PNB Housing Finance Limited

Pricing Policy for Loans to Customers

Contents

Document control sheet

Document Authorization

Document Name	Dept.	Authorised By	Prepared By
Policy on Interest Rates (Pricing Policy for Loans to Customers)	- Finance & Accounts - Operations	Board of Directors	CFO and Head Operations

Document Revision List

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1. Background

PNB Housing Finance Company Limited ('the Company') is a registered HFC operating for over three decades. The Reserve Bank of India vide Master Directions Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021 (Master Directions no. DNBR.PD.007/03.10.119/2016-17 dated September 01, 2016), has mandated all Housing Finance Companies to adopt an interest rate model along with the approach for gradation of risks and rationale for charging different rates.

Further, RBI circular no RBI/2023-24/55; DOR.MCS.REC.32/01.01.003/2023-24 dated August 18th 2023 on '*Reset of Floating Interest Rate on EMI*' and circular number RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24 on '*Fair Lending Practice - Penal Charges in Loan Account*' is required to be implemented by January 1st, 2024

Given the regulatory requirement, market dynamics, economic environment and liquidity conditions, the framework for pricing of loans to the customers is put in place. And via this policy document the company is updated with the new directions

2. Scope of the Policy

The company has two broad segments - retail and corporate. Retail will include prime and affordable products. This policy covers following for both segments and will have the following scope:

- Interest rate pricing methodology offered to the customers.
- Repricing ROI of existing customers and the criteria applied for repricing.
- Fees and charges
- Funds transfer pricing allocation methodology

3. Policy Ownership

CFO and Head of Operations will be responsible for the upkeep of the measures mentioned in the policy in consultation with the business team.

4. Objectives of the Policy

The Policy aims to bring a reasoned approach to arrive at interest rates on loans. The main objectives of the interest rate policy are to:

i. Establish model for the calculation of reference rates for retail and corporate customers ensuring that computation of interest is accurate, fair, transparent and in line with regulatory requirements, market practices and business sustainability.
ii. Determine the applicable charges per fair lending practice for new and existing customers encompassing the penal charges, charges on account of movement from fixed to floating rates, etc.
iii. Define process of funds transfer pricing (FTP) method to gain more transparency and efficiency across product segment by ringfencing credit, market, and liquidity risks to segment/product.

5. Interest rate pricing methodology

"PNB Housing reference rates" are internal benchmark lending rates. The Company has two reference rates as the retail and corporate owing to pricing opportunities, margins, flexibility of offering, perceived risks, and competition. The benchmark rate of interest is decided from time to time considering the following factors:

i. Cost of Funds
   a. Weighted average cost of borrowings including entire borrowings profile.
   b. Above adjusted to calculated cost of funds based on target business leverage (Debt to equity) after considering CRAR threshold and risk weighted assets as per RBI norms.

ii. Negative carrying cost of liquidity (Investment yield vs cost of borrowings in relation to investments)

iii. Operating costs of the respective segment / unit including allocated cost

iv. Credit costs/risk premium

v. Expected returns on equity.

While offering the premium or discounts to the reference rates following factors are considered

a. Industry trends & competition price offerings for similar product to arrive at the lending rate.
b. Inherent credit and default risk of the product segment, particularly trends with sub-groups/ customer segments of the loan portfolio.
c. risk profile of customers qualification, stability in earnings and employment, financial position, past repayment records, external rating of customers, credit reports, customer relationship, future business relationship etc.
d. Nature and value of securities and collateral offered.

The company will have two reference rates (PNBRRR for retail and PNBCFR for corporate). The rates are subject to change from time to time and all changes shall be approved by the ALCO. Applicable reference rates will be published on the company website. As a practice, in retail, post repricing and during new onboarding the company uses PNBRRR and for corporate during the new onboarding the company uses PNBCFR. As and when the accounts are repriced, the customers are onboarded in the PNBRRR/PNBCFR (as the case may be).

6. Rate of Interest (Floating and Fixed)

6.1 Fixed and Floating

The company offers both fixed and floating rates. The applicable rates for the customer along with applicable charges are mentioned transparently in the disbursement docket with a breakup of principal and applicable interest and annual percentage rates. While retail customers may opt for fixed rates, floating rates are applicable both for retail and corporate customers.

Floating rates will be based on the benchmark rates (PNBRRR and PNBHFR) that are revised from time to time and shared on the company's website. Subsequently, rates for the customer may move per changes in the benchmark rates and any increase in the EMI/ tenor or both on account of the rate change shall be communicated to the borrower through appropriate channels.

