

## Introduction of Multiple PNBHFR- Series 2 and Increase in PNBHFR Series 1 and PNBHFR Series 0

---

<b>Standard Operating Procedure Name:</b>	<b>Multiple PNB Housing Reference Rate- Series 2</b>		
<b>Version:</b>	<b>1.0.3</b>	<b>Effective From:</b>	<b>March 06, 2019</b>
<b>Prepared By:</b>	<b>Anubha Tiwari – Process &amp; Quality Manager (Senior Manager II)</b>		
<b>Recommended By :</b>	<b>Anshul Dalela – National Head- Branch Operations and Customer Service</b> <b>Sumit Chadha - Head – IT</b> <b>Deepika Arora – Chief Manager (Product Team)</b> <b>Rajan Suri – Business Head Retail</b>		
<b>Approved By:</b>	<b>Nitant Desai – GM (Chief Centralized Operations &amp; Technology Officer)</b> <b>Ajay Gupta – ED &amp; Chief Risk Officer</b> <b>Shaji Varghese – ED &amp; Business Head</b> <b>Kapish Jain – Chief Financial Officer</b>		

## TABLE OF CONTENTS

<b>1. Overview .....</b>	<b>3</b>
1.1 Purpose & Scope .....	3
1.2 Intended Audiences .....	3
1.3 Acronyms .....	3
<b>2. Frequently Asked Questions &amp; Answers .....</b>	<b>4 - 24</b>
<b>3. Annexure .....</b>	<b>25</b>

## 1. Overview

### 1.1 Background

Currently the rate of interest applicable on the floating rate loans in the portfolio, are linked to one of the following 3 reference rates:

- Old PNBHFR – applicable on book prior to March 2017
- PNBHFR Series 0 – applicable on book sourced between April 2017 to July 2018
- PNBHFR Series 1 – applicable on book sourced between July 2018 till date

Prevailing market conditions over last 3 quarters of FY19 have led to hike in the abovementioned reference rates. The last increase has happened on 1<sup>st</sup> February 2019 which was applicable on Old PNBHFR and PNBHFR Series 0. Another increase is being proposed in PNBHFR Series 0 and PNBHFR Series 1- the same will be effective April 2019. Since the rate change is effected in the system without any lag, it is imperative that the customers who have availed a floating rate loan recently be given a reasonable breather.

Considering the above, it is proposed that a new PNBHFR series be set up and all new floating rate loans be booked under the new series

### 1.2 Intended Audience

- Branch Operations Team
- Hub Underwriting Team
- Branch, Zonal and CSO Business Team
- Internal Audit Team

### 1.3 Acronyms

Acronym	Description
PNBHFR	PNB Housing Reference Rate
LOS	Loan Origination System
LMS	Loan Management System
SEP	Self Employed Professional (CA, Doctors etc.)
CSM	Customer Service Manager
SENP	Self Employed Non Professional
ALCO	Asset & Liability Committee

## 2. Increase in PNBHFR Series 0 and PNBHFR Series 1

Based on the ALCO decision, below mentioned increase is being effected on the reference rates

	Current rate	Increase	Rate effective 10th March 2019
PNBHFR (HL Salaried/SEP) Series 0	9.25%	0.25%	9.50%
PNBHFR (HL SENP) Series 0	9.30%	0.25%	9.55%
PNBHFR NHL Series 0	9.90%	0.25%	10.15%
PNBHFR CF Series 0	13.33%	0.25%	13.58%
PNBHFR CTL Series 0	10.20%	0.25%	10.45%
PNBHFR (HL Salaried/SEP) Series 1	9.00%	0.25%	9.25%
PNBHFR (HL SENP) Series 1	9.15%	0.25%	9.40%
PNBHFR NHL Series 1	9.75%	0.25%	10.00%
PNBHFR CF Series 1	11.50%	0.25%	11.75%
PNBHFR CTL Series 1	10.50%	0.25%	10.75%

## 3. Introduction of PNBHFR Series 2

As mentioned above the new PNBHFR Series 2 is being introduced for new sourcing and booking effective 6<sup>th</sup> March 2019.

