INTEREST RATE POLICY

Background

Origo Finance Private Limited is a Private Limited Company incorporated under Companies Act, 2013 on May 16, 2016 vide CIN: U65990DL2016PTC299786 and registered with Reserve Bank of India as a Non-Systemically Important Non- Deposit Accepting Non-Banking Finance Company (NBFC- ND- NSI) on June 16, 2017.

Origo Finance Customer Segment

Origo Finance caters to deserving but underserved rural enterprises through tailored product offerings. These segments are usually not the core target segment for commercial banks. Origo Finance offers a number of products and solutions to address the requirements of its target segment.

Customer characteristics

1. Income Criteria – These customers typically have lower income than prime customers targeted by scheduled commercial banks. As these customers are not the core market for banks, their needs are not met by banks. Origo Finance's product suite includes MSME unsecured and secured loans, warehouse receipt finance and dairy loans. One characteristic of these customers is variable cash flows unlike, say, salaried persons who have consistent cash flows.

2. Credit History – This segment may have little or no prior credit history with organized lenders. This requires detailed credit appraisal for the relatively small value loans. It may be appropriate to state that this segment will have higher credit risk and hence, higher credit losses. This segment has in the past, relied on borrowing from the unorganized sector to meet their credit requirements.

Regulatory Framework

RBI circular number DNBS. 204 / CGM (ASR)-2009 dated January 2, 2009 and DNBS.CC.PD.No.320/03.10.01/2012-13 dated February 18, 2013, has advised NBFCs to lay out appropriate principles and procedures so that usurious interest, including processing and other charges are not levied on loans and advances. The circular also prescribes fixing of an appropriate ceiling on the interest & processing fees.

Based on the guidelines and taking into account the customer segment served by Origo Finance, the Interest rate policy of Origo Finance has been developed and documented as below.

Business Model

Given the requirements of the target segment, Origo Finance has a differentiated business model to deliver efficiencies and contain risk.

Our business has the following characteristics:

1. Branch based lending with the branches being located in customer catchment areas which are closer to and convenient for customers.
2. Loans are structured based on customer needs, cash flows and assets with the customer. Origo Finance offers personalized solutions and offers both unsecured and secured loans.
3. Higher operating costs (due to lower average loan size) and loss rates as compared to equivalent products offered by banks.

4. Loans are sanctioned after face to face personal discussions with the customer where the borrower has no credit history. Hence qualitative assessment is involved in assessing the credit worthiness of the applicant.
5. Credit decisions are centralized with Loan Committee having credit underwriting authorities.
6. A clear set of operational risk control procedures is embedded in the branch workflow process to ensure process adherence and adherence to credit and operating policy.
7. Review at multiple levels so as to quickly identify and correct micro inefficiencies.

Associated costs

There are two components of cost that need to be priced into a loan

1. Upfront costs – The following costs are incurred by Origo Finance before a customer takes his loan disbursement.

    a. Acquisition costs – The cost of sales channel and sales promotion expenses.
    b. Verification costs – A verification of information supplied by customer in application form such as residence and employment details may be required. Additionally, verification may be required through credit bureaus.
    c. Legal / valuation charges – In products such as Secured Loans (LAP),expenses are incurred towards verification of title documents, valuation of property etc.

        Origo Finance uses the services of specialized agencies, such as a registered chartered engineers/ valuers / lawyers to provide valuation and legal opinion. In such cases, to defray these expenses, Origo Finance collects application fees from the customer at the time of application. This fee is non-refundable in nature.

    d. Credit appraisal costs – The Company needs to invest in competent resources that can carry out credit appraisal of the customer's application.
    e. Technology costs - Financial services business requires extensive investment in hardware, software, storage and analytics for efficient business operations. These investments are ongoing in nature given the rapid changes in the technology industry and growing consumer expectations.

    It may be noted that most of these expenses are incurred irrespective of the outcome of the customer's application. For example, verification costs are incurred even if the customer's application is finally rejected by the company.

    The company will cover some of these costs through a processing fee payable at the time of loan sanction.

2. Ongoing expenses – The following expenses are incurred during the life of the loan

    a. Funding costs – Origo Finance uses a mix of debt and equity to fund its loans. This funding needs to match the tenor of the loan and involves costs.
    b. Servicing cost – This includes cost of managing repayments, books of accounts and addressing any customer queries on an ongoing basis.
    c. Collection costs – Effort is required to call / address customers who may default in their repayments and prepare remedial plans
    d. Management costs – This would cost of the Management, IT infrastructure and software licenses and other overheads
    e. Record keeping – Transaction documents pertaining to loans disbursed have to be stored in safe custody as these are legal documents.

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3. Other expenses

   Loan Losses and Provisions - The retail loans business works on a portfolio management model. Based on the Product / Customer mix, the company needs to create provisions for bad loans and write off loans that are not recoverable.

4. The distribution & operating costs to service this segment are high and get even more amplified due to the small lending size which is significant.

<u>Our Pricing Strategy</u>

1. The ROI to the customer is determined based on cost coverage and reasonable returns to the organization as measured through a targeted return on assets (ROA) and return on equity (ROE) and its shareholders.

2. Given the higher cost of funds, operating costs, expected credit losses and investments required to build a strong model, we have little option but to price at rates that has to be higher as compared to banks.

3. The experience of the company has been that its target segment prefers fixed rate loans as this gives them predictability of cash flows. However the Company offers products such as loan against property (LAP) for tenures up to 96 months. To ensure that there is higher transparency and the company does not carry undue interest rate risks, the company is following risk based pricing depending on the nature of security and tenure of the loan. This may help the Company to manage its Asset-Liability gaps and help it in offering competitive pricing to customers.

4. The company's offering in the market will always be in line with the offering from similar players in this segment and reasonable compared to informal lending sources that the targeted segment has borrowed from in the past.

5. 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.

6. Origo Finance offers loan rates based on loan size, perceived credit risk, nature and value of collateral and credit history with other FIs.

7. The company shall mention the penal interest charged for late repayment in the loan agreement.

8. The customer will be given a copy of the loan agreement which will carry details of all charges and Interest Rates. Any non-refundable charges collected from the customer towards application processing will be recorded in the application form, which is signed by the customer.