

Policy of Penal Charges

Objective of the policy:

The Reserve Bank of India through the circular on “Fair Lending Practice – Penal Charges in Loan Accounts” initially issued on 18th August 2023 (RBI/2023-24/DoR.MCS.REC.61/01.01.001/2023-24) and on 29th December 2023, has issued various guidelines to the Regulated Entities (REs) 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.

The circular mentions that “the intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline among borrowers through negative incentives and to ensure fair compensation to the lender. Penal interest/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”. Since the circular also mentions that there needs to be a Board approved policy on penal charges, this is being placed before the Board.

Details of circular:

A few items in the circular relevant to our business, and for the Board to take note as a policy are mentioned below:

- 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. There shall be no capitalization 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.
- b) 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.
- c) 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 condition
- d) The quantum and reason for penal charges shall be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as

applicable, in addition to being displayed on REs website under Interest rates and Service Charges.

- e) Whenever reminders for payment of instalments are sent to borrowers, the applicable penal charges, shall also be communicated. Further, any instance of levy of penal charges and the reason therefore shall also be communicated.

Davinta’s policy on penal charges

Davinta shall charge penal interest in the following manner (refer table) for the current/proposed businesses. This will be levied on default on payment of pending dues as on the due date of payment.

	Penal charge rate and methodology
Bestprice	24% per annum penal charge beyond the due date, levied on the total outstanding
All other business	12% per annum penal charge beyond the due date, levied on the total outstanding.

There will be no compounding of penal charges and charged on total outstanding as on due date.

These rates are applicable for all customers within the business (non-discriminatory) and applied on non-compliance of material terms and conditions of loan contract as per table mentioned above.

The policy outlined above was circulated to the Board of Directors via circular resolution on 28th March, 2024, and subsequently approved on 29th March, 2024.