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Provisions on Preventing Overextension of Credit
(POC provisions)

January 2015

Provisions on Preventing Overextension of Credit

1. Purpose

These Provisions on Preventing Overextension of Credit (hereafter the "POC provisions") are aimed at preventing consumers from being overextended with credits and the fostering of prudent credit extension practices.

2. Definitions

For the purpose of the POC provisions the following definitions apply:

"Acceptance Policy" means the lender's written policy containing the terms and conditions on which the approval of the credit extension is based.

"Consumer" means the individual applying for a credit.

"Credit" comprises all other types of loans and lines of credit provided by lenders with the exception of business loans.

"Credit extension" means the process of extension, renewal or increase of a credit.

"Creditworthiness" means the consumer's ability to meet the repayment obligation of the credit.

"Gross income" means the total monetary payment received for goods or services delivered or from other sources (e.g. wage, dividend, rent, cost of goods sold, etc.) before any deductions (e.g. taxes or child allowance).

"Lender" means an institution, a corporation or a natural person listed in one of the divisions or annexes of the credit institutions' register maintained by the Bank extending or promising to extend credit in the course of its trade, business or profession.

"Net monthly wage" (also referred to as the net take home pay) means the gross wage less deductions such as taxes; social security and (legal) dues.

"Overextension of credit" means credit extension beyond a consumer's creditworthiness.

"The Total Debt Service Ratio (TDSR)" means the ratio expressed as the monthly housing expenses plus all other debt service, including car payments, student loans and credit cards divided by the gross monthly income.

$$\text{TDSR} = \frac{\text{Mortgage payments + all other (related) debt payments}}{\text{Gross income}}$$

"Wage" means the fixed payment earned for work or services, typically paid on a monthly basis including contractual benefits such as: vacation bonus, premium, gratuity, car allowances, year-end payments and other exceptional payments.

3. Legal basis

These provisions are issued pursuant to article 2, paragraph 2 and article 45, paragraph 2 of the National Ordinance on the Supervision of Banking and Credit Institutions 1994 (N.G. 1994, no 4) and are made part of each individual license or dispensation in conjunction with a letter sent to its holder.

4. Applicability

The POC provisions apply as of May 1, 2015 to all locally operating lenders in Curaçao or Sint Maarten.

5. Credit extension

A lender's decision to extend a consumer credit should be based on at least:

- an acceptance policy approved by its highest governing body which aims, amongst other, to prevent overextension of credit; and
- a thorough assessment reflecting that the consumer was found creditworthy.

The acceptance policy should require that at least the following information regarding the consumer be included in each individual's file:

- an income/expenses analysis of the individual,
- the individual's background;
- the purpose of the requested credit;
- current total amount of credit and the constituent parts thereof; and
- credit history (among which, amount and duration of credit(s), and history of default).

Lenders should obtain sufficient information on a consumer's financial condition in order to assess the consumer's creditworthiness. Approved credits must be well documented and must clearly substantiate the consumers' creditworthiness.

Lenders should also take appropriate measures to promote responsible credit extension practices during the credit relationship and consider all other relevant regulations (e.g. Article 7A:1614g of the Civil Code1[1], the Annual Percentage Rate provisions[2]) before extending credit.

[1] The Bank reminds lenders that based on article 7A:1614g, paragraph 2, of the Civil Code, credit extension whereby a consumer assigns any right beyond 33.33% of the consumer's net monthly wage is not allowed. Moreover, in accordance with article 7A: 1614g, paragraph 4, of the Civil Code, any such credit will be deemed null and void.

[2] The relevant regulations are available on the Central Bank's website: www.centralbank.cw

6. Overextension

Lenders may not extend credit if:

- the monthly installments of all outstanding and prospective credits exceed the TDSR of 37%;
- the financial information obtained from, amongst other, the consumer indicates that additional credit may lead to a situation of overextension of credit.

Any deviation from the requirements set out above in this paragraph should be properly motivated and documented.

