Interest Rate Policy

Presented By

Credila Financial Services Limited

(formerly known as HDFC Credila Financial Services Limited)

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December 2023	1.0	Finance	First Release
February 2024	1.1	Finance	OF approval grid & HCBLR reduction in Credila EL
August 2024	1.2	Business	Included rationale for charging OF
November 2024	1.3	Compliance	Incorporated Company name change & logo change. No other material changes to the document.

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I. Introduction

Credila Financial Services Limited ("the Company") *(Formerly known as HDFC Credila Financial Services Limited)* is a non-deposit taking and Middle layer NBFC registered with the Reserve Bank of India (RBI). In accordance with the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, and Fair Practice Code for lenders (as revised by RBI from time to time) the Company is required to have a documented Interest Rate Policy/Model approved by the Board of Directors taking in to account relevant factors such as cost of funds (COF), operating costs, margin, risk premium, etc., and determine the rate of interest to be charged for loans and advances and reset of floating interest rate. Further, the Board of Directors would formalize internal principles and procedures in determining interest rates and other charges on the loan products offered by NBFCs.

The specific points referred to in the above referred RBI circular are:

i. Need for adoption of an interest rate model along with approach for gradations of risk & rationale for charging differential rates of interest to different categories of borrowers
ii. Disclosure / communication of rates of interest rates, changes thereof and publicity thereto
iii. Adoption and communication of annualized rates of interest while dealing with customers
iv. Procedure for Reset of floating interest rates

II. Objective of the Policy

The main objectives of the interest rate policy are to:

i. Develop and adopt a suitable model for calculation of the benchmark lending rate
ii. Enable fixation of interest rates, both fixed and floating, which are reasonable: both actual and perceived
iii. Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices
iv. Charge differential rates of interest linked to the various risk factors, as applicable
v. Ensure that interest rates are determined in a manner as to ensure long-term sustainability of business by considering the interests of all stakeholders

III. Review of Policy

The Policy shall be reviewed at least once a year and shall be presented to the Board of Directors for its approval, which may be required due to changes required in the model or due to any other factors.

IV. Oversight

Board of Directors

The Board of Directors will have oversight into the Interest Rate Policy of the Company. To ensure effective implementation of the Interest Rate Policy, the Board may delegate the implementation of the Policy and its operational aspects to the Finance Committee or ALCO as deemed fit.

Asset Liability Management Committee

The ALCO shall be primarily responsible for taking decisions to change the benchmark rate. The Company's ALCO has delegated its authority to determine changes in Credila's Benchmark Lending Rate (CBLR) to the Finance Committee comprising of MD & CEO, CFO and VP-Finance & Accounts. All floating rate education loans offered by the Company are linked to the CBLR. The Finance Committee meets on a monthly basis to review the macro-economic factors i.e. the prevailing market scenario, interest rate outlook, competitors' benchmark rates, etc. as well as Company specific factors i.e. expected cost of borrowings, targeted margin and projections thereof. On review of these factors, the Finance Committee decides on revision required in the CBLR, if any.

The Finance Committee will also determine

- Product-wise rate grid recommended by the Chief Business Officer along with authority for deviations (up to defined limits) from the rack rates to authorized persons
- Any changes in the product-wise rate grid matrix considering changes in the CBLR or considering the market scenario basis the feedback from the business teams

The ALCO meeting will be held on a quarterly basis and any changes/status quo in the CBLR and the Product-wise rate grid decided by the Finance Committee of the Company shall be ratified/noted by the ALCO.

V. Interest Rate Model

The Company presently lends money to its customers through floating rate loans. The Company is a dedicated education loans company, offering customized loans for students pursuing a wide range of courses both in India and overseas, wherein the latter would cover several countries (USA, Canada, UK, Australia, New Zealand, Ireland, etc.).

