

DOMESTIC BANKS AND FINANCIAL INSTITUTIONS ACT

DBFIA Practice Direction No. 5

DISCLOSURE OF INTEREST AND OTHER CHARGES ON CONSUMER LOANS

Commencement and Authority

This Practice Direction is made in exercise of the powers conferred on the Central Bank of Belize (the CBB) by Section 9 of the Domestic Banks and Financial Institutions Act, 2012, and shall come into effect on 1 January 2014.

Summary

The CBB, being satisfied that it is necessary in the public interest for the protection of borrowers, hereby requires that banks shall provide full disclosure of its treatment of interest and other charges on loans. This Practice Direction prescribes requirements for the treatment of interest and other charges on loans in accordance with the methodology specified herein.

Application

This Practice Direction applies to credit agreements other than those entered into

- (a) for business purposes of a borrower; or
- (b) with a borrower that is not a natural person.

Definitions

- **1. Borrower** includes a person to whom a loan is proposed to be made.
- **2. Finance charge** includes interest, fees, service charges, discounts, and such other charges incidental to the extension of credit.
- **3. Principal** means the amount of money borrowed and outstanding at any time, but does not include any portion of the cost of borrowing.

REQUIREMENTS

A. Requirements for the disclosure of interest and other charges on loans

- 1. Banks shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear written statement setting forth, to the extent applicable, the following information:
 - a. the total amount to be financed;
 - b. the finance charge expressed in terms of Belize dollars;
 - c. the net proceeds of the loan;
 - d. the percentage that the finance charges bear to the total amount to be financed expressed as a simple annual rate or an effective annual interest rate (EIR). Simple annual rate is the uniform percentage which represents the ratio between the finance charges and the amount to be financed under the assumption that the loan is payable in one (1) year with single payment upon maturity and there are no upfront deductions to principal. For loans with terms different from the above assumptions, the EIR shall be calculated and disclosed to the borrower as the relevant true cost of the loan comparable to the concept of simple annual rate.

Prior to the consummation of the transaction, banks are required to furnish each borrower with a copy of a disclosure statement (see Annex 1, 1A and 1B for add-on interest method loans and Annex 2, 2A and 2B for remaining balance method loans). Also, banks shall post in conspicuous places in their principal place of business and branches, the information as contained in the disclosure statement (see Annexes). The posters shall include an explicit notification that the disclosure statement is a required attachment to the loan contract and the customer has a right to demand a copy of such disclosure.

B. PREPAYMENT OF LOANS

1. Banks that impose a prepayment penalty on a borrower must disclose the terms of the prepayment penalty including the amount of, or the formula for calculating, the prepayment penalty in the loan agreement.

C. ADVERTISING

- A bank that advertises a loan involving a fixed amount of credit in an advertisement that makes a representation of the interest rate, or the amount of any payment or of any non-interest charge, in relation to the loan must disclose the EIR and the term of the loan. The EIR must be provided at least as prominently as the representation and in the same manner, whether visually or aurally, or both.
- 2. If the EIR or the term of the loan is not the same for all loans to which the advertisement relates, the disclosure must be based on an example of a loan that fairly depicts all those loans and is identified as a representative example of them.

Format of Disclosure Statement on Consumer Loans – Add-On Interest Method (Charges are netted from loan proceeds)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

1. Loan Amount			\$10,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$1,700.00
5. Other Bank Charges ¹			\$1,000.00
Documentation		-	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale		\$400.00	
– Loan Fee		\$200.00	
6. Total Finance Charges (Item 4 & 5)			\$2,700.00
7. Net Loan Proceeds (Item 1 less Item 5)			\$9,000.00
8. Schedule of Payments			
Single payment due on	28/12/13	\$487.50	
9. Effective Interest Rate	26.562%		
10. Conditional Charges that may be imposed (if			
applicable)			
Late Charge	\$30.00		
Others (Specify)	-		

Certified Correct:			
(Signature of Authorized Representative Over Printed Na	me)	Position	
I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEN CREDIT TRANSACTION.	1ENT PRIC	OR TO THE CONSUMMA	ATION OF THE
(Signature of Borrower Over Printed Name)		Date	

¹Itemize all charges.

