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POLICY FOR DETERMINING INTEREST RATES, PROCESSING AND OTHER CHARGES

INTRODUCTION AND OBJECTIVES:

As per Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 issued by the Reserve Bank of India ("RBI") read with the RBI Circular dated August 18, 2023 on Fair Lending Practice - Penal Charges in Loan Accounts, all NBFCs are required to have a Board approved interest rate model and a policy on penal charges.

Accordingly, Finova Capital Private Limited ("FCPL") is publishing this Policy for Determining Interest Rates, Processing and Other Charges in order to ensure transparency to conform to the stipulations of RBI's directives, and shall be applicable till further notice.

INTEREST RATE MODEL

This policy details the principles for determining interest for loans provided by FCPL as follows:

1. Lending rates are calculated taking into consideration FCPL's weighted average cost of funds, credit costs, overheads and other administrative costs.

2. The weighted average cost of funds depends on the different types of funding sources tapped by FCPL to fund its business. These are an amalgamation of equity, bank loans, debentures, commercial papers and other money market instruments.

3. The interest rate for loans for different business segments and products within that business segment differ due to the nature of the segment or product.

4. The interest rate for any business segment or product would incorporate FCPL's cost of funds, cost on account of risk and tenor for the concerned business segment / product, business / product specific operating cost and margin.

5. Some of the key factors / gradations of risk that impact interest rate are:

   i. Business risk, industry risk, market position, market reputation, vintage of the business, competition

   ii. Size and nature of the business, geographic location of the borrower

   iii. Historical performance of similar homogenous pools of borrowers

   iv. Profile and incorporation of the borrower, strength and experience of group

   v. Length of relationship with the borrower, repayment track record of existing borrower, credit history as revealed from available sources.

vi. Credit and default risk in the related business segment / product e.g. interest rate may be higher for borrowers with lower credit scores / ratings

vii. Nature and value of primary collateral and additional security

viii. Existing and as the case may be, future financial position of the borrower, sustainability of cash flow of the borrower

ix. Financial flexibility of the borrower

x. Tenure of the loan e.g. interest rate may be higher for longer tenure loans

xi. Interest rate trend prevailing in the money market

6. The rate of interest for the same product and duration need not be standardized. It could vary for different customers depending any one or a combination of the above factors.

7. Interest rates could be fixed or floating. Floating rate loans are benchmarked either to the commercial paper benchmark (FIMMDA - Thomson Reuters 3month Commercial Paper Benchmark <0#INFIMCPBMK>) or SBI Base Rate or to such benchmark as FCPL may deem fit.

8. Interest rates could be reset as decided by FCPL from time to time.

9. Applicable interest rates would be communicated to the borrower through detailed sanction letters. The sanction letters shall clearly state the terms and conditions of the loan and also the annualized interest rate applicable on the loan. The borrower shall also be provided with a copy of the repayment schedule that shows the breakup of principal and interest that are payable by the borrower.

10. Interest shall be payable monthly or quarterly, in advance or in arrears, depending on the business segment and the product.

11. All amounts, including interest and principal shall be payable immediately on the due date as provided in the repayment schedule and no grace period for any payments is allowed.

12. As a deterrent against willful delinquency and to encourage adherence to the terms and conditions of the loan agreement, FCPL may charge an additional / penal charges depending on the business segment / product and benchmarked against market / competitive conditions.

13. FCPL would also benchmark itself against prevailing practice followed by its competitors in the market to determine the applicable rate of interest for any business segment / product.

14. As each transaction we enter into is individually assessed, we do not publish interest rates.

15. Any changes in the applicable interest rate would be communicated to the borrower in a manner as detailed in the loan agreements or in an adequately suitable mode and manner.

16. A prepayment / foreclosure charge will be charged based on the costs incurred by FCPL, including but not limited to break costs, customer acquisition costs and business segment / product.

17. For individual borrowers, the prepayment charges for floating rate loans will be NIL.

18. FCPL shall provide to the customers information about the penalties which shall be levied on him/her in case of non-observance / violation of any of the terms and conditions governing the product / services chosen by them.

19. The penal charges in case of loans sanctioned to individual borrowers, for purposes other than business, shall not be higher than the penal charges applicable to non-individual borrowers for similar breach of material terms & conditions. The Penal Charges shall also be disclosed by the Company in the loan agreement, most important terms & conditions in addition to being displayed on the Company's website. Details of penal charges shall be the part of communication made regarding non- compliance of material terms and conditions of loan to the Borrowers. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

20. The FCPL shall not capitalise penal charges i.e. no further interest will be computed on such charges.

21. Further, the FCPL will not introduce any additional component to the rate of interest.

FEES & CHARGES

i. Sourcing costs at the time of application:

a. These costs are incurred by the Company before the customer takes his loan disbursement and will be covered through the charges deducted/ collected from the disbursement amount. These costs include Initial Money Deposit/Application Fees, login fee bounce charges etc.

b. All processing/ other charges may vary depending on the credit score/product offered/ customer profile/ticket size etc. and generally represent the cost incurred in rendering service to the customer. The Charges deducted at the disbursement of loan are Processing Fees, Non-Postal Stamp/Stamp duty, charges for non-encumbrance /certificate/Search Report, CERSAI Creation Charges, Charges Translation Deed, Valuation Charges, Communication Charges.

ii. **Costs incurred during the tenure of the loan:**

a. Besides interest, other financial charges such as Cheque dishonor Charges, Pre-closure charges/ Part Payment Fees, late payment charges, Charges for missed due date, Bounce EMI Collection Charges, Loan Statement/Duplicate Repayment Schedule Charges, Cheque Representation Charges, Pre-closure/Request Fees, Loan Re-Schedulement Charges, Cheque/Repayment mode swap Charges, communication charges, Document Custodian Fees, Charges for copy of Property Papers would be levied by the Company wherever considered necessary and intimated to the customer as a part of the loan agreement/ through any mode thereafter.

b. Besides these taxes and other cesses would be collected at applicable/ prevailing rates from time to time. Any revision in these charges would be with prospective effect. These charges would be decided collectively by the management of the Company.

iii. **Charges applicable at the time of loan closure:**

These will include pre-closure/ request fees and prepayment/ foreclosure charges.

FCPL reserves the sole right to decide on any refund or waiver of charges as per its policy.

Any revision in the Policy for Determining Interest Rates, Processing and Other Charges would be reviewed by the Finance Team and recommended to the Board for approval.