



# IKF Home Finance Limited (IKFHFL)

## Policy on Interest Rates and Other Charges including Penal Charges

Applicable Regulation	The 'Non-Banking Financial Company- Housing Finance Company (Reserve Bank) Directions, 2021, as updated/amended from time to time.
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*This document is confidential in nature and supersedes any policy for Determining Interest Rates and other Charges including penal charges existing in the Company, and should be read in conjunction with the most recent policies and procedures documented*

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## 1. Preamble

Though interest rates are not regulated by the Reserve Bank of India (RBI), rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice.

As per the Master Directions Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021, as updated/ amended from time to time and circulars issued therein, the Board of each Housing Finance Companies is required to adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium along with the approach for gradation of risks and rationale for charging different rates to different categories of borrowers.

The rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers is required to be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter. The Board of the HFC is also required to have clearly laid down policy for penal charges (if any).

Further, RBI circular number RBI/2023-24/55; DOR.MCS.REC.32/01.01.003/2023-24 on 'Reset of Floating Interest Rate on EMI', circular number RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 on 'Fair Lending Practice - Penal Charges in Loan Account' and circular number RBI/2024-25/30 DoS.CO.PPG.SEC.1/11.01.005/2024-25 on 'Fair Practices Code for Lenders – Charging of Interest' to be adhered by the respective regulated entities including Housing Finance Companies.

## 2. Introduction

In compliance with the above regulatory requirements, the Board of Directors of IKF Home Finance Limited (hereafter referred as Company or IKFHFL) has adopted this Policy on Interest Rate and other charges including Policy on Penal Charges which broadly outlines the Interest Rate model, approach for risk gradation of customer, reset/ repricing of loans, determination of other charges including penal charges, review & governance mechanism, fair & transparent communication and disclosures.

## 3. Scope & Application

This Policy applies to all products and services offered by the Company, including the services through a digital lending platform, over the phone, across the counter, through interactive electronic devices, on the internet or by any other means except loans extended under Demand / Call loan Policy.

The Company may offer loans at a fixed interest rate or a floating interest rate basis or combined interest rate basis (i.e. semi-fixed). Interest charged by the Company from its customers shall *inter-alia* based on the factors/ components as mentioned in the Interest Rate Model and Gradation of Risk section of the Policy.

The Board of Directors ('the Board') of the Company or the Asset Liabilities Committee (ALCO) or any authority to whom the powers have been / shall be delegated by the Board, in addition to this Policy shall also be guided by the market conditions and various rules and regulations, if any, prescribed by the Reserve Bank of India (RBI)/ National Housing Board (NHB) or such other regulatory authority from time to time.

#### 4. Objective

The objective of the policy is to define guidelines which shall be adopted by IKF Home Finance Limited (IKF) for determining interest rates and other charges including penal charges which may be charged/ levied by it with respect to various loan/ credit facilities extended by it. Broad objectives of the policy are listed as under:

- ❖ Establish model for the calculation of reference rates ensuring that computation of interest is accurate, fair, transparent and in line with regulatory requirements, business sustainability and market practices.
- ❖ Provide the type of interest rate and charges which can be levied per fair lending practice
- ❖ Lay down a policy on penal charges to be reasonable and commensurate with the non-compliance of material terms and conditions of the loan contract without being discriminatory within a particular loan/product category
- ❖ Provide the procedure & frequency for review and change of interest rate and charges,
- ❖ Provide the transparent disclosure and communication mechanism,
- ❖ Lay down the Governance Framework for the Policy
- ❖ Provide the mechanism for review, change and modification in Policy.

#### 5. Governance Framework

The Board of Directors shall have oversight for the interest rate Policy of the Company. In order to ensure effective implementation of the Policy, the Board may delegate the implementation of the Policy and its operational aspects to the ALCO and/or Managing Director & CEO as deemed fit.

ALCO shall be responsible for taking decision to change the benchmark/prime lending rate. The ALCO meeting will be held on quarterly basis and any changes / status quo in the benchmark rate would be discussed and decided by the members of the ALCO and would be put up to the Board in subsequent meetings.

