

# Interest Rate & Charges Policy

## Document Version controller

Version	V1 May 2021 V2 April 2022 V3 June 2023 V4 July 2023 V5 October 2023 V6 June 2024 V7 August 2024 V8 October 2024 V9 – December 2024
Prepared By	Risk Team (CRO)
Reviewed By:	Finance & Treasury Team (CFO)
Approved By:	Board of Directors
Effective Date:	December 12, 2024

# IIFL Finance Limited

---

## Interest Rate & Charges Policy

### Introduction

IIFL Finance Limited (the ‘Company’), in compliance with – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 and various circulars issued from time to time, has adopted this Interest Rate & Charges Policy (‘Policy’) to lay out appropriate internal principles and procedures to arrive at benchmark rates to be used for different types of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged from customers for its lending business.

### Methodology

The average yields and the rate of interest under each product shall be decided from time to time, giving due consideration to the following factors:

- a) The cost of funds on the borrowings, as well as costs incidental to those borrowings, taking into consideration the average tenure, market liquidity and refinancing avenues etc.
- b) Operating cost in our business and maintaining the stakeholder’s expectations for a reasonable, market competitive rate of return
- c) Inherent credit and default risk in our business, particularly trends with sub-groups / customer segments of the loan portfolio
- d) Nature of lending, for example unsecured/secured, and the associated tenure
- e) Nature and value of securities and collateral offered by customers
- f) Subventions and subsidies available, if any
- g) Risk profile of customer i.e. professional qualification, stability in earnings and employment, financial positions, past repayment track record with us or other lenders, external ratings of customers, credit reports, customer relationship, future business potential etc.
- h) Industry trends i.e. offerings by competition

## **Organization Structure**

### **Board of Directors**

The Board of Directors shall have oversight for the *Interest Rate & Charges Policy*. To ensure effective implementation of the Policy, the Board may delegate the implementation of the Policy and its operational aspects to the respective Business Head and/or ALCO as may be deemed fit.

### **Asset Liability Management Committee (ALCO)**

ALCO shall be responsible for evaluating and approving the Interest Rate range i.e. the minimum and maximum rate the Company can charge within which loans shall be granted to the customers. Any changes in the Interest Rate range shall be approved by the ALCO and would be put up to the Board in subsequent meeting.

Respective Product Manuals, with the approval of the Business Head, may have their internal pricing policies under the overall framework of Board approved Policy to arrive at the final rate to be charged to the borrower depending on various factors. Changes to product level internal pricing policies, if any, shall be approved by the respective Business Head and any changes beyond the range shall be approved by ALCO.

### **Interest Rate Model**

The model for the type of interest rate on respective products shall be defined in the respective product manuals. The Company shall adopt a discrete Policy which shall mean that the rate of interest for same product and tenure availed during the same period by separate customers may not be standardized but shall vary within a range, depending, amongst other things, the factors mentioned below.

The Company adopts a comprehensive interest rate model that considers factors such as the cost of funds, operational margins, and the applicable risk premium to determine loan interest rates. This approach ensures that interest rates are both fair and aligned with the company's financial strategy.

### **Approach for Gradation of Risks**

Risk grading enables the Company to differentiate customers across different risk spectrum and helps in applying risk premium to that customer. The Company shall assign a rating score to all its loans, which shall take into account various factors like the past track record, the financial robustness of the project, security offered, various risks associated with the project like market risk, operating risk and regulatory risk among others and mitigation thereof.

The risk premium attached with a customer shall be assessed inter-alia based on the following factors:

1. profile and market reputation of the borrower
2. tenure of relationship with the borrower group, past repayment track record and historical performance of our similar clients overall customer yield, future potential, repayment capacity based on cash flows and other financial commitments of the borrower, mode of payment, group strength for corporate loans
3. nature and value of primary and secondary collateral / security
4. type of asset being financed, end use of the loan represented by the underlying asset
5. interest, default risk in related business segment i.e. market volatility and competitor review
6. Bureau score of an individual which determines the credit payment history across loan types and credit institutions over a period of time
7. regulatory stipulations, if applicable
8. and any other factors that may be relevant in a particular case

**Communication to Customers**

The Company shall intimate the borrower the annualized rate of interest at the time of sanction of the loan along with the tenure and amount of EMI apportionments towards interest and principal. Interest would be charged, and recovered on a monthly, quarterly basis or such other periodicity as may be approved by the designated authority. Specific terms in this regard would be addressed through the relevant product policy.

