

## Penal Interest Guide

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### Overview

Penal interest is an extra charge applied only when loan or account conditions are not met. For credit facilities, this is an additional 2% per year, added to the normal interest rate. This ensures fairness and aligns with regulatory expectations. This penal margin is configured in the system as an add-on, meaning it is charged in addition to the normal lending rate only under specific circumstances defined below.

### 1. Term Loans (including Trade Finance Loans)

Penal interest applies only when the principal portion of the loan installment is paid late. It is calculated only for the number of days the installment remains overdue.

#### Example

- Installment: Rs. 50,000 (Principal Rs. 30,000 + Interest Rs. 20,000)
- Normal Interest rate – 10%
- Due: 1 March, Paid: 16 March (15 days late)
- Penal rate: 2% per year on overdue principal only

Penal Interest =  $30,000 \times 2\% \times 15 / 365 = \text{Rs. } 24.66$  (in addition to the normal interest for the said period)

### 2. Overdraft (OD) Facilities

Penal interest applies when:

- The OD balance exceeds the approved limit, or
- The OD limit has expired but the account remains overdrawn.

#### OD Example A – Exceeding Limit

- OD limit: Rs. 500,000
- Usage: Rs. 520,000 (Excess: Rs. 20,000) for 10 days
- Normal Interest rate – 14%
- Penal rate - Normal rate + 2%

Penal Interest =  $20,000 \times 16\% \times 10 / 365 = \text{Rs. } 87.67$

### **OD Example B – Expired Limit**

- Limit expired: 30 June
- Normal Interest rate – 14%
- Overdrawn: Rs. 300,000
- Renewed: 10 July (10 days)

Penal Interest =  $300,000 \times 16\% \times 10 / 365 = \text{Rs. } 1,315.07$

### **Summary**

- Term Loans: Penal interest applies only to overdue principal.
- OD Over Limit: Penal applies on the excess amount.
- OD Expired: Penal applies on the full overdrawn balance.