

Loan Pricing Policy

1. Scope of the Policy:

- Methodology Adopted for PLR
- Fees and other Charges
- Framework on reset of Floating Interest rates on Personal Loans (Including Housing loans)(Applicable from 31st December 2023 onwards)
- Repricing of loans

2. Objectives of the Policy:

- i) Establish a loan asset pricing model to determine the appropriate interest rate and terms for extending housing and mortgage loans. The model helps in assessing the risk and return associated with the company's core lending activities. Objectives are twofold. First, to instill discipline in pricing loan products, and second, to achieve the desired equilibrium between growth, profitability and asset quality (GQP).
- ii) Policy Guidelines with respect to Reset/ Revision of Floating Interest Rate which shall be applicable to Housing Loans and other Secured/ Unsecured Personal Loans given to individuals
- iii) Policy Guidelines with respect to Repricing of loans

3. Methodology Adopted for PLR:

The PLR is calculated as an aggregation of the following cost factors:

- a. Borrowing cost - The Company utilizes a variety of funding mechanisms, such as bank loans, deposits, bonds, commercial paper, securitization, and subordinated debt, to acquire funds. The lending rate should cover the borrowing cost and related costs like brokerage, processing fee, and the like.
- b. Operating cost (Opex) net of other operating income – The lending rate should allow SHF to cover the opex like salary and administrative expenses net of other operating income like processing fee, which is taken to cover various costs incurred before a loan is disbursed.

- c. Liquidity Premium
 - i) Negative carry-on investment – Cost of investments in liquid assets like mutual funds and government securities to maintain liquidity and to meet regulatory compliances.
 - ii) ALM mismatch cost - The company procures short-term (up to 1 year) and long-term funds (up to 10 years). The company monitors the ALM gaps caused by longish nature of mortgage loans (10 – 25 years).
- d. Expected Return: This includes the cost of equity as well as returns that the company expects to earn out of its lending activities.

SHF offers fixed as well as floating-rate loans.

a. Approach for arriving at Fixed rate:

Fixed rate loans can remain constant for a particular term as per agreement.

The fixed rate to be offered comprises of costs mentioned above and additionally premium loads based on the factors like credit score of the customer, customer type, and category of loan.

b. Approach for arriving at Variable rate:

The floating rate to be offered comprises of costs mentioned above and expected returns.

These rates may vary based on the factors like credit score of the customer, customer type, and category of loan.

The floating rates for the customer may increase/ decrease based on the changes in the PLR.

Approach for gradations of risk and rationale:

The Lending Rate will be different for different categories of borrowers. The lending rate will be arrived by considering the following:

- Target return on equity – The lending rate should cover the return expected by shareholders, which will further depend on factors like return expectations, industry growth cycle, opportunities, leverage etc.
- Income source - SHF will load a spread based on customer income source.
- Product spread – Home loans will attract minimum spread, whereas non-housing loans will attract a higher risk spread.
- Deviation spread – Deviations taken on loan application, if any, will attract a spread to compensate for higher risks.
- Scoring model-based spread – Applicable based on internal rating received by the borrower, which will depend on customer profile, stability in income, quality of collateral, LTV ratio, credit score and the like.

4.Revision in prime lending rates

The Prime Lending Rate (PLR) is subject to regular review and may be modified in response to market conditions. All modifications to the Lending Rate will be communicated to borrowers and updated on the Company website. Rate revisions will take a prospective effect and the same will either result in changes to EMI or loan tenor based on borrower preference.

The above options would be spelt out in the Sanction Letter issued to the borrower when the loan is approved and also in the Most Important Terms & Conditions (MITC) governing the loan.

Authority for Revising Lending Rates:

The Managing Director is authorised to:

1. Take decisions on changes to the Prime Lending Rate based on the recommendations of the ALCO Committee.
2. Review and revise the lending rate table, including variations by loan type, product category, and individual versus wholesale segments, every quarter.

5. Fees & charges

The following charges may be applicable to borrowers.

