



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Reference Rate Framework

Applicable to:

1. Licensed banks
2. Licensed Islamic banks
3. Prescribed development financial institutions

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PART A OVERVIEW

1 Introduction

- 1.1 Reference rates allow financial service providers (FSPs) to vary floating lending rates to reflect changes to funding costs that could arise from changes in central bank policies or market funding conditions. As such, reference rates form the basis for the pricing of floating rate loans/financing facilities, while ensuring that changes in monetary policy are transmitted to borrowers. The way in which reference rates are determined and used would support efficient financial intermediation and facilitate effective monetary policy transmission.
- 1.2 The base lending rate (BLR) framework was introduced in 1983. Over time, FSPs have been given greater flexibility to set their own BLR based on cost structures and business strategies. FSPs can also determine their own lending rates for all credit facilities and loan products based on internal and commercial considerations.
- 1.3 With the liberalisation of interest rates, retail lending rates in the financial system have been observed to move in tandem with the cost of lending and the risks assumed by FSPs. However, while the BLRs have moved in response to changes in the Bank Negara Malaysia (the Bank) Overnight Policy Rate (OPR), retail lending rates have typically adjusted by less. This suggests that the link between the BLR and retail lending rates has weakened. In addition, the increasing level of competition in the retail segment in an environment of excess liquidity has spurred the offering of retail loans/financing facilities at a substantial discount to the BLR over the past few years. This has also resulted in an uneven transmission of changes in monetary policy to the cost of financing observed between existing and new borrowers. These developments indicate that the BLR has become less relevant as a meaningful reference rate in the pricing of retail financing products. The lack of transparency and comparability in how BLRs are set by FSPs has also increased the challenges of assessing and communicating the effectiveness of monetary policy transmission to retail lending rates.
- 1.4 This policy document outlines a reference rate framework which aims to—
 - (a) promote a transparent reference rate that allows meaningful comparison to be made for informed decision making by consumers;
 - (b) better reflect changes in the cost of funds arising from monetary policy or market funding conditions; and
 - (c) encourage more disciplined and efficient practices by FSPs in the pricing of retail loans/financing facilities.

2 Applicability

- 2.1 This policy document is applicable to all licensed banks, licensed Islamic bank and prescribed development financial institutions.
- 2.2 This policy document sets out the reference rate to be used in pricing retail loans/financing facilities, including Shariah-compliant financing.

3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to–
- (a) sections 47(1), 123(1) and 143(1) of the Financial Services Act 2013 (FSA);
 - (b) sections 57(1), 135(1) and 155(1) of the Islamic Financial Services Act 2013 (IFSA); and
 - (c) sections 41, 42(C) and 116(1) of the Development Financial Institutions Act 2002 (DFIA).

4 Effective date

- 4.1 This policy document comes into effect on 18 August 2016.

5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA, IFSA or DFIA, as the case may be, unless otherwise defined in this policy document.
- 5.2 For the purpose of this policy document–
- “**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretive, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;
- “**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;
- “**base lending rate**” or “**BLR**” includes reference to the base financing rate (BFR) in the context of Islamic retail financing facilities;

“financial service provider” or **“FSP”** means–

- (a) a licensed bank under the FSA;
- (b) a licensed Islamic bank under the IFSA;
- (c) a prescribed institution under the DFIA;

“marginal cost of funds” refer to the incremental costs that FSPs would incur to obtain new funding;

“retail lending rates” refer to lending rates for conventional retail loans and financing rates for Islamic retail financing facilities;

“retail loans/financing facilities” refer to loans or financing facilities extended to individuals which are priced against a reference rate, including but not limited to housing loans/financing, vehicle loans/financing, personal loans/financing and loans/financing to individuals for business use. Credit card facilities which are subject to the maximum financing rate as stipulated in the Credit Card Guidelines are excluded from the scope of this policy document.

