LOAN PRICING POLICY

GUIDEGURU MICRO FOUNDATION

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| Version No. | 1.0 |
| Amended/Modified Date of Policy | 1st April 2022 |
| Applicable from | 1st April 2022 |
| Approved by | The Board of Directors |
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# Reference:

Notification No. RBI/DOR/2021-22/89/DoR.FIN.REC.95/03.10.038/2021-22

# IST OF ABBREVIATIONS

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| **GGMF** | Guideguru Micro Foundation |
| **DER** | Debt to Equity Ratio |
| **EIR** | Effective Annualized Interest Rate |
| **GST** | Goods and Services Tax |
| **MFI** | Micro Finance Institution |
| **NBFC** | Non-Banking Financial Company |
| **CP** | Commercial Paper |
| **RBI** | Reserve Bank of India |
| **ROA** | Return on Assets |
| **SFB** | Small Finance Bank |
| **XIRR** | Extended Internal Rate of Return |

1. **SUMMARY**

This policy lays down the premise for determining pricing for loans that GGMF offers to its customers. It covers all loans offered by the company, including –

* Microfinance loans as defined by the extant RBI guidelines

The policy will define the pricing model/approach for arriving an all-inclusive interest rate (also termed as EIR or XIRR).

This policy shall be in compliance with extant RBI guidelines and GGMF’s Fair Practices Code. It will take in consideration the risk appetite of the Company and the principles of risk-adjusted- return.

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

# POLICY COVERAGE

This policy covers the following: -

* + Components of pricing applicable for all loans (microfinance -Individual and Group Loans)
  + Spread applicable for microfinance loans
  + Ceiling on interest rate and other charges applicable for microfinance loans
  + Delegation of authority for pricing approval

# COMPONENTS OF PRICING FOR ALL LOANS

The components of pricing and their delineation are as follows –

# Cost of Funds:

GGMF borrows funds through various means encompassing term loans,subordinated debt, etc. The Cost of Funds shall denote the Borrowing Cost**\*\*** in proportion of projected debt to equity (or DER).

**\*\*** *Borrowing Cost shall include all costs & expenses borne by the Company in relation to borrowing or arrangement of debt, including interest, coupon, upfront fees, legal & other charges, stamping and documentation charges, arranger fees, listing expenses, brokerage/advisory/intermediation charges, hedging costs, commissions, liquidity management premium, prepayment or foreclosure charges incurred to replace high-cost debts, penal charges, taxes, etc.*

# Operational Cost:

It pertains to costs related to end-to-end loan cycle, including underwriting & collections, operations, employees, fixed assets & infrastructure, technology, management & administration, sales, marketing & promotions, compliance costs, among other things.

# Risk Premium:

It covers all the risks which the Company is exposed to, including but not limited to- credit risk, operational risk, systemic risks. The Company will cover its risks through a combination of loss provisions and insurance.

# Margin:

It covers the expected pre-tax Return on Assets and Net Surplus. Expected ROA is derived from Return on Equity (in proportion of projected DER) as agreed with the equity investor, or priced through any capital pricing model.

# Illustrative Example –

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| --- | --- |
| **Component** | **Price** |
| Cost of Funds | 10.0% |
| Operational Cost | 8.0% |
| Risk Premium | 3.0% |
| Margin | 7.0% |
| **EIR** | **28.0%** |

**Note:** The EIR is inclusive of interest rate and all upfront fees & charges applicable to the borrower.

# SPREAD APPLICABLE FOR MICROFINANCE LOANS

The range of spread of each component for microfinance loans are as follows –

|  |  |  |
| --- | --- | --- |
| **Component** | **Range** | **Rationale** |
| Cost of Funds | 8%-12% | It is based on projected borrowing costs with an expected sensitivity linked to market movement. |
| Operational Cost | 7%-11% | It is based on projected operational costs with an  expected sensitivity based upon cost overruns. |
| Risk Premium | 0%-5% | It is based on historical trend of loan loss and operational risk observed by the Company |
| Margin | 3%-10% | It is based on pre-tax expected ROA and net surplus. |

# CEILING APPLICABLE FOR MICROFINANCE LOANS

The ceilings on interest rates and other charges shall be as follows –

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| --- | --- |
| **Item** | **Applicable Ceiling for microfinance loans** |
| Interest Rate per annum | Up to 29% |
| Upfront Fees & Charges (excluding GST) | Up to 5% |
| **EIR** | **Up to 34%** |
| Prepayment penalty | Not applicable |
| Late payment charges | Up to 3% on overdue amount |
| GST and other statutory duties & fees | As per actuals |
| Maximum Interest Rate | 29% |
| Minimum Interest Rate | 26% |

# PRICING APPROVAL

Interest rate and other charges shall be periodically approved by the **Board** within the ceilings set by this policy. Any deviation to the policy terms shall be approved by the Board.

# DISCLOSURE OF PRICING INFORMATION

The Company shall disclose pricing related information to a prospective microfinance borrower in a standardized simplified factsheet.

The Company shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.

Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

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