

Penal Charges Instruction

The Reserve Bank of India has, vide circular no. DoR.MCS.REC.28/ 01.01.001/ 2023-24 (RBI/2023-24/53) dated August 18, 2023 on “**Fair Lending Practice - Penal Charges in Loan Accounts**”, issued instructions (“**RBI instructions**”) regarding quantum and levy of Penal Charges on Loan Accounts. The RBI Instructions mandate penalty to be treated as ‘Penal Charges’ and not be levied as ‘Penal Interest’.

We wish to inform you that the Penal Interest (if and when applicable) will be treated as Penal Charges for your loan account, **effective from 01-01-2025** (As Bank has not applied any Penal Interest / Charges on Accounts between tenure 01-04-2024 to 31-12-2024).
The Penal Charges are set out in Schedule A.

Schedule A

Existing Default / Penal Interest	Revised Penal Charges
	Financial Default* : 2% p.a. above current applicable interest rate on the overdue amount
As per existing Sanction Letter / Loan Agreement	Non-Financial Default** : 2% p.a. above current applicable interest rate from the date of each non-financial default on the outstanding amount of fund-based credit facilities and non-fund-based facilities (as applicable).
	There shall be no capitalisation of Penal Charges.

*Financial Default includes all types of payment or financial defaults / irregularities with respect to your loan account.

**Non-Financial Default includes breach of any other obligation(s) / covenant(s) with respect to your loan account.

*****This is a system generated communication and does not require a signature*****

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Importance of making timely payments

Making timely repayments for your loan interest / instalment is essential if you aim to access credit effortlessly in the future and enhance your credit worthiness.

Consequences of default of monthly instalment / interest payment

When monthly interest/Instalment is not paid on due date or there is a loan default, it sets off a chain reaction of consequences that can significantly impact the borrower's financial well-being and reputation. The Bank imposes "Penal Charges" for such defaults.

Please find below some frequently asked questions (FAQs) that arise due to the consequences of not making payments within the agreed timeline.

FAQs on Penal Charges

Q1. What are 'Penal Charges'?

Penal Charges are levied on a loan account for various breaches, as stipulated in the Sanction Letter or Loan Agreement. Penal Charges could be charged for financial irregularities like overdrawn in account, delay in servicing of interest and / or repayment of instalment / EMI, etc. or for non-financial irregularities like delayed submission of Stock Statement, delay in security creation, breach in sanctioned Terms and Conditions etc. as per the terms of the Sanction Letter and Loan Agreement.

Q2. What is the frequency of levying penal charges? Is it one-time / weekly / fortnightly / monthly / semiannually / annually?

As per the current practice, Penal Charges are levied monthly in case of financial default and for non-financial default in the loan account it will be levied as per the frequency mentioned in the Sanction Letter.

Q3. Where can I check penal charges applicable for my loan?

Details of Penal Charges applicable will be available in the Sanction Letter / Loan Agreement. You may also contact your Branch Service Relationship Manager for details.

Q4. How can I make the payment towards overdue amount and penal charges?

To make overdue payment, please fund the operative CC / OD / CA / SB / Link operative account OR Direct Payment in loan account through DD / PO / Cheque / Cash at Sawji Bank branch with requisite amount for recovery.

Q5. If I pay partial amount of the penal charges, how will the amount be adjusted? Payment collected shall be appropriated in the order as given below.

1. Oldest overdue interest/instalment
2. Interest on overdue interest/instalment if any,

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3. Other charges if any

4. Penal Charges

Q6. Will I be charged any interest on the penal charge?

No, you will not be charged any further interest on the penal charge.

Q7. If I default on one loan payment, will penal charge be levied to only that loan account payment or for all other accounts that are linked to me?

You will be charged penal charges only on the loan accounts for which you have defaulted.

Q8. For multiple breaches, how will the penal charges be levied? Will it be a consolidated charge, or will there be multiple entries to my account?

Penal Charges will be levied per instance. For multiple breaches, the charges will be separate.

Q9. What is Penal Charge for Financial Default?

Penal Charge for Financial Default is 2% p.a. above current applicable interest rate on the overdue amount for the period of default.

Q10. What is Penal Charge for Non-Financial Default?

It is 2% p.a. above current applicable interest/ commission for the period of each non-financial default on the outstanding amount of fund based and non-fund based credit facilities (as applicable).

Q11. What is an 'Instance' of Default?

It is the occurrence of any financial / non-financial default.

Q12. Will I be charged GST on penal charges?

No, GST will not be charged on the penal Charges. (As per 55th GST Council Meet)

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Please refer below examples for calculation of penal charges

Financial Overdue (Overdue / Overdrawn)

Existing Scenario	Principal / Outstanding: INR 1,10,00,000 Normal interest / instalment amount not paid: INR 10,00,000 Overdue days: 30 Penal Interest on overdue at 2%* p.a. = INR 1644 (On 10,00,000 for 30 days) Interest for next period will be charged on the entire outstanding amount.
As per Revised Methodology	Principal / Outstanding (Limit Overdrawn): INR 1,10,00,000 Normal Interest / Instalment amount not paid: INR 10,00,000 Overdue days: 30 Penal Charges on overdue at 2% p.a. = INR 1644 (On 10,00,000 for 30 days) Outstanding balance will continue to be utilised amount / principal outstanding + regular interest / instalment not paid. Regular interest will continue to be charged on outstanding balance 2% p.a. will be charged every month till regularisation on overdue amount. Further, interest will not be charged on Penal Charges i.e., INR 1644, till recovery is done. This amount will be recovered from operative A/c as per the availability of balance.

Non-Financial Overdue (Delay in Document Submission / Delay in Security Creation / Covenant Breach)

(Applicable as per your sanctioned terms & conditions)

Existing Scenario	Total Fund Based outstanding: INR 1,00,00,000. Covenant / document due date: 01-12-2023 Covenant / document submission date: 11-12-2023 Overdue days: 10 Penal Interest on Total Fund Based outstanding at 2% p.a. = INR 5479 (On 1,00,00,000 for 10 days) Interest for next period will be charged on the entire outstanding amount. Capping as per the sanctioned terms.
As per Revised Methodology	Total Fund Based outstanding: INR 1,00,00,000. Covenant / document due date: 01-12-2023 Covenant / document submission date: 11-12-2023 Overdue days: 10 Penal Charges on Total Fund Based Outstanding at 2% p.a = INR 5479 (On 1,00,00,000 for 10 days) Further, interest will not be charged on Penal Charges i.e., INR 5479, till recovery is done. This amount will be recovered from operative A/c as per the availability of balance.

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