The Governance framework mentioned herein shall be read along with terms of reference / Charter of the Board / Committees approved by the Board of Directors.

#### 6. Interest Rate Model

IKFHFL lends money through various products to cater for the needs of different category of customers at fixed and floating interest rates. The rate of interest charged to customers shall be linked to the Prime Lending Rate (PLR) of the Company.

The Prime Lending Rate (PLR) of the Company is decided from time to time considering the following factors:

Sr. No.	Factor	Description
1	Cost of Equity	The company has received equity to run the business. Thus the cost of such equity is taken into consideration.
2	Weighted Average cost of borrowing	The Company borrows funds through various sources including but not limited to term loans, Non-Convertible

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		Debentures and Commercial paper and subordinate debt etc. Weighted average cost of borrowing of such funds is considered.
3	Fund raising cost	To source funds through various means, Company incurs processing fees, brokerage, commission & other charges like Rating Fee, trusteeship fee, IPA commission on CPs, exchange listing fee etc.
4	Negative Carry on Investment and ALM mismatch cost	In order to maintain liquidity and manage liquidity risk, Company keeps/ maintains liquid funds and has to bear negative carryon on these investments.  Company borrows funds through a mix of short term and long term products while lending is generally for long term which results into Asset Liability (ALM) mismatch.
5	Minimum Standard Asset Provisioning/ Excepted Credit Loss	Minimum Standard Asset Provisioning and Excepted Credit Loss as per norms
6	Operating Cost	Cost to run the business are considered which includes but not limited to employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, etc.
7	Risk Premium	Base risk premium to cover business-related risks and would vary by business, customer segment, geography etc.
8	Expected Return on Assets	Minimum return expected by the company on its Assets

The rate of interest for loans for various customer segments and various products thereunder shall be arrived after adjusting PLR for spread/margin which would vary depending on the risk profile of the customer, credit history of the borrowers, asset type, scheme, etc. The spread/margin for different categories of borrowers shall be decided by ALCO Committee of the Company, within Financial Powers. The spread/margin for loans beyond the Financial Powers of ALCO Committee shall be decided by Executive Committee of the Board.

Factors taken into account for deciding spread/margin linked to PLR are as follows:

- Credit Bureau Score
- Credit and default risk in the related business segment
- Historical performance of similar clients
- Profile of the borrower (Salaried/ Professional/Self Employed)
- Property type (Residential/ Non-Residential)
- Product type (Housing/ Non-Housing)
- Ticket size of loan
- Creditworthiness of Borrower
- Loan tenure

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- Security (primary/ secondary)
- Pricing offered by competitors and other relevant factors.

Due to the above factors, the rate of interest for the same product availed during the same period by different customers may vary depending upon consideration of all or a combination of the above factors.

Company will price its loans in line with the risk which it will assume by extending a loan. However, at no point shall any kind of additional risk burden shall be placed on any customer/ borrower due to reasons such as visually or physically challenged.

## 7. Gradation of Risk and Rationale for charging different Rate of Interest to different categories of borrowers

Loan pricing mechanism of the Company has two components, viz., benchmark rate i.e. PLR of the company and spread/margin.

As the loan pricing is essentially a function of risk, loan type, borrower type, prevailing market trend and certain other factors, Company may offer/ charge different Rate of Interest to different borrowers. While deciding applicable interest rate for its borrowers, the Company, in addition to the prevailing PLR, shall be guided by the risk gradation/degree of risk assessed based on the Internal score models and analysis of the customer.

While performing internal analysis, the Company shall, *inter-alia*, consider the following aspects:

- (i) Credentials of borrower/ group borrowers which include background, nature of business/service, business vintage, financial profile including net-worth, liquidity, profitability of default, debt repayment capability etc.;
- (ii) External credit rating/ Bureau Score
- (iii) End use of funds;
- (iv) Security cover including value and liquidity; or
- (v) Type of loan product.
- (vi) Additional costs, such as additional credit cost, operational cost etc.
- (vii) Any other criteria specific to the transaction.

Due to the above factors, the rate of interest for the same product availed during the same period by different customers may vary depending upon consideration of all or a combination of the above factors. The decision to offer a fixed or floating interest rate loan by the Company, will *inter alia* depend on the nature of the product being offered, market conditions etc.

