

## PENAL CHARGES POLICY



Penal Charges Policy was revised and approvedss by Board of Directors at the Board Meeting held on 30<sup>th</sup> December 2024

## 1. Regulatory Reference:

This Policy ("Policy") documents the provisions for penal charges regarding credit facilities offered by Seeds on the basis of Reserve Bank of India regulation, viz., Fair Lending Practice - Penal Charges in Loan Accounts, dated August 18, 2023 (RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24).

## 2. Preamble:

Pursuant to Regulation 45.12 of Reserve Bank of India (RBI) Master Directions - Non- Banking Financial Company - Scale Based Regulation) Directions, 2023, as amended from time to time, and regulation on Fair Lending Practice - Penal Charges in Loan Accounts, dated August 18, 2023 (RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24) with other subsequent communications advised the Boards of Non- Banking Finance Companies (NBFC's) to lay out appropriate internal principles and procedures on determining interest rates, processing and other charges.

## 3. Applicability and Implementation

This Policy lays down the guidelines to the operational personnel and other decision makers (including the Credit Committee) of "**Seeds Fincap Private Limited**" ("Seeds") while determining the penal rate of interest and other fees to be charged from a customer seeking to avail loan.

The Policy applies to penal charge(s) that Seeds may levy with regard to credit facilities availed of by customers.

The Company will incorporate appropriate clauses in contractual documents with customers substantively.

## 4. Regulatory Coverage

4.1 Reserve Bank of India Regulated Entities (REs) that are in scope under the Regulation are required to ensure reasonableness and transparency in disclosure of penal charges on loans.

The SEEDS Policy with regard to penal charges, with effect from April 2024, proceeds on the basis that

- i. the intent of levying penal charges is essentially to inculcate a sense of credit discipline. Such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest.
- ii. penalty, where charged by SEEDS on borrowing customers for non-compliance with 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' that is added to the rate of interest charged on the advances.
- iii. there shall be no capitalisation of penal charges i.e., no further interest computed on such charges. This does not affect the normal procedures that applies for compounding of interest in the loan account.
- iv. there is no additional component to the rate of interest.



- v. the quantum of penal charges applied will be reasonable, and commensurate with the non-compliance of material terms and conditions of the loan contract, without being discriminatory within a particular loan/product category.
- vi. the quantum and reason for penal charges shall be clearly disclosed to the customers in the loan agreement and, where applicable, in the most important terms & conditions.
- vii. whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Any instance of levy of penal charges and the reason therefore shall also be communicated.

**4.2 Regulatory Expectations – REs** is required by the Regulation to formulate a transparent policy for penal charges with the approval of their Board of Directors.

## **5. Internal Supervision and Review**

This Policy document shall be reviewed at least once every year, or sooner as may be required, and tabled before the Credit Committee.

## **6. Scope and penal charges**

### **6.1 Non-repayment of principal and/or interest amount on due date**

Penal charges will be fixed at Rs. 500/- on the overdue amount for the delayed period, i.e., from the due date up to the date of actual payment.

Revised Penal Charge Policy (Effective from 1st January 2025):

Under the revised policy, penal charges will be applied as follows:

- A fixed penalty/bouncing charge of Rs. 500/- will be levied for any overdue EMI.
- If the payment remains unpaid by the end of the month for that specific EMI, an additional penalty of Rs. 200/- will be imposed.

#### **Example:**

- For an EMI due on 10th January 2025, if the payment remains overdue for 20 days, a Rs. 500 penalty will be applied.
- If the payment is further delayed beyond 31st January 2025, an extra penalty of Rs. 200 will be charged, bringing the total penalty to Rs. 700.

**6.2** Penal charges shall not be levied as 'penal interest' and shall not be capitalized i.e. no further interest shall be computed on such charges. There shall be no additional component to the rate of interest applied on a credit facility.

**6.3** Seeds lending terms and conditions appropriately provide for other actions which may be taken at its discretion to inculcate a sense of credit discipline amongst borrowers; without having to levy charges which may be construed as a revenue enhancement tool.

**6.4** Whenever reminders are issued regarding matters in which a penal charge is payable, the applicable penal charges shall be communicated. Any instance of levy of penal charges and the reason therefor shall also be communicated by the Seeds.



EMPOWERING DREAMS

6.5 Seeds may waive penal charges if it is satisfied that the issue in question was caused by matters such as technical systems related errors and/or are demonstrably not deliberate, wilful or negligent, with the reasoned approval of the National Head-Strategy and Operations, Business Head or Credit Head( any one of them).

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