Proposed Directive: Disclosure of Interest/ Profit Rate Fees & Charges by Retail Banks & Financing Companies

Industry Comments and Feedback
Volumes 1 & 2 All Retail banks & Financing Companies
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Industry Comments		
General Comments:	**Ref**	**CBB's Response**
A licensee noted that due to the nature of card business, a considerable content of the proposed requirements are not applicable on **the licensee** being a financing company specialized in Cards.	GR1	Credit card business falls within the definition of the "Credit Facilities" in this consultation paper. The consultation paper is very clear in terms of what are the applicable rules to the credit cards.
A licensee noted the following: General Comments: Issues with the Public Disclosure of Base Rate and/or APR: 1. It is strongly believed that publicly disclosing the Base Rate and/or APR (hereinafter referred to as "Pricing") will send wrong or ambiguous signals to the market or the consumers which may eventually hurt the businesses of banks. In their opinion, disclosing the Pricing has some drawbacks which must to be considered by CBB while developing the rule. Consider the following:	GR2	1. Disagree with **the licensee** on the point which states that this consultation will send wrong or ambiguous signals to the market or the consumers which may eventually hurt the businesses of banks. Transparency in pricing is critical in all types of business in order to allow the customer to make informed decision. The purpose of this directive is to ensure that customers are fully informed of the interest/profit rates and other fees charged in respect of all credit facilities which enable the customers to compare the pricing of credit facilities across banks and to choose and take an informed decision. The proposed rules are based on standard practice in many jurisdictions; in fact the standards are

		less stringent than those in many leading jurisdictions.
a) As consumers will start comparing Pricings of various banks, they will automatically get discouraged from entering a bank with a higher pricing even if such bank is willing to negotiate rates or has some special programs. This will deprive banks from their negotiation chances; b) It does not account for "Service Quality". As CBB may appreciate, higher quality standards will cost little higher which impacts Pricings. Choosing a bank with low pricing but also with low Service Quality will eventually hurt customers. It should be noted that many customers are ready to be premiums for Service Quality; c) It does not account for the creditworthiness of the consumers (their existing leverage, credit history, job security … etc). Many banks build their Pricing matrix based on various factors including job-security; government employees, with high job security, usually receive better Pricing and terms. The same is sometimes applicable for employees of business-firms having their accounts with the bank; d) It may intensify the price-war between banks thereby weakening the banking system; e) It ignores collaterals and credit risk mitigations offered by the consumers; f) Consumers may plea "discriminated" if they compare rates they are charged in relation to Pricing; g) It disregards risks embedded in the various financing-vehicles used. For example: a described-Ijara or an Istisna have totally different risk profiles than	GR3 GR4 GR5 GR6	a/b -Regarding **the licensee's** point that the PD of interest rates does not account for "Service Quality". It is up to the customer to decide between the Price versus the quality and this does not affect the requirement of fair and transparent disclosure. c./e Any Public disclosure of interest rates will state that "terms and conditions applies" which make clear that the rate may vary depending on creditworthiness of the customers and other factors that the bank would take into consideration while assessing the customer request. d- This will not weaken the banking system because one of the goals of the new rules is to introduce a more competitive market which will eventually reduce the cost of credit to the customer. f- The banks can justify the difference in its pricing compared to other banks. g- Hence the need to price clearly for

