

NAVACHETANA

PRICING &
HH INCOME
ASSESSMENT
POLICY

SHAISHAVI PROJECT
CONSULTANTS

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PRICING & HOUSEHOLD INCOME ASSESSMENT POLICY

1. OBJECTIVE

The policy aims at laying down guidelines and procedures involved to arrive at the interest rates charged from the customers and the cost of funds and Assessment of HH Income & eligibility. The goals of this policy is to stable process and moderate interest rates. By implementing effective interest rate policy – Navachetana can maintain stable prices, thereby supporting conditions for long term economic growth and generating maximum employment.

2. APPLICABILITY

The policy will become applicable from such date as approved by the Board of Directors. The Board will review, validate, update, and approve the Policy at least annually. Any revisions in specific aspects of this policy may be communicated through mandates issued by the relevant authority and will become part of this policy from the date they become effective. Any change in interest rate or any other change will be informed to the borrower well in advance and these changes will be effective only prospectively from the next quarter (ensuring 3 months' notice)

3. PRICING OF CREDIT

In line with the RBI Directions, the Company has formulated Pricing of Credit policy which lays down the broad criteria for arriving at interest rate.

1. The interest rates charged by the company to its borrowers will be all inclusive interest rate and will be documented by the company. There may be different rates for different groups of customers since the company is shifting to risk-based pricing. The rate will be arrived at as per the computation below.

The Interest cost will be summation of below mentioned parameters

- a) The Cost of Funds
- b) Risk cost and premium
- c) operating expenses
- d) expected margins
- e) expected loss

The company will ensure that the maximum interest rate, other charges and fees on loan shall be reasonable and not usurious and would be disclosed to the borrower in fact sheet for microfinance loans. The borrower would not be charged any amount which is not mentioned/ disclosed in Fact sheet.

Note: The condition relating to the maximum rate is not applicable to loans extended by the company against funding by National Scheduled Castes Finance & Development Corporation (NSFDC) and any other specific scheme / specific fund.

2. Processing charges shall be charged on sanction loan amount.
3. The company shall disclose all interest rate, charges and fees in a standardized simplified fact sheet
4. The Company will display minimum and maximum interest rates charges on micro finance loans at its offices in simple language.
5. Further, for any non-qualifying / non microfinance loans the maximum interest rate charged can be higher by 4% of maximum interest rate charged on microfinance loans
6. Issuance of non-credit products will be with full consent of the borrowers and fee structure for such products will be explicitly communicated to the borrower in the loan card itself

Cost of Funds

The company will take into consideration the following components to arrive at the cost of funds:

- I. Weighted average Cost of funds (including cost of equity), Syndication Fees paid to various Consultants, Processing Fees and any other charges paid to various Financial Institutions (FI's)
- II. Average amount of outstanding borrowings from financial institutions at the beginning of the period and end of the period, for which cost of funds is being calculated.

Note: For better and more precise measure, the period for computing the average should not exceed one year and should not be less than one month.

$$\text{Cost of Funds} = \frac{\text{I}}{\text{II}} * 100$$

However, funds received for specific schemes and its interest charges, will be excluded while calculating Cost of Funds

Risk cost and premium

The company will take into consideration the following components to arrive at the Risk cost

- Overall Provisioning percentage on the portfolio
- Written off portfolio
- Expected risk of the portfolio basis the geography, type of customers, risk profile of customer, demographics of customer, past portfolio performance, scale of development of the district, incidents of disaster, political risk etc

Risk cost and premium will be assessed basis the portfolio performance and expected credit loss which will be ascertained quarterly or earlier under uncertain circumstances.

Operating cost

Operating cost will be calculated as a percentage of average originated AUM and shall include manpower expenses, depreciation and all other expenses.

Margin

Expected return will be the margin percentage on average originated AUM pre tax.

4. Pricing Committee

Pricing of the various loan products will be discussed in the Pricing Committee considering various factors which including the Cost of Funds, Risk Premium, Operating Expenses, Expected Margins, External Market Dynamics and Liquidity Position etc. within the overall regulatory framework and MD & CEO shall be authorized to decide the Pricing of the various Individual Loan Products in the Company.

To review the policy at regular intervals and also to look into the implementation of the Pricing Policy the Board delegated the same to the Pricing Committee which would consist of MD & CEO, Deputy CEO, CFO, CRO, Head Internal Audit and Deputy CFO. The Asset Liability Management Committee (ALM) will continue to have the authority and oversight for the interest rate policy framework, including any changes in the underlying framework.

