



POLICY FOR DETERMINING INTEREST RATES, PROCESSING AND OTHER CHARGES

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1. INTRODUCTION

Spandana Sphoorty Financial Limited (herein after referred to as "Company" or "SSFL") is registered as Non Banking Financial Company (NBFC-MFI) with Reserve Bank of India (RBI) and classified as Loan Company based on its asset / income pattern. During the course of its operations, the Company will strictly adhere to various directions, guidelines, circulars, instructions etc. as may be stipulated by RBI from time to time.

RBI had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised that Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. Further, vide circular DNBS (PD) C.C. No. 133 /03.10.001/ 2008-09 January 2, 2009, RBI advised the NBFCs to adopt appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rates of interest to different category of borrowers.

SSFL policies should always be read in conjunction with RBI guidelines, directives, circulars and instructions. The company will apply best industry practices so long as such practice does not conflict with or violate RBI guidelines.

Pursuant to the Second Quarter Review of Monetary Policy in November 2010 and the report submitted by the Malegam committee, the RBI announced that the broad framework of regulations recommended by the Committee has been accepted by the Bank. Accordingly, a separate category of NBFCs viz. Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI) was formed and separate directions were issued vide Notification DNBS.PD.No.234 CGM (US) 2011 dated December 02, 2011 containing the regulatory framework for NBFC-MFIs.¹

The policy of Spandana Sphoorty Financial Limited (SSFL) for determining Interest Rates, Processing and Other Charges is as follows:

2. INTEREST RATE

- The rate of interest shall be based on the cost of borrowed funds, matching tenor cost, market liquidity, refinance avenues, RBI policies on credit flow, offerings by competition, 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.
- The company may adopt discrete interest rate model whereby the rate of interest for same product and tenor availed during same period by customers would not be a standardized one but could be different for different customers depending upon consideration of any or combination of a few or all factors listed out above.
- The annualized rate of interest would be intimated to the customer.
- The interest rates would be offered on fixed, floating, variable basis.
- Interest rates shall be intimated to the customers at the time of sanction/ availing of the loan and the equated installments apportionment towards interest and principal dues shall be made available to the customer.

¹ Inserted based on the Master Circular on NBFC-MFI directions dated July 1, 2015 (as amended upto October 1, 2015)

- Interest changes would be prospective in effect and intimation of change of interest, if any, or other charges would be communicated to customers.
- While designing the Interest Rate Model, all the above factors shall be taken into consideration.

2.1 PRICING OF CREDIT ON MFI LOANS ²

- The margin cap shall be in accordance with the extant guidelines of the RBI and at present may not exceed 10 per cent.
- With effect from the quarter beginning April 01, 2014, the interest rates charged by the Company to its borrowers will be the lower of the following:
 - a) The cost of funds plus margin as indicated as above; 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 Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.
- The Company will ensure that the average interest rate on loans during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap.
- Moreover, while the rate of interest on individual loans may exceed 26%, the maximum variance for individual loans between the minimum and maximum interest rate will not exceed 4 per cent.
- The average interest paid on borrowings and charged by the Company shall be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures will be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.
- However, the condition relating to the maximum variance shall not be applicable to loans borrowed by the Company from National Scheduled Castes Finance & Development Corporation (NSFDC).
- The on-lending to individuals by the Company out of funds of NSFDC shall only be through direct credit to their accounts with banks. Further, the Company shall exclude borrowing from NSFDC in arriving at the average cost of funds of the company for the purpose of pricing of credit, other than to the beneficiaries targeted by NSFDC. For this, the Company shall maintain proper record of funds received from NSFDC and the lending out of those funds. Appropriate disclosures in this regard shall be made in the balance sheet of such the Company. The minimum disclosures shall include quantum of funds received from NSFDC, cost of such funds, loans disbursed there from, rate of interest on such loans and the number of beneficiaries. Further, the Company shall inform the concerned Regional Office of the Reserve Bank of India on appointment as a channelizing agent by NSFDC within one month from the date of such appointment.

3. 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.
- 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.

3.1 PENAL INTEREST / LATE PAYMENT CHARGES ON MFI LOANS³

² Inserted based on the Master Circular on NBFC-MFI directions dated July 1, 2015 (as amended upto October 1, 2015)

- There will be no penalty charged on delayed payment.
- The Company shall not collect any Security Deposit/ Margin from the borrower.

4. PROCESSING / DOCUMENTATION AND OTHER CHARGES

- All processing / documentation and other charges recovered are expressly stated in the Loan documents. They vary based on the loan product, geographical location, customer segment and generally represent the cost incurred in rendering the services to the customers.
- The practices followed by other competitors in the market would also be taken into consideration while deciding the charges.

4.1 PROCESSING / DOCUMENTATION AND OTHER CHARGES ON MFI LOANS ⁴

- Processing charges shall not be more than 1 % of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
- Goods and Service Tax and other applicable taxes shall be charged as per the guidelines issued by the Government from time to time.
- The Company shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

5. OTHERS

12. The interest rate models, base rate and other charges applicable shall be reviewed by the Asset Liability Management Committee (ALCO) periodically and make suitable recommendations to the Board.

6. REFERENCE

- RBI Master Circular RBI/2015-16/20 DNBR (PD) CC.No.047/03.10.119/2015-16 dated July 1, 2015 (As amended up to October 01, 2015)

³ Inserted based on the Master Circular on NBFC-MFI directions dated July 1, 2015 (as amended upto October 1, 2015)

⁴ Inserted based on the Master Circular on NBFC-MFI directions dated July 1, 2015 (as amended upto October 1, 2015)