Rate of Interest and Approach for Gradation of Risk

1. Introduction

In terms of para 45.11 of the RBI Master Direction DoR. FIN. REC. No.45/03.10.119/2023-24 dated October 19, 2023 (Updated as on October 10, 2024) on Scale Based Regulation, the NBFC shall:

(i) adopt an interest rate model considering the relevant factors, such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances.

(ii) disclose to the borrower or customer in the application form and communicate explicitly in the sanction letter the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers.

(iii) make available on the NBFC's website, the rates of interest and the approach for gradation of risks, and update the same, whenever there is a change in the rates of interest.

2. Interest Rate Model

(i) The average annualised interest rate for month shall be calculated as an aggregation of the following cost factors:

Sl. No.	Particulars	%
1	Weighted Average Cost of Funds(A)	XX
2	Operation/Administrative Costs (B)	XX
3	Expected Return on Assets(C)	XX
4	**Average Annualised Interest Rate to be charged (A+B+C)**	XX

(ii)The operation/administrative costs include employee expenses, operations cost, fixed and variable administrative costs, etc. based on the latest budget estimates.

(iii) The expected Return on Assets (ROA) is the minimum return expected by the NBFC on its assets, on pre-tax basis. For the interest rate model, the expected ROA is the same as the latest budget estimates.

(iv) The average annualised interest rate for floating rate products is calculated on basis the spread over the following benchmarks:

RBI Repo Rate

3-month T Bill rate

SBI 3-month MCLR

SBI 1-year MCLR

3. Credit Risk Premium & Gradation of Risk

The business segments shall add credit risk premium on the average lending rate arrived as per the Interest Rate model shown above. The rate of interest for the same segment and tenor availed during same period by different customers is not standardised, as it could vary for different customers depending upon the risk gradation of the customer based on which the credit risk premium is computed on a case-to-case basis. The factors affecting the calculation of credit risk premium include credit default risk rating by CRAs, nature and value of collateral security, secured or unsecured loan, subvention available, tenure of the loan, ticket size of loan, repayment track record of the borrower i.e., credit score, location delinquency, etc.

4. Annualised Rate of Interest

The rate of interest shall be annualised rate, so that the borrower is aware of the exact rates that would be charged to the account. The interest rates shall be intimated to the customers at the time of sanction/availing of the loan and updated the same, whenever there is a change in the rates of interest.

5. Other Charges

In addition to the interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, rescheduling charges, pre-payment/ foreclosure charges, part disbursement charges, valuation, unit visit charges, etc., shall be levied by the NBFC, as per the wherever considered necessary. Besides the above charges, stamp duty, service tax, GST, etc., shall be collected on actual basis by debiting the customer's loan account.

The quantum of the charges to be levied, shall be clearly disclosed to the customer in the loan agreement incorporating the terms & conditions of the sanction of the loan, consistent with the "Interest Rates & Service Charges" displayed on the company's website.