6 Policy documents superseded

- 6.1 This policy document supersedes the guidelines and policy documents listed below–
- (i) Guidelines on Reference Rates, Lending Rates and Deposit Rates of Banking Institutions.
 - (ii) Policy documents on Reference Rate Framework issued on 19 March 2014 and 12 December 2014.

PART B POLICY REQUIREMENTS

7 Reference rate and financing rate

- S** 7.1 FSPs shall use the Base Rate (BR) as the reference rate for the pricing of retail loans/financing facilities. This requirement applies to applications received for new retail loans/financing facilities and refinancing of existing retail loans/financing facilities, and the renewal of existing revolving retail loans/financing facilities, on or after the effective date.
- S** 7.2 FSPs shall determine the BR based on the FSP's benchmark cost of funds and statutory reserve requirement (SRR). FSPs must be able to demonstrate that the benchmark cost of funds reflects the FSP's specific funding strategies and changes in the benchmark cost of funds closely corresponds to changes in the FSP's funding costs. The benchmark cost of funds shall be based on marginal cost of funds.
- S** 7.3 FSPs shall establish a BR methodology and ensure that the methodology is endorsed by the relevant internal committees and the board of the FSPs. FSPs must ensure that the BR methodology is consistent with the FSP's specific funding strategies. In addition, the methodology shall clearly describe how changes in the OPR will be transmitted to the BR.
- G** 7.4 The use of benchmark cost of funds for pricing retail loans/financing facilities would ensure a more effective monetary policy transmission from OPR adjustments to lending rates on retail loans/financing facilities for both existing and new borrowers. The BR is intended to reflect the management of interest rate risk that is directly influenced by monetary policy changes and market funding conditions.
- G** 7.5 The motivation for using marginal cost of funds is to ensure that the BR is more sensitive to changes in policy rates, which in turn improves the transmission of monetary policy from OPR adjustments to lending rates on retail loans/financing facilities.
- S** 7.6 In the event of an OPR change, FSPs shall adjust the BR to reflect the quantum of change as set out in the FSP's BR methodology. FSPs must reflect the change to the BR within seven working days from the date of the OPR change. The time taken by FSPs to effect changes to the BR arising from a change in the OPR shall be symmetrical for both upward and downward adjustments.
- G** 7.7 FSPs may also adjust the BR to reflect changes to SRR or market funding conditions.
- S** 7.8 Apart from changes resulting from an OPR change, to minimise excessively frequent adjustments to the BR, FSPs are allowed to revise the BR only at quarterly intervals.

- S** 7.9 FSPs shall have in place proper policies and clear governance arrangements for determining the BR (including the basis for the choice of benchmark cost of funds), periodic review of the BR and triggers for a review of the BR. The process, methodology and data used for determining the BR shall be documented and made available for the Bank's supervisory review as and when required. FSPs shall also periodically review the BR methodology to ensure it remains consistent with the FSP's funding strategies.
- S** 7.10 FSPs shall subject the BR methodology to an independent review¹ to ensure that the methodology is reflective of the FSP's funding strategies. This independent review shall be undertaken within three months from the issuance date of this document and when any subsequent revision is made to the FSP's BR methodology.
- S** 7.11 FSPs shall exclude other components of pricing from the computation of the BR such as credit and liquidity risk premiums, operating costs, profit margins and others. FSPs shall reflect these components in the spread over the BR.
- S** 7.12 Where the pricing for a retail loan/financing facility is tied to the BR, the lending/financing rate charged to the borrower shall be the **BR plus** a spread.
- S** 7.13 Where there are any changes made to the BR, FSPs shall effect a corresponding adjustment to all new and outstanding retail loans/financing facilities which are priced against the BR.
- S** 7.14 Once a contract for a retail loan/financing facility is concluded, any revision to the spread above the BR during the tenure of the retail loan/financing facility shall only be made to reflect changes in the credit risk profile or creditworthiness of the borrower over the life of the loan/financing facility.
- S** 7.15 Apart from changes in the creditworthiness of the borrower, FSPs shall not increase the spread on outstanding retail loans/financing facilities to reflect changes in operating cost, funding management strategies or portfolio default experience. FSPs shall not increase the spread to gain a higher profit margin during the tenure of a retail loan/financing facility.
- S** 7.16 Existing floating rate retail loans/financing facilities which were granted prior to the effective date shall continue to remain priced against the BLR.
- S** 7.17 When FSPs adjust the BR, the FSPs shall also make a corresponding adjustment to the BLR, **by the same magnitude**, in respect of retail loans/financing facilities under paragraph 7.16 to reflect changes in the FSPs' benchmark cost of funds.
- S** 7.18 For any upward or downward adjustment to the BR and the BLR, FSPs shall revise the monthly instalments of retail loans/financing facilities which are priced against the BR or the BLR as the default option. FSPs shall provide borrowers with particulars of the revised monthly instalment amount at least **seven calendar days** prior to the date the revised monthly instalment comes into

