

Ahilya Gramin Livelihood Foundation

Pricing Policy for Microfinance Loans

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1. Introduction

The Company has been following certain procedures and practices in the matter of fixing interest rates on Microfinance loans. Interest rates on micro finance loans are deregulated. Master Direction – Reserve Bank of India (Regulatory Framework for Micro Finance Loans) Directions dt March 14, 2022 and Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 have dated 19th October 2023 directed NBFCs to have a documented Interest Rate Policy / Model approved by the Board of Directors which would lay down internal principles and procedures in determining interest rates and other charges on the loan products offered by MFIs/ NBFCs.

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

- A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate.
- Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of quantum, of each component based on objective parameters
- A ceiling on the interest rate and all other charges applicable to microfinance loans.
- Disclosure of rates of interest rates, changes thereof and publicity thereto.
- Adoption of annualized rates of interest while dealing with customers.

Interest rates and other charges / fees on microfinance loans should not be usurious.

2. Objectives:

The main objectives of the interest rate policy are to: -

- Ensure that interest rates are determined in a manner to ensure long-term sustainability of business by considering the interests of all stakeholders.
- Develop and adopt a suitable model for calculation of a reference rate.
- Enable fixation of interest rates which are reasonable: both actual and perceived.
- Ensure that computation of interest is accurate, fair and transparent in line with regulatory expectations and market practices.

3. Pricing Framework for Microfinance Loans:

The pricing for these segments of borrowers will be as decided Board of Directors and will be reviewed on a quarterly basis.

Components considered for pricing and their delineation as follows:

- **Cost of funds pertaining to borrowings:** The Cost of borrowings signifies the borrowing cost and shall include all cost & expenses incurred by the company in relation to borrowing.

- **Operational Costs:** Operational expenditure (Opex cost to AUM) refers to the costs associated with the day-to-day operations of a business. These include expenses like infrastructure, technology, administration, sales, salary, marketing, promotions, and compliance costs etc. Operating Expense is calculated as an average of operations expenses for last 2 quarters.
- **Credit Risk Cost:** Ahilya Gramin will cover the Credit risks through existing estimated losses based on portfolio at risk trend
- **Margin:** Margin decided based on the reasonable return expected by the shareholders and the Risks involved.

4. Pricing Model

Working on the rate of interest illustrative example is given below:

Particulars	Calculation Methodology	Interest Rate p.a.
Average Cost of Borrowings	Average of the last two quarter	xx.xx%
Operating Cost	Average of the last two quarter	xx.xx%
Credit Risk Cost	As per Portfolio at Risk as on _____	xx.xx%
Margin / Return on Assets	Post Tax - xx%	xx.xx%
MFI Interest Rate		XX.XX%

5. Current Pricing for microfinance loans

Pricing calculation for the current quarter:

Particulars	Lowest Rates	Average Rates	Maximum Rates
Average Cost of Funds	14.11%	14.11%	14.11%
Operating Cost	10.54%	10.54%	10.54%
Return on Asset	2.00%	2.25%	2.50%
Reference Rate	26.65%	26.90%	27.15%
Credit Risk Cost	0.85%	1.60%	2.85%
Total Interest Rates Post Risk Premium p.a. on reducing balance method	27.50%	28.50%	30.00%

*Subject to Change based on Board recommendation

- 1.The board may perform a quarterly review of the actual figures for the components specified in the policy, relevant to each respective quarter for the calculation of the interest rate.
- 2.Also mention that any change in the interest rate will be effective from the next day or on a specific date as approved by the board
- 3.Above data/workings/components shall be furnished by Finance/Treasury department on timely basis.

Note: This mechanism must be maintained to ensure that the interest rate may fluctuate accordingly.

6. Methodology for calculation of interest on loan accounts:

The main spirit underlying the methodology is to project a transparent and fair approach to the customers and also be in readiness to adopt regulatory changes.

General Conditions applicable to loans

6.1 On the daily balances

Interest amount shall be calculated on the daily outstanding balance in the loan account at the applicable rate.

6.2 Annualized Rate of Interest

The interest rate quoted shall be on an annualized basis only in all documents, communications and publicity materials (pamphlets, brochures, hoardings, etc.). Where the rates are mentioned in non-annualized form (e.g. In product promotion) the annualized rate shall also be mentioned along with so as to comply with regulatory requirements and Fair Practices Code

6.3 Annualized Percentage Rate (APR)

APR is the annual cost of credit to the borrower which includes interest rate, and all other charges associated with the credit facility. The APR is computed on net disbursed amount using IRR approach and reducing balance method. The borrower shall be provided with a Key Fact Statement containing APR, charges and other qualitative information etc. as prescribed by RBI.

6.4 Due date for servicing interest

Interest will be calculated from the date of disbursement and shall be charged till the day of closure of the account. The due date for payment of interest shall run from the date of disbursement.

6.5 Penal Charges

When any amount remains overdue without full servicing is subject to interest at the contracted rate on the amount due and payable along with the penal charges if any applicable as per the Policy on penal charges. Penal charges shall be applied on the overdue amount and not on the entire loan amount.

6.6 Fixed rate / Floating rate

All the loans shall be at fixed rate only

6.7 Maximum / Ceiling Interest Rate on Loans

The maximum interest rate shall be fixed at 28.50% p.a. during the normal loan.

Penal charges and other out of pocket expenses charged from the borrowers will be exclusive of the ceilings mentioned above.

The above-mentioned ceilings shall be reviewed periodically at least once in a year or more frequently, as and when required, by the Board of Directors keeping in view regulatory guidelines / directives, intensity of competition in the market, net interest margin target, market rates etc.

6.8 Notice to borrower for changes in interest rates, charges etc.

Notice shall be sent to the borrowers in the vernacular language, or a language as understood by the borrower of any changes in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. are required based on directions of the regulators or the Board. It shall be ensured that changes in interest rates and charges are affected only prospectively.

7. Processing fee and other charges

Processing Fee and Other charges for Microfinance loans shall be as per the following table:

Processing Fees	2% + Applicable Tax
Insurance Charges	As per actual
Prepayment Charges	NIL

Apart from the Interest and the charges mentioned above, the company does not charge anything to the borrower.

8. General

- Processing Fees will be deducted from the disbursement amount itself or collected in advance.
- Appropriation of Interest and Other charges: Any remittances received towards loan repayment shall be adjusted towards regular interest and the balance shall be adjusted towards principal, other charges and penal charges (as per policy on penal charges) as per terms in this sequence.
- Interest shall be charged only from the date of actual disbursement of the funds to the customer.
- Advance received will be reduced from the outstanding loan amount for computation of interest.