IIFL Home Finance Limited

Interest Rate Policy

Version: F.Y. wise version control	V1 - FY 2024-25 V1 - FY 2025-26
Document Owner	Policy Team
Prepared and recommended by	Policy Head
Document Classification: Restricted/Internal/Public	Public
Date of last approval/review	V1 – FY 2024-25 - 10th Feb'25 V1 – FY2025-26 – 6th May'25

Introduction

IIFL Home Finance Limited (the 'Company'), in compliance with directions issued by Reserve Bank of India, has adopted this Interest Rate Policy ('Policy') to lay out appropriate internal principles and procedures to arrive at 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 from customers for its lending business.

Methodology

The average yields and the rate of interest under each product shall be decided from time to time, giving due consideration to the following factors:

- Cost of Funds: This represents the interest expenses the company incurs for raising capital, including borrowings from banks or other financial institutions.
- Operational Expenses (Opex): The administrative and operational costs, including staff, infrastructure, technology, and overheads.
- Credit Cost: This includes the provisions for potential loan defaults, non-performing assets (NPAs), and the overall credit risk associated with lending.
- Return on Capital (ROC): The required return on the capital invested by the company to ensure shareholders' value and long-term sustainability.
- Risk profile of the customer: i.e., nature of income (salaried / self-employed / others), type of product availed (Home Loan, Loan against property, Construction Finance), Credit Bureau performance, geographic location and loan amount exposure.
- Industry trends i.e. offerings by competition

Organization Structure

The Board of Directors shall have an oversight into the *Interest Rate Policy*. The operational aspects pertaining to implementation of the policy shall be ensured by senior management. Changes with respect to PLR will be approved by ALCO.

Interest Rate Model

The Company shall adopt a discrete Policy which shall mean that the rate of interest for same product and tenure availed during the same period by separate customers may not be standardized but shall vary within a range, depending, amongst other things, the factors mentioned in the next section.

Type of interest rate offering

Choosing a loan can be a pivotal decision in customer's financial journey and among all the critical choice to type of interest rate i.e. Floating interest rate or fixed interest rate. The decision can have an impact on customers/borrower's repayment plan and overall financial planning. To cater to the customer needs we offer below interest rate type:

1. **Floating interest rate:** Floating interest (also known as a **variable** or **adjustable interest rate**) refers to an interest rate that changes periodically based on a benchmark or reference rate. This rate is typically linked to an index, such as the **Prime lending rate** or the **Repo Rate**. When the benchmark rate (like the **Repo Rate** or **PLR**) increases, borrower's interest rate increases. When the benchmark rate decreases, borrower's interest rate decreases as well.
   A) Advantages:
      - Borrowers might pay a lower rate if the benchmark rate falls.
      - Suitable for borrowers in a low-interest rate environment.

   B) Disadvantages:
      - Borrower's monthly payments can fluctuate, making it harder to budget if rates rise.
      - Borrowers might end up paying more if interest rates increase significantly.

2. **Fixed Interest rate:** A fixed interest rate is an interest rate that remains constant for the entire term of a loan, regardless of changes in market interest rates. This means the borrower knows exactly how much they will pay over the duration of the agreement.

   Example: if a borrower takes a home loan with a fixed interest rate of 13% for 20 years:
   - Interest rate will remain 13% for the entire 20 years, even if the Repo Rate or PLR changes during that time.
   - EMI (Equated Monthly Instalment) stays the same throughout the loan tenure.

A) Advantages:
- The borrower's payment amount is fixed, so budgeting is easier for him.
- Borrower can protect himself from Rising Rates. They won't be affected if market rates increase.

B) Disadvantages:
- Fixed rate of interest is higher than floating interest rate at the time of onboarding or reset floating interest
- If market rate decrease, borrower cannot take advantage of the lower rates

Difference between floating interest rate loan and fixed interest rate loan

Parameter	Floating Interest Rate	Fixed Interest Rate
Interest Rate	Varies based on market/benchmark rates (like Repo/PLR)	Remains constant throughout the loan tenure
Monthly EMI predictability	Repayments can fluctuate with rate changes	Fixed and offer high predictability in repayments
Cost in Falling Market	Lower cost as rates may decrease	Higher cost compared to floating interest rate
Cost in Rising Market	Higher cost due to rate hikes	No change in EMI; unaffected by rate hikes
Risk Level	Higher risk from interest rate variability (uncertainty due to rate changes)	Lower risk from interest rate fluctuation (stable and predictable)
Initial Rate	Generally lower than fixed interest rate	Usually higher than floating interest rate initially
Best option for	Borrowers expecting rates to fall or stay stable	Borrowers who want EMI stability and are risk-averse

Switch facility from floating Interest rate to fixed interest rate

As per the RBI circular on **Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) dated august 18, 2023,** at the time of reset of the floating interest rate, borrower will have an option to convert their interest rate from floating to fixed interest rate.

Approach for Gradation of Risks

Risk grading enables the Company to differentiate customers across different risk spectrums and helps in offering prudent pricing suitable to that customer.

The risk premium attached to a customer shall be assessed inter-alia based on the following factors:

1. Nature of Income: A stable and verifiable income source (e.g., salaried individuals) would lower the perceived risk, while irregular or uncertain income sources might increase the risk margin.
2. Type of Product: Different products (e.g., Home Loans /Loan Against property) carry varying levels of risk.

3. Bureau Performance: Customer's credit score, past loan repayment history, and overall creditworthiness are critical.
4. Location: The demographic location of the customer not only impacts the risk gradation but is essential for better communication and reachability.
5. Loan Amount: Overall loan exposure plays a pivotal role in risk gradation.
6. Regulatory guidelines, if any
7. And any other factors that may be relevant in a particular case.

Calculation of Annual Percentage Rate

The Annual Percentage Rate (APR) of loan is the total annual cost of the loan/ credit in percentage terms. Typically, the APR/ total Cost of Credit can be calculated based on the applicable Rate of Interest on the Loan and the applicable fee/ charges to be paid for availing the Loan and it can be used by the customers to compare the costs associated with borrowing across products and/or lenders. Please note that the APR may not remain same in case of floating/ variable rate of interest. Further, the APR will vary if other fee/ charges like prepayment charges, penal interest, CERSAI charges, stamp duty etc. (which one may incur during lifecycle of the Loan) are factored.

Illustrative Example of the APR:

If proposed loan is Rs.10 lakh with tenor at 240 months, rate of interest at 12% per annum with processing fee of 2%, then APR of the Loan comes to be around 12.32%

Communication to Customers

The Company shall intimate the borrower the annualized rate of interest at the time of sanction of the loan along with the tenure and amount of EMI apportionments towards interest and principal. Interest would be charged, and recovered on a monthly, quarterly basis or such other periodicity as may be approved by the designated authority and agreed with the customer.

The customer shall also be informed that the Policy is available on the Company website and any change in the benchmark rates and charges for existing customers would be uploaded on the website of the Company.

Any changes in the rates and charges for existing customers would also be communicated to them through either e-mail or letter or SMS. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a manner deemed fit, as per the terms of the loan documents. Interest shall be deemed payable immediately on the due date as communicated and no grace period for payment of interest is allowed. Statement of account will be made accessible to the borrowers.

The Company shall follow the guidelines mentioned in the Fair Practices Code guidelines as issued by RBI from time to time and as adopted by the company through its Fair Practices Code.

Requests for refund or waiver of such charges/penal charges/additional charges would normally not be entertained by the Company and it is the sole and absolute discretion of the Company to deal with such requests.

Review of Policy

The Policy shall be reviewed by the Board of Directors annually or more frequently as may be required.