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POLICIES AND MANUALS

“A journey of a thousand miles begins with a single step”



Interest Rate Policy 2.0*

Credit Department

 DIGAMBER FINANCE®

*Updated as per RBI circular RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 dated March 14, 2022

PREFACE

The Reserve Bank of India (RBI) vide its Master Directions RBI (Regulatory Framework for Microfinance Loans) Directions, 2022 and its Guidelines on Fair Practices Code for NBFCs through notification RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16, as amended from time to time (RBI Regulations), has directed all NBFCs to put in place a board-approved policy regarding pricing of microfinance loans and disclose pricing related information to a prospective borrower in a standardized simplified factsheet. Any fees to be charged to the microfinance borrower by the RE and/ or its partner/agent shall be explicitly disclosed in the factsheet.

In compliance with the requirements of the RBI Regulations mentioned above the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model.

Previously, the pricing guidelines was governed by RBI, which was as mentioned below:

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

- a) The cost of funds plus 10% margin; or
- b) The average base rate of the five largest commercial banks by assets multiplied by 2.75.

As per the recent guidelines RBI relaxed the pricing norms for NBFC-MFIs so we developed the pricing formula which is more logical and near to the actual cost plus margin model.

We are depicting an illustration for comparison between the old and new guidelines:

The given below illustration is based on loan amount of Rs. 50,000/- for a loan tenor of 30 months

Calculation of ROI		Old	New
A	Cost of Fund	12.96%	12.96%
B	Operating Cost	0.00%	7.46%
C	Loan loss reserves	0.00%	2.60%
D	Demographic Risk Premium *	0.00%	0.00%
	Base Rate	12.96	23.02%
E	Margin	10.00%	3.00%
	Margin as a % of base rate	77.16%	13.03%
	Rate of Interest charge from microfinance borrower (ROI)	22.96%	26.02%
F	Processing Fees	1%	1%
G	Insurance (Approx. for 2 lives for 3 years)	3%	3%
	Internal Rate of Return (IRR)	26.54%	29.48%
	Disclosure of Facts as annexure called "FACTSHEET"	OPTIONAL	MANDATORY

*This premium is only applicable in case of risky and unbanked areas with higher operations cost.

Policies and Manuals: Interest Rate Policy

Previously the companies used to disclose only the ROI which was calculated as per the guidelines issued by RBI. However, the new guidelines suggest that we include other charges like processing fees, insurance etc. also while calculating the IRR. So accordingly in old scheme the IRR was around 26.54% which has now reached to around 29.48%. But in the eyes of customer the difference between the two rates will reflect as 6.52% (29.48%-22.96%), whereas the actual increment in rate of interest (ROI) is only 3.06% (26.02%-22.96%).

The company feels that this might mislead the consumers as well as stakeholders which may lead to negative message in the industry. Thus we feel that the disclosure should be given only of ROI (Rate of interest) so that the rates are comparable. Although, we will provide all the disclosures related to loans in line of “cost of loans” which is more relatable and understandable to field operations.

I. COST PLUS MARGIN MODEL

Interest rates charged by Digamber Capfin Limited (“DCL”) to its borrowers will be the sum of the following:

- a. The Average cost of funds (**Finance Cost**) of company
- b. Operational Expense (**Op-ex**)
- c. Loan Loss Reserve (**LLR**)
- d. Margin (**MAR**)
- e. Demographic Risk Premium (**DRP**) – Will be applicable only where operations are in high risk areas or difficult to operate areas or unbanked small areas (remote areas), where the cost of operations may be relatively high. The capping on this premium shall be maximum 2%.

II. COST OF FUNDS

The term cost of funds refers to how much DCL spend in order to acquire money to lend to their customers. Cost of funds is calculated quarterly considering the following attributes:

- a. Interest on borrowings
- b. Processing Fees
- c. Stamp Duty
- d. Interest Loss on cash collateral (Opportunity Cost)
- e. Unrecoverable Taxes on above expenses
- f. Any legal or professional expenses directly attributable to acquiring the loan

II. OPERATIONAL EXPENSE

An operating expense is an expense a business incurs through its normal business operations. Operating Expense typically includes rent expenses, administrative expenses, employee benefit expenses, depreciation etc. Total operating cost is divided by average AUM to arrive at Operating cost ratio.

