

Poonawalla Fincorp Limited

This Policy is to make available the rates of interest, penal charges, and the approach for gradation of risks in the loan being disbursed by the company.

Interest Rate and Penal Charges Policy

Interest Rate and Penal Charges Policy – Poonawalla Fincorp Limited

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1. Purpose

Reserve Bank of India (RBI) vide its Circular DNBS PD/CC No.95/03.05.002/2006-07 dated May 24, 2007 advised that Board of Non-Banking Finance Companies (NBFC's) lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. This was reiterated vide RBI's circular DNBS (PD) C.C. No. 133 / 03.10.001 / 2008-09 dated January 2, 2009.

With a view to institute fair and transparent dealings in the lending business, the Company has adopted and put in place the following Interest Rate and Penal Charges Policy parallel to the company's Fair Practice Code, in accordance with the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 as amended and updated from time to time.

RBI further advised NBFC's to adopt an appropriate interest rate model taking into account relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest.

Keeping in view the RBI's guidelines as cited above, and the good governance practices being followed by the Company, the following internal guidelines, policies, procedures and interest rate model have been adopted by the Company. The Board of Directors of the Company ("the Board") or any Board constituted Committee ("the Committee") as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Interest Rate and Penal Charges Policy. In addition to cost factors set out hereunder, the Board or the Committee shall be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India or such other authority from time to time.

RBI further vide it's circular dated 18 August 2023 on Fair Lending Practice - Penal Charges in Loan Accounts directed Regulated Entities to formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.

2. Key Commitments and Declarations

Interest charged by the company from its customers shall inter-alia have the following components viz., Reference Rate, Risk Rate. Additionally, market scenario, competitive intensity, assignability of products, secured-unsecured ratio and overall product portfolio considerations would be key inputs to pricing.

2.1 Reference Rate

Reference Rate shall represent the rate chargeable on floating rate loans. The final rate shall be at a spread (positive or negative) to reference rate. Reference Rate shall be arrived at after considering the following aspects:

Cost of Borrowing

This component represents the interest and other incidental charges payable by the Company for servicing the borrowed funds deployed by the Company.

Return on Capital Employed

This component represents fair return on capital employed which is to be generated by the Company for servicing the owners' capital employed in the business.

Thus, the Reference rate shall be determined by considering the cost of borrowing, overhead/sourcing cost, competitive factors, market conditions, guidance on portfolio shape, size and fair return on capital employed.

2.2 Risk Rate

Risk rate (estimate of credit losses) shall be determined by taking into account the degree of risk involved in loan considering various factors like general economic conditions, customer category, customer category servicing costs, mode of repayment, Loan to value ratio, Tenor of loan, Product (as in, car, commercial vehicle, construction equipment etc. location of the customer, etc. The rate shall be the lowest for customers perceived as having lowest risk and vice-versa for the high-risk category.

Interest rate fixed or floating– charging interest at fixed rate or floating rate would be decided basis product category. It has been decided that fixed rate of interest would be charged for lending towards car/pre-owned car, commercial vehicle, construction equipment, unsecured personal loans, loans to professionals, machinery loans, consumer loans, wholesale/ NBFC loans, unsecured Business Loans and Supply Chain Finance loans. Floating rate of interest would be charged for Loan against Property (LAP).

2.3 Reset of Floating Interest Rates on Equated Monthly Instalments (EMI) based Personal Loans

- i. The Company shall provide the option to the borrowers to switch over to a fixed rate.
- ii. The borrower will be allowed to switch once in a financial year during the tenor of the loan.
- iii. The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be as provided in this policy. PFL can exercise a default option which will be automatically exercised in case the borrower does not communicate his choice to the lender within a reasonable time given to the borrower. The default option should also be communicated to the borrowers.

- iv. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by PFL from time to time.
- v. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
- vi. PFL shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan.

Note: Personal loans refers to loans given to individuals and consist of (a) consumer credit, (b) loans given for creation/ enhancement of immovable assets, and (c) loans given for investment in financial assets (shares, debentures, etc).

2.4 Prepayment and Penal Charges/Interest

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.

PFL shall not introduce any additional component to the rate of interest.

Loans remaining unpaid on due dates or noncompliance of material terms and conditions as described below, shall be charged penal charges at such rates uniform across all product portfolio as mentioned in **bold** in the respective customer agreements. Taxes if any shall be levied additionally unless defined otherwise in Loan Agreement.

The quantum of penal charges shall be reasonable and commensurate with the noncompliance of material terms and conditions of loan contract without being discriminatory within a particular loan/ product category.

The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to nonindividual borrowers for similar non-compliance of material terms and conditions.

Subject to the compliance with the above conditions, in case the Company intends to levy penal charges at different rate/ quantum for different product portfolio, the same shall be based on the following rationale:

1. Cost incurred towards collection/ recovery.
2. Product segment, depth and liquidity of the market and possibility of reinvesting the funds received by way of prepayment into new products, at similar return on assets;
3. Use of fixed cost funds/ lines of credit/ internal allocation of resources, for funding a particular product segment;
4. Industry Trends of rate shopping by customers, on the basis of a prevailing contract with PFL, and going to a competing financier, with a view to obtain lower rates.

Any service charges, prepayment charges as charged to the borrower shall be disclosed appropriately to the borrower.

Further, all loans which are pre-paid shall bear pre-payment penalty at rates mentioned in the respective customer agreements. There shall be no foreclosure rate/ prepayment penalty charged on floating rate interest loans sanctioned to the individual borrowers as per the extant regulations.

**PFL may treat the following circumstances as noncompliance of material terms and conditions and levy penal charges:-

- Delay in creation/non-creation of security in favour of PFL.
- Non-Payment of EMI amount
- Non-compliance with Financial covenants, if any as identified in Loan Agreement.
- Bouncing of the repayment instrument submitted by the borrower.
- Any other covenant prescribed by PFL in the Loan Agreement.

**PFL shall in any scenario not charge penal charges more than 2% per month whether singly or cumulatively for non-compliance of material terms and conditions as specified in this Policy.

**The Business Head and /or Head Retail Assets shall be severally authorised to grant waiver of penal charges or prepayment penalty as and when deemed fit.

**Note: The compliance of the same for new customers shall be ensured w.e.f 01 April 2024 and for existing customers w.e.f. 30 June 2024. For existing customers, the Company shall continue to levy penal interest as communicated to the borrowers/customers until 29 June 2024.

3. Disclosures

As per the extant regulations the following disclosures shall be made to the borrower:

- a. There shall be appropriate disclosure of the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the application form and communicated in the sanction letter.
- b. The annualised rate of interest shall be disclosed to the customers.

- c. Any change in the interest rate or other charges shall be made prospectively and the same shall be adequately disclosed in the loan agreement.
- d. The rate of Interest for various class of assets as revised from time to time shall also be displayed on Company's website.
- e. Approach for gradation of risk has been elaborated in our Fair Practice Code Policy.
- f. The quantum and reason for penal charges shall be clearly disclosed by PFL to the customers in the loan agreement and most important terms & conditions/ Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.
- g. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

4. Administration, Amendment and Review of the Policy

The Board or the Committee shall be responsible for the administration, interpretation, application, and review of this Policy. The Committee shall also be empowered to bring about necessary changes to this Policy, if so required at any stage at its own discretion or with the concurrence.