Murabaha and accordingly the Pricing differs; h) It may give a wrong indication to lenders/creditors of banks in respect of Cost of Funds and accordingly it may affect the overall pricing of banks. Having explained the above, publicly disclosing Pricings will not render any real benefits to any of the parties (neither consumers nor banks). Apparently Bahraini consumers have already built good experience in borrowing and do their due diligence prior to engaging with a bank. From experience, we notice that *majority* consumers give considerations to "installment amount" rather than the Pricing. Therefore, looking at Pricings *only* could mean nothing to the consumers. To some extent, the disclosure may conflict with fair marketing practices. As such, internal disclosure of such information to consumers on a one-to-one basis is sufficient. <u>Islamic Sharia Issues:</u> In many ways, the content of the paper is found to be not compatible with Islamic Sharia. Please consider the following: 1. Certain products are fee-based which may not be expressed as APR or Base Rate. Most Islamic credit cards are installment based which, under the proposed rule, will have to be classified as Financing Facilities (based on APR) rather than Credit Facilities (Base Rate based). The consultative paper distinguishes between two types of facilities, namely: Financing Facilities, and Credit Facilities. For Financing Facilities, the paper requires banks to disclose "APR" and for Credit Facilities banks are required to disclose "Base Rate". In some Islamic banks, credit cards are fixed-installment-based whereby customers	GR7 GR8 GR9	different product. There is no need to make "one price fit all". h- Bahrain is an open and free market. These disclosures are all part of a free market 1. Please refer to BC 4.3.10(a) & BC4.3.14 (a) & (b) for Volume1 & BC 4.2.10(a) & BC4.2.14 (a) & (b) for Volume-2 , The rules have been amended as follows: • For Installment Financing Facilities, APR must be disclosed • For credit cards, the monthly and the annual rate of interest plus other fees and charges. • For overdrafts, the annual rate of interest plus other fees and

are charged "Fee" rather than "Profit Rate". Going by the rules stated above, these credit cards will have to be considered as "Financing Facilities" by which banks must disclose "APR" as opposed to "Credit Facilities" by which banks must disclose "Base Rate". A bit confusing but I am sure you understand me.		charges. Therefore, If the product is fee based then banks should disclose the exact fee and the disclosure of interest/profit rate will not be applicable since no interest/profit rate is charged.
2. Top-ups cannot be done in Islamic transactions; all top-ups are considered as new transactions. The concept of "top ups" in Islamic finance is not applicable (you may want to check with your Sharia Board on this). Most Islamic financing are based on Murabaha; i.e. a commodity is sold to a client on deferred basis. Further, Islamic banks do not provide cash-financings per se (even Tawarouq is commodity based). At Islamic banks, a customer's request for additional amounts is always considered as a new transaction (rather than top ups). Consider the following example: if a client, with existing Tawarouq obligations, applies for new amounts, the bank will treat such request either as: 1- new financing while continuing with the existing obligation. In this case the customer will have 2 accounts with 2 different installments, or 2- provide the client with a new Tawarouq whereby part of the amount will be used to repay the existing obligations and the remaining amount is given to the client. In this case, the old financing-account will be cancelled and a new account will be opened. 3- In Morabaha, customer are simply given a new financing along with continuing with his existing obligations. Therefore from a Sharia point of view, it is incorrect to say anything about top-ups.	GR10	2. If the bank does not allow top ups then the rules on top up won't be applicable to them. Please refer to BC.4.2.22(e) in Rulebook Volume-2 & BC4.3.22(e) in Volume 1 where the rule has been amended to incorporate other alternatives to top ups which banks may offer (e.g. a second financing facility for example). The rules has been amended as follows "*the "key terms disclosure" document must, amongst other things, make clear (e)The detailed costs associated with "top-ups" of credit agreements or other alternative arrangements for extending additional credit"* The proposed directive is based on

It is believed that the rule should be reconsidered from Sharia point of view. Failure to do that may leave room for interpretations, non-compliance, and misunderstandings. Possible Contradictions: It is noted that the majority of the proposed rules included in this consultative paper are covered in the other CBB Rulebooks / Modules such as Credit Risk Management, Business and Market Conduct, Public disclosure and Code of Best Practice on Consumer Credit and Charging (issued in July 2007).	GR11	rules and guidance already included in the CBB Rulebook and enhanced to be in line with international best practices. The new BC 4.3 in Volume 1 & BC4.2 in Volume2 have consolidated all the existing rules under the PD Module, CM Module and BC Module while deleting them from their respective places in the rulebook The code of best practice on consumer credit and charges has been aligned with these new rules.