¹ By an external party or independent control function such as the risk management or internal audit function.

effect.

- S** 7.19 FSPs may allow a borrower to retain the monthly instalment amount upon the borrower's specific request. In such an event, FSPs shall clearly communicate to the borrowers the implications of maintaining the existing monthly instalment amount, including any new terms and additional cost of borrowing that will be incurred as a result of an extension of the tenure of the retail loan/financing facility.

8 Deposit rate

- G** 8.1 FSPs may determine the rates payable on deposits accepted based on their funding requirements and strategies.
- S** 8.2 In the case of conventional children savings accounts, the deposit rates payable on accounts with balances of up to RM50,000 shall not be lower than the 1-month fixed deposit rate of the respective FSPs.
- S** 8.3 In the case of a Housing Development Account, the rate payable shall be computed on the daily balance and is set at–

1 month fixed deposit account rate – 1%

9 Notification and approval requirement

- S** 9.1 FSPs shall obtain the Bank's written approval for any change in the methodology used in determining the BR prior to implementing the revised methodology. For this purpose, a change in the BR methodology includes a change in the choice of benchmark cost of funds, the triggers for a review of the BR, or a change in the weights assigned to components used to construct the benchmark cost of funds where the benchmark cost of fund is based on a composite of different types of funding instruments. As changes in the BR methodology will reflect changes to FSPs' funding strategies, such changes will only be permitted after at least one full year from the previous change in methodology.
- S** 9.2 An application for approval referred to in paragraph 9.1 shall be accompanied with clear justification for the change in methodology together with the information set out in Appendix 1, and a copy of the independent review report on the revised methodology as set out in paragraph 7.10. FSPs shall ensure that the information submitted is complete and accurate. The information shall be submitted to–

Director
Consumer and Market Conduct Department

Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur.
Email address: baserate@bnm.gov.my

- S** 9.3 For revisions to the level of the BR and the BLR, FSPs shall notify the Bank (i.e. the Director of Consumer and Market Conduct Department) at least **two working days** prior to the date on which the revision comes into effect. Any proposed revision to the level of the BR and BLR due to factors other than a change in the OPR must be accompanied by the reasons for the revision together with the information set out in Appendix 2. The advance notification to existing borrowers on the revised monthly instalment amount as required under paragraph 7.18 shall commence only after the lapse of the two working days' notice to the Bank.

10 Disclosure requirement

- S** 10.1 FSPs shall disclose to both new and existing customers the benchmark cost of funds used to determine the BR and the historical series of the benchmark for the last three years. Disclosures to customers shall include the possible scenarios that could result in a change to the BR. For new customers, FSPs shall disclose the information in the product disclosure sheet as per the format set out in Appendix 3. For existing customers, FSPs shall communicate the information using practical means.
- S** 10.2 FSPs shall also notify all existing customers of any change in the benchmark cost of funds used to determine the BR, including disclosures required in paragraph 10.1, within 7 working days from the date the change takes effect.
- S** 10.3 FSPs shall ensure that the BR and its effective date are prominently displayed at all branches and websites. Apart from disclosing the BR, FSPs shall continue to display their BLRs at all branches and websites until the maturity of all retail loans/financing facilities priced against the BLR. FSPs shall make publicly available the information in paragraph 10.1 at their websites.
- S** 10.4 FSPs shall display changes to the BR and BLR at the FSP's branches and website no later than the date in which the revision comes into effect.
- S** 10.5 In respect of housing loans/financing priced against the BR, FSPs shall disclose an **indicative effective lending rate** for a standard housing loan/home financing product for the best customer at all branches and websites. A standard housing loan/home financing product refers to a housing loan/home financing product with financing amount of RM350,000 for 30 years and has no lock-in period.

