

POLICY ON PRICING OF LOANS

In compliance with the Master Directions of Reserve Bank of India (Regulatory Framework for Micro Finance Loans)



ARTH MICRO FINANCE PRIVATE LIMITED

CONTENTS

I.	Introduction	3
II.	Master Direction: Reserve Bank of India Directions 2022: Brief Summary	4
III.	Components of Pricing	5
IV.	Model of Pricing	
V.	Minimum & Maximum Ceiling on Interest Rates	7
VI.	Confidentiality	7
VII.	Modification	8
ANNEXURE I	Format of Fact Sheet	9
ANNEXURE 2	Pricing Model	

I. INTRODUCTION

Pricing of loans has been one of the most sensitive indicator of treating customer and one of the critical parameter from the perspective of the Regulator. Since, the introduction of regulatory framework in Microfinance space, pricing of loans is a key monitorable factor, which prior to 2022, were defined by Reserve Bank of India, every quarter, as detailed below:

The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the following:

- (a) The cost of funds plus margin as indicated in para (i) above; or
- (b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

Reserve Bank of India's harmonized policy Regulations i.e Reserve Bank of India (Regulatory Framework for Micro Finance Loans) Directions 2022, dated March 14th, 2022, proposed deregulating the pricing (interest rate charged to customers) for NBFC-MFIs, by putting in place a Board Approved Policy to ensure that microcredit pricing is fair, transparent, and competitive.

This paradigm and strategic shift in the pricing offers an opportunity to lenders especially NBFC- MFIs to frame their individual policies in 'which would be in the best of interest for both lenders and customers and ensure transparency with all stakeholders.

II. MASTER DIRECTION: RESERVE BANK OF INDIA DIRECTIONS 2022: BRIEF SUMMARY

With an intent to have a unified regulations applicable to all entities working in Micro finance Space, Reserve Bank of India introduced Micro Finance Directions 2022 on March 14th, 2022 (harmonized Regulations), which are based on the 'activity of microfinance' and are uniformly applicable to all type of entities mentioned below, w.e.f., April 01st, 2022

- a) All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payment Banks.
- b) All Primary (Urban) Co-operative Banks / State Co-operative Banks/ District Central Co-operative Banks; and
- c) All Non- Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

Main Elements of Microfinance Regulations:

- 1) A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children.
- 2) Each RE shall put in place a board-approved policy for assessment of household income.
- 3) Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 percent of the monthly household income.
- 4) Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness.
- 5) Each RE shall put in place a board-approved policy regarding pricing of microfinance loans.
- 6) Each RE shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet.
- 7) A fair practices code (FPC) based on these directions shall be put in place by all REs with the approval of their boards.
- 8) Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training, and monitoring.
- 9) Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE.
- 10) Each RE shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers, and providing them necessary guidance about the recourse available.
- 11) Recovery shall be made at a designated/central designated place decided mutually by the borrower and the RE. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/central designated place on two or more successive occasions.
- 12) The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process.

III. COMPONENTS OF PRICING

Arth pricing policy includes, an all inclusive rate of interest arrived taking into consideration the following:

- (i) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
- (ii) The range of spread of each component for a given category of borrowers; and
- (iii) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

The Group loans will not be backed by any collateral, nor will be linked to any security deposit.

A. BASIC COMPONENTS

Components in pricing of loans will include, but will not be limited to the sum of following:

1. Average Cost of Funds
2. Operational Cost
3. ALM and credit Cost
4. Risk premium
5. Provision of Loan Loss
6. Desired Surplus Rate

1. COST OF FUNDS

Cost of funds refers to the cost incurred by Arth to acquire funds. This include interest rate on which borrowings are availed, the margin offered as collateral, the legal and professional charges, processing fees, stamp charges etc. as may be so applicable

2. OPERATIONAL COST

Operating costs are associated with the maintenance and administration of a business on a day-to-day basis which typically includes Administrative Cost, Personnel Cost, Business Development Cost, Depreciation etc.

3. ALM AND CREDIT COST

Opportunity Cost to meet Asset Liability and cost of managing idle funds, maintaining adequate liquidity, will be included under this head.