Work Paper for Annex 1 Effective Interest Rate for Add-On Interest Method (Charges are netted from loan proceeds)

Item 4. Total Interest: \$1,700

Principal \$10,000 x 8.5% = \$850 interest per year
 \$850 x 2 = \$1,700 interest for 2 years

Item 8. Schedule of Payment: \$487.50

Principal \$10,000 + Interest \$1,700 = \$11,700

 \circ \$11,700 ÷ 24 months = \$487.50 per month

Item 9. Effective Interest Rate: 26.562%

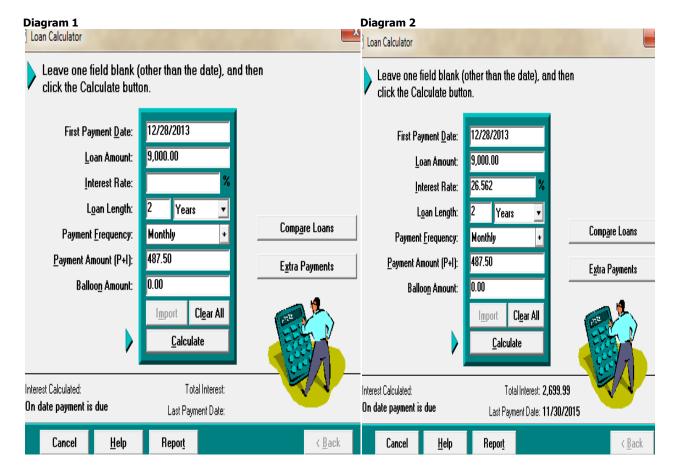
➤ Item 6. Total Finance Charge: \$2,700

o Item 4. Interest + Item 5. Other Bank Charges \$1,700 + \$ 1,000 = \$2,700

 \rightarrow Item 7. Net Loan proceeds: (Item 1 – Item 5) \$10,000 - \$1,000 = \$9,000

> Item 8. Monthly Payment: \$487.50

> This information is entered in the amortization software to generate the effective interest rate as illustrated by **diagrams 1 and 2** below.



Format of Disclosure Statement on Consumer Loans – Add-On Interest Method (Charges are added to loan principal)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

	1		
1. Loan Amount			\$11,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$1,870.00
5. Other Bank Charges ¹			\$1,000.00
Documentation		-	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale		\$400.00	
– Loan Fee		\$200.00	
6. Total Finance Charges (Item 4 & 5)			\$2,870.00
7. Net Loan Proceeds (Item 1 less Item 5)			\$10,000.00
8. Schedule of Payments			
Single payment due on	28/12/13	\$536.25	
9. Effective Interest Rate	25.500%		
10. Conditional Charges that may be imposed (if			
applicable)			
Late Charge	\$30.00		
Others (Specify)	-		
Others (Specify)	-		

Certified Correct:			
(Signature of Authorized Representative Over Printed Na	me) Po	sition	
I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEM CREDIT TRANSACTION.	ENT PRIOR TO THE	E CONSUMMATION	OF THE
(Signature of Borrower Over Printed Name)	Da	te	

¹Itemize all charges.

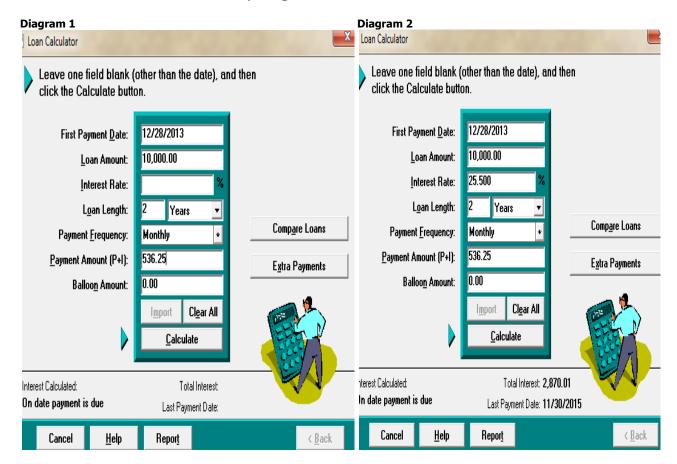
Work Paper for Annex 1A Effective Interest Rate for Add-On Interest Method (Charges are added to loan principal)

Item 4. Total Interest: \$1,870

Principal $$11,000 \times 8.5\% = 935 interest per year $9935 \times 2 = $1,870$ interest for 2 years

Item 8. Schedule of Payment: \$536.25

- Principal \$11,000 + Interest \$1,870 = \$12,870
 \$12,870 ÷ 24 months = \$536.25 per month
- Item 9. Effective Interest Rate: 25.500%
 - ➤ Item 6. Total Finance Charge: \$2,870
 - o Item 4. Interest + Item 5. Other Bank Charges \$1,870 + \$1,000 = \$2,870
 - \rightarrow Item 7. Net Loan proceeds: (Item 1 Item 5) \$11,000 \$1,000 = \$10,000
 - > Item 8. Monthly Payment: \$536.25
 - > This information is entered in the amortization software to generate the effective interest rate as illustrated by **diagrams 1 and 2** below.



