**Understanding the Penal Rate**

A penal rate, often referred to as a late payment penalty or default interest rate, is an additional interest charge imposed by the lender when a borrower fails to make timely payments on a loan. It is typically expressed as a percentage above the regular interest rate agreed upon in the loan agreement. At CedisPay, we believe in transparency, and we'd like to help you understand how the penal rate is calculated.

**Calculating Penal Interest at CedisPay**

In our facility letter, we have outlined the method for calculating late payment charges. The penal interest is computed as follows:

1. **10% per Annum of the Prevailing Interest Rate:** We add 10% per annum of the current interest rate to the regular interest rate.

For instance, if the prevailing interest rate is 36% per annum, and your payment is more than 30 days overdue for monthly payments or more than 7 days overdue for weekly payments, the penal interest rate becomes 36% + 10% = 46% per annum.

**Late Payment or Penalty Rate**

The penal rate is applicable when your payment is delayed beyond one payment cycle. For weekly payment cycles, this is 7 days, and for monthly payment cycles, it's 30 days. When a delay occurs, a penalty is applied, but it's important to note that this penalty is calculated on the amount that is overdue, not on the entire outstanding balance.

**Illustration – How Penal Interest Works**

Let's walk through an example to illustrate how penal interest is calculated:

Assume you have a loan of GHS 10,000 with an annual interest rate of 36% (3% per month). The loan agreement specifies a penal rate of 10% above the regular interest rate for late payments.

* Regular Interest Rate: 36% per year
* Penal Rate: 10% above the regular rate, so 46% per year

Now, let's calculate the penal interest for a late payment:

1. **Regular Interest for the Loan:** Calculate the regular interest for the entire loan amount: Regular Interest = (10,000 \* 36) / 100 = GHS 3,600 per year
2. **Penal Interest for the Late Payment:** Calculate the penal interest for the overdue amount: Penal Interest = (10,000 \* 46) / 100 = GHS 4,600 per year

Now, if a borrower makes a late payment and owes interest for, let's say, 15 days, you can calculate the daily penal interest rate:

* **Daily Penal Interest Rate:** Divide the penal interest by 365 days to get the daily rate. Daily Penal Interest Rate = Penal Interest / 365 Daily Penal Interest Rate = 4,600 / 365 ≈ GHS 12.6 per day

For the 15-day late payment, the penal interest would be:

* **Penal Interest for 15 Days:** Multiply the daily penal interest rate by the number of days overdue. Penal Interest for 15 Days = Daily Penal Interest Rate \* Number of Days Penal Interest for 15 Days = GHS 12.6 \* 15 ≈ GHS 189

We hope this explanation clarifies how the penal rate is calculated and how it is applied in case of late payments. If you have any further questions or need additional information, please feel free to reach out to us. At CedisPay, we are committed to ensuring transparency and providing the support you need.

Best regards,

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