

POLICY ON PENAL INTEREST AND PENAL CHARGE

KRA LEASING LIMITED

The Reserve Bank of India (“RBI”) has issued guidelines on Fair Lending Practice - Penal Charges in Loan Accounts” to ensure reasonableness and transparency in disclosure of penal interest and penal charges levied by the Banks in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned.

OBJECTIVE

The objective of this policy is to adopt a suitable structure of levying penal interest and/ or penal charges that is reasonable and in line with the extant Circular.

SCOPE

This policy is applicable to all credit facilities. Compliance to this policy is required for all the units associated in this process.

APPLICABILITY

The penal charges policy shall be applicable to all loan product offerings of The Company.

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.

REGULATORY POLICY GUIDANCE

Bank will comply with all extant RBI regulations / guidelines set out including those in the following circulars (as amended, updated or replaced from time to time):

- Master Direction - Reserve Bank of India (Interest Rate on Advances) Directions, 2016
- Master Circular - Customer Service in Banks
- Master Circular - Loans and Advances - Statutory and Other Restrictions
- RBI Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations
- Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- Reserve Bank of India (Financial Statements – Presentation and Disclosure) Directions, 2021
- Fair Lending Practice - Penal Charges in Loan Accounts

The quantum of penal charges shall be reasonable and commensurate with the noncompliance of material terms and conditions of loan contract without being discriminatory within a particular loan/product category.

6. 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.

7. 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.

8. Reminders/ letters for non-compliance of material terms and conditions of loan sent to borrowers shall mention the applicable penal charges.