Specific Comments:

Reference to the draft Directive:	Comments	REF	CBB's Response
A.1.3 (definitions) **(a) Base rate -- The rate/cost of credit that underpins lending to bank customers. Credit institutions lend to customers at basis points over base rates. Not to be confused with prime rate which is the rate/cost of credit at which a credit institution will grant a credit facility to its most creditworthy customers;**	**A licensee** noted that the definition and computation of the 'Base rate' needs to be clearly defined to avoid any ambiguity in the computation of the 'Base rate' by the retail banks and financing companies. This is very important as the customers should be well informed of the profit rates being offered by the retail banks and financing companies. **A licensee** noted that for auto loan, the market practice is to provide the flat rate; to use the base rate or basis points over base rate will become	SP1 SP2	Please refer to BC4.3.14 (a) & (b) for Volume1 & BC4.2.14 (a) & (b) for Volume-2 , The rules have been amended as follows: • For credit cards, the monthly and the annual rate of interest plus other fees and charges. • For overdrafts, the annual rate of interest plus other fees and charges. Auto loans are considered installment financing facilities and therefore should

	complicated for normal customers. **A licensee** noted that in the absence of unified guidelines from the CBB, each bank will calculate and disclose the base rate using internal model. Therefore, the underlying assumptions could differ from one bank to another. Moreover, the base rate should not be considered as a constant in extending credit facilities. It can change frequently based on several market driven competitive forces.	SP3	disclose the APR as required in BC 4.3.10 (a) in Volume-1 & BC 4.2.10(a) in Volume2 Please refer to comment SP1 above.
A.1.3 (definitions) **(c) Conspicuous notice – Means a written statement in both Arabic and English languages which is easily visible and legible and displayed in all credit institutions' premises open to the public, such as websites, newspapers and other press notices;**	**A licensee** requested more clarity on the application of term "Conspicuous" as it is a subjective and its interpretation may be inconsistent. It would be appropriate if CBB could lay down parameters to enable the concerned licensees to adhere to the requirement on consistent level. 1. Will A.1.3 (c) replace PD – 4.1.4 2. Newspaper and Other Press notices – Clarity on this aspect	SP4	The definition is clear. Section PD-4.1 was deleted in October 2012 and is now covered in Section BC-4.3 in Volume-1 & BC4.2 in Volume-2. Please refer to comment GR-11 above.
A.1.3 (definitions) **(g) Retail customers – Means a natural person or a single person company (SPC).**	**A licensee** noted that the directive states natural person or a **Single Person Com.** Is this document applicable to Corporate clients, as according to the default definition; retail customers can not be defined as SPC. **A licensee** noted that the definition of the Retail	SP5	Please refer to BC4.3.4(g) in Volume-1 & BC4.2.4(g) in Volume-2. The definition of retail customers has been amended to be "natural persons only" and to exclude SPC.

	Customers should be ideally restricted to individual customers who are availing financing facilities of the nature of personal finance, housing finance, credit cards. Owners of "Single Person Companies" should be excluded from this definition especially that certain Single Person Companies are actually Special Purpose Companies owned by large companies.	SP6	Please refer to comment SP-5 above.
	A licensee believes that this definition of Retail Customer will be confusing, since non-retail lending is done to individuals in some cases (landlords, High Net worth business owners etc). It is recommended that the definition of 'retail customers' be kept as 'individuals who avail consumer finance (as defined in CBB Rulebook), with or without salary assignment'.	SP7	Please refer to comment SP-5 above.
	A licensee suggested that the definition to include Sole Proprietors as another type of retail Customers.	SP8	Please refer to comment SP-5 above.
	A licensee noted that the proposed definition of SPC (classifying SPC under retail) may not be in conformity with the current structure adopted by a number of banks. Currently, certain banks classify SPCs as corporate clients, especially in the event of extending credit facilities. This is mainly on the account to carrying out a more comprehensive credit analysis when compared with extending financing facilities to customers with a consistent stream of income (salaried employees). Therefore, it	SP9	Please refer to comment SP-5 above.

