



CREDIT RISK MANAGEMENT MODULE

CONSULTATION



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5	Consumer Finance

CM-5.4 Maximum Limits

Total Repayments Ratio

CM-5.4.1 Licensees may only provide a new consumer facility (or renew, extend or otherwise modify an existing consumer facility) for an amount so that the borrower's total monthly repayments on all their consumer finance commitments do not exceed **50 40** percent of their monthly gross income. This limit may only be exceeded in the circumstances described in Paragraphs CM-5.4.6 and CM-5.4.9.

CM-5.4.2 When reviewing an applicant for a consumer facility, licensees may only take into consideration regular income. A spouse's income may only be taken into consideration when the credit facility would be in joint names, so that the spouse would also be legally liable for the obligation incurred.

CM-5.4.3 Notwithstanding the above limit, licensees must review, in detail, an applicant's personal financial standing and ability to service their obligations. Where a spouse's income is being taken into consideration, their individual circumstances must also be similarly assessed. **In many cases, these reviews may require consumer finance repayments to be kept significantly below 50 40 percent of monthly gross income.**

CM-5.4.4 Licensees must enquire as to applicants' sources of income, their credit history, their regular outgoings and other financial commitments, including potential liabilities such as guarantees. Particular attention must be paid to housing costs (such as payments for social housing schemes). A person's regular income, net of consumer finance repayments and other financial obligations, must remain sufficient for that person to support himself and any dependents. Licensees must also take into account likely future trends in income and outgoings, and the impact this may have on the **50 40** percent ratio.

CM-5.4.5 When factoring in credit cards into the repayment limit in Paragraph CM-5.4.1 above, licensees must include 5 percent of the credit limits available on these facilities. If the amounts outstanding (including interest) under such facilities exceed their limit, then the full amount outstanding must be included in the repayments ratio calculation. Charge cards are not included under this definition.

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CM-5.4 Maximum Limits (Continued)

CM-5.4.6 In the case of high earners – defined for these purposes as persons earning more than BHD 3,000 per month – the **50 40** percent limit may be relaxed, provided that the licensee has undertaken the review required in Paragraph CM-5.4.4 and is satisfied that the borrower can comfortably support a higher facility service ratio.

CM-5.4.7 The review undertaken to satisfy requirements, as outlined in Paragraph CM-5.4.4, must be documented and made available to the CBB’s examiners upon request. The documentation must include all relevant information used to support the decision to extend credit facilities. In the case of high earners who are granted a facility in excess of the **50 40** percent limit, the documentation must also include a written statement, signed by an appropriate member of management, explaining the justification for relaxing the limit.

Maximum Tenor Limit

CM-5.4.8 The maximum tenor for instalment consumer finance is **7 10** years. In the case of any restructuring **or rescheduling** of a consumer finance facility repayable in instalments, the stated final maturity must be within **7 10** years from the date of the original facility. The tenor may **not** be extended **more than twice** during the period of the agreement **but and** in any case the **total duration must not extended** beyond the **7 10-year period duration**.

Non-compliant Facilities

CM-5.4.9 Where a customer’s monthly gross income falls (e.g. due to redundancy, disability or a similar event outside the control of the customer), the licensee must identify such accounts as ‘technically non-compliant’. If a customer requests an extension to the tenor of the facility due to reduced income, then the licensee may increase the term to assist the customer. The licensee must take account of the **50 40** percent limit outlined in Paragraph CM-5.4.1. Such facilities must also be identified as ‘technically non-compliant’.