



## Know Your Borrowing Rates Before Taking Up a Loan!

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### 1. How are financing rates quoted in Brunei?

- 1.1. Generally banks in Brunei offer a floating lending rate which tends to be fixed in nature.
- 1.2. A floating rate is one which is not fixed, and is usually pegged to an index rate. The term “index rate” is often used interchangeably with reference rate, base rate or base lending rate (BLR), e.g. Base + 1.5%, and “floats” according to the movements in the index rate.
- 1.3. Fixed-rate financing means the interest rate on your loan does not change over the life of your loan. With a fixed rate, repayment for each month and the total payment over the life of a loan will be certain. A borrower might prefer fixed rates if they are looking for a loan payment that won't fluctuate.
- 1.4. Banks are also required by the Autoriti Monetari Brunei Darussalam (AMBD) to quote the Effective Interest Rate (the actual interest rate charged taking into account the compounding of interest and tenor of the loan) for the concerned credit facility to their customers, regardless of the loan computation, so that customers may compare rates on a like-for-like basis.

### 2. Who sets the index rate?

- 2.1. Previously, the index rate was set by the BAB (Brunei Association of Banks) which was called as Prime Lending Rate (PLR). Since 2005, banks are required to set their own index rate.
- 2.2. Currently, banks refer to this index rate as Base Lending Rate (BLR), Base Rate, Reference Rate and by some banks as Prime Lending Rate (which differs from Prime Rate). They are all essentially referring to the same index rate.

### 3. How do Banks derive their index rate?

- 3.1. In general, index rates are determined by banks based on their individual cost of funds, plus a spread to cover default risks, operating expenses for staff, systems and premises, and the payment of dividend on shareholders' funds.
- 3.2. To avoid volatility to existing borrowers, banks will try to ensure a stable index rate. This stability serves to ease borrower's monthly repayment.

- 3.3. Nonetheless, as the local financial system develops and the interconnectedness of the global financial markets continues to grow, banks in Brunei Darussalam are expected to continuously review rates to ensure the market place remains competitive.

#### **4. What is Prime Rate?**

- 4.1. Prime Rate (PR) is an indicative interest rate at which banks lend to their best (prime) customers i.e. to the lowest risk borrowers in the private sector (which includes businesses and households).
- 4.2. Confusion may arise when a bank still uses the term PLR as its individual index rate, and in some cases in Brunei, where a bank's most creditworthy customers have borrowed at rates below this index rate termed PLR. In this regard, customers are advised to seek information from their bank on the concerned index rate, the best rate for its lowest risk customers (Prime Rate) and the EIR for the proposed loan.

#### **5) What is AMBD's role with interest rates?**

- 5.1. AMBD plays an important role to ensure that interest rates are at a reasonable level in relation to economic conditions from time to time while maintaining a desirable level of economic activity. AMBD also ensures that interest rates are made transparent across the financial sector by the use of the EIR to increase competitiveness among market players.
- 5.2. There are currently 8 banking institutions including Perbadanan Taib which offers a variety of loan/financing products. Therefore, customers are encouraged to shop around for the best deal before undertaking the required banking products & services.

#### **Note:**

The terminologies referred to in this article such as "loan" and "interest rates" generally mean "financing" and "profit rates" respectively for Islamic banks and Perbadanan TAIB.

**Autoriti Monetari Brunei Darussalam**

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