	is suggested that the banks should be allowed to classify customers based on their own credit assessment.		
A.1.4 (General Rules) **(a) Credit institutions must: Duly inform their customers in accordance with this paper about the nature and the characteristics (including relevant risks) of the financing products and services offered by them, and about the terms and conditions governing such transactions;**	**A licensee** noted that the instruction requires banks to inform customers about "**relevant risks**" of financing products and services. Can more clarification be provided on what relevant risk's the Central Bank feels should be communicated to the customers?	SP10	"Relevant risks" are potential risks that in the bank's opinion might be expected from the financing products. For example travel bans in case of default.
A.1.4 (General Rules) **(c) Credit institutions must: Respond in due time, to customers' requests for the provision of information and clarifications regarding the application of contractual terms (refer to A.2.13 to A.2.15);**	**A licensee** noted that this paragraph makes reference to Paragraph A.2.15 but that Paragraph is not included in the paper	SP11	To be amended to state: *"….refer to A.2.13 to A.2.14)"*
A.1.4. (General Rules) **(e) Credit institutions must: Ensure the proper training of employees involved in**	**A licensee** noted that Module TC not yet implemented by CBB. Comments can be provided once this document is reviewed.	SP12	Noted.

interfacing and providing specific information to customers (refer to Module TC);			
A.2.3 The following disclosures must be made by conspicuous notice for all types of credit facilities: **(a) The level of overdue repayment (default) interest/profit rate and the method and basis of interest/profit calculation (including the date on which default interest/profit will start to accrue, its calculation basis, as well as the period of accrual and capitalisation of interest/profit);**	**A licensee** noted that in installment loans, in case of default on payment they do not charge an additional interest/profit rate; instead they charge a fixed late payment fee. The customer is informed about the late payment fee through the credit card terms and conditions, and the said fee amount is communicated to the customer through the Schedule of Fee and Charges. The late fee is charged at each missed/late repayment occurrence. The practice continues until the bank recognizes a 'loss' on the account as per its internal procedures; 120 days from the 1st missed payment in installment loans and 180 days from the 1st missed payment in credit cards. The late fee charge is not capitalized. As for credit cards –Late fee is included in the customer's balance and interest is charged till the time the payment is received or 180 days at which point a loss is recorded by the bank In view of the practice in place clarification is required if the above directive would still be applicable and if so then guidance should be provided on how to comply with the directive.	SP13	Please refer to BC4.3.9(b) in Volume-1 & BC4.2.9(b) in Volume-2. The rule has been amended as follows: ***The following public disclosures must made by conspicuous notice for all types credit agreements:*** ***(e) Any late payment charges***
A.2.4	**A licensee** noted that banks and Financing	SP14	The objective of such standard scenario is

The CBB requires all credit institutions to display, by a conspicuous notice, their current Annual percentage rate (APR) of interest/profit on financing facilities (consumer/housing credit facilities). The APR displayed must be calculated based on the following scenarios. For consumer finance, amount borrowed is BD10, 000 for a 7-year term and for housing facilities, BD100,000 for 25 years.	Companies are providing credit facilities to different segments and products that made it difficult to specify only one interest rate. The Company has different customer segments with different risk profiles such as Government, Listed Companies, Non Listed Companies /CR and Non Bahrainis Employees, for whom the interest rates offered on the same product my vary.		to allow the customer to compare the rates based on the same set of data. However the banks can add the statement "Terms & conditions apply". Disclosing such scenario does not mean that one rate fits all. This rule does not stop banks from varying their interest rate based on the risk profile of the customer. Please refer to BC4.3.13 in V1 & BC4.2.13 in V2 where a guidance has been added as follows: *"For the purposes of Paragraph BC-4.3.10, the disclosures can be provided as one APR or a range of APRs for retail banks that provide instalment financing to different segments and products. A retail bank may have different customer segments with different risk profiles, for whom the APR offered on the same product may vary. However, the disclosures must comply with the scenarios outlined in Subparagraph BC-4.3.10 (a)"*
		SP15	Disagree-Please refer to SP-14 above Banks must comply with the rules effective from the date of issuance in the CBB Rulebook. For further inquiries, banks are advised to contact their supervisory point of contact in the CBB.

