Interest Rate Policy

Nido Home Finance Limited (Formerly known as Edelweiss Housing Finance Limited)

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1. INTRODUCTION

In this policy document, the term 'company' refers to Nido Home Finance Limited.

1.1 OBJECTIVE

The objective of the policy is as under:

1. To create an internal approach for calculation of internal benchmark rates i.e., Home Loan Reference Rate (HLRR) and Mortgage Reference Rate (MRR)
2. To develop a risk grading mechanism for borrowers under different products viz. HL, LAP, STHL, STLAP & CF

1.2 PREFACE

1. Reserve Bank of India (RBI) had vide its Circular DNBS / PD / CC No. 95/ 03.05.002/ 2006-07 dated May 24, 2007 advised the Boards of Non-Banking Finance Companies (NBFC's) to lay out appropriate internal principles and procedures on determining interest rates, processing and other charges.
2. Additionally, the RBI advised NBFCs to adopt suitable interest rate models, taking into account relevant factors, and to disclose the rate of interest, gradations of risk, and justification for charging different rates of interest to different categories of borrowers in its circular DNBS (PD)C.C. No. 133 /03.10.001/ 2008-09, which was issued on January 2, 2009.
3. Also, the RBI has advised vide its circular RBI/2023-24/55 DOR.MCS.REC.32/01.01.003/2023-24 must formulate a policy on the effect on loans due to Reset of Floating Interest Rate on Equated Monthly Instalments (EMI)
4. Keeping in view of the RBI guidelines as cited above, this document is intended to present a policy framework to determine the interest rate model at Nido Home Finance Limited (Formerly known as Edelweiss Housing Finance Limited) (“Nido/Company”).

2. DESCRIPTION

1. PLR (Prime Lending Rate) is the internal benchmark rate used for setting up the interest rate on fixed, floating and variable rate loans sanctioned by Non-Banking Financial Companies (NBFC) and Housing Finance Companies (HFC).
2. Nido offers home loans, loans against property and construction finance loans to its customers.

2.1 PROCESS FOR CALCULATION

A. Determination of PLR

The interest rate would vary for different sections of borrowers based on various components as described below:

a. Funding Cost
   1. Cost of Borrowings - It is the cost of raising funds from external sources.
   2. Debt to Equity Ratio – It is the ratio of Borrowings to Equity.

b. Liquidity Cost – It is the cost of maintaining surplus liquidity on balance sheet.

c. Credit Risk – It is the cost of risk which the business carries on account of the credit worthiness of the borrowers.

d. Operating expenses (Opex) – It is the operational cost of running the business.

e. Spread – It is the spread applicable to different products including customer and product specific margin and profitability expectations.

2.2 OVERALL REVIEW MECHANISM

The interest rates would be offered to customers on fixed, floating, and variable basis. The PLRs would be discussed at the quarterly ALM Working Group and modified, taking into consideration change in any of the component(s). Basis on the deliberation of the change in the PLR and its impact on existing and new customers, it would be decided to pass on the changes to existing or new customers. The Borrowing Cost, Liquidity Cost and Spread shall be calculated and proposed quarterly. The Debt-to-Equity Ratio, Cost of Equity, Credit Risk and Opex shall be calculated and proposed annually.

The ALM Working Group can recommend reducing the customer margins for a cohort in line with fair practice codes, whenever we are able to identify cohorts that are exhibiting good credit behavior for customer retention. It can also recommend exclusions/waivers of certain types of loans whenever there is any change in the PLR.

Values to be determined from Finance team to arrive at applicable PLR. The same is to be approved in ALCO and then to be implemented in the system. In addition, in case of any extraordinary event, the ALM Working Group members shall call a meeting to discuss and review the PLR. The ALM Working Group will deliberate and take the final decision on PLR.

3. INTEREST RATE RATIONALE

Nido offers competitive interest rates across its products. However, applicable interest rate for each loan account will vary by taking into consideration multiple factors such as loan amount, type of asset, product type, tenure, profile of the borrower, loan to value ratio, past repayment track record, fixed income to obligation ratio, and basis income eligibility program while ensuring adequate margin is available for making changes to the tenure as well as EMI in event of PLR increase. Also, it is advised that the maximum tenure that one can be increased on increase in PLR should be restricted to the borrowers' age norm plus 5 years or Product norm plus 5 years, whichever is lower. Thereafter the effect of increase in PLR to be given to EMI/tenure accordingly.

4. FRAMEWORK FOR CREATION OF NEW PLR

There can be different PLRs for different products, CLM arrangements where the cohorts differ in their operational cost, credit cost, financial costs, and profitability expectations. The new PLRs can be deliberated in the ALM Working group and should be computed periodically.