## 8. Rate of Interest and Reset of Interest Rates

### 8.1 Types of Rate of Interest

The company offers both fixed and floating rates. The applicable rates for the customer along with applicable charges are mentioned transparently in the sanction letter with a breakup of principal and applicable interest and annual percentage rates.

**8.1.a. Floating rates** will be based on the benchmark rates that are revised from time to time and shared on the company's website. Subsequently, rates for the customer may move per changes in the benchmark rates and any increase in the EMI/ tenor or both on account of the rate change shall be communicated to the borrower through appropriate channels.

**8.1.b. Fixed rates** are constant throughout the tenure of the loan and, any change in the benchmark rates will not affect the interest rates for the customer who opted for fixed rates.

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However, the customer may choose to move from fixed to floating rates or vice versa by submitting a written request with the company maximum up to two times during the tenure of the loan. This rate change (from fixed to floating or vice versa) will attract charges as mentioned in the schedule of charges uploaded at the website. The rate of interest levied on a fixed interest loans shall be the prevailing rate as decided by in the ALCO from time to time.

## 8.2 Reset of Floating Interest Rates

i. In case a loan on floating interest rate, the applicable interest rate may get revised upward or downward, from time to time, as per the terms and conditions applicable to respective loan/ credit exposures. Such revision may lead 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 through appropriate channels.

ii. On reset of the floating interest rate, the borrowers shall be given the choice to opt for any of the following options: (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan subject to applicable foreclosure charges/ pre-payment penalty along with applicable taxes. (iii) Switch from Floating Interest Rate to Fixed Interest Rate subject to applicable fees/ charges

iii. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

iv. At the time of sanction, Company shall clearly communicate to the borrower about the possible impact of change in benchmark interest rate on loan leading to change in EMI and/or tenor or both. Any increase in the EMI/tenor or both on account subsequent to sanction of the above shall be communicated to borrower immediately through appropriate channels

v. In accordance with the regulatory requirements, 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 for the entire tenor of the loan (hereinafter referred to as 'Quarterly EMI Statements'). The Company shall ensure that the said Quarterly EMI Statements are simple and easily understood by the borrower.

vi. After end of every quarter, the Company shall notify the borrowers as to how they may access the Quarterly EMI Statements. The Company, being in the affordable housing finance segment caters mainly to Tier II and Tier III cities and focuses primarily on self-employed informal customer segment. Hence, the Company shall make the Quarterly EMI Statements available in the branches also. Further, the Company shall provide the Quarterly EMI Statements to the borrower within a period of 30 working days from the date of receipt of request from such borrower.

## 9. Repricing of Existing Customers/ Switching of Interest Rates

The existing customers will be scrutinized and evaluated keeping in mind the significant complexity and risks involved while doing assessment for repricing of the account. Conversion options for reducing interest rate, shall be disclosed on HFC's website to refer for all borrowers.

9.1 In order to retain its credit worthy borrowers, the Company may at its discretion offer an option to its existing borrowers to reprice/ revise the applicable interest rate on his/ her existing loan in accordance with the 'Policy for Retention of Customers' adopted by the Company.

9.2 Based on discretion of the Company's management, a borrower, may be provided option to switch over from a floating rate to a fixed interest rate or vice-versa for an aggregate of two times



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during the tenor of the loan. Changes in Rate of Interest on such switch-overs shall form part of Schedule of Charges/ Most Important Terms and Conditions.

9.3 In case customer approaches the Company to switch the interest rate type or to reprice/ revise the interest rate, the customer may be charged with applicable switch fees, service charges / administrative costs etc. However, for a case wherein customer is subjected to levy of foreclosure charges and by switching the interest rate type if he qualifies to be exempted from levy of foreclosure charge, the Company may charge switching fee equivalent to applicable foreclosure charges as mentioned in the Schedule of Charges/ Most Important Terms and Conditions.

## **10. Fees and Other Charges including Penal Charges**

The Company may levy various types of fees/ charges to its borrowers for processing of loans or providing different types of services or defaults/ non-compliance by a borrower. Various types of fees/ charges including Penal Interest, Processing Fee, Pre-payment Charges etc. and quantum of fees/ charges which may be levied by the Company shall be decided/ reviewed with the approval of the competent authority.

