

THE PARWANOO URBAN COOPERATIVE BANK LTD (PUCBL)
POLICY ON FAIR LENDING PRACTICE – PENAL CHARGES IN
LOAN ACCOUNTS

The Reserve Bank of India vide circular number RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 and RBI/2023-24/102 DoR.MCS.REC.61/01.01.001/2023-24 dated December 29, 2023 have issued new guidelines on penal interest / charges for loan accounts w.e.f 1st April, 2024 & onwards. These regulations prohibit all commercial banks including Primary (Urban) Cooperative Banks for imposing penal interest rates on loan defaults or on any non-compliance of terms and conditions of loan.

The main objective of RBI guidelines is to promote credit discipline amongst borrowers to abide by the terms & conditions of their loan agreement and simultaneously to prevent banks from using penal charges as a tool to enhance their revenues. In addition, all banks have been directed by RBI to formulate their own policy in this regard duly approved by their Boards.

Accordingly, in compliance to RBI guidelines, we have formulated a policy on penal charges on loans in case of defaults / non-compliance of other terms & conditions by the borrowers on which such credit facilities are sanctioned.

SALIENT FEATURES OF THE POLICY OF THE BANK ON FAIR LENDING PRACTICE – “Penal charges in Loan Accounts”

- a) In compliance to RBI guidelines, the Bank shall now onward treat penalty for non-compliance as **penal charges** only and not in the form of **penal interest** as done earlier. Further, there shall be no capitalization of penal charges as done earlier i.e. now no further interest to be computed on penal charges w.e.f 1st April, 2024 & onward by the Bank;
- b) In the light of RBI guidelines, henceforth, penal charges levied by the Bank in case of Loans sanctioned to individual borrowers (for purposes other than business activity) shall not be more than the penal charges as applicable to non-individual borrowers for similar non-compliance of material terms & conditions;

c) It will be also ensured that the quantum of penal charges are reasonable and commensurate with the non-compliance of material terms and conditions of loan contract and without being discriminatory within a particular Loan / product category. Further, the quantum for penal charges shall also be clearly disclosed to borrowers along with the reason for such charges so levied in the loan account. The details of penal charges are also to be mentioned in the loan agreement / terms and conditions / Key fact Statements (KFS) as applicable in addition to display of the same in Bank's website under '**interest rates and service charges**'. Whenever reminders for non-compliance of material terms & conditions of loan are sent to borrowers, the applicable penal charges shall also be communicated in addition to any earlier instance of levy of penal charge & reason thereof;

d) Although, there is no upper limit or cap fixed by RBI on penal charges, we, keeping in view the key rationale to inculcate a sense of financial discipline amongst the borrowers and not to levy such charges as a source of additional revenue, over and above the contracted rate of interest, propose to levy reasonable penal charge for the following category of borrowers for non-compliance of the material terms and conditions;

(i) Home Loan / Topup Loans

0.75% penal charge on overdue amount and for the period the account remains overdue;

(ii) SME & other Priority Sector Advances

1.00% as penal charge on overdue amount and for the period the account remains overdue;

(iii) Other Loans (including lap loans)

1.50% penal charge on overdue amount and for the period the account remains overdue.

(iv) 0.25% on the outstanding amount of loan in case of non-compliance of the terms and conditions of loan agreement e.g. Non submission of Stock statements / Financial data (wherever applicable)

e) In conformity to RBI guidelines, the penal charges in our bank shall be applicable on all fresh loans availed w.e.f 1st April, 2024 onwards.

However, for the existing loans, we propose to shift over to new penal charges regime w.e.f 30th June, 2024.

Submitted for approval of the Board and if approved it shall form part of our Loan Policy. The above instructions on levy of penal charges shall also be conveyed to all our branches for meticulous compliance. It will also be ensured that the same shall also be displayed on Notice Board of all our branches as well as on Bank's website for the information of all our Loan account holders.
