

## **Interest Rate policy**

**(March 2024)**

**Version 8.0**

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## I. Background:

National Housing bank has advised that the Board of each HFC shall approve an Interest rate policy for the Company, taking in to account relevant factors such as margin and risk premium charged to different categories of borrowers. The Interest rates are also required to be made available on the website of the Company. The Company has been offering products linked with its floating reference rate model. In addition to the existing product suite, the Company also offers floating rate loans linked to an external benchmark. The Company has two Interest rate models with which loans can be linked.

1. Floating Reference Rate (FRR) Model
2. External Benchmark Model

## II. Omnibus Clause:

| Particulars   | Directions  |
|---|---|
| Version No.   | 8.0   |
| Applicable RBI directions / circulars / notifications | <p>a. Master Directions – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021, as amended from time to time.</p> <p>b. RBI notification on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans dated August 18, 2023, as amended from time to time.</p> <p>c. RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 on “XBRL Returns – Harmonization of Banking Statistics” dated January 04, 2018 – for definition of ‘Personal Loan’.</p> <p>d. The contents of this Policy shall stand automatically amended in case of any amendments / revisions issued by the Reserve Bank of India (“RBI”) from time to time.</p> |
| Approval Authority                                    | Board of Directors  |

## III. Principles for determining interest rate for loans linked to FRR:

- Bajaj Housing Finance Limited (BHFL/ Company) has developed model for arriving at benchmark rates for different type of customers such as Salaried, Self-employed and Corporates. The company is now creating BHFL-CF-FRR to effectively price the different types of corporate customers engaged in business of construction finance. The model takes into consideration amongst other things, BHFL’s weighted average cost of funds (incl. cost of equity), fund raising cost and liquidity/risk premium, negative carry on investments and expenses incurred to source the loans.

The Company has also developed a benchmark rate for extending unsecured loans to its customers. Benchmark rates developed from the above model are termed as Floating Reference Rates (FRRs).

- The said FRRs are reviewed in the Asset Liability Committee meeting ('ALCO') and is periodically published on the Company's website.
- The rate of interest for loans for various products and various schemes thereunder is arrived at through BHFL's benchmark Floating Reference Rate model, cost on account of risk and tenor premium for the concerned business segment, business specific operating cost, threshold return expectation from the product category and accordingly margin is adjusted to arrive at the lending rate.
- The interest rate for FRR linked loans shall be reset from time to time post change in the benchmark FRR by the Managing Director or the ALCO of the Company and would be effective from the date as approved by Managing Director or the ALCO post communication to the customer.
- In case of high-ticket commercial loans / pool purchase transactions, on specific request of customer/ counterparty and at the discretion of the Company, these loans may also be referenced to an external benchmark rate of any large Indian bank/Financial Institution viz. SBI, HDFC, Axis, etc. Though such loans may be referenced to an external benchmark, the same would be booked in the system on the Company's Internal benchmarks however their movement will be according to the changes in the linked external benchmark specified in the sanction letter.

#### **IV. Principles for determining interest rate for loans linked to External Benchmark (EBLR Model):**

Under the external benchmark model, lending rate would be decided based on the external benchmark plus spread, threshold return expectation from the product category and customer specific credit risk premium, if any.

The benchmark rates under this model could be any one of following:

1. Reserve Bank of India policy Rates
2. Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd (FBIL)
3. Government of India 6-Months Treasury Bill yield published by the FBIL
4. Any other benchmark market interest rate published by the FBIL from time to time.

The Company had initiated to offer loans linked to Repo rate.

The company has created two benchmarks REBLR-SAL, REBLR-SE (Repo-External Benchmark Linked Lending Rate for Salaried and Self employed) and shall offer loans linked with the same. REBLR model would have components such as Repo rate,

liquidity/risk premium and Desired ROAs. Final rate offered to the customers shall be arrived at after applying a Business Strategy Premium (BSP) or discount depending upon the nature of loan, nature of transaction, nature of business, customer & property profile, etc.

The interest rate under External Benchmark Linked Rate model shall be reset from time to time basis changes in the underlying components of the benchmark. Other components of the REBLR-SAL and REBLR-SE can be reviewed once in 3 years and changed if required. Rate change would be effective from the day rate change is approved by the Managing Director or the ALCO of the Company post communication to the customer. Customers may be provided facility to switch between FRR model to external benchmark linked model and vice versa by paying a switch fee, as may be decided by the Company from time to time.