### **10.1 On-Boarding Charges**

These are the charges levied before loan is disbursed and would include:

- Processing fee
- Charges towards Stamp Duty/ Registration/ Intimation of mortgage/ Creation of Mortgage
- Charges to be paid to CERSAI/ CKYCR
- Technical/ valuation Fees

### **10.2 Life Cycle Charges**

These are the charges which are leviable in the event of a trigger. They are:

- Physical Statement of Account
- Physical Duplicate NOC
- Physical Repayment Schedule
- List of Documents
- Instalment Pick up
- Physical copy of Property documents
- Charges to issue Loan Foreclosure letter
- Conversion or Switch (Changing Floating Rate to Fixed Rate or vice versa)
- Repricing Fee
- Document retrieval
- Demand Draft or Pay Order Re-issuance or Cancellation
- Loan cancellation charges
- Bank Charges on Cheque/ECS / NACH Bounce
- Charges towards Legal/ SARFAESI/ Recovery action

### **10.3 Recovery Charges**

These charges are related to loan recovery and are as below:

- 1st presentation EMI Bounce every month
- 2nd presentation EMI Bounce every month
- Late Payment/ Penal charges



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- Repayment mode - Cheque/NACH Swap
- Charges towards Legal/ / SARFAESI/ Recovery action

#### 10.4 Penal Charges

In compliance with the regulatory requirement, Board of IKF Home Finance Limited (IKFHL) has adopted a Policy on Penal Charges as under:

Any penalty for non-compliance with material terms and conditions of the loan contract by the borrower shall be treated as 'Penal charges', however, Company shall ensure that there shall be no capitalization of penal charge i.e. no further interest computed on such charges. However, this will not affect the normal procedure for compounding of interest in the loan account.

The company can levy penal charges based on following:

- Non-compliance of any material term as mentioned in the sanction letter, loan agreement or stated otherwise to the customer in any subsequent communication. This charge will be levied post notice being issued in the specific account.
- Penal charges will be reflected separately in loan accounts and will not be added to the interest rate charged to the respective loan.
- Penal charges shall be uniform for all products. Company will not discriminate for charges applied to similar non-compliance between various product/profile of customers.
- Penal charges will be mentioned in '**BOLD**' in the schedule of charges, Sanction Letter, MITC and Loan agreement.
- Any instance of levy of penal charges and the reasons therefor shall be communicated to the customer through appropriate channels.
- Any change in the penal charge will be notified to customers at least 30 days prior to implementation through appropriate channels. Details of penal charges will be incorporated in the Schedule of the Charges and will be displayed on Company's website.
- Company shall also update instructions on the Notice Board in branches, Booklets/ Brochures being published, and its Website regarding Penal Charges under the 'Interest rates and Service Charges'
- Penal charges are not eligible for capitalization i.e. added back into the loan outstanding, and will be accounted on a receipt basis and not on an accrual basis.

#### 10.5 Pre-payment charges

These charges shall be leviable in the event of the closure of the loan facility with the Company as per the extant regulations. Company shall not charge pre-payment levy or penalty on pre-closure of housing loans under the following situations:

- Where the housing loan is on a floating interest rate basis and pre-closed from any source.
- 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 expression "own sources" for the purpose means any source other than by borrowing from a bank/ HFC/ NBFC and/or a financial institution.

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All dual/ special rate (combination of fixed and floating) housing loans will attract the pre-closure norms applicable to fixed/ floating rate depending on whether at the time of pre-closure, the loan is on fixed or floating rate. In case of a dual/ special rate housing loans, the pre-closure norm for floating rate will apply once the loan has been converted into floating rate loan, after the expiry of the fixed interest rate period. This applied to all such dual/ special rate housing loans being foreclosed hereafter. It is also clarified that a fixed rate loan is one where the rate is fixed for entire duration of the loan.

Company shall not impose 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).

