FAITH FINANCIALS PRIVATE LIMITED

INTEREST RATE AND PENAL CHARGES POLICY

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1. INTRODUCTION

Reserve Bank of India (RBI) vide its Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ('Master Directions') has advised that the Board of Directors of Non-Banking Finance Companies (NBFCs) shall lay out appropriate internal principles and procedures in determining interest rates, processing, and other charges. In this regard, RBI further requires NBFCs to adopt an appropriate interest rate model considering relevant factors and to disclose the rate of interest, gradations of risk and rationale for charging different rate of interest.

With a view to institute fair and transparent dealings in the lending business, **Faith Financials Pvt Limited ('the Company')** has adopted and put in place the following Interest Rate & Penal Charges Policy('Policy") parallel to the Company's Fair Practice Code ('Code"), in accordance with the Master Directions, as amended and updated from time to time.

Keeping in view the Master Directions, 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 Director as the case may be, while fixing interest rates chargeable from the customers shall be guided by this Interest Rate Policy. In addition to cost factors set out hereunder, the Board or the Director shall be guided by the market conditions and various rules and regulations, if any, prescribed by the RBI or such other authority from time to time.

2. REGULATORY REFERENCE:

RBI/DoR/2023-24/106 DoR.FIN.REC.No.45/03.10.119/2023-24 Master Direction –Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023.

3. KEY COMMITMENTS AND DECLARATIONS:

Interest charged by the Company from its borrowers or customers, or clients shall interalia have the following components viz., Rating Based, Sector Based, Geographical Based, Tenure Based, Risk Rate, Additional/Default Rate. Additionally, market scenario, competitive intensity, assignability of products, secured-unsecured ratio and overall product portfolio considerations would be key inputs to pricing.

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.

Overhead Costs:
This component comprises of various costs such as employee cost, office expenses, insurance premium for insuring the assets (if required), marketing expenses etc. Thus, the Reference rate

shall be determined by considering the cost of borrowing, overhead/sourcing cost and fair return on capital employed.

4. ESTABLISHING AN INTEREST RATE MODEL:

The rate of interest shall be arrived at after taking into account relevant factors, such as cost of funds, margin and risk premium, including the following:

a) **Tenor of the Loan:** The rate of interest charged will depend on the term of the loan;
b) **Internal and External Costs of Funds**: The rate of interest charged will also be determined depending on the rate at which funds necessary to provide loan facilities to customers are sourced by the Company, normally referred to as internal cost of funds. From an external cost of funds perspective, the benchmark interest rate that may be used by the Company could be either the base rate of the State Bank of India or the rate of a 10 Year Government of India bond as adjusted for the rating spreads available in the markets.
c) **Internal Cost Loading**: The interest rate charged will also take into account costs of doing business. Factors such as the complexity of the transaction, the size of the transaction and other factors that affect the costs associated with a particular transaction will also be taken into account before arriving at the final rate of interest quoted to a customer.
d) **Credit Risk:** As a matter of prudence, bad debt provision cost should also be factored into all transactions. This cost is then reflected in the final rate of interest quoted to a customer. The amount of bad debt provision applicable to a particular transaction will depend on the internal assessment of the credit strength of the customer.
e) **Fixed versus Floating:** The applicable rate of interest shall also be commensurate from the perspective of the fixed versus floating interest rate requirements of the customers.
f) **Periodicity of Interest**: Interest will be charged for the period as stipulated in the loan agreement, subject to any modifications thereto as may be agreed by and between the Company and the customer, in writing.
g) **Structuring Premium**: A premium may be applied to a loan in case the loan has any significant structuring elements with respect to collateral, or other aspects of transaction structure.
h) **Margin**: A mark-up to reflect other costs / overheads may be charged to the loan and our designed margin.
i) **Market Dynamics:** Views of the Board on product pricing with respect to prevailing interest rates offered by peer NBFCs for similar products / services shall be taken into consideration. The forecasts and analysis of 'what if' scenarios' conducted by the Board are also relevant factors for determining interest rates to be charged.
j) Penalties levied on the Customer:
    - The Company does not charge any penal interest on delayed payments from its borrowers. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, and the same will be communicated to the borrowers by way of bold letters in the loan agreement or any other communications. 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 Master Direction.

- Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penalties'. These penalties shall also cover charges levied on the customer for delay in payment of their overdue EMI.(**Equated Monthly Instalments)**
- There shall be no capitalisation of penalties i.e., no further interest computed on such charges.
- The Company shall not introduce any additional component to the rate of interest.
- The quantum of penalties shall be reasonable and commensurate with the non compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- The penalties in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- The quantum and reason for penalties shall be clearly disclosed by Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on Company's website.
- Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penalties shall be communicated. Further, any instance of levy of penalties and the reason thereof shall also be communicated.
- Requirements mentioned in this clause shall be applicable in respect of all the fresh loans availed / renewed from April 01, 2024. In the case of existing loans, the switchover to new penalties shall be ensured on next review or renewal date or six months from the effective date, whichever is earlier.

k) Other Factors: Matching tenor cost, market liquidity, RBI Policies on credit flow, offerings by competition, stability in earnings and employment, subvention and subsidies available, deviations permitted, further business opportunities, external ratings, industry trends, switchover options will also be relevant factors in determining interest rate to be charged.

5. APPROACH FOR GRADATION OF RISK:

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

- profile and market reputation of the borrower,
- inherent nature of the product, type / nature of facility, refinance avenues, whether loan
- is eligible for bank financing, loan to value of asset financed,
- tenure of relationship with the borrower group, past repayment track record and
- historical performance of our similar clients,
- group strength, overall customer yield, future potential, repayment capacity based on
- cash flows and other financial commitments of the borrower, mode of payment
- nature and value of primary and secondary collateral / security,
- type of asset being financed, end use of the loan represented by the underlying asset,
- interest, default risk in related business segment,
- regulatory stipulations, if applicable,
- and any other factors that may be relevant in a particular case.