The customer shall also be informed about the Policy is available on the Company website and any change in the benchmark rates (Floating Reference Rate) and charges for existing customers would be uploaded on the website of the Company.

The Company shall ensure that all changes to interest rates and charges are implemented only on a prospective basis.

Any changes in the rates and charges for existing customers would also be communicated to them through either e-mail or letter or SMS. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per terms of the loan documents. Interest shall be deemed payable immediately on due date as communicated and no grace period for payment of interest is allowed.

In case of staggered disbursements, the rates of interest would be subjected to review and the same may vary according to the prevailing rate at the time of successive disbursements or as may be decided by the company.

The Company shall follow the guidelines mentioned in the Fair Practices Code guidelines as issued by RBI from time to time and as adopted by the company through its Fair Practices Code. Statement of account will be made accessible to the borrowers, through any acceptable mode of communication, as and when requested by the borrower.

Penalties for non-compliance with material loan terms by the borrower shall be classified as 'penal charges' and not as 'penal interest' added to the loan's interest rate. Penal charges will not be capitalized, meaning no further interest will be calculated on them. This does not affect the normal compounding of interest in the loan account.

The Company is committed to ensuring transparency and compliance by not including any additional components in the interest rate and adhering strictly to the prescribed guidelines in both letter and spirit.

At the time of loan sanction, borrowers will be clearly informed about how changes in the benchmark interest rate (FRR) could affect their EMI and loan tenure, ensuring they are fully aware and prepared for any potential adjustments.

At the time of reset of interest rates, the borrowers shall be given the choice to opt for enhancement in EMI or elongation of tenor or for a combination of both options; to prepay, either in part or in full, at any point during the tenor of the loan with applicable charges as per schedule of charges.

Claims for refund or waiver of such charges/penal charges/additional charges would normally not be entertained by the Company and it is the sole and absolute discretion of the Company to deal with such requests.

Upon resetting interest rates, the Company shall offer borrowers the option to switch to a fixed rate, which may define the number of switches permitted during the loan tenure.

All charges associated with switching from floating to fixed rates & switch frequency allowed including service or administrative costs have been mentioned in table below.

The Company will ensure that any extension of the tenure for a floating rate loan does not lead to negative amortization.

### **Other Charges**

Besides interest, other financial charges like processing fees, cheque bouncing charges, prepayment/ foreclosure charges, part disbursement charges, cheque swaps, cash handling charges, RTGS/ other remittance charges, commitment fees, charges on various other services like issuing No Due certificates, NOC, letters ceding charge on assets/security, security swap & exchange charges etc. would be levied by the Company wherever considered necessary. The levy or waiver of these charges for different products or facilities would be decided within the limits prescribed under the policy (Refer *Annexure I*). Any changes in the charges shall be approved by the ALCO and would be put up to the Board in subsequent meeting. Besides the base charges, the Goods and Service Tax (GST) and other cess would be collected at applicable rates from time to time. Any revision in these charges would be with prospective effect. A suitable condition in this regard would be incorporated in the loan agreement. Any fees, charges, etc. which are not mentioned in the KFS, shall not be charged to the borrower at any stage during the term of the loan, without explicit consent of the borrower.

### **Review of Policy**

The Policy shall be reviewed by the Board of Directors annually or more frequently as may be required.

