



Samata Co-operative Development Bank Ltd.

RBI License No.-(UBD WB 1426P)

## POLICY FOR PENAL CHARGES IN LOAN ACCOUNTS

Sanctioned by Board vide its Resolution No.-----, dated-- 20.04.2024

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## INTRODUCTION

The RBI has from time to time issued various guidelines to Banks in connection with reasonableness and transparency in disclosure of Penal Interest. The RBI has observed that many Banks has used Penal Interest, over and above the applicable interest rates, in case of default by a borrower with the terms and conditions on which credit facilities are availed by them.

According to the Reserve Bank of India guidelines, Penalty charges for default on interest payments or non-compliance of material terms and conditions of loan contract by the borrower would now be acquired as "penal charges", instead of "penal interest". The latter was levied in addition to the Rate Of Interest charged on borrowings.

To implement it simply, Banks would not be able to levy an adhoc additional penal rate of interest over and above the applicable rate of interest.

## OBJECTIVE

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.

With a view of streamline, the diversion practice followed by the bank, on charging of penal interest / charges, RBI has, by way of its circular dated 18/08/2023 issued the following instructions in relation to charging of Penal Interest.

1. The penalty, if charged, by the bank for non compliance of material terms and conditions of the loan contract will now be treated as "Penal Charges" will not be levies as Penal Interest that is added to the rate of interest charged on the loan / credit facilities.
2. There will no capitalization of Penal charges i.e. no interest will be computed on such charges. However, normal procedure for compounding interest on the loan can be continued;
3. The Bank will not introduce any additional component to the rate of interest and ensure complete compliance with these instructions in letter and spirit.
4. The quantum of penal charges will be reasonable and commensurate with the non compliance of material terms and conditions of the loan contract. Further, it will not be discriminatory within a particular loan / product category.



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5. The quantum and reason of penal charges must be clearly disclosed by the bank to the customers in the loan agreement and most important conditions additionally the same will also be disclosed on the website of bank under "interest rate and service charges."
6. In respect of loans and credit facilities availed, penal charges are levied on the borrowers in cases of delay / default / non adherence to the repayment schedule as agreed or breach / non compliance with the agreed terms and conditions.

The abovesaid referred instructions shall come in to effect from 01<sup>st</sup> April, 2024

### **DISCLOSURE OF PENAL CHARGES**

Banks are required to communicate the applicable penal charges to the borrower –

- 1) At the time of issuing Sanction Letter of any credit facilities, bank should incorporate the details of Penal Charges to be levied time to time in case of non compliance of material by a borrower.
- 2) The said terms/conditions to be mentioned in Agreements and also the copy of the same to be sent to borrower.
- 3) The said penal should be displayed on the website of Bank.
- 4) In case of non-compliance or at the time of default, the said charges should be communicated every time to the borrower/customer alongwith instances and reasons.

**Indicative list of material terms and conditions of (loan) sanction for which charges are proposed.**

1. Non Submission of Stock Statement / Non availability of drawing power.
2. Delay in submission of stock statements,
3. Overdrawn amount in Cash Credit limit/Overdraft limit account.
4. Non-Renewal of Cash Credit limit/Overdraft limit account within due date.
5. Non Renewal of Cash Credit limit/Overdraft limit account within extension period granted, if any, by bank.
6. Non repayment of Ad-hoc limit and additional overdraft limit sanctioned/advanced to Cash credit limit and Overdraft limit respectively account holder within the specified period.
7. Delay in EMI

Above list is only an indicative type and is likely to cover more areas with the time.



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## CHARGES

2% p.a. charges shall be applicable on the default amount i.e. instalment or overdrawn (excluding G.S.T).

### APPLICABILITY :

In respect of Fresh loan availed or renewed, it will be applicable from 1<sup>st</sup> April 2024 and in respect for existing loan and in respect of next review or renewal dates or 3 months from 1<sup>st</sup> April 2024 which is earlier.

The penal charges shall be applicable, in case of

Sr. No.	Particulars	Charges
1	Non Submission of Stock Statement / Non availability of drawing power	<b>The penal charges shall be levied on outstanding amount on monthly basis / rests.</b>
2	Delay in submission of stock statements,	<b>(Note : 1. In respect of more occurrences, the charges shall be applicable on first occurrence including all occurrences and only one time on one or more of these compliances / occurrences.</b> <b>2. 10 days period is to be given for submission of Stock statement. If borrower fail to submit the same within 10 days, the charges shall be applicable from 1<sup>st</sup> days of non-compliance.</b> <b>3. If instead of month, the delay occurs in days, the charges shall be levied proportionately.</b> <b>4. The penal charges shall be levied on overdrawn amount on monthly basis.</b>
3	Non-Renewal of Cash Credit limit/Overdraft limit account within due date.	
4	Non Renewal of Cash Credit limit/Overdraft limit account within extension period granted, if any, by bank.	
5	Non repayment of Ad-hoc limit and additional overdraft limit sanctioned/advanced to Cash credit limit and Overdraft limit respectively account holder within the specified period.	
6	Overdrawn amount in Cash Credit limit/Overdraft limit account.	
7	Delay in EMI (Per month charges)	

All above charges are to recovered monthly for non-compliance. If the compliance remains at the borrower's end in subsequent month, the charges shall be recovered again till the closure of compliance in CBS.



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**PROCESS :**

The said penal charges shall apply to concern loan account and it should be shown separately in loan accounts. No interest will be comuted on such charges. There shall be no capitalisation of Penal charges. It should be recovered separately after recovery alongwith GST amount.

Additional penal charges shall not be levied on the earlier amount of penal charges.

The above prescibed charges shall be reviewed and changed as and when required.

The said policy shall be amended as and when required by obtaining the permision of Board of directors.



*[Handwritten signature]*

(Chief Executive Officer, SCDBL)

20.04.2024

