

# INTEREST RATE POLICY

## Version 5.0

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Review:

<b>Version</b>	<b>Last review Date</b>
Version 1.0	April 26, 2018
Version 2.0	June 29, 2021
Version 3.0	May 24, 2022
Version 4.0	May 26, 2023
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## Background

The Reserve Bank of India (RBI) vide its **Master Direction – Reserve Bank of India (Non-Banking Financial Company– Scale Based Regulation) Directions, 2023** RBI/DoR/2023-24/106, DoR.FIN.REC.No.45/03.10.119/2023-24 dated Oct 19,2023 ((updated from time to time) had advised the Board of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In addition, Board of NBFCs to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. 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.

- 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.
- The rates of interest and the approach for gradation of risks shall also be made available on the website of Fedfina. The information published in the website should be updated whenever there is a change in the rates of interest.
- 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.

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

Product	Max Tenure
Gold Loan	Upto 36 months
Loan Against Property (LAP) – Medium Ticket	Upto 180 months
Loan Against Property (LAP) – Small Ticket	Upto 180 months
Home Loan	Upto 300 months
Business Loan/Personal Loan	Upto 60 months

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

Product	Maximum ROI (% p.a.)	Maximum Processing fees
Gold Loan	28%	For Loan Upto 10K – upto Rs. 200. For rest - 0.5% of loan amount
Loan Against Property (LAP) – MT	19%	2.5% of loan amount
Loan Against Property (LAP) – ST	23%	2.5% of loan amount
Home Loans	23%	2.5% of loan amount
Business Loan/Personal Loan	24%	3% of loan amount

Note: Rate of interest above will not have any other component.

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
- Exposure of the Customer
- 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).

**Penal Charges /Late payment charges**

(Reference - RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24

Subject - Fair Lending Practice - Penal Charges in Loan Accounts)

Besides normal interest, the Company may collect penal charge / late payment charges for the following scenarios:

1. For any delay or default in making payments of any dues
2. For any non- compliance of material terms and Conditions as explained in Loan Agreement

These penal charges / late payment charges for different products or facilities is defined below:

<b>Product</b>	<b>Penal Charges (p.a.)</b>
Gold Loans	12%
Loan Against Property (LAP) – Medium Ticket	36%
Loan Against Property (LAP) – Small Ticket	36%
Home Loan	36%
Business Loan/Personal Loan	36%

The Company shall mention the penal charges in bold in the loan agreement.

There shall be no capitalisation of penal charges i.e., no further interest computed on such charges.

The quantum and reason for penal charges shall be clearly disclosed to the customers in the loan agreement and most important terms & conditions (MITC) / Key Fact Statement (KFS) as applicable, in addition of displaying on Fedfina website under Interest rates and Service Charges.

#### **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.

#### **Reset of Floating interest rate transactions for Personal Loans<sup>1</sup>**

<sup>1</sup>Personal Loans for this purpose is defined in the Annex to the circular on 'XBRL Returns – Harmonization of Banking Statistics' dated January 04, 2018.

<b>Data Element</b>	<b>Harmonised Definition</b>
Personal loans	Personal loans refers to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.).
Consumer Credit	Consumer credit refers to the loans given to individuals, which consists of (a) loans for consumer durables, (b) credit card receivables, (c) auto loans (other than loans for commercial use), (d) personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR(B)), shares and bonds, etc., (other than for business / commercial purposes), (e) personal loans to professionals (excluding loans for business purposes), and (f) loans given for other consumptions purposes (e.g., social ceremonies, etc.). However, it excludes (a) education loans, (b) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), (c) loans given for investment in financial assets (shares, debentures, etc.), and (d) consumption loans given to farmers under KCC. For risk weighting purposes under the Capital Adequacy Framework, the extant regulatory guidelines will be applicable.

**Accordingly, Following Fedfina products falls under the above definition of Personal Loans for Floating rate:**

<b>Product</b>	<b>Remarks (Only floating rate loans)</b>
Loan Against Property – Medium Ticket	Constitution – Individual and Loan Purpose other than business use
Loan Against Property – Small Ticket	Constitution – Individual and Loan Purpose other than business use
Home Loan	Constitution – Individual

**Reset guidelines:**

1. Reset of loans will be applicable for Floating rate loans and option to switch to Fixed rate loan will be available, only when the particular product is offered under Fixed rate loan.
2. Fedfina will clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both through sanction letter. Subsequent to this, any increase in EMI/tenor or both on account of the above shall be communicated to customer immediately.
3. For the loans under floating rate loans, Fedfina will offer option to switch to Fixed rate loan thrice in the complete loan tenure.
4. The borrowers will be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant Fedfina guidelines.
5. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter. Additionally, in terms of revision of such charges/ costs, Fedfina will update the same on Website.
6. During reset of rate, Fedfina will ensure that there is no loan where there is negative amortisation.
7. Fedfina will share / make accessible to the borrowers a statement at the end of each quarter, through appropriate channels
8. This will be applicable for all new and existing customers.

**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.