Interest Rate Policy

Version 3.2

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Section - 1

Interest Rate Policy

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1. Background

TVS Credit Services Ltd. (hereinafter referred to as 'Company') is registered as NBFC with Reserve Bank of India (RBI) and operates as a Non-Deposit taking Non-Banking Financial Company (NBFC).

As per the Fair Practices Code (FPC) requirements specified in the RBI (NBFC – Responsible Business Conduct) Directions, the Board of each NBFC shall adopt an interest rate model taking into account various relevant factors such as cost of funds, margin and risk premium. etc. for determining the rate of interest to be charged for loans and advances.

Further, the directives states that the rate of interest and the approach for gradation of risk and the rationale for charging different rates of interest for different category of borrowers should be communicated to the borrowers / customers in the sanction letters to them.

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In view of the above, the Board has approved and adopted this document as the interest rate policy of TVS Credit Services Ltd.

Also, Company has put in place a benchmark interest rate model for prospective floating rate product to offer a floating benchmarked linked interest rates to its customers, as explained in Section - 2.

2. Objective, scope, review and approval process

2.1 Objective

The pricing methodology framework ("framework"/ "pricing framework") shall aim at standardizing the pricing methodology across various interest products and to ensure that the required components/costs are considered for pricing. This framework will define the broad pricing methodology adopted across multiple interest products to arrive at final price charged from customers.

2.2 Scope

Pricing is most significant for any business to achieve organic growth; however, at the same time, it's crucial to ensure that the risk is managed efficiently and effectively. This necessitates building a strong pricing framework to ensure that risk-based pricing is followed, and a robust governance framework is in place. The scope of the framework will include the below factors:

- Interest product description
- Interest product Pricing Methodology
- Governance Framework

2.3 Pricing framework review and approval process

The Pricing framework shall be reviewed and updated on an annual basis. However, it may also be reviewed on an ad-hoc basis to reflect changes in the pricing methodology, for example any addition/deletion of a particular component forming part of calculation or introduction of a new interest product. The ownership of this framework shall lie with the Board. The Board may delegate the implementation of the Policy to the Asset-Liability Committee ("ALCO") & Risk Management Committee("RMC") or any other authority as may deem fit.

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3. Interest Product Description

TVS Credit Services, a diversified NBFC, offers comprehensive range of secured and unsecured products to cater the needs of different customers segment on fixed interest rate basis, as outlined below:

Product	Short description
Two Wheeler Loan	Monthly instalment loans to customers to finance the purchase of a new motorcycle, scooter or other two-wheeled vehicles, Battery as service etc.
Used Two Wheeler Loan	Monthly instalment loans to customers to finance the purchase of a used motorcycle, scooter or other two-wheeled vehicles, Battery as service etc.
Used Car Loan	Monthly instalment loans to customers to finance the purchase of a pre-owned car
Consumer Durable Loan	Affordable monthly instalment loans to customers to buy consumer durable goods, primarily mobile phones, home appliances, Kitchen Appliance and accessories.
Ecommerce Consumer Loan	Affordable monthly instalment loans to customers to buy items through online/ecommerce platforms. Any items such as consumer durable goods, primarily mobile phones, home appliances, Kitchen Appliance, Apparels, Two Wheelers, Books and accessories etc.
Cross sell Personal Loan	Monthly instalment loans to a selected base of pre-qualified existing customers (primarily Consumer Durable, Two Wheeler & Used Car). An unsecured credit offered based on criteria like repayment capacity, bureau characteristics, internal scores/deciles etc.
New Tractor Loan	Monthly, Bi-monthly, Quarterly or Half yearly instalment loan specifically designed to help farmers, individuals, entities purchase new tractors for agricultural or business purposes.
Used Tractor Loan	Monthly, Bi-monthly, Quarterly or Half yearly instalment loan specifically designed to help farmers, individuals, entities finance the purchase of pre-owned tractors
Tractor Implements Loan	Monthly or Quarterly instalment loans specifically designed to help farmers, individuals, entities purchase new implements such as Rotavator, Trolly, Plough, Thresher, Straw reaper/Reaper, Baler, Super seeder etc.
Used Construction Equipment Loan	Monthly instalment loans offered to individuals or entities which enable them to purchase pre-owned construction equipment.
Insta Personal Loan	A pre-approved facility only extended to a select base of pre-qualified existing customers with a good repayment history. It is a 3 seconds loan designed to meet the instant requirement of funds.
Digital Personal Loan	Affordable monthly instalment loans offered to a new customer of TVS Credit Services through digital partnerships.
Mid-Corp (Emerging & Mid-corporate business loans)	Short term Invoice based funding to MSME customers through OEM, Anchors, including Invoice Financing