PNBHFR (Series 2)	PNBHFR
PNBHFR (Series 2) HL Salaried	9.00
PNBHFR (Series 2) HL SENP	9.15
PNBHFR (Series 2) NHL	9.75
PNBHFR (Series 2) CF	11.50
PNBHFR (Series 2) CTL	10.50

1. All loans sanctioned on and after 6th March 2019 and sanction undisbursed cases coming for first disbursement on and after 6th March 2019 will be covered under this scheme.
2. Post 6th March 2019 there will be 4 sets of benchmark reference rates
  - Old PNBHFR – applicable on book prior to March 2017
  - PNBHFR Series 0 – applicable on book sourced between April 2017 to July 2018
  - PNBHFR Series 1 – applicable on book sourced between July 2018 to Feb' 2019
  - PNBHFR Series 2 – applicable on book sourced from 6<sup>th</sup> March 2019 onwards

## 4. FAQs

---

**Q 4.1 Why do we need to introduce a new series 2 of Multiple PNBHFR? Does the documentary framework allow having different series running simultaneously?**

**A 4.1** The Terms and conditions mentioned in the loan agreement, GITC and MITC allow creation of as many reference rates as company may deem fit. The introduction of new regime of Multiple PNBHFR Series 2 has been necessitated because of impending increase in the rates of Series 1 which is the prevailing series. As per our product and system framework, any increase in reference rate gets impacted on the loan on an immediate basis. This means that if we continued to source loans on Series 1 then as soon as Series 1 is increased, the rate of even newly acquired loans will go up. This could be detrimental to customer service. Hence a new series – Series 2 is being set up so that all floating rate loans acquired on and after 6th March 2019 will be on the new series and the increase which is being passed on Series 1 and Series 0 will not effect these loans for time being.

**Q 4.2 Will the customers be allowed to switch between various reference rates series?**

**A 4.2 Points to Note**

1. Effective 6<sup>th</sup> March 2019 all new acquisitions will be done on the **Multiple PNBHFR (Series 2)** reference rates rates which are being introduced
2. Existing customers will have the option of converting their loan to the new Reference rates on payment of the conversion charge.
3. Loans running on OLD PNBHFR/PNBHFR Series 0/ PNBHFR Series 1- conversion will be allowed only to the **Multiple PNBHFR Series 2**
4. Existing customers willing to continue on the erstwhile (old) reference rates may continue to do so.

**Q 4.3 What is the frequency of change in rate of interest in new reference rates? How will the reset be executed in system?**

**A 4.3 *The reference rate(s) will be subject to revision on regular basis.***

These rates shall be reviewed on the periodic basis. Any impact on the cost of funds shall be reflected on the reference rates. The review and decision to change the reference rate will be taken by the ALCO (Asset Liability Committee) of the Company.

**On the system:**

- + Reset frequency is defined for all reference rates.
- + In scenario of rate reset in PNBHFR, the change shall be effective from the next repayment date

**Q4.4 How will the effect of new Multiple PNBHFR rates (Series 2) be given to cases lying at various stages in the current system?**

**A 4.4** New PNBHFRs will be introduced effective from 6<sup>th</sup> March 2019.

As of EOD (end of day) of 5<sup>th</sup> March 2019, there will be cases lying at various stages in the system.

