GUIDELINES ON RESPONSIBLE LENDING
FOR BANKS

GUIDELINES NO. FCI/G1/2022/1

1. INTRODUCTION

1.1. With financial customers having greater access to credit, it is vital that banks adopt responsible lending practices and ensure that credit is offered and used responsibly. This, among others, entails banks assisting customers to make good financial decisions when applying for credit facilities.

1.2. There are three main grounds for promoting responsible lending:

1.2.1. To enhance economic efficiency by addressing 'information asymmetry' between banks and borrowers;

1.2.2. To protect customer's interests from abusive or predatory lending practices, repayment problems and over-indebtedness, and avoid mis-selling; and

1.2.3. To maintain financial stability by enhancing the resilience of borrowers.

1.3. The objectives of these Guidelines are:

1.3.1. To supplement and strengthen existing practices by providing practical guidance to banks;

1.3.2. To facilitate more consistent approaches across the financial industry to assess individual affordability;

1.3.3. To promote a sustainable retail lending market by encouraging banks to engage in prudent and responsible lending practices;

1.3.4. To avoid risks of irresponsible lending practices, and curtail undesirable market practices; and

1.3.5. To encourage more effective engagement between banks and customers by providing financial advice that promote customer's best interests and sound borrowing decisions.

1.4. These Guidelines illustrate the minimum standards with respect to responsible lending practices. Banks may adopt higher standards and international best practices, where appropriate and possible.

1.5. While these Guidelines focus on the lending practices of banks, it is recognised that financial customers are responsible for making informed financial decisions on their own and for honouring contractual obligations.

2. APPLICATION

2.1. These Guidelines are issued pursuant to Section 126 of the Banking Order, 2006 and applies to all banks in Brunei Darussalam (hereinafter referred to as "banks").

2.2. These Guidelines should be read with the following:

2.2.1. Notice on Market Conduct [Notice No. FCIU/N2/2021/1];

2.2.2. Notice on Prudential Treatment of Problem Assets and Accounting for Expected Credit Losses [Notice No. BU/N-7/2018/57];

2.2.3. Notice on Total Debt Service Ratio [Notice No. BU/N-9/2017/44];

2.2.4. Notice on Unsecured Personal Credit Facility [Notice No. BS/N-2/2015/31];

2.2.5. Guidelines on Advertisement of Banking Products and Services [Guidelines No. BU/G-3/2017/7];

2.2.6. Guidelines on Credit Risk Management [Guidelines No. BU/G-1/2018/9];

2.2.7. Guidelines on IT Third Party Risk Management (Guidelines No. TRS/G-3/2022/2);

2.2.8. Guidelines on Technology Risk Management (Guidelines No. TRS/G-2/2022/1);

2.2.9. Guidelines to Banks on Product Transparency and Disclosure [Guidelines No. FCI/G2/2019/1]; and

2.2.10. any other notices, directives, circulars and other guidelines, which Brunei Darussalam Central Bank ("the Authority") may issue from time to time.

2.3. These Guidelines are not exhaustive and are subject to revision from time to time as deemed necessary by the Authority.

2.4. These Guidelines take effect six months after the date of its issuance.

3. DEFINITIONS

3.1. "Authority" means Brunei Darussalam Central Bank.

3.2. "company" has the same meaning as section 2 of the Companies Act Cap.39.

3.3. "corporations" has the same meaning as section 2 of the Companies Act Cap.39.

3.4. "customer" means prospective and existing customer of a bank.

3.5. "bank(s)" has the same meaning as section 2(1) of the Banking Order, 2006.

3.6. "responsible lending" means for banks to act in a customer's best interests, ensuring affordability, preventing over-indebtedness, and providing support to a customer if they experience financial difficulties.

4. OBTAINING AND VERIFYING CUSTOMER INFORMATION

4.1. Financial customers should only be provided credit facilities if, after carrying out an assessment, its results indicate that the customer is able to meet the obligations under the credit agreement. As such, banks should gather sufficient information from the customer to ensure that the credit facility is affordable and meets the needs and capacity of the customer.

4.2. When assessing a customer for suitability of credit, banks should appropriately identify information relevant to the customer based on grounds of responsible lending. The level of information that is considered "reasonable" should be proportionate to the circumstances, that is, the type (nature and complexity) of the credit facility that the customer is applying for and/or the amount.