7. Intermediaries and responsibilities

Lenders relying on intermediaries for part(s) of the lender's credit extension process, remain ultimately responsible for the adherence by their intermediaries to the requirements set out in these POC provisions.

8. Recordkeeping

Lenders must retain all records regarding compliance with the POC provisions for a period of at least ten (10) years after expiration of a credit agreement or rejection of a credit request.

The records should include at least:

- the identity of the consumer;
- the information used to assess and to determine the consumer's creditworthiness;
- the conclusion reached whether or not to extend the credit; and
- the amount and terms of each credit extended by the lender.

During its on-site examinations, the Central Bank will verify the lender's compliance with the POC provisions.

Centrale Bank van Curaçao en Sint Maarten
Willemstad, January 2015

Dr. E.D. Tromp
President

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Provisions on the Disclosure of Interest Rates on Deposit Accounts
(Annual Percentage Yield [APY] provisions)

January 2015

Provisions on the Disclosure of Interest Rates on Deposit Accounts

1. Purpose

These Provisions on the Disclosure of Interest Rates on Deposit Accounts (hereafter the "APY provisions") are aimed at providing the public with adequate information on the effective interest rates payable on deposit accounts.

In addition, the APY provisions serve to foster transparency in the local financial market and to aid the public to make informed decisions with respect to deposit accounts.

2. Definitions

For the purpose of these provisions the following definitions apply:

"Advertising[1]" means a credit institution's public notice, by means of any medium[2] to promote and inform regarding interest rates payable on deposit accounts offered.

"Annual Percentage Yield (APY)" means the effective annual rate of return taking into account the effect of compounding interest. (The equivalent and meaning for APY in Dutch[3], Spanish[4] and Papiamentu[5] are set out in the footnotes to these provisions.)

"Blended APY" means the sum of all interest payments on a deposit account that offers several interest rates over a specified period of time divided by the total amount of funds over the same time period.

"Compound interest" means interest added to interest previously earned on the principal balance.

"Deposit account" means an account that pays interest to a client (such as a time and savings account).

"Interest" means any payment to a client for the use of money in a deposit account expressed as a percentage for the period of time in use.

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[1] Advertisements with the sole purpose to promote brand awareness of a credit institution, including mentioning only the type of deposit account offered, but excluding mentioning any other specific characteristics of the account such as the interest rates payable, are not considered "advertising".

2 The mediums include but are not limited to: pamphlets, newspapers, broadcasting and electronic media such as radio, television, billboards, internet and telephone.

[3] Effectieve rente: is de contante waarde (het effectieve rendement verdiend na een aantal perioden op een deposito als gevolg van de toepassing van samengestelde renteberekening)

[4] Porcentaje Anual: una tasa de porcentaje que refleja el monto total del interés pagado a la cuenta durante un periodo de un año, basado en la tasa de interés y en la asiduidad de la capitalización del interés.

[5] Porsentahe Anual di Rendimentu: ta e tasa di interes ku ta reflehá e montante total di interes risibí riba un depósito tumando na kuenta e efekto di kalkulashon di interes riba interes risibí. Un otro nòmber ta 'tasa efektivo anual' òf 'interes efektivo'.

"Nominal interest rate (NIR)" is the stated annual rate of interest earned on a deposit account that does not reflect compounding of interest. (The equivalent and meaning for NIR in Dutch[6], Spanish[7] and Papiamentu[8] are set out in the footnotes to these provisions.)

3. Legal basis

These provisions are issued pursuant to article 2, paragraph 2 of the National Ordinance on the Supervision of Banking and Credit Institutions 1994 (N.G. 1994, no 4) and are made part of each individual license in conjunction with a letter sent to its holder.

4. Applicability

The APY provisions apply as of May 1, 2015 to all locally operating credit institutions in Curaçao or Sint Maarten.

5. Disclosure of interest rates on deposit accounts

Credit institutions must at least disclose the APY and the NIR:

- when advertising; and or
- when responding to inquiries[9] from clients and or before opening a deposit account.

5.1 Disclosure when advertising

An advertisement must at least:

- clearly disclose both the APY and the NIR in the same format; and
- include the definitions of the terms: annual percentage yield and nominal interest rate as specified in paragraph 2.