	A licensee noted that while the bank is complying with the requirement however the Loan amount being used in the case of Consumer Finance is BD 7,500 and the tenor is 5 years, as opposed to the requirement of BD 10,000 for a 7 year tenor proposed in this section. In order to comply with the above directive the bank would have to re-print all existing materials. Advice is requested if the current practice of the bank will be deemed sufficient compliance with the above directive. **A licensee** noted that in their view, disclosing the basis of APR calculation will be good practice and must be adopted by the banks. This will allow the customers to compare financing products on alike to like basis. However, the requirement to display the breakdown of the APR, by conspicuous notices not practical due to the following facts: a. The APR may change on frequent basis owing to promotional campaigns. b. The APR for a Murabaha product is expected to be different than a Tawwaruq or Ijara. In their view, disclosing detailed components of the APR on the marketing and promotional documents for each product offered will be more informative.	SP16	Disagree- Whenever there is a change in the APR for any credit facility, the bank MUST disclose the new APR (including the breakdown) by conspicuous notices based on the stipulated scenarios in this Rule. However, disclosing the proposed standard scenario does not stop banks from disclosing each individual type of products in their marketing and promotional material. Please refer to BC4.3.11 in Volume-1 & BC4.2.11 in Volume-2 where a guidance has been added as follows: *"The APR is a standard measure that allows customers to compare total charges for installment financing facilities on a like-for-like basis. The APR allows the customer to*

			compare the total charge for credit over differing periods (e.g. – two versus three years) or offered by different retail banks with differing payment profiles and taking into account the payment of any other fees payable as a condition of the contract, such as administration fees or insurance premiums" Please refer to comment SP14 above.
A.2.5 **The Annual Percentage Rate (APR), must be broken down as follows:** **(a) The annual nominal interest/profit rate payable on the financing facility;** **(b) Financing facility origination/documentation fees, monthly service charges and administration fees;** **(c) In the case of finance lease contracts/ijara or deferred purchase contracts, any fees for purchasing the asset; and** **(d) Any other charges.**	**A licensee** noted that Clause: CM – 8.5.8 of the CBB rulebook states the items to be included in the total charge payable and clause: CM – 8.5.9 puts across methodology for calculating APR. • Clause A.2.5 is different from CM – 8.5.8. Will it substitute the current clause i.e. CM – 8.5.8? • Based on it, the APR methodology will also change? **A licensee** noted that, in their opinion, it's impractical to include Fixed Fees (such as protection fees X markup fees) into the calculation of the APR as these fees are applied on flat bases and can't be applied in the APR calculation. we would like to confirm that in the Credit Card industry, we use the "Annual Percentage Rate" (APR) to indicate only the annual rate of the interest charged to the customer which is basically the monthly interest rate multiplied by 12. The monthly interest rate is the base rate (as defined by CBB) plus the margin decided by the business.	SP17 SP18	Please refer to GR11 above. Please refer to SP-1 above

A.2.6 **For financing facilities or where a retailer extends credit to purchase goods or services by operating in agreement with credit institutions, all conditions of the credit facility must be disclosed, including when interest or profit will begin to accrue, along with information on any indirect charges. Such credit agreements must be finalised with an employee of the credit institution, whether located at the premises of the retailer or at the premises of the credit institution providing the financing. Interest/profit must in no event be charged before the disbursement of the credit facility. Credit institutions must inform the customers on the nature of their contractual relationship with the retail outlet and the customers' rights arising as a**	**A licensee** noted that they agree that profit will start accruing from the date funds are disbursed but banks will have no control on any arrangement that have been agreed between consumers and retailers. Besides, banks act as financiers depending on retailers to route business to them (meaning banks), at many times there would not be any formal contractual relationship between the bank and the retailer. **A licensee** noted that the clause mentions that "such credit agreements must be finalized with an employee of the credit institution….". It is recommended that this requirement be dropped. As long as it is ensured that the customer is aware of all the terms and conditions, the credit institution may authorize a third party to finalize the agreement with the customer.	SP19 SP20	The credit agreements must be finalised with an employee of the credit institution and not the retailer staff, whether located at the premises of the retailer or at the premises of the credit institution providing the financing. Disagree- The retailer's staff won't be qualified to disclose all the relevant information to the customer. It is not a matter of simply signing documentation, the customer should be aware of all the terms and condition of the credit agreement.