The Pricing Committee would meet on a quarterly basis or at periodic intervals which the committee may decide on any changes/status quo in the interest rate. The Pricing committee's decisions will be put up to the ALM Committee for intimation, in case of any change from the policy framework and in other cases for information. The Company will publish quarterly rates on its website, branches and offices.

5. Disclosures

The company shall disclose the minimum and maximum interest rates on its website and update the same as and when the pricing is reset

6. ASSESSMENT OF HOUSEHOLD INCOME

Definition of Microfinance Loan

A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children.

All collateral-free loans, irrespective of end-use and mode of application/ processing/disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

The Company shall provide flexibility of repayment to its borrowers and therefore has given options to choose repayment periodicity amongst weekly, fortnightly or monthly.

The definition of 'microfinance loan' primarily depends on the income of the household. Therefore, before lending, the Company shall carry out the income assessment at the household level as per the criteria annexed to this policy as Annexure 1.

The company shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). If there is divergence in the current assessed household income and earlier reported household income, then reason for divergence shall be recorded by the officer who is assessing the income of the borrowers.

Limit on Loan Repayment Obligations of a Household

The company shall fix the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. Monthly outflow towards loan repayment should not exceed 50 percent of the monthly household income.

The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 percent of the monthly household income shall include repayments (including both principals as well as interest component) towards all existing loans as well as the loan under consideration.

In case of existing loans, for which outflows on account of monthly loan repayment exceed the 50% of monthly household income, then the existing loan shall be allowed to mature until the monthly loan repayment obligations comes within the 50% of the household income.

The company shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness.

S.No.	Particulars	Data	Source of Information
A. Household profile (Life Style) Assessment			
1.	Composition of household		
I.	Total household members		Ask from customer
II.	Number of earning members		Ask from customer
2.	Type accommodation (Govt. Awas/owned/rented)		Ask from customer
3.	Availability of basic amenities		
I.	Electricity (Yes/No)		Ask from customer
II.	Availability of toilet (Yes/No)		Ask from customer
III.	Cooking medium (LPG/smoke chullha/ kiroson stove)		Ask from customer
4.	Assets		
I.	Land (Area/Value)		Ask from customer
II.	Livestock (No./value)		Ask from customer
III.	Vehicle		
a)	Two wheeler (No./Value)		Ask from customer
b)	Three wheeler (No./Value)		Ask from customer
c)	Four wheeler (No./Value)		Ask from customer
B. Household Income Assessment			
1.	Sector of work (Agri/allied, trading, manufacturing, serviceetc.)		Ask from customer
2.	Nature of work		
I.	Self-employed/Salaried		Ask from customer
II.	Regular/Seasonal		Ask from customer
III.	Income frequency (daily/weekly/monthly)		Ask from customer
IV.	Month of employment over last one year		Ask from customer
3.	Monthly Income		From cash flow analysis – Apendix – 1
4.	Self-reported monthly income		From cash flow analysis – Apendix – 1
5.	Average income (Average of 3 & 4)		Calculate
C. Household expense assessment			
1.	Household expense		From Cash flow Analysis – Apendix – 1
D. Current Monthly Loan Obligation			
1.	Total monthly loan obligation – including principal and interest of all collateral and non-collateral loan		From Credit bureau report

Loan Eligibility for Customer

Customer loan legibility will be determined based on the monthly loan repayment (Principal+ Interest) obligations for all the current and proposed loans. This should be below 50% of the household income point (B.5) above, subject to remaining 50% of the household income is sufficient to meet out the household expense given in point (C) above. To reach loan amount to be lent to customer, we have to calculate free household income which can be calculated by following the steps below:

Step 1- Take 50% of the household income point (B.5) above

Step 2- Take current monthly loan repayment obligations point (D.1) above

Step 3- Free household cash flow = Step 1 Step2,

Monthly loan instalment (principal + Interest) of proposed loan should less than free household cash flow

Step 4- Navachetana staff member will ensure that the remaining 50% of the household income should be sufficient to meet the household expenses i.e. Point (B.5) – Point (C.1) > 0

Important Note:

After the assessment of the income and expenditure loan appraising and approving authorities must corroborate the assessed income and expenditure with the information captured in section (A) and (B) above.

