After the Reserve Bank of India (RBI) raised its policy repo rate by 25 basis points (bps) to 6.25 per cent on June 6, some public and private sector banks have followed its lead by hiking the Marginal Cost of Funds Based Lending Rate (MCLR), which is the floor rate at which banks lend.

On Thursday, a day after the RBI announced its monetary policy, HDFC Bank raised its MCLR by 10 bps across all maturities. This was followed by Bank of India, a public sector lender, which too made a similar hike to its MCLR on Friday.

HDFC Bank, the largest private sector bank in the country in terms of market capitalization, will from June 7 charge an interest rate of 8.40 per cent for a one-year term, as against 8.10 per cent, which is what State Bank of India will offer customers. And for loans of three years, HDFC Bank has raised the rate of interest to 8.70 per cent, while six-month loans will attract a charge of 8.25 per cent.

Bank of India, on the other hand, has revised MCLR for one-year loans to 8.50 per cent, while the overnight rate is up by 10 bps at 7.90 per cent. Loans maturing in six months will incur an interest rate of 8.45 per cent, as the new rates go into effect from June 10.

Prior to the RBI's monetary policy announcement on Wednesday, SBI was the first to revise its MCLR, which was followed by ICICI Bank, Punjab National Bank, Kotak Mahindra Bank and the Bank of Baroda.

MCLR is calculated on the basis of the marginal cost of funds, tenor premium, operating expenses and the cost of maintaining cash reserve ratio.

MCLR is affected by changes in yields of the 10-year India Govt Bond, which rose from 7.58 per cent to a peak of 7.91 per cent in May. Ever since bond yields turned hard in January, it has had a negative impact on banks as they hold considerable amounts of government bonds or securities and because they rely on the bond market for sources of finance.