Let's understand how the effect of new reference rates would be given to cases lying at various stages. These cases may be lying either in Loan Origination System or in Loan Management System.

a) “Fully Disbursed” cases - All the old cases i.e. book acquired before 6<sup>th</sup> March 2019, which have been linked to the **OLD reference rate** or **PNBHFR Series 0** or PNBHFR Series 1 will continue to be pegged to the old reference rate. Any customer who has requested to migrate to the new interest rate regime will have to follow the rate conversion route (which will involve signing the Supplementary Agreement and paying the conversion charges).

b) “Partly Disbursed” cases - All part-disbursement cases will continue at old reference rates (Old PNBHFR or PNBHFR Series 0 or PNBHFR Series 1 as the case may be) . It will be the choice of customer whether to continue in PNB HFR or switch to new reference rate. In case the customer wants to switch to new reference rate, then he can do so at mutually acceptable terms and conditions i.e. signing the supplementary agreement and paying the conversion fee.

c) New Logins – All cases sourced and logged in LOS on and after 6<sup>th</sup> March 2019 will necessarily be on the new PNBHFR i.e. **Multiple PNBHFR Series 2** only.

d) Cases which are lying at various stages of Loan Origination System at WIP stage and not disbursed before 6<sup>th</sup> March 2019 –

<b>APPRAISAL STAGE</b>	<p>Cases already lying at Appraisal stage but not sanctioned have old reference rates tagged - From 6th March 2019, these customers would automatically be tagged to the new PNBHFR (Multiple PNBHFR Series 2) applicable for the segment/ product to which the case belongs to.</p>	<b>SANCTION LETTER STAGE</b>	<ul style="list-style-type: none"> <li>•Cases already lying at Sanction Letter wherein Sanction letter &amp; Disbursement Letter (i.e. Sticker) gets generated however waiting for disbursement -</li> <li>•From 6th March 2019, these customers too would get the effect of revised reference rates.</li> <li>•Revised sanction letters bearing new PNBHFRs will need to be printed.</li> <li>•Revised Sticker sheets will need to be printed and pasted to replace old set of loan documents (even if already signed).</li> </ul>	<b>DISBURSEMENT MAKER STAGE</b>	<p>Cases which have crossed Sanction letter stage as on 5th March 2019 ,however lying at Disbursement Maker/ Disbursement Checker / Cheque Printing / Cheque Handover stage* -</p> <ul style="list-style-type: none"> <li>•From 6th Mach 2019, old reference rates (Multiple PNBHFR Series 1) would continue in these old cases as customers has signed the contract and agreement on old rates.</li> <li>• If the customer wishes to switch to the new reference rate regime:</li> <li>•Cancel the Disbursement cheque in LOS. The case would come back to the Disbursement Maker stage.</li> <li>•Send the case back to Credit Manager for Re-credit.</li> <li>•The system shall pick the new PNBHFR and Spread at the Appraisal Stage however it is important to note here that the CSM should check the 'discount rate' field in order to adjust the net effective rate.</li> <li>•Re-issue the revised Sanction Letter and Disbursement Letter and disburse the case at new PNBHFR</li> </ul> <p>•* Cheque Handover mean case is disbursed. The scenarios with respect to disbursed cases have been dealt with later in the note</p>
------------------------	--	------------------------------	---	---------------------------------	---

**Q 4.5 What is the process to be followed in case customer, whose loan has not been disbursed, wishes to switch to new reference rate?**

**A 4.5** As explained in Q4.4, a customer's case can be either at "Appraisal stage" or "Sanction Letter stage" as on 5<sup>th</sup> March 2019 and these will automatically be tagged to the new PNBHFR (Multiple PNBHFR Series 2) applicable for the segment/ product to which the case belongs to.

Cases lying at Disbursement Maker/Disbursement Checker/Cheque Printing/Cheque Handover stage will continue to have old reference rates (Multiple PNBHFR Series 1) . In case customer have to be given the benefit of new PNBHFR (Multiple PNBHFR Series 2), there is an option to send the case back at Sanction/Appraisal stage to pass the benefit of new PNBHFR ( Multiple PNBHFR Series 2) to the customer.

**Point to be Noted: Once the benefit of new PNBHFR ( Multiple PNBHFR Series 2) is passed on to the customer whose case is either at Appraisal stage/Sanction Letter Check stage/Disbursement Maker stage/Disbursement Checker stage/Cheque Printing stage/Cheque Handover stage (through re-credit option) there is NO option to convert the loan account to OLD PNBHFR.**

In case customer wishes to switch from old reference rate to new reference rate, then he may contact either Branch CSM or Sales personnel with the revised request.

