POLICY ON PENAL CHARGES

MEGHALAYA
RURAL BANK

DEPARTMENT: Advance Department & Accounts Department

Version Control:

Date of Approval/Review	Version at start of Review	New Version
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	v-1	**v-2**

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I.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.

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. b) Continuous irregular for a period beyond 60 days: 2% p.a. on the outstanding for the period of irregularity. 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. b) Continuous irregular for a period beyond 60 days: 2.36% p.a. on the outstanding for the period of irregularity. 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. (To be calculated on the Sanctioned Limit for the period of default/ delay).	0.059% p.a. (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. (To be calculated on the Sanctioned Limit for the period of default/ delay).	0.071% p.a. (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. (To be calculated on the Sanctioned Limit for the period of default/ delay).	0.354% p.a. (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. (To be calculated on the Sanctioned Limit for the period of default/ delay).	0.059% p.a. (To be calculated on the Sanctioned Limit for the period of default/ delay).
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 b) Utilization 50-60%: 0.15% p.a. c) Utilization < 50%: 0.30% p.a. (On entire unutilized portion on quarterly basis).	a) Utilization > 60%: NIL b) Utilization 50-60%: 0.15% p.a. c) Utilization < 50%: 0.30% p.a. (On entire unutilized portion on quarterly basis).
13	Term Loans: Delayed	0.50% p.a.	0.59% p.a.

	Drawdown	(For delay beyond 2 months from due date on undrawn portion as per schedule).	(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: a) Public Personal Loan @ 2.00% (2.36% inclusive of GST) b) Super Home Loan Plus @ 2.00% (2.36% inclusive of GST) c) Loan Against Property @ 2.00% (2.36% inclusive of GST) 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. However, no prepayment/pre-closure charges are to be levied in the following cases: a) Micro & Small Enterprise (MSE) Borrower. b) Microfinance Loans c) Where the loans are prepaid by the borrowers from internal cash accruals. d) In addition to above, charges will not be levied on the following cases: (i) In case payment has been made out of cash sweep/ insurance proceeds (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.

II. PENAL CHARGES FOR NON-MAINTENANCE OF MINIMUM BALANCE IN SAVINGS ACCOUNTS

1. INTRODUCTION

The Bank offers various categories of Savings Bank Deposit Accounts with prescribed minimum balance requirements depending upon the nature and type of account. Maintenance of stipulated minimum balance is essential for efficient servicing and sustainability of banking operations.

Accordingly, this Policy on Levy of Penal Charges for Non-Maintenance of Minimum Balance in Savings Bank Accounts has been framed to ensure transparency, fairness, reasonableness and compliance with regulatory guidelines. This Policy lays down the framework governing:

- Prescription of minimum balance requirements,
- Intimation to customers regarding shortfall,
- Levy of penal charges,
- Exemptions and safeguards,
- Disclosure and customer protection measures.
- grievance redressal and oversight

The Policy is framed in accordance with Reserve Bank of India guidelines issued from time to time and approved by the Board of Directors of the Bank. This Policy shall be reviewed annually or earlier in case of changes in regulatory guidelines or operational requirements.

2. OBJECTIVE

The objectives of this Policy are:

a) To ensure transparency in levy of penal charges for non-maintenance of minimum balance in Savings Bank Accounts.
b) To ensure that penal charges are reasonable, proportionate and non-discriminatory.
c) To protect customer interests and promote fair banking practices.
d) To ensure compliance with RBI guidelines on customer service, responsible business conduct and financial inclusion.
e) To provide a uniform framework for implementation across all branches of the Bank.
f) To ensure that penal charges do not result in hardship to customers or lead to negative balances solely due to recovery of such charges.

3. REGULATORY FRAMEWORK

This Policy is framed in accordance with the following extant RBI circulars / directions, including amendments issued from time to time:

a) RBI Master Directions No. RBI/DOR/2025-26/267 DOR.MCS.REC.No.186/01-01-036/2025-26 dated November 28, 2025 on *Reserve Bank of India (Regional Rural Banks – Responsible Business Conduct) Directions, 2025* (updated up to April 01, 2026), particularly Chapter VII dealing with minimum balance requirements and levy of penal charges.
b) RBI Circular No. RPCD.RRB.BC.No.105/03.05.33/2013-14 dated May 27, 2014 on “Levy of penal charges on non-maintenance of minimum balances in inoperative accounts”.

c) RBI instructions relating to Basic Savings Bank Deposit Accounts (BSBDA), financial inclusion and customer service issued from time to time.
d) RBI Integrated Ombudsman Scheme, 2021, as amended from time to time.

In case any provision of this Policy is inconsistent with any RBI guideline, circular, direction or statutory instruction issued subsequently, the RBI instruction shall prevail and the Policy shall be deemed modified to that extent.

4. SCOPE AND APPLICABILITY

This Policy shall apply to all Savings Bank Deposit Accounts of the Bank where maintenance of minimum balance or Average Monthly Balance (AMB) has been prescribed. The Policy shall generally apply to:

- Individual Savings Accounts,
- Salary Accounts,
- Institutional Savings Accounts,
- Special category Savings Accounts where minimum balance criteria are prescribed.

This Policy shall be applicable across all branches and delivery channels of the Bank.

5. EXEMPTED ACCOUNTS

The following accounts shall ordinarily be exempted from levy of penal charges for non-maintenance of minimum balance unless otherwise specifically decided by the Bank:

- Basic Savings Bank Deposit Accounts (BSBDA),
- PMJDY Accounts,
- Accounts opened under Government sponsored schemes,
- Minor accounts,
- Pension accounts,
- Scholarship accounts,
- Staff accounts,
- Accounts of differently abled persons where exempted,
- Inoperative/Dormant accounts,
- Any other category specifically exempted by the Bank/RBI.

