hpscb

(Scheduled Bank)

हिमाचल प्रदेश राज्य सहकारी बैंक सीमित

H.P. State Co-operative Bank Ltd.

HPSCB Policy for Interest Rate on Advances

www.hpscb.com

1. PREAMBLE

As per directions of NABARD, the Cooperative Banks have to adopt an interest rate policy and risk based pricing for the borrowers. The Banks have to consider the cost of funds, financial margin and risk premium etc. to determine the rate of interest to be charged for loans and advances. Further, there should be clear guidelines for gradations of risk and rationale for charging different rate of interest to different categories of borrowers and shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter. In view of the same, HPSCB Ltd. has formulated this Loan Interest Rate Policy.

2. OBJECTIVE OF LOAN INTEREST RATE POLICY:

The objective of the Policy is to standardize the methodology used to charge interest rate along with other charges, for different category of customers segment and to arrive at the final rates charged from the customers.

3. INTEREST RATE MODEL:

HPSCB lends money to its customers through Floating rate loans. HPSCB is the Apex Cooperative Bank of the State and is working as a DCCB in six districts of the State . Bank is lending money through various products to cater the needs of different category of customers. The broad categories of customer segments that the Bank serves are mentioned below.

i. **Individual Borrowers** House Loan, Vehicle loans(conventional and Electric), Personal loans, MSME loans, Loan Against Salary, Loan against Property, Gold Loan etc.
ii. **Agriculturist borrowers**: Farm Plus, Kisan Credit Card, Pick Up/Mini Truck Loan, Tractor Loan, Loan for purchase of Agricultural land etc.
iii. **Self Help Groups and Cooperative Societies or Cooperative institutions etc.**
iv. **Business entities and Corporate Borrowers**: Cash Credit Limits Boards and Corporations, Hydro power projects

The interest rates offered to customers are based on the following factors:

i. **Cost of Funds:** The rate of interest charged is also affected by the rate at which the funds necessary to provide loan facilities to customers are sourced normally referred to as internal cost of funds.
ii. **Operating/overheads cost**: It includes employee expenses, branch related fixed and variable costs, operations costs, marketing expenses, etc.
iii. **Risk Premium**: Base risk premium to cover potential credit loss risk, and may vary by business, customer segment, geography, sourcing channel etc. Prices

may vary depending upon internal assessment of likelihood of delinquency or potential loss from customer segments.

4. APPROACH FOR GRADATION OF RISK:

The rate of interest for loans under various segments and schemes thereunder is arrived after adjusting for spread . The spread attached with a loan segment or a customer shall be assessed inter-alia based on the following factors:

- Interest rate risk
- Credit and default risk in the/ related business segment;
- Historical performance of similar homogeneous clients;
- Profile and market reputation of the borrower;
- Loan segment;
- Nature and value of collateral security Secured Vs unsecured loan;
- Subvention available;
- Ticket size of loan;
- Credit Bureau Score;
- Tenure of Loan;
- Location delinquency and collection performance;
- Customer Indebtedness (other existing loans);
- Market trend
- Regulatory stipulations, if applicable, and
- any other factors that may be relevant in a particular case and as deemed fit by the ALCO of the Bank

The rate of interest for the same product and tenor availed during the same period by different customers need not be the standardized one. It could vary for different customers depending upon consideration of all or any combination of above factors.

5. Interest Rate framework

i. Bank shall have the freedom to offer all categories of advances on fixed or floating interest rates.

ii. When the floating rate advances are linked to an internal benchmark rate, bank shall determine its actual lending rates by adding the components of spread to the internal benchmark rate.

iii. Interest shall be charged on all advances at monthly rests except agricultral advances.

iv. Interest on agricultural advances and advance to farmers shall be charged as per the instructions contained in circulars RPCD. No. CPFS. BC. 60 /PS. 165-85 dated June 06, 1985 and RPCD. No. PLFS. BC. 129/05.02.27/97-98 dated June 29, 1998 or as amended from time to time. Charging / compounding of interest on agricultural advances shall be linked to crop seasons. Bank shall charge interest on agricultural advances for long duration crops at annual rests. As regards other agricultural advances in respect of short duration crop and allied agricultural activities such as dairy, fishery, piggery, poultry, bee-keeping, etc., bank shall take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting / marketing season while charging interest and compounding the same if the loan / installment becomes overdue. Further, it is to be ensured that the total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers.

v. Interest chargeable on rupee advances shall be rounded off to the nearest rupee.

vi. Interest charged on small value loans, particularly, personal loans and such other loans of similar nature shall be justifiable having regard to the total cost incurred by the bank in extending the loan and the extent of return that could be reasonably expected from the transaction.

vii. There shall be no lending below the benchmark rate for a particular maturity for all loans linked to that benchmark.

