

Interest on interest waivers: eligibility & how much can you save?

1) Who is eligible for a refund of the Compound interest of the Moratorium period?

The Moratorium relief plan announced recently is designed to provide a reimbursement or rebate to those consumers who have been effectively charged 'double interest'. To clarify, owing to the unprecedented lockdown, many borrowers faced difficulty in maintaining their EMI payments or even paying at all. This was owing to the financial hardship induced mainly because of redundancies & retrenchment from employment. Hence there will be many customers who would be eligible for a refund for the extra interest paid on existing interest for loans & even credit cards, subject to the following criteria being fulfilled. By doing so, simple & compound interest can be differentiated, as many would've ended up paying higher interest especially in the infancy of loans, as per the reducing rate on principal amounts. This accrued interest is added to the original amount owed, attracting even further interest. A vicious cycle!

- The borrowed amount must not exceed Rs. 2 Crore (assessed by the lender itself, as well as collaboration with credit information bureaus for multiply sourced lending)
- This scheme applies to MSME, educational, housing, consumer durable EMI purchases & automobile loans. Furthermore, consumption loans - including personal loans, credit card dues and professional loans are also included
- This will only cover interest payments over the 6 month period from 1st Mar to 31st Aug 2020 (effective calculation commences from 29th Feb)
- Loans taken against any FDs (fixed deposits) will NOT be eligible for consideration in this scheme, as will any taken against security (especially by market position traders)
- Additionally, bonds & company shares will not be considered under this waiver policy
- Any outstanding debt, irrespective of whether or not the former moratorium benefit (loan waiver scheme) was availed will still be eligible (provided that this doesn't fall into any of the aforementioned exempted categories). The ex-gratia payment will be automatically credited to any eligible accounts
- As an extension of the aforesaid, even borrowers who have outstanding debt of upto but not exceeding 90days are also eligible for this scheme. These are known as special mention accounts, as long as they don't fall under the NPA category

2) What is the amount of refund and how it will be calculated?

The interest is calculated simply as the difference between compound & simple interest over the six month period covering 1st Mar to 31st Aug 2020. Essentially, this can be treated as retrospective compensation for the controversial interest upon interest which was levied by lenders during most of the lockdown (well almost throughout actually). The interest refund (differential) will exclude any penalties & will be directly credited to the borrower's account. To exemplify, for a 50L home loan to be paid over a 20 year period, a saving of approximately Rs. 3,700 per month as interest on interest can be claimed as a refund. Another example is taking a car loan of 9L over a 6 year tenure at an interest rate of 10%. Over here, one could expect to save around Rs. 900 per month as per the refunded extra EMI interest. One more

scenario to put this into context. You take a 5L loan to be repaid over 4 years at 13% interest rate. Here, you can save around Rs. 700 per month. This way, in each of these cases, the total outstanding debt can be revised & adjusted accordingly.

As these are fairly nominal amounts, experts advise aiming to pay about 20% extra as a one off payment to cover this moratorium period. This will help to bring your pending, missed or late EMIs back in order, without creating a large hole in your pocket. The interest refund will normally be applied as an equivalent reduction in your overall principal plus routine interest outstanding amount. This will be reflected in the revised balance.

Referring back to the the 2 Cr figure, this will be factored into account as being the aggregate or overall limit of all borrowings taken by an individual. Hence, if there are multiple loans & credit taken or suchlike, the total amount should not exceed 2 Cr (as already mentioned).

3) How to apply for a refund of compound interest for the moratorium period?

Some welcome news for all those worried borrowers: you needn't do anything. As long as you satisfy the criteria mentioned earlier, you'll be automatically enrolled on this scheme. Hence, your bank or lending institution will contact you & refund the requisite amount directly to you (in the form of adjusting your balance or into a specified account). As aforesaid, this is independent of whether you voluntarily or manually applied for the moratorium earlier in the year when it was launched. Doing so would have no detrimental effect on your rights as a consumer in this case.

4) Is it also available on a credit card?

Credit card holders will be eligible under this scheme as well, provided that their accounts are NOT in credit (i.e. they have exhausted their entire limit & have no scope to borrow or spend any further - but rather owe funds on a bill). Therefore, the rate will be calculated based on the overall outstanding debt which is then segmented into EMI payments (instead of any revolving balances).

5) What will be the rate of interest for this calculation?

In most scenarios, the interest component to be refunded will be the contracted rate, as specified in the loan agreement documentation applicable as of Feb 29th 2020. In cases where interest isn't charged via EMI (equated monthly instalments) over a specified period, this may be applied at the MCLR/ base rate, as applicable.

Moreover, for those who've closed their accounts during this period, as long as they satisfy the above criteria, they'll also be eligible for consideration under this policy. Naturally, the rate will be calculated from 1st Mar until their account closure date, when payments ceased. The rebate will be credited to the customer's normal or nominated savings or current account, whereas for live running loans (still being repaid), this will be paid into the loan account itself. In either case, the balance will be adjusted accordingly. As aforesaid, in case of the borrower not holding any

account with the associated lender, they may instruct them to pay into whichever account they may choose. This elective protocol ensures both fairness as well as flexibility.

6) When will I receive the refund of compound interest of the Moratorium period?

Rest assured, only simple interest will be applied on the pending amount to be recovered: not compound. This provides relief to the many overwhelmed borrowers out there. Borrowers can expect to receive the eligible credit amount by 5th Nov, whilst the lenders should apply for this refund (to be issued by the RBI) by mid Dec 2020. When banks & other financial institutions will actually receive their part remains unclear. Respective banks/lenders will follow the RBI guidelines & process this by formulating notifications to their customers, as per their format.