Format of Disclosure Statement on Consumer Loans - Add-On Interest Method (Charges held in escrow and paid monthly)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

1. Loan Amount			\$10,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$1,700.00
5. Other Bank Charges ¹			\$1,000.00
Documentation		ı	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale		\$400.00	
– Loan Fee		\$200.00	
6. Total Finance Charges (Item 4 & 5)			\$2,700.00
7. Net Loan Proceeds			\$10,000.00
8. Schedule of Payments			
Single payment due on	28/12/13	\$529.17	
9. Effective Interest Rate	24.062%		
10. Conditional Charges that may be imposed (if			
applicable)			
Late Charge	\$30.00		
Others (Specify)	-		

Certified Correct:	
(Signature of Authorized Representative Over Printed Name)	Position
ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT CREDIT TRANSACTION.	PRIOR TO THE CONSUMMATION OF THE
(Signature of Borrower Over Printed Name)	Date

¹Itemize all charges.

Work Paper for Annex 1B Effective Interest Rate for Add-On Interest Method (Charges held in escrow and paid monthly)

Item 4. Total Interest: \$1,700

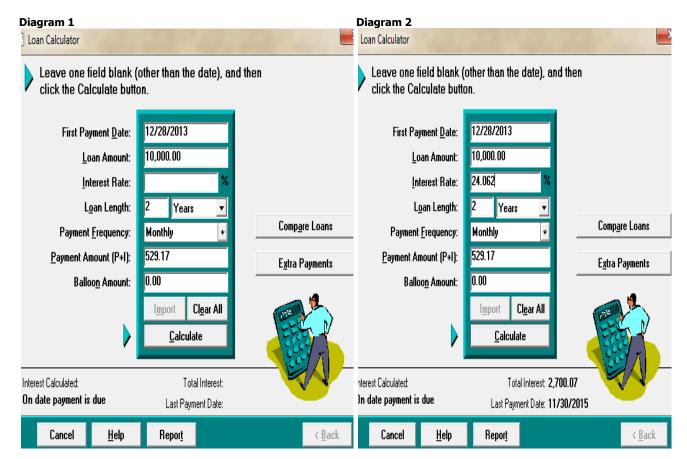
- Principal \$10,000 x 8.5% = \$850 interest per year
 - \circ \$850 x 2 = \$1,700 interest for 2 years

Item 8. Schedule of Payment: \$529.17

- Principal \$10,000 + Interest \$1,700 = \$11,700
 - \circ \$11,700 ÷ 24 months = \$487.50 per month
 - Item 5: Other Bank Charges \$1,000 ÷ 24 months = \$41.67 per month
 - \circ \$487.50 + \$41.67 = \$529.17 per month

Item 9. Effective Interest Rate: 24.062%

- Item 6. Total Finance Charge: \$2,700
 - o Item 4. Interest + Item 5. Other Bank Charges \$1,700 + \$1,000 = \$2,700
- ➤ Item 7. Net Loan proceeds: \$10,000
- > Item 8. Monthly Payment: \$529.17
- This information is entered in the amortization software to generate the effective interest rate as illustrated by **diagrams 1 and 2** below.



Format of Disclosure Statement on Consumer Loans – Remaining Balance Method (Charges are netted from loan proceeds)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

1. Loan Amount			\$10,000.00
	0.50/		\$10,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$909.37
5. Other Bank Charges ¹			\$1,000.00
Documentation		-	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale		\$400.00	
– Loan Fee		\$200.00	
6. Total Finance Charges (Item 4 & 5)			\$1,909.37
7. Net Loan Proceeds (Item 1 less Item5)			\$9,000.00
8. Schedule of Payments ²			
Single payment due on	28/12/13	\$454.56	
9. Effective Interest Rate	19.187%		
10. Conditional Charges that may be imposed (if			
applicable)			
Late Charge	\$30.00		_
Others (Specify)	-		

Certified Correct:	
(Signature of Authorized Representative Over Printed Name)	Position
I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PR CREDIT TRANSACTION.	ZIOR TO THE CONSUMMATION OF THE
(Signature of Borrower Over Printed Name)	Date

¹Itemize all charges.

²For remaining balance loans, provide borrower with an amortization schedule.

