Interest Rate Policy

Bajaj Finance Limited

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1. Background

As per Reserve Bank of India guidelines, the Board of each NBFC shall 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.. Further, the directives states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters to them.

2. Objective of the policy

To arrive at the benchmark rates to be used for different types of customer segments and to decide on the principles and approach of charging spreads to arrive at final rates charged to customers.

3. Review of Policy

The Policy shall be reviewed once a year or in between as required.

4. Organisation Structure

4.1. Board of Directors

The Board of Directors shall have oversight on the Interest rate Policy of BFL. To ensure effective implementation of the Interest Rate Policy, the Board may delegate certain operational aspects to ALCO, as deemed fit.

4.2. Asset Liability Committee

Any change in the benchmark rate not covered under this policy would be decided/approved/ ratified by ALCO and would be put up to the Board. Any rate changes done out of the ALCO cycle would be done through a sub-committee consisting of MD/DMD, CFO, Treasurer and the relevant senior business team member

Business can have their internal pricing policies under the overall framework of board approved interest rate policy for company for deciding the spreads to arrive at final rate. Any changes to business level internal pricing policies(if any) will be approved by the competent PPG (Product Program Guideline) committee by way of amendment to existing PPG document.

5. Interest rate Model

BFL lends money to its customers through Fixed and Floating rate loan. BFL being a diversified NBFC lends money through various products to cater to needs of different category of customers. Few broad categories of customer segments are as follows.

- Consumer (Secured and Unsecured Loans)
- Mortgage (Individual salaried, Individual self employed, SMEs)
- Commercial Loans to corporates
- Loan against securities
- Rural customers (Salaried, Self Employed & SME)
- Auto Loans

For Floating rate Loans, BFL mainly employs a Floating Reference Rate (Bajaj FRR) to price it's mortgage customers and for wholesale floating rate businesses, loans can be benchmarked to external benchmarks like REPO or Bank MCLR or Bajaj FRR as agreed with respective customers.

Bajaj FRR may include for its computation, a combination of variables such as the Cost of Funds of the company, fund raising cost, Liquidity/risk premium, carry on investments, opex ratio, ROA, competition benchmarking, etc, Any changes to the FRR is reviewed in the Asset Liability Committee meeting and published on the website of the Company

To ensure that rate increases and reductions are passed on to the customers on account of changes in the market or actions taken by RBI, businesses should endeavor to price incremental floating rate loans to external linked benchmarks such as REPO/T-bill/Government Securities (as published by FBIL- Financial Benchmark India Limited), etc. Apart from the external benchmark, wholesale businesses may also employ Bajaj FRR rates or Bank MCLR rates which are available in the public domain as an underlying benchmark to price customers.

Businesses under the direction of ALCO shall ensure operational readiness and adopt the revised benchmarks to price their incremental loans.

Fixed rate loans are not linked to benchmark but are decided based on their Cost of Funds (allocated through Fund transfer pricing), Operational expenditure, Business related risks and desired ROE/ROA. Factors affecting calculation of spreads to arrive at final rate are mentioned below.

6. Principles and procedures for charging spreads to calculate final rate

The rate of interest for loans for various business segments and various schemes thereunder is arrived after adjusting for spread by the relevant business segment. Major factors considered by businesses for calculating spreads are as follows but not limited to:

- Interest rate risk (fixed vs floating loan)
- Credit and default risk in the related business segment
- Historical performance of similar homogeneous clients
- Profile of the borrower
- Industry segment
- Repayment track record of the borrower
- Nature and value of collateral security
- Secured Vs unsecured loan
- Ticket size of loan

- Bureau Score
- Tenure of Loan
- Location delinquency and collection performance
- Customer Indebtedness (other existing loans)

The rate of interest for the same product and tenor availed during same period by different customers need not be standardized. It could vary for different customers depending upon consideration of any or combination of above factors.

7. Other Charges

Besides interest, other financial charges like processing fees, origination fees, cheque bouncing charges, late payment charges, reschedulement charges, pre-payment / foreclosure charges, part disbursement charges, cheque swap charges, security swap charges, charges for issue of statement account etc., would be levied by the company wherever considered necessary. Besides these charges, stamp duty, service tax and other cess would be collected at applicable rates from time to time. Any revision in these charges would be from prospective effect. These charges would be decided upon by the competent PPG committee by way of amendment to existing PPG document.

8. Communication Framework

Interest rates would be intimated to the customers at the time of sanction / availing of the loan.

Interest Rate Policy would be uploaded on the website of the company and any change in the benchmark rates and charges would be uploaded on the web site of the Company.

Changes in the underlying benchmark are available on public domain such as RBI, Bank, and company website. Any changes in the spread and/or charges for existing customers would be communicated to them through acceptable modes of communication such as letter, email, SMS, etc.