Frequently Asked Questions on Base Rate

1. **What is Base Rate?**

   The Base Rate acts as a minimum interest rate of a Bank, below which it cannot lend except DRI Advances, Loans to Bank's own employees and loan to banks' depositors against their own deposit. Base Rate would be applicable to all loans and advances disbursed on or after July 01, 2010.

2. **Why has the Base Rate been introduced?**

   The Base Rate system has been introduced to replace the Benchmark Prime Lending Rate (BPLR) system, which is the present methodology followed by Banks for the floating rate of interest on loans. The introduction of the Base Rate is expected to make pricing more transparent, as banks are required to review the base rate quarterly, are not permitted to lend below the base rate and also disclose the Base Rate publicly.

3. **Will all banks have one single/common Base Rate?**

   No. All banks will not have one single / common Base Rate. Individual Banks will be able to determine any benchmark to arrive at the Base Rate for a specific tenor, as considered appropriate.

4. **How will a Bank decide its Base Rate?**

   The Base Rate will include those components of lending rates that are common across all categories of borrowers. Banks will determine their actual lending rates on loans and advances (loan interest rates applicable to customers) with reference to the Base Rate and by including other specific charges, as considered appropriate. Base Rate would be applicable to all loans and advances disbursed on or after July 01, 2010.

5. **Will different tenor of loans have different Base rates?**

   No. Different loan tenures will not have different Base Rates. Each bank will have one single Base Rate.

6. **Do all Banks have to follow the Base Rate methodology?**

   Yes. Effective 1st July 2010, when Banks introduce the Base Rate system, Base Rate would be applicable to all loans and advances disbursed.

7. **Will the Base Rate system be applicable to all loans having a floating rate of interest?**

   The Base Rate would serve as a reference benchmark rate for floating rate loan products. Existing loans will continue until maturity, according to the same interest rate methodology at which they were approved. Existing borrowers have the option of approaching the Bank to switch to the Base Rate system before the expiry of their loans. In such cases, these loans will be converted to the Base Rate system.

8. **How often will the Base Rate change? Will all Banks change their Base Rates at the same frequency?**

   Banks are required to review the Base Rate at least once every quarter. However the change in the Base Rate will be subject to each Bank's review of the factors influencing the Base Rate. Banks are also required to display the information on Base Rate at branches and on their websites.

9. **How will the change in Base Rate impact the floating rate of interest of the loan?**

   Any change in Base Rate will impact the floating rate of interest of loans that are referenced to the Base Rate e.g. If the floating rate of interest of the loan is 9% (Base Rate =7% + margin = 2%) and the Base Rate rises to 7.5%, the floating rate of interest of the loan will increase to 9.5% (Base Rate = 7.5% + margin = 2%) Similarly, a downward movement in the Base Rate will lead to a corresponding decline in the floating rate of interest of the loan.

10. **If a customer wishes to transfer his existing loan from another bank to HSBC, does he have the option to continue at the earlier interest rate methodology?**

    No. The Base Rate methodology will be applicable to the loan transfer from another Bank to HSBC, as for HSBC, this will be a new loan. The floating interest rate of the new loan will be referenced to the Base Rate.

11. **How can a customer know HSBC's Base Rate? Will the Base Rate changes be communicated to the customers?**

    Information on HSBC's Base Rate will be displayed on the website and at all its branches. Additionally, any changes in the Base Rate that impact the borrower's floating rate of interest will be communicated to those customers by email, on their email addresses recorded with the bank, or vide a letter.

12. **For how long can a customer continue with the original interest rate methodology at which he has taken the loan?**

    The customer can continue with the original interest rate methodology of the loan until its maturity. However a customer will also have the option to switch to the Base Rate methodology in the interim if he wishes to do so. In such cases, the customer will need to approach the bank with the request.

13. **What should a customer do if he is interested in switching his existing loan to the Base Rate methodology? What will it entail?**

    A customer can approach HSBC through branches, Contact Centre, Relationship Manager, email at info@hsbc.co.in or through Internet Banking if he is interested in changing the interest methodology of his existing loan to Base Rate.

    Each case will be considered individually and the change in interest rate will be advised accordingly. The switch to Base Rate methodology will entail the completion of additional documentation by the borrowers. Subject to the submission of complete documentation, the interest rate change will be applicable within 7 working days of submitting the request. The change will be effective from the date of confirmation sent by the Bank. The switch over to Base Rate methodology will not involve the levy of service fees or charges.

14. **Due to the Base Rate change, what will be impacted, the EMI or the tenure of my existing loan?**

    Customer would be informed on any impact on EMI or tenure of the loan.

15. **If a customer has switched to the Base Rate methodology, can he revert back to the earlier interest rate methodology? (i.e. at BPLR)**

    No., once an existing loan account holder has switched to the Base Rate, it will not be possible to revert to the earlier methodology of BPLR referenced interest rate.

16. **An existing loan is based on the old interest rate methodology (BPLR) and the same customer needs a top up loan. Will the interest rate of the top up loan be referenced to Base Rate? Does he have to change the interest rate of his existing loan to the Base Rate methodology as well?**

    Yes, the interest rate for the Top Up loan will be referenced to the Base Rate, in line with practice for other new loans. However, for the existing loan, the customer will have the option of retaining the original methodology or switching to the Base Rate methodology.

HSBC