

POLICY ON FAIR LENDING PRACTICE- PENAL CHARGES IN LOAN ACCOUNTS



**DMI HOUSING
FINANCE PVT. LTD.**

1. PREAMBLE

The Reserve Bank of India (RBI) on August 18, 2023 has issued a circular on fair lending practice- penal charges in loan accounts, in order to ensure reasonableness and transparency in disclosure of penal interest. The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest.

In terms of provisions of the Reserve Bank of India ('RBI') Circular on fair lending practice- penal charges in loan accounts dated August 18, 2023, Regulated Entities are required to formulate a Board approved Policy on penal charges or similar charges on loans, by whatever name called.

Accordingly, DMI Housing Finance Private Limited (DMIHFC), a non-deposit taking NBFC engaged in the business of Housing Finance have put in place this Board approved Policy on fair lending practice- penal charges in loan accounts in line with the RBI's Circular.

2. OBJECTIVE

Objective of establishing policy on fair lending practice- penal charges in loan accounts is to ensure reasonableness and transparency in disclosure of penal charges and allow Company to impose it only to inculcate a sense of credit discipline & not to use as revenue enhancement tool.

3. SCOPE

This Policy on fair lending practice- penal charges in loan accounts shall cover all loan accounts where penal charges are applicable.

4. DEFINITIONS

Penal Charges: These are additional charges imposed on a borrower in case of default or violation of the terms and conditions of the loan agreement.

5. PENAL CHARGES

DMIHFC shall impose penal charges @24% per annum plus applicable taxes for the non-compliance of material terms and conditions of loan contract by the borrower. With Regards to RBI Circular RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24, dated 18th August 2023, on Fair Lending Practice - Penal Charges in Loan Accounts, DMIHFC shall abide by the following norms.

I. Penalty, if charged, for non-compliance of material terms and conditions of the Loan Agreement/ Facility Agreement 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.

II. There shall be no capitalization of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding interest in the loan account.

III. DMIHFC shall not introduce any additional component to the rate of interest.

IV. 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.

V. 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.

VI. DMIHFC shall disclose the quantum and reason for penal charges in the Loan agreement/ Facility Agreement and Most Important Terms and Conditions (MITC) / Key Fact Statement (KFS) as applicable, in addition to displaying on the

website under 'Fees and Charges.'

VII. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

VIII. These norms on Penal Charges shall come into effect from January 1, 2024. DMIHFC shall carry out appropriate revisions in its policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date or before July 01, 2024, whichever is earlier.

6. REVIEW

The Board of the Directors of the Company shall review this Policy from time to time not later than on an annual basis from the date of adoption or last to align the same with the RBI or such other statutory authority's requirements, updates and/or amendments, from time to time.