Assessment of Household Cash flow

Borrower's Name ----- Branch ----- Date: ----- Center Name -----

S.No.	Details of Income	Value	S.No.	Details of Expenses	In Rs.
a)	Income of the household from main income source (Rs.)		a)	Education	
b)	Income of the household from other income source -Salary, pension, remittance, rent, government transfer, scholarship etc. (Rs.)		b)	Food	
c)	Income from wage/other irregular income		c)	Medical	
I.	Average daily income (Rs.)		d)	Water/electricity/house tax	
II.	No. of work days in a month (days)		e)	General family expenditure (transportation, festival, house rent, clothing etc.)	
III.	Monthly income from wage/Other irregular income (Rs.) = (i)*(ii)		f)	Business expenses (rent, utility bills etc)	
d)	Self-reported monthly Income		g)	Other Expenses	
	Total Monthly Income = a)+b)+c)iii			Total Monthly Expense = a)+b)+c)+d)+e)+f)+g)	

I hereby confirm that information furnished above is true to the best of my knowledge and assessment.

Borrower's Signature

ANNEXURE



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



www.rbi.org.in

RBI/DOR/2021-22/89

DoR.FIN.REC.95/03.10.038/2021-22

March 14, 2022

All Commercial Banks (including Small Finance Banks,
Local Area Banks and Regional Rural Banks) excluding Payments Banks
All Primary (Urban) Co-operative Banks/ State Co-operative Banks/
District Central Co-operative Banks
All Non-Banking Financial Companies (including Microfinance Institutions
and Housing Finance Companies)

Madam/ Dear Sir,

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

Please refer to paragraph 8 of the [Statement on Developmental and Regulatory Policies](#) announced as a part of the [Bi-monthly Monetary Policy Statement for 2020-21 dated February 5, 2021](#), regarding review of the regulatory framework for microfinance.

2. A consultative document on regulation of microfinance loans was issued for public comments on [June 14, 2021](#). Based on the feedback received, it has now been decided to put in place the directions for microfinance loans which are [enclosed](#).

Yours faithfully,

(J.P. Sharma)
Chief General Manager

Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

In exercise of the powers conferred by Section 21, Section 35A and Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934; and Sections 30A and Section 32 of the National Housing Bank Act, 1987, the Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the directions hereinafter specified.

1. Short Title and Commencement

1.1 These directions shall be called the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

1.2 These directions shall be effective from April 01, 2022, subject to stipulations as at paragraphs 5.3 and 9.3.

2. Applicability

2.1 The provisions of these directions shall apply to the following entities:

- (i) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;
- (ii) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and
- (iii) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

2.2 The entities mentioned at points 2.1(i) to 2.1(iii) above are hereafter referred to as 'Regulated Entities (REs)' for the purpose of these directions.

3. Definition of Microfinance Loan

3.1 A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

3.2 All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

3.3 To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

3.4 The REs shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

4. Assessment of Household Income

4.1 Each RE shall put in place a board-approved policy for assessment of household income. An indicative methodology for assessment of household income is provided in [Annex I](#).

4.2 Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

4.3 Each RE shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

5. Limit on Loan Repayment Obligations of a Household

5.1 Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.

5.2 The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income

shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

5.3 Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

5.4 Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

6. Pricing of Loans

6.1 Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

- (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;
- (ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
- (iii) The range of spread of each component for a given category of borrowers; and
- (iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

6.2 Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

6.3 Each RE shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet (in accordance with the illustration provided in [Annex II](#)).

6.4 Any fees to be charged to the microfinance borrower by the RE and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.

6.5 The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

6.6 There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.

6.7 Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.

6.8 Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

6.9 As part of their awareness campaigns, SROs/ other industry associations may publish the range of interest rates on microfinance loans charged by their members operating in a district. SROs/ other industry associations may also sensitize their members against charging of usurious interest rates.

6.10 RBI would also make available information regarding interest charged by REs on microfinance loans.

Annex I
(cf. Para 4.1 of these Directions)

Indicative Methodology for Household Income Assessment

1. For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

- a) Composition of the household
 - i. Number of earning members
 - ii. Number of non-earning members
- b) Type of accommodation (owned/ rented, etc.)
- c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
- d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

- a) Primary source of income
 - i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)
 - ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)
 - iii. Frequency of income (daily/ weekly/ monthly)
 - iv. Months/ days of employment over last one year
 - v. Self-reported monthly income
 - vi. Average monthly income (to be derived from (iv) & (v) above)
- b) Other sources of income
 - i. Remittance
 - ii. Rent/ Lease
 - iii. Pension
 - iv. Government transfer
 - v. Scholarship
 - vi. Others (specify details)
- c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of

all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

- d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

- a) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.)
- b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

2. Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

Annex II
(cf. Para 6.3 of these Directions)

Illustrative Factsheet on Pricing of Microfinance Loans
(to be provided in a language understood by the borrower)

Date: XXX

Lender's Name: XXX

Applicant Name: XXX

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674 ⁶
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

Detailed Repayment Schedule

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970

⁶ The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970