

## INTRODUCTION

SGROYAL Capital Private Limited is a RBI registered Non - Banking Financial Company now identified as NBFC-Base layer "NBFC BL" in accordance to RBI Master Direction-Reserve Bank of India (Non- Banking Financial Company-Scale Based Regulation) Directions, 2023.

The Reserve Bank of India "RBI" vide its Circular No- "DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 titled as "Fair Lending Practice - Penal Charges in Loan Accounts" has directed certain Regulated Entities "REs", including all NBFCs, to frame a policy on penal charges. In compliance with the said requirement, the Board of Directors of the Company has formulated and adopted the Penal Charges Policy, which lays down the broad framework and specific terms and conditions regarding penal charges to be charged by the Company to its borrowers.

As initially it was observed that many REs use penal rate of Interest, over and above the applicable interest rates, in case of any defaults/non-compliance by the borrower with the terms on which credit facilities were sanctioned.

The RBI does not similarly regulate the interest rates charged by non-banking financial companies ("NBFCs"). NBFCs are, instead, required to adopt an interest rate model that accounts for factors relevant to pricing, such as cost of funds, margin and risk premium. However, the RBI had received a plethora of grievances related to NBFCs charging high interest, and hence, the banking sector regulator had previously required NBFCs to mention and highlight the penal interest charged for late repayments in terms of loan agreement(s) executed by their borrowers.

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Accordingly, REs shall ensure that the timeline for implementation of guidelines for lenders on penal charges in respect of all fresh loans availed from April 1, 2024. In the case of existing loans, the switchover to new penal charges regime shall be ensured on the next review/ renewal date falling on or after April 1, 2024, but not later than June 30, 2024.

## APPLICABILITY

The Circular applies to all Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, but excluding payments banks), primary (urban) Co-operative banks, all Non-banking Finance Companies (including Housing Finance Companies) and India Financial Institutions.

While the Circular covers within its ambit all loans (including digital lending), which the aforementioned entities are permitted to sanction, it specifically excludes credit cards, external commercial borrowings, trade credits and structured obligations, as lending practices with regard to such products are governed by specific directions issued by the RBI.

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## KEY PRINCIPLE

In compliance with the referred circular and Directions issued by RBI, the key principles based on which the terms and conditions for penal charges have been framed as follows:

- 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.
- 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".
- There shall be no capitalization of Penal Charges i.e. no further interest computed on such charges.
- No additional component shall be added to the rate of interest.
- 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.

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## Structure of Penal Charges

As per the RBI Circular, the penal charges are only to be levied if repayments are not made by the respective due date and penal charges are not envisaged for any other non-compliances related to other terms and conditions of the loan.

The final policy for the penal charges in case of rejection of e-nach/ default in paying instalment is as follows:

- After rejection of E-nach mandate/bouncing of EMI cheque on the due date of payment, the collection will show zero as collection in the system.
- There will be a penal charges of INR 1500 plus GST to be charged for each such rejection or bounce of EMI. The above rate is due to recovery of bank charges imposed by the bank and the balance amount is the penal charges for such default.
- The penal charges will be INR 500 plus GST applicable for the micro-loans given to the women borrowers having ticket size of Rs 75,000/- (Group Loan) SBL.
- Waiver of such charges can be effected only in case of technical default in the part of SGRCPL or under special circumstances with specific approval from the Top Management.

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Further, 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.

## Summary

- Regulated Entities to be prohibited from introducing additional components to interest rates.
- Penalties for default to be treated as “Penal Charges” rather than “penal interest”. And there shall be no capitalization of penal charges i.e. no further interest computed on such charges.
- RBI recommends communication of applicable penal charges to borrowers.
- Regulated Entities to ensure mandatory board approved policy on penal charges for loans.
- Quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract.

Master circular	Review Periodicity	Approving Authority	Policy Owner
DoR.MCS.REC.28/01.01.001/ 2023-24 dated August 18, 2023.	Annually	Board of Directors	Compliance Department

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