



## **PENAL CHARGES POLICY**

Approved by Board in their Meeting held on 18-10-2023

### **I. Introduction**

Vide circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 Reserve Bank of India (RBI) has brought out the concept of penal charges in Fair lending Practice of loans by Banks and NBFCs. Regulated Entities (REs) are required to ensure reasonableness and transparency in disclosure of levy of penal charges and this calls for formulation of Board approved policy for levy of penal charges.

### **2. Purpose**

The intent of levying penal 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.

### **3. Applicability**

The penal charges policy shall be applicable to all loan product offerings of Muthoot Mini Financiers Limited ( The Company)

### **3. Penal Charges: Policy terms**

1. penal interest shall not be levied by the Company
2. 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.
3. 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. No additional component shall be added to the rate of interest to ensure compliance to these guidelines in both letter and spirit.

4. 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.
5. The penal charges in case of loans sanctioned to ‘individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
6. The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company website under Interest rates and Service Charges.
7. Reminders/ letters for non-compliance of material terms and conditions of loan sent to borrowers shall mention the applicable penal charges.

**Effective date:**

These instructions shall come into effect from January 1, 2024. The instructions as stated in the policy shall be implemented in 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 or six months from the effective date of these instructions, whichever is earlier.

**Review:**

The Penal charges policy shall be subject to review by the Board of Directors periodically as per requirement and in any case once in every year.

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