6. Penal Charges

As per RBI Circular No. DoR.MCS.REC.28/01.01.001/2023-24 on "Fair Lending Practice - Penal Charges in Loan Accounts" dated August 18, 2023, the Penal Charges, shall not be levied in the form of 'penal interest' and shall not be added to the rate of interest charged on the advances. The detailed instructions have been issued vide H.O. G.C. No. 171/2023-24 dated 05.12.2023.

7. Internal Benchmark

7.1 Base Rate

i. Bank shall calculate and review the Base Rate at least once in a quarter with the approval of the Board or the Asset Liability Management Committee (ALCO)

ii. Bank shall calculate cost of funds either on the basis of average cost of funds or on marginal cost of funds or any other methodology in vogue, which is reasonable and transparent, subject to it being consistent and made available for supervisory review/scrutiny as and when required. **Provided** that where the card rate for deposits of one or more tenor is the basis, the deposits in the chosen tenor/s shall have the largest share in the deposit base of the bank.

iii. Methodology for the Computation of the Base Rate

Base Rate = a + b + c + d

a – Cost of Deposits/funds = D_{cost}

b - Negative Carry on CRR and SLR $= \dfrac{\{Dcost - (SLR * Tr)\}}{1-(CRR-SLR)} * 100 - Dcost$

c- Unallocatable Overhead Cost $= \left(\dfrac{U_C}{Dply}\right) * 100$

d - Average Return on Net Worth= ((NP/NW)*NW/Dply))*100)

Where:

D_{cost} : Cost of Deposits/funds
D : Total Deposits = Time Deposits + Current Deposits + Saving Deposits
D_{ply} : Deployable Deposits = Total deposits less share of deposits locked as CRR and SLR balances, i. e. = D * [1 — (CRR + SLR)]
CRR : Cash Reserve Ratio
SLR : Statutory Liquidity Ratio T_r : 364 T-Bill Rate
U_c : Unallocatable Overhead Cost
NP : Net Profit
NW : Net Worth = Capital + Free Reserves

7.2 Marginal Cost of Funds based Lending Rate (MCLR)

7.2.1 Components of MCLR:

The MCLR of the Bank shall comprise of the Marginal cost of funds; Negative carry on account of CRR, Operating costs and the Tenor premium.

i. Marginal Cost of funds

The marginal cost of funds shall comprise of Marginal cost of borrowings and return on networth.

Marginal cost of funds = 92% x Marginal cost of borrowings + 8% x Return on Networth

The methodology for computing marginal cost of funds is annexed at Annexure "A"

ii. Negative Carry on CRR

Negative carry on the mandatory CRR which arises due to return on CRR balances being nil, will be calculated as under:

Required CRR x (marginal cost) / (1- CRR)

The marginal cost of funds arrived at (iii) above shall be used for arriving at negative carry on CRR.

iii. Operating Costs

All operating costs associated with providing the loan product including cost of raising funds shall be included under this head. It shall be ensured that the costs of providing those services which are separately recovered by way of service charges do not form part of this component.

iv. Tenor premium

These costs arise from loan commitments with longer tenor. The change in tenor premium should not be borrower specific or loan class specific. In other words, the tenor premium will be uniform for all types of loans for a given residual tenor.

The tenor of the MCLR shall correspond to the following:

i. the tenor of the funds in the single largest maturity bucket, provided it is more than 30 percent of the entire funds (other than equity) reckoned for determining the MCLR, or

ii. the weighted average tenor of two or more maturity buckets that together account for more than 30 percent, if no single maturity bucket accounts for more than 30 percent of the funds. The maturity bucket shall be arrived at by calculating the cumulative weightage based on the descending order of the maturity time buckets.

iii. Since MCLR is a tenor linked benchmark, bank shall arrive at the MCLR of various maturities by incorporating the corresponding tenor premium/discount to the sum of Marginal cost of funds, Negative carry on account of CRR and Operating costs.

v. Spread under MCLR system:

i. **Business strategy:** The component shall be arrived at taking into consideration the business strategy, market competition, embedded options in the loan product, market liquidity of the loan etc.

ii. Credit risk premium: The credit risk premium charged to the customer representing the default risk arising from loan sanctioned shall be arrived at based on an appropriate credit risk rating/scoring model and after taking into consideration customer relationship, expected losses, collaterals, etc. However, credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract.

7.2.2 Reset of interest rates under MCLR system

i. Bank shall, at its option, specify interest reset dates on its floating rate loans. Bank shall have the option to offer loans with reset dates linked either to the date of first disbursement of the loan/credit limits or to the date of review of MCLR.

ii. The Marginal Cost of Funds based Lending Rate (MCLR) prevailing on the date of first disbursement, whether partial or full, shall be applicable till the next reset date, irrespective of the changes in the benchmark during the interim. Future reset dates shall be determined accordingly.

iii. The periodicity of reset shall be one year or lower. The exact periodicity of reset shall form part of the terms of the loan contract.

iv. The periodicity of the reset under MCLR shall correspond to the tenor/ maturity of the MCLR to which the loan is linked.