4.3. At the very least, banks should first obtain information related to the debt, obligations, and income of the customer. Banks are encouraged to get a more holistic picture of a customer's financial circumstances. Such a holistic picture may include, but is not limited to the below:

4.3.1. The customer's overall financial circumstances, including:

i. Income, savings, assets (including the value of any collateral/security);
ii. Form of income (e.g. salary, rental income, welfare benefits, or support from a third-party such as family);
iii. Existing debts and contractual liabilities (which the consumer has no or limited ability to reduce);
iv. Credit history of existing and/or previous performance;
v. Current and future fixed and variable expenses; and
vi. Minimum living standards/requirements.

4.3.2. The customer's needs, requirements and objectives, including:

i. The reason/purpose for applying for the credit facility;
ii. The amount required; and
iii. The length of time the customer wishes to repay the credit facility.

4.3.3. The customer's personal circumstances, including:

i. Age;
ii. Employment status;
iii. Knowledge and experience of financial products;
iv. Dependants (number; type e.g. minor, adult, spouse, elder; and age); and
v. Any foreseeable future changes to their circumstances (e.g. retirement, additional dependants).

4.4. Examples of fixed and variable monthly expenses that are important for customers to live and maintain a desired standard of living and lifestyle, and may be expected to continue after a new credit facility has been approved, include, but are not limited to:

i. Housing costs;
ii. A reasonable level of spending on general food, drink, clothing and other household items;
iii. Transport-related costs;

iv. Insurance premium/takaful contributions, and/or investments;
v. Utilities;
vi. Health-related costs;
vii. Education costs;
viii. Childcare and other dependants' costs; and
ix. Other personal credit related costs from non-financial institutions, for example corporations or companies that offer monthly-based payments for commercial purposes.

A written example, though not intended to be a template, to illustrate the kind of information considered to be useful to be included in a written assessment can be found in **Appendix 1.** This may be prepared in Malay or English.

4.5. In order to obtain customers' information, banks should make appropriate and reasonable inquiries with the customer and should have a mechanism in place to validate the veracity of documents and information provided by customers. If the bank finds that there are inconsistencies or deficiencies in the information provided by the customer, they should make further inquiries.

4.6. If information on a customer's expenses is unavailable, the bank should take reasonable steps to make an estimate of their expenses. For example, the bank may refer to relevant national statistical data or past data or expenditure pattern of the customer; or infer from data of customers with similar backgrounds. However, it is inappropriate to place reliance on such data if the bank knows or has reasonable cause to suspect that the customer's expenses are significantly higher than described in the data or the data are unlikely to be reasonably representative of the customer's situation, e.g. in terms of the composition of the customer's household or the number of dependants that the customer has.

4.7. In reviewing customers' information, banks may find that their credit history would indicate that they have previously experienced, or are currently experiencing, difficulty in fulfilling their obligations on other credit facilities. Though this may not necessarily mean that a new credit facility will not be suitable for that customer, it is the bank's responsibility to gather more information to better understand those difficulties. By doing so, the bank will also get a better picture of the likelihood and circumstances that may lead to facing those difficulties again, in considering the new credit facility. This may include, but is not limited to, getting more information on:

4.7.1. the cause of the difficulty;

4.7.2. whether this problem is short- or long-term;

4.7.3. whether it is being, or has been, addressed, or whether it is ongoing;

4.7.4. whether the customer has taken active steps to manage the difficulties and negotiated any changes under their existing products; and

4.7.5. if so, whether the customer has been able to keep up and comply with those changes.

Notwithstanding the above, this does not mean that a customer who has experienced repayment difficulty previously cannot be granted an appropriate credit facility.

4.8. Depending on the information obtained, banks should take reasonable steps to verify and validate the information obtained about a customer, especially on their income and existing debts. This may be done through reference to independently verifiable documentation and/or database, such as checking a validly issued credit report by BDCB, income slips, financial statements, or other supplementary documents.

