FEDBANK FINANCIAL SERVICES LIMITED

INTEREST RATE POLICY

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Background

The Reserve Bank of India (RBI) vide its circular No. DNBS.PD/CC.No.95 /03.05.002 /2006-07 dated May 24, 2007 had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.

In continuation of aforesaid instructions, Reserve Bank has in exercise of powers under Section 45 L of the RBI Act, 1934 issued following directions on January 2, 2009 vide circular no. DNBS (PD) C.C. No. 133 /03.10.001/ 2008-09:

a. The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium etc. and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

b. The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest

c. The rate of interest should be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

In compliance with the requirement of RBI and Fair Practices Code adopted by the Company, the company has outlined the following interest rate policy and Company's approach for gradation of risk with respect to Lending business.

Business Model and cost:

Fedfina currently offers secured products to its borrowers. In future, the company may also offer unsecured products like business loans, personal loans etc. Fedfina sources it business through branches, direct selling agents, intermediaries and source loan directly through its employees.

The tenure for the products offered by the company ranges from tenure upto / less than 12 months (for Gold loans) and tenure of upto 180 months for Loan against Property (LAP).

While arriving at rate of interest and charges applicable for a particular product the company needs to take into account the cost incurred by it for sourcing, underwriting and servicing throughout the tenure of the loan alongwith borrowing cost and credit loss

The costs incurred by the company from acquisition of the customer till termination of the loan are as follows:

- acquisition cost
- verification cost (field investigation, RCU, credit bureau, legal, valuation etc)
- credit appraisal
- distribution
- infrastructure cost
- finance cost
- post disbursement customer servicing cost
- collection cost
- storage and record keeping
- management cost
- credit loss towards bad loans etc

Some of the costs are customer specific and the company is required to incur these even if the application for the loan is rejected or the borrower post due diligence decides not to avail loan from the company.

Interest Rate Model:

- The rate of interest for the products shall be fixed taking into account different factors like cost of funds, tenure, asset-liability mismatch, operating cost, expected credit loss, return on assets, return on equity, competition etc.
- The product frame and the risk premium would depend on the behaviour of the portfolio / industry portfolio and internal assessment of the credit strength of the borrower.
- Fedfina shall offer fixed, floating and part fixed – part floating (fixed for initial period and then floating rate) rate of interest for its products
- Floating rate of interest will be benchmarked to Floating Reference Rate (FRR).
- Rate of interest for the products shall be reviewed at regular intervals taking into account cost of funds, market outlook, offering by competition, credit loss etc.
- Rate of interest shall be communicated to the borrowers through sanction letter, loan agreement, any other document executed between the borrower and the company.
- In addition to the normal rate of interest, the company may also levy certain charges (like processing fees, cheque bouncing charges, pre-payment charges etc.) or additional interest/penal interest for default in payment of dues. The details of all charges shall be mentioned in the loan agreement or any other document executed between the company and the borrower.
- Rate of interest and charges will be communicated to the borrower at the time of availing the loan. Any changes in the rate of interest or charges shall be intimated to the borrower individually or displayed on the website of the company.
- The rate of interest and charges will not be standardised for all the borrowers and will be dependent on risk perceived by the management on case to case basis.

Gradation of risk:

The risk premium attached to the borrower shall be assessed by the management from time to time, broadly based on the following factors:

- Profile of the customer, financial strength and market reputation of the borrower.
- Nature of product, portfolio behaviour of the product, default risk in the business segment
- Tenure of loan, moratorium, historical performance of clients / or similar clients
- credit bureau score
- loan to value ratio / security cover
- relationship with the company (existing or new)
- nature of security / value of security
- regulatory stipulations, if any
- any other parameter relevant for the case.

Fixing of Minimum & Maximum range of interest rates, other fees and charges

The company shall formulate range of Minimum & Maximum interest rates, other fees and charges for each product which shall be in compliance of the regulatory framework wherever applicable. The same shall be placed before the ALCO for approval. The ALCO shall review the same from time to time & make changes as may be required.

Review of the Policy

The Policy shall be placed before the Risk Management Committee and the Board (after placing it before the ALCO) for review at least once in a year.

Applicability

The policy shall be effective from the date of Approval by the Board of Directors

Custodian of the Policy

The Policy team of the Credit & Risk department shall be the custodian of the policy.