Credit institutions are free to choose the language in which they specify each definition.

The advertisement must be clearly formulated. If footnotes are included, they must be of sufficient size and prominence to be legible. The abbreviation APY may be used if the term, annual percentage yield is stated in full elsewhere in the advertisement.

An advertisement may not contain any misleading or inaccurate statements. For example, the word "earnings" cannot be used when referring to interest paid on a deposit account. Any statement, guarantees or forecasts must not be misleading.

[6] Nominale rente: de rente op jaarbasis, waarbij geen rekening is gehouden met de bijkomende kosten en de momenten van betaling.
[7] Tasa de interés nominal: el porcentaje de dinero que se da cuando se realiza el pago de interes y la tasa anual equivalente o tasa anual efectiva.
[8] Porsentahe nominal di interes: e tasa di interes riba un base anual sin tene kuenta ku sierto gastunan òf momentunan di pago.
[9] Inquiries are made through but not limited to: telephone, electronic media and in person

5.2 Disclosure when responding to inquiries and or before opening a deposit account

Credit institutions must provide at least the following information to clients when they inquire about a deposit account and or before opening such an account:

1. the APY, the NIR and the definitions of these terms;
2. the assumption that APY is based on the hypothesis that the funds will remain on the deposit account for a full year and assuming that there will be no changes (e.g. fees, withdrawals, and additions to the deposit) to the original amount deposited;
3. whether the APY is calculated based on yearly, quarterly, monthly or daily interest compounding;
4. the agreed amount (for example the principal amount or the principal amount plus compounded interest) on which the APY will be calculated;
5. the day on which interest starts to accrue;
6. the frequency with which interest will be credited;
7. the minimum amount required to open the deposit account;
8. any required minimum balance;
9. the limitations regarding withdrawals from the deposit account;
10. the interests penalty (such as for early withdrawal);
11. the applicable fees and corresponding revenue tax ("Omzetbelasting" for Curaçao and "Turnover Tax" for Sint Maarten);
12. a statement whether regular fees or other conditions could reduce the (amount of) interest generated on the deposit account; and
13. the terms of the legal agreement between the client and the institution.

If a credit institution offers to open a deposit account through electronic means, abovementioned information must also be provided to the relevant client.

All disclosed deposit account-specific information must be unambiguously, conspicuously and in writing.

6. Accuracy rules

Credit institutions may offer different kinds of deposit accounts that pay different interest rates based, amongst other, on the funds deposited by a client. Therefore, different rules apply when calculating the APY. Therefore, the APY must reflect the correlation between the amount of interest that would be earned by the client for the term of the deposit account and the amount of principal used to calculate that interest.

For the calculation and payment of interest the following rules apply:

- credit institutions may calculate the APY on a yearly, quarterly, monthly or daily base;
- when calculating the interest on the applicable amount in a deposit account, credit institutions must use the methods explained in the appendix 1;
- credit institutions must calculate interest on a deposit account that offers several interest rates by using the methods explained in the appendix 2;
- the APY and the NIR must be rounded to the nearest one-hundredth of one percentage point (.01%) and expressed to two decimal places;
- interest must begin to accrue on funds deposited in an interest-bearing deposit account on the value date on which the credit institution receives the funds; and
- for deposit accounts with an original maturity exceeding one year, that do not renew automatically at maturity, credit institutions must disclose to the customer the maturity date and whether interest will be paid after maturity.

7. Recordkeeping

All credit institutions must retain records regarding compliance with the APY provisions for a minimum of ten (10) years after the disclosure. A credit institution can establish compliance by demonstrating that it has:

- established procedures for providing disclosures as set out in paragraph 5;
- followed the procedures; and
- retained disclosures, copies of advertisements and change-in-terms notices, and information about APY's and NIR's offered.

During its on-site examinations, the Bank will verify the compliance with the APY provisions.

Centrale Bank van Curaçao en Sint Maarten
Willemstad, January 2015

Dr. E.D. Tromp
President

APPENDIX 1

The annual percentage yield (APY) calculation.