No penal charges shall be levied in inoperative accounts for non-maintenance of minimum balance

6. DEFINITIONS

For the purpose of this Policy:

- **Minimum Balance:** Minimum Balance means the minimum amount required to be maintained in the Savings Bank Account as prescribed by the Bank from time to time.
- **Average Monthly Balance (AMB)**: Average Monthly Balance means the average of end-of-day balances maintained in the account during a month or such other period as prescribed by the Bank.
- **Penal Charges**: Penal Charges refer to charges levied by the Bank for non-maintenance of prescribed minimum balance/AMB.

- **Shortfall**: Shortfall means deficiency between the prescribed minimum balance and the balance actually maintained in the account.

7. CUSTOMER AWARENESS AND DISCLOSURE

At the time of opening the accounts, the Bank should inform their customers in a transparent manner the requirement of maintaining minimum balance and levying of charges, etc., if the minimum balance is not maintained. Any charge levied subsequently should be transparently made known to all depositors in advance with one month's notice. The Bank should inform, at least one month in advance, the existing account holders of any change in the prescribed minimum balance and the charges that may be levied if the prescribed minimum balance is not maintained.

The above information shall be communicated through appropriate channels including:

- At the time of account opening,
- Account opening forms/welcome kits,
- The Bank's website,
- Branch notice boards,
- SMS/e-mail or other communication, channels wherever applicable.

The Bank shall ensure that all disclosures are clear, non-misleading and compliant with RBI's fair practice and customer service guidelines.

8. INTIMATION OF SHORTFALL

Before levy of penal charges, the Bank shall notify the customer regarding shortfall in minimum balance through SMS, E-mail, Letter, Mobile banking/ internet banking alerts, any other electronic mode. The communication shall clearly indicate:

- Prescribed minimum balance/AMB,
- Actual balance maintained,
- Amount of shortfall,
- Proposed penal charges,
- Time allowed for regularisation.

Customers shall be provided a minimum period of one month from the date of notice to restore the required balance. No penal charges shall be recovered before expiry of the notice period.

9. PRINCIPLES GOVERNING LEVY OF PENAL CHARGES

If the customer fails to restore the prescribed minimum balance within the stipulated period, penal charges may be recovered under intimation to the account holder.

A charge, as specified by the Bank from time to time, shall be recovered on each occasion when the balance in the account falls below the stipulated minimum balance requirement.

The Bank shall adhere to the following instructions while levying charges for non-maintenance of minimum balance in savings bank account:

a) In the event of a default in maintenance of minimum balance / average minimum balance as agreed to between the Bank and customer, the Bank shall notify the customer clearly by

SMS / email / letter etc. that in the event of the minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable.

b) In case the minimum balance is not restored within a reasonable period, which shall not be less than one month from the date of notice of shortfall, penal charges may be recovered under intimation to the account holder.

c) The policy on penal charges to be so levied may be decided with the approval of the Board of the Bank.

d) The penal charges shall be directly proportionate to the extent of shortfall observed. In other words, the charges shall be a fixed percentage levied on the amount of difference between the actual balance maintained and the minimum balance as agreed upon at the time of opening of account. A suitable slab structure for recovery of charges may be finalised.

e) It should be ensured that such penal charges are reasonable and not out of line with the average cost of providing the services.

f) It shall be ensured that the balance in the savings account does not turn into negative balance solely on account of levy of charges for non-maintenance of minimum balance.

These instructions shall be brought to the notice of all customers apart from being disclosed on the Bank's website

10. SAFEGUARDS AND CUSTOMER PROTECTION MEASURES

The Bank shall ensure the following safeguards:

a) Penal charges shall not result in the account becoming negative solely due to such recovery.
b) Recovery of penal charges shall not violate RBI financial inclusion objectives.
c) Charges shall be commensurate with the cost of services rendered.
d) Customers shall be given adequate opportunity to regularise the account.
e) Branches shall ensure fair treatment and transparency in recovery.

11. NON-DISCRIMINATORY TREATMENT

The Bank shall ensure uniformity and fairness in levy of penal charges across similarly placed customers. No arbitrary or excessive charges shall be imposed. Any differentiated treatment shall be based only on approved product features, customer category or regulatory requirements.

12. DISPLAY AND DISCLOSURE OF CHARGES

The schedule of penal charges shall be:

- Displayed prominently at branches,
- Hosted on the Bank’s website,
- Made available to customers upon request.
- incorporated in account opening documents and product disclosures.

The Bank shall also ensure disclosure through digital banking channels wherever feasible.

13. RESPONSIBILITIES OF BRANCHES AND DEPARTMENTS

13.1 Branches

Branches shall:

- educate customers regarding minimum balance requirements;
- issue timely intimations regarding shortfall;
- maintain records of notices and recoveries;
- address customer grievances promptly;
- ensure compliance with this Policy and RBI instructions.

13.2 Operations / IT Department

The Operations / IT Department shall ensure:

- automated alerts and notices to customers;
- system controls to prevent negative balances solely due to penal charges;
- accurate computation and recovery of charges;
- proper audit trails.

13.3 Compliance Department

The Compliance Department shall:

- monitor regulatory compliance;
- review amendments in RBI guidelines;
- recommend policy revisions where required.

14. GRIEVANCE REDRESSAL

Any grievance relating to levy of penal charges may be addressed through the Bank's grievance redressal mechanism.

Customers may approach:

- the concerned Branch;
- Regional Office;
- Customer Service Department;
- designated Grievance Redressal Officer.

If the grievance remains unresolved within the prescribed timeline, the customer may escalate the complaint under the RBI Integrated Ombudsman Scheme, 2021.

Details of the grievance redressal mechanism shall be displayed on the Bank's website and at branches.