

INTEREST RATE AND CHARGES POLICY
OF
NORTH EAST HIRE PURCHASE CO. (INDIA) PRIVATE
LIMITED

Approved by the Board of Directors of
North East Hire Purchase Co. (India) Private Limited

on

15th April, 2024

1. **Background**

- 1.1. As per Applicable Laws (hereinafter defined), the Board of Directors of Non-Banking Financial Company should lay out appropriate internal principles and procedures in determining interest rates, processing and other charges. The Board should also adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the customers to enable them understand the logic and methodology used for determining the lending rates charged to them.

2. **Regulatory Context**

Reserve Bank of India had issued Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 on 19th October 2023 as amended from time to time and also in compliance with the other circulars, notifications, acts etc. issued/amended from time to time.

3. **Definitions and Abbreviations**

In this Policy the following expressions shall have the meaning hereinafter assigned to them:

- 3.1. **“Annual Percentage Rate (APR)”** is the effective annualised rate charged to the borrower of a digital loan. APR shall be based on an all-inclusive cost and margin including cost of funds, credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal charges, late payment charges, etc.
- 3.2. **“Board of Directors”** comprising of all the Directors of the North East Hire Purchase Co. (India) Private Limited.
- 3.3. **“Company”** means North East Hire Purchase Co. (India) Private Limited incorporate under the provisions of the Companies Act, 1956, as amended time to time, and Non-Banking Financial Company Registered with Reserve Bank of India.
- 3.4. **“Customer(s)”** mean such persons, as the case may be, customers of the Service Providers and/or Company’s Customers and/or any prospects thereof.
- 3.5. **“Credit Information Companies”** includes TransUnion CIBIL, Experian, Equifax and CRIF High Mark.
- 3.6. **“Digital Lending”** means a remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.
- 3.7. **“Fixed rate of Interest”** means the interest rate that is fixed for the entire tenor of the loan.
- 3.8. **“Floating rate of Interest”** means the interest rate that is not fixed during the tenor of the loan.

- 3.9. **“Prepayment Charges”** (also referred as the foreclosure charge or prepayment charges) means an amount payable by the Borrower to the Lender as a penalty for repayment of the Outstanding Dues, either in part or whole, before its scheduled repayment date.
- 3.10. **“Regulated Entities (REs)”**: The entities to whom the laws referred in Para 2 are applicable.

4. Roles and Responsibilities

4.1. Board of Directors of the Company

The Board shall, in particular-

- 4.1.1. Shall review the Policy at least on annual basis and approve the amendment, if any, therein;
- 4.1.2. Shall supervise the adherence to this Policy by the Company;
- 4.1.3. Shall review and approve the interest rate model of the Company;
- 4.1.4. Shall review and approve the rate of interest, various fee, penalties and other charges levied on the loan granted to the borrowers;
- 4.1.5. May delegate all or any of its powers or responsibilities to any committee constituted by the Board, or Chief Executive Officer, or any other officer or any director or employee of the Company.

5. Interest Rate Model

The Company lends money (i.e. unsecured personal loans) through the digital lending channels to cater to the needs of its customers. The Company lends money to its customers through the fixed rate of interest loans.

The Company shall state the loan amount, along with other terms and conditions including annualised interest rate¹ and the method of application thereof in the loan documents. The Company shall also disclose all-inclusive cost, including annualised rate of interest, processing fee, service fee and excluding contingent charges as applicable to the loan obtained by the customer in the loan documents as Annualised Percentage Rate. The repayment schedule for the loan, where applicable, shall be drawn up on a reducing balance basis wherein Interest Amount shall be apportioned from monthly instalment on the annualised interest rate.

The interest rates offered to customers for personal loans shall be based on the following factors:

S. No.	Factor	Description
1.	Weighted average cost of funds (borrowing &	Weighted average of Interest on various sources of funds (Non-convertible Debentures

¹Annualized Interest Rate is charged on the loan amount on a reducing balance basis.

	equity)	(NCDs), Commercial Papers (CPs), Term Loans, Working Capital Demand Loan (WC DL), External Commercial Borrowings etc.), Cost of Equity and other fund-raising expenses such as rating fee, trusteeship fee, Issuing and Paying Agent (IPA) commission on CPs, costs associated with maintaining sufficient liquidity etc., average cost of borrowing & cost of equity is taken for benchmark calculation.
2.	Operating/overheads Cost	It includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses etc. As applicable to the Company time to time.
3.	Risk Premium	Base risk premium to cover potential credit loss risk and may vary by customer profile, geography, sourcing channel, credit score, ticket size of loan etc. Also, prices may vary depending upon internal assessment of likelihood of delinquency or potential loss from individual customer segments.
4.	Base Return on Assets (ROA)	Base ROA is the minimum return expected by the company on its assets.
5.	Liquidity Risk	It includes Cash Flow analysis, Investment Liquidity, Contingency Planning etc.
6.	Fund Raising Cost	It includes underwriting fees, Consulting fees, Regulatory fees etc.

