

Centrum Microcredit Limited (CML) is committed to charge fair interest rates that are determined based upon the industry standards, local competition and financial sustainability of the organization; subject to RBI directives. As a microfinance institution, CML is fully conscious of its social responsibility of delivering credit to underprivileged /unprivileged segments of society at a reasonable cost.

CML's interest rate will be calculated on a reducing balance basis for each product. CML staff, as part of their training will be familiarized with Fair Practices Code and Code of Conduct of CML and will be under instruction to transparently explain the components of the pricing to borrowers when they apply for a loan.

CML will always comply with extant RBI guidelines with respect to pricing irrespective of the components of pricing enumerated below.

## 1. Pricing

### Components of pricing for "Qualifying Assets"

- The interest rates charged by CML to its borrowers will be lower of the following:
  - a. The cost of funds plus margin; or
  - b. The average base rate of the five largest commercial banks by assets; multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.
- CML will ensure that the average interest rate on loans sanctioned during a quarter does not exceed the average borrowing cost during the preceding quarter plus the margin, within the prescribed cap.
- The margin cap as defined by Malegam Committee<sup>1</sup> may not exceed 12 per cent till the loan portfolio is within Rs.100 crore and 10 per cent thereafter.

### Components of pricing for non-Qualifying Assets

- The rate of interest on individual loans (assets) may exceed the pricing cap defined above, the maximum variance permitted for individual loans (non-qualifying assets) between the minimum and maximum interest rate will not exceed 4 per cent.
- Processing charges (fees and other origination charges) shall be ranging from 1 % to 5%

**The average interest paid on borrowings and charged by CML will be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures shall be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.**

**The borrower shall be provided with a loan card reflecting the effective rate of interest charged, and prominently displayed in all CML's offices and in the literature issued by CML and on CML's website.**

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<sup>1</sup>Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector

## **2. Processing Fees and other charges**

- Processing charges shall not be more than 1% of gross loan amount. Processing charges shall not be included in the margin cap or the interest cap.
- There shall be no other charges like late-payment/pre-payment/penal interest etc
- CML shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges wherever recovered, shall be as per IRDA guidelines.

Note: The condition relating to the maximum variance permitted shall not be applicable to loans extended by CML against funding by National Scheduled Castes Finance & Development Corporation (NSFDC). The on-lending to individuals by CML out of funds of NSFDC shall only be through direct credit to their accounts with banks. Further, CML shall exclude borrowing from NSFDC in arriving at the average cost of funds of the company for the purpose of pricing of credit, other than to the beneficiaries targeted by NSFDC. For this, CML shall maintain proper record of funds received from NSFDC and the lending out of those funds. Appropriate disclosures in this regard shall be made in the balance sheet of CML. The minimum disclosures should include quantum of funds received from NSFDC, cost of such funds, loans disbursed there from, rate of interest on such loans and the number of beneficiaries. Further, NBFC-MFIs shall inform the concerned Regional Office of the Reserve Bank of India of their appointment as a channelizing agent by NSFDC within one month from the date of such appointment.