



**MANAPPURAM ASSET FINANCE LIMITED(MAAFIN)**

**INTEREST RATE POLICY**

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## **MANAPPURAM ASSET FINANCE LIMITD**

### **INTEREST RATE POLICY**

#### **I) INTRODUCTION:**

The Company has been following certain procedures and practices in the matter of fixing interest rates on loans (assets) and NCDs/Subordinated Bonds (liabilities). Interest rates are not controlled by the Reserve Bank of India. However, RBI has vide circular DNBS. CC.PD. No .266/03.10.01/2011-12 dated 26 March 2012 (Guidelines on Fair Practices Code for NBFCs) directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs. The specific points referred to in the above referred RBI circular are,

- i) Charging of excessive interest rates by NBFCs.
- ii) The need for adoption of an interest rate model along with approach for gradations of risk & rationale for charging differential rates.
- iii) Disclosure of rates of interest rates, changes thereof and publicity thereto.
- iv) Adoption of annualized rates of interest while dealing with customers.

#### **II) OBJECTIVES**

The main objectives of the interest rate policy are to:

- i) Ensure that interest rates are determined in a manner so as to ensure long term sustainability of business by taking into account interests of all stakeholders,
- ii) Develop and adopt a suitable model for calculation of a reference rate
- iii) Enable fixation of interest rates which are reasonable: both actual and perceived.
- iv) Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices.
- v) Charge differential rates of interest linked to the risk factors as applicable.
- vi) Facilitate transition to income recognition norms that may be stipulated by RBI in future and adoption of best practices.

### III) DETAILS OF POLICY

#### 1) Gold Loan

##### A) Charges

- 1 Processing fee for gold loan shall be charged at Rs.10/- (Excl. Tax) and Additional processing fee for all re pledges at 0.007% (Excl. Tax) of the loan amount at the time of settlement of loan.
2. Overdue /penal charges shall be 3% pa.(inclusive of GST)
3. Interest shall be compounded in all schemes, at monthly rest.

4. Stamp duty is being collected in Karnataka states as follows;

State / Loan Amount	Stamp Duty
Karnataka : 1 Lakhs to 10Lakhs	0.10% of the loan amount
Karnataka : Above 10 Lakhs	0.20% of the loan amount

5. Security charges range from Rs.15 to Rs.95 based on the loan amount charged at the time of disbursal except in branches of Kerala, Tamil Nadu, Telangana, Andhra Pradesh and Karnataka as mentioned below;

Pledge amount	Security Charges
Up to 10000	No charges
>10000 to 50000	Rs.15
>50000 to 1Lac	Rs.30
>1Lac to 1.5Lac	Rs.45
>1.5Lac to 2Lac	Rs.60
>2Lac to 5Lac	Rs.75
Above 5Lac	Rs.95

##### B) Methodology for calculation of interest on loan accounts

The main intent behind specification of methodology is to project a transparent and fair approach to the customers and also to be in readiness to adopt the practices now in vogue amongst commercial banks keeping in view the peculiarities of the gold loan business.

###### i) On the daily balances

Interest amount shall be calculated on the daily outstanding balance in the loan account at the applicable rate. Thus, if the annualized rate of interest applicable

is R% the interest amount for each day would be

$$\frac{R * \text{Amount outstanding}}{36500}$$

###### ii) Minimum period for which interest chargeable:

The minimum period for which interest payable by the borrower shall not exceed 1day Interest payable / receivable and shall be calculated on the actual daily outstanding balance.

iii) Basis - number of days per year:

Interest shall be calculated on 365 days a year basis. Dates of disbursement shall be included and date of closure of account shall also be included for computation of interest.

iv) Compounding:

Compounding of interest where applicable, as provided in the loan scheme, shall not be at a frequency more than 1 month / 30 days in a year

v) Fixed / Floating rate

All loans shall be granted at a fixed rate only.

### C) Annualized rate of interest

- i) Interest rate quoted shall be on an annualized basis only in all documents, internal instructions/ communications and publicity materials (pamphlets, brochures, hoardings, etc.)
- ii) Where the rates are mentioned in non-annualized form (e.g. in product promotion) the annualized rate shall also be mentioned along with to comply with regulatory requirements and Fair Practices Code.

### D) Risk Based Gradation of Interest Rates

- i) Considering the nature of loans (collateral valuation being vital) the major inherent risk is the Loan to Value (LTV) or Loan per Gram. Since a higher LTV translates to a higher risk, it stands to reason that LTV and Interest rate should be correlated. Accordingly, assuming all other factors to be the same, a higher LTV loan should attract a correspondingly higher interest rate as compared with a lower LTV loan.
- ii) The LTV linkage with interest rate shall be at the time of sanction of loan and cannot be changed subsequently due to movements in the overall collateral coverage arising from market movements in gold prices.
- iii) Where substantially low rates of interest are charged on certain / special schemes or in specified regions/areas / branches, the maximum amount per borrower shall be appropriately restricted and checks are put in place to prevent misuse of the facility. Such schemes shall be periodically reviewed and appropriately modified to meet with the overall objectives of floating such schemes.

