


<p>कार्पोरेशन बैंक (सार्वजनिक क्षेत्र का अग्रणी बैंक) प्रधान कार्यालय, डा पे सं. 88 मंगलूर - 575 001</p>	 e-CIRCULAR	<p>Corporation Bank (A Premier Public Sector Bank) Head Office, PB No.88, Mangalore – 575 001</p>
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HO Circular No. 630/2013	Index No. 52.00/56/2013	21-October-2013

TO ALL THE BRANCHES / OFFICES

**Subject : CLARIFICATIONS ON CONVERSION OF CORP SCHEME LOANS
FROM COBAR LINKED INTEREST RATE TO BASE RATE LINKED
INTEREST RATE**

HIGHLIGHTS

The borrowers may exercise option for migrating their loan account from COBAR linked interest rate to Base Rate linked interest rate.

However, on conversion/migration, the interest rate being charged under COBAR linked rate will not undergo change except linking the same to Base Rate.

- 1.0 A reference may be made to HO.Circular 533/2010 [Index No. 11.01/3/2010] dt. 01.07.2010 wherein introduction of Base Rate system and other operational guidelines have been communicated which are equally applicable to loans under various Corp Schemes.
- 2.0 The Base Rate system was introduced from 01.07.2010 and applicable for all category of loans except for DRI loans, loans to Staff members and loan against Bank's own deposits, sanctioned/renewed on or after 01.07.2010.
- 3.0 The existing loans availed under COBAR regime upto 30.06.2010 are governed by the following guidelines:
 - 3.1 Running accounts are subject to review/renewal every year. The running accounts initially disbursed under COBAR regime and renewed after 01.07.2010 will attract the applicable Base Rate linked interest rate from the date of such annual renewal.
 - 3.2 Term/Demand loans are subject to annual review only. As such these loans continue to be charged at applicable COBAR linked interest rate only.

- 3.3 However, Term/Demand loan borrowers enjoying loans under COBAR linked interest rate may exercise their option in the prescribed format as given in HO.Circular 546/2010 dt. 07.07.2010, for conversion of loan from COBAR linked interest rate to applicable Base Rate linked interest rate without payment of any conversion charges.
- 4.0 We have been receiving a number of queries seeking clarification on the rate of interest to be charged on migration , under the Base Rate system. In this regard the following clarifications are issued:
- 4.1 When the borrower opts for linking his loan from COBAR to Base Rate, rate of interest presently being charged to the account under COBAR regime **will not undergo change on conversion.**

However, rate of interest will be linked to the Base Rate keeping the load factor constant and thereafter, rate of interest will undergo change in line with the revision in the Base Rate.

For example: As on 01.05.2013, applicable COBAR linked interest rate is **12%** [as per HO Cir 556/2011 w.e.f 01.08.2011]for housing loan of Rs.30 lakhs with repayment tenor of above 5 years & upto 15 years , availed under Corp Home Scheme, on or before 02.02.2009.

However, as on 01.10.2013, Base Rate linked interest rate is **10.25%** for new housing loan of Rs.30 lakhs for any tenor, initially disbursed on or after 01.10.2013.

In the above case, if the existing housing loan borrower intends to switch over to Base Rate linked interest rate, he will not be eligible for ROI at **10.25 %** as it is applicable for fresh housing loans only [i.e prevailing interest rate linked to the Base Rate where the Base Rate is **10.25%**]

Instead, interest rate will be linked to the Base Rate and continue to be charged at the existing rate of **12 %** i.e **12% = BR+1.75%** , where **+1.75 %** is the load factor which is constant for the entire tenor of the loan.

Subsequently, If, the Base Rate goes down by **0.25%** from present **10.25%** to **10%**, the above housing loan would be charged at **10%+1.75%=11.75%** [i.e **BR+1.75%** where **1.75%** is the constant load factor]

Any revision in the Base Rate will result in revision of interest in all Base Rate linked loans to the extent of increase/decrease in the Base Rate.

4.2 The effect of conversion from COBAR linked interest rate to the Base Rate linked interest rate for loans under a few Corp Schemes is given in the following table **as example:**

A	In case of Term/ Demand Loans			
Scheme ►	Corp Home	Corp Vehicle	Corp Vidya	Doctor Plus
Initially disbursed on	01.02.2009	05.03.2009	15.12.2007	25.03.2009
Loan Amount	Rs. 30 lakhs	Rs. 10 lakhs	Rs. 5 lakhs	Rs. 15 lakhs
Tenor	15 years	5 years	7 years	7 years
Applicable ROI under COBAR as on 30.06.2010	9.50%	11.25%	12.25%	12.00%
Applicable ROI under COBAR as on 05.10.2013	12.00%	13.25%	14.25%	14.50%
Base Rate as on 05.10.2013	10.25%	10.25%	10.25%	10.25%
Applicable ROI under Base Rate as on 05.10.2013 for new loans	BR=10.25%	10.65% = BR+0.40%	12.85%= BR+2.60%	11.75%= BR+1.50%
Date of conversion	05.10.2013	05.10.2013	05.10.2013	05.10.2013
Applicable ROI linked to Base Rate after conversion for the loan under reference #	12.00% = BR+1.75%	13.25%= BR+3.00%	14.25%= BR+4.00%	14.50%= BR+4.25%

It may be observed that the existing COBAR linked interest rate will continue to remain the same as Base Rate linked interest rate with fixed load factor, from the date of conversion [i.e 05.10.2013]

B	In case of Running Accounts	CVPOD
Loan limit initially disbursed on		08.11.2009
Loan Amount		Rs.10 lakhs
Applicable ROI under COBAR as on date of renewal -08.11.2010		12.50% #
Applicable ROI under Base Rate as on date of renewal -08.11.2010		13.00% #
Applicable ROI under Base Rate [8.25%]from the date of renewal		13% =BR+4.75%
Applicable ROI under Base Rate [10.65%]from the date of next renewal on 08.11.2011		14.75%= BR+4.10%
Applicable ROI under Base Rate [10.50%]from the date of next renewal on 08.11.2012		12.25%= BR+1.75%

It may be observed that in case of running limits at the time of annual renewal, the loan account is automatically migrated from COBAR linked interest rate to Base Rate linked interest rate as it amounts to fresh sanction on every renewal.

- 4.3 In case of running accounts, since renewal of account every year amounts to fresh sanction, fresh CSI shall be issued incorporating revised interest rate as applicable on the date of such renewal. Further, such interest rate will be subject to revision from time to time in line with the revision in the Base Rate.

Processing Charges as applicable on the date of renewal also need to be collected.

- 5.0 If any of the Branches have effected conversion/migration of rate of interest of existing term/demand/running accounts in contravention of the above guidelines, in such cases, applicable interest shall be arrived at based on the above clarifications and seepage, if any, shall be recovered immediately.

- 6.0 In case of the existing housing loans availed under Corp Home Delight [CHOMD] and Corp Home Smart [SHSMT] Schemes, separate conversion scheme has been introduced. Housing loan accounts under these schemes may be converted to Base Rate linked slab rate of interest as per the guidelines communicated through HO.Circular No. 318/2013 dt. 13.06.2013 & HO.Circular No. 606/2013 dt. 07.10.2013.

- 7.0 The Branches/Offices are advised to note the above for strict compliance.



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