✚ Case has moved from Disbursement Stage (either at Maker or Checker or Printing stage) but lying at Cheque Handover Stage – The disbursement having old reference rate shall be cancelled, re-credited and re-disbursement will be done to pass new PNBHFR (Series 2)

✚ Case is at Sanction Letter stage and has NOT gone to Disbursement Maker Stage– In this scenario, case will automatically get new PNBHFR on March 06, 2019. CSM should first check the "Sanction Letter" and "Disbursement Letter" date. In case the date is prior to 6<sup>th</sup> March 2019, then revised "Sanction Letter" and "Disbursement Letter" has to be printed and signed by the customer as the contract with revised reference rates is to be created.

In case Branch CSM/Sales Personnel has sent Sanction Letter or Disbursement Letter along with Agreement for customer signature, then it has to be pulled back and revised Sanction Letter and Disbursement Letter has to be printed and sent to customer signature.

**Q4.6 a) What is the process to be followed in case it's a first disbursement and cheque has been printed on or before 5<sup>th</sup> March 2019 but has not been handed over? b) What is to be done if the cheque cannot be cancelled (for r.g to be used for registry)**

**A4.6** If cheque has been printed and not handed over, the case will be linked to the existing i.e PNBHFR Series 1. The reference rate of Series 1 will continue on the loan even after hand over. When the PNBHFR is revised on 10<sup>th</sup> March 2019, the rate will automatically go up.

If however the customer needs to be insulated from the rate hike, the loan will have to be moved to PNBHFR series 2 which means that the cheque and disbursement would need to be cancelled and the case would need to be recredited so as to bring the same to Series 2

b. If there is a situation where there is no possibility of cancellation of printed cheque, the loan will have



to be disbursed on Series 1 only. For very critical cases, please raise an RMS post approval from ZOM.

**Q4.7 When will the increase in rate be effective on loans linked to Series 0 and Series 1?**

**A4.7** As per logic the effect of increased ROI is effective from next repayment cycle date.

- 1. For Advance cases- The EMI payable in April '19 will be that of a higher rate**
- 2. For Arrears cases, the revision of rate will be based in cycle date**

	EMI/ Pre EMI payable March 2019	EMI/ Pre EMI payable April 2019	EMI/ Pre EMI payable May 2019
5th Cycle	Old rate	Old rate	New rate
10th Cycle	Old rate	New rate	New rate
25th Cycle	Old rate	New rate	New rate

**Q4.8 What has prompted the increase in rate?**

**A4.8** Rise in cost of funds across sector:

- NBFCs and housing finance sector have been facing credit challenges on the back of rising cost of funds. The scenario has been observed since second half of this financial year. PNB Housing is not an isolated case but it has been there across financial domain, be it NBFCs or housing finance companies. Ongoing liquidity situation is further stressing the cost of funds.
- The interest rates are linked to benchmark rate PNBHFR and because of increase in funding cost, the benchmark rate itself has been increased. **The pressure on cost is easily visible from the fact that over the last 10 months the fixed deposit rates have been increased by 85 bps (0.85%). The yield on the bench mark 10 year G Sec has also shown a negative variance of 72 bps from October 2018.** Due to this, we have no other option than to pass some of the cost to customers. However, it is only a part of the cost has been passed to customers, while most of it is still being absorbed by the Company to ensure that customers do not feel the pinch.

**Q4.9 Has the cost of funds gone up only for PNB Housing as other(s) have not increased the rates?**

**A4.9** While we may be the first ones to increase rates, others will follow suit very soon as the liquidity situation is putting pressure on the entire sector. We would like to assure our customers that as and when the liquidity situation along with other business parameters relaxes, we will surely look into lowering the interest rates for the benefit of our customers.