Work Paper for Annex 2 Effective Interest Rate for Remaining Balance Method (Charges are netted from loan proceeds)

Item 4. Total Interest: \$909.37 (See **Diagram 1**)

Principal \$10,000 x 8.5% = \$909.37 for 24 month period

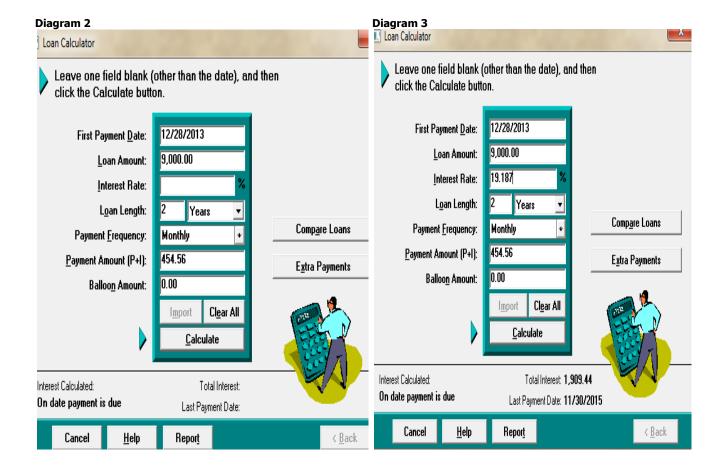
Diagram 1 Loan Calculator Leave one field blank (other than the date), and then click the Calculate button. 12/28/2013 First Payment Date: 10,000.00 Loan Amount: Interest Rate: Loan Length: Years Compare Loans Payment Frequency: Monthly 454.56 Payment Amount (P+I): Extra Payments 0.00 Balloon Amount: Import Clear All <u>C</u>alculate Interest Calculated: Total Interest: 909.37 On date payment is due Last Payment Date: 11/30/2015 Cancel <u>H</u>elp Report < Back

Item 8. Schedule of Payment: \$454.56

- Principal \$10,000 + Interest \$909.37 = \$10,909.37
 - \$10,909.37 (Principal + Interest) ÷ 24 months = \$454.56 per month

Item 9. Effective Interest Rate: 19.187%

- > Item 6. Total Finance Charge: \$1,909.37
 - o Item 4. Interest + Item 5. Other Bank Charges \$909.37 + \$1,000 = \$1,909.37
- \rightarrow Item 7. Net Loan proceeds: (Item 1 Item 5) \$10,000 \$1,000 = \$9,000
- > Item 8. Monthly Payment: \$454.56
- > This information is entered in the amortization software to generate the effective interest rate as illustrated by **Diagrams 2 and 3** on next page.



Format of Disclosure Statement on Consumer Loans – Remaining Balance Method (Charges are added to loan principal)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

1. Loan Amount			\$11,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$1,000.32
5. Other Bank Charges ¹			\$1,000.00
Documentation		-	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale		\$400.00	
– Loan Fee		\$200.00	
6. Total Finance Charges (Item 4 & 5)			\$2,000.32
7. Net Loan Proceeds (Item 1 – Item 5)			\$10,000.00
8. Schedule of Payments ²			
Single payment due on	28/12/13	\$500.01	
9. Effective Interest Rate	18.187%		
10. Conditional Charges that may be imposed (if			
applicable)			
Late Charge	\$30.00		
Others (Specify)	-		

Certified Correct:	
(Signature of Authorized Representative Over Printed Name)	Position
I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PR CREDIT TRANSACTION.	RIOR TO THE CONSUMMATION OF THE
(Signature of Borrower Over Printed Name)	Date

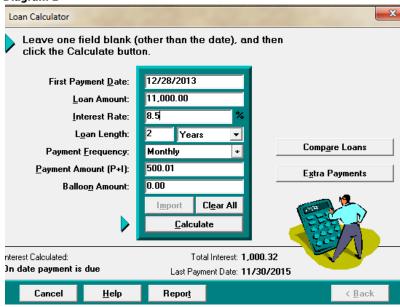
¹Itemize all charges. ²For remaining balance loans, provide borrower with an amortization schedule.

