INTEREST RATE POLICY

Version 3.0

Document Title	Interest rate Policy
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Document Owner	Risk Management Department
Document Approver	Board of Directors

Review:

Version	Last review Date
Version 1.0	April 26, 2018
Version 2.0	June 29, 2021
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Background

The Reserve Bank of India (RBI) vide its Master Direction RBI/DNBR/2016-17/45 dated Sep 1, 2016 (updated from time to time)had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In light of the RBI guidelines and Fair Practices Code adopted by Fedbank Financial Services Limited (hereinafter referred to as Fedfina or "the Company"), The Interest Rate Policy has been laid down with respect to lending business.

a. Fedfina has adopted 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 Fedfina 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.

Business Model and cost:

Fedfina currently offers secured and unsecured products to its borrowers. Fedfina sources its business through branches, direct selling agents, intermediaries and also sources loans directly through its employees or through approved Sourcing and Servicing Agents.

Original tenure for the products offered by the company is outlined below:

Product	**Max Tenure**
Gold Loan	Upto 12 months
Loan Against Property (LAP)	Upto 180 months
Home Loan	Upto 300 months
Business Loan/Personal Loan	Upto 60 months
Wholesale Products	Upto 72 months
Microfinance loans	Upto 24 months

Maximum interest rate & maximum processing fees to be charged to customers:

Product	**Maximum ROI (% p.a.)**	**Maximum Processing fees**
Gold Loan	36%	0.5% of loan amount
Loan Against Property (LAP)	21%	3.5% of loan amount
Home Loan	19%	3.5% of loan amount
Business Loan/Personal Loan	24%	4% of loan amount
Construction Finance	23%	4% of loan amount
Structured Finance	23%	4% of loan amount
Microfinance loans	30%	1% of loan amount

While arriving at rate of interest and charges applicable for a particular product the company takes 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
- People Cost
- 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 after taking into account all or a combination of different factors like cost of funds, tenure, asset-liability mismatch, operating cost, expected credit loss, return on assets, return on equity, competition pricing, etc.
- Product-wise risk premium would depend on the behaviour of the portfolio / industry portfolio and internal assessment of the credit strength of the borrower.
- Fedfina may 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.
- Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan agreement.
- 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 during a given period and will be dependent on risk perceived by the Company on case to case basis.

- In case of staggered disbursements, the rate of interest would be subjected to review and the same may vary according to the prevailing rate at the time of disbursement or as may be decided by the Company

Gradation of risk:

The risk premium attached to the borrower shall be assessed by the Company 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
- Ticket size of loan, 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
- Location delinquency and collection performance
- Secured Vs unsecured loan
- regulatory stipulations, if any
- any other parameter relevant for the case

Processing Fees and other charges

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.) The details of all charges shall be mentioned in the loan agreement or any other document executed between the company and the borrower.

Note: The Company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned for purposes other than business to individual borrowers with or without co-applicant(s). (RBI DNBR (PD) CC.No.101/03.10.001/2019-20 dated August 2, 2019)

Penal Interest /Late payment charges

Besides normal interest, the Company may collect penal interest / late payment charges for any delay or default in making payments of any dues. These penal interest / late payment charges for different products or facilities would be decided by the Company from time to time.
The Company shall mention the penal interest in bold in the loan agreement.

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

The company shall formulate a 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.