Consumer Guide on the Revised Reference Rate Framework

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

What is a reference rate?

Lending rate = **Reference rate** (e.g. SBR) + **Spread**

Lending rate
- Effective lending rate (ELR)
- All-in rate that affects repayment amount

Reference rate (e.g. SBR)
- Determines the **changes** in borrowers' repayments on floating rate loans throughout the tenure

Spread
- Includes credit and liquidity risk premiums, operating costs, and profit margin
- **Generally fixed** throughout lifetime of loan

Illustration of how banks quote lending rates:

3.25% = **Reference rate** (e.g. 1.75%) + **1.50%**

What is new in the revised Reference Rate Framework?

BR Base Rate → Beginning 1 August 2022 → **SBR** Standardised Base Rate

Different BR as set by banks

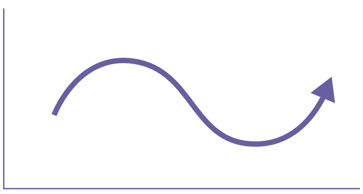
Bank A	Bank B	Bank C
BR of Bank A	BR of Bank B	BR of Bank C

SBR = BNM's Overnight Policy Rate (OPR) for all banks

Bank A	Bank B	Bank C
SBR	SBR	SBR

What it means: SBR will follow exactly OPR

Which loans would the SBR apply to?



New floating-rate loans for individuals

Examples:

Housing loans

Personal loans

How does the move to SBR benefit you?

- **Easier to understand** that repayment instalment will only change when there is a change in the OPR, unless there is an increase in your credit risk, for example, if you fail to make repayments.
- No longer need to compare differences in computation of BRs across banks.

How would lending rates be affected by the revision to the RRF?

For existing borrowers

The move to SBR does not affect lending rates of existing retail floating-rate loans

For new borrowers

Lending rates for retail borrowers should be largely unaffected by the move to SBR

However, as is the case now, borrowers' lending rates and loan repayments may still be affected by other factors, such as borrowers' credit risk profile (e.g. repayment track record).

How should you compare lending rates across banks?

Example:	Interest rate on loan (effective lending rate)	=	SBR (1.75% as example)	+	Spread
Bank A	3.25%	=	SBR	+	1.50%
Bank B	3.75%	=	SBR	+	2.00%

Straightforward comparison of effective lending rates when making choices between loan products by different banks

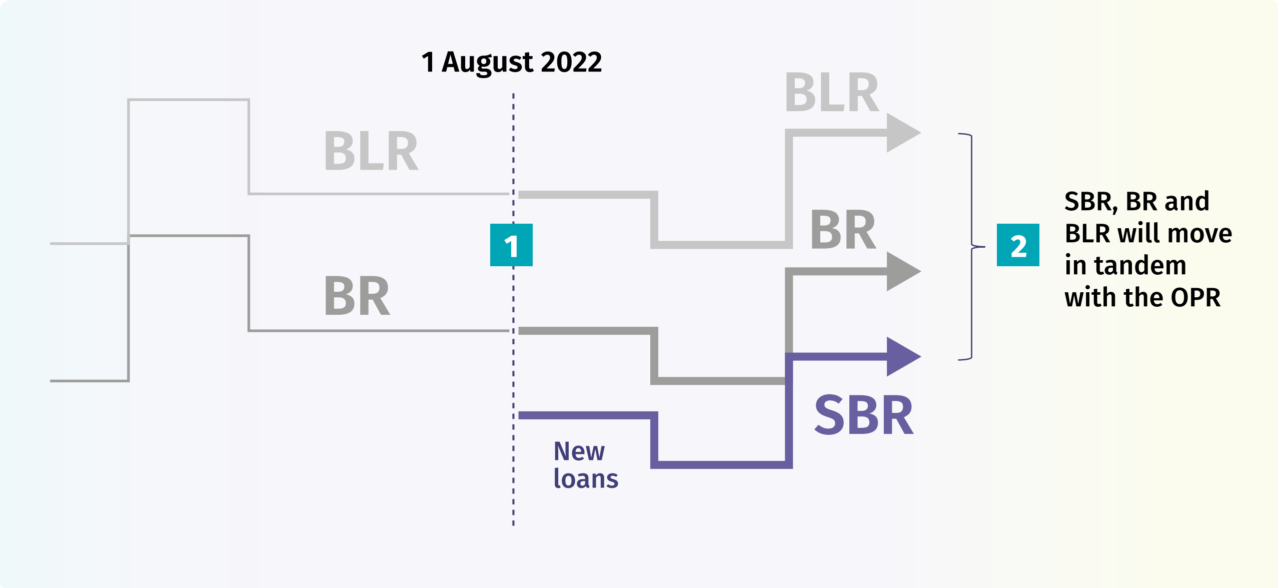
No comparison needed as it is the same for all banks

What would happen to your BR- and Base Lending Rate (BLR)-based loans from 1 August 2022?

1 BR- and BLR- based loans taken prior to 1 August 2022 will continue to be priced against the BR and BLR until the loan is fully repaid.

2 BR and BLR, just like the SBR, will all move exactly in tandem with the OPR from 1 August 2022.

For illustration purposes:



What should you do as a borrower?

1 **Compare** the effective lending rates (ELR) or the spread above the SBR quoted by different banks before taking a new loan.

2 **Read** the Product Disclosure Sheet (PDS). It provides key information on financial products offered by banks, including on the ELR and total repayment amount for the loan you are considering.

3 **Understand** that your monthly repayment amount will increase or decrease when there is a change in the OPR going forward.

