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THE NAVNIRMAN CO-OPERATIVE BANK LIMITED



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Fair Lending Practice-Penal charges in loan accounts Policy

(AS APPROVED AND PUT IN PLACE VIDE
RESOLUTION NO.(23) PASSED IN THE MEETING OF
BOARD OF DIRECTORS HELD ON 29-02-2024)



Resolution No.(23)

In terms of RBI Ref. No. DoR.MCS/REC.28/01.01.001/2023-24 and No. DoR.MCS/REC.61/01.01.001/2023-24 dated 18-08-2023 and 29-12-2023 respectively, the practice of charging penal interest to inculcate credit discipline needs to be replaced by levy of PENAL CHARGES to avoid Bank using it as revenue enhancement tool. Hence, it is resolved unanimously to devise and adopt **Fair Lending Practice-Penal charges in loan accounts Policy** as under :

Fair Lending Practice- Penal charges in loan accounts Policy

Under the extant guidelines, lending institution have the operation alas to no my to for mulate Board approved policy for levy of penal rates of interest. However, Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrowers shall hence forth be treated as 'Penal Charges' and shall not be believed in the form of 'Penal Interest' that is added to the rate of interest charged on the advances.

The above policy will be effective in respect of all fresh loan availed from April 1, 2024 onwards. In case of existing loans, the switch over 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. The policy applicable to all credit facilities except Credit Cards, External Commercial Borrowing/Trade Credits.

There shall be no capitalization of penal charges i.e., no further interest shall be computed on such charges; however, the system will recover such Penal Charges immediately from the first credit deposit in the said loan/CC/OD account of the borrower, followed by recovery of accrued interest and installment if any. This will not in any way affect the normal procedures for compounding of interest in the loan account. Bank shall charge interest on unpaid interest (including on unpaid EMI) at the contracted rate of interest till the date of remediation. Non compliance of the material terms and conditions shall include out of order/overdue position in Cash Credit and Overdraft accounts, non compliance of sanctioned Terms and Conditions and it shall be based on Bank's own assessment. Default in repayment by the borrower is also a type of non-compliance of material terms and conditions of loan repayment contract by the borrower.

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

The quantum of penal charges shall be 2% (TWO per cent) p.a. on the amount of default and/or overdue amount as on the last day of the month for the non-compliance of material terms and conditions of loan contract with out being discriminate or with in a particular loan/ product category. Additional penal charges shall not be levied on the earlier outstanding amount of penal charges. Since applicability of GST on Service charge is decided by Central Board of Indirect Taxes & Customs, instructions and clarifications, if any, issued by CBIC in this regard may be followed, meaning thereby that Penal Charges plus GST, if applicable , shall be recovered from the borrowers.

The penal charges in case of loans sanctioned to 'individual borrowers, for purpose so ther than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

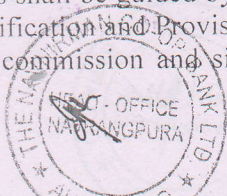
The quantum and reason for penal charges shall be clearly disclosed by Bank to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Bank's website under Interest rates and Service Charges.

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When ever 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 there as on there for shall also be communicated.

Banks shall be guided by para 3.2.3 of the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023, as per which in respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and

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should be reversed with respect to past periods, if uncollected. Accordingly, in respect of NPA accounts, penal charges shall be reversed to the extent it remains uncollected for the specific purpose of non-recognition of income. However, the same shall be part of the total liability of the borrower to the lender, unless it is waived as per the bank's Board approved policy.

In terms of Annexure II Part A (Notes and Instructions for compilation) for Schedule 13: Interest Income of Reserve Bank of India (Financial Statements – Presentation and Disclosure) Directions, 2021, Schedule 13 will include all types of interest / discount income for the banks whereas, bank will disclose fees and charges, including penal charges, recovered from customers in 'Schedule 14: Other Income' under the Notes containing Financial Statement disclosure.

This policy shall be reviewed from time to time annually.

