



## **INTEREST RATE POLICY**

## Preface

The Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 as amended from time to time, has directed all HFCs to put in place a policy on interest rate determination, fee and other charges, etc., and to ensure adequate disclosure and transparency of information on interest rates and charges.

In compliance with the above requirements, Niwas Housing Finance Private Limited (NHFPL / the Company) has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business.

## I. Interest Rate Model

The business model of NHFPL focuses on providing credit only to customers meeting the credit standards of NHFPL. The interest rate applicable to each loan account, within the applicable range is assessed on a case specific basis, based on evaluation of various factors detailed below:

- a) Tenor of the Loan & Payment Terms - term of the loan; terms of payment of interest (viz monthly, quarterly, yearly); terms of repayment of principal; moratorium period, bullet payment etc.
- b) Cost of Borrowing - the rate at which the funds necessary to provide loan facilities to customers are sourced, normally referred to as cost of borrowing.
- c) Acquisition Costs – Acquisition cost includes customer sourcing compensation paid to the sourcing channel, one-time costs for customer acquisition like credit verification costs, property valuation costs, legal title verification costs, credit bureau costs etc.
- d) Operating Costs - These involve the costs of doing business. Factors such as the complexity of the transaction, the size of the transaction, location of the borrower, infrastructure costs and other factors that affect the costs associated with a particular transaction / business / portfolio would be taken into account before arriving at the final interest rate quoted to a customer.
- e) Credit Risk - As a matter of prudence, credit loss (risk) cost would be factored into all transactions. The amount of credit risk cost applicable to a particular transaction depends on the internal assessment of the credit strength of the customer, external track record of the customer, if available. Credit costs also include standard provision on assets to be made in line with regulatory guidelines.
- f) Structuring Premium - A premium may be applied to a loan in case the loan has any significant structuring elements with respect to collateral, or other aspects of transaction structure.
- g) Return on Equity – Return on Equity (ROE) is the compensation expected by shareholders for providing risk capital to the business.
- h) Board / ALCO View & Market Dynamics - Views of the Board / Asset Liability Management Committee (ALCO) constituted by the Board, on product pricing with respect to prevailing interest rates offered by

peer HFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the Board / ALCO, are also relevant factors for determining interest rates to be charged.

- i) Other Factors – Matching tenor cost, market liquidity leading to liquidity premium / discount NHB Policies on credit flow, offerings by competition, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, external ratings, industry trends, switchover options will also be relevant factors in determining interest rate to be charged.

## **II. Approach for Gradation of Risk**

The risk premium attached with a customer shall be assessed *inter-alia* based on the following factors:

- a) profile and market reputation of the borrower,
- b) inherent nature of the product, type / nature of facility, refinance avenues, whether loan is eligible for bank financing, NHB financing, NHB schemes for refinancing, loan to value of asset financed,
- c) tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients,
- d) group strength, overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower,
- e) nature and value of primary and secondary collateral / security,
- f) type of asset being financed, end use of the loan represented by the underlying asset,
- g) interest, default risk in related business segment,
- h) regulatory stipulations, if applicable,
- i) and any other factors that may be relevant in a particular case.

## **III. Rate of Interest and Other Charges:**

- a) Interest rates offered could be on fixed rate basis or floating / variable rate basis or combination of fixed & variable rate (semi-fixed).
- b) In case of floating / variable interest rates, the interest rates will be benchmarked to Niwas Housing Finance Prime Lending Rate (NHFPL-PLR).
- c) The NHFPL-PLR is an estimation of a benchmark interest rate approved by the Board of Directors of the Company or ALCO Committee. The NHFPL-PLR will be reviewed by the Asset Liability Management Committee ("ALCO") and / or as and when recommended by the Management Committee pursuant to any change in micro /macro-economic factors affecting the business of the Company. The estimation and the methodology for calculating the NHFPL-PLR may be changed at any time with the approval of the ALCO. The interest rate chargeable to the borrower is NHFPL-PLR plus/minus margin after taking into account the factors mentioned under the section 'Interest Rate Model' above.

- d) The rate of interest for the same product and tenor availed during same period by different customers need not be standardized. The final lending rate applicable to each customer will be assessed based on various factors as detailed in this Policy.
- e) At present the Rate of Interest to be charged to borrowers, at the time of sanctioning loans, shall be in the range as mentioned below:

Category of Loan	Range of Interest
Housing Loans	8.5% - 20% p.a.
Non-Housing Loans	10.5% - 21% p.a.

- f) Loan amount, Annualised Rate of Interest, method of application, apportionment of installments towards interest and principal dues, prepayment and other charges, and tenure of loan will be communicated to the borrower in the sanction letter or otherwise.
- g) Besides normal Interest, the Company may levy additional charges for adhoc facilities, penal charges / default charges for any delay or default in making payments of any dues or for non-compliance of material terms and conditions of loan contract by the borrower.
- h) Besides interest, other financial charges like processing charges, cheque bouncing charges, pre-payment / foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS / other remittance 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. In addition, the Goods and Service Tax (GST) and other taxes, levies or cess would be collected at applicable rates from time to time.
- i) These charges would be proposed by the Product/Business Team of the Company and decided upon by majority of members of Management Committee.

#### IV. Penal Charges:

- a) The details of penal charges will be mentioned in the loan agreement and communicated in the sanction letter or Key Facts Statement (KFS). However, there will not be any capitalization of penal charges i.e., no further interest computed on such charges.
- b) Further, Management Committee will ensure that these charges are reasonable and commensurate with the non-compliance of material terms and conditions of loan contract and there is no discriminatory charges within a particular loan / product category.
- c) The penal charges applicable to individual borrowers shall not be higher than charged to non-individual borrowers for similar non-compliance of material terms and conditions.
- d) The quantum and reason for penal charges shall be clearly disclosed by the Company to its customers in the loan agreement and most important terms and conditions/ KFS and shall additionally be displayed on websites of the Company under interest rates and service charges.

- e) Whenever reminders for non-compliance of material terms and conditions of loan are sent to its customers/ borrowers, the Company shall communicate penal charges and the reason therefor to such customers/ borrowers.
- f) 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 successive disbursements or as may be decided by the Company.
- g) Claims for refund or waiver of charges including penal charges/ additional interest would normally not be entertained by the Company. It is the sole and absolute discretion of the Company to deal with such requests, if any.

**V. Reset of Floating Interest Rate:**

- a) The rate of interest applicable to each customer is subject to change as the situation warrants and is subject to the management's perceived risk on a case to case basis.
- b) Changes in interest rates would be decided at any periodicity, depending upon change in benchmark rate, market volatility and competitor review.
- c) Intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents. Any revision in interest or other charges would be with prospective effect.
- d) The interest re-set period for floating / variable rate lending would be decided by the Company from time to time, applying the same decision criteria as considered for fixing of interest rates.
- e) At time of re-set of interest rate, the borrower shall be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; (ii) to prepay, either in part or in full, at any point during the tenor of the loan, (iii) switching over to a fixed interest rate which would be determined by the ALCO at the time of such reset. Such option of switching the type of interest i.e. change from floating to fixed or vice-versa shall not exceed two times along with applicable charges.

**VI. Periodic Review**

This Policy is subject to annual review by the Board of Directors of the Company or as and when recommended by the Management Committee.