

SARASWATI COMMERCIAL (INDIA) LIMITED

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POLICY ON PENAL CHARGES

(Effective from 12.02.2024)

POLICY ON PENAL CHARGES

INTRODUCTION:

Reserve Bank of India (RBI) vide Circular bearing ref no. RBI/2023-24/53 dated August 18, 2023 has brought out the concept of Fair Lending Practice - Penal Charges in Loan Accounts. Regulated Entities (REs) are required to ensure reasonableness and transparency in disclosure of penal interest. Under the extant guidelines, lending institutions have the operational autonomy to formulate Board approved policy for levy of penal rates of interest. It has been observed that many REs use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned.

In view of the above, 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 with regard to levy of penal interest/charges leading to customer grievances and disputes.

Accordingly, the Board of Directors of the Saraswati Commercial (India) Limited (“the Company”) has formulated a policy for the implementation of above mentioned Circular to be called as Policy on Penal Charges.

On a review of the practices followed by the Company for charging penal interest/charges on loans, the following instructions had been adopted:

- a. Penalty, if 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.
- b. There shall be no 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.
- c. NBFCs shall not introduce any additional component to the rate of interest and ensure compliance to guidelines prescribed by RBI or other regulatory authorities from time to time and shall be complied in true letter and spirit.
- d. The 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.
- e. The penal charges in case of loans sanctioned to ‘individual borrowers, for purposes other than business, shall not be higher than the penal charges to non-individual borrowers for similar non-compliance of material terms and conditions.
- f. The quantum and reason for penal charges shall be clearly disclosed by NBFCs to the customers in the loan agreement and most important terms & conditions/Key Fact Statement (KFS) as, in addition to being displayed on websites of NBFCs under Interest rates and Service Charges.

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- g. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

REVIEW:

The Policy on Penal Charges shall be subject to review by the Board of Directors periodically as per the requirement and any provisions amended from time to time (if any).