INTEREST RATE POLICY
of
Navi Finserv Private Limited
(Formerly Known as Chaitanya Rural Intermediation Development Services Private Limited)

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Policy owner	Chief Executive Officer
Approved by	Board of Directors
Signature	

Interest Rate Policy

Background and Purpose

The Reserve Bank of India (RBI) vide its circular No. DNBS.PD/CC.No.95 /03.05.002 /2006-07 dated May 24, 2007 had advised the Boards of NBFCs to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In continuation of the above circular, the RBI vide its circular DNBS.204/CGM (ASR)-2009 dated January 2, 2009 has issued the following directions to NBFCs:

"The Board of each NBFC shall adopt an interest rate model taking into 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. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the Borrower or Customer in the application form and communicated explicitly in the sanction letter."

In compliance with the requirements of the RBI Regulations mentioned above and the Fair Practices Code adopted by the Company, the Company has adopted this Interest Rate Policy broadly outlining the Interest Rate Model and the Company's approach of risk gradation in this regard for its lending business.

Simplification of Product Pricing

As a Company, it is important to strike the right balance between process uniformity across customers, operational efficiency, differentiation amongst loan types and risk profile of customers to ensure the Company meets the needs of its vast and diverse customer base. Therefore, the Company has multiple lending products with different end uses of the loans, repayment frequencies, loan duration, different modalities like secured, unsecured, individual borrowing, etc. and disbursements in different geographical areas and in case of specific third party funded loans.

COMPUTATION OF THE INTEREST RATE FOR LENDING WITH RISK GRADATION BASED PRICING

Navi has three products under which Loans are currently disbursed which are listed below (**"Loan Products"**):

1. Digital Personal Loans; and
2. Navi Housing Loans
3. Loan Against Property

The base interest rate for every product will be a function of the Company's judgment for longer term and steady state costs, based on the following four aspects.

1. Internal Cost of Borrowing for Navi Finserv Private Limited ; or externally linked interest rate benchmark (as applicable for different products)
2. Operational cost of collection and loan administration of the Loan Products;
3. Risk Profile of the Loan Product; and
4. Expected Contribution to Common Overhead and Gross Margins from the Loan Product.

Changes in the overall interest rate have to be approved by the Chief Executive Officer (CEO) of the Lending business. The final lending rate for various products offered by the Company will be arrived at after taking into account market reputation, interest, credit and default risk in the related business segment, historical performance of similar homogeneous customers, profile of the borrower, tenure of relationship with the borrower, repayment track record of the borrower in case of existing customer, subventions available, deviations permitted, future potential, group strength, overall customer yield, nature and value of primary and collateral quality & security, etc. Such information may be gathered based on information provided by the borrower, credit reports, market intelligence and information gathered by field inspection of the borrower's premises. While deciding the charges, the practices followed by the competitors in the market would also be taken into consideration.

A. BASE INTEREST RATE DETAILS OF LOAN PRODUCT

1. COST OF BORROWING FOR NAVI FOR THE LOAN PRODUCT:

Cost of borrowing would be a function of the Company's operational effectiveness as perceived by the banks, the liquidity situation in the country's financial markets, the general borrowing rates of NBFCs, the term of the loan required for the product and the ability of the specific product to access privileged or special funds either from domestic or international institutions. Efforts would be made to ensure that the borrowing cost is the minimum possible and efforts would be made to pass on any reductions in these costs to the customers.

For the Navi Housing Loans and Loan Against Property products, the company shall offer an option of floating rate or fixed rate to its customers.

The floating interest rate charged to the customer is dependent on the base rate and the premium associated with the customer and the property. These loans can be benchmarked either to internal cost of borrowing or linked to an external benchmark e.g. T-bills. In addition to this, the interest rates for the Housing Loan and Loan Against Property may be revised on a monthly/quarterly/semi-annual/annual basis, depending on the lending product, the terms agreed with the customer, change in base rate, the interest may be reset. If there is a change in the base rate, the interest rate charged to the customer may accordingly be reset.

The fixed rate loans shall have the fixed rate tenure for up to three years post which their interest rate shall be linked to the internal cost of borrowing, to be reset on a monthly/quarterly/semi-annual/annual basis, depending on the terms agreed with the customer.

2. OPERATIONAL COST OF SOURCING, COLLECTION AND LOAN ADMINISTRATION:

The operating model of every Loan product is different. The digital loans, housing loans, loan against property have different channels of sourcing and collections. The loan administration and management costs also differ for the different loan products.

For Housing Loans and Loan Against Property, the sourcing may be done digitally or through a network of Direct Selling Agents and Direct Marketing Agents. The Relationship managers provide support in documentation and mortgage creation. As it is a secured loan the cost of customer follow-up, documentation, security creation, customer sourcing and administration of the loan, may vary.

The costs are hence different for every product and as a function of the costs, the average loan size and loan tenure may vary.

3. **RISK PROFILE OF THE LOAN PRODUCT:**

Depending on the purpose for which the loan is being used, geographical specifications, customer occupation, underlying security and credit underwriting processes, the base credit risk profile of each loan product is different. The risk profile of loans is also available by assessing the historical averages of repayment rates of loan products in other companies in the market. This judgement of the credit costs of a product, will be compared against actual performance on an ongoing basis and varied based on both micro and macro factors.