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Three wheeler Loan	Affordable monthly instalment loans are designed to finance the purchase of a new three-wheeled vehicle, such as an auto-rickshaw or a commercial three-wheeler.
Gold Loan	Secured loan offered to customers where in borrower uses their gold (typically jewellery) as collateral to obtain funds.
Open Market Personal loan	Affordable monthly instalment loans offered to a new customer of TVS Credit Services.
Used Commercial Equipment	Secured loan offered to customers to buy a range of construction equipment; earthmovers, compactors, loaders, concrete and material processing machines, and others
Trade Advance	Unsecured and short term loan offered to dealers of Two Wheeler, Consumer Durables, Used Car, Tractor, Three Wheelers etc to manage the inventory/working capital/cashflows.

The above list is illustrative in nature and the Company may offer other loan products.

4. Interest Product Pricing Methodology

This section explains the overall pricing approach followed for all interest products offered by TVS Credit Services.

- TVS Credit Services segments customers into separate risk grades within the product level based on the factors mentioned in section 6(b), which is driven to determine the riskiness of the customers (probability of default).
- The pricing determined for each risk grade is different considering the historical data and the riskiness of the customers.
- In addition to Interest rate, TVS Credit Services also charges Upfront Fee/Charges - Mandatory like Processing Fee, Field Investigation Cost, Service Charges, Selling Charges, ECS Charges, Upfront Charges, Administrative Charges, Document Charge, Valuation Charge, Stamping Charges, Mandate Charges to its customers as applicable to products; however, there may be some schemes where no processing fee is charged.
- The following components are considered for pricing computation:
  - Cost of Debt to book*(including Tenor Premium)*
  - Liquidity Premium/Negative carry, on cash and liquid investments
  - Planned Operating Cost to book
  - Planned Overhead Cost to book
  - Risk Costs to book

  The components that determine the interest rates for loans are explained in detail in section 5. Loan Pricing Components**.**
- Using the above factors, a minimum & maximum annualised interest rate is arrived at product level. Factors taken into account for risk and/or operating cost premium are mentioned in section 6(b).
- Minimum & Maximum interest range shall not be applicable for cases where subvention is received from manufacturers/dealers.

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5. Loan Pricing Components

Loan pricing for the various risk grades is determined by taking into the following broad components:

Component	Description
Costs of capital to book	The Company borrows funds through term loans, WCDL, Non-Convertible Debentures, ECB and Commercial paper and subordinate debt (Both Tier 1 and Tier 2) from the lenders. The Debt funding is calculated using average debt (Average principal outstanding), the annualised Cost of the debt, and Average debt/ Average AGR/AUM percentage. Tenor Premium: ✓ The tenor premium refers to the additional interest rate charged by the company to compensate for the increased risk associated with longer loan durations. As the length of time until a loan's maturity increases, so does the uncertainty around economic conditions and the borrower's ability to repay. The tenor premium is thus an integral part of floating benchmark linked pricing, ensuring that loans with longer tenors appropriately reflect the higher risk in their pricing. ✓ To assess the tenor premium, difference of G-Sec Yields across different maturities are compared. The difference on the interest rate charged on the higher maturity loan is the tenor premium.
Liquidity premium/Negative carry, on cash and liquid investments	Negative carry arises when cost of funds is higher than the return on investments/cash held. Since return on cash and certain mandatory investments (such as investments held for maintaining liquidity coverage ratio) are less than cost of fund, the same are subject to negative carry.
Operating cost to book	Operating cost is computed as percentage of average AGR/AUM. The cost per contract will remain the same at product level and the risk grade of the customer. Operating cost includes following costs:
	1. Variable costs – Origination • Sales/Partner Incentive & commission • Bureau includes CIBIL • E KYC cost • Call centre cost • Off-role employee Incentive & commission • Any other operating costs
	2. Variable costs – Collection • Commission & Incentive to collection agents & inhouse collection team
Overhead cost to book	Overhead cost is computed as a percentage of average AGR/AUM. The cost per contract will remain the same at product level and the risk grade of the customer. Overhead includes expenses like salary of sales and collection manpower, travel and conveyance, office rent, audit expense, information technology etc.
	1. Fixed costs – Product • Sales Salary (Including Supervisory Cost) • Collection Salary (Including Supervisory Cost) • IT & Infra cost • Rent