## Annexure 1

GOLD LOAN								
Processing Charges	Penal / Default Charges #	Mark to Market (MTM) Charges	Stamp Duty & other Statutory Charges***	Auction Charges\$	Overdue Notice Charges\$ (once in 90 days)	SMS Charges	Part-Payment Charges	Pre-Closure Charges
Upto 2 %	0.5% p.m. (6% p.a.)(inclusive of GST)	₹500 (inclusive of GST)	As per applicable laws of the state	₹1500 (inclusive of GST)	₹200 per Notice (inclusive of GST)	₹5.9 per Quarter (inclusive of GST)	NIL	NIL (Minimum of 7 days interest will be charged if loan is closed within 7 days)
BUSINESS LOAN								
Processing Charges	Penal / Default Charges #	NACH / E-Mandate Bounce Charges	Documentati on Charges	Bank Swapping Charges	NeSL Reporting**	Stamp Duty & other Statutory Charges***	Prepayment/Fore closure Charges*	
2% - 9%	2% p.m. (24% p.a.)	Up to ₹ 2500	Up to ₹ 4000	₹ 500	As Applicable	As per applicable laws of the state	0-6 Months- 7%, 7-24 Months- 5%, >24 Months-4%	
PERSONAL LOAN								
Processing Charges	Penal / Default Charges #	NACH / E-Mandate Bounce Charges	NeSL Reporting**	Stamp Duty & other Statutory Charges***	Prepayment/Foreclosure Charges*			
2% - 6%	2% p.m. (24% p.a.)	₹ 500	As Applicable	As per applicable laws of the state	Maximum – 7%			
DIGITAL FINANCE								
Processing Charges	Penal / Default Charges #	NACH / E-andate Bounce Charges	Documentati on Charges	Bank Swapping Charges	NeSL Reporting**	Stamp Duty & other Statutory Charges***	Prepayment/Fore closure Charges*	
Upto 10 %	2% p.m. (24% p.a.)	₹ 500	Upto 3.5%	₹ 500	As Applicable	As per applicable laws of the state	Upto 4 %	
SUPPLY CHAIN FINANCE								
Processing Charges	Stamp Duty & other Statutory Charges***	Penal / Default Charges #						
0.75%-2%	As per applicable laws of the state	2% p.m. (24% p.a.)						
COMMERCIAL REAL ESTATE								
Processing Charges	Penal / Default Charges #	Collateral Evaluation Charges	Prepayment/Foreclosure Charges*					
Up to 2% of the loan amount approved	0.5% p.m. (6% p.a.)	At Actuals	Upto 4%					
LOAN AGAINST SECURITIES								
Processing Charges	Penal / Default Charges #	NACH / E-Mandate Bounce Charges	Stamp Duty & other Statutory Charges***	NeSL Reporting**				
0.25% to 1%	2% p.m. (24% p.a.)	as per actuals	As per applicable laws of the state	As Applicable				

**LOAN AGAINST SECURITIES (DIGITAL)**

Fees / Charges	Fees / Charges (% / Rs.)		
Processing Fees	<u>Loan amount</u>	<u>Loan Tenure</u>	<u>Processing Fee</u>
	Up to 100,000	1 - 3 years	2.00%
	>1 Lakh – 5 Lakh	1 - 2 years	1.50%
		3 years	2.00%
	>5 Lakh – 1 cr	1 year	1.00%
		2 years	1.50%
3 years		2.00%	
Bounce Charges	Up to INR 2000/- (Per instance)		
Foreclosure / Part payment charges	5% of the amount paid by the customer towards foreclosure / part payment		
Annual Maintenance Charge	INR 999/- or 0.50% of the Limit whichever is higher		
Pledge Creation Charges	INR 500/-		
Pledge Revocation Charges	Up to INR 499/-		
Pledge Revocation charges (without availing loan)	Up to INR 999/-		
Pledge Invocation Charges	Up to INR 2000/-		
Legal Charges	Up to INR 5000/-		
Collection Charges	Up to INR 5000/-		
Commitment Charges on non-utilization of Limit	0.25% p.m. of the unutilized limit for <25% utilization (calculated on daily average utilization on a monthly basis). To be charged on a monthly basis.		
Penal Charges	3%		

# levied on outstanding due amount. Outstanding due amount for this purpose includes the principal outstanding and Interest accrued. Penal charges will not be levied on the outstanding penal due amount

\$ The combined levy of overdue notice charges and Auction charges will be capped at ₹ 1500 per customer loan account

\*Subject to cooling Period. Charged on outstanding principal

\*\* These charges shall be charged annually in accordance with the fee schedule provided by NESL and are subject to change by NESL.

