

<b>Interest Rate Policy</b>	
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Oversight Committee	ALCO of the Board
Policy owner	Operations Department
Policy implementation authority	Head, Operations Department
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<b>Entity Applicability</b>	
<b>Entity</b>	<b>Effective date</b>
Grameen Development and Finance Private Limited	9 <sup>th</sup> November 2015
<b>Document Owner</b>	
<b>Name</b>	<b>Designation</b>
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01/06/2022	Saumya Siddhartha Mohan	Changes according to Master Direction-RBI (Regulatory Framework for Microfinance Loans) Directions 2022, dated March 14, 2022	2.0

**Preamble:**

This has reference to RBI Circular RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22. dated March 14, 2022, wherein the Reserve Bank of India (RBI) has advised the Board of REs to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges.

In order to ensure its standards of transparency, in conformity with the stipulations of the RBI's directives, the Board of Directors of Grameen Development and Finance Private Limited ("Company") have approved the following Interest Rate Policy which outlays the internal procedures in determining interest rates as per the requirement of the Reserve Bank of India;

**Interest Rate Policy:**

Management of Grameen Development and Finance Private Limited shall take cognizance of following factors while determining interest rates and other charges;

**1. Objective of the policy:**

To arrive at the benchmark rates to be used for different category of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers.

**2. Review of Policy**

The Policy shall be reviewed once in a year or in between if required due to changes required in the model, for example any addition/deletion of a particular component forming part of benchmark calculation.

**3. Governance**

- 3.1. The interest rates for each of the loan product would be decided from time to time by board of directors or any committee empowered by the Board in this behalf.
- 3.2. The average yield on loan products and minimum rate of interest under each product line would be decided from time to time by the board of directors or any committee empowered by the Board in this behalf.
- 3.3. The interest re-set period would be decided by the company from time to time.
- 3.4. The interest would be charged generally on monthly rests or such other interval as may be decided by the management.
- 3.5. Company shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.
- 3.6. The interest rate models, base rate and other charges applicable from time to time to be hosted on the website and updated from time to time.
- 3.7. In case of staggered disbursements, the rates of interest would be subjected to review and the same may vary according to the prevailing rate at the time of disbursements or as may be decided by the company.
- 3.8. The features of the policy to stand auto corrected with directives/ guidelines if any from RBI from time to time.

**4. Pricing Model**

- 4.1. Pricing would be based on the cost of borrowed funds, matching tenor cost, market liquidity, refinance avenues, RBI policies on credit flow, tenure of customer-relationship, market reputation, cost of disbursements, cost of capital required, inherent credit and default risk in the products and customer per se arising from customer segment, profile of the customers, professional qualification, stability in earning and employment, subventions and subsidies available, deviations permitted, ancillary business opportunities, future potential, group strength and value to lender group, overall customer yield, nature and value of primary and collateral securities, past repayment track record of the customers, external ratings of the customers, industry trends, switchover options, canvassed accounts etc.
- 4.2. The company shall adopt discrete interest rate model whereby the rate of interest for same product and similar tenor availed during same period by customers would not be a

standardized and identical one but could be different for different customers depending upon consideration of any or combination of a few or all factors listed out in point 2.1 above.

- 4.3. The interest rates would be offered on fixed, floating, variable basis. The base rate for the floating rates would be decided on periodic intervals not less than a month.
- 4.4. Interest is calculated on the amount utilized by the Customer
- 4.5. The practices followed by other competitors in the market would also be taken into consideration while deciding the charges.
- 4.6. The company will calculate prime interest rate quarterly or any other interval as be decided by the Board or any committee empowered by the Board in this behalf.
- 4.7. Prime interest rate will be calculated with Prime Interest Rate model. (Annexure 2). Prime Interest Rate = (Finance Cost + Operations Expense + Loan Loss + Risk Premium + Profit Margin)

## **5. Communication Framework**

- 5.1. Interest rates, processing and other charges would be intimated to the customers at the time of sanction/ availing of the loan and the EMI apportionment towards interest and principal dues would be made available to the customer.
- 5.2. The annualized rate of interest would be intimated to the customer.
- 5.3. Company shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet. (Illustration of factsheet is in Annexure 1)
- 5.4. Any fees to be charged to the microfinance borrower by the Company and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- 5.5. The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.
- 5.6. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
- 5.7. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a mode and manner deemed fit.
- 5.8. Company shall provide a loan card to the borrower which shall incorporate the following:
  - 5.8.1. Information which adequately identifies the borrower;
  - 5.8.2. Simplified factsheet on pricing;
  - 5.8.3. All other terms and conditions attached to the loan;
  - 5.8.4. Acknowledgements by the RE of all repayments including instalments received and the final discharge;
  - 5.8.5. Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE and RBI Ombudsman (For applicable REs)
- 5.9. Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself. Clients shall not be bundled Third party products.

