



**ASA INTERNATIONAL INDIA (ASAI)**  
**PRICING OF MICROFINANCE LOANS**  
**Version -1**

<b>Version</b>	<b>Date of Adoption</b>	<b>Particulars</b>	<b>Owner</b>	<b>Custodian</b>	<b>Approving Authority</b>
1.0	23.03.2022	Pricing of Microfinance Loans	Operations & Finance	Compliance	Board of Directors

## **1. Introduction**

ASA International India Microfinance Limited (ASAI India / the Company) is registered with Reserve Bank of India (RBI) as a non-deposit accepting NBFC- MFI. Being an NBFC, it has to comply with Guidelines / Directions issued by RBI from time to time. The Reserve Bank of India issued the Master Directions on Microfinance Loans on 14<sup>th</sup> of March, 2022 (which shall come into effect from 1<sup>st</sup> April 2022) wherein NBFC MFI's were directed to draft a policy for pricing of microfinance loans. The Company shall duly implement and keep the Policy including the Appendices and any amendments thereto up to date, in accordance with any regulatory, corporate or other legal requirements as may be issued from time to time.

## **2. Objectives of the Policy**

The objective of this Policy is to put in place an indicative methodology for pricing of microfinance loans which shall interalia, cover the following:

- (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;
- (ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
- (iii) The range of spread of each component for a given category of borrowers; and
- (iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

The Company will adopt/modify this framework suitably as per their requirements with the approval of the Board.

## **3. Definition of microfinance loan**

The definition of microfinance loan (as applicable from 1<sup>st</sup> April, 2022) is as under:

A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

## **4. Pricing of Loans**

The following guidelines of Reserve Bank of India will be followed while pricing of microfinance loans:

- i) Interest rates and other charges/ fees to be charged by ASAI India on microfinance loans shall not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.
- ii) ASAI India shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet (Illustrative factsheet provided in Annexure I)
- iii) ASAI India shall explicitly disclose in the factsheet any fees to be charged to the microfinance borrower. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- iv) The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.
- v) There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
- vi) The Company shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.
- vii) Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
- viii) RBI would also make available information regarding interest charged by Companies on microfinance loans.

## **5. Guidelines on Conduct towards Microfinance Borrowers**

The Company already has in place a Fair Practice Code policy which has been approved by the Board. The Company is also in compliance with the Master Directions issued by the Reserve Bank of India and displays the FPC in all its branch offices and its areas of operation in a vernacular language which is understood by the borrower.

- ii) A standard form of loan agreement for microfinance loans in a language understood by the borrower will be designed and implemented by the Company.
- iii) All branch offices shall provide a loan card to the borrower in a standard format of ASAI India which shall include:
  - a) Information which adequately identifies the borrower;
  - b) Simplified factsheet on pricing;
  - c) All other terms and conditions attached to the loan;
  - d) Acknowledgements by the RE of all repayments including instalments received and the final discharge; and
  - e) Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE.
- iii) All entries in the loan card shall be in a language understood by the borrower.

## **6. Review of Policy**

This Policy is being proposed by the Management to the Board of Directors for approval.

The policy shall come into effect from 1<sup>st</sup> April, 2022.

This Policy shall be reviewed at regular intervals or as and when considered necessary by the Board of Directors/Committee of the Company.

Annexure I

**Illustrative Factsheet on Pricing of Microfinance Loans**  
(to be provided in a language understood by the borrower)

Date: XXX

Lender's Name: XXX

Applicant Name: XXX

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
<b>Details about Contingent Charges</b>		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970\*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.

Detailed Repayment Schedule Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970

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<b>Instalment No.</b>	<b>Outstanding Principal (in Rupees)</b>	<b>Principal (in Rupees)</b>	<b>Interest (in Rupees)</b>	<b>Instalment (in Rupees)</b>
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970