8. Repo Linked Lending Rate (RLLR) -External Benchmark

All new floating rate personal or retail loans (housing, auto, etc.), Micro and Small Enterprises and any other loan type decided by ALCO shall be benchmarked to Reserve Bank of India policy repo rate. In order to ensure transparency, standardization, and ease of understanding of loan products by borrowers, there shall be a uniform external benchmark within one loan category.

8.1 The components of RLLR: The components of Interest charged to customers shall be Repo Rate, Mark-up and Spread/Credit Risk Premium. RLLR= Repo Rate + Mark-up

For instance if the current Repo-rate is 6.50% and the HPSCB Mark Up is 2.14%, then Interest based on RLLR shall be = 8.64% + CRP

i. Repo Rate : Repo rate or repurchase rate is referred to as the rate at which the central bank (RBI) lends money to the commercial banks for meeting short-term fund requirements in order to maintain liquidity and control inflation. Repo rate is decided by RBI and is displayed on its website.

ii. Mark Up: A mark-up is an additional amount added to the Repo rate to determine the effective interest rate of a loan. The following shall be the components of Mark Up:

- Cost of Management as a percentage of Working Capital
- Risk Cost as a percentage of Working Capital
- Any other cost as decided by the ALCO of the Bank after thorough deliberations over the Financials of the Bank.
- The above mentioned components shall be as per the latest Audited Financials of the Bank.

iii. Credit Risk Premium (CRP) :The ALCO of the Bank shall decide the range of CRP for a given type of loan, category of borrower. The CRP can be decided on the basis of the type of loan, Loan amount, Risk group of borrower, Loan to value ratio, CIBIL Rating of borrower, Internal Risk rating etc.

8.2 Reset of interest rates under RLLR: The Mark up and CRP under RLLR shall be reset annually, preferably in the month of July on the basis of the audited Financials. RLLR shall be reviewed once in three months.

The ALCO of the Bank shall give effect to the Rate of Interest based on the Repo Rate preferably within a month of change in the Repo Rate of RBI.

8.3 Exclusions

The following types of loans shall be exempted from the above stated provisions:

i. All types of agricultural advances.

ii. Loans covered by schemes specially formulated by Government of India wherein bank have to charge interest rates as per the scheme.

iii. Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL) etc. granted as part of the restructuring package.

iv. Loans granted to Govt. of H.P. Undertakings, Boards, Corporations, Cooperative institutions (including District and Apex Bodies) etc.

v. Loans granted under various refinance schemes formulated by Government or any Government Undertakings wherein bank has to charge interest at the rates prescribed under the schemes to the extent refinance is available.

vi. Advances to bank's depositors against their own deposits.

vii. Advances to bank' own employees including retired employees.

viii. Advances granted to the Chief Executive Officer / Whole Time Directors.

ix. Loans linked to a market determined external benchmark.

9. Disclosure to customer:

i. The amount of loan sanctioned along with the terms and conditions including annualized rate of interest,
ii. Details of the default interest / penal charges payable by the customers in relation to their loan account and method of application thereof
iii. Bank shall also ensure that changes in interest rates and charges are affected only prospectively.

10. Content on the website:

Interest Rate Policy would be uploaded on the website of the Bank and any change in the rates and charges for existing customers would be uploaded on the website of the Bank

11. STAFF LOAN:

The interest rates on loans provided to the employees of the Bank shall be governed by the internal policies of the Bank.

12. REVIEW OF THE POLICY:

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Consequent upon any amendments in RBI or NABARD guidelines or any change in the position of the Bank, necessary changes in this Policy shall be incorporated and approved by the Board.

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Annexure "A"

Marginal cost of funds = 92% x Marginal cost of borrowings + 8% x Return on Networth

Bank shall have the option to reckon the outstanding balances of deposits and other borrowings as on any day, not more than seven calendar days, prior to the date from which the MCLR becomes effective. The chosen time lag shall be maintained consistently for a period not less one year.

Composition of Borrowings under MCLR:

1. Deposits:

i. **Current Deposits** : The core portion of current deposits identified based on the guidelines on Asset Liability Management issued vide circular dated October 24, 2007 should be reckoned for arriving at the balance outstanding.

ii. **Savings Deposits:** The core portion of savings deposits identified based on the guidelines on Asset Liability Management issued vide circular dated October 24, 2007 should be reckoned for arriving at the balance outstanding.

iii. **Term deposits:** Term deposits of various maturities including those on which differential interest rates are payable should be included.

2. Return on networth: Amount of common equity Tier 1 capital required to be maintained for Risk Weighted Assets as per extant capital adequacy norms shall be included for computing marginal cost of funds. Since currently, the common equity Tier 1 capital is (5.5% +2.5%) 8% of RWA, the weightage given for this component in the marginal cost of funds will be 8%.

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