- Based on the above factors, the Company shall categorise its customers into the following three credit risk categories i.e. high, medium and low credit risk.

6. RATE OF INTEREST:

a) Interest rates offered could be on fixed rate basis or floating / variable rate basis.

b) In case of floating / variable interest rates, the interest rates will be benchmarked as under:

- Loans under SME & Retail Credit Segment: Prime Lending Rate (PLR) and marginal cost of funding.
- Loans under Corporate Credit Segment: PLR or to a market linked transparent benchmark, including reference rate of our bankers as maybe agreed with the borrower.

c) The PLR is an estimation of a benchmark interest rate approved by the Board of the Company, from time to time. The PLR will be reviewed periodically by the Board of the Company. The estimation and the methodology for calculating the PLR may be changed at any time with the approval of the Board.

d) The rate of interest for the same product and tenor availed during same period by different customers need not be standardized. The final lending rate applicable to each customer will be assessed based on various factors as detailed in this Policy.

e) Loan amount, Annualised Rate of Interest and tenure of loan will be communicated to the borrower in the sanction letter / intimation and the apportionment of instalments towards interest and principal dues shall be made available to the borrower.

f) Besides normal Interest, the Company may levy additional interest for adhoc facilities.

g) Besides interest, other financial charges like processing charges, cheque bouncing charges, prepayment / foreclosure charges, part disbursement 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 etc. would be levied by the Company wherever applicable and required.

h) The rate of interest applicable to each customer is subject to the management's perceived risk on a case-to-case basis:

Risk category	**Interest rate range**
High	7 % to 28 %
Medium	7 % to 24 %
Low	7 % to 21 %

Further, the above interest rates shall be subject to change as the situation warrants and in accordance with applicable laws.

i) Changes in interest rates would be decided at any periodicity, depending upon change in benchmark rate, market volatility and competitor review.

7. GENERAL:

The following provisions shall apply to loans extended by the Company:

- **Changes in Terms:** The Company shall give notice to the borrower in English language with an option to choose a vernacular language as understood by the borrower of any change in the terms and conditions of the loan, including disbursement schedule, interest rates, service charges, prepayment charges etc. Further, any changes in the rate of interest shall be effected only prospectively and the loan agreement shall contain the necessary provisions in this regard. The same may be communicated through electronic media or any other form of communication by the Company.

- **No Grace Period**: Interest will be payable by the customer / borrower on or before the due date stipulated therefor in the loan agreement entered into by the customer / borrower with the Company. No grace period will be allowed to the customer/borrower for payment of interest, unless the loan agreement expressly provides for the same or the Board agrees to provide such grace period to the customer / borrower, in writing.

- **Moratorium**: The Company may consider necessary moratorium for payment of interest and repayment of principal amount with proper built-in pricing, on a case-to-case basis.

- **Communication of Interest Rate to the Customer**: The Company shall convey in writing to the borrower in sanction letter / intimation letter in English language with an option to choose a vernacular language as understood by the borrower, by means of a sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and shall keep on record the acceptance of these terms and conditions by the borrower. The loan agreement shall expressly stipulate the penal charges chargeable for late payment /repayment of dues by the borrower, in bold. The apportionment of the EMI amount towards the principal and interest will also be communicated by the Company to the customer / borrower by way of the repayment schedule.
- **Waiver of Additional Interest / Financial Charges**: Requests by the customer for waiver of additional interest / financial charges would normally not be entertained by the Company and such waiver will be at sole and absolute discretion of the Company.
- **Pre-Payment**: Pre-payment options available to the customer and the penalty payable for exercise of such option shall be mutually agreed to on a case-to-case basis and communicated to the customer.
- As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, the Company shall not charge foreclosure charges / pre-payment penalties on all floating rate term loans sanctioned to individual borrowers.

8. RESET OF FLOATING INTEREST RATE ON EQUATED MONTHLY INSTALMENTS (EMI) BASED PERSONAL LOANS:

At the time of sanction of EMI based floating rate personal loans, Company is required to take into account the repayment capacity of borrowers to ensure that adequate headroom/margin is available for elongation of tenor and/or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received. In order to address these concerns, Company is advised to put in place an appropriate policy framework meeting the following requirements for implementation and compliance:

i. At the time of sanction, Company shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.

ii. At the time of reset of interest rates, Company shall provide the option to the borrowers to switch over to a fixed rate as per their Board approved policy. The policy, *inter alia*, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.

iii. The borrowers shall also be given the choice to opt for (a) enhancement in EMI or elongation of tenor or for a combination of both options; and, (b) 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 subject to extant instructions.

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 the Company from time to time.

v. Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

vi. Company 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. Company shall ensure that the statements are simple and easily understood by the borrower.

Apart from the equated monthly instalment loans, these instructions would also apply, mutatis mutandis, to all equated installment based loans of different periodicities.

Company shall ensure that the instructions stated are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them.

9. DISCLOSURES:

As per the Master Direction the following disclosures shall be made to the borrower:

- 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.
- The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published on the website or otherwise published shall be updated whenever there is a change in the rates of interest.
- The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account. Any change in the interest rate or other charges shall be made prospectively and the
  same shall be adequately disclosed in the loan agreement.

10. POLICY REVIEW:

This Policy must be reviewed at least once in a financial year or at such intervals as may be deemed necessary by the Board of Directors