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# POLICY ON PRICING OF LOANS

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In compliance with the Master Directions of Reserve Bank of India.



FEBRUARY 19, 2022

**DESTINY FINCO PRIVATE LIMITED**

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## 1. INTRODUCTION

Pricing of loans has been one of the most sensitive indicators of treating customer and one of the critical parameters from the perspective of the Regulator. Since, the introduction of regulatory framework in Microfinance space, pricing of loans is a key monitorable factor, which prior to 2022, were defined by Reserve Bank of India, every quarter, as detailed below:

The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the following:

- (a) The cost of funds plus margin; or
- (b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

Reserve Bank of India's harmonized policy Regulations i.e Reserve Bank of India (Regulatory Framework for Micro Finance Loans) Directions 2022, dated March 14<sup>th</sup>, 2022, proposed deregulating the pricing (interest rate charged to customers) for NBFC-MFIs, by putting in place a Board Approved Policy to ensure that microcredit pricing is fair, transparent, and competitive.

This paradigm and strategic shift in the pricing offer an opportunity to lenders especially NBFC- MFIs to frame their individual policies in which would be in the best of interest for both lenders and customers and ensure transparency with all stakeholders.

## 2. MASTER DIRECTION: RESERVE BANK OF INDIA DIRECTIONS 2022: A BRIEF SUMMARY

With an intent to have a unified regulations applicable to all entities working in Micro finance Space, Reserve Bank of India introduced Micro Finance Directions 2022 on March 14<sup>th</sup>, 2022 (harmonized Regulations), which are based on the '*activity of microfinance*' and are uniformly applicable to all type of entities mentioned below, w.e.f., April 01<sup>st</sup>, 2022.

### Main Elements of Microfinance Regulations:

- 1) A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children.
- 2) Each RE shall put in place a board-approved policy for assessment of household income.
- 3) Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 percent of the monthly household income.
- 4) Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness.
- 5) Each RE shall put in place a board-approved policy regarding pricing of microfinance loans.
- 6) Each RE shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet.

7) A fair practices code (FPC) based on these directions shall be put in place by all REs with the approval of their boards.

8) Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training, and monitoring.

9) Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE.

10) Each RE shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers, and providing them necessary guidance about the recourse available.

11) Recovery shall be made at a designated/central designated place decided mutually by the borrower and the RE. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/central designated place on two or more successive occasions.

12) The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process.

### 3. COMPONENTS OF PRICING

DFPL's pricing policy includes, an all-inclusive rate of interest arrived taking into consideration the following:

- (i) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
- (ii) The range of spread of each component for a given category of borrowers; and
- (iii) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

The loans shall not be backed by any collateral, nor will be linked to any security deposit.

#### A. BASIC COMPONENTS

Components in pricing of loans will include, but will not be limited to the sum of following:

1. **Average Cost of Funds:** Cost of funds refers to the cost incurred by DFPL to acquire funds. This include interest rate on which borrowings are availed, the margin offered as collateral, the legal and professional charges, processing fees, stamp charges etc. as may be so applicable.
2. **Operational Cost:** Operating costs are associated with the maintenance and administration of a business on a day-to-day basis which typically includes Administrative Cost, Personnel Cost, Business Development Cost, Depreciation etc.
3. **ALM and credit Cost:** Opportunity Cost to meet Asset Liability and cost of managing idle funds, maintaining adequate liquidity, will be included under this head.
4. **Risk premium:** Risk premium will be added in case of clients covered under risk profile or areas of operations, where additional risk is involved.

5. **Provision of Loan Loss:** Loan Loss Provision is an expense head that DFPL will set aside for default loans, which cover the NPA accounts, bankrupt customers etc.
6. **Desired Surplus Rate:** The margin that we expect, will be calculated and covered under this head.

#### B. OTHER COMPONENTS

1. **PROCESSING FEES:** The Processing Fees on loans to be charged will not exceed 2.00% of the Loan Amount plus GST, in any circumstances, and will be disclosed in the fact sheet. However, benefit in LPF/CMC can be allowed to borrowers with excellent credit history.
2. **INSURANCE CHARGES:** Insurance charges, equivalent to the amount of loan, covering the life of both member and spouse will be collected on actual basis, for the entire tenure of loan. The insurance premium so collected will be paid to the insurance company.
3. **LOAN PREPAYMENT CHARGES:** NO charges will be levied on the prepayment of loans.
4. **LOAN OVERDUE CHARGES:** Additional Interest may be levied on the amount of EMI overdue, in a loan account, in case of delayed payment.
5. **OTHER CHARGES:** Any other component so added in the pricing will be subject to the approval of Board and amendment in this policy and will have a prospective effect only.

#### 4. MINIMUM & MAXIMUM CEILING ON INTEREST RATES

The pricing of loans charged by DFPL, will be regularly reviewed by the Board, and any changes in the pricing will be subject to approval of the Board, and will be made effective prospectively only, with intimation to the Borrower.

However, in no case, the Rate of Interest charged by DFPL on its Microfinance loans, will be:

- a) Less than 24%
- b) More than 36%; exclusive of LPF and Insurance, which is to be borne by the borrower.

#### 5. CONFIDENTIALITY

This policy document and its contents are the sole property of Destiny Finco Private Limited and the right to display the same vests with the policy owner. However, in pursuit of compliance with Reserve Bank of India Master Directions (Regulatory Framework of Micro finance Loans), 2022, the policy document will be displayed on the website of the company <https://destinyfinco.com/> under the tab of Low Interest Rate.

#### 6. MODIFICATION

The policy shall be modified to give effect to the changes in the extant guidelines/directives/instructions that may be advised by the Reserve Bank of India/Government of India from time to time and reporting and ratification/approval of

the Board. The Policy shall also be reviewed/ revised from time to time to adapt to the changing environmental demands and to incorporate and implement any changes in the micro credit strategy of the Company, with the approval of the Board.

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