11 Submission of information

- S** 11.1 FSPs shall submit to the Bank the information as specified in the following returns at a regular interval–
- (a) Weekly Interest and Islamic Deposit/Financing Rates (ISS);
 - (b) Monthly Interest and Islamic Deposit/Financing Rates (ISS);
 - (c) Financing Rates on new loans approved during the month (submission to Statistical Services Department); and
 - (d) Monthly Benchmark Cost of Funds used to compute the BR (submission to Statistical Services Department).

Appendix 1 Application for approval of BR methodology change: data submission requirements

Item	Description
Provide 3 years of monthly historical data series (or a shorter timeframe due to data availability) of the following items to justify the change in BR methodology:	
Published BR	The BR as published on the FSP's website and premises since January 2015
Existing BR	The BR as computed using the existing BR methodology
Existing benchmark cost of funds (COF)	Benchmark COF as per the existing BR methodology
New BR	The computed BR as per the revised BR methodology <i>[this row should be formularised]</i>
New benchmark COF	Provide details on computation of the new benchmark COF <i>[this row should be formularised]</i>
Weights for individual components	Specify computation method for weights and provide all data series required under "computation details for weights" <i>[all calculations should be formularised]</i>
Individual component 1	
Individual component 2	
.....	
Computation details for weights	
Individual component 1	
Individual component 2	
.....	
Marginal interest rates for individual components	Specify computation method for marginal rates and where relevant provide all data series required under "computation details for marginal rates" <i>[all calculations should be formularised]</i>
Individual component 1	
Individual component 2	
.....	
Computation details for marginal rates	
Individual component 1	
Individual component 2	

Item	Description
.....	
SRR Component	Indicate the computation of SRR compliance cost <i>[this row should be formularised]</i>
Further adjustments to new BR	Provide details of any rounding or other adjustments to the BR
Upper Trigger	State conditions of the trigger for review
Lower Trigger	State conditions of the trigger for review

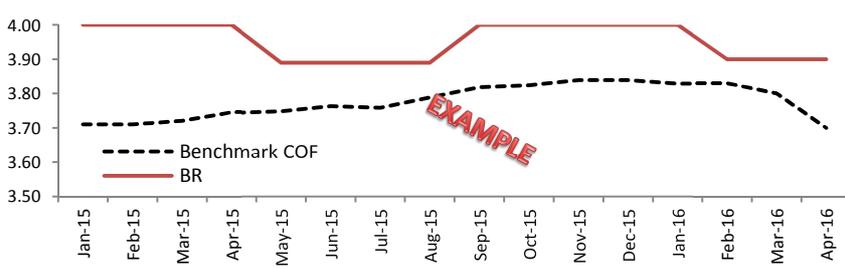
Note: FSPs are strongly encouraged to use the Excel template provided.

Appendix 2 Notification of BR revision: data submission requirements

Item	Description	
	Previous	New
Published BR		
Published BLR		
Indicative effective lending rate for a standard housing loan		
Fixed deposit rates at various tenures		
Saving rates for various accounts		
Provide monthly historical data series of the following items:		
Existing BR	The BR as computed internally using the existing BR methodology <i>[this row should be formularised]</i>	
Existing benchmark COF	Benchmark COF computed using the existing BR methodology <i>[this row should be formularised]</i>	
Marginal interest rates on individual components of benchmark COF		

Note: FSPs are strongly encouraged to use the Excel template provided.