The APY is calculated as follows:

APY = $(1 + r/n)^n - 1$

Where:

- **r** is the nominal interest rate in its decimal form, and
- **n** the number of compounding periods per year:

Arithmetic example

Cliënt	A
Deposit	1.000
Nominal interest rate (Yearly)	6%
Months	12
Annual percentage yield	6,17%

The APY is:

$$\left(1 + \frac{0{,}06}{12}\right)^{12} - 1 = 0.0617 = 6{,}17\%$$

Textual explanation:
A nominal interest rate of 6% compounded monthly is equivalent to an annual percentage yield of 6.17%. 6% monthly is credited as 6%/12 = 0.5% monthly. After one year, the initial capital is increased by the factor $(1+0.005)^{12} = 1.0617$. (Bear in mind that percentage figures must always be divided by 100, as the percent sign is a notation convenience; e.g. 6% = 0.06).

APPENDIX 2

A. Tiered Rate Savings account

A Tiered Rate Savings account is a savings account that pays interest in increasingly higher amounts as the account balance increases. Each tier corresponds to a range of account balances and interest rates earned if the balance falls within that range. The APY earned on a Tiered Rate Savings account is calculated by determining the Blended APY.

Blended APY = (Amount1 * Rate1 + Amount2 * Rate2) / Total Amount

Example

A client invests NAf. 15,000. The first NAf.10, 000 will earn 3% and the remaining NAf 5,000 will earn 4% for an average return, or blended APY of 3.33%.

For the NAf 15,000 example it would be:

Blended APY = (NAf 10,000 * 0.03 + NAf 5,000 * 0.04) / NAf 15,000
Blended APY = (NAf 300 + NAf 200) / NAf 15,000
Blended APY = 3.33%

B. Stepped-Rate Accounts (Different Rates Apply in Succeeding Periods)

For accounts with two or more interest rates applied in succeeding periods (where the rates are known at the time the account is opened), an institution must assume each interest rate is in effect for the length of time provided for in the deposit contract.

Examples

(1) If an institution offers a NAf 1,000 6-month certificate of deposit on which it pays a 5% interest rate, compounded daily, for the first three months (which contain 91 days), and a 5.5% interest rate, compounded daily, for the next three months (which contain 92 days), the total interest for six months is NAf 26.68, and the APY is 5.39%:

APY=100[(1+26.68/1,000)(365/183)-1]

APY = 5.39%

(2) If an institution offers a NAf 1,000 two-year certificate of deposit on which it pays a 6% interest rate, compounded daily, for the first year, and a 6.5% interest rate, compounded daily, for the next year, the total interest for two years is NAf 133.13, and the APY is 6.45%:

APY=100[(1+133.13/1,000)(365/730)-1]

APY = 6.45%

C. Variable-Rate Accounts

For variable-rate accounts without an introductory premium or discounted rate, an institution must base the calculation only on the initial interest rate in effect when the account is opened (or advertised), and assume that this rate will not change during the year.

Variable-rate accounts with an introductory premium (or discount) rate must be calculated like a stepped-rate account. Thus, an institution must assume that: (1) The introductory interest rate is in effect for the length of time provided for in the deposit contract; and (2) the variable interest rate that would have been in effect when the account is opened or advertised (but for the introductory rate) is in effect for the remainder of the year. If the variable rate is tied to an index, the index-based rate in effect at the time of disclosure must be used for the remainder of the year. If the rate is not tied to an index, the rate in effect for existing clients holding the same account (who are not receiving the introductory interest rate) must be used for the remainder of the year.

For example, if an institution offers an account on which it pays a 7% interest rate, compounded daily, for the first three months (which, for example, contain 91 days), while the variable interest rate that would have been in effect when the account was opened was 5%, the total interest for a 365-day year for a NAf 1,000 deposit is NAf 56.52 (based on 91 days at 7% followed by 274 days at 5%). The APY is 5.65%:

APY=100(56.52/1,000)

APY = 5.65%