Fixed rates are constant throughout the tenure of the loan and, any change in the benchmark rates will not affect the interest rates for the customer who opted for fixed rates. However, the customer may choose to move from fixed to floating rates or vice versa by submitting a written request with the company maximum up to two times during the tenure of the loan. This rate change (from fixed to floating or vice versa) will attract charges as mentioned in the schedule of charges uploaded at the website.

The rate of interest levied on a fixed interest loans shall be the prevailing rate as decided by in the ALCO from time to time taking into consideration the prevailing cost of funds, which may go up to 2.50% higher than the applicable floating rates.

6.2 Customer communication at the time of change in rate of interest

i. At the time of revision in the benchmark rates:
   a) Company shall provide the option to the retail borrower to switch over to fixed rate loan.
   b) Company shall also give an option to the retail borrower to opt for:
      (i) enhancement in EMI or extension 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 subject to applicable foreclosure charges as per schedule of charges currently in force.

ii. It shall further be ensured that any benchmark rate change leading to extension of tenor does not result in negative amortisation.

iii. At the time of sanction, Company shall clearly communicate to the borrower about the possible impact of change in benchmark interest rate on loan leading to change in EMI and/or tenor or both. Any increase in the EMI/tenor or both on account subsequent to sanction of the above shall be communicated to borrower immediately through appropriate channels.

iv. Further, the Company shall share/make accessible to each borrower a statement at the end of each quarter enumerating at the minimum, the principal and interest recovered till date, EMI amount, number of EMIs left and annual percentage rate for the entire tenor of the loan.

v. The options mentioned in 6.2(i) shall be given to both existing customers as well as new loans w.e.f. December 31st 2023. The Option shall be communicated to the existing customers by December 31, 2023.

6.3 Penal Charges

Penal charges will be calculated over and above the applicable rate of interest charged to the customers, and the company can levy charges based on following:

i. Non-compliance of any material term as mentioned in the sanction letter or stated otherwise to the customer in any subsequent communication. This charge will be levied post notice being issued in the specific account.

ii. Overdue amount of EMI / Pre EMI and is calculated basis the number of days elapsed between the due date and the date of actual payment.

iii. Charges shall be uniform for all retail products.

iv. For corporate segment it will be charged as per terms mentioned in the sanction letter or any other subsequent document shared with the customers.

v. ALCO will revise the applicable charges from time to time and will be a part of the schedule of charges in 'BOLD' for retail customers. For corporate customers and will be displayed in 'BOLD' and for corporate loan it will be a part of the sanction letter's terms and conditions.

vi. Any instance of levy of penal charges and the reasons therefor shall be communicated to the customer through appropriate channels.

vii. Any change in the penal charge/interest will be notified to customers at least 30 days prior to implementation through appropriate channels. Details of penal charges will be incorporated in the Schedule of the Charges and will be displayed on Company's website.

viii. Penal/overdue charge are not eligible for capitalization i.e. added back into the loan outstanding, and will be accounted on receipt basis and not on accrual basis.

Penal charges are part of schedule of charges and the same are covered under fair practices code which is duly approved by the board.

7. Repricing of Existing Customers

7.1 Retail Customers

The existing customers will be scrutinized and evaluated keeping in mind the significant complexity and risks involved while doing assessment for repricing of the account. Existing loans linked to the old reference rates can switch to current series with execution of the supplementary agreement, in line with this policy. New acquisition will be booked in new PNBRRR. Conversion options for reducing interest rate, shall be disclosed on PNBHFL's website to refer for all borrowers.

The re-pricing of loan book and of existing customers will be based upon credit profiling of the Customers' and will be assessed as per the criteria enunciated herein below:

7.2 Criteria for Repricing

i. Credit Score: CIBIL Score plays a critical role in the loan approval process and the same criteria is also significant in case of repricing. An appropriate weightage to be given based on the CIBIL score of the customer. (Weightage 1 on <650, 2 on 650 to 700, 3 on >700 to 800, 4 on >800).

ii. Repayment Track Record of past 12 months: Past track record of repayment of loans by the Customers is essential parameter in repricing. It will be ensured that at the time of repricing the account should be categorised as standard asset and not delinquent in the past 12 months.

iii. Loan to Value: Loan to Value (LTV) plays substantial role in the interest rate secured by the Customers. The LTV ratio i.e., ratio of sanctioned value and value of the property at the time disbursement of the loan is to be considered and weightage can be given accordingly. (Weightage 1 on >90%, 2 on >80% to 90%, 3 on >70% to 80%, 4 on <70% so on.) LTV criteria for Home Loan and Non-Home Loan to be considered separately.

