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PART A OVERVIEW

1. OBJECTIVE

- 1.1 The policy aims to contribute towards greater efficiency in the operations of the financial markets and hence facilitate more effective and efficient pricing of financial products. The proliferation of structured and customised products has called for differentiated pricing and as such, it is no longer feasible to prescribe standard pricing mechanism across the entire spectrum of banking and financial products.
- 1.2 This policy forms part of the new interest rate framework introduced by Bank Negara Malaysia that also involves a change in the system of implementing monetary policy.

2. SCOPE

The Guideline covers the following:

- 2.1 Regulations on reference rates, lending rates and deposit rates of banking institutions.
- 2.2 Requirements on fixed deposit and basic savings accounts.
- 2.3 Requirements on notification of rate revision and submission of information.
- 2.4 Requirements on transparency and disclosure.

3. APPLICABILITY

- 3.1 The Guideline is applicable to commercial banks and finance companies (banking institutions) licensed under the Banking and Financial Institutions Act 1989 (BAFIA).

4. LEGAL PROVISION

- 4.1 The Guideline is issued pursuant to Section 126 of the BAFIA.

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PART B POLICY REQUIREMENTS

5. REFERENCE RATES AND LENDING RATES

- 5.1. Since 26 April 2004, banking institutions are allowed to determine their own lending rates on all credit facilities and loan products based on internal considerations except for those specified in paragraph 5.4. While Base Lending Rate (BLR) will remain as the primary reference rate used in the pricing of credit facilities and loan products, banking institutions also have the flexibility to determine the choice of reference rates, other than BLR, in accordance with their business strategy, portfolio management and market competitiveness.
- 5.2 In this regard, banking institutions are required to observe the followings:
- Reference rates used must reflect the cost structure and business strategies of the individual banking institution; and
 - Reference rates are clearly displayed and disclosed to borrowers and customers.
- 5.3 Banking institutions must ensure that the lending rates charged are reasonable, reflective of the risks assumed and not excessive. Any revision to the spread above the reference rate during the duration of the credit facility must only be made to reflect changes in risk profile or the creditworthiness of the borrower. Banking institutions are not permitted to adjust the spread upwards to compensate for rising cost of funds, inefficiencies in funding management or increase in non-performing loans.
- 5.4 Pricing for the following credit facilities is excluded from the scope of this Guideline:
- Credit cards which are subject to the maximum lending rate of 18% per annum as stipulated in the “Credit Card Guidelines”; and
 - Loan and financing activities where the lending rates are governed by legislation or prescribed by Bank Negara Malaysia:
 - Hire-purchase activities - Maximum term charges of 10% per annum as prescribed by the Hire-purchase Act 1967.

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- Special funds established by Bank Negara Malaysia for various purposes and target groups - Maximum financing rate ranging between 3.75% and 6% per annum.
- Mortgage financing for low income group as stipulated in the “Guidelines on Lending to Priority Sectors” – Maximum lending margin (credit spread) of 1.75% percentage points above the declared BLR for housing loans which fulfil the eligibility criteria as prescribed in the Guidelines.

6. DEPOSIT RATES

Banking institutions are free to determine the rates payable on deposits accepted based on their funding requirements and strategies, except as stipulated below:

6.1 Savings Deposit Account

- 6.1.1 With effect from 1 February 2005, each banking institution must offer a basic savings account, which should earn interest.
- 6.1.2 Deposit rates payable on children accounts under the Savings Campaign introduced on 15 April 1997 with balances of up to RM50,000 shall not be lower than the 1-month fixed deposit rate of the respective banking institutions.