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Component	Description
	2. Fixed costs - Allocated • Corporate manpower cost • Common IT cost
Risk Cost to book	1. The Risk Cost is calculated on the Average Annual Gross Receivable, and it has following components: - Net loss is calculated basis Net Credit Loss (i.e. flow to write off) and provision for 90+ DPD stock. - Provision for 90+ DPD is in turn calculated using the probability of the amount crossing 90+ Days past due, based on historical dataand the historical recovery percentages. - Total Interest Income is calculated using the Credit amount, the interest rate, and the Term of the loan. - Principal Lost = $Credit\ amount \times$ Cumulative Net loss % on credit amount - Expected Interest lost = $Interest\ amount \times$ Cummulative Net loss % on credit amount) - Risk Cost (Principal) = $\frac{Principal\ lost}{Average\ Annual\ gross\ Receivables}$ - Risk Cost (Interest) = $\frac{Interest\ lost}{Average\ Annual\ gross\ Receivables}$ 2. Once the overall risk cost is computed, it is calculated on the Product level. Minimum & maximum risk cost premium is computed based on risk gradation of the customer using historical data(sourcing from Jan'22 onwards) and changes in early vintage performance is adjusted in risk cost.
Expected ROA	Return on assets is the minimum return expected by the company on its assets approved by the Board or Committee of the Board as part of the AOP plan.

Below is a table that illustrates the sources of the data used to determine the pricing for interest products

Input	Source
Costs of Debt	FP&A team basis inputs from treasury team.
Operating cost	FP&A team basis the budgets.
Overhead cost	FP&A team basis the budgets.
Risk Cost	Risk Team basis historical lifetime loss rates

6. Approach for Gradation of Risk

a. The decision to give a loan and the interest rate applicable to each loan account is assessed on a case-to-case basis.

b. The factors which are considered in assessing a customer's risk premium are assessed as follows:

- Application scorecard output
- The profile and market reputation of the customer/borrower.
- Customer segment.
- Product Category - Secured vs unsecured loan

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- Past repayment track record of the customer/borrower.
- Tenure of the relationship with customer/group.
- Nature and value of primary and secondary collateral / security.
- Inherent credit & default risk in the products.
- Regulatory requirements if applicable.
- Historical performance of similar homogeneous clients
- Interest rate risk (fixed vs floating loan)
- Industry segment
- Subvention available
- Ticket size of loan
- Bureau Score
- Location/micro market delinquency and collection performance
- Other existing customer debt
- Prevailing and anticipated industry trends such as interest rates offered by competitors.
- Inherent credit and default risk in similar business or category of borrowers, particularly trends with sub-groups/borrower segments of the loan portfolio
- Any other factors that may be relevant to the case.

Such information is collated based on borrower inputs, credit bureau and field inspection by the company officials.

c. The company charges an annualised rate of Interest on monthly reducing balance method and the same will be disclosed in the sanction letter issued to the borrowers.
d. Besides interest, other upfront mandatory fees like Processing Fee, Field Investigation Cost, Service Charges, Selling Charges, ECS Charges, Upfront Charges, Administrative Charges, Document Charge, Valuation Charge, Stamping Charges, Mandate Charges and other related matters would be levied by the company wherever considered necessary. Besides the base charges, goods and services tax would be collected at applicable rates from time to time. Any revision in these changes would be with prospective effect.
e. Besides normal interest, the company may levy penal charges for any delay or default in making payments of any dues.
f. As per the Fair Practices Code (FPC) requirements specified in the RBI (NBFC – Responsible Business Conduct) Directions, the company will disclose the rate of interest and the approach for gradations of risk and rationale for charging different rates of interest to different categories of borrowers in the application form and communicated explicitly in the sanction letter.