Work Paper for Annex 2A Effective Interest Rate for Remaining Balance Method (Charges are added to loan principal)

Item 4. Total Interest: \$1,000.32 (See **Diagram 1**)

Principal \$11,000 x 8.5% = \$1,000.32 for 24 month period

Diagram 1

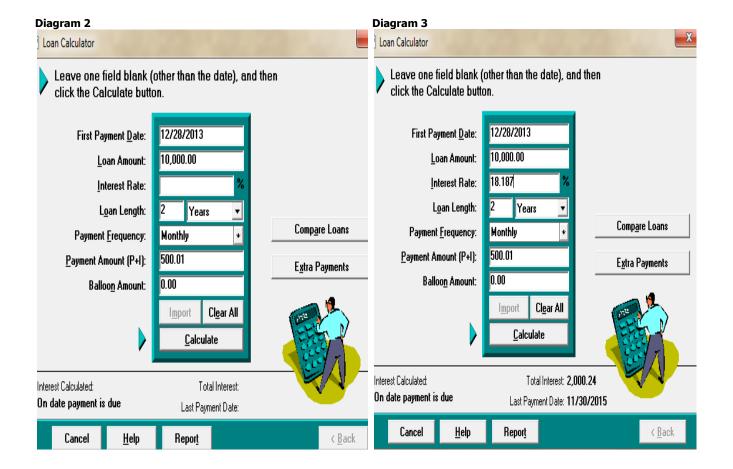


Item 8. Schedule of Payment: \$500.01

- Principal \$11,000 + Interest \$1,000.32 = \$12,000.32
 - \circ \$12,000.32 (Principal + Interest) \div 24 months = \$500.01 per month

Item 9. Effective Interest Rate: 18.187%

- > Item 6. Total Finance Charge: \$2,000.32
 - Item 4. Interest + Item 5. Other Bank Charges \$1,000.32 + \$1,000 = \$2,000.32
- \triangleright Item 7. Net Loan proceeds: (Item 1 Item 5) \$11,000 \$1,000 = \$10,000
- > Item 8. Monthly Payment: \$500.01
- > This information is entered in the amortization software to generate the effective interest rate as illustrated by **Diagrams 2 and 3** on the next page.



Format of Disclosure Statement on Consumer Loans – Remaining Balance Method (Charges held in escrow and paid monthly)

Name of Bank: ABC Bank Limited Name of Borrower: John Doe Address: 10 Central American Blvd,

Belize City, Belize

1. Loan Amount			\$10,000.00
2. Contractual Interest Rate	8.5%		
3. Term	2 years		
4. Total Interest Charges			\$909.37
5. Other Bank Charges ¹			\$1,000.00
Documentation		-	
Mandatory Insurance		\$400.00	
Others (Specify) – Bill of Sale – Loan Fee		\$400.00 \$200.00	
6. Total Finance Charges (Item 4 & 5)			\$1,909.37
7. Net Loan Proceeds			\$10,000.00
8. Schedule of Payments ²			
Single payment due on	28/12/13	\$496.23	
9. Effective Interest Rate	17.375%		
10. Conditional Charges that may be imposed (if applicable)			
Late Charge	\$30.00		
Others (Specify)	-		

Certified Correct:	
(Signature of Authorized Representative Over Printed Name)	Position
I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIC CREDIT TRANSACTION.	OR TO THE CONSUMMATION OF THE
(Signature of Borrower Over Printed Name)	Date

¹Itemize all charges.

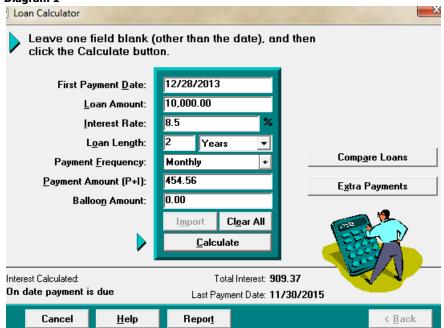
²For remaining balance loans, provide borrower with an amortization schedule.

Work Paper for Annex 2B Effective Interest Rate for Remaining Balance Method (Charges held in escrow and paid monthly)

Item 4. Total Interest: \$909.37 (See **Diagram 1**)

Principal \$10,000 x 8.5% = \$909.37 for 24 month period





Item 8. Schedule of Payment: \$496.23

- Principal \$10,000 + Interest \$909.37 = \$10,909.37
 - \circ \$10,909.37 ÷ 24 months = \$454.56 per month
 - Item 5: Other Bank Charges \$1,000 ÷ 24 months = \$41.67 per month
 - \$454.56 + \$41.67 = \$496.23 per month

Item 9. Effective Interest Rate: 17.375%

- > Item 6. Total Finance Charge: \$1,909.37
 - o Item 4. Interest + Item 5. Other Bank Charges \$909.37 + \$1,000 = \$1,909.37
- ➤ Item 7. Net Loan proceeds: \$10,000
- > Item 8. Monthly Payment: \$496.23
- This information is entered in the amortization software to generate the effective interest rate as illustrated by **Diagrams 2 and 3** on next page.

