borrowers shall also be communicated about the applicable penal charges along with the instance of levy of penal charges and the reason thereof.

The Company will abide by all guidelines, directives instruction and advices of Reserve Bank of India as will be in force from time to time. The content of this policy shall be read in conjunction with above mentioned RBI Circular.

Any other regulatory changes in this regard will stand updated in the policy from time to time.