These external benchmarks linked loan rate movements would be updated in monthly ALCO and uploaded on the Company's website.

For launching products linked with other external benchmark an operating framework would be prepared and presented for approval in ALCO or by Managing Director.

## V. Other governing principles

- The final lending rate for various products offered by BHFL will be arrived at after taking into account market reputation, interest, credit and default risk in the related business segment, historical performance of similar homogeneous clients, profile of the borrower, tenure of relationship with the borrower, repayment track record of the borrower, subventions available, deviations permitted, future potential, group strength, overall customer yield, nature and value of primary and collateral security, etc. Such information is gathered based on information provided by the borrower, credit reports, market intelligence and information gathered by field inspection of the borrower's premises.
- The rate of interest for the same product and tenor availed during same period by different customers need not be standardized. It could vary for different customers depending upon consideration of any or combination of above factors.
- The interest rates could be offered on fixed, variable or dual rate type basis.
- The interest re-set would be decided by the Company from time to time.
- The interest could be charged on monthly or quarterly rests for different products / segments.
- Final lending rates would be intimated to the customers at the time of sanction / availing of the loan and EMI apportionment towards interest and principal dues would be made available to the customer.

- The interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed.
- Changes in the interest rates and charges would be prospective in effect and intimation of change of interest or other charges would be duly communicated to the customers through acceptable modes of communication channels like SMS / email / WhatsApp, etc.
- Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, reschedulement charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, Switch fees charges for issue of statement account etc., would be levied by the Company wherever considered necessary. Besides these charges, stamp duty, GST and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided upon by in consultation with Compliance, Operations, Finance and Legal Heads.
- Penal Interest and charges levied to customers shall not exceed the below limits.
  - Penal Interest - 24% p.a. charged for the period instalment remained overdue.
  - Bounce Charges -

|  | Min. Loan Amt.         | Max. Loan Amt. | Bounce charges (in Rs.) |
|--|------------------------|----------------|-------------------------|
|  | 0                      | 15,00,000      | 500                     |
|  | 15,00,001              | 30,00,000      | 1,000                   |
|  | 30,00,001              | 50,00,000      | 1,500                   |
|  | 50,00,001              | 1,00,00,000    | 2,000                   |
|  | 1,00,00,001            | 5,00,00,000    | 3,000                   |
|  | 5,00,00,001            | 10,00,00,000   | 5,000                   |
|  | More than 10,00,00,000 |                | 10,000                  |

Note: The above mentioned Penal Interest and Bounce Charges shall be applicable till March 31, 2024 for new borrowers and for existing borrowers on next review or renewal date or six months from the effective date of the RBI circular dated August 18, 2023 (RBI/2023-24 / 53 DoR. MCS. REC. 28 / 01.01.001 / 2023-24, whichever is earlier. Post March 31, 2024, the charges as applicable under 'Policy on Levy of Penal & Other Charges' shall be made applicable.

- The Company shall not charge pre-payment levy or penalty on pre-closure of housing loans under the following situations:

- a. Where the housing loan is on floating interest rate basis and pre-closed from any source.
  - b. Where the housing loan is on fixed interest rate basis and the loan is pre-closed by the borrower out of their own sources.
- The Company shall not charge foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned for purposes other than business to individual borrowers, with or without co-obligant(s).
  - For all other loans, the Company shall levy the following Part Prepayment penalty / Foreclosure Charges:
    - Part pre-payment charges – 2% plus GST
    - Foreclosure charges – Upto 4% plus GST
  - While deciding the charges, the practices followed by the industry in the market would also be taken into consideration.
  - Claims for refund or waiver of charges / penal & other charges / additional interest would normally not be entertained by the Company and it is at the sole discretion of the Company to deal with such requests.

Any revision in the Company's benchmark Floating Reference Rates or the spreads (which moves with changes in various factors including but not limited to changes in customer risk profile, cost of funds of the Company, money market rates movement and / or any major change in the macroeconomic scenario, etc.) for both the models and the consequential interest rates applicable to customers and charges can be reviewed and any change thereon can be approved by Managing Director or the ALCO.