5. CONDUCTING ASSESSMENTS IN THE INTERESTS OF A CUSTOMER AND PREVENTING OVER-INDEBTEDNESS

5.1. In ensuring that a credit facility offered suits the customer's needs and circumstances, banks should develop and implement procedures that consider the type and circumstances of the customer for which a credit facility would be suitable for. Further, the procedures should specify clear lines of authority for approving the sale of a credit product to non-targeted customer groups and the parameters for allowing deviations from internal policy/criteria. The basis for a lending decision should be properly documented and backed with information that supports the decision. This may be subjected to independent reviews by appropriate control functions of the financial institution to ensure they do not undermine the customer suitability procedures that are in place.

5.2. After obtaining and verifying the relevant information, banks should conduct a reasonable assessment before providing any credit facility. In ensuring that the credit facility meets the interests of a customer, the banks should consider the following:

5.2.1. Credit risk – this relates to potential financial losses that a bank may incur if a customer fails to meet its obligations in accordance with agreed terms; and

5.2.2. Affordability – this considers the customer's point of view and ensures that the customer is able to service and fully repay the credit facility under the agreement without facing undue hardship or difficulties in supporting themselves and their dependants. A credit facility is considered affordable if the monthly repayment amount and terms allow the customer to reasonably meet the repayment obligations in full throughout the course of credit facility, without recourse to debt relief or substantial hardship.

5.3. Before providing a credit facility, in considering credit risk, banks are encouraged to make assessments on a customer's ability to afford the credit facility while allowing for sufficient buffers for expenditures and contingencies related to the customer's circumstances, particularly those that may affect their expenditure (e.g. nature of employment, number of dependants). The granting of credit facilities should be prudent to prevent customers from becoming over-leveraged, especially those who are in income groups that may be more vulnerable to adverse events and income shocks. Further, this assessment should take into account notwithstanding any collateral that may have been pledged by the customer.

5.4. In considering affordability, the assessment may:

5.4.1. Assist the bank in adequately understanding the customer's situation, understanding of financial products/services, and future plans;

5.4.2. Consider the customer's long-term affordability and allow for potential future changes or negative outcomes, such as long-term risks or changes in the customer's personal or financial circumstances which may influence the customer's ability to repay the credit facility according to its terms and conditions over its tenor. Where it is reasonably foreseeable that there is likely to be a change in the customer's personal or financial circumstances during the term of the agreement which could have a material impact on the affordability of the credit facility, the bank should take reasonable steps to estimate the amount of that change and to consider this matter in the assessment. Banks may consider assessing a customer's risk under stressed economic conditions;

5.4.3. Consider the customer's other servicing obligations, such as their Total Debt Service Ratio (TDSR), the profit/interest rate and outstanding principal of their existing debts, and evidence of past delinquency;

5.4.4. Take into consideration and make reasonable allowances for the customer's other obligations and commitments, such as living expenses;

5.4.5. Consider how the credit facility will impact their financial stability and security, future plans and long-term goals;

5.4.6. Provide an indication on which credit facility, if any, is most suitable to fulfil the customer's needs, which the bank will be able to advise on;

5.4.7. Not take into account the existence of (or the intention to provide or request the provision of) any guarantee or indemnity or other form of security.

5.5. Banks should also consider, but are not limited to, the following to determine the customer's ability to make repayments under the agreement:

5.5.1. The source of repayment, either from:

i. The customer's income; and/or
ii. Income jointly held by the customer (principal borrower) with another person; and/or
iii. Savings or other assets that which the customer has indicated clearly his/her intention to use as a source for repayment (wholly or partly).

5.5.2. That the customer is able to make repayments under the agreement:

i. Without having to borrow from other parties to meet the monthly repayments;
ii. Without failing to make any other payments to his/her existing contractual or statutory obligations; and
iii. Without having a significant adverse impact on his/her financial situation.

5.5.3. Other reasonable factors that may indicate the level of indebtedness of the customer or the customer's household, such as the loan commitments of the customer's spouse, subject to the spouse's consent to such information.

5.6. If the customer intends to make repayments (wholly or partly) using savings or other assets or funds, the bank should take into account the following:

5.6.1. The source of the funds and whether it is obtained in an appropriate and lawful manner;

5.6.2. The likelihood and timeliness of the savings or assets being available to make repayments over its tenor; and

5.6.3. Any significant short- and/or long-term adverse impact on the customer's financial situation by using those savings or assets.