6.2 Fixed Deposit Account

- 6.2.1 The rates payable on fixed deposits with tenures of between 1 and 12 months (inclusive) for balances not exceeding RM1 million (known as Board rates) shall be subject to the minimum rates as stipulated by Bank Negara Malaysia from time to time. The minimum fixed deposit rates are prescribed to ensure that depositors have a positive real rate of return. The threshold is based on per depositor per institution basis.
- 6.2.2. With effect from 24 March 2005, the Board rates are only applicable to fixed deposits placed by resident individuals, small and medium

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enterprises¹ (SMEs) and other depositors (please refer to Appendix 1 for definition of categories of depositors). Fixed deposit rates placed by corporations, business enterprises, and non residents may be negotiated between the banking institution and depositor.

6.2.3 The minimum rates for 1-month and 12-month fixed deposits are currently set at 3.00% per annum and 3.70% per annum respectively.

6.3 Housing Development Account

6.3.1 Effective 15 May 1999, the rate payable on Housing Development Accounts is computed on the daily balance and is set at:

1-month fixed deposit account rate – 1%

7. NOTIFICATION REQUIREMENT

7.1 Introduction of New Reference Rate other than BLR

7.1.1 Banking institutions are required to notify Bank Negara Malaysia prior to the introduction of a new reference rate other than the BLR and cost-plus. In the notification to Bank Negara Malaysia, banking institutions are required to submit methodology used in determining the reference rate. The notification shall reach the Financial Conglomerates Supervision Department (if the banking institution is part of a domestic banking group) or the Banking Supervision Department (for Islamic bank, locally-incorporated commercial bank or other banking institution not part of a domestic banking group) at least **seven working days** prior to the introduction of the new reference rate.

7.2 Revision to the Reference Rates

7.2.1 Banking institutions are required to notify Bank Negara Malaysia on any revisions to the reference rates. Notification of the changes shall reach the

¹ Please refer to the standard definition for SME as approved by the national SME Development Council.

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Financial Conglomerates Supervision Department or the Banking Supervision Department at least **seven working days** prior to the effective date of the revision. Any proposed revision must be supported by quantitative and/or qualitative justifications.

7.2.2 For revision to the reference rates that is made in response to a change in the Bank Negara Malaysia Overnight Policy Rate (OPR), banking institutions are required to notify the Financial Conglomerates Supervision Department or the Banking Supervision Department **two working days** prior to the effective date of the revision. Such notification can be submitted, at the earliest the day following the announcement date of the revised OPR. For example, if the revised OPR is announced and effective on T+0, the effective date for the revised rate can be no earlier than T+3 (provided that T+1 and T+2 are working days).

7.3 **Revision to Rates Payable on Basic Savings Accounts**

7.3.1 Banking institutions are required to consult the Financial Conglomerates Supervision Department or the Banking Supervision Department at least **seven working days** prior to any proposed revision to the rate payable on basic savings account. The requirement is shortened to two working days for proposed revision that is made in response to a change in the Bank Negara Malaysia OPR.

8. REQUIREMENTS ON TRANSPARENCY AND DISCLOSURE

- 8.1 To ensure consumers are able to make informed financial decisions and treated fairly in their credit facility arrangements, banking institutions are required to ensure that reference rates and deposit rates, including the effective dates of these rates, are prominently displayed in their banking halls and websites.
- 8.2 Banking institutions are also required to publish changes to the reference rates (other than cost plus) in the major newspapers **no later** than the effective date of the revision.
- 8.3 Customers must be well-informed of the availability and different loan packages, types of reference rates and differences in the reference rates used for the different loan packages and appropriately advised on the loan package that best

suit their needs and repayment capacity. Banking institutions are required to disclose the effective lending rate and total repayment for the different loan packages to facilitate comparison and decision-making by borrowers.

Illustration:

Assume a housing loan of RM100,000 with repayment period of 20 years. The housing loan packages are priced using Mortgage Base rate (reference rate) and BLR.