5. IMPLEMENTATION MECHANISM

The PLR shall also be made available on the website of Nido. The information published on the website should be updated whenever there is a change in PLR. System implementation will be initiated after approval from ALCO. Once approved, Operations will take it up for final rate change. The effect of PLR change shall be communicated to the customer in the following way:-

At the time of Sanction

Customer/Borrower shall be clearly communicated via the sanction letter about the possible impact of change in benchmark interest rate (PLR) on the loan leading to changes in EMI and/or tenor or both which need to be accepted by the customer at the time of disbursement. Please note the elongation of tenure shall not result in negative amortization.

Post Disbursement

Subsequently, any increase in the EMI/ tenor or both on account of change in PLR shall be communicated to the borrower immediately through appropriate channels (SMS/EMAIL/WHATSAPP)

At the time of reset of interest rates, Nido shall provide the option to the borrowers to switch over to a fixed rate by charging nominal switch fee as mentioned in schedule of Fees and Charges https://www.edelweisshousingfin.com/fees-and-charges/

The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to levied as per regulatory norms and the schedule of Fees and Charges updated on the website https://www.edelweisshousingfin.com/fees-and-charges/

6. APPROACH FOR GRADATION OF RISK

Adoption of risk grading
The company shall adopt an internal risk grading methodology for the same product and tenor which might differ from customer to customer depending on the combination of factors mentioned below.

Factors affecting interest rates for borrowers for HL & LAP:
Applicable interest rates for each loan account will vary by taking into consideration multiple factors such as loan amount, type of collateral, product type, tenure, profile of the borrower, loan to value ratio, past repayment track record, fixed income to obligation ratio, basis income eligibility program and any other factor that affects the decision making.

1. Type of product and Credit score
Home loans will have a lower risk profile as compared to loans against property. Similarly, high credit scores represent good credit worthiness of customer and repayment capability and hence will be graded lowest in terms of risk.

2. Type of collateral
Risk grading will also be dependent on the type of collateral mortgaged with the company. If the collateral is standard collateral, it will be low risk.

3. Loan To Value Ratio
The LTV Ratio, also known as the loan to value ratio, is the percentage of the loan amount issued to the property's market value. The LTV ratio represents the maximum loan amount offered to the applicant.
Thus, a high LTV ratio will result in high risk to the company.

4. Debt to income ratio
The company shall assess the monthly income while determining the interest rate on the loan. The higher the disposable income, the better the loan eligibility. Co-applicant income and other sources of income can be clubbed to arrive at the final calculation.
Debt-to-income ratio demonstrates customer capacity to repay new obligations. If EMIs consume a considerable portion of monthly income, it will be classified as a high-risk borrower.

5. Income eligibility program
Customer acquired under **Normal Income Program** are considered in lowest risk segment, considering that the Lender has full view on the customer financial health, basis declaration of the financials by customer, hence highest exposure is proposed under this program with relaxed bureau norms.
Customers acquired under **Banking Program** are capped on the loan amount, considering we do not have full view on the financials. However, TO is derived basis banking transactions and OD/CC utilisation, which acts as a surrogate of income, hence exposure has been capped.
Customers acquired under the **Assessed Income program/ Liquid Income Program** are under medium risk segment, since customers' financial health is checked basis, the subjective discussions & PD of the customer. Accordingly, to mitigate the risk, we have capped the exposure amount for Metro & Non-Metro Cities and & FOIR under this program.
Customers acquired under the **Higher FOIR program** can be classified as the highest risk segment since customers are given a higher loan amount than the amount that the declared financials would support. To mitigate the risk, we have capped the exposure amount, LTV and Bureau score with financial caveats like no drop in TO and Cash profit.

Any other Program, if eligible will have the salient features as per the product policy. Accordingly, the parameters shall be evaluated, and the rate of interest shall be determined based on the same.

Factors affecting interest rates for borrowers for Construction Finance (CF):
1. Relationship with the Borrower – **New (Higher Rate) / Old (Lower Rate)**
2. Repayment track record of the Borrower On us and off us – **Without delinquency (Lower Rate) / With delinquency (Higher Rate)**
3. Stage of construction of the Project – **Initial Stage (Higher Rate) or Advanced Stage (Lower Rate)**
4. Category of Borrower - Vintage of the Business & Projects completed – **Better the category lower the rate**

The final rate of interest offered to the customer will be decided based on the combination of the above factors. The annualized rate of interest should be intimated to the customer and should be reflected in sanction letters and other loan documents as well.