4. RISK PREMIUM

Risk premium will be added in case of clients covered under risk profile or areas of operations, where additional risk is involved.

5. PROVISION OF LOAN LOSS

Loan Loss Provision is an expense head that Arth will set aside for default loans, which cover the NPA accounts, bankrupt customers etc.

6. DESIRED SURPLUS

The margin that we expect, will be calculated and covered under this head.

B. OTHER COMPONENTS

1. PROCESSING FEES

The Processing Fees on loans to be charged will not exceed 2.00% of the Loan Amount plus GST, in any circumstances, and will be disclosed in the fact sheet. However, benefit in LPF can be allowed to borrowers with excellent credit history.

2. INSURANCE CHARGES

Insurance charges, equivalent to the amount of loan, covering the life of both member and spouse will be collected on actual basis, for the entire tenure of loan. The insurance premium so collected will be paid to the insurance company.

3. LOAN PREPAYMENT CHARGES

NO charges will be levied on the prepayment of loans.

4. LOAN OVERDUE CHARGES

Additional Interest may be levied on the amount of EMI overdue, in a loan account, in case of delayed payment.

5. OTHER CHARGES

Any other component so added in the pricing will be subject to the approval of Board and amendment in this policy and will have a prospective effect only.

IV. MODEL OF PRICING

Company will resort to conventional but sound COST PLUS methodology for pricing of its loans. In this methodology, interest rate charged on loans is determined by four factors:-

1. Cost of Funds
This includes the cost of funding to raise funds for all sources of having funds.
2. Loan Administration Cost
This covers all types of application and processing charges and operational cost of the company.
3. Risk Premium attached to loans
As the title signifies, this compensates the company for the risk in loan request.
4. Margin Rate
Profit Margin which provides adequate return on capital to the company

Effective Rate of Interest charged to the borrower will be an aggregate of
 $\text{PRIME LENDING RATE} + \text{RISK PREMIUM} + \text{MARGIN}$

Where PRIME LENDING RATE will be a cumulative of Cost of funds, Operational Cost, Administrative Cost, ALM Mismatch Cost and cost for loan loss provision. The detail spread and base of each component is defined in Annexure 2 of the policy.

Any amendment in the rate of interest on account of modification of any component will be regularly updated in Annexure 2, without modification in this policy document, unless it is expedient to amend the document to effectuate the pricing model or any new component is added therein.

However, if the company proposes to resort to differential based pricing, the proposal will be moved to the Board, with amendment in the policy document, hence, currently, kept outside the purview of this policy.

The pricing of loans will be determined by the Finance Department and will be placed before the Board.

V. MINIMUM & MAXIMUM CEILING ON INTEREST RATES

The pricing of loans charged by Arth, will be regularly reviewed by the Board, and any changes in the pricing will be subject to approval of the Board, and will be made effective prospectively only, with intimation to the Borrower.

However, in no case, the Rate of Interest charged by Arth on its Microfinance loans, will be:

- a) Less than 22%
- b) More than 30%; exclusive of LPF and Insurance, which is to be borne by the borrower.

VI. CONFIDENTIALITY

This policy document and its contents are the sole property of Arth Micro Finance Private Limited and the right to display the same vests with the policy owner.

However, in pursuit of compliance with Reserve Bank of India Master Directions (Regulatory Framework of Micro finance Loans), 2022, the policy document will be displayed on the website of the company www.arthfinance.com under the tab of Investor Relations.

VII. MODIFICATION

The policy shall be modified to give effect to the changes in the extant guidelines/directives/instructions that may be advised by the Reserve Bank of India/Government of India from time to time and reporting and ratification/approval of the Board. The Policy shall also be reviewed/ revised from time to time to adapt to the changing environmental demands and to incorporate and implement any changes in the micro credit strategy of the Company, with the approval of the Board.