III. LOAN LOSS RESERVE

A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss provisions are then added to the loan loss reserves, a balance sheet item that represents the total amount of loan losses subtracted a company's loans. The percent of loan loss reserve may be based on loss pool estimation or any other working as the board may deem fit. Presently we have considered the loss pool estimation done by credit rating agencies on our pool to arrive at the percentage to be charged on loans.

IV. CEILING ON INTEREST RATE

In accordance with the latest guidelines and best business practices, DCL is keeping a ceiling of 33.33% margin on Base Rate charged from the borrowers.

V. PROCESSING CHARGES

Processing charges shall not be more than 1 % plus GST of gross loan amount for microfinance loans. Processing charges need not be included in the margin cap or the interest cap. However, the same needs to be disclosed in annexure attached as “factsheet”.

VI. INSURANCE CHARGES

Company will collect only the actual premium of life insurance, calculated on the basis of loan amount, from their borrowers including their spouse for the tenor of the loan. The amount of insurance premium shall be disclosed in factsheet and the collected amount will be paid to the insurance company/agent directly by the company.

VII. Interest on Delayed Payment

Interest on delayed payments shall be charged at Rate of Interest(ROI) from the date of EMI due to the date EMI is received on overdue amount in case of delayed payments.

VIII. Other Charges

Any fees or amount other than mentioned above to be recovered from borrower has to be explicitly mentioned in the factsheet. However, loan prepayment charges will always be “NIL”.

IX. CONTENT ON THE WEBSITE

- ✓ Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website at <https://www.digamberfinance.com/corporate-governance/>
- ✓ The rates of interest and the approach for gradation of risks shall also be made available on the website of the company. The information published in the website should be updated whenever there is a change in the rates of interest. However, for confirmation of final ROI, the factsheet provided to customer shall be deemed to be the final document.

X. AMENDMENT

The Company reserves its right to amend or modify this Policy in whole or in part, at any time without assigning any reason whatsoever.

In case of any amendment(s), clarification(s), circular(s), etc. issued by the relevant authorities not being consistent with the provisions laid down in this Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions herein and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s), etc.

POLICY REPEALABLE

This policy constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any Applicable Law, statute or regulation, the same shall be Repeal able from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy.

Annexure as "FACTSHEET"

Illustrative Factsheet on Pricing of Microfinance Loans		
(to be provided in a language understood by the borrower)		
Date: April 1, 2022	Lender's Name: Digamber Capfin Limited	Applicant Name: XXX
Sr. No	Parameter	Details
1	Loan amount (amount disbursed to the borrower) (in Rupees)	
2	Total interest charge during the entire tenure of the loan (in Rupees)	
3	Other up-front charges (break-up of each component to be given below) (in Rupees)	
3(i)	Processing fees (in Rupees) (Including GST)	
3(ii)	Insurance premium (in Rupees) (To be deposited to life insurance company)	
3(iii)	Other Charges	
4	Net Disbursed Amount ((1)-(3))	
5	Total Cost of loan (Sum of (2) and (3))	
6	Number of Instalments of Repayment (EMIs)	
7	Repayment frequency after every four Week/one Month	Fixed Day/Date
8	Amount of Each Instalment	
Details about Contingent Charges		
9	Interest on delayed payments shall be charged at Effective Rate of Interest, mentioned in point no. 10 , from the date of EMI due to the date EMI is received on overdue amount in case of delayed payments.	
10	Rate of Interest (ROI)	
11	Loan prepayment Charges	NIL

*Call us on 1800-1806-365 from Monday to Friday between 10AM to 5PM for any queries related to above factsheet.