7. Stress Premium - Macro Factors

- Macro factors, also known as external factors or the macro environment, are largely outside the ambit of TVS Credit Services.
- Key Macro Factors:
  - ✓ Economic Factors: GDP growth, inflation rates, unemployment levels, and household leverage.
  - ✓ Financial Market Factors: Market liquidity, interest rates, credit and cyclical conditions.
  - ✓ Natural Factors: climate change, natural disasters, El Niño and La Niña effects

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- ✓ Political and Legal Factors: Geopolitical environment, Government policies, regulations, trade agreements, and political stability.
- ✓ Technological Factors: Advancements in technology, innovation.
- ✓ Others: Pandemic

- In case macro factors lead to increase in the risk, appropriate stressed period risk premium shall be added while arriving at the final rate of interest.

8. Schedule of Interest rate

a. Definitions:
   - ✓ Amort/accounting IRR(AIRR): Interest rate shall mean the **annualized rate** on the credit facilities charged to the borrower by the Company, based on the periodicity of payments, for example, monthly quarterly, etc.

b. An indicative schedule of interest rates (AIRR) & Processing fee being levied by TVS Credit Finance for various types of lending products offered is detailed in Annexure I.

9. Disclosures

a) Disclosure Principles

- The Company shall inform the borrower in writing (in physical or electronic form), in the vernacular language or a language as understood by the borrower all relevant details in relation to the loan offered by the company including all necessary documentation to be entered into in relation to the loan (i.e., terms and conditions, loan agreements, sanction letters along with all relevant enclosures). The annualized rate of interest shall be disclosed to the customers without any ambiguity; Any change in the interest rate or other charges shall be made prospectively and the same will be adequately disclosed in the loan agreement.
- There shall be appropriate disclosures on the approach for gradation of risk and rationale for charging different rates of interest to different categories of borrowers in the application form and communicated in the sanction letter.
- The Company shall also endeavor to make terms and conditions in relation to the borrowings available on its website in certain vernacular languages, most understood by its borrowers.
- The information provided by the Company includes all charges and taxes proposed to be levied by in accordance with this Interest Rate Policy as well as any other disclosures required to be made under Applicable Laws are set out in the loan documentation of TVS Credit Services Ltd.
- The Company shall provide a Key Facts Statement (KFS) to all prospective borrowers to help them make an informed view before executing the loan contract, as per the standardized format prescribed by RBI.

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b) Policies and Procedures

The following other policies are also relevant from disclosures point of view of this Interest Rate Policy:

- **Credit Policy** – The credit policy of TVS Credit Services Ltd. outlines the parameters and processes for credit appraisal, approval, risk guidelines and other credit principles and procedures etc. The pricing framework described in this Interest Rate Policy are based on the pricing philosophies set out under the credit policy.
- **Fair Practices Code** – All relevant disclosures in relation to the Credit policy and pricing framework of the Company and elaboration on Approach for Gradation of Risk, etc. (in this Interest Rate Policy) are disclosed in the Fair Practices Code of the Company in accordance with the directions of the RBI.
- **Form of Documentation -** The loan documentation of the Company and all related documents (including communications sent to, or received by the borrower) in writing may either be in physical or electronic form in the vernacular language or in a language as understood by the borrower.

