



GIC HOUSING FINANCE LTD

Policy for Fair Lending Practice – “Penal Charges” in Loan Accounts

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Fair lending practice Policy – Penal charges Aug 2023

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1. Background

The Reserve Bank of India (RBI) had vide its Circular RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023, advised the Boards of Non-Banking Finance Companies("NBFC") to formulate a "Board approved Policy" for levy of penal charges to loan accounts.

As per their Circular It has been observed by RBI that many Regulated Entities (REs) use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliances of material terms and conditions of Loan agreement by Customers on which credit facilities were sanctioned.

As per their observation 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. However, supervisory reviews have indicated divergent practices amongst the REs regarding levy of penal interest/charges leading to customer grievances and disputes.

2. Definition:

- (a) EMI: Equated monthly instalment
- (b) PEMI: Pre-Equated monthly interest.

3. Instructions for levy of Penal Charges to be adopted

RBI has issued instructions to all the registered entities including Non-Banking Finance Companies regulated by them about the "levy of Penal charges" to loan accounts to be adopted with effect from **01st January 2024 applying for all fresh loans. For existing loans, implementation occurs either at next review or within 6 months from the effective date (i.e. 1st January, 2024) whichever is earlier.**

In accordance with the RBI Guidelines, the following internal guiding principle and Levy of Penal charge model are therefore laid out by the Board of GIC HOUSING FINANCE LTD (GICHFL) Limited (the "Company"). This policy should always be read in conjunction with RBI guidelines, directives, circulars, and instructions. The Company will apply best industry practices as long as such practice does not conflict with or violate RBI guidelines.

"The derivation of "Penal charges" will be as per the current industry standards and practices".

The "Penal charges" rate model, shall be reviewed by the Department Heads of Credit, and Accounts periodically and submitted with suitable recommendations to the Board at least annually.



4. The policy of the Company for Levy of “Penal Charges” is as follows:

“Penal Charges” /Late payment charges

(a) Besides normal interest, the Company may collect “Penal charges”/late payment charges for any delay or default in making payments of any dues and for non-compliances of material terms and conditions of Loan Agreement by Customers. These “Penal charges” for different products or facilities offered by Company is same for all products.

(b) “Penal charges” as is the current practice is charged at the rate of 1.25% p.m. or 15% p.a. of the outstanding EMI/PEMI (Equated Monthly Instalment/Pre-Equated monthly interest) which is delayed.

(c) EMI/PEMI (Equated monthly Instalment/Pre-Equated Monthly Interest) for any loan account becomes due for payment on the First of every month and is payable by the customer before the end of the month in which the EMI/PEMI falls due. Any delay beyond the month end in which the EMI/PEMI falls due will attract additional “penal charges” at the rate of 1.25% p.m. or 15% p.a. of the outstanding EMI/PEMI as and when deposited/cleared by the customer.

(d) “Penal charges” will not be capitalized with the main interest outstanding and will be payable by the customer for each EMI/PEMI delayed as per above rate. The additional “Penal charge” at rate of 1.25% pm will be payable with the outstanding EMI/PEMI (Equated monthly instalment/Pre-Equated monthly interest) as and when deposited/cleared by the customer subsequently after the month in which the EMI/PEMI was due.

(e) “Penal charges” will not be compounded with main interest payable and will be collected separately with the outstanding EMI/PEMI (Equated Monthly Instalment/Pre-Equated monthly interest) as and when deposited/cleared by the customer.

(f) All communications sent to the customer for default or delay in payment of EMI/PEMI (Equated Monthly instalment/Pre-Equated monthly interest) and for non-compliances of material terms and conditions of Loan agreement by Customers by SMS, mailers, WhatsApp’s or via tele call will clearly mention the additional “Penal charges” payable for the outstanding EMI/PEMI (Equated Monthly Instalment/Pre-Equated monthly interest) not cleared by the customer and for non-compliances of material terms and conditions of Loan agreement by Customers.

(g) The “Penal charges” will be also communicated in our “Loan agreement” and “Offer letter” at the time of sanction of the loan and for which “Acceptance of the terms and conditions” of offer will be kept on record.

(h) The “Penal charges” applicable will also be displayed and included in the Company Website under charges applicable for the loan application along with other charges like Processing fees, documentation charges, CERSAI charges etc. for greater transparency and to avoid any future dispute or grievance.
