



# **THE NATIONAL SMALL INDUSTRIES CORPORATION LIMITED**

## **POLICY ON PENAL CHARGES**



RBI vide Circular No. DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 issued Fair Lending Practice - Penal Charges in Loan Account

## **1. Overview**

Reserve Bank had issued various guidelines to the Regulated Entities (REs) to ensure reasonableness and transparency in disclosure of penal interest. Under the extant guidelines hitherto issued by the RBI, lending institutions were granted the operational autonomy to formulate Board approved policy for levy of penal rates of interest. Now with the issuance of extant Circular (supra), the guidelines have been thematically amended to provide that 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.

## **2. Background**

At present ,additional Rate of Interest on delayed payment is being charged @1.25% per quarter on the overdue outstanding amount i.e. outstanding more than 180 days under the Raw Material Assistance (RMA) /Assistance to Whole sellers & Retail Traders (AWRT) Scheme against Bank Guarantee and outstanding beyond usance period under the Bill Discounting Scheme which is compounded on monthly rest.

## **3. Framework for Penal Charges**

- (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) Any additional component to the rate of interest shall not be introduced in compliance to these guidelines in both letter and spirit.
- (iii) Penal charges shall be (a) 1.25% per quarter for the amount over and above days past dues (DPD); or (b) as approved by the Board from time to time which is reasonable and commensurate with the loan contract. Further, Interest and Penal Charges shall be accounted for separately.

Provided that the Board shall ensure that 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.



Explanation: "Material Terms and Conditions" means, with respect to any loan agreement, the terms and conditions the violation of which, or non-compliance with which, could cause the Borrower or any of its related parties to (a) lose any material rights relating to such agreement, (b) incur materially increased costs to provide the service under such agreement or (c) suffer a material restriction of any right to provide service under such agreement.

- (vi) 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) as applicable, in addition to being displayed on NSIC's website in Interest rates under Raw Material Assistance Scheme and Bill Discounting Scheme.
- (v) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated to them. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.
- (vi) The above Framework shall come into effect from January 1, 2024 in respect of all the fresh loans availed including existing loans.
- (vii) Subject to RBI Circular (supra), any matter under this Framework leading to any question of interpretation shall be placed before the Board for resolution and consequent upon to such resolution the decision of the Board shall be final and binding upon the parties involved therein.

#### **4. Schemes covered by this Framework**

The extant framework shall be applicable to NSIC's schemes of Raw Material Assistance against Bank Guarantee, Assistance to Whole Seller & Retail Traders (AWRT) and Bill Discounting and such other schemes involving financing as may be introduced by NSIC from time to time.

-----