Appendix 3 Sample Product Disclosure Sheet for housing loan/home financing

<p>PRODUCT DISCLOSURE SHEET</p> <p>(Read this Product Disclosure Sheet before you decide to take out the <Name of Product>. Be sure to also read the terms in the letter of offer. Seek clarification from your institution if you do not understand any part of this document or the general terms)</p>	<p><Name of Financial Service Provider></p> <p><Name of Product></p> <p><Date></p>																																																			
<p>1. What is this product about?</p>																																																				
<p>This housing loan/home financing is calculated on a variable rate basis and you are offering your house as a security for this financing.</p>																																																				
<p>2. What do I get from this product?</p>																																																				
<ul style="list-style-type: none"> Total amount borrowed: RM [x] ([z]% of house price) Tenure: [20] years 	<ul style="list-style-type: none"> Base rate: [b]% Effective lending rate: [b]% + [s]% 																																																			
<p>3. What is the base rate (BR)?</p>																																																				
<p>The BR we offer on this product is made up of two parts, our benchmark cost of funds (COF) and the Statutory Reserve Requirement (SRR) cost imposed by Bank Negara Malaysia. Our benchmark COF reflects the cost of raising new funds and is based on [x].</p>																																																				
<p>4. What are possible scenarios to trigger a change in the BR?</p>																																																				
<p>Our BR can rise or fall due to changes in the benchmark COF and changes in the SRR. Changes in the benchmark COF could occur due to changes in the Overnight Policy Rate (OPR) as decided by the Monetary Policy Committee of Bank Negara Malaysia, as well as other factors such as [x, y...].</p>																																																				
<p>5. Historical benchmark COF in the last [x] years</p>																																																				
<p><i>[Display a chart that shows the time-series of published BR and benchmark COF]</i></p>  <table border="1"> <caption>Estimated data from the chart</caption> <thead> <tr> <th>Month</th> <th>Benchmark COF (%)</th> <th>BR (%)</th> </tr> </thead> <tbody> <tr><td>Jan-15</td><td>3.72</td><td>4.00</td></tr> <tr><td>Feb-15</td><td>3.73</td><td>4.00</td></tr> <tr><td>Mar-15</td><td>3.74</td><td>4.00</td></tr> <tr><td>Apr-15</td><td>3.75</td><td>4.00</td></tr> <tr><td>May-15</td><td>3.76</td><td>3.90</td></tr> <tr><td>Jun-15</td><td>3.77</td><td>3.90</td></tr> <tr><td>Jul-15</td><td>3.78</td><td>3.90</td></tr> <tr><td>Aug-15</td><td>3.79</td><td>3.90</td></tr> <tr><td>Sep-15</td><td>3.80</td><td>4.00</td></tr> <tr><td>Oct-15</td><td>3.81</td><td>4.00</td></tr> <tr><td>Nov-15</td><td>3.82</td><td>4.00</td></tr> <tr><td>Dec-15</td><td>3.83</td><td>4.00</td></tr> <tr><td>Jan-16</td><td>3.83</td><td>4.00</td></tr> <tr><td>Feb-16</td><td>3.82</td><td>3.90</td></tr> <tr><td>Mar-16</td><td>3.81</td><td>3.90</td></tr> <tr><td>Apr-16</td><td>3.70</td><td>3.90</td></tr> </tbody> </table>		Month	Benchmark COF (%)	BR (%)	Jan-15	3.72	4.00	Feb-15	3.73	4.00	Mar-15	3.74	4.00	Apr-15	3.75	4.00	May-15	3.76	3.90	Jun-15	3.77	3.90	Jul-15	3.78	3.90	Aug-15	3.79	3.90	Sep-15	3.80	4.00	Oct-15	3.81	4.00	Nov-15	3.82	4.00	Dec-15	3.83	4.00	Jan-16	3.83	4.00	Feb-16	3.82	3.90	Mar-16	3.81	3.90	Apr-16	3.70	3.90
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6. What are my obligations?

