

Fair Lending Practice - Penal Charges in Loan Accounts

(As amended and approved by Board of Director on 12th December, 2023)

Version – I

➤ **Introduction**

Reserve Bank has issued various guidelines to the Regulated Entities (REs) to ensure reasonableness and transparency in disclosure of penal interest. Under the extant guidelines, Roha Housing Finance Pvt. Ltd. (RHFPL) has formulated a policy on levy of penal charges/interest for Board Approval.

The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not used as a revenue enhancement tool over and above the contracted rate of interest by RHFPL.

Currently, RHFPL is following a very transparent and reasonable practice on the same and will continue to do so in future as well. Basis the new guideline by RBI the following policy is being proposed on the captioned subject.

➤ **Policy:**

Penalty, when 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 not be 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.

RHFPL will not introduce any additional component to the rate of interest and ensure compliance to these guidelines in its Policy and Practice.

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.

Penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than businesses, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

Quantum and reason for penal charges has been clearly disclosed by RHFPL to the customers in the loan agreement in Annexure A under Most Important Terms and Conditions (MITC), in addition to being displayed on RHFPL's website under Most Important Terms and Conditions (MITC).

Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges to be communicated along with the reason therefor for levy of such charges.

These instructions shall come into effect from January 01, 2024 in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date but not later than June 30, 2024.

Note: Necessary change will be made in loan agreement post approval and MITC on website.