5.7. Where there are customers acting together as joint borrowers, the bank should consider whether it may be appropriate to carry out an assessment separately for each customer (as well as one for them together), having regard to, among others, the existing requirements on borrowers and the risk that each customer may bear of being solely responsible for both joint borrower's obligations under the agreement.

5.8. If a credit facility extends into retirement, banks are encouraged to:

5.8.1. Be mindful of extending tenors of the credit facility, as although this may increase affordability in the short term, this increases the overall debt burden of the customer and may expose them to higher risks in the long term;

5.8.2. Actively engage the customer on how they intend to continue meeting the repayment obligations after retirement. The bank should consider the customer's rate of accumulation of retirement fund, pension provisions or contracted annuity payments;

5.8.3. Make customers aware of the implications of debt servicing after retirement, and highlight the importance of having a plan on how to meet these obligations after retirement, especially as the customer may still have expenses that must be maintained after retirement.

5.9. Banks may prepare a written statement of suitability, prior to providing a credit facility, which may include:

5.9.1. The information gathered which can assist the customer in understanding why the credit facilities offered or recommended meet their needs, objectives, circumstances and financial situation;

5.9.2. The reasons why the credit facility options offered to a customer are considered to be the affordable to the customer; or

5.9.3. The reasons why a recommended credit facility is considered to be the most suitable and affordable for the customer.

5.10. Further, if after having made the assessment, the bank identifies a customer as 'vulnerable', the bank should provide them with reasonable arrangements and/or assistance, which may include financial planning advice, that is necessary to facilitate their dealings with them to consider their unique interests. Vulnerable customers may be identified as those who:

5.10.1. Are capable of making decisions but, their particular life stage or circumstances may make them unsuitable, for example, if they are elderly or young, have a poor credit history, have a low income, or are suffering an illness;

5.10.2. Are capable of making decisions but require reasonable accommodation in doing so, for example, if they are hearing or vision impaired, do not speak English or Malay as their first language, or have poor literacy skills; and/or

5.10.3. Have a limited capacity, whether temporary or permanent, to make decisions, for example, if they have a mental illness or an intellectual disability.

5.11. In providing financial advice, a bank should take reasonable steps to ensure that customers are fully informed to make sound financial decisions that do not lead them to be over-leveraged. Further, customers should be made sufficiently aware of the short- and long-term consequences of default on their financial position and collateral (if any). This may include alerting the customer of possible recovery actions if the customer continues to be in default, such as legal proceedings, and that the related costs will be borne by the customer.

5.12. A bank may be considered to have lent irresponsibly/recklessly if:

5.12.1. The credit facility was granted without adequately establishing the intended purpose or objective of the customer;

5.12.2. The credit facility increases the credit limit of an existing credit facility to a limit that is unaffordable, or that the credit facility would result in the customer becoming over-indebted;

5.12.3. The credit facility puts the customer in a position where they could not repay the loan, or could only repay the loan with substantial hardship;

5.12.4. They did not undertake an assessment on the customer's credit history, and understanding of the costs and risks of the credit facility and their rights and obligations under the agreement; and/or

5.12.5. The customer was encouraged to enter into or remain in, an unsuitable credit product, for example, to take a higher loan in order to utilize their unused TDSR limit.

6. PROVIDING SUPPORT DURING FINANCIAL DIFFICULTY

6.1. Responsible lending also involves providing support to customers when they face financial difficulty, in order to prevent over-indebtedness. A benefit of providing support for customers facing financial difficulty include a customer's payments becoming more affordable over the short term.

6.2. When a customer is facing difficulty, banks may provide support and assistance with an aim to help customers get back to financial wellbeing by considering appropriate solutions that depend on the circumstances and financial circumstances. This may include, but is not limited to, the following:

6.2.1. rescheduling repayments;
6.2.2. offering a repayment deferment;
6.2.3. amending repayment dates to a more appropriate date for the customer; and/or
6.2.4. offering financial advice or the services of a financial planner to help them manage their finances.

Notwithstanding the above, banks must still comply with credit limits, such as the TDSR, and prudential treatment (i.e. expected credit loss) of such facilities accordingly.