## **VI. Framework on reset of floating interest rates on Personal Loans\* (including Housing Loans)(applicable from 31<sup>st</sup> December 2023 onwards)**

- At the time of sanction, the Company shall communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both through a simulation. The Company shall also communicate the applicable conversion charges from Floating to Fixed or vice-versa in the sanction letter. Any changes thereafter shall also be communicated to the borrowers.
- The Sanction Letters shall also incorporate the fact that in case of any increase in interest rates, first impact will be given on the tenor subject to availability of margin for elongation. The borrowers shall have an option to give this impact fully / partially on EMI amount instead of increasing the tenor. This option to increase EMI and

reducing tenor shall be available with the borrowers at all points of time by raising a written request with the Company. Applicants / Borrowers shall also have the options to switch the loan to Fixed rates of interest (subject to a maximum of 3 switches during the loan tenor) or Fully/Partly Prepay the loan (subject to applicable charges for each loan category as mentioned under the latest MITC on Company's website).

- Further, the Sanction Letters shall also incorporate the fact that in case of any decrease in interest rates, first impact will be given on the EMI amount. The borrowers will also have an option to allocate the impact of decrease fully / partially on loan tenor instead of decreasing the EMI. This differential treatment of first recourse is undertaken as there will be no option to decrease the EMI amount once an EMI has been increased since same tantamounts to restructuring under the extant guidelines.
- In case of Flexi Term / Flexi Hybrid loans any revisions in the Annualized Rate of Interest would impact the EMI amount only and not the Loan Tenure. In such case, if the Borrower wishes to avail impact of revisions to Annualized Rate of Interest on Loan Tenure or a combination of EMI amount and Loan Tenure in cases of flexi loan facility, the Borrower will be required to convert the Flexi Term / Flexi Hybrid loan to a regular Term Loan first.
- Subsequently, any increase in the EMI / tenor or both on account of the above shall be communicated to the borrower immediately / in-advance through appropriate modes of communication.
- The Company shall publish on its website and / or customer portal and notice boards, the switching options along with applicable charges and borrower applicability.
- The Company shall also send the Loan Statements and Repayment Schedules to its existing eligible borrowers on a quarterly basis starting 31<sup>st</sup> December 2023, enumerating the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan through appropriate modes of communication.
- The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

*# As defined under RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 on "XBRL Returns – Harmonization of Banking Statistics" dated January 04, 2018 as amended from time to time.*



## VII. Charges applicable on various Interest Rate related requests

| Sr. No. | Nature of Fee/ Charge   | Name of Fee/ Charge | When Payable                   | Frequency              | Amount  |
|---------|---|---------------------|--------------------------------|------------------------|---|
| 1.      | Switch to Lower Rate  | Switch Fees         | On Rate revision               | On every rate revision | Up to 2% of principal outstanding + GST as applicable   |
| 2.      | Switch in Interest Computation between different interest rates (e.g. From BHFL FRR to Repo Rate / External benchmark linked rate and vice-versa) | Switch Fees         | On Interest Computation change | On every Switch        | Up to 2% of principal outstanding + GST as applicable   |
| 3.      | Conversion of existing loan to new product (Term loan/ Flexi Term loan/ Flexi Hybrid loan)  | Conversion Fees     | On Conversion                  | On every conversion    | Up to 2% of principal outstanding + GST as applicable   |
| 4.      | Conversion charges for switching from Fixed rate loan to Floating rate loan   | Conversion Fees     | On Conversion                  | Event                  | <p>For Term Loans:-<br/>Up to 1% + GST as applicable of principal outstanding + undisbursed amount (if any).</p> <p>For Flexi Term Loans or Flexi Hybrid Loans:-<br/>Up to 1% + GST as applicable on Flexi Limit + undisbursed amount (if any).</p>   |
| 5.      | Conversion charges for switching from Floating rate loan to Fixed rate loan   | Conversion Fees     | On Conversion                  | Event                  | <p>For Term Loans:-<br/>Up to 1% + GST as applicable of principal outstanding + undisbursed amount (if any).</p> <p>For Flexi Term Loans or Flexi Hybrid Loans:-<br/>Up to 1% + GST as applicable on Flexi Limit + undisbursed amount (if any).</p> <p>Note: The Company would charge additional interest rate risk premium of 200 bps over the applicable rate</p> |

| Sr. No. | Nature of Fee/ Charge | Name of Fee/ Charge | When Payable | Frequency | Amount   |
|---------|-----------------------|---------------------|--------------|-----------|--|
|         |                       |                     |              |           | of interest on the borrowers loan account as on that date. |