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10. Governance around Pricing Framework

a) Governance Principles:

The following principles shall be considered for the governance of the pricing framework:

- The pricing framework's management shall be the ALCO's responsibility.
- Pricing Model and management shall comply with all relevant laws, prudential regulations and internal policies.
- There shall be appropriate independent validation and authentication procedures in place to protect against material loss or wrong decisions.
- The pricing framework shall have a single owner functionally separate from the business.

b) Methodology Implementation:

The various components of the methodology implementation are mentioned below:

c) Methodology Proposal:

The Risk & Finance team is responsible for the pricing framework proposal and submitting it to ALCO & RMC for approval and implementation of the same

d) Timeline for Proposal:

The Risk & Finance team shares the pricing policy basis this framework and past trends with ALCO & RMC annually.

e) Methodology Validation:

Methodology validation comprises the process by which TVS Credit Services Limited assures itself that the methodology is appropriately constructed for the use to which it is put and that the documentation of the methodology is commensurate with the complexity of the methodology.

External independent firm shall carry out validation of the methodology. The team carrying out the methodology validation will have sufficient expertise to understand the methodology and benchmark it against industry-accepted practices. The methodology validation exercise shall involve:

- Appropriateness of the assumptions, approximations and methodology. The objective is to verify that methodology is being used in line with their design objectives and business uses.
- Review of the adequacy of documentation.
- Assessment of the vulnerability, sensitivity, limitation, and weaknesses of the methodology.
- The remediation plan is tracked to resolve the identified methodology issues.

f) Methodology Approval:

Methodology approval is the formal acceptance of methodology before its implementation. The methodology approval process is applicable for both new and re-developed ones. The following rules apply:

- The Risk & Finance Team is responsible for endorsing and recommending models to the ALCO & RMC, who is responsible for the approval.
- Methodology approval is formalized through documentation covering the following:
    - Soundness of methodology and performance on relevant portfolio
    - Compliance of the methodology with regulatory requirements and industry standards; and

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- Any other criteria that the approval authority deems fit.

g) Methodology Deployment:

Methodology deployment is the process of deployment of approved methodology in line with the intended use and includes the following measures:

- Methodology deployment shall be undertaken only after a model has been approved by ALCO & RMC.

h) Changes to Methodology:

Changes to the methodologies may be required due to the following reasons:

- Inclusion of recent data, which contains significant qualitative evidence for change in methodology parameters/estimates.
- Business reasons e.g. new portfolios or merging of portfolios.
- RBI/Regulatory Guideline which impacts the pricing methodology followed by the company.

Any change in model or methodologies is subject to:

- Relevance of required modification
- Impact assessment of changes

All significant changes to methodologies are subject to ALCO & RMC approval.

11. Communication Framework:

- The Company shall communicate the rate of interest as required under applicable regulations to the customers at the time of availing and sanction of the loan through Contact Options (i.e. SMS, e-mail or mobile application).
- As per the Fair Practices Code (FPC) requirements specified in the RBI (NBFC – Responsible Business Conduct) Directions, an NBFC has to disclose to its borrower the rate of interest, the approach for gradations of risk and rationale for charging different interest rates to different categories of borrowers.
- Accordingly, the Company will inform the borrower in writing (physically or electronically) about the rate of interest and other charges contemplated to be charged by TVS Credit Services (including any amendments thereof) before and at the time of availing and sanctioning the loan by way of the loan documentation of the Company, this Interest Rate Policy and/or any other mode agreed between the borrower and the Company.
- The documentation adopted by the Company allows the borrower to make an informed decision with respect to the loan. The borrower's acceptance of such terms and conditions (including any amendments thereof) will be taken and recorded by the Company in writing (by physical or electronic means).

a) Amendments:

- Any amendments to this Interest Rate Policy will be reviewed and approved by the Board. Provisions of this Interest Rate Policy are subject to amendment in accordance with Applicable Laws (including rules, regulations, notifications) on the subject as may be issued from time to time.

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- In case any provisions of this Interest Rate Policy are inconsistent with Applicable Laws (including any subsequent amendment(s), clarification(s), circular(s), etc.) then such provisions of Applicable Laws shall prevail over the provisions hereunder and this Interest Rate Policy shall stand amended so that it complies with Applicable Laws from the effective date of the change in Applicable Laws.

b) Publication

This Interest Rate Policy will be displayed on the Company website in compliance with the directions of the RBI and will be updated periodically to include any changes/amendments in the rate of interest or otherwise.