### E) Ceiling Interest Rate on Loans

- i) Keeping in view the regulatory (RBI) expectations from NBFCs and also the Fair Practices Code, the maximum interest rate chargeable shall be fixed at **23.90% p.a** during the normal loan tenure across all states / regions excluding compounding effect, where applicable, under any schemes. Penal charges and other out of pocket expenses charged from the borrowers will be exclusive of the ceilings mentioned above.

- ii) The above-mentioned ceiling shall be reviewed periodically as and when required, by the Board of Directors keeping in view regulatory guidelines / directives, intensity of competition in the market, net interest margin target, market rates etc.

#### F) Penal charges on overdue loans

When the loan remains outstanding beyond the normal tenure without FULL servicing of overdue amount, penal charges may be charged at a rate not exceeding 3% pa (i.e. at the contracted rate plus 300 basis points) on the amount due and payable. Penal charges shall be calculated and will apply only after the expiry of the 'normal' tenure. Penal charges calculated at monthly rests and shall not be added to the amount outstanding for the sake of further interest calculation, The penal charges accrued on the loan shall be kept separately and shall be added to the principal & interest outstanding at the time of loan closure/settlement. penal charges may be waived, in full or in part, in deserving cases by Managing Director recommendations of CEO.

#### G) Rebate on interest

Considering the competition in the market, MAAFIN introduced new gold loan schemes with rebates. Rebate on the interest rate on some loan schemes may be considered to customers, who regularly service interest payable on the loans. The extent of rebate may vary from scheme to scheme. Rebate is considered only in cases, where interest payable has been serviced by the due dates, without any default.

#### H) Due date for servicing interest

Interest will be calculated from the date of disbursement and shall be charged for the day of closure of the account also as per current practice. The due date for payment of interest shall run from the date of disbursement,

#### I) Structured Products

Products offered and featured thereof shall be straight forward, transparent and simple to understand so as to comply with the letter and spirit of RBI guidelines. Structured products, when introduced, should comply with the basic features of the Interest Rate policy and the FPC. Features of such products, especially the differential features, should be clearly explained to and understood by the prospective borrower before sanction, as a matter of fair practice. Operational personnel should be well equipped in this regard.

#### J) Base Rate and Net Interest Margin

- i) In order to arrive at a proper basis for arriving at the cost of borrowings / funds / resources a suitably calculated 'base rate' shall be developed keeping in the weighted average cost of borrowings, interest paid on liability products (NCDs / Subordinated Bonds) and return on equity capital. Return on equity capital shall be taken at 18 %,

Interest rate on loans shall be based on the 'base rate' so that scope for interest rate mismatches is minimized,

- ii) The base rate shall be calculated periodically and approved by the ALCO (Para L below).
- iii) The NIM (Net Interest Margin) shall be calculated over the 'base rate' so calculated to arrive at the lending rate.
- iv) The NIM shall be capped at 14% (1400 basis points) over the 'base rate'.
- v) Lending at or below the 'base rate' shall be done only for short-term promotion of business either for a specific loan scheme or specific branch(es) or for lending to poor downtrodden sections.
- vi) Lending at or below the 'base rate' shall not exceed 10% of the total loan portfolio.
- vii) Lending below the ['base rate' plus operational expenses] shall not exceed 15% of the total loan portfolio.

## 2) HP Loan

The Interest rate applicable to each loan account will be assessed based on multiple parameters like cost of borrowed funds, cost of operations inherent credit and related risks associated with the products, profile of the customers, nature and value of securities, Past repayment track of the customers, offerings by the competitors future business potential etc.

The rates of interest for the same product and tenor availed during same period by different customers need not be standardized but could be different for different customers depending upon consideration of any or combination of a few or all factors listed above.

The Company shall intimate the loan amount, annualized rate of interest and method of application at the time of sanction of the loan to the borrower along with the tenure and amount of monthly installment.

The company also offers variable and equated monthly/4 weekly/fortnightly/weekly/daily installments schemes.

The other charges such as processing fees, penal charges charged on delayed payments etc. are mentioned in the Schedule which is part of the Loan Agreement.

- o Other financial charges like pre-payment/ foreclosure 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, field collection charges etc. would be levied by the company wherever considered necessary. Besides the base charges, the service tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be with prospective effect only.



