

Interest Rates & Gradation of Risk

Preamble:

Reserve Bank of India vide its notification No. DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and vide its Guidelines on FPC for NBFCs

DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26, 2012 have directed all NBFCs to

- Communicate the annualised rate of interest to the borrower along with the approach for gradation of risk and rationale for charging different rates of interest to different categories of borrowers.
- Make available the rates of interest and the approach for gradation of risks on the web-site of the companies.

Rate of interest:

The Company has laid out appropriate internal principles and procedures in determining interest rates and processing and other charges. The Company intimates the borrower, the loan amount and rate of interest, other fees and charges etc. at the time of sanction of the loan along with the tenure and amount of the monthly instalment.

The rates of interest are subject to change as the situation warrants and are subject to the discretion of the management on a case to case basis.

Approach for gradation of risk:

General

The rate of interest is arrived at based on the weighted average cost of funds, administrative costs, risk premium and profit margin.

The decision to give a loan and the interest rate applicable to each loan account is assessed on case to case basis, considering multiple parameters such as the type of asset being financed, borrower profile and repayment capacity, borrower's other financial commitments, past repayment track record if any, the security for the loan as represented by the underlying assets, loan to value ratio, mode of payment, tenure of the loan, geography (location) of the borrower, end use of the asset etc. Such information is collated based on borrower inputs and field inspection by the company officials.

However, the penal charges rate is fixed at 3% pm compounded monthly (previous Rs. 2 per day per thousand or such higher rate as may be specified by the company due to various circumstances stands revised) in respect of the period for which the amount remains overdue. This rate is applicable in respect of each and every loan account until and unless specifically mentioned therein. It is pertinent to mention that normal interest is not chargeable on overdue amount for the defaulted period, when the penal charges are applicable.

In the case of installments at flat rate of interest, the calculation of instalments is done at the time of booking of loan case and the flat interest after merging in instalment part takes the character of principal and no further interest can be applied. In the circumstances, the only way to recover the loss to the company for the delay in installments is levying late fees. When late fees is charged no interest is recovered for the period of default.

In case of fixed period lump sum repayable loans the interest rate is settled and charged as per agreed terms, however, here also when late fees is applied due to delay or default, only late fees is applied / recovered and interest is not applied/recovered for the default period.