6.3. Banks are recommended to have policies and procedures in place for providing support to customers facing financial difficulty. Such policies and procedures should include, but is not limited to, the following:

6.3.1. Criteria to define and identify financial difficulty in customers. As each case is unique, it is important that banks review cases individually. As guidance, a customer may be facing financial difficulty if:
i. they are unable to make repayments to existing loans;
ii. they are able to make repayments, but only with difficulty;
due to a change in their personal or financial circumstances, after the loan was granted.
6.3.2. The means by which a customer may inform the bank of their financial difficulty and inability to meet their obligations, for example by submitting a hardship notice, either verbally or in writing;
6.3.3. A dedicated point of contact of the bank, whose details should be clearly communicated to all customers;

6.3.4. The timeline for the customer to provide sufficient information for the bank's consideration;

6.3.5. The type of information required to be submitted. This information should be relevant to deciding whether the customer is or will be unable to meet their obligations, or how to change the contract if the customer is or will be unable to meet those obligations;

6.3.6. How the bank may explore options to provide the customer assistance; and

6.3.7. The timeline for the bank to make the appropriate assessment and consideration.

Banks should implement and enforce such policies and procedures to ensure customers are treated fairly and with due consideration.

6.4. Following any changes in the contractual agreement to accommodate for the customer's financial difficulty, the bank should:

6.4.1. If both bank and customer have agreed to the changes:

i. Have procedures in place to record that both parties have agreed;
ii. Have in writing the details of the changes in the terms of the agreement;
iii. Provide adequate and transparent information to the customer to understand the implications of any alternative arrangements. Such alternative arrangements should not unreasonably increase the payment obligation of and financial difficulty facing the customer.

6.4.2. If both bank and customer have not agreed to the changes:

i. Have procedures in place to state that both parties have not agreed;
ii. Have in writing reasons why they have not agreed; and
iii. Inform the customer of their rights and of any alternative redress avenues or external dispute resolution scheme available to the customer.

6.5. The bank need not agree to change the loan agreement, especially if there is no reasonable cause to believe the customer's inability to meet their obligations, nor that the customer is able to meet the obligations under the changed agreement.

6.6. Should an unforeseen new event occur which causes the customer's situation to further deteriorate while they are currently in an existing agreement or coming to the end of an existing agreement causing the customer to seek further/new assistance, banks should review and assess a customer's new request for assistance independently of previous agreements. The bank should endeavour to provide further assistance, such as alternative arrangements, where possible.

6.7. At the same time, banks should have in place robust processes and early warning indicators which allow them to identify customers who may be experiencing financial difficulty before they become delinquent. Given that some customers who are facing hardship may not be inclined to approach banks due to fear of reproach, this may mean that banks may have to approach a customer first in order to offer assistance as specified under paragraph 6.2. It is important for banks to engage customers early in order to address financial difficulties speedily.

6.8. There may be cases where customers facing financial difficulty may find their situation further exacerbated due to penalties/charges that are imposed on them by the bank due to their inability to service the loan. For example, a customer facing financial difficulty who is unable to make their repayments on time may be charged with late penalty charges, which, if the customer continues to face financial difficulty, he/she may incur repeatedly, thus increasing their burden further. On this note, banks should have processes in place that prevent this from occurring, with a focus on preventing over-indebtedness. This would prevent the balance and interest to accumulate to exorbitant and unsustainable levels, which would further cause hardship to the customer.

6.9. In order to avoid financial difficulty from recurring, after having granted concessions or alternative arrangements to assist customers in their repayments, which may result in customers' having more credit space or free up some of their TDSR, banks should provide prudent financial advice to customers against taking out any new credit facilities that may put them back in financial difficulty.

6.10. In ensuring that banks are able to deliver the expectations on responsible lending to a high degree, appropriate and sufficient training should be provided to frontline staff. This should include, but is not limited to, training on making appropriate inquiries to obtain relevant information, how to conduct assessments that ensure affordability, financial planning in order to provide prudent financial advice that assist customers in making informed financial decisions, how to deal with customers experiencing difficulties in repayment, and how to communicate the different options available to assist customers facing financial difficulties.

