Policy For Determining Interest Rates, Processing And Other Charges

Interest Rate Model

Loan assets created by the Company shall be priced primarily based on the market borrowing (cost of funds) and risks associated with the quality of the borrower and their possibility of default. The cost of funds represented by the borrowing rate of the Company varies according to market conditions and, thus, the pricing of new loans is impacted by any change in the cost of funds.

In addition to the cost of funds, the Company considers cost of capital, credit risk premium associated with particular borrowers or pools of borrowers, administrative costs and profit margin while deciding the pricing, besides the current level of interest in the market for similar lending activity.

The borrowing rate for the Company is dependent on the maturity period for which the funds are borrowed. Similarly, the loan assets are priced based on the borrowing rate corresponding to the maturity or tenor for which the asset is created.

Penal Interest/Delayed Payment Charges

As a deterrent against intentional delinquency and to encourage prompt and timely repayment of instalments, the loan agreement provides for penal interest of upto 2% per month calculated on a simple interest basis. However, in most cases, such delayed interest is recovered @1.5% per month of delayed period on a simple interest basis. In deserving cases, such interest is settled at much lower rates or waived as per the authorization matrix.

Processing/Documentation and Other Charges

All processing/documentation and other charges recovered are expressly stated in the aoan agreement. They vary based on customer segment and generally represent the cost incurred in rendering services to the customers.