Disclosure requirement

Housing Loan Package	Lending rate	
	Priced at Mortgage base rate	Priced at BLR
Year 1	4.00% (Mortgage rate)	2.5%
Year 2	5.00% (Mortgage rate+1%)	7.15% (BLR+0.4%)
Year 3 and thereafter	6.00% (Mortgage rate+2%)	7.65% (BLR+0.9%)
Total repayment	RM168,344.74	RM188,310.33

Note: Mortgage at 4.00% p.a. was with effect from dd/mm/yy
BLR at 6.75% p.a. was with effect from dd/mm/yy

The mortgage rate and BLR as subject to change from time to time

- 8.4 Customers must be informed at loan origination of how changes in interest rate could affect the installment amount and/or repayment period of the said loan.
- 8.5 Banking institutions must clearly provide the option for existing customers to switch to new loan that is priced using a reference rate other than BLR when the product are introduced. Such option must be made available at minimal cost. The information on the impact, terms and conditions, cost of switching to other loan packages, details of switching cost and other relevant cost must be disclosed clearly in a manner that will be easily understood.

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9. REPORTING REQUIREMENT

9.1 Requirements on submission of information

9.1.1 Banking institutions are required to submit to Bank Negara Malaysia the information as specified in the following returns at a **regular interval**:

- Special Purpose Item 1A and 1B (FISS).
- Lending Rates on New Loans Approved During the Month (submission to Financial Surveillance Department, Appendix 2).

PART C PREVIOUS POLICY

10. With the issuance of the guideline, **the previous policy relating to BLR and lending rates as stated below is no longer in effect:**

10.1 Computation of ceiling BLR

Effective date	Commercial Banks	Finance Companies
1 September 1998	$\frac{\text{Intervention rate}^2}{1-\text{SRR}^4} \times 0.8^3 + 2.25\%$	$\frac{\text{Intervention rate} + 2.25\%}{1-\text{SRR}}$

10.1.1 Quoted BLR cannot be higher than the prevailing computed BLR and must be in multiple of 0.05%.

10.2 Lending rates

10.2.1 Banking institutions are not allowed to lend at a rate below their quoted BLR except where the lending rates are:

- governed by law;
- prescribed or approved by Bank Negara Malaysia;
- determined on cost-plus basis; or
- charged at a rate below BLR for purposes of facilitating the rehabilitation or recovery of loans.

10.2.2 Cost-plus pricing must be pegged to KLIBOR and is applicable only for revolving credit facilities.

10.2.3 The spread above the BLR is capped at 2.5 percentage points.

² Refers to the Bank Negara Malaysia official 3-months intervention rate prevailing at any point in time.

³ Refers to reduction in the commercial banks overall funding cost due to the zero-interest current account balances.

⁴ Refers to statutory reserve requirement prevailing at any point in time.

PART D APPENDICES

Appendix 1

Definition of Categories of Depositors

Categories of depositors	Definition
Corporations / Business Enterprises (excluding SMEs)	<p>Any person who has a physical presence (for example, shop, office, factory, etc) and is principally engaged in a business activity on a commercial basis, in Malaysia. The enterprise may be established in the form of a sole proprietorship, partnership, company incorporated under the Companies Act 1965, or corporation constituted by Federal or State law.</p> <p>Include business enterprises which are engaged in financial business, that is those falling within the financial institution classes (commercial banks, Islamic banks, merchant banks / investment banks, Cagamas Berhad and other non-bank financial institutions)</p>
Non-residents	Entities and individuals not classifiable as residents of Malaysia.
Individuals	Individuals who are citizens (excluding those who are non-residents) or permanent residents of Malaysia. Exclude sole proprietorships which are classifiable under business enterprises. Include joint accounts of two or more individuals as long as the joint accounts are conducted for non-business activities.
Others	<p>Government and other entities.</p> <p>Government: Federal Government of Malaysia, State Governments, Local Governments and Statutory Authorities. Exclude those established to carry on financial business and undertake business activities of a commercial nature.</p> <p>Other entities: Any other entities which are not classifiable as corporations or business enterprises, individuals and Government. Include non-profit organizations, religious and charitable organizations, political and non-political societies, private clubs and trade unions.</p>