- Interest rate models, base lending rate and other charges and their periodic revisions are made available to prospective and existing customers through our offices and branches. Prior to entering into an agreement with the customers, provide them with the statement of charges and interest and address their queries and questions on the same, to their satisfaction. The loan officers shall ensure that charges and rates of interest are explained clearly and transparently to the people who may be interested in the Company products.
- Claims for refund or waiver of charges/ penal charges would normally not be entertained by the company and it is at the sole discretion of the company to deal with such requests received, if any.
- The maximum interest rate chargeable shall be fixed at **23.90%** p. a. across all states / regions / borrower categories.
- When the principal/interest and /or both / Instalments is in overdue, penal charges may be charged at a rate not exceeding **3%** per annum (inclusive of taxes applicable) over and above the normal rate applicable to the account on the overdue amount for the overdue period. The overdue /penal charges applicable shall not be added to the principal & interest outstanding for the sake of further interest calculation and shall be kept separately. The total overdue/penal charges so due on the account shall be added to the principal and interest outstandings at the time of loan closure/final settlement.
- Pre-payment/fore closure charges shall be levied up to **5%** + taxes applicable of the principal repaid ahead of the schedule.
  - Processing fee shall be charged up to 4% + taxes, applicable of the loan amount disbursed. and the same may be adjusted against the loan amount, at the time of loan disbursal.
  - Service tax, wherever applicable, shall be charged and the same shall not be counted for the purpose of above ceiling.

### 3) Loan Against Property and Business Loans (SME Loans)

- The interest rate applicable to each loan will be assessed based on multiple parameter like cost of borrowed funds, cost of operations inherent credit and related risks associated with the products, profile of the customers, nature and value of securities, Past repayment track of the customers, external rating of the customers, Industry trend, offerings by the competitors and future business potential
- The rate of interest may be different for different customers depending upon an evaluation of the factors listed above.
- All loans shall be granted at a fixed rate only.
- Interest rates will be intimated to the customers at the time of sanction of the loan and the interest and principal repayment schedule will be made available to the customer.

- Interest rate quoted shall be on an annualized basis only in all the documents, internal instructions / communications and publicity materials.
- Where the interest rates are mentioned in non-annualized basis for promotional purpose, the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code.
- The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed.
- Apart from normal interest, the company may levy penal charges for any delay or default in making payments of the dues.
- Besides interest, other financial charges like processing fees, late payment charges, pre-payment charges etc. may be levied by the company under due communication to the customer, wherever considered necessary. Any revision in these charges would be with prospective effect only.
- Claims for refund or waiver of charges/ penal charges will normally not be entertained by the company and it is the sole discretion of the company to deal with such requests received, if any. Discretion to waive/reduce the charges shall be with the MD on recommendations of CEO.
- Keeping in view of the regulatory expectations from NBFCs and also the Fair Practices Code, the maximum interest rate chargeable shall be fixed at **23.90%** p.a (excluding compounding effect) or base rate + 1400 basis points whichever is higher.
- When the principal/interest and /or both / Instalments is in overdue, penal charges may be charged at a rate not exceeding **3 %** per annum (inclusive of taxes applicable) over and above the normal rate applicable to the account on the overdue amount for the overdue period. The overdue /penal charges applicable shall not be added to the principal & interest outstanding for the sake of further interest calculation and shall be kept separately. The total overdue/penal charges so due on the account shall be added to the principal and interest outstandings at the time of loan closure/final settlement.
- Pre-payment/fore closure charges shall be levied up to **5%** + taxes applicable of the principal repaid ahead of the schedule.
- Processing fee shall be charged up to **4%** + taxes, applicable of the loan amount disbursed. and the same may be adjusted against the loan amount, at the time of loan disbursement.

- Service tax, wherever applicable, shall be charged and the same shall not be counted for the purpose of above ceiling.
- The company also offers variable and equated monthly/4 weekly/fortnightly/weekly/daily installments schemes.

#### 4) Two Wheeler Loans ( TWL)

- The interest rate applicable to each loan will be assessed based on multiple parameter like cost of borrowed funds, cost of operations, inherent credit and related risks associated with the products, profile of the customers, Past repayment track of the customers, offerings by the competitors and future business potential
  - The rate of interest may be different for different customers depending upon an evaluation of the factors listed above.
  - All loans shall be granted at fixed rate only.
  - Interest rates will be intimated to the customers at the time of sanction of the loan and the interest and principal repayment schedule will be made available to the customer.
  - Interest rate quoted shall be on an annualized basis only in all the documents, internal instructions / communications and publicity materials.
  - Where the interest rates are mentioned in non-annualized basis for promotional purpose, the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code.
  - The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed.
  - Apart from normal interest, the company may levy penal charges for any delay or default in making payments of the dues.

Besides interest, other financial charges like processing fees, late payment charges, pre-payment charges etc. may be levied by the company under due communication to the customer, wherever considered necessary. Any revision in these charges would be with prospective effect only.

