

# **INTEREST RATE POLICY**

## **Avanse Financial Services Limited**

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## 1. Introduction

**Avanse Financial Services Limited (“the Company”) is a company registered as Systematically Important Non-Deposit taking NBFC with Reserve Bank of India (RBI) and under the Scale based regulation (SBR), the Company is classified as ‘Middle Layer’ NBFC based on the asset size. The Company is predominantly engaged in the business of extending loans linked, directly or indirectly to imparting of education.**

## 2. Regulatory Framework

RBI circular DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and DNBS.CC.PD.No. 320/03.10.01/2012-13 dated February 18, 2013, advised NBFCs to:

- a. lay out appropriate principles and procedures so that usurious interest, including processing and other charges are not levied on loans and advances.
- b. fixing of an appropriate ceiling on the interest & processing fees.

Based on the guidelines and taking into account the Company’s borrower segment, this Interest rate policy has been developed and documented as below.

## 3. Interest Rate Model

The interest rate applicable to any particular kind of loan will be determined with reference to the following factors:

- The Asset Liability Management Committee of the Company will from time to time decide the interest and yield to be charged for each product.
- The rate of interest shall be determined based on the cost of borrowed funds, tenor of loan, liquidity conditions prevailing in the market, cost of operations including administrative costs, credit risk arising from the borrower or pool of borrowers and the minimum margin.
- The rate of interest for the same product and tenor availed during the same period by different borrowers need not be standardized. It could vary from borrower to borrower depending upon consideration of any or combination of above factors.
- Besides normal interest, the company may levy additional/penal interest for delay or default in making payments of any dues. These additional or penal interests may vary for different products. The company shall mention the penal interest charged for late repayment in bold in the loan agreement.

## Private and Confidential

- Interest rates ranging from 9% to 25% are offered subject to discretion of the Management on a case to case basis. Annualised rate of interest is applicable to the loans given by us and disclosed in our Loan documentation executed with the Borrower.

### 4. Our Pricing Strategy

The rate of interest (ROI) on INR loans shall comprise of the following:

- Cost of Funds
- Liquidity cost
- Operating Cost
- Credit Cost and
- Base Return on Assets (ROA)

The above shall be the component of Base rate.

Each component of Base rate is explained below:

- Cost of Funds:** This is the interest expense incurred for borrowing from various sources.
- Liquidity cost:** The liquidity cost charged to the borrowers represents cost in addition to the Cost of Funds. Liquidity cost is the difference between return on investments/ cash and the cost of funds on surplus liquidity maintained.
- Operating Cost:** All operating costs directly associated with the business will be included under this head.
- Credit Cost:** Risk premium to cover perceived default risks pertaining to Loans
- Base ROA:** Base Return on assets is the minimum return expected by the company on its assets.

**Changes in Base Rate would be made at the discretion of the Company depending on the changes mainly in cost of funds. The Base Rate would be presented to ALCO committee atleast twice in a year for their review.**

**This will also be dependent on competition review and liquidity conditions prevailing in the market.**

**Floating ROI = \*Base Rate + \*\*Spread**

**\*Base rate is determined and changed as per this Policy.**

**\*\*Spread is determined individually and is based on analysis of overall credit and borrower profile.**

**5. Ceiling of Interest rate and fees**

The Company shall keep the ceiling of 25% p.a. on interest rates and 5% on processing fees and charges.

**6. Switchover at the time of interest reset**

At the time of reset of interest rate, the Borrower shall be provided with an option to switch over from floating rate to fixed rate.

The Borrower will be allowed to switch over total of 2 times during the tenure of the loan. Interest rate will be decided by the Company at the time of switch over.

Any switch over by the Borrower shall be subject to switch over charges, which shall be as per the schedule of charges displayed on the Company's website from time to time.

**7. Penal Charges in Loan Accounts**

(1) Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' (and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances). There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.

(2) The Company shall not introduce any additional component to the rate of interest charged to the Borrower.

(3) The quantum and reason for penal charges shall be communicated to the customer in the loan agreement, sanction letter and most important terms & conditions / Key Fact Statement (KFS) as applicable.

(4) The penal charges applicable to the Borrowers shall be as per schedule of charges displayed on the Company's website from time to time

## **8. Loan documentation**

The borrower will be given a copy of the loan agreement which will carry details of all charges and Interest Rates. Any non-refundable charges collected from the borrower towards application processing will be recorded in the application form, which is signed by the borrower.

In addition, the borrower will be able to get information on effective rate of interest charged, all fees and charges and the grievance redressal system from the Company's website "www.avanse.com". The same will be prominently displayed in all its offices and in the literature issued by it.

## **9. Risk Delegation / delegation of powers in loan pricing**

The delegation of powers in loan pricing are to be approved by Credit Committee

The content in this policy shall be read in conjunction with FPC guidelines issued by RBI and adopted/amended by the Company from time to time.