



## **LOLC INDIA FINANCE PRIVATE LIMITED**

# **LOAN PRICING POLICY**

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## INTRODUCTION

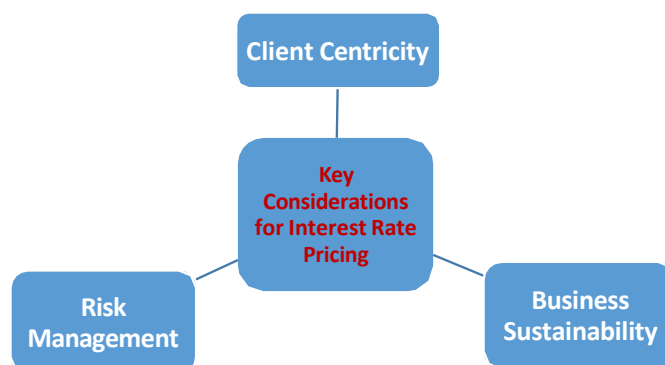
LOLC India Finance Private Limited (hereinafter referred to as “Company” or LOLC) is registered as NBFC MFI. During the course of its operations, the company strictly adheres to various directions, guidelines, circulars, instructions, etc. as issued and stipulated by the RBI from time to time.

The interest rate of the loans charged by the NBFC-MFIs to its microfinance borrowers had been determined and regulated by the RBI based on the cap (Average base rate of top 5 commercial banks \* 2.75 times). This has now been de-regulated through the revised regulatory guidelines for the microfinance industry issued by RBI on 14<sup>th</sup> March 2022. Under the new guidelines, LOLC shall put in place a board-approved well-documented interest rate model/approach for arriving at the all-inclusive interest rate.

As the interest cap has been removed by the RBI, keeping in view of the double bottom line of client centricity and business sustainability, now the onus of fixing the interest rate in a responsible manner lies with the boards of LOLC.

Boards have a key role in the interest rate pricing of LOLC as the pricing policy needs to be approved by them. Regular review and monitoring implementation of pricing guidelines shall be done by Board.

The key considerations in interest rate pricing shall be (i) Customer centricity, (ii) Business Sustainability, and (iii) Risk Management.



The Boards shall ensure the interest rate pricing is undertaken with necessary due diligence as the same is subject to regulatory inspection by RBI and close monitoring by SROs. The ceiling of interest rate and other charges are to be fixed by the Board, same will be monitored by SRO on a quarterly

basis. The minimum and maximum ceiling of the interest rate should be defined in the pricing policy document. LOLC shall review the ceiling on the interest rate periodically against the industry trends and standards released by the SROs. LOLC shall intimate SROs and mention on their website what is the maximum interest rate and other charges to borrowers on the last working day of every quarter.

## **POLICY COVERAGE**

This Board approved policy covers the following: -

- Components of pricing applicable for all loans (Microfinance and Non-Microfinance)
- Spread applicable for microfinance loans
- Ceiling on the interest rate and all other charges applicable to microfinance loans and non-microfinance loans
- Delegation of authority for pricing approval

### **▪ COMPONENTS OF PRICING FOR ALL LOANS**

The components of pricing and their delineation are as follows:

#### **i) Finance Cost/Cost of Fund**

LOLC borrows funds through various means encompassing term loans, debentures, CPs, subordinate debt, external commercial borrowings, etc. The Cost of Funds shall denote the Borrowing Cost\*\*.

\*\* Borrowing cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest rate, coupon, upfront/processing fees, collateral, legal & other charges, stamping and documentation charges, arranger fees, listing expenses, brokerage/commission/advisory/intermediation charges, hedging costs, liquidity management premium, prepayment of foreclosures incurred to replace high-cost debts, penal charges, taxes, etc. The expected cost of funds will be considered while determining the interest rate.

#### **ii) Operational Expenses**

It pertains to costs related to the end-to-end loan cycle. Considering the business model with significant human touch points, LOLC's cost of operations is greatly influenced by manpower costs, underwriting & collections, operations, fixed assets and infrastructure, technology, management and administration, sales, marketing & promotions, compliance costs, etc.

#### **iii) Risk Premium**

It covers all the risks that the company is exposed to, including but not limited to credit risks, operational risks, market risks, and systemic risks. Apart from the client profile, products, economic, political, geographical concentration, and events like natural calamities, climate change, external events, etc. increase the risk exposure of the portfolio.

Loan loss is the annual loss due to analyzed uncollectible loans. While the loan loss may be considerably lower than the delinquency rate, it reflects loans that must be written off. Loan loss provision for financial years shall be considered while arriving at interest rate pricing.

#### iv) Expected Profit Margin

LOLC ensures a reasonable profit margin for the organization to achieve steady growth and sustainable ROI for its stakeholders. At the same time, the profit margins should be reasonable so as not to put an excessive burden on customers.