result of this relationship. Credit institutions must ensure that the personnel dealing with customers during the credit application process have been appropriately trained.			
A.2.7 **For credit facilities other than installment financing facilities noted above, the CBB requires all credit institutions to display, by conspicuous notice:** **(a) Their base rate of interest/profit and any other fees and charges on all credit facilities including credit cards, overdraft and revolving facilities to customers;** **(b) For floating-rate credit facilities, the interest/profit rate, clearly defined on the basis of the relevant base rate, the periods during which this rate would apply, as well as information on key factors that could affect the total cost of the credit facility; and**	**A licensee** noted that, subparagraph (a), the base rate for credit cards, similar to installment loans, is a function of: a) Cost of Funds (as determined by the bank's internal treasury) b) The percentage of expenses that are incurred in acquiring and maintaining the customer utilizing the facility (including the system costs); and c) The perceived/expected risk of losses; expressed as a percentage A margin is added to the sum of the above components to arrive at the APR that is communicated to the customers. Other fees and charges are listed separately and communicated to the customers. Since the base rate is based on internal factors and is subject to a change when any of the components changes therefore the bank keeps the APR stable and absorbs the changes in the base rate by way of an inversely proportional change in the bank's margin. Advice is requested if the current practice of the	SP21	Please refer to SP-1 above.

(d) The terms and any relevant charges in cases where the customer exceeds contractual credit lines.	bank will be deemed sufficient compliance with the above directive. **A licensee** noted, subparagraph (a), that there is no definition for Floating-rate.	SP22	It is self explanatory, it means that the rate varies.
		SP23	Please refer to SP-1 above
	A licensee noted that, subparagraph (a); giving the base rate as well as the actual interest rate will confuse the customers (especially for mass market products like credit cards). The actual rate of interest is what affects the customer, since this is the rate used for interest calculations, and they believe that this is the rate that the customer must be aware of. It is recommended to drop the requirement of providing base rate.		
	A licensee noted that, subparagraph (d), their understanding of this requirement is that in event of any breach of contractual credit lines (facility provided to customer), if any charges are applicable, the terms and charges affecting it should be clearly communicated to the client. Kindly confirm.	SP24	Yes. If the customer exceeds the limit.
A.2.8 / A.2.9 / A.2.10	**A licensee** inquired whether these three clauses replace the existing clauses of the CM Module (CM – 8.5.1, CM – 8.5.2 and CM-8.5.3)	SP25	Please refer to GR-11 above.

A.2.10 In addition to the initial disclosure of key terms noted in Paragraphs A.2.8 and A.2.9, for financing facilities, the "key terms disclosure" document must, amongst other things, make clear: **(c) Whether the rate of interest/profit is fixed or can be varied, and under what circumstances;**	**A licensee** noted that the bank maintains a right to revise the interest rate and / or other terms of services and financing facilities. The bank only makes changes in prospective basis and does so after providing an adequate notice period (at least 30 days). The circumstances which led to the change are communicated to the customers in the notification of the change.	SP26	Noted, this is in line with the proposed rules.
A.2.11 **Credit institutions must disclose to the customer variations to a credit contract. The circumstances in which a customer must be provided with variation disclosures are:** **a) If both the credit institution and customer agree to change the credit contract; in this case, the customer must be provided in writing with full particulars of the change, at least seven calendar days before it takes effect; and**	**A licensee** noted that this clause is not in line with the Code of Best Practice on Consumer Credit and Charging [Section D (5)], which only requires the credit institution to inform the customer of any changes in the profit/interest rates in an effective manner without specifying any time frame. This conflict needs to be resolved as this Code of best practice has been agreed between the CBB and the Bankers Society (CM7.5.1 and CM 2). **A licensee** noted that in subparagraph (b), while the bank is in compliance with the above "30-day notice" period stipulation, however there is one particular scenario where the bank would like to submit that a shorter notice period be considered. "In the case of revolving lines, where there exists unused credit facility, the bank may wish to reduce	SP27 SP28	The code of best practice on consumer credit and charges has been aligned with these new rules. The rule does not apply to the variation in the credit limit, it only affects the variation in the amount or timing of payments, the interest/profit rate or the way interest/profit is calculated. Banks are not breaching any rules as long as the