4. **EXPECTED CONTRIBUTION TO COMMON OVERHEAD AND GROSS MARGINS.**

The above three factors cover the cost aspect of the Company's lending, in addition to which the interest income has to cover head office expenses, managerial expenses, technological expenses and other expenses. This aspect of the Cost to the borrower is the aspect that is most directly in control of the board and the management and both of them will make efforts and keep constant vigil that this margin is kept within the reasonable limits in order not to burden our customers.

B. GRADATIONS OF LOANS BASED ON RISK ASSESSMENT

For Digital Personal Loans and Navi Housing Loans, the Risk Gradation Pricing is done as follows:

Digital Personal Loans:

Internal underwriting models based on borrower's credit history, repayment pattern and overall exposure/indebtedness information received from Credit Bureaus and alternate sources of data, leads to the decision whether the customer's application can be approved or not. The pricing is also risk based and depends on a combination of model scores of a customer. Over time, the performance of the portfolio against the model is compared to change the pricing attributes. The range of interest rate is between 9% to 36%. Further, for larger loan sizes and specific channels, interest discounts of 0% - 4% are offered. The repayment performance of the customer in the cohort is studied to adjust the risk gradation for these cohort of loans on a quarterly basis.

Navi Housing Loans:

The main applicant for the Navi Housing Loans would need to meet minimum conditions with respect to age profile, income, CIBIL score etc. basis which the Company would evaluate the housing loan application and take the decision of extending an offer or not. As Housing loans are typically (but not necessarily) jointly availed by the applicant and co-applicant or an applicant, co-applicant and a guarantor, the offer extended to the customer would be driven by the combined characteristics of the main applicant as well as the co-applicant or guarantor, as may be applicable. The offer (comprising of loan limit, interest rate, LTV) extended to the customer will be driven by management defined internal scorecard which will take into account various factors such as customer risk profile, stability, property lifecycle, builder, location etc. The range of interest rate for Navi Housing Loans is between 6. 0% to 14%. Further for specific channels, interest discounts of 0% - 4% are offered. The repayment performance of the customer in the cohort is studied to adjust the risk gradation for these cohort of loans on a quarterly basis.

Loan Against Property:

The main applicant for the Loan Against Property Product (LAP) would need to meet minimum conditions with respect to age profile, income, CIBIL score etc. basis which Navi Finserv would evaluate the LAP application and take the decision of extending an offer or not. As properties are typically (but not necessarily) jointly owned by the applicant and co-applicant, the offer extended to the customer would be driven by the combined characteristics of the main applicant as well as the co-applicant, as may be applicable. The offer (comprising of loan limit, interest rate, LTV) extended to the customer will be driven by management defined internal scorecard which will take into account various factors such as customer risk profile, stability, property lifecycle, builder, location etc. The range of interest rate for Loan Against Property is between 6. 2% to 16%. Further for specific channels, interest discounts of 0% - 4% are offered. The repayment performance of the customer in the cohort is studied to adjust the risk gradation for these cohort of loans on a quarterly basis.

PROCESSING FEES, LATE FEES, BOUNCE FEES, PENAL FEES, PRE-PAYMENT FEES DETAILS

Cost of Sourcing and handling the loan application is charged as processing fees.

There are several processes that are implemented to cover all the customers before approval. The costs incurred towards the implementation of these processes are recovered from the customers whose loans are approved in the form of processing fees. The fees will vary based on the size of loan and risk associated with the application. The current fees is capped at maximum of INR 10,000. The management regularly reviews the processing fees levied and can change the processing fees at any point of time.

In Navi Housing Loans and Loan Against Property, the processing fees are collected to cover the documentation costs and other charges paid to obtain the pre mortgage documentation. Hence in Navi Housing Loans the Processing Fees is capped at 2% of the sanction amount or 7,500 (whichever is higher) but could be waived depending on the market dynamics. The management regularly reviews the processing fees levied and can change the processing fees at any point of time.

Digital Personal Loan

In order to recover costs of delayed payments/non-payments and early closures, borrowers are required to pay charges such as bounce fess, late fees, overdue interest on principal amount of loan, penalty interest on total outstanding of loan and pre-payment fees ("**Fees**"). These are covered in the loan agreements executed with the customers.

Digital Housing Loan

In order to recover costs of delayed payments/non-payments and early closures, borrowers are required to pay charges such as bounce fess, late fees, penal fees and pre-payment fees ("**Fees**"). These are covered in the loan agreements executed with the customers.

However, while ultimately deciding the processing fees, late fees, bounce fees, penal fees, pre-payment fees and other charges for the Digital Personal Loan, Navi Housing

Loan and Loan Against Property products, the practices followed by the competitors in the market would also be taken into consideration. NFPL may waive the Fees levied on the customer with the prior approval of the relevant officers, authorised by the Head of Business or the CEO of NFPL.

DISCLOSURE

Appropriate disclosure regarding this Interest Rate Policy shall be made on the Company website in accordance with the Company's Fair Practices Code and the guidelines of RBI.

ANNEXURE

The indicative range for various components of Interest Rates to be charged to customers are as follows:-

Particulars	Personal Loan*	Housing Loan*	Loan Against Property*
Cost of Borrowing	9% -13%	5.7% - 8%	5.7% - 8%
Operational Cost of Sourcing, Collection and Loan Administration	1% - 5%	0.3 % - 0.7%	0. 3% - 0.7%
Risk Profiling of Customer	1% - 13%	0.0 % - 7%	0.20% - 7%
Expected Contribution	1% - 5%	0.0 % - 1.7%	0.0% - 1.7%

*Please note these numbers are indicative as on Oct, 2021.

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