

# POLICY ON PENAL CHARGES

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## 1. Background

CNH Industrial (India) Pvt. Ltd. (CNH Capital / the Company), is registered with the Reserve Bank of India (RBI) as Non-Banking Financial Company not accepting public deposits and in accordance with the Master Direction- Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023, and as amended (hereinafter referred as RBI Directions) has been classified as Systemically Important Non- Banking Financial Company not accepting public deposit-Investment and Credit Company- Middle Layer (NBFC-NDSI-ICC-ML).

## 2. Objective

The Reserve Bank of India has issued Notifications No. (RBI/ 2023-24/53/DoR.MCS.REC.28/01.01.001/2023-24) dated August 18, 2023, and RBI/2023-24/102 DoR.MCS.REC.61/01.01.001/2023-24 dated December 29, 2023, on Fair Lending Practice - Penal Charges in Loan Accounts and relevant clarifications issued by RBI from time to time.

This Policy is to put in place governing principles in the determination of penal charges. Penal charges are levied with an intended objective to drive credit discipline in the conduct of the account and such charges shall not be used as a revenue enhancement tool over and above the contracted rate of interest.

## 3. General Principles

- i. 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.
- 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 of interest in the loan account.
- iii. 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.
- iv. 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.
- v. The quantum and reason for penal charges shall be clearly disclosed by REs to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable.

- vi. Whenever reminders for non-compliance of material terms and conditions of loan are sent to the borrowers, the applicable penal charges shall be communicated. Further, in case of instance of levy of penal charges, the penal charges along with the reason thereof shall also be communicated.

#### 4. Product Level Penal Charges

CNHI capital offers following categories of loans: -

- i. Retail Loans
- ii. Wholesale Loans

Penal Charges shall be levied for non-compliance with the material terms and conditions of the Loan Contract. Default in repayment by the Borrower shall also be considered as non-compliance of material terms and conditions of Loan Contract and penalty, shall be levied in the form of penal charges by the Company on the amount of default. The penal charges will be computed as:

Product	Penal Charges
Retail Loans	3% per month on the outstanding
Wholesale Loans	3% per annum applied on monthly basis on the outstanding beyond 120 days from invoice date

#### 5. Waiver

Waiver of Penal Charges may be considered for genuine cases like operational difficulties of the borrower which led to such delay in payment / irregularity / non-compliance of material terms and conditions (e.g., natural calamity, suspension in business, etc.)

Following Factors shall also be considered for granting waiver of penal charges: -

- o Financial Condition / Performance of the Borrower
- o Conduct of Loan Account
- o Security Available for enforcement, if any.

#### 6. Review/ Amendment

The Policy has been approved by the Board of directors in its meeting held on 29<sup>th</sup> August 2024 and shall be reviewed by the Board of Directors on an annual basis. Any amendment to the Policy shall be done with the prior approval of the Board of Directors.

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