The detailed Schedule of Charges is hosted on Website of the Company:  
<https://ikfhomefinance.com/>

**Waiver of Charges** The charges can be waived as per the Delegation matrix.

### **Review & Change in Schedule of Charge**

The business / credit/ customer service team can review the Schedule of charge and can recommend to ALCO for changes.

## **11. Disclosure and Transparency**

i. The annualized interest rate, fee and charges shall be expressly stated in the Sanction Letter and/or Loan Agreement.

ii. The Company should transparently disclose to borrowers all information about fees / charges payable for processing the loan application, charges for on boarding the customers, the amount of fees refundable if loan amount is not sanctioned / disbursed, pre-payment options & charges, if any, penal charges, penalty for delayed repayment if any, conversion charges for switching loan from fixed to floating rates or vice-versa, existence of any interest reset clause and any other matter which affects the interest of the borrower.

iii. The rates of interest and the approach for gradation of risks, and penal interest (if any) shall be made available on the website of the Company. Information on the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans shall be displayed on the website of the Company.

iv. The rates of interest for the same product and tenor availed during same period by different customers need not be standardized but could be different for different customers depending upon consideration of any or combination of a few or all factors mentioned in the policy.

v. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a mode and manner deemed fit.

vi. Besides normal interest, the company may levy other financial charges like processing fees, cheque bouncing charges, prepayment/ foreclosure charges, part disbursement charges, commitment fees, charges on various other services like issuing No Due Certificates, NOC letters, ceding charge on assets/ security, security swap & exchange charges wherever considered necessary. Besides the base charges, the service tax and other cess would be collected at applicable rates from time to time.

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vii. The Company will intimate the borrower, the loan amount, annualized rate of interest and method of application at the time of sanction of the loan along with the tenure and amount of monthly instalment.

viii. Claims for refund or waiver of charges/penal interest/additional interest would normally not be entertained by the company and it is the sole discretion of the company to deal with such requests if any as per Fair Practice Code.

ix. The Company will follow Regulatory Guidelines for foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned

x. In the case of loans being disbursed by cheque, the Company will ensure that interest is charged starting from the date of actual handover of the disbursement cheque. Similarly, in the case of loans being disbursed by means other than cheque, the Company will ensure that interest is charged starting from the date of actual disbursement of funds.

xi. In the case of disbursal or repayment of loans during the course of the month, the Company will ensure that interest is charged only for the period for which the loan was outstanding.

## **12. Communication Framework**

The Company shall provide intimation/information on interest rates, common fees and charges including changes therein through any one or more of the following mediums:

- a) Letters of schedules of charges to the customers;
- b) Putting up notices at all our branches;
- c) Through telephone/ helplines or other digital mode like SMS, WhatsApp messages, digital link, e mail or such other methods
- d) Revision in the floating bench-mark rate to be posted on Company's website
- e) Through designated staff / helpdesk.

In case of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges, other applicable fee/ charges etc., the Company shall inform the borrowers through any of the medium stated above. All the changes in interest rates and other charges shall be effected prospectively.

## **13. Review, Modification & Changes of the Policy**

There shall be an annual review of the Policy by the Board of Directors. In case of amendments in the relevant guidelines or issue of further guidelines by the regulator(s), the Policy shall be revised and placed before the Board for its approval. Board of Directors/ ALCO can at any time modify or amend, either the whole or any part of the Policy considering any changes in the regulatory norms, audit observations and business requirements, however, the modification/ changes done by ALCO shall be placed to the Board for ratification.

### **Process for Review, Modification & Changes of the Policy**

Review, Modification & Changes of the Policy shall require approval, Sign-Off, Review and Information at the following levels:

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Level	Action
Board of Directors of the Company (as applicable)	Approval/ Ratification
ALCO/ Asset Liability Management Committee (as applicable)	For Recommendation
Managing Director, Chief Executive Officer, Executive Director	For Signature/ Sign Off
Chief Risk Officer	For Review
Chief Operating Officer	For Information
Chief Compliance Officer	For Information

In any circumstance, where the terms of this Policy differ from any existing or newly enacted law, rule, regulation, or standard governing the Company, the applicable law, rule, regulation, or standard will take precedence over this policy until such time as the Policy is amended to confirm to such law, rule, regulation or standard.