



SUNDARAM HOME

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Version History

Version no.	Recommended By	Approved By	Approval / Revision date	Description / Description of Change
1.0	-	Board of Directors	1-Feb-2024	Loan Pricing Model

Loan Pricing Model

Sundaram Home Finance (SHF) employs a loan asset pricing model to determine the appropriate interest rate and terms for extending housing and mortgage loans. The model helps in assessing the risk and return associated with the company’s core lending activities. The objectives are twofold: first, to instill discipline in pricing loan products, and second, to achieve the desired equilibrium between growth, profitability and asset quality (GQP).

SHF offers fixed as well as floating-rate loans.

1. Fixed rate loans can remain fixed for a particular term as per agreement.
2. Floating rate loans are re-priced as per changes in Company’s prime lending rate (PLR). The floating rates would be reset for the customer as per the arrangement at periodic intervals.

SHF prices its loans (fixed and floating) as per the following.

A. The methodology adopted by SHF to determine the loan pricing is given below



1. **Minimum interest rate (Floor Rate)**– Brings consistency and transparency in arriving at the basis for arriving at the SHFL Lending Rate. This would be based on Cost Plus model. Minimum Interest Rate defines the interest costs associated making available the funds for lending which would include cost of borrowings, Opex, negative carry cost, ALM mismatch cost and credit cost, which would be the floor rate below which lending would become unviable.
2. **Expected Return:** This includes the cost of equity as well as returns that the company expects to earn out of its lending activities.
3. **SHF Lending Rate:** This would be rate at which a loan would be priced in the normal circumstances.

The floor rate will cover the following costs and minimum expected profitability.

- a. **Borrowing cost** - The Company utilizes a variety of funding mechanisms, such as bank loans, deposits, bonds, commercial paper, securitization, and subordinated debt, to acquire funds. The lending rate should cover the borrowing cost and related costs like brokerage, processing fee, and the like.
- b. **Operating cost (Opex) net of other operating income** – The lending rate should allow SHF to cover the opex like salary and administrative expenses net of other operating income like processing fee, which is taken to cover various costs incurred before a loan is disbursed.
- c. **Credit cost** – The lending rate should also cover the average expected credit cost on Stage 1 assets. Risk based spreads will account for Stage 2 and Stage 3 related credit costs.

- d. Negative carry-on investment – Cost of investments in liquid assets like mutual funds and government securities to maintain liquidity and to meet regulatory compliances.
 - e. ALM mismatch cost - The company procures short-term (up to 1 year) and long-term funds (up to 10 years). The company monitors the ALM gaps caused by longish nature of mortgage loans (10 – 25 years).
4. **Expected Return** – SHF expects to earn a decent income out of the lending operations so as to pay dividend to the shareholders while also creating reserves for smooth continuation of its operations. This would be a loading over the minimum interest rate.

It is as per the following:

- a. Target return on equity – The lending rate should cover the return expected by shareholders, which will further depend on factors like return expectations, industry growth cycle, opportunities, leverage etc.
- b. Loan quantum spread – SHF will load a spread based on the amount of loan required. The higher the loan, higher the spread.
- a. Income source spread - SHF will load a spread if the borrower has undocumented income.
- b. Product spread – Home loans will attract minimum spread, whereas non-housing loans will attract a higher risk spread.
- c. Deviation spread – Deviations taken on loan application, if any, will attract a spread to compensate for higher risks.
- d. Scoring model-based spread – Applicable based on internal rating received by the borrower, which will depend on customer profile, stability in income, quality of collateral, LTV ratio, credit score and the like.

B. **Fees** – The following charges may be applicable to borrowers

- a. Processing fee – To cover sourcing charges and other charges incurred on KYC verification, legal opinion, technical opinion, appraisal, and the like.
- b. Penal charges – In case of delay in payment of loan obligations.
- c. Event-based charges – Cash handling charges, account statement charges, loan pre-closure charges subject to regulatory guidelines, CERSAI fee. All charges will be communicated to borrowers upfront in the most important terms and conditions (MITC).

The quantum of such fees and charges will be decided by the management from time to time.

- C. **Revision in prime lending rates** - The Prime Lending Rate (PLR) is subject to regular review and may be modified in response to market conditions. All modifications to the Lending Rate will be communicated to borrowers and updated on the Company website. Rate revisions will take a prospective effect and the same will either result in changes to EMI or loan tenor based on borrower preference.

The above options would be spelt out in the Sanction Letter issued to the borrower when the loan is approved and also in the Most Important Terms & Conditions (MITC) governing the loan.

A simulated working to indicate the impact on account of rate reset by 50 basis points either way would also be mentioned in the Sanction Letter

These options that are provided to the borrowers at the time of rate reset would also be hosted on the website of the Company for the benefit of all prospective borrowers of the Company.

Annexure 1 – Interest rates charged by SHF

Annexure 2 – Fee charges by SHF

Annexure 1
Overview of lending rates -The rates given below are annualized
a. Lending rate range - Loan type wise

Loan Type	Min. Rate (%)	Max Rate (%)
Housing	6.9	18.2
Non-Housing	8.4	24.0
Overall	6.9	18.2

a. Lending rate range - Product wise

Product Type	Min. Rate (%)	Max Rate (%)
Comm Real Estate	8.8	15.9
Home Loan	6.9	17.8
LAMP	8.9	21.3
LAP	8.8	15.7
NR-PRO	9.7	20.8
Plot Loans	6.9	21.3
ST LAP - Residential	15.0	24.0
Sundaram IPL	8.4	12.5
Top-Up	9.0	20.3
Loan to HFCs	9.0	14.1
Builder funding	12.5	16.2
Overall	6.9	24.0

b. Lending rate range – Individual vs Wholesale

Loan Type	Min. Rate (%)	Max Rate (%)
Corporate Loans	8.8	20.3
Individual Loans	6.9	24.0
Overall	6.9	24.0

The specified rate ranges are purely indicative and represent annualized rates.

- The actual lending rate will differ depending on individual cases.
- Additional charges such as GST and other applicable cess will be levied as required.

Annexure 2**Fee & Other charges as disclosed on the Company's website:**

1. Processing Fee
2. Income Appraisal Fees
3. Documentation charges
4. CERSAI charge applicable for each property
5. Internal Legal & Technical Appraisal charges
6. External Legal & Technical Appraisal charges
7. Stamp Duty (MOTD) fee (as per the Stamp & Registration Act of the respective State Government) & Registration charges at SRO
8. Switch Fee
9. Statement charges
10. IT Certificate Charges
11. Loan Outstanding/Settlement Figure Statement Charges
12. Document Retrieval charges
13. Conversion charges
14. Cheque return charges
15. Bank Charges
16. Document Handling Charges
17. Charges towards MOTD Cancellation/Discharge of Mortgage
18. Repricing Fee
19. CA Certification Fee
20. Outstation Cheque charges
21. Non PDC/Non Mandate Collection for PEMI/EMI
22. Swapping mandate to cheque
23. Repossession Charges
24. Travelling Expenses per month
25. Bureau Charges
26. Prepayment charges
27. Cash Handling charges
28. Photocopies of title documents
29. Custodial Charges.