Sustainable Agro-commercial Finance Ltd.

Interest Rate and Penal Charges Policy

Version 1.0

Interest Rate and Penal Charges Policy

Sign of Sheet		
APPROVED BY	**Board of Directors**	4th December. 2024
REVIEWED & RECOMMENDEDBY	**Prabhakar Bobde** MD & CEO	27th November, 2024
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1. Introduction

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, SAFL has adopted and put in place the following Interest Rate and Penal Charges Policy parallel to SAFL'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 NBFCs 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 SAFL, the following internal guidelines, policies, procedures and interest rate model have been adopted. The Board of Directors of SAFL ("the Board") or ALCO Committee (Asset Liability Management 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. Credit Pricing

Pricing is essentially a function of risk, tenure, cost of capital and spread. The cost of funds is a function of market rate, reserve requirements. The decision of the interest rate being either fixed or floating will be dependent on the nature of the product being offered, cost of funds. Each product category shall have pre specified advance rate (interest rate) and processing fee and expected (Return on Equity) ROE. ROE is to be calculated as

ROE = (Net Interest Margin + amortised Processing fee)/ (Average maturity of the loan * capital requirement as per RBI)

Net Interest Margin = Advance rate – (Average Cost of fund + Overheads)

Processing fee for entire tenor to be charged at time of disbursement and is to be amortised into one year taken for tenor of more than one year based on duration of the loan.

Every credit proposal has to meet minimum Return on Equity (ROE). In case of lower ROE same should be stated in the CAM and approval has to be taken from sanctioning authority as per delegation. The Treasury department of SAFL has the authority to set

and reset the Advance rate. Interest rates on loans and advances are to be determined by the interest rate risk (function of tenure and interest rate outlook), market risk, credit risk, overhead cost of operations and minimum returns required on capital. SAFL shall constantly monitor and if required, reset the advance rate, taking into account the various factors mentioned above.

3. Lending Rates

SAFL offers fixed rate of interest for lending towards Agri – based loans like MIS finance, Lift Irrigation Scheme, Agri Project Finance, small business loans, financing for two wheelers, unsecured personal loans, unsecured MSME Business Loans and Retail and Micro LAP loans. For all products offered, the range of interest rate is typically between 17% to 21% p.a.

SAFL does not have a practice of offering floating rate loans to any of its customers under any of its lending programs.

- As Agri loan portfolio is secured against mortgage of Agri land and/ or hypothecation of equipment finance, lending rates for this portfolio are between 17% p.a. to 21% p.a.
- As MSME unsecured loans have a typically higher risk the minimum lending rate presently being offered in case of MSME unsecured loans is 21% p.a.
- For secured Retail and Micro LAP as loan ticket sizes are ranging from Rs. 3 lakhs to Rs. 50 lakhs, and tenor being 5 years, rate of interest being offered is 21% p.a.
- For digital personal loans the rate of interest proposed will be higher and between 21% to 28% p.a. depending upon loan amount, CIBIL score of borrower and tenor of loan requested for.

All loans have a spread over the average cost of borrowing of minimum 5% to 6% to cover its operations cost and also spread over borrowing costs.

4. Risk Gradation

The decision to extend a loan and interest rate applicable are taken on a case to case basis, based on multiple risk parameters such as the type of loan, the 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, etc. Such information is collated based on borrower inputs and credit personal discussion with the borrowers.

Based on the inputs, we have categorised the interest rate into risk based grading as under –

Parameters	Risk Rating	Rate of Interest Range (%)
1) Method of Assessment		
a) Assessed Income Based	High	21% - 24% p.a.
b) Variant Based – Banking Surrogate/ Turnover (GST) based assessment	Medium	19% - 21% p.a.
c) Income (ITR) based assessment	Low	17% - 19% p.a.
2) CIC Score Based -		
a) New to Credit/ CIC Score 600 – 650	High	21% - 24% p.a.
b) CIC Score 650 - 700	Medium	19% - 21% p.a.
c) CIC Score 700 and above	Low	17% - 19% p.a.
3) Collateral Security Offered -		
a) Unsecured/ Secured - Tier 3 location Residential/Commercial Property	High	21% - 24% p.a.
b) Secured - Tier 2 location Residential/ Commercial Property	Medium	19% - 21% p.a.
c) Secured – Tier 1 location residential/ Commercial Property	Low	17% - 19% p.a.
4) Deviations Considered during Sanction -		
a) FOIR/LTV (above 70%)/other deviations/conditional sanctions#	High	21% - 24% p.a.
b) FOIR/LTV/other deviations/conditional sanctions (medium risk)	Medium	19% to 21% p.a.
c) FOIR/LTV/other deviations/conditional sanctions (low risk)	Low	17% to 19% p.a.

**For assessed income cases, we have to arrive at the net monthly income of the borrower on basis of the daily billing copies maintained by the borrower (typically at tier 3 locations – only secured loans to be considered under Retail and Micro LAP).*

#For cases where legal documentation requires certain documents being provided on deferral basis or partial disbursement involved like Balance Transfer cases to be categorised as High Risk cases and interest rates offered accordingly.

***FOIR- Fixed Obligation Income Ratio**
LTV –LOAN to Value of collateral
CIC –Credit information Company

5. 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 capitalization 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.

SAFL 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 SAFL intends to levy penal charges at different rate/ quantum for different product portfolio, the same shall be based on the following rationale:

- Cost incurred towards collection/ recovery.
- 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;
- Use of fixed cost funds/ lines of credit/ internal allocation of resources, for funding a particular product segment;
- Industry Trends of rate shopping by customers, on the basis of a prevailing contract with SAFL, 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.

**SAFL 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 SAFL.
- Non-Payment of EMI amount on loan availed
- Non-compliance with Financial covenants, if any as identified in Loan Agreement.
- Bouncing of the repayment instrument/NACH submitted by the borrower.
- Any other covenant prescribed by SAFL in the Loan Agreement.

**SAFL shall in any scenario not charge penal charges more than 4% per month whether singly or cumulatively for non-compliance of material terms and conditions as specified in this Policy.

**The MD&CEO shall be authorized to grant waiver of penal charges or prepayment penalty as and when deemed fit.

6. Disclosures to Borrowers:

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 annualized 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 SAFL 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

7. Administration, Amendment and Review of the Policy:

The Board or the ALCO Committee shall be responsible for the administration, interpretation, application, and review of this Policy. The ALCO 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. ALCO Committee is presently comprised of MD&CEO, CFO, Head- Operations, and Head – Risk. (In existence since 2012)

Any changes in the Interest Rates charged to borrowers and in line with the latest RBI guidelines are to be reported to ALCO Committee wherein any revision in rates of interest or penal charges/interest shall be reviewed on quarterly basis. Any finding of ALCO Committee is to be further reported to the Risk Management Committee of SAFL on periodic basis.