**भारतीय रिजर्व बैंक के निर्देशानुसार अर्थ माइक्रोफाईनेंस प्राइवेट लिमिटेड की ऋण नीति
अनुसार वर्णित फ़ैक्ट शीट**

क्रमांक	मापदण्ड	विवरण
1	ऋण राशि रुपये	34000
2	पूर्ण ऋण अवधि में देय कुल ब्याज राशि रुपये	7030
3	अन्य शुल्क	1791.8
3.1—	ऋण प्रक्रिया शुल्क	601.8
3.2—	बीमा प्रीमियम	1190
3.3—	कोई अतिरिक्त शुल्क	0
4	कुल हस्तांतरित की गयी ऋण राशि रुपये	32208.2
5	ग्राहक द्वारा भुगतान की जाने वाली कुल राशि रुपये	42821.8
6	प्रभावी वार्षिक ब्याज दर — आई. आर. आर पद्धति से घटते क्रम में	27.36
7	ऋण अवधि— माह में	16
8	भुगतान आवृत्ति	28 दिन
9	कुल किश्त भुगतान संख्या में	18
10	किश्त राशि रुपये में	2301
11	ओवरड्यू होने पर देय पेनल्टी दर	0
12	कोई अन्य शुल्क यदि देय हो तो	0

विस्तृत ऋण भुगतान सारणी

ऋण राशि 34000				
किश्त राशि	मूल राशि	ब्याज राशि	बकाया ऋण राशि	कुल देय राशि
₹2,301		26.00%		
			34000	
₹1,909	₹1,172	737	₹32,828	₹1,909
₹2,301	₹1,637	664	₹31,191	₹2,301

**ARTH FINANCE**

₹2,301	₹1,670	631	₹29,520	₹2,301
₹2,301	₹1,704	597	₹27,816	₹2,301
₹2,301	₹1,739	562	₹26,077	₹2,301
₹2,301	₹1,774	527	₹24,303	₹2,301
₹2,301	₹1,810	491	₹22,493	₹2,301
₹2,301	₹1,846	455	₹20,647	₹2,301
₹2,301	₹1,884	418	₹18,763	₹2,301
₹2,301	₹1,922	379	₹16,842	₹2,301
₹2,301	₹1,961	341	₹14,881	₹2,301
₹2,301	₹2,000	301	₹12,881	₹2,301
₹2,301	₹2,041	260	₹10,840	₹2,301
₹2,301	₹2,082	219	₹8,758	₹2,301
₹2,301	₹2,124	177	₹6,634	₹2,301
₹2,301	₹2,167	134	₹4,467	₹2,301
₹2,301	₹2,211	90	₹2,256	₹2,301
₹2,301	₹2,256	46	₹0	₹2,301
	₹34,000	₹7,030		₹41,030

- ध्यान रहे ऋण के पूर्व भुगतान पर कोई अतिरिक्त पेनल्टी देय नहीं है।
- हमारे कर्मचारी के अतिरिक्त किसी अनजान व्यक्ति को किश्त का भुगतान न करें।
- किश्त का भुगतान करने पर कर्मचारी से जमा की रसीद अवश्य प्राप्त करें। बिना रसीद भुगतान न करें।
- किसी असुविधा की स्थिति में शिकायत दर्ज कराने हेतु या सुझाव हेतु हमारे हेल्पलाइन नंबर 8290494949 पर संपर्क करें।
- आप नीचे दिये गये कंपनी के क्यू आर कोड को स्कैन कर के भी अपनी किश्त का भुगतान कर सकते हैं परंतु ध्यान रहे आप किसी कर्मचारी के निजी नंबर या उनके क्यू आर कोड पर भुगतान न करें।

ANNEXURE 2

PRICING MODEL

The components of pricing and pricing model as detailed in Para III and Para IV will be considered to determine the pricing of loans of the company, on the basis of quantum of component, derived on the basis of analysis of financials.

The proportion so determined will be reviewed quarterly on the basis of average cost prevailing till previous quarter, and will be updated in the Annexure note and accordingly prices may vary.

S.NO	FACTORS IN PRICING	BASIS FOR COMPUTATION	SPREAD OF RANGE
1	Cost of Funds	Average of last three financial years	12.50%-16.00%
2	Loan Administration Cost	Average of last three financial years	5.50%-7.00%
3	Margin	Average of last three financial years	2.00%- 4.00%
4	PRIME LENDING RATE		(1+2+3)
5	Risk Premium	Average of last three financial years	2.00%-3.00%
	RATE OF INTEREST		(4+5)