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Annexure I: Product wise AIRR and Processing charges

Product	Amort IRR		Proc Fee(Excluding GST)
	Min	Max	Max
Two-Wheeler	0%	32%	Upto 7.5%
Used Two-Wheeler	12%	35%	Upto 5%
Used Car	10%	28%	Upto 5%
Consumer Durable	0%	29%	Upto 8.47%*
Ecommerce Consumer Loan	0%	32%	Upto 8.47%*
Three-Wheeler	13%	28%	Upto 5%
New Tractor	11%	21%	Upto 5%
Used Tractors (including allied products)	14%	28%	Upto 5%
Used Commercial Vehicles	10%	25%	Upto 5%
Loan against Property	10%	30%	Upto 5%
Personal loan	12%	35%	Upto 5%
Microfinance loans	14%	34%	Upto 5%
Gold Loan	10%	30%	Rs. 50 for loan < 1L Rs. 100 for loan > 1L
Used Construction Equipment	10%	30%	Upto 5%
Trade Advance^^	11.5%	20%	Upto 2%
Mid-Corp *(Emerging & Mid-corporate business loans, Including Invoice Financing)*	7%	20%	Upto 2%
Any other loan	14%	34%	Upto 5%

- For the child loans, the Interest Rate & Processing fee grid of the parent product shall be applicable.
- ^^Trade Advance: Interest is applicable after the interest free period.
- *For CD/Ecommerce Consumer Loan: Processing Fee 10%(including GST).

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Section - 2

Floating Interest Rate Benchmark

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1. Introduction

As per the Fair Practices Code (FPC) requirements specified in the RBI (NBFC – Responsible Business Conduct) Directions, all NBFCs shall adopt an interest rate model and make available the rates of interest on website of the companies.

Accordingly, TVS Credit Services Limited (hereinafter referred to as the "Company" or "TVSCS") has put in place a benchmark interest rate model to offer a floating benchmark linked interest rates to its customers. The Company shall offer the following floating benchmark to its customers.

1. TVSCS Floating Benchmark Based Lending rate (TFBLR)

Floating Benchmark Review and Approval Process:

Treasury shall review the floating benchmark framework at least once on an annual basis and shall submit the same to ALCO & RMC for approval, in case of any modifications.

The Company shall have the following governance structure for the Floating Benchmark Review.

- Asset Liability Committee of the Board ("ALCO") & Risk Management Committee("RMC")
  a) Approval of the Floating Benchmark framework
  b) Annual (or as required) review of the Floating Benchmark framework
  c) Periodic review of changes required to this Floating benchmark framework and recommending any amendments to the Board

- Chief Treasury Officer (CTO)
  a) Ensuring implementation of the Floating benchmark framework and reporting to the ALCO & RMC in case of any deviation
  b) Recommend for approval to the ALCO & RMC any changes if required in the Floating benchmark framework
  c) Review the benchmark rate calculated by Treasury Department

- Treasury Department
  a) Compute and publish the benchmark rate quarterly or more frequently, if required (with approval of ALCO chairman)

The contents of this floating benchmark framework shall stand automatically amended in case of any amendments/revisions issued by the Reserve Bank of India from time to time.

2. TVSCS Floating Benchmark Interest Rate Model

To arrive at the TVSCS Floating Benchmark Based Lending Rate, TVSCS takes into account the following.

- Marginal Cost of Funds
- Liquidity Premium/Negative carry, on cash and liquid investments

2.1 Marginal Cost of Funds

The cost of funds is a critical component of pricing model, representing the expense that the company incurs to acquire the capital necessary to fund loans. This cost is influenced by various factors,

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including the cost of debt and expected return on equity. It reflects the prevailing interest rates in the market and the TVSCS's own access to capital.

Cost of Funds is divided into two components:

- Marginal Cost of Borrowings (including Tier I & Tier II borrowings)
- Return on Net-worth

Marginal Cost of Borrowings: Most recent long term borrowing costs of the company will be considered to arrive at marginal cost of borrowing.

Return on Net-worth: The return on net worth/cost of equity will be the minimum desired rate of return on equity to be generated by the TVS as per shareholders expectations.