7. MARKET CONDUCT

7.1. This section should be read with the Notice No. FCI/N2/2021/1 Notice on Market Conduct.

7.2. Banks should ensure that advertisements and promotional materials on credit products are clear, fair and not misleading or deceptive. Critical information that is likely to affect consumers' borrowing decisions must be prominently displayed.

7.3. In determining the fee on any credit product or service, in particular the early termination fee for repaying/paying the loan in part or in full during the lock-in period, the bank should ensure that this fee reflects a reasonable estimate of the costs to be incurred by the bank as a direct result of the early termination. The early termination fee should not penalise or act as a barrier to prevent the customer from switching or closing a loan account.

MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK

Date: 12 Syaaban 1443H / 15 March 2022M

APPENDIX 1: EXAMPLES OF MINIMUM INFORMATION THAT MAY BE INCLUDED IN A WRITTEN ASSESSMENT

Customer's details

Dependants

Number of dependants; type of dependants (e.g. minors, adult children, spouse, elder relatives); age of dependants

Residence

Home owner (with/without mortgage) or tenant

Requirements and objectives

Objective: Purpose of obtaining loan

Concise summary of the customer's description of the purpose for obtaining, increasing or restructuring loan.

As an illustration, examples include:

(a) purchase an asset (e.g. property, motor vehicle) of a specified value (or value range) or quality;
(b) purchase an asset of a specified value or quality and cover other costs associated with the purchase or the asset (e.g. valuations, transaction costs, necessary takaful/insurance or other products offered together with the asset);
(c) have access to a line of credit;
(d) have access to a line of credit for a specific purpose such as a holiday or international travel;
(e) restructure or consolidate existing loans (with reference to whether transaction fees need to be financed, whether additional credit is sought and whether the term of the loan is to be extended from the current end date).

Requirements: Amount and term of credit requested

The amount or maximum amount of credit requested by the customer, and the customer's requested timeframe for completing repayments, including any flexibility the customer requires around repayments.

Requirements: Particular features requested or not wanted

Contract features the customer has requested, and a description of whether any features are considered a priority or essential for the consumer.

Contract features the customer has indicated are not wanted (particularly if additional charges will be incurred as a result).

Financial position

Current income

Amount of [weekly/fortnightly/monthly] net income.

Form of income (e.g. salary, rental income).

Source of information used to verify this amount.

Current outgoings

Total amount of [daily/weekly/fortnightly/monthly] outgoings.

Source(s) of information used to verify this amount.

Include breakdown of total amount to specify the following items.

- Outgoings that must be maintained post-loan

  Types of outgoings (e.g. debt commitments, rental, takaful/insurance, utility bills, child support, investments) and the amount.

- Outgoings that are likely to be maintained post-loan

  Types of outgoings the customer is not able or willing to reduce to afford the credit product, and the amount.

- Outgoings that can be reduced if needed to meet repayments

  Types of expenses the customer indicates they can reduce to afford the credit product. Specify the current amount of those expenses, and the amount the customer considers they could reduce those expenses to if required. Outline the basis on which you accept those reductions to be realistic.

Foreseeable changes to financial position

Any reasonably foreseeable changes to income/outgoings (e.g. the customer has indicated that they are planning unpaid leave, the composition of their household is changing, or the customer is approaching retirement).

If the purpose of the loan is to purchase an asset that involves additional expenses (e.g. additional costs for operating a car and maintaining takaful/insurance) especially if required as a term of the contract—outline the nature of expenses taken into account and an estimated amount for those anticipated expenses.

It may also be useful to know whether a customer is pensionable or not, in order to plan ahead, especially in managing outgoings that can be reduced if needed to meet repayments.

Financial support from a third party

If the customer relies upon financial support from another person, outline details including: amount of financial support required; who the person is; whether the person has acknowledged that they will be making funds available to the customer; and the amount that will be available.

Source of information used to verify the person's financial position and capacity to provide the amount identified.

Credit product meets the customer's requirements and objectives

A statement of whether the terms of the credit product meet each of the specified objectives and requirements.

If some requirements specified by the customer are not met—outline whether this has been discussed with, and acknowledged by, the customer.

Customer's capacity to meet repayments

A statement of whether the customer has the capacity to meet the financial obligations of the credit product with the corresponding justifications.