

FAQs on Refund of Interest on Interest – V1.0.0

Q1. What is the “Interest on Interest Refund” guideline as released by IBA & RBI?

Supreme Court has pronounced a judgement in March 2021 wherein it has directed that compound / penal interest charged on loans during the moratorium period be refunded. Accordingly RBI directed financial institutions to refund difference between compound and simple interest charged on loan accounts which availed moratorium period of March 2020 to August 2020. Indian Banks Association (IBA) laid down the detailed guidelines in April 21 which are to be followed by institutions.

As part of the COVID-19 package announced by RBI in March 2020 (and extended in May 2020), customers who had a loan outstanding as on 29th February 2020 which was less than 90 DPD as on 29th February 2020 were given a relief of one time moratorium of repayment for a cumulative period of 6 months i.e. from March 2020 to August 2020. During the moratorium period, the customers were exempt from making any payment to the lender. During moratorium, the lenders compounded the interest due on a monthly basis. Thus, the loan outstanding at the end of moratorium period included the outstanding principal at the beginning of the moratorium and the compound interest thereon for the months for which moratorium was availed, termed as “Interest on Interest”- difference between the simple interest and the compound interest charged during moratorium period.

PNBHFL had also compounded the interest for the moratorium period for the customers who availed the moratorium. Accordingly the Interest on interest will be refunded.

Q2. Which all loans/facilities are eligible for refund under the RBI Circular?

All “standard accounts” have to be given the benefit of relief. The determination date for this purpose is 29th Feb., 2020. That is, the days past due (DPD) status should be less than 90 DPD as on 29.02.2020 (“Eligible Accounts”).

Accounts not eligible for Relief under RBI Circular:

- Accounts classified as NPA as on 29 February 2020 ;
- Loan facilities which were charged with simple interest ;
- Accounts already refunded interest on interest under ex-gratia scheme of Nov’20* ;

Thus,

i) Refund will now be given in those loan accounts (standard as on 29.02.2020) which were left out in the Ex-Gratia 1 scheme of Oct-Nov 2020. This will include ;

a. All Loans* (standard as on 29.02.2020) where the exposure (disbursement) was > INR 2 crore.

b. All Loans* (standard as on 29.02.2020) where the exposure (disbursement) was <= INR 2 crore but the market exposure (basis CIBIL) was > INR 2crores.

* Both retail and corporate finance loans will be eligible

ii) Loans irrespective of whether they availed the moratorium or not will be eligible. However, interest on interest is to be refunded only if it was charged. Not applicable on PNBHFL since no interest on interest was charged in such cases.

Q3. If an exposure was standard on 29 Feb 2020 but became NPA in the next few months, will we process refund?

Yes, As loan was standard (not a NPA) on 29/02/2020 and had availed the moratorium, it will be eligible for refund of interest on interest irrespective of the fact that it became a NPA later on.

Q4. In case a Customer did not avail the moratorium in respect to the loan facility and defaulted on its EMI during the moratorium period, will he/she be covered under the RBI Circular?

The refund of interest on interest is available to the Borrower under RBI Circular, irrespective whether the moratorium has been availed or not by such Customer. However, as per the detailed guidelines of IBA, the interest on interest is to be refunded only if it has been charged.

PNBHFL does not charge compound interest on normal loans. Thus, no interest on interest was charged on loans which did not avail the moratorium. Hence, no refund is due on such accounts.

Q5. Will penal interest charge during this period will be refunded?

During moratorium period, charging of penal interest was suspended in all PNBHFL loan accounts for the moratorium period. Accordingly, no refund /waiver will be processed.

Q6. What calculation methodology has been used for arriving at the Interest on Interest amount?

- a) The calculation of interest on interest has been done on daily balance. Any subsequent disbursement/ prepayment made during the moratorium period has been considered for calculation.
- b) Actual interest rate prevailing as on a specific date has been considered for calculating interest on interest. Any change of rate taken place during moratorium period has been considered.
- c) The interest on interest will be refunded only to the extent that it has been charged. For partial moratorium cases (customers who took moratorium for less than 6 months) and for the foreclosed cases (paid off during moratorium period), the interest on interest will be refunded only for the period of moratorium when the compound interest was charged and the loan was live.

Q7. What is the exact manner of passing on the benefit to the Borrower? Is it merely a credit to the account of the borrower, or does it lead to any cash benefit being transferred to the borrower?

In case of Live loan account, the benefit amount will be given in the form of pre-payment by adjusting the differential amount with the future payables by the borrower.

In case of Closed loan account, the benefit amount shall be refunded in the form of remittance to the borrower's repayment account as updated in our records.