

POLICY ON PENAL CHARGES

1. Introduction

The Reserve Bank of India (RBI) vide circular no. DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 read with circular no. DoR.MCS.REC.61/01.01.001/2023-24 dated December 29, 2023 requires the company to ensure reasonableness in levying Penal Charges and also maintain transparency in disclosure on the same.

2. OBJECTIVES

PHF Leasing (“Company”) has formulated a Policy on Penal Charges to inculcate a sense of credit discipline and such charges that are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest. However, supervisory reviews have indicated divergent practices for the company with regard to levy of penal interest/charges leading to customer grievances and disputes.

3. GUIDELINES

On a review of the practices followed by the company for charging penal interest/charges on loans, the following instructions are issued by RBI for adoption:

- (i) 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. 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.
- (ii) The Company shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.
- (iii) 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.
- (iv) 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 non-individual borrowers for similar non-compliance of material terms and conditions.
- (v) 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, in addition to being displayed on company’s website under Interest rates and Service Charges.
- (vi) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- (vii) The Company may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date.

4. PROCESS

(i) The Company shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. As complaints received against NBFCs generally pertain to charging of high interest / penal charges, applicable NBFCs shall mention the penalties charged for late repayment in bold in the loan agreement.

(ii) 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. 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.

(iii) The Company shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.

(iv) 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.

(v) 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 non-individual borrowers for similar non-compliance of material terms and conditions.

(vi) 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, in addition to being displayed on company's website under Interest rates and Service Charges.

(vii) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

(viii) These instructions shall come into effect from January 1, 2024. The Company may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed from April 1, 2024 onwards. 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.

5. REVIEW

The company may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date.