b) If the contract gives the credit institution power to vary fees or charges, the amount or timing of payments, the interest/profit rate or the way interest/profit is calculated, and the credit institution decides to exercise that power, the customer must be provided with full particulars of the change, including an updated schedule of the total interest/profit payments and principal repayment for the remaining term of the credit facility, at least thirty calendar days prior to the date the change takes effect. Such notice is to enable the customer to decide whether to accept the new terms or terminate the agreement.	or cap the unused credit facility if the bank's risk assessment of the customer has changed based on the customers recent behavior (which may be showing signs of heightened risk) or market/economic conditions may be expected to deteriorate which could result in job loss or loss of income, and consequently making it highly onerous for the customer to repay the additional credit utilized. In such cases the bank feels that a 30 day notice period is too long and allows those customers, who are highly improbable to repay additional debts, an opportunity to utilize the unused credit facility, thus increasing the bank's exposure on the defaulting customer." The bank recommends that a 7 days' notice be deemed sufficient where the bank engages in a credit limit decrease action on a revolving line.		contractual agreement gives the bank the power to vary such limits.
A.2.12 **Any increase of the interest/profit rate or the**	**A licensee** noted that in the Code of Best Practice on Consumer Credit and Charging, point – 5 of section – D (Interest / Profit Rates) states that	SP29	Please refer to SP-27 above.

amount of any fee or charge payable under a credit facility, must be disclosed publicly, by conspicuous notice, at least 30 calendar days prior to the change taking effect by: **i. Displaying the information prominently at the credit institution's place of business; and** **ii. Posting the information on the credit institution's website.**	"Licensees must inform customers of any changes to interest / profit rates in an effective manner before they take effect." • Will clause – A.2.12 supersede the above point? • It is suggested that there should be consistency with the changes which are akin to requirements in the Code of Best Practice on Consumer Credit and Charging The requirement of point – 3 of section – F of the Code will not be complimentary to the proposed change? **A licensee** noted that Code of Best Practice on Consumer Credit and Charging [Section D (6)], requires that when profit rate changes, licensees update the information on their websites within two working days and must also advise about the old profit rate. This conflict needs to be resolved.	SP30	Please refer to SP-27 above.
A.2.13 Disclosures requested by the customer may include but are not limited to any or all of the following information about a credit contract: **a) The effect of part prepayment on the customer's obligations;** **b) Full particulars of any changes to the contract since it was made;**	**A licensee** inquired if a specified date, in subparagraph (d), means the date of request of the client or any date in future when the client would like to settle the facility? Also, **the licensee** requested more clarification on subparagraph (j).	SP31 SP32	Both scenarios are correct and are mainly the same "the date of request of the client or any date in future when the client would like to settle the facility" Subparagraph (j) means any disclosure statement requested by the customer. This is a disclosure that is required to be provided regularly by the credit institution but has not been sent to the customer.

