INTEREST RATE POLICY
OF
HDB FINANCIAL SERVICES LIMITED

Last modified date

March 11, 2024

Product Pricing POLICY

Introduction

RBI vide Master Directions RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016, as amended from time to time, under the Fair Practices Code advised NBFCs to lay down an appropriate principles and procedures so that usurious interest, including processing and other charges are not levied on loans and advances and charges to be levied will be based on the principle of reasonability. The Master direction also prescribes for determination of an appropriate ceiling on the interest & processing fees.

HDB Customer Segment

HDB caters to the growing needs of aspirational India by providing finances to different customer segments. HDB offers suite of products and financial solutions to address the requirements of its target customers, segment and plays an important role in enhancing financial inclusion..

Some of the customer characteristics are

1. Income Criteria – The middle market customers typically have lower income in comparison to the prime customers targeted by commercial banks. HDB's product suite includes unsecured loans, secured loans and loans for purchase of income generating assets such as commercial vehicle and construction equipment. Inconsistent and variable cash flow is a major characteristic of middle market customers.

2. Credit History - This segment may have little or no previous credit history with organised lenders. This requires detailed credit appraisal for relatively small value loans. It will be appropriate to state that this segment will have higher credit risk and hence, higher credit losses as compared to prime customers targeted by Banks.

3. Technology – HDB extends loan through digital mode including web applications and mobile app to enhance accessibility and cater to diverse customer preference. Considering segment, we address, we designed our digital solutions with better UI / UX. Our digital solutions.

Business Model

HDB has a differentiated business model to deliver efficiencies and contain risk based on the requirements of the target segment. Our business has the following characteristics:

1. Branch based lending with the branches being located in customer catchment areas which are easy accessible by customers.
2. Sales Finance and Vehicle Loans are offered through Point of Sale of these products.
3. The Company also provides an option to customers to apply online. This makes the loan application process much faster. Loans are structured based on customer needs, the cash flows and assets of the customer.

4. Higher operating costs to deliver loans using personal touch, lower average loan size as compared to equivalent products offered by banks.
5. In some product categories, Loans are sanctioned after a personal discussion by credit team to understand income and cash flows. Hence an element of judgment is involved in assessing the credit worthiness of the applicant.
6. The loans and advances on the Company's balance sheet are disbursed at fixed rate and / or floating rate of interest

The product-wise interest type allocation is tabulated below.

#	Products Interest type	Interest type
1	Loan Against Security	Floating / Fixed
2	Loan Against Property	Floating / Fixed / Combo*
3	Commercial Vehicles	Floating / Fixed / Combo*
4	Loan against Gold	Fixed
5	Loan Against Rent Receivables	Floating / Fixed / Combo*
6	Construction Equipment	Floating / Fixed / Combo*
7	Car Loans	Fixed
8	Enterprise Business Loan	Floating / Fixed / Combo*
9	Personal Loan	Floating / Fixed / Combo*
10	Two Wheeler Fixed	Fixed
11	Consumer Durables (Digital Products / Two Wheeler)	Fixed
12	Tractor	Fixed
13	Micro Finance	Fixed

*Combo pricing refers to loans where the fixed interest is charged for a particular tenor and floating interest is charged for the remaining tenor of a loan. The tenor for fixed and floating interest rates are determined at the time of loan sanction and conveyed via a sanction letter to the borrower.

EMI based floating rate personal loans & apart from equated monthly instalment loans, following instructions would apply, *mutatis mutandis*. Further, the Company shall ensure that the following instructions are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them

i. At the time of sanction, the Company shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower through appropriate channels
ii. At the time of reset of interest rates, the Company shall provide the option to the borrowers to switch over & number of times switchover to a fixed rate be allowed during the tenor of the loan
iii. The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation 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. Levy of foreclosure charges/ pre-payment penalty shall be as per the Charges Policy of the Company.

iv. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Company from time to time.

v. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortization

vi. The Company shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan.

Our Pricing Strategy

1. The ROI to the customer is determined based on cost coverage and reasonable returns to the organisation as measured through a targeted return on assets (ROE) and return on equity (ROE) and its shareholders.
2. Pricing strategy is primarily based on higher cost of funds, operating costs, expected credit losses and investments required to build a strong model.
3. We will offer both fixed rate and floating rate loans to our customers depending on the tenor / Product.
   Floating reference rate (FRR) – The FRR is reset at the beginning of each quarter. The Floating rate Reference Rate (FRR) is determined considering the average cost of borrowing at floating rate funds from banks and FI’s.
4. The experience of the company has been that its target segment prefers fixed rate loans as this gives them predictability of their liabilities. However, the Company offers products such as loan against property (LAP) for tenures up to 180 months. To ensure that the Company does not carry undue interest rate risks, loans of tenor of over 48 months will be typically offered as floating rate loans. This will help the Company to manage its Asset-Liability gaps and help it in offering competitive pricing to customers.
5. The Company will also offer a Combo pricing (Initial fixed rate and then floating rate) product that helps address market uncertainties.
6. The company’s offering in the market will be in line with the offering from other key players in this segment and reasonable as compared to other informal sources of funds that the targeted segment has availed in the past.
7. As certain costs are fixed irrespective of the size of the loan, the company benefits from economies of scale when customers take a larger value loan. Hence customers, subject to credit risk, will be charged lower rates for higher value loans. Similarly, customers will be charged lower rates for a loan with longer tenor and vice-versa i.e the loan with a short tenor of less than two years may carry comparatively a higher rate of interest owing to certain fixed loan servicing costs.
8. Our Master Credit Policy has the factors affecting the risk grading of customers. These factors also impact the pricing on loans.

A. Factors affecting Pricing for all products

a. Loan Amount
b. Loan Tenor
c. Credit History
d. Existing Relationship

B. Additional Factors affecting Pricing for each Product as listed below in the table

Product	Additional Factors considered for Pricing
Unsecured Business Loans	Location of the Borrower (City Tier), Audited Financials / GST Status
Salaried Personal Loans	Job / Employer Classification, Salary Band
Gold Loans	Ornament Type, Gold Purity
Vehicle Loans (CV, CE, TRL, TW)	Asset Vintage, Asset Type, Customer Segmentation, Asset OEM Partnership
Sales Finance (CD, DPL, LSL)	Asset OEM Partnership
LAP / LARR / EBL	Applicant Profile, Collateral Type, Collateral Location

The range of Interest rates and factors affecting risk gradation will be uploaded on the HDBFS website. Link https://www.hdbfs.com/customer-services/interest-rates - Applicable indicative interest rates. Customer will be able to get information on effective rate of interest charged, all fees and charges and the grievance redressal system from the Company's web site. The same will be prominently displayed in all its offices and in the literature issued by it.

Product	Interest Rate (p.a.)
Commercial Vehicles Loan	8.00% to 26.00%
Construction Equipment Loan	8.00% to 24.00%
Tractor Loan	9.00% to 25.00%
Auto Loan	8.00% to 26.00%
Two Wheeler Loan	9.00% to 32.00%
All Unsecured Loans	10.00% to 35.00%
Loan against Gold	8.50% to 25.00%

Product	Interest Rate (p.a.)
Loan Against Securities	10.00% to 18.00%
Micro Loans	20% to 26%
Consumer Durable Loan	8.00% to 38.00%
Digital Product Loan	8.00% to 43.00%
Lifestyle Product Loan	10.00% to 31.00%
Loan Against Property/Rent Receivables	8.00% to 20.00%
Enterprise Business Loan	10.00% to 36.00%