



**NOTICE NO: 3/2009**

**(PURSUANT TO SECTION 66 OF THE BANKING ORDER, 2006)**

**CREDIT (FINANCING FACILITIES)**

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1. With effect from the date of this Notice, Banks shall not compute interest based on Rule 78 (Sum of digits) on new credit facilities offered and on credit facilities which are currently being processed but not yet granted.
2. Banks shall specify to all credit customers, very clearly, the early repayment computation model used by them.
3. Consumer interest is better safeguarded through enhancing disclosure and transparency requirements so that customers know and understand upfront, the obligation they are about to enter into. The minimum information that banks should provide to prospective customers in writing so that prospective customers can be conscious of the financial obligations they are assuming at the outset, is as follows:-
  - 3.1. the Effective Interest Rate (refer to paragraph 4 below) of all credit facilities (to be made known in loan documentation and in advertisements);
  - 3.2. the method of calculating the loan balance upon early settlement;
  - 3.3. interest rate for overdue installments; and
  - 3.4. administrative charges (if any).
4. The Effective Interest Rate shall be calculated in accordance with the following formula:-

$$2NF (300C + NF)$$

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$$2N^2F + 300C (N+1)$$

where:-



N is the total number of instalments;

C is the number of instalments that, under the contract, will be paid in one year or, where the contract is to be completed in less than one year, the number of instalments that would be paid in one year if instalments continued to be paid at the same intervals;

F is the amount determined in accordance with the formula-

$$\frac{100C \times T}{N \times A}$$

where:-

C is the same number as the first mentioned formula;

T is the total amount of pre-determined term charges;

N is the total number of instalments;

A is the amount financed.

#### **BANKING ORDER AUTHORITY**

Effective Date: 08 June 2009