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Compound Interest Waiver on Moratorium Loans

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Why in News

Recently, the Government of India has announced the scheme for the **waiver of compound interest** that was payable by the borrower who had opted for **loan moratorium** between 1st March 2020, and 31st August 2020.

- The **Reserve Bank of India (RBI)** had in March 2020 offered a **three-month moratorium on loans**, enabling borrowers to defer repayments on EMIs and other loans. This was later **extended by another three months**, till 31st August 2020.
- The loan moratorium, and waiver of compound interest, was aimed at providing borrowers relief amid the economic impact of the **Covid-19 pandemic**.

Festive respite

Banks will credit compound interest levied on loans up to ₹2 crore between March 1 and August 31 back to borrowers by November 5

LOANS COVERED:

- Home
- Education
- Consumer durables
- Automobiles
- Credit card dues
- Loans to micro, small and medium enterprises

CONDITION: Aggregate of all outstanding loans must not exceed ₹2 crore

- Eligible borrowers will get benefit irrespective of whether they availed the moratorium or not
- Lenders have been asked to set up grievance redressal system for the scheme within a week
- The government will reimburse banks and NBFCs after they credit loan accounts and submit claims



Key Points

- **Compound Interest Waiver Scheme:**

Under this, the government will grant **eligible borrowers ex-gratia payment** of the difference between the compound interest and simple interest for the six-month moratorium period.

- **Ex-gratia payment** is the money which is paid due to moral obligation and not due to legal obligation.
- **Simple interest** is levied **only on the principal amount** of a loan or deposit. In contrast, **compound interest is levied on the principal amount and the interest** that accumulates on it in every period.

- **Eligibility:**

- The scheme shall be applicable for **loans availed by Micro, Small and Medium Enterprises (MSMEs)** as well as **loans to retail customers** for education, housing, consumer durables, automobiles, **provided a borrower has an aggregate outstanding loan of Rs. 2 crore or less**, from all such loans.

Credit card dues have also been included in the scheme's ambit.

- The **loan interest waiver payment** shall be admissible, **irrespective of whether the borrower had availed the moratorium partly, fully, or not at all.**
- However, this would only be permitted for **loan accounts that had not been reported as Non-Performing Assets (NPAs)** as on 29th February 2020.
A loan is recorded as a non-performing asset or NPA, 90 days after repayments become overdue.

- **Effect:**

- The **amount saved** through loan interest waiver **will be very small.** This is because only the **interest that would have been charged on the interest of the original loan** during the six months moratorium period is waived off.
- In other words, the **loan repayment will continue** and one will still need to pay the **simple interest** that would have paid if not opted for the loan moratorium.

It is only the compounding interest that goes off.

- **Implementation:**

- Lenders have been asked to set up a grievance redressal mechanism for eligible borrowers under the scheme by 30th October 2020.
- A mechanism has also been put in place for lenders to claim the amount back from the government. Lenders have to submit claims for reimbursement by 15th December 2020 through a special cell set up in the State Bank of India (SBI).

Source: TH