- Your monthly instalment is RM [x]
- Total repayment amount at the end of [20] years is RM [x]

Important: Your monthly instalment and total repayment amount will vary if the BR changes.

Rate	Today (BR=b%)	If BR goes up [x]%	If BR goes up [y]%
Monthly instalment	RM [z]		
Total interest cost at the end of 20 years	RM [z]		
Total repayment amount at the end of 20 years	RM [z]		

- *State whether the borrower has to service interest/profit during construction period for a property under construction. Explain how the interest/profit is calculated.*

7. What other charges do I have to pay?**a) Stamp Duties**

As per the Stamp Act 1949 (Revised 1989)

b) Disbursement Fee

Include fees for registration of charge and other related charges

c) Processing Fees

One-time fee charged for approved financing	Rate (RM)	Range (RM)
	50	Up to 30,000
	100	30,001 - 100,000
	200	100,000 and above

8. What if I fail to fulfil my obligations?

- Late payment charges of 1% p.a. on the amount in arrears, causing the total outstanding to increase.
- If you fail to pay 3 monthly instalments consecutively, we may increase the financing rate.
- We may set-off any credit balance in account maintained with us against any outstanding balance in this financing account.
- Legal action will be taken if you fail to respond to reminder notices. Your property may be foreclosed and you will have to bear all costs. You are also responsible to settle any shortfall after your property is sold.
- Legal action against you may affect your credit rating leading to credit being more difficult or expensive to you.

To highlight other key terms and conditions.

<p>9. What if I fully settle the loan during the lock-in period?</p> <ul style="list-style-type: none"> • Lock-in period: [x] years (to start from [x]). • Early termination fee: [y]% of outstanding amount or original financing amount.
<p>10. Do I need any insurance/takaful coverage?</p> <ul style="list-style-type: none"> • Indicate if mortgage reducing term assurance (MRTA) / mortgage reducing term takaful (MRTT) is required. • Indicate if other insurance coverage is required.
<p>11. What do I need to do if there are changes to my contact details?</p> <p>It is important that you inform us of any change in your contact details to ensure that all correspondences reach you in a timely manner.</p>
<p>12. Where can I get assistance and redress?</p> <ul style="list-style-type: none"> • If you have difficulties in making repayments, you should contact us earliest possible to discuss repayment alternatives. You may contact us at: <ul style="list-style-type: none"> ABC Bank Berhad Tel: Fax: E-mail: • Alternatively, you may seek the services of Agensi Kaunseling dan Pengurusan Kredit (AKPK), an agency established by Bank Negara Malaysia to provide free services on money management, credit counselling and debt restructuring for individuals. You can contact AKPK at: <ul style="list-style-type: none"> Tingkat 8, Maju Junction Mall 1001, Jalan Sultan Ismail 50250 Kuala Lumpur Tel : 1-800-88-2575 E-mail : enquiry@akpk.org.my • If you wish to complain on the products or services provided by us, you may contact us at: <ul style="list-style-type: none"> ABC Bank Berhad 51, Jalan Sultan Ismail 50122 Kuala Lumpur Tel: Fax: E-mail: • If your query or complaint is not satisfactorily resolved by us, you may contact Bank Negara Malaysia LINK or TELELINK at: <ul style="list-style-type: none"> Block D, Bank Negara Malaysia Jalan Dato' Onn 50480 Kuala Lumpur. Tel : 1-300-88-5465 Fax : 03-21741515 E-mail : bnmtelelink@bnm.gov.my

13. Where can I get further information?

Should you require additional information about taking a housing loan, please refer to the *bankinginfo* booklet on 'Housing Loans', available at all our branches and the www.bankinginfo.com.my website.

14. Other housing loan/home financing packages available

- Abc
- Xyz

IMPORTANT NOTE: YOUR HOUSE MAY BE FORECLOSED IF YOU DO NOT KEEP UP REPAYMENTS/PAYMENTS ON YOUR HOME FINANCING.

The information provided in this disclosure sheet is valid as at dd/mm/yy or until dd/mm/yy.