- a. Processing fee – To cover sourcing charges and other charges incurred on KYC verification, legal opinion, technical opinion, appraisal, and the like.
- b. Penal charges – In case of delay in payment of loan obligations.
- c. Event-based charges – Cash handling charges, account statement charges, loan pre- closure charges subject to regulatory guidelines, CERSAI fee. All charges will be communicated to borrowers upfront in the most important terms and conditions (MITC).

The quantum of such fees and charges will be decided by the management from time to time.

6. Framework on reset of Floating Interest rates on Personal Loans (Including Housing loans)

Sundaram Home Finance Limited (SHF / 'the Company') offers fixed as well as floating-rate loans. Fixed rate loans can remain fixed for the entire term or become variable rate loans after a few years as per agreement.

SHFL Lending Rate: (SHF-LR) would be rate at which the loan sanction would be priced. However, depending on the market conditions, the company might operate on a rate which

could be higher or lower than variable Prime Lending Rate (PLR).

PLR is subject to regular review and may be modified in response to market conditions. All modifications to the PLR will be communicated to the borrowers and updated on the Company website. Rate revisions will take a prospective effect.

All loans that satisfy the criteria of 'personal loans' as defined by RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 on "XBRL Return Harmonization of Banking Statistics" dated January 4, 2018 for definition of personal loan would be covered by this policy.

Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.)

Consumer credit refers to the loans given to individuals, which consists of (a) loans for consumer durables, (b) credit card receivables, (c) auto loans (other than loans for commercial use), (d) personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR(B)), shares and bonds, etc., (other than for business / commercial purposes), (e) personal loans to professionals (excluding loans for business purposes), and (f) loans given for other consumptions purposes (e.g., social ceremonies, etc.). However, it excludes (a) education loans, (b) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), (c) loans given for investment in financial assets (shares, debentures, etc.), and (d) consumption loans given to farmers under Kisan Credit Card (KCC).

Hence, loans given to individuals and secured by immovable property other than for business or commercial purposes will get covered by this policy and such individuals will be termed as eligible borrowers.

The Company shall inform the eligible borrowers through appropriate channels about the change in the interest rate and the impact of the same on the EMI / tenor.

Switching of Interest Rate Type

Based on the RBI notification on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans dated August 18, 2023, as amended from time to time, the Company would provide the following options to the eligible borrowers at the time of rate reset:

- a. To switch to fixed / floating rate of interest: Such switch requests can be allowed to a maximum of three times during the tenor of the loan. Switch fee will be charged as applicable. The switch over to fixed rate of interest will be done with sufficient premium

over the floating rate of interest to take care of future changes in interest rates. Such premium will be decided based on the following parameters:

- i. Balance tenure of the loan
 - ii. Expected or anticipated interest rate movements over the balance tenure of the loan
- b. To increase / decrease in the tenure of the loan in commensurate to the increase / decrease in applicable interest rate
 - c. To increase / decrease the Equated Monthly Instalment (EMI) instead of extending the tenure of loan
 - d. Combination of both options (b) and (c) above
 - e. To pre-pay the loan either in full or in part, subject to foreclosure charges / part prepayment charges as applicable
 - f. At any point of time during the tenor of the loan, the eligible borrowers shall be allowed to pre-pay the loan either in full or a substantial portion of the principal amount of loan, subject to foreclosure charges prepayment charges as applicable.
 - g. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

The above options that are provided at the time of rate reset would also be hosted on the website of the Company for the benefit of all borrowers of the Company.

A statement shall be made available at the end of each quarter through appropriate channels. The statement shall cover at minimum the following:

- Principal and interest covered till date
- EMI amount
- Number of EMIs left
- Annual Percentage Rate (APR) for the entire tenor of the loan

8. Policy Guidelines with respect to Repricing of loans

The company in order to retain its performing and credit worthy borrowers may offer an option to its existing borrowers to reprice the applicable interest rate on their loans maximum up to one time in a year.

If a customer opts for switching over from a floating rate to a fixed rate or vice versa or for repricing of the rate, the customer shall be charged with a fee for such switching/ repricing as disclosed in the document containing MITC/ Sanction letter/ Schedule of Charges. The same may be waived at the discretion of Managing Director.