Interest Rate Policy

  

Aye Finance Pvt. Ltd.

Aye Finance has in place Board Approved Interest Rate Policy. This Policy is to be reviewed keeping in view the RBI guidelines issued from time to time

Interest Rate Policy – Aye Finance P Ltd.

1. Background

Aye Finance Private Limited is a Gurgaon based NBFC which provides business loans to 'micro' and small enterprises in the MSME industry spread across various business clusters in India. The funds are extended primarily for working capital and expansion of the business. The broad categories of lending facilities are as follows.

a) Business Loans (Hypothecation)
b) Business Loan against property (QML & ML)
c) Bill discounting (Trade flow funding)

As per the Reserve Bank of India guidelines vide circular RBI/2015-16/16 DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015, Board of each NBFC shall approve an Interest rate model that is applicable for the Company, taking in to account relevant factors such as cost of funds, margin and risk premium etc., and determine the rate of interest to be charged for loans and advances. Further, the directive 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 issued to them.

Board of Directors of Aye Finance P Ltd. at their meeting held on ………………………….., had adopted the interest rate model of the Company. Thereafter, the Company authorized the Managing Director to review the interest rates from time to time basis the money market situation and take suitable decisions post discussing the same in the Asset Liability Committee (ALCO) Meetings.

2. Objective

To arrive at the benchmark rates to be used for different category of customer segments and to decide on the methodology of charging spreads to arrive at final rates applicable to the customers.

3. Policy Review and Governance

The Policy shall be reviewed by the ALCO (Asset Liability Committee), once in a year or in between if required due to changes required in the model or due to regulatory requirement, for example any addition / deletion of a component forming part of benchmark calculation and change in borrowing mix. The interest rate policy shall be reviewed by the Board of Aye Finance atleast once every year.

4. Interest Rate Model

4.1 Interest method

Aye Finance lends money to its customers through fixed rate loans for the tenure. Our customers are hence protected from the interest rate risk by receiving a fixed rate of borrowing that is advised explicitly at the time of sanctioning the loan.

The repayment of Business Loans (whether Hypothecation or with property as collateral) is based on equated monthly installments (EMI).

The loan amortization schedule for the customer is based on the rate of fixed rate of interest specified in the loan contract at a monthly reducing balance of the principal outstanding.

In case of the installment repayment bounces, a bounce charge is levied. No overdue interest on a daily overdue amount is charged, thus no compounding of overdue interest. However, a one-time late payment charge is applied for each overdue installment, this keeps the method transparent and understandable to the target customer.

4.2 Interest Rate basis

Aye Finance proposes to transparently define the final rate applicable to customer segments by using Aye Reference Rate (ARR).

The final interest rate uses the defined ARR and builds onto its specific risk premium that may apply from the specific deployment of Product, Loan Tenure, Loan Amount, Cluster, geography, etc.

The details of the computation of ARR (benchmark) is based on the following parameters:

A	Weighted avg. cost of borrowing (A)
B	Cost of Equity (B)
C	Fund raising cost (C)
D	ALM mismatch cost / Negative Carry on investment cost (D)
E	Operational Expense Ratio (E)
F	Base Risk premium (F)
G	Base ROA (G)
	AYE REFERENCE RATE (ARR) = {Sum (A to G)}

5. Principles to compute 'Specific Risk Premium'

The customers targeted by the company fall into a fairly coherent customer profile of micro enterprises. This helps the loans to be provided without a wide variation of specific risk premium. This helps customers be better informed about the cost of their loans and reduces mis-selling during the field origination.

However, in certain customer loans, there may be good basis to charge / discount specific risk premium basis ED (expected default) and LGD (loss given default). This should be done in exceptional cases and will require either prior product policy or a case by case approval from the National Head of Credit or Managing Director.

Final Fixed Interest Rate to Customer = ARR + Specific Risk Premium

The specific risk premium may be required to factor in the risks that are affected by:

- Custer / Industry segment/ Geography
- Profile of the borrower including past repayment track record & Credit Bureau behavior
- Historical performance of similar homogeneous clients
- Nature and value of collateral security (Secured Vs unsecured loan)
- Ticket size of loan
- Tenure of Loan

The Specific Risk Premium may be either positive or negative due to combination of above-mentioned parameters. Thus, final interest rate to customer can vary from customer to customer

The Maximum rate of interest (reducing balance basis) will be kept at or below 28% p.a. to ensure that the target customers have a reasonable interest burden.

6. Other Charges

Besides interest, other financial charges like processing fees, cheque bouncing charges, late payment charges, re-scheduling charges, pre-payment / foreclosure 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, GST etc. would be collected at applicable rates from time to time. Any revision in these charges would be implemented on prospective basis with due communication to customers at the time of applying for the loan.

7. Customer Communication

Aye Finance will communicate the final fixed interest rate to customers at the time of sanction through SMS/ sanction letter and other acceptable mode of communication. The disbursement loan documentation shall also specify the rate of interest among other loan parameters.

Interest Rate Policy would be uploaded on the website of the company and any change in the method of benchmark rates and charges for existing customers would be amended on the company web site. Any revision in these charges would be implemented on prospective basis with due communication to customers at the time of applying for the loan.