

2024

Micro-Credit Pricing Policy

Hindusthan Microfinance Pvt. Ltd.
(HMPL)



Micro-credit Pricing Policy

Foreword

This **Micro-credit Pricing Policy** records in detail the method and guidelines for pricing of microfinance loans under the new RBI guidelines dated 14th March 2022 (Updated RBI/2024-25/18 DOR.STR.REC.13/13.03.00/2024-25 dated : April, 15 2024).

All organisational staff working under the microfinance programme of **HMPL** is required to adhere to the above pricing policy, in letter and spirit. Material violations of the **Micro-credit Pricing Policy** by staff will be treated as misconduct which, if proven, will result in punishment as permitted by the appropriate standing orders.

The **Micro-credit Pricing Policy** has been approved by the Board of Directors of HMPL as a guide to refer to and follow any issue related to the pricing of microfinance loans disbursed by HMPL.

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Acronym Glossary

HMPL	Hindusthan Microfinance Pvt Ltd
KYC	Know Your Customer
RBI	Reserve Bank of India
RE	Regulatory Entity
SROs	Self-regulatory organisations
eKYC	Electronic know your customer
Op-ex	Operational expenses
LLR	Loan Loss reserve
RP	Risk premium
EPM	Expected profit margin
PF	Processing Fees
APR	Annual Percentage Rate

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1. INTRODUCTION

RBI's harmonised policy guidelines on Microfinance [applicable to all REs], has proposed deregulating the pricing (interest rate charged to customers) for NBFC-MFIs to ensure that microcredit pricing is fair, transparent, and competitive.

New Guidelines of RBI states that:

Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

- (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;
- (ii) De1.1.ineation 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;
- (iii) The range of spread of each component for a given category of borrowers; and
- (iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

Each RE shall disclose pricing related information to a prospective borrower in a standardized simplified factsheet

Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.

SRO to publish range of interest rates

Interest rate to be charged by MFIs to borrowers had been regulated by RBI based on the cap (Average base rate of top 5 commercial banks*2.75 times). This has now been de-regulated through the recent regulatory guidelines of RBI dated 14th March 2022. Based on the new regulations all regulated entities providing microfinance loans shall put in place a board approved well documented interest rate model/ approach for arriving at the all-inclusive interest rate. As the interest rate cap has been removed by RBI, now the onus of fixing the interest rate in a responsible manner keeping in view of double bottom line of client centricity and business sustainability lies with the boards of MFIs/REs.

2. ROLE OF BOARD OF DIRECTORS:

Board shall have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework. However, the board may delegate the review and implementation of the pricing policy to a committee as deemed fit.

Pricing Committee: The policy will be reviewed and monitored by the Interest Rate Pricing Committee on a quarterly basis and decide on any changes/status quo in the interest rate. Pricing committee shall be responsible for reviewing the interest rate pricing, propose changes and spreads in the interest rates and approve exceptions, if any, within the perimeters of this policy. The Pricing committee's decisions should be put up to the board for approval, in case of any change from the policy framework and in other cases for information.

The Interest rate pricing Committee will consist of the following members

- a. Managing Director
- b. Executive Director
- c. VP – Finance and Accounts

The key considerations in interest rate pricing shall be

- (i) Customer centricity,
- (ii) Business Sustainability and
- (iii) Risk Management

3. COMPONENTS OF INTEREST RATE PRICING:

As per recent RBI guidelines, components of interest rate pricing can include “Cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters”. As per National and International practices in interest rate pricing, common components of interest rate pricing are

1. Finance Cost / Cost of Funds.
2. Operational expenses (Op-ex)
3. Other Transaction Cost
4. Loan loss Reserve
5. Risk premium
6. Expected profit margin.

Pricing formula Interest Rate = Finance Cost+ Operating expenses +Other Transaction cost + Loan loss+ Risk premium+ Profit margin.

Sr. no.	Components	Explanation
1	Finance Cost / Cost of Funds	A+B+C
A	Borrowing	The lender borrows funds through various means from the Banks and investors and considers the weighted average costof borrowing, including the processing fee paid on the borrowing.

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B	Equity	The lender needs to put some equity to run the business and factors the cost of such equity. Cost of Equity can be calculated at the return agreed at the time of Equity raise.
	Borrowings and Equity relative weight in funded liabilities to be considered in calculation.	
C	Fundraising	Costs related to fundraising such as brokerage/advisory/market intermediation, rating, hedging, legal services, commissions, exchange listing
2	Operational/Opex/Overhead cost	It includes costs related to operations, employees, physical infrastructure (fixed and variable costs), sales and marketing, technology, among other things. (Personnel Cost including incentive + Travel Cost + Admin Cost + Group Dev. Cost/Training Cost +professional charges ,audit fees ,technology Depreciation)/Average Portfolio Outstanding.
3	Other Transaction Cost	Expenses on CB check, E-KYC, Documentation, Other Loanorigination charges if any / Total Loan Amount sanctioned
4	Loan Loss Reserve	Average write off % in the past 3-5 years of concerned institution(Long term period value at risk model)
5	Risk premium	Based on past Portfolio quality of specific clients/client segments/geography/product ,etc Risk premium could be linked to client’s vintage, credit history, ,repayment capacity , asset ownership ,etc Risk related to geography could be areas prone to natural calamities, PAR levels, negative areas, etc Sa-Dhan/MFIN shares State and District level risk scores with member MFIs/REs which will be used for this purpose
6	Expected profit margin	1. Average of Sector Level RoA (+) or (-) "X" percentage as decided by Board.Or 2. Profit Margin decided by Board based on future growth.