The Company may offer different interest rates to different customers based on loan amount, tenor, down payment, payment history, credit score provided by credit information companies, customer's age, and income, as well as type of documents provided by the customer and any other information as may be required for the purpose of credit evaluation. The rate of interest for same product and tenor availed during same period by customers would not be a standardized one but could be different for different customers depending upon consideration of any or combination of a few or all factors listed above.

The Company shall ensure that -

- a. The interest to the customer shall be charged from the date of actual disbursement of the funds to the customer and not from the date of sanction of loan or date of execution of loan agreement.
- b. The interest shall be only for the period for which the loan was outstanding and not for the entire month.
- c. No instalments of the loan shall be collected in advance prior to disbursement of the loan.

6. Fees, Penalties and other Charges

Besides interest, the Company may levy and collect fees and charges from the customer(s) for processing of the loan and providing various services in respect of the loan, including but not limited to, customer care, credit assessment, cash management, ECS/ Direct Debit/ ACH mandate registration/ lodgement/ handling or for any other service provided by the Company or cost incurred by the Company related to the loan granted to the customers. In addition to above charges, the Company may levy other fees and charges, which are contingent in nature i.e. incidental to the option/ default/ action of customer, including but not limited to late payment charges, bounce charges, or early repayment charges. These fees and charges may vary based on type of loan, loan amount and Company's exposure to the customer segment and generally represent the costs incurred in rendering the services to the customer.

The Company may, at its sole discretion, allow the prepayment of the loan amount subject to certain conditions and on payment of prepayment penalties by the customer. However, the Company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to individual customers.

Penalty, if charged, for non-compliance of material terms and conditions of the loan shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. The quantum of penal charges shall have to be 'reasonable' and 'commensurate' with the non-compliance of material terms and conditions of loan contract.

The Company shall, while determining penal charges, ensure that the intent of levying penal charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool.

The Company shall ensure that there will 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 Company may charge interest on unpaid interest (including on unpaid EMI) at the contracted rate of interest till the date of remediation, and not at the penal rate of interest.

The Company shall ensure that it will not introduce any additional component to the rate of interest. Further, the penal charges in case of loans sanctioned to individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

The penal charges can be different within the same product category depending upon the amount of loan. REs may formulate an appropriate Board approved policy and adopt a suitable structure of penal charges that is 'reasonable' and 'commensurate' with the non-compliance of material terms and conditions of the loan contract. The structure of penal charges within a particular loan / product category shall have to be uniform irrespective of the constitution of the borrower.

Where any taxes, duties, cess are levied upon such fees and charges, same shall be recovered from the customer at applicable rates from time to time.

All such fees and charges shall be approved by the Board or the committee constituted by the Board in this regard. Any such fees/ charges, or any revision therein, shall have prospective effect. The Company shall mention the penal charges/ late repayment payment charges, in bold in the loan documents which shall be an integral part of loan agreement.

7. RESET OF FLOATING INTEREST RATE ON EQUATED MONTHLY INSTALMENTS (EMI) BASED PERSONAL LOANS

- At the time of sanction of EMI based floating rate personal loans, the Company takes into account the repayment capacity of borrowers to ensure that adequate headroom/margin is available for elongation of tenor and/or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. In respect of EMI based floating rate personal loans, the Company shall adhere to the following additional requirements:
- At the time of sanction, the Company shall clearly 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. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
- At the time of reset of interest rates, the Company shall provide the option to the borrowers to switch over to a fixed rate as per their Board approved policy. The policy, inter alia, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.
- The borrowers shall also be given the choice to opt for (a) enhancement in EMI or elongation of tenor or for a combination of both options; and, (b) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to applicable regulatory guidelines.
- All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Company from time to time.
- The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
- The Company shall share/make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate 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. The Company shall ensure that the statements are simple and easily understood by the borrower.

8. Communication Framework

The Company shall communicate the rate of interest, fee and charges as required under applicable regulations to the customers at the time of availing and sanction of the loan through various available options like SMS, e-mail or mobile application.

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 applicable, in addition to being displayed on the Company's website.

Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefore shall also be communicated.

Changes in the rates, fee and charges, including foreclosure charges, for existing customers would also be communicated to them through SMS /e-mail /website /mobile application of the Company.

Interest Rate and Charges Policy would be uploaded on the website of the Company.

9. Amendment

The policy may be amended from time to time by the Board of Directors.