A. Annualised rate of interest

i) Interest rate quoted shall be on annualized basis only in all documents, internal instructions/ communications and publicity materials (pamphlets, brochures, hoardings, etc.)

ii) Where the rates are mentioned in non-annualized form (e.g. in product promotion) the annualized rate shall also be mentioned so as to comply with regulatory requirements and Fair Practices Code

B. Calculation of the Credila Benchmark Lending Rate

The CBLR is calculated based on following:

No.	Factor	Description
1	Cost of Debt	The Company borrows funds through diversified sources such as Term Loans, ECBs, working capital facilities, Non-Convertible Debentures (NCDs), Commercial Paper (CPs), etc.
2	Negative Carry on Investments	The Company needs to maintain liquidity in the form of HQLA investments and other liquid investments to manage liquidity risk and gaps in ALM. The Company has to bear negative carry on those investments.
3	Operating Cost	Includes employee expenses, branch related fixed and variable costs, operations costs, sales and marketing expenses, technology cost, etc.

No.	Factor	Description
4	Base Risk Premium	Covers expected credit loss for the overall loan portfolio excluding the loan specific credit risk.
5	Margin on portfolio	Margin is the minimum return expected by the company on its assets. This is not the idiosyncratic risk/margin that would be applied to the individual but the margin that is applied on the overall portfolio considering the minimum expected return of shareholders.

C. Risk Based Gradation of Interest Rates

Considering the nature of loans sanctioned by the Company, there are a variety of factors which pose inherent risk to the business viz. course of study and its prospects, destination university, student's profile, co-borrower's profile, collateral offered, Government policies, immigration and employment trends in the country of study, etc. on the basis of which the risk premium is factored in the spread over the benchmark rate.

At the time of loan sanction, the Company will consider the repayment capacity of borrowers to ensure that adequate headroom/margin is available for elongation of tenor and/ or increase in EMI, in case of possible increase in the CBLR during the tenor of the loan.

<u>Determination of Spread</u>

The rate of interest for loans for various products is arrived at after adjusting for a spread, which takes into consideration several factors such as:

a) Interest rate risk (fixed vs floating loan)
b) Location, university and course of study
c) Credit and default risk in the related products
d) Historical performance of relevant portfolio segments
e) Profile of the borrowers
f) Repayment track record of the borrowers
g) Nature and value of collateral security
h) Secured Vs unsecured loan
i) Ticket size of loan
j) Credit Bureau Score
k) Tenure of loan
l) Location delinquency and collection performance
m) Borrowers' indebtedness (other existing loans)

The rate of interest for the same product and tenor availed during same period by different customers need not be the same. There could be variations for different customers depending upon consideration of all or a combination of the above factors.

VI. Reset of CBLR

A. Option to switch to fixed rate

At the time of reset of CBLR, the Company will offer an option to the borrowers to switch over to a fixed rate of interest. The fixed rate to be offered at the time of reset of the CBLR will be decided by the Finance Committee, whenever the change to the CBLR is decided. The fixed rate to be offered will depend on various factors including the loan being secured/unsecured, the type of course, as well as the balance tenure of the loan, the existing rate offered to the borrower, the macro-economic scenario, the Company's borrowing mix in terms of fixed & floating, etc. The borrower will have the option to switch from floating to fixed rate once during the tenure of the loan. The option to switch back from fixed rate to floating rate will also be made available once during the tenure of the loan, thus facilitating a total of two such switch options during the loan tenure. However, the Finance Committee is authorized to modify the number of switches to be offered (floating to fixed & fixed to floating) considering the market conditions and competitive scenario.

The charges for switching* the loans from floating rate to fixed rate and from fixed rate to floating rate will be determined by the Finance Committee and communicated to the borrowers at the time of sanction of the loan and at the time of request for switching.

In addition, prepayment/foreclosure* charges are to be levied on fixed rate loans on amount of prepayment received. These charges will be determined by the Finance Committee.

**Any deviation in the form of a reduction and/or complete waiver of the above-mentioned charges (i.e., charges for switching and Prepayment/Foreclosure charges) is to be approved by one of the following: MD & CEO, Chief Financial Officer, Chief Business Officer, Chief Credit Officer, Head of Branch Operations.*

Switching from Floating to Fixed rate (and vice versa) – Eligibility criteria

While the borrower has the option to switch from a floating rate loan to a fixed rate loan at the time of reset of the base rate and vice versa, the optionality will be made available to borrowers who fulfill certain eligibility criteria, as determined by the Finance Committee.

