



arriba inclusive finance pvt. ltd.

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ARRIBA INCLUSIVE FINANCE PRIVATE LIMITED

PRICING POLICY ON CREDIT

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INTRODUCTION

In light of the directives from the Reserve Bank of India (RBI), Master Direction - Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, RBI/DNBR/2016-17/44, Master Direction DNBR.PD.007/03.10.119/2016-17 dated September 01, 2016 and Master Circular - Fair Practices Code DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015 which has been updated from time to time, the guidelines state that :

- a) 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. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- b) The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.
- c) The rate of interest should be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

Arriba has to put in place its “Pricing Policy” which lays down the internal principles/guidelines and procedures for determining interest rates, processing and other charges.

The Pricing Framework:

The pricing framework consists of:

- a) Interest rate model and
- b) Other charges (if any)

a) Interest rate model :

Arriba’s interest rate will be a combination of the following components:

- Cost of funds
- Operating expenses
- Loan loss/FLDG
- Risk premium
- Margin

The defined range of interest rate will be reviewed periodically and updated. The interest rate for the financial year 2022-23 is set in the range of 15% to 26% p.a. on reducing balance.

Various components adding upto the % p.a. interest rate are provided in [Annexure 1](#).

The variable **Risk Premium** will depend on various factors, which may include:

- Geography (states, district risk index, rural/urban)
- Loan size
- Loan tenure

- Credit profile of the borrower (previous credit history, credit score of borrower and occupation)
- Loan cycle
- Pricing in the market

The risk premium range on the loans will be between – 1% to 2%.

b) Other charges

In addition to the interest rate, there will be other charges on the loan that are described as under:

- i. Sourcing/Processing Fees : 1% to 5% of the loan amount
- ii. Penalty in case of delayed payments (interest will be levied on amounts overdue)
- iii. Insurance premium amount for credit-linked life insurance, if applicable (as charged by the insurance partner for borrower and spouse as applicable) Other applicable charges (such as stamp duty, GST and other cess at applicable rates from time to time)

Role of Board:

The Board of Directors will approve the Pricing Policy, review, and monitor its implementation from time to time. The Board will define the roles and responsibilities for the Loan Pricing Committee which is a Management Committee. This Loan Pricing Committee will present to the Board the minutes of its meeting/report every quarter. The Loan Pricing Committee shall include: CEO, Finance head, Operations Head and Audit Head.

The Loan Pricing Committee has clearly defined composition and terms of reference (TOR) and includes responsibilities to propose changes and spreads in the interest rates and approve exceptions, if any, within the perimeters of the policy. The Committee shall meet on a defined periodic interval and decide on any changes/status quo in the interest rate. Any proposed changes in the interest rates shall be put up to the Board for approval, in case of any change from the policy framework and in other cases. The Board shall review the pricing policy quarterly.

Review and monitoring:

The Board shall monitor implementation of the policy through Arriba's internal audit team. Internal audit team will review the pricing compliance in the field and report any deviations as part of their regular audit reports to the Board on a quarterly basis. The Loan Pricing Committee shall seek and review the data from SROs which would be reported by the Operations team. Interest rates and other charges/ fees on micro enterprise and home improvement loans shall not be usurious.

Staff training and communication:

The staff induction and refresher training materials shall include a new module on the Pricing Policy and how to communicate pricing related information to borrowers in a clear and transparent manner. Circulars shall be released with the revised rates or charges as and when changes are made.

Borrower communication:

Communication about the changes in pricing, other charges and all related terms and conditions will be done according to the new RBI directives. Arriba shall:

- a) Disclose pricing related information to prospective borrower in a standardized simplified fact sheet (Annexure 2).
- b) Explicitly disclose any fees charged to the micro enterprise and home improvement borrower in the simplified fact sheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- c) Not charge any pre-payment penalty on micro enterprise and home improvement loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
- d) Prominently display the minimum, maximum and average interest rates charged on micro enterprise and home improvement loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and on its website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.
- e) Shall inform borrowers of any change in interest rate or in any other charges well in advance and these changes shall be effective only prospectively.
- f) Provide a standard form of loan agreement for micro enterprise and home improvement loans in a language understood by the borrower.
- g) Provide a loan card to the borrower which shall incorporate the following:
 - 1. Information which adequately identifies the borrower.
 - 2. Simplified fact sheet on pricing.
 - 3. All other terms and conditions attached to the loan.
 - 4. Acknowledgments of all repayments including installments received and the final discharge.
 - 5. Details of the grievance redressal system, including the name and contact number of the nodal officer.
- h) Ensure that all entries in the loan card should be in a language understood by the borrower.
- i) Issue non-credit products with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.

Annexure 1: Break-up of the Component-wise Pricing

Sl. No	Component	Range (in %)	Basis
I.	Arriba's Interest Rate	15% - 26%	
a.	Cost of funds	14%	In view of the trend in interest rates from Bank's and FIs, the cost of funds is projected at 14%.
b.	Operating expenses	8%	The operating expense ratio is projected \geq 8%.
c.	Loan loss/FLDG	2%	
d.	Risk premium		
e.	Margin	2%	
II.	Other charges		
a.	Processing Fees	1% to 5%	
b.	Interest in case of delayed payments	Nil	
c.	Insurance premium amount for credit-linked life insurance, if applicable	As charged by the insurance partner for borrower and co-borrower	
d.	Government/statutory	To be charged on applicable components at the prevalent rates	

Annexure 2:

Illustrative Factsheet on Pricing of Micro Enterprise and Home Improvement loans Loans

(to be provided in a language understood by the borrower)

Date: XX

Lender's Name:

Applicant Name:

Sl. No	Parameter	Details
1	Loan amount (amount disbursed to the borrower) (in Rupees)	1,00,000
2	Total interest charge during the entire tenure of the loan (in Rupees)	12,840
3	Other up-front charges (break-up of each component to be given below) (in Rupees)	2,190
3.a.	Processing fees (in Rupees)	1,180
3.b.	Insurance charges (in Rupees)	1,010
3.c.	Others (if any) (in Rupees)	-
4	Net disbursed amount ((i)-(iii)) (in Rupees)	97,810
5	Total amount to be paid by the borrower (sum of (1), (2) and (3)) (in Rupees)	1,15,030
6	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	28.40%
7	Loan term (in months)	12
8	Repayment frequency by the borrower	Fortnightly
9	Number of instalments of repayment	26
10	Amount of each instalment of repayment (in Rupees)	4,340
Details about Contingent Charges		
11	Borrower shall not be charged any penalty on prepayment of loan at any time	
12	Penal interest in case of delayed payments (if any)	NIL
13	Other charges (if any)	NIL

Detailed Repayment Schedule Format

Installment No.	Outstanding Principal (in rupees)	Principal (in rupees)	Interest (in rupees)	Installment (in rupees)