Claims for refund or waiver of charges/ penal charges will normally not be entertained by the company and it is the sole discretion of the company to deal with such requests received, if any. Discretion to waive/reduce the charges shall be with the MD on recommendations of CEO.

- Keeping in view of the regulatory expectations from NBFCs and also the Fair Practices Code, the maximum interest rate chargeable shall be fixed at **23.90%** p.a. (excluding compounding effect) or base rate + 1400 basis points, whichever is higher.
- When the principal/interest and /or both / Instalments is in overdue, penal charges may be charged at a rate not exceeding **3%** per annum (inclusive of taxes applicable) over and above the normal rate applicable to the account on the overdue amount for the overdue period. The overdue /penal charges applicable shall not be added to the principal & interest outstanding for the sake of further interest calculation and shall be kept separately. The total overdue/penal charges so due on the account shall be added to the principal and interest outstandings at the time of loan closure/final settlement.
- Pre-payment/fore closure charges shall be levied up to 3 % + taxes applicable of the principal repaid ahead of the schedule.
- Processing fee shall be charged up to 4% + taxes , applicable of the loan amount disbursed. and the same may be adjusted against the loan amount, at the time of loan disbursal.
- Service tax, wherever applicable, shall be charged and the same shall not be counted for the purpose of above ceiling.

The company also offers variable and equated monthly/4 weekly/fortnightly/weekly/daily installments schemes.

## 5) Micro Finance Loan ( MFL)

The interest rate applicable to each loan will be assessed based on multiple parameter like cost of borrowed funds, cost of operations, inherent credit and related risks associated with the products, profile of the customers, Past repayment track of the customers, offerings by the competitors and future business potential

- The rate of interest may be different for different customers depending upon an evaluation of the factors listed above.
- All loans shall be granted at fixed rate only.
- Interest rates will be intimated to the customers at the time of sanction of the loan and the interest and principal repayment schedule will be made available to the customer.
- Interest rate quoted shall be on an annualized basis only in all the documents, internal instructions / communications and publicity materials.

- Where the interest rates are mentioned in non-annualized basis for promotional purpose, the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code.
- The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed.
- Apart from normal interest, the company may levy penal charges for any delay or default in making payments of the dues.
- Besides interest, other financial charges like processing fees, late payment charges, pre-payment charges etc. may be levied by the company under due communication to the customer, wherever considered necessary. Any revision in these charges would be with prospective effect only.

Claims for refund or waiver of charges/ penal charges will normally not be entertained by the company and it is the sole discretion of the company to deal with such requests received, if any. Discretion to waive/reduce the charges shall be with the MD on recommendations of CEO.

- Keeping in view of the regulatory expectations from NBFCs and also the Fair Practices Code, the maximum interest rate chargeable shall be fixed at **26% p.a** (excluding compounding effect) or base rate + 1400 basis points whichever is higher.
- When the principal/interest and /or both / Instalments is in overdue, penal charges may be charged at a rate not exceeding **3%** per annum (inclusive of taxes applicable) over and above the normal rate applicable to the account on the overdue amount for the overdue period. The overdue /penal charges applicable shall not be added to the principal & interest outstanding for the sake of further interest calculation and shall be kept separately. The total overdue/penal charges so due on the account shall be added to the principal and interest outstandings at the time of loan closure/final settlement.
- Pre-payment/fore closure charges shall not be levied, if the loan is repaid ahead of the schedule.
- Processing fee shall be charged up to 4% + taxes, applicable of the loan amount disbursed. and the same may be adjusted against the loan amount, at the time of loan disbursal.
- Service tax, wherever applicable, shall be charged and the same shall not be counted for the purpose of above ceiling.

The company also offers variable and equated monthly/4 weekly/fortnightly/weekly/daily installments schemes.

### ASSET LIABILITY MANAGEMENT COMMITTEE (ALCO)

1. The ALCO shall hold meetings at calendar quarterly intervals or more frequently, when required. Review of interest rates shall be periodically taken up by the ALCO within the overall stipulations of the Interest Rate Policy, approved by the Board of Directors.
2. The ALCO shall consist of the under-mentioned functionaries.

1) Managing Director	Member
2) Chief Executive Officer	Member
3) Chief Financial Officer	Member
4) Chief Risk Officer	Member
5) Chief Compliance Officer	Member
Head Treasury Department	- Secretary

3. The actual rates from time to time shall be fixed by the ALCO within the band / limits mentioned under each head and reviewed at least quarterly intervals.
4. ALCO shall have the authority to implement any other reasonable / justifiable charges from time to time.
5. Taxation regulations, as applicable, shall be complied with.
6. Discretion to waive / reduce the charges shall be vested with MD.