2.2 Liquidity Premium/Negative Carry, on cash and liquid investments

Negative carry arises when cost of funds is higher than the return on investments/cash held. Since return on cash and certain mandatory investments (such as investments held for maintaining liquidity coverage ratio) are less than cost of fund, the same are subject to negative carry.

TFBLR will be computed on a quarterly basis or more frequently, if required (with approval of ALCO chairman) and published on the website.

3. Tenor Premium

The tenor premium refers to the additional interest rate charged by the company to compensate for the increased risk associated with longer loan durations. As the length of time until a loan's maturity increases, so does the uncertainty around economic conditions and the borrower's ability to repay. The tenor premium is thus an integral part of floating benchmark linked pricing, ensuring that loans with longer tenors appropriately reflect the higher risk in their pricing.

To assess the tenor premium, difference of G-Sec Yields across different maturities are compared. The difference on the interest rate charged on the higher maturity loan is the tenor premium.

4. Fixed Rate Premium *(in case customer prefers fixed rate loan for floating rate product)*

As per regulatory guideline, the customer should have fixed rate option for floating rate product. Accordingly, Fixed rate premium is levied on the loans where interest rates are fixed throughout the tenor of the loan for a floating rate product, in case customer prefers the same. In case of fixed rate loans, the TVS ideally would not be able to pass on the changes in cost of funds to the customer, thus requiring an additional premium to be charged to the customers with fixed rate loans when compared to floating rate loans.

The fixed rate premium is calculated basis average historical movement of cost of funds borrowed at floating rate. Accordingly, TVSCS will charge standard fixed rate premium of 2% to all customers irrespective of risk gradation. This premium will be reviewed on periodic basis, at least once in a year.

5. Other Governing Principles - For Floating Rate Products

(i) At the time of sanction, TVSCS shall communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or

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tenor or both through a simulation. Borrowers shall also have the option to switch the loan to fixed rate of interest (subject to a maximum of 1 switch during the loan tenor) or fully/partly prepay the loan subject to applicable charges.

(ii) Basis customer option, any increase/decrease in EMI/Tenor or both on account of the above shall be communicated to the borrower immediately/in-advance through appropriate modes of communication

(iii) The company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.

6. Switching from floating to fixed rate and vice versa – For Floating Rate products

i. At the time of sanction, TVS shall communicate the applicable conversion charges from floating to fixed or vice-versa in the sanction letter. Any changes thereafter shall also be communicated to the borrower.
ii. At the time of reset of interest rates, the Company shall provide the option to the borrowers to switch over to a fixed rate.
iii. The borrower shall be allowed to switch interest rates (floating to fixed or vice-versa) for a maximum number of one time during the tenor of the loan.
iv. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs with respect to interest switch shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs.
v. The company shall publish on its website the switching options along with applicable charges

7. Communication framework - For Floating Rate Products

i. Interest rates shall be intimated to the customers at the time of loan sanction / customer onboarding along with EMI apportionment towards interest and principal dues. The annualised rate of interest shall also be disclosed to the customer.
ii. Any change in the benchmark rates and charges for existing customers shall be updated on the website of the Company.
iii. In case of change in the interest rate or other charges shall be made prospectively and a provision for the same shall be made in the loan agreement. Changes in the rates and charges for existing customers shall also be communicated to them via email / SMS / any other agreed communication mode.
iv. There shall be appropriate disclosure of the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of customers in the application form and communicated in the sanction letter. The same shall also be published on the website of the Company.
v. The rate of Interest for various types of loans shall be displayed on Company's website.
vi. The company shall also send the loan statements and repayment schedules to its existing customers on quarterly basis enumerating the principal and interest recovered till date, EMI amount, number of EMIs left and annualised rate of interest for the entire tenor of loan.

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8. Applicable charges for interest rate switches - For Floating Rate Products

S. No	Nature of fees/charge	Name of fees	Amount
1	Conversion from fixed rate to floating rate	Conversion fees	2% of principal amount outstanding + GST as applicable
2	Conversion from floating rate to fixed rate	Conversion fees	2% of principal amount outstanding + GST as applicable TVSCS will also charge fixed rate risk premium of 2% over the applicable rate of interest on the borrowers' loan account as on that date

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