iv. Month on Board: The tenure of Customers association with the Company since the date of disbursement of loan shall be considered and weightage can be given accordingly. (For example, 1 on <12 months, 2 on 12 to 24 months, 3 on 24 to 48 months, 4 on 48 to 60 months, 5 on >60 months and so on).

v. Employer: The category of employer wherein the customer is employed to be considered in the salaried Customers and the weightage shall be given accordingly. The higher weightage is given to Government or PSU or MNC employee as compared to other sectors. (Weightage 1 in case of Government/PSU/MNC employee, 2 in case of organized sector, 3 in case of any other sector).

vi. Plot plus construction loans: For plot loans where construction was to start and the same has not started even after 3 years from the date of first disbursement of the loan, in such a case, repricing will not be done. In case, such customer is to be offered re-pricing, then proof of start of construction to be taken in the form of declaration from the customer, along with supporting latest photograph of the property site showing the construction progress. The declaration and photograph of property site to be enclosed as mandatory documents of supplementary kit and to be filed as a part of customer docket.

vii. The above criteria can vary as per product (Home Loan and Non-Home Loan) and customer segment (Salaried and Self-Employed).

Considering the above stipulated factors, the Customers shall be weighed and based on the weightage achieved, repricing of the loan accounts can be provided to the customers. It will be ensured that the parameters of credit score and repayment track record is to be always considered while repricing of the loan accounts of the customers. Further, the repricing shall not be less than the interest rate for existing Customers as approved by ALCO.

8. Funds Transfer Pricing (FTP)

8.1 Background

It is important for the company to price products in a dynamic environment of changing interest rates and liquidity situation of the company. To achieve sustainable profitability and meet higher standards for performance management, financial institutions need well-calibrated methodologies, stronger governance and reporting, and the ability to capture granular information quickly and effortlessly.

The company intends laying down the process of a measurement mechanism for determining the pricing of incremental loans and determining the profit contribution of various segments within the organisation.

8.2 Way Forward

With this policy, Company intends to determine minimum lending rate across products below which Company will not lend to the borrowers. At least on a half-yearly basis, average asset book shall be calculated across product segment (i.e., in Prime: HL Salaried, HL Non-Salaried, NHL; Roshni: HL Salaried, HL Non-Salaried, NHL and Corporate). Methodology for arriving at the transfer pricing rate shall be based on following parameters:

i. Levered Cost of funds calculated after considering CRAR threshold and risk weighted assets as per RBI norms by product.
ii. Cost of negative carry is calculated by allocating the negative carry of investments including CLR.
iii. Operating costs of the respective segment / unit including allocated cost

Rate thus arrived shall be called as marginal lending rate below which Company cannot lend to any borrower. Same shall be reviewed at least on a half yearly basis by ALCO committee and suitable adjustments to lending rate shall be made.

9. Compliance with Fair Practice

i. The rates of interest and the approach for gradation of risks, and penal interest (if any) shall be made available on the website of the Company or published in the newspapers. The information published shall be updated whenever there is a change in the rates of interest.
ii. The practices followed by the other industry players in the market would be considered vis a vis regulatory provision.
iii. The rates of interest for the same product and tenor availed during same period by different customers need not be standardized but could be different for different customers depending upon consideration of any or combination of a few or all factors mentioned in the policy.
iv. Interest changes would be prospective in effect and intimation of change of interest or other charges would be communicated to customers in a mode and manner deemed fit.
v. Besides normal interest, the company may levy other financial charges like processing fees, cheque bouncing charges, prepayment/ foreclosure charges, part disbursement charges, commitment fees, charges on various other services like issuing No Due Certificates, NOC letters, ceding charge on assets/ security, security swap & exchange charges wherever considered necessary. Besides the base charges, the service tax and other cess would be collected at applicable rates from time to time.
vi. The Company will intimate the borrower, the loan amount, annualized rate of interest and method of application at the time of sanction of the loan along with the tenure and amount of monthly instalment.
vii. Claims for refund or waiver of charges/penal interest/additional interest would normally not be entertained by the company and it is the sole discretion of the company to deal with such requests if any as per Fair Practice Code.

viii. The Company will follow Regulatory Guidelines for foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned.

10. Review:

The Policy will be reviewed annually or as and when required considering any changes in the regulatory norms, audit observations and business requirements. In any circumstance, where the terms of this Policy differ from any existing or newly enacted law, rule, regulation, or standard governing the Company, the applicable law, rule, regulation, or standard will take precedence over this policy until such time as the Policy is amended to confirm to such law, rule, regulation or standard.