4 **Assess** whether you can continue to afford the loan repayments if the effective lending rate increases in the future.

Additional Frequently Asked Questions (FAQs) on the Revised Reference Rate Framework

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

1. What is the Standardised Base Rate (SBR)?

The SBR is the reference rate that all banks will use starting from 1 August 2022 in the pricing of new retail floating-rate loans, refinancing of existing retail loans, and the renewal of revolving retail loans from 1 August 2022. Retail loans refer to loans to individuals (not SMEs or businesses), while 'floating-rate loans' refer to loans where the interest rate can change during the lifetime of the loan. The SBR is linked solely to the Overnight Policy Rate (OPR), as determined by the Monetary Policy Committee (MPC) of Bank Negara Malaysia.

2. Why is the SBR being introduced?

The SBR will be the same across all banks, unlike the Base Rate (BR) which is different for each bank. With the Base Rate, future changes to the BR can be driven by factors that vary across banks. The SBR makes it simple and easy for you to understand and compare loans across banks. This will help you in making a more informed decision as you consider and decide on which bank to take a new floating-rate loan from.

3. How does an OPR change affect the SBR?

When the OPR is revised, banks will adjust the SBR by the same amount as the change in the OPR. This applies to both upward and downward adjustments in the OPR.

4. If the SBR can change, and that affects the interest rate on a loan, what about the spread above the SBR? Are banks allowed to change the spread during the loan tenure?

Banks are not allowed to increase the spread above the SBR during your loan tenure, unless there is a change in your credit risk profile (for example if you fail to pay your loan repayments).

5. Why is the spread above the SBR larger than the spread above the BR? Am I being charged more given the larger spread above SBR?

- You are not being charged more just because the spread is larger. This can be seen from the "effective lending rate (ELR)", which is the interest rate charged on the loan. If the ELR is the same, you are not charged more.
- However, as the SBR is linked solely to the OPR for all banks, individual banks will take into account their specific business or funding costs in the spread instead, which are different across banks.
- After you have entered into a loan contract, banks are not allowed to increase the spread during the tenure of the loan, except when a borrower's credit risk profile changes. In comparison, currently, a bank may change its Base Rate because of changes in its funding costs, and this is less transparent to borrowers.

6. If I have a BR- or BLR-based loan, would it be affected by a change in the SBR?

Yes. Both BR and BLR will move exactly in tandem with the SBR. This means that for any change to the SBR, following a change in the OPR, banks will adjust the BLR and BR by the same amount of change in the SBR.

7. How long does it take for banks to adjust the SBR, BR and BLR after a change in the OPR?

Bank Negara Malaysia requires banks to adjust the SBR, BR and BLR by the same amount as the OPR within 7 working days from the date of the OPR change.

8. Would my loan instalment be affected when there is a change in the SBR, BR and BLR?

- Yes. When the SBR, BR and BLR are reduced, banks will reduce your loan instalment amount. Similarly, if they are increased, banks will increase your loan instalment amount.
- If the change in your instalment amount is less than RM10 per month, some banks may keep your instalment amount unchanged, and then adjust the loan tenure or final repayment amount accordingly. Your bank is required to inform you in such cases and provide you with details on how this might affect your loan tenure or overall interest costs where relevant.

9. When my loan instalment amount is revised, will the bank inform me?

Bank Negara Malaysia requires banks to inform borrowers on any revisions to their loan instalment amount at least 7 calendar days before the new instalment amount is due for payment. Banks may communicate to borrowers via mail or electronic means (e.g. SMS, emails).

10. What happens if a borrower cannot meet the higher loan instalment amount when the SBR, BR or BLR are increased?

A borrower who is facing financial difficulty in repaying the new, higher instalment amount can request to maintain the original instalment amount. The loan account may be classified as 'rescheduled and restructured'. The bank will inform the borrower on such classification and its implications, including:

- increase in the total cost of borrowing;
- extension / addition to the loan tenure;
- when to repay the additional interest amount, if any.

11. Is there any difference whether I take a new loan before or after 1 August 2022?

- Loans taken *before* 1 August 2022 will still be priced against the BR (i.e. BR + spread), while loans taken *from* 1 August 2022 will be priced against the SBR (i.e. SBR + spread).
- Whether a loan is priced against the BR or the SBR, the interest rate on a loan (or 'effective lending rate') will continue to be competitively determined and influenced by multiple factors, including a customer's risk profile and banks' business strategy.
- Whichever the case, both BR and SBR will move exactly in tandem with the OPR from 1 August 2022 (see question 6).

12. Why are banks allowed to continue offering floating-rate car loans that are priced against the BLR, instead of SBR?

- Banks may use the BLR for floating-rate car loans due to the requirements under the Hire Purchase Act 1967. If the Hire Purchase Act 1967 is revised in the future, banks will have to use the SBR as the reference rate for floating-rate car loans.
- Nevertheless, as the BLR will move exactly in tandem with the SBR, there will be no difference in the impact to customer's repayments whether the car loan is quoted in BLR or SBR.

13. Where can I view the SBR, BR and BLR?

- Banks will publish their SBR, BR and BLR at all their branches and websites. For new customers, banks will disclose the SBR and the interest rate on a loan (or 'effective lending rate') in the product disclosure sheet of the loan.
- The historical series of the SBR, BR and BLR will also be available on banks' websites.

14. Where can customers make inquiries relating to the Reference Rate Framework or lodge a complaint regarding banks' practices?

Customers who have any queries or complaints can either contact their respective banks' complaint units, or BNMLINK at https://telelink.bnm.gov.my/ or 1-300-88-5465.