c) The amount of any fee payable on part prepayment and how the fee will be calculated; **d) The amount required for full prepayment on a specified date and how the amount will be calculated;** **e) The outstanding credit amount, including any outstanding interest/profit charge (calculated at the date the disclosure statement is prepared);** **f) The amount of payments made or to be made or the method of calculating the amount of those payments;** **g) The number of payments made or to be made (if ascertainable);** **h) How often payments are to be made;** **i) The total amount of payments to be made under the contract, if ascertainable; and**			

j) A copy of any disclosure statement that was or should have been provided before the request was made.			
A.3.1. **As a minimum credit institutions must:** **(a) General terms:** **iii. Announce through the press their APR;**	**A licensee** inquired if this is only required when advertising for a product. Kindly confirm? **A licensee** noted that the bank is ensuring that the APR notification, along with an illustration, is provided to the consumers in the primary documentation of the loan/credit facility. Furthermore, the APR is displayed at its premises. Also whenever a credit/loan facility is advertized by the bank the APR is included in the advertising materials. Clarification is required if these steps would be deemed sufficient to be in compliance with the above stated directive. **A licensee** noted that, it's mentioned that, the institution must announce through the press their APR. The statement requires additional clarification, as it is not clear when the institution shall make this announcement and on what timeframe basis (monthly, quarterly, semi-annually or annually). It is also believed that the means of publications should not be restricted to newspapers as a tool of announcement and shall be left to the Company/Bank to choose from.	SP33	Licensees should **announce their APR every time they decide to advertise any credit facility through any media means.** For installment Financing Facilities, please refer to BC4.3.12 in V1 & BC 4.2.12 in V2. The rule has been amended as follows: "*Any advertising through any media means of instalment financing facilities, offered by the retail banks must specify only the APR (including all fees and charges) and no other rates, i.e. nominal, base, flat or rates by any other name".* For non installment financing facilities, please refer to BC4.3.15/4.3.16 in V1 & BC4.2.15/4.2.16 in V2 which have been amended as follows: • *For credit agreements other than instalment financing facilities, any advertising through*

	A licensee noted that this provision may be reconsidered and limited to when a product is being advertised. A periodical publication of such information is not recommended. Please refer to issues raised under "General Comments" above. **A licensee** noted that as mentioned above for Clause A.2.7 (a), it is recommended to mention the *actual* interest rate instead of the base rate, to prevent customer confusion. Also, specifying <u>all</u> related fees & charges in every advertisement is impractical. It is recommended that this clause should be dropped.		*any media means must specify only the annual interest rate and other fees and charges.* • *For credit agreements other than instalment financing facilities, banks are prohibited from using the term APR in any advertising.*
A.3.1 **(b) Periodical statements** **Information must be given on the evolution of the credit facility, interest/profit and other charges, as well as on any change in the interest/profit rate, where such change is permitted. Information must be given, free of charge, at least on a semi-annual basis, unless the period of debt servicing is shorter or where there exists a prior agreement on a more frequent basis. When credit is granted through**	**A licensee** suggest that they keep the customer informed once they carry out any changes on the interest applied on any product provided, as they do publish all their interest rates on their general website for customers' reference, in addition the same are available in the banking halls. **A licensee** noted that the definition of "evolution" of credit facility needs to be explained further. The terms of the credit are part of the agreement signed between the bank and the customer. Such terms are not expected to change frequently and therefore, the issuance of annual and semiannual periodic statement might not be a useful process. In their	SP34 P35	The rule clearly states that the information must be given on the evolution of the credit facility, interest/profit and other charges (i.e., the status of the credit facility on a regular basis), <u>as well as</u> on any change in the interest/profit rate, where such change is permitted Evolution means the status of the credit facility over the life of the credit agreement (i.e., the outstanding balance, period, etc).

credit cards or overdraft facilities, monthly statements must be provided and include information on minimum payment.	opinion, the 30 calendar days notification prior to any change in the terms if financing is sufficient.		
50% DSR Cap on Consumer Financing	**A licensee** noted that the CBB should perhaps issue rules regarding the breach of the DSR as a result of any amendment to the terms of the financing agreements.	P36	There is no need to introduce new rules on this issue. Exceeding the DSR is outside the scope of these rules, it is related to the credit risk management module. If the credit institution increases the interest rate and the installment amount exceeds the 50%, the first step is to provide the customer with the full particulars of the changes at least 30 days prior to the change taken affect. If the customer has no objection and the bank realized that the new installment after increasing the interest rate will exceed the 50% rule, then the bank needs to extend the period after getting the customer consensus.