#### ▪ ILLUSTRATIVE SPREAD APPLICABLE FOR MICROFINANCE

The range of spread of each component for Microfinance loans is as follows:

Component	Range	Rationale
Cost of Funds	13% -16%	It is based on projected borrowing costs with an expected sensitivity linked to market movement.
Operational Cost	7.00% - 8.50%	It is based on projected operational costs with an expected sensitivity based on cost overruns.
Risk Premium	1% - 3%	It is based on the historical trend of loan loss and operational/credit risk observed by the company
Margin	1.5% -3%	It is based on pre-tax expected ROA and net surplus.

#### ▪ CEILING APPLICABLE FOR ALL LOANS

The ceilings on interest rates and other charges for all loans (microfinance and non-microfinance) shall be as follows –

Item	Ceiling for Microfinance Loans	Ceiling for Other Unsecured Loans	Ceiling for Inorganic Arrangements*
Interest Rate	24 % - 26 %	25% - 32%	16% - 24%
Upfront Fees & Charges (excluding GST)	1% - 2%	2% - 3%	2% - 3%
Prepayment penalty #	Not applicable	4% of the principal outstanding plus GST	4% of the principal outstanding plus GST
Late payment charges on the overdue amount #	Not applicable	2% per month on unpaid EMI	2% per month on unpaid EMI
EMI Bounce charges per presentation	Not applicable	Rs. 500/- per bounce instance	Rs. 500/- per bounce instance
EMI pick- up charges	Not applicable	Rs. 500/- plus GST	Rs. 500/- plus GST
Repayment account swap (change in bank account for EMI repayment)	Not applicable	Rs. 500/- plus GST	Rs. 500/- plus GST

GST and other statutory duties & fees	As per actuals	As per actuals	As per actuals
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\*Inorganic Arrangements refer to Business Correspondent (BC), Direct Assignment, Partnership and Alliances and other third party sourcing transactions entered into by the Company.

# Not subject to capitalization in case of late/non-payment as per due date.

Any revision in the above charges shall be clearly communicated to the borrower and the same shall be applicable from the date of such revision or any other date as may be specified.

#### ▪ **GOVERNING PRINCIPLES FOR PENAL CHARGES**

Currently, the Company shall charge Penal Charges only in case of delay in payment/ non-payment.

Penal charges for default in repayment by the borrower shall be levied only on the amount under default. Such charges have been levied on absolute terms or percentage terms. In case of percentage terms, such charges shall be annualized. In line with the FAQ on Digital lending guidelines published by RBI, penal charges such as cheque bounce/ mandate failure charges etc, which are levied on a per instance basis shall not be annualized.

The quantum of penal charges 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.

There shall be no capitalisation 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.

The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges to non-individual borrowers for similar non-compliance of material terms and conditions.

The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions/Key Fact Statement (KFS) as, in addition to being displayed on website of the Company under Interest rates and Service Charges.

Whenever reminders for non-payment/ delay in payment are sent to the borrowers, the penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

Additional Penal charges shall not be levied on the earlier outstanding amount of Penal charges.

Penal charges shall be subject to waiver only with prior approval of Chief Operating Officer.

#### ▪ **PRICING APPROVAL**

Interest rates and other charges shall be periodically approved by the Risk Management Committee with the ceilings set by this policy. Any deviation to the policy terms shall be approved by the Board.

#### **TRANSPARENCY AND DISCLOSURE:**

- ✓ LOLC shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet/loan card as indicated by RBI for Microfinance Loan
- ✓ Interest rates and other charges/fees charged by LOLC on microfinance loans shall not be usurious.
- ✓ Any fees to be charged to the microfinance borrower by LOLC or its partner/ agent shall be

explicitly disclosed in the factsheet/loan card. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet/loan card.

- ✓ There shall be no pre-payment penalty on microfinance loans. However, pre-payment and delayed payment shall be applicable for Non-Microfinance Loans.
- ✓ LOLC shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices and branches and details on its website.
- ✓ Any change in the interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively

## Review & Monitoring

It is important to ensure that the LOLC undertakes a regular review of its product prices and makes suitable changes. The review shall be done on a quarterly basis or as and when required. Any deviation to the policy terms and defined ceilings beyond the delegation authority of the Risk Management Committee shall be approved by the Board.

### Summary of changes:

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The ceiling for non-microfinance loans has been added.  
Charges applicable on non-microfinance loans has been added.  
Penal charges mechanism added.

### Document Version

<b>Version</b>	Ver 3.0
<b>Prepared by</b>	Chief Manager – F & A
<b>Reviewed by</b>	Chief Financial Officer
<b>Approver</b>	Board of Directors
<b>Board approval date</b>	May 08, 2025
<b>Policy Owner</b>	Operations and Finance Department