

Current practices

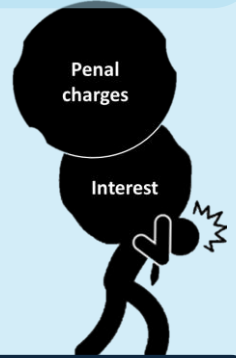
Penal charges mostly as added as interest

Non-disclosure; lack of transparency

Borrower pays interest on penal charges

Rates are opportunistic, with a view to income

Penal Charges get regulated; cannot accrue interest



RBI prescribes guidelines for charging of penal charges by regulated lenders; new regulation applies to banks, NBFCs, HFCs and UCBs

Applicability:

- Banks
- NBFCs
- HFCs
- AIFIs

New loans

To be introduced for all new loans from Jan 01, 2024

Existing loans

Maximum 6 months, or next renewal, whichever is earlier

1.

Interest for any overdue loan/ irregular overdraft will be the facility rate of interest only. No separate rate for the overdue period.

2.

Rate of penal charges will be policy-driven and non-discriminatory. Rate in case of non-business individual loans cannot be higher than similar non-compliances for non-individuals loans

3.

Penal charges may be related to the time for the default; however, they are not interest, and interest cannot accrue on such penal charges. At the time of any settlement, before or after the closure of facility, borrower will pay principal + accrued interest (compounded) + accumulated penal charges (which are not compounded by imposing interest thereon)