

**NORTH EAST HIRE PURCHASE CO  
INDIA PRIVATE LIMITED**

Policy on Penal Charges or Similar Charges on Loans

## **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, and FAQs dated January 15, 2024, require the Regulated Entities (REs) to ensure reasonableness in levying Penal Charges and also maintain transparency in disclosure on the same. REs were advised to formulate a Board approved policy for levying penal charges.

North East Hire Purchase Co India Pvt. Ltd. (hereinafter referred to as “the Company” or “North East Hire Purchase” unless repugnant to the context) is a Non-Banking Financial Company (‘NBFC’) holding a valid Certificate of Registration (“CoR”) with the Reserve Bank of India (‘RBI’) under the current RBI classification as NBFC ICC.

The Board of Directors (hereinafter referred to as the “Board” unless repugnant to the context) of the Company has adopted the following policy for Penal charges. The Board on the recommendation of any Committee, if any or on its sole discretion will review and may amend this policy from time to time.

## **Objective**

The objective of this policy is to establish a framework for levying penal charges or similar charges on loans, ensuring compliance with the Reserve Bank of India (RBI) guidelines, and promoting transparency and fairness in the lending process.

## **Scope**

This policy applies to all types of loans provided by the Company, including but not limited to personal loans/business loans.

## **Penal Charges: Policy terms**

1. The Company shall not levy Penal interest.
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 the RBI guidelines in both letter and spirit.
4. The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan/product category.
5. 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.
6. The quantum and reason for penal charges shall be clearly disclosed by the Company in “Bold” to the borrowers in the loan agreement and Key Fact Statement (KFS) as applicable, in addition to being displayed on the Company website under Interest Rates and Service Charges.
7. An acknowledgment of the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable will be taken from the borrower in the language understood by the borrower.

8. Penal charges will be explained to the borrower at the time of onboarding and at the time any change, review or renewal of the charges during the tenure of the loan of the borrowers.
9. Reminders/ letters for non-compliance of material terms and conditions of loan sent to borrowers shall mention the applicable penal charges.
10. Any grievances relating to the penal charges shall be addressed in line with the Grievance Redressal Policy and Fair Practice Code.
11. The Company shall establish a mechanism in place to periodically monitor and review the implementation of the policy.

### **Policy Statement**

1. **Penal Charges Applicability:** Penal charges shall be imposed in the event of any default, including but not limited to, the following situations:
  - (i) delayed payment of loan installments;
  - (ii) non-compliance with any material terms or conditions outlined in the loan agreement;
  - (iii) failure to provide required documentation within the stipulated time;
  - (iv) breach of any covenants or undertakings set forth in the loan agreement; or
  - (v) violation of any specific conditions explicitly stated in the loan agreement.
2. **Rate of Penal Charges:** The rate of penal charges will be reasonable and determined as per the RBI guidelines and will be transparently communicated to the borrower at the time of loan sanction. The penal charges should not exceed a maximum threshold prescribed by the RBI.
3. **Notification to Borrowers:** Borrowers will be informed about the penal charges at the time of signing the loan agreement. Additionally, any changes in the penal charges during the loan tenure will be communicated to the borrowers promptly.
4. **Calculation Method:** Penal charges will be calculated based on the overdue amount or the outstanding loan balance as specified in the loan agreement. The method of calculation will be transparent and compliant with RBI guidelines.
5. **Waiver of Penal Charges:** The Company shall, in accordance with RBI guidelines, refrain from imposing penal charges when a borrower's non-compliance stems from verifiable extenuating circumstances. These may include, without limitation, widespread banking disruptions, natural disasters, officially declared emergencies, or other events deemed force majeure by regulatory bodies. The Company retains the right to seek corroborating evidence and will evaluate each case individually, taking into account the event's nature, duration, and impact. This waiver policy shall be implemented equitably across all affected borrowers.
6. **Transparency and Fair Practices:** The Company will ensure transparency in the levy of penal charges. Clear and concise information regarding penal charges will be included in the loan agreement and any related documentation provided to the borrower.
7. **Compliance with RBI Guidelines:** The Company will ensure that the penal charges levied are in strict compliance with the RBI guidelines. The Company will conduct

periodic internal audits to ensure that penal charges are applied and disclosed in compliance with this policy and RBI guidelines. Any revisions to the RBI guidelines will be promptly incorporated into this policy.

8. **Review and Monitoring:** The policy on penal charges will be reviewed periodically to ensure its continued relevance and alignment with regulatory requirements. The Company will monitor the implementation of this policy to ensure compliance and address any grievances from borrowers.
9. **Audit and Compliance Monitoring:** The Company shall conduct regular internal audits, at least annually, to ensure adherence to this penal charge policy and full compliance with applicable RBI guidelines. These audits will include a review of the application, calculation, and disclosure of penal charges, ensuring that they are levied in accordance with the terms of the loan agreements and in strict compliance with RBI guidelines. Any discrepancies or non-compliance identified during these audits shall be promptly rectified, and corrective actions will be implemented to prevent future occurrences. Additionally, the results of these audits shall be reported to senior management for review and action, and any revisions to the RBI guidelines will be incorporated into the policy and audit processes without delay.
10. **Borrower Grievances:** Borrowers who have any grievances related to penal charges can approach the Company's grievance redressal mechanism. The Company will address such grievances promptly and fairly.

#### **Approval and Effective Date:**

1. This policy will be approved by the Board of Directors and will come into effect from 15<sup>th</sup> April, 2024.
2. All instructions stated within the policy shall be implemented for fresh loans availed or renewed from the effective date. For existing loans, the transition to the new penal charges regime will be applied at the next review or renewal date, or within six months from the effective date of the relevant RBI regulations, whichever is earlier.
3. The policy will be implemented by the relevant departments, and all employees involved in the loan sanctioning and management process will be trained accordingly.