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4. FEE AND CHARGES

In addition to the Interest Rate, the company may charge the following fees and charges to its customer for the Micro-credit loan disbursed. This will be clearly expressed in both percentage and absolute terms in the loan card provided to the customers.

Sr. no.	Components	Explanation
1	Sourcing/processing	Initial application fee to cover for processing the loan application.(e.g document verification, initial application servicing ,credit appraisal) This will be a % of the loan amount.

		Processing fee typically covers sourcing, credit appraisal,documentation, verifications etc. For the present (till the next review),the Company will charge processing fees of 1%from all its customers at the time of disbursement
2	Late/delayed paymentand Pre-payment	The charges for late payment (any delay from the due date to date of actual repayment). It can be charged as %of overdue instalment amount and the same will be informed to the customer upfront. Pre- Payment option is available to the borrower & no penalty will be charged for prepayment Late payment charges will be 2% of the overdue installment
3	Differential Rates	The Company may continue to charge different rates , based on interest subsidy for any loan available for specific purpose , risk rating of borrowers , district risk index , terms of loan,etc
4	Annual Rate	The Rate of interest will be annualized to enlighten/guide the borrower exact rate charged to his/her account
4	Premium amount for credit linked life insurance, if applicable	At actuals
5	Government/statutory	Besides these charges, the Company will collect stamp duty, service tax / GST and other cess at applicable rates from time totime

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5. REVIEW:

The Board shall review the pricing policy annually or at a defined periodicity to align with regulations, market developments and external environment. The lender shall apply any changes in pricing prospectively.

6. COMPLIANCE:

The Audit/Risk department to monitor the compliance of the pricing policy and report the non-adherences/irregularities to the Pricing Committee and the Board.

7. DISCLOSURE:& AWARENESS

The pricing information should be disclosed to customers in terms of standard content format and modes of dissemination along the lines below. Further, this information will also be reported to the RBI and Self-regulatory organisation (SRO), as required by them. Disclosures shall also be in vernacular in branches and other operational areas.

- The Company will publicly disclose the pricing framework and effective interest rate to client including all charges – other than interest rate, any other charges should be separately disclosed and be part of Annual Percentage Rate (APR). In case of differential pricing, the spread-range for all the products and customer segments (if applicable).
- The Company will display Minimum, Maximum and Average Interest Rate charged in all branches, Head Office and all other Offices and website Changes in Interest rate will be informed to the borrowers well in advance through field officers /agents ,
- For sake of transparency, the interest rate will be an all-inclusive interest rate.
- The pricing information will be disclosed on the website, marketing collateral, loan documents (application form, sanction letter, agreement, loan statement/card, factsheet) and SRO. The borrower shall not be charged any amount which is not explicitly mentioned in the loan card/factsheet.
- The effective interest rate will be communicated to the customers at the time of application/sanction.
- In case of any changes in the rates and charges, the same will be updated in the marketing collaterals, website, and other relevant documents.
- HMPL at its discretion consider moratorium for payment of interest & repayment of principal amount on a case-by-case analysis Customers Profile ,customers back ground ,total cost to the borrower ,risk & reward to the Company would be kept in view
- There will be no discrimination among the borrowers , based on cast ,creed ,color , or religion
- Members shall provide a loan card to the borrower which shall incorporate the following:
 - i. Information which adequately identifies the borrower;

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- ii. Simplified factsheet on pricing;
 - iii. All other terms and conditions attached to the loan;
 - iv. Acknowledgements by the RE of all repayments including instalments received and the final discharge; and
 - v. Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE and RBI Ombudsman (For applicable REs)
- Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.

CD

Disclosure to the Borrowers:

INTEREST RATE UNDER BAC ARRANGEMENT:

In case of loans covered under BC arrangement, the rate of interest as mutually agreed between HMPL and Commercial Banks, Cooperative institutions and other Financial Institutions in whose books the exposure of loan is recorded will be applicable, provided interest computation, fixation & changes interest rate conform to the extant instructions of RBI.

AMENDMENT:

Power to amend to the Pricing Policy rests with the Board of Directors, based on the recommendation of Pricing Committee.

- (i) Disclosure to the Borrowers _ : Illustrations 1:(HMPL will disclose price -related information to a perspective borrower in a standardized Fact Sheet as per the RBI Guidelines issued on 14 March 2022)
 - _ Illustration for Assessing Pricing of HMPL
 - A. Cost of funds
 - B. Operating Expenses
 - C . Expected Loan Loss (higher of the two)
 - D . Operating Margin
 - Prime Lending Rate: A+B_C+D
 - Risk Premium (between 1 to 3 %, depending on various risks)
 - Processing fee:
 - Credit Insurance: Actual
 - Credit Verification Charge, if any

(ii) ILLUSTRATION 2

Besides the Fact Sheet /Loan Card, the Key Facts of a loan agreement between Company & borrower shall be informed to the borrower in simple and easier to understand language through Key Fact Statement (KFS) in accordance with Illustration provided in ILLUSTRATION 2

(iii) ILLUSTRATION :3 &4

The KFS will include a computation sheet Sheet of Annual % Rate (APR) and the amortization schedule of the loan tenor .APR will include all charges which are levied by the Company and will reflect through KFS in accordance with illustration provided below as ILLUSTRATION 3& the Repayment Schedule under Equated Periodic Statement for hypothecated Loan

ILLUSTRATED 4

(From RBI Circulars, the Fact Sheet, KFS -Illustration 2 -Part 1 (Interest Rate ,fees and Charges), Part li (other Qualitative Information), Illustration 3 (Computation of APR fir MSME and Illustration (;4 Repayment Schedule) will have to be borrowed and placed in the Policy as also for borrowers)