# Penal Charges Policy

# Meghalaya Rural Bank

**DEPARTMENT: ADVANCES DEPARTMENT**

## VERSION CONTROL

| Date of Approval/ Review | Version at Start of Review | New Version |
|---|---|---|
| 27.06.2025 | New | V-1 |
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POLICY ON PENAL CHARGES ON LOANS AND ADVANCES

1. Introduction

The Reserve Bank of India (RBI), vide circular no. DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023, read with circular no. DoR.MCS.REC.61/01.01.001/2023-24 dated December 29, 2023, mandates banks to ensure reasonableness in levying penal charges and maintain transparency in disclosure of the same.

2. Objectives

Meghalaya Rural Bank ("the Bank") has formulated this Policy on Penal Charges to encourage credit discipline among borrowers. The intent is not to use penal charges as a revenue enhancement tool over and above the contracted interest rate. This policy addresses divergent practices in penal charge levies, thereby minimizing grievances and disputes.

3. Guidelines

a) Penalty, if charged, for non-compliance of material terms and conditions of the loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' added to the interest rate. No interest shall be computed on such penal charges.
b) The Bank shall not introduce any additional component to the rate of interest, ensuring full compliance with RBI's instructions.
c) The penal charges shall be reasonable and commensurate with the extent of non-compliance, and shall not be discriminatory within a specific loan or product category.
d) For loans sanctioned to individual borrowers for non-business purposes, penal charges shall not exceed those applicable to non-individual borrowers for similar non-compliance.
e) The quantum and reason for penal charges shall be clearly disclosed in the loan agreement, Key Fact Statement (KFS), and displayed on the Bank's website under Interest Rates and Service Charges.
f) Reminders sent to borrowers regarding non-compliance shall include details of applicable penal charges. Any levy of penal charges and its reasons shall also be promptly communicated.
g) These instructions shall be implemented for all fresh loans from June 1, 2024. For existing loans, the transition to the new regime shall occur on the next review or renewal date but not later than June 30, 2025.

4. Process

a) The Bank shall communicate in writing (in a language understood by the borrower), via sanction letter or other formal document, the sanctioned loan amount, applicable terms and conditions including the annualized interest rate and its computation. Acceptance of these terms shall be recorded.
b) Penal charges shall be levied only for non-compliance with material terms and conditions and shall not be capitalized or charged as interest.
c) No additional interest components shall be introduced in violation of RBI's directives.
d) Penal charges shall be fair, transparent, and non-discriminatory.
e) For individual borrowers (non-business loans), the penal charges shall not be more than those for non-individuals.
f) All disclosures relating to penal charges shall be made in the loan documents, KFS, and bank's website.
g) Reminders on non-compliance shall clearly state applicable penal charges. Any charge levied shall be notified along with the reason.
h) This policy comes into effect from June 1, 2025. It shall apply to fresh loans from April 1, 2024 and to existing loans upon review/renewal on or before June 30, 2025.

5. Review

The Bank shall periodically review and revise this policy framework as needed to ensure compliance with regulatory directions. Implementation shall be ensured for all fresh loans availed or renewed from the effective date and for existing loans at the time of next review or renewal.

**MEGHALAYA RURAL BANK**

**PENAL CHARGES FOR NON-COMPLIANCE OF SANCTION TERMS (APPLICABLE W.E.F. 01.06.2025)**

| S.no | Triggers | Penal charges revised rates excluding of GST | Penal charges revised rates including of GST |
|---|---|---|---|
| 1 | Irregularity in Cash Credit/ Overdraft/ Term Loan Account | a) Irregularity upto 60 Days: 2.00% p.a. on the irregular portion for the period of irregularity.<br>b) Continuous irregular for a period beyond 60 days: 2% p.a. on the outstanding for the period of irregularity.<br>For microfinance Loans, penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount. | a) Irregularity upto 60 Days: 2.36% p.a. on the irregular portion for the period of irregularity.<br>b) Continuous irregular for a period beyond 60 days: 2.36% p.a. on the outstanding for the period of irregularity.<br>For microfinance loans, penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount. |
| 2 | Non-submission of Stock Statements on time | 0.05% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). | 0.059% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). |
| 3 | Non-submission of renewal data including Audited Balance Sheet | 0.06% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). | 0.071% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). |
| 4 | Non completion of perfection of security within the stipulated timelines (including extended timelines permitted by the competent authority) | 0.30% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). | 0.354% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). |
| 7 | Non-renewal of insurance policy in a timely manner or inadequate insurance cover | 0.05% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). | 0.059% p.a.<br>(To be calculated on the Sanctioned Limit for the period of default/ delay). |

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| 10 | Diversion of Funds (Breach of Covenant) | 2.00% p.a. (on the outstanding amount till rectification). | 2.36% p.a. (on the outstanding amount till rectification). |
| 12 | Commitment Charges | a) Utilization > 60%: NIL<br>b) Utilization 50-60%: 0.15% p.a.<br>c) Utilization < 50%: 0.30% p.a.<br>(On entire unutilized portion on quarterly basis). | a) Utilization > 60%: NIL<br>b) Utilization 50-60%: 0.15% p.a.<br>c) Utilization < 50%: 0.30% p.a.<br>(On entire unutilized portion on quarterly basis). |
| 13 | Term Loans: Delayed Drawdown | 0.50% p.a.<br>(For delay beyond 2 months from due date on undrawn portion as per schedule). | 0.59% p.a.<br>(For delay beyond 2 months from due date on undrawn portion as per schedule). |
| 14 | Charges on pre payment / Pre Closure of credit facilities | i. Pre-payment charges (on Term Loan Facility) of the pre-paid amount on the following loans:<br>a) Public Personal Loan @ 2.00% (2.36% inclusive of GST)<br>b) Super Home Loan Plus @ 2.00% (2.36% inclusive of GST)<br>c) Loan Against Property @ 2.00% (2.36% inclusive of GST)<br><br>ii. Pre-Closure charges (on Fund Based Facilities including Term Loan) 2.00% (2.36% inclusive of GST) of the outstanding amount being taken over.<br><br>However, no prepayment/pre-closure charges are to be levied in the following cases:<br>a) Micro & Small Enterprise (MSE) Borrower.<br>b) Microfinance Loans<br>c) Where the loans are prepaid by the borrowers from internal cash accruals.<br>d) In addition to above, charges will not be levied on the following cases:<br>(i) In case payment has been made out of cash sweep/ insurance proceeds<br>(ii) Payment at the instance of lenders. | |

Note:

- GST on penal charges will be applicable as per extant guidelines and will be recovered from the borrower.

- Penal charges shall not exceed 5% per annum of the sanctioned limit/ outstanding balance of credit facilities of the borrower (whichever is higher), irrespective of the number of non-compliance instances.