B. Change in Pre-Monthly Installment Interest (PMII)/ Monthly Installment (MI) or Tenor or both

At the time of reset of CBLR, the Company will offer borrowers the choice to increase or reduce the PMII / MI or Tenor or both as per below parameters

When CBLR is reduced,

1) For Partial Interest Loans: Option to choose between reduction in MI amount or Tenor or both will be provided to the customer. No reduction in the PMII amount will be allowed since only a partial amount of the interest is being paid in the moratorium period.
2) For Credila Education Loans (paying full interest during moratorium period): Option to choose between reduction in MI amount or Tenor or a combination will be provided to the customer.
3) For Loans paying EMI on the date of change: Option to choose between reduction in MI amount or Tenor or both will be provided to the customer.

In no scenario will the tenor of the loan increase in case of reduction in CBLR.

When CBLR is increased,

1) For Partial Interest Loans: Option to choose between increase in PMII amount or MI amount or Tenor or a combination will be provided to the customer.
2) For Credila Education Loans (paying full interest during moratorium period): Option to choose between increase in the PMII amount, increase in MI amount or Tenor or a combination will be provided to the customer. No amount will be reduced below the amount prior to change in CBLR.
3) For Loans paying EMI on the date of change: Option to choose between increase in MI amount or Tenor or both will be provided to the customer.

In case of increase in CBLR, the option to keep the PMII/MI constant will be subject to the loan not resulting in negative amortization. In such cases, the PMII/MI amount will need to be increased.

VII. Other Charges

Besides interest, other financial charges such as one time origination fees, cheque/ACH bouncing charges, cheque/ACH swap charges, conversion fee, switching cost from floating to fixed and vice versa etc., would be levied by the Company wherever considered necessary. Origination Fee is levied to recover cost of acquisition, underwriting and loan processing. Besides these charges, the Company would collect stamp duty, Goods and Service Tax and other applicable taxes & cess as applicable from time to time at the prevailing rates. Any revision in these charges would be implemented prospectively to all customers with due communication. These charges and any changes to the charges would be approved by the Finance Committee. Penal charges will be governed by a separate policy in this regard in compliance with the RBI guidelines on the matter.

Origination Fees Approval Grid

Rack Rate: >=1.25% (excluding GST)

Location Head Approval: 1%-1.24% (excluding GST) Chief
Chief Business Officer Approval: <1% (excluding GST)
For selected India colleges: 0.25% of sanction amount or Rs. 5,000(+GST), whichever is lower

**For Origination Fee refund, Chief Business Officer approval is required.*

VIII. Communication Framework

The Company will communicate the rate of interest to customers at the time of sanction / availing of the loan through an acceptable mode of communication. The Interest Rate Policy will be uploaded on the website of the Company. The Company will also upload the benchmark rates on the website. Changes in the benchmark rates for existing customers would also be communicated through at least one of the following modes - website updation, email, letters, SMS etc., and would be applicable prospectively.

Other applicable charges will be listed out in the Loan Summary Schedule, which is a part of the Loan Agreement.

At the time of sanction of the loan, the possible impact of change in CBLR on the PMII, MI and / or tenor or both will be clearly communicated to the borrower.

At the time of change in the CBLR, the below options will be communicated to the borrowers (whose loans are linked to CBLR)

a) Option to switch to fixed rate, if available
b) Option to change PMII / MI (as applicable)
c) Option to change tenor
d) Option to change a combination of PMII / MI / tenor
e) Option to prepay the loan in part or full

The communication will also include the change in PMII amount, MI amount and / or tenor as the default option in case none of the above options is exercised within the defined time.

In addition, the Company will make accessible to all borrowers, a statement at the end of each quarter which enumerates the principal and interest recovered till date, EMI amount, number of EMIs left, annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The Company will ensure that the statements are simple and easily understood by the borrower.

IX. Amendments to the Interest Rate Policy

The Board hereby authorizes the Finance Committee or ALCO to review and make appropriate changes to the Interest Rate Policy from time-to-time basis the market scenario in the country which includes the upward/downward revision in interest rates applicable to various loan products and the relevant charges applicable for such loan products.