

MONEDO FINANCIAL SERVICES PRIVATE LIMITED

Policy on Penal Charges

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Objective

The Reserve Bank of India (RBI) vide its “Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023” and the circular no. DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023 on ‘Fair Lending Practice - Penal Charges in Loan Accounts’ (hereinafter referred to as the “RBI Master Directions”) requires Non-banking financial companies to put in place Board approved policy on Penal charges or similar charges on loans.

The Policy has been framed with an objective to lay down the guiding principles for levy/charging of penal charges to the customer for non-compliance of material terms and conditions of loan contract by the borrower.

Meaning & rationale for levying Penal Charges

Penal Charges refer to an additional fee charged on loan or credit facilities to the borrowers who fail to make payments in accordance with the agreed-upon terms.

The intent of levying penal charges is essentially to inculcate a sense of credit discipline in the borrowers and thus promote accountability and punctuality among borrowers. The Company shall ensure these charges are not used as a revenue enhancement tool over and above the contracted rate of interest.

The Policy aims to prevent capitalization and accumulation of excessive charges on the account of the borrowers.

Penal Charges on loan accounts

Penalty, if charged, for non-compliance of material terms and conditions of loan agreement by the borrower shall be treated as ‘Penal Charges’.

Penal Charges 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. This, however, shall not affect the normal procedures for compounding interest in the loan account.

The Company shall not introduce any additional component to the rate of interest and will ensure compliance with RBI Master Directions in both letter and spirit.

The quantum of penal charges shall be reasonable and commensurate with non-compliance of material terms and conditions of loan agreement without being discriminatory within a particular loan / product category.

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

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

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 (MITC)/ Key Fact Statement (KFS) as applicable, in addition to being displayed on Company's website under Interest rates and Service Charges.

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

Fair Practice Code

The Policy shall form an integral part of the Company's Fair Practice Code adopted in accordance with the Master Directions for promoting fair practices by setting minimum standards in dealing with Customers.

Review and amendment to the Policy

The review and amendment in the Policy may also be necessitated as and when the applicable provision of the RBI Master Directions based on which the Policy is made, is amended. With effect from the date of amendment in law the amended provisions will prevail over the policy until the suitable amendments are made to the Policy.