\*\*\* Stamp Duty as per applicable laws of the state

Note:-GST and other government taxes, levies, etc. applicable as per the prevailing rates will be charged in addition to these charges. (if applicable)

## Secured Business Loan

### Floating Reference Rate (FRR)

The FRR serves as the internal benchmark rate for determining interest rates on floating-rate loans sanctioned under the loan against property product. It is calculated based on several key variables, as outlined below:

#### 1. Cost of Funds:

- The average cost of funds across all financial instruments is a critical input for calculating the FRR.
- Adjustments to the FRR are made in response to changes in borrowing costs, such as shifts in MCLR spreads or rate changes by lenders and banks.

**2. Operating Expenses (Opex):**

- The expected operating expenses incurred by the company, including personnel costs, administrative costs, and depreciation, are factored into the FRR calculation.

**3. Credit Costs:**

- Anticipated credit losses and provisions are added to the FRR. These credit losses may vary depending on the product type.

**4. Return on Capital:**

- The desired return on capital or profitability for the business is incorporated into the FRR to ensure financial sustainability.

**Type of Interest Rate:** Floating Rate & Fixed Rate

**Floating Rate Loans**

Floating rate loans are offered to customers at a rate determined by the FRR, adjusted by a discount or premium, as decided during loan sanctioning.

The company reviews the FRR on quarterly basis to reflect changes in market conditions. This ensures that the business remains competitive during favourable market conditions and sustains profitability during adverse conditions. Adjustments to the FRR will be made based on changes in the underlying variables, such as cost of funds, operating expenses, credit costs, and desired returns.

Regular monitoring and recalibration of the FRR enable the company to safeguard its business growth and align with evolving market dynamics.

**Introduction of FRR w.e.f 12<sup>th</sup> Dec 2024**

December-24	Secured Business Loan	Methodology
Cost of Funds	10.50%	Variable
Operating cost of Business	4.50%	Variable
Expected Return on Capital	4.00%	
Credit Losses	1.50%	
<b>Calculated FRR</b>	<b>20.50%</b>	

**Principles and procedures for charging spreads to calculate final rate**

The final rate of interest for loans offered will be arrived after reducing / adding spread by the credit and the business team. Some of the key factors (illustrative but not exhaustive) considered by businesses for calculating spreads are given below:

1. Credit and default risk in the related business segment
2. Profile of the customer
3. Nature and value of collateral security
4. Ticket size of loan
5. Bureau Score
6. Tenure of Loan

Fees /Charges	Fees /Charges ( % /Rs.)
Processing Fees	up to 5% of the loan amount + GST
IMD Charges <sup>1</sup>	₹ 3,000 + GST (non-refundable)
Nach / e-mandate bounce Charges	₹ 2,500 + GST
Penal / Default Charges <sup>2</sup>	24% p.a. + GST
Cancellation charges	₹ 5,000 + GST
Legal Charges	As per Actual
Stamp Duty	As per Actual
Prepayment/ Foreclosure	- Before 1st 6 EMI: Foreclosure not allowed - After 1st 6 EMI: 5% of the principal amount + GST
Switching Fees (floating to fixed rate) <sup>3</sup>	1% of the of the principal outstanding and undisbursed amount if any + plus GST. The company would charge an additional interest rate risk premium of 250 bps over the applicable rate of interest on the borrower's loan account as on that date.***
Switching Fees (fixed rate to floating rate) <sup>3</sup>	1% of the of the principal outstanding and undisbursed amount if any + plus GST ***
Switch fee for ROI change	2% of the of the principal outstanding + GST
Freelook Period	3 Days (Borrower shall not be charged any penalty on prepayment of loan)

1. In case of disbursement, this charge will be adjusted towards Processing Fees
2. Levied on principal outstanding. Penal charges will not be levied on the outstanding penal due amount.
3. Maximum three conversions permissible throughout the loan tenure.