## **6. Late payment, advance payment, additional charges and penalty**

- 6.1. Besides normal interest, the company may levy additional / penal interest for delay or default in making payments of any dues. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount. These additional or penal interests would be decided and communicated during the business agreement with the customer.
- 6.2. No interest is payable on Advances/Excess payment made by Customer. There shall be no pre-payment penalty on microfinance loans.
- 6.3. The interest shall be deemed payable immediately on debits and no grace period for payment of interest.
- 6.4. Besides normal interest, the company may levy additional interest for adhoc facilities, penal interest for any delay or default in making payments of any dues. The rates of additional or penal interests for different products or facilities would be decided by the respective functional / product heads.
- 6.5. Besides interest, other financial charges like processing fees, cheque bouncing charges, pre payment/ foreclosure charges, part disbursement charges, commitment fees, charges on various other services like issuing NO DUE certificates, NOC, letters ceding charge on

assets/ security, security swap & exchange charges etc. would be levied by the company wherever considered necessary. Besides the base charges, the Goods & Service Tax (GST) and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided upon by respective product heads in consultation with Operations, Finance and Legal.

- 6.6. In case deemed fit the company may consider necessary moratorium for interest payment and repayment of principal with proper built in pricing.
- 6.7. No claims for refund or waiver of such charges/ penal interest / additional interest would normally be entertained by the company and it is the sole discretion of the company to deal with such requests if any.
- 6.8. In case the due date falls on a holiday or Sunday, it shall be deemed to fall due on the next subsequent day.

#### **7. Ceiling on interest rate and all other charges**

- 7.1. Interest rates and other charges/ fees on microfinance loans shall not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.
- 7.2. Ceiling on interest rate and all other charges would be decided from time to time by board of directors or any committee empowered by the Board in this behalf.
- 7.3. The Company will charge annual interest rate which will be equal to calculated prime interest rate minus 3 till further review.
- 7.4. There will be interest rate cap of 26% per annum till further review.
- 7.5. In case of lending agency proving low cost fund with clause to charge interest rate lower than prevailing interest rate and to transfer the benefit of low interest rate to borrowers, the company may charge interest rate lower than the prevailing interest rate.
- 7.6. Loan processing fee will be capped at 1% of loan amount till further review.
- 7.7. Expenses on CB check, E-KYC, Documentation, Other Loan origination charges if any will be capped at Rs. 250/- only till further review.
- 7.8. GST will be levied according to applicable rate.
- 7.9. Insurance Premium will be taken on actual basis as given by concerned insurance company.

#### **8. Amendments to the Interest Rate Policy**

The Board is authorized to review and make appropriate changes to the Interest Rate Policy from time to time basis the money market scenario in the Country which includes the upward / downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.

**Annexure 1  
Fact Sheet**

**Grameen Development and Finance Private Limited**

Date: .....

Applicant Name:.....

<b>S.No.</b>	<b>Parameter</b>	<b>Details</b>
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	
(a)	Processing fees (in Rupees)	
(b)	GST (in Rupees)	
(C)	Insurance charges (in Rupees)	
(d)	Others (if any) (in Rupees)	
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	
(vii)	Loan term (in months)	
(viii)	Repayment frequency by the borrower	
(ix)	Number of instalments of repayment	
(x)	Amount of each instalment of repayment (in Rupees)	
(xi)	Amount of last instalment of repayment (In Rupees)	
<b>Details about Contingent Charges</b>		
(xii)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xiii)	Penal charges in case of delayed payments (if any)	
(xiv)	Other charges (if any)	

**Annexure 2**  
**Prime Interest Rate Model**

1. Pricing formula:

Prime Interest Rate = (Finance Cost + Operations Expense + Loan Loss + Risk Premium + Profit Margin)

A. **Finance Cost:** (Borrowing Cost-Income from Deposit)/Quarterly Average Borrowings

a. Borrowing Cost may include Interest payment, Arranger fee if any, Processing fee, Documentation charges etc

B. **Operations Expense:** (Personnel Cost including incentive + Travel Cost + Admin Cost + Group Dev. Cost/Training Cost + Depreciation)/Average Portfolio Outstanding.

It is possible that for external factors may adversely impact the growth of portfolio and then operating expense ratio will be more in comparison of an ideal business environment. Therefore an ideal break even portfolio may considered for arriving average portfolio and operating expense ratio.

C. **Loan Loss Reserve:** Average write off % in the past 3-5 years of concerned institution

D. **Risk Premium:** Based on past Portfolio quality of specific clients/client segments/geography/product etc

a. Risk premium could be linked to clients vintage, credit history etc.

b. Risk related to geography could be areas prone to natural calamities, PAR levels, negative areas etc.

c. Risk Premium could also be linked to loan product types based on assessment of past data.

To maintain simplicity of the model, risk premium will not be calculated for every loans individually and risk premium will be equal to provisioning percentage stipulated by RBI in an ideal situation. Currently it is 2% of outstanding loan portfolio.

E. **Profit Margin:** Average of Sector Level RoA (+) or (-) "X" percentage as decided by Board.

F. **Processing Fee:** (Expenses on CB check, E-KYC, Documentation, Other Loan origination charges if any)/Total Loan Amount sanctioned

Prime Interest rate calculation for the 3<sup>rd</sup> quarter ending Dec 31, 2023.

Sl	Parameters	Value
1	Finance Cost	10.83
2	Operations Expense	10.05
3	Loan Loss	02.00
4	Risk Premium	02.00
5	Profit Margin	02.81
	<b>Total</b>	<b>27.69</b>