

Disclosure of Interest Rates on Financing and Savings Products

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مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



Table of Contents

| Content | Page No. |
|--|----------|
| 1. Introduction | 3 |
| 2. Scope | 3 |
| 3. Definitions | 3 |
| 4. Disclosure requirements | 5 |
| 5. Disclosure tables for retail customers | 6 |
| 6. Disclosure tables for Micro and Small Enterprises | 7 |
| 7. Implementation date | 8 |

Disclosure of Interest Rates on Financing and Savings Products

1. INTRODUCTION

The purpose of these Rules is to provide transparency to the market in terms of APR/AER of various products that Banks and finance companies offer for Retail, Micro and Small enterprises as defined by SAMA. This will further allow Retail, Micro and Small Enterprises to compare APR/AER between different financing and savings products offered by Banks and Finance Companies.

SAMA has issued this update of Disclosure of Interest Rates on Financing and Savings Products that supersede SAMA's circular No. 67/70318 dated 25/11/1440H and complementary circular No. 41044254 dated 25/06/1441H. Added or amended texts are underlined.

2. SCOPE OF APPLICATION

All Banks and Finance Companies authorized and regulated by SAMA in Saudi Arabia.

3. Definitions

| | |
|-------------------------------------|--|
| Annual Percentage Rate (APR) | The discount rate at which the present value of payments and installments that are due from the Borrower, representing the Total Amount Payable by the Borrower, equals the present value of all payments of the Amount of Financing available to the Borrower on the date on which the Financing amount or the first payment thereof is available to the Borrower (As per Article 81 of Implementing Regulations of the Finance Companies Law). |
| Annual Equivalent Rate (AER) | The rate for a savings account or investment product that has more than one compounded interest/profit during the year. It is calculated under the assumption that any interest/profit paid is included in the principal payments balance and the next interest/profit payment will be based on the slightly higher account balance due to adding the interest/profit paid on the principal payments balance. |
| Credit card purchase rate | The rate applied to transactions (cash or credit) made with a credit card. The rate only applies to balances that are not paid in full by the end of the billing cycle. |
| Financing amount | Amount of on balance sheet loan granted to the customer. |
| Maturity | Contractual maturity of on balance sheet loans granted to customers: This is the final payment date of a loan at which point the principal and all interests/profits are due to be paid. |

| | |
|------------------------------------|--|
| | Contractual maturity of savings products: This is the final payment date of savings products at which point the principal and interests/profits owed to the customer are due to be paid. |
| Monthly payment amount | Installment amount the customer is obliged to pay to the Bank or Finance Company each month until the debt is fully repaid. |
| Minimum payment amount | Lowest amount the customer can pay on the credit card to avoid late payment penalties. Minimum payments are calculated as percentage of the outstanding balance plus any fees that have been added. |
| Months until balance repaid | Number of months remaining if minimum repayment on credit card is made by customer each month. |
| Property market value | Price negotiated between a willing buyer and a willing seller in an arm's length transaction after fulfilling valuation criteria set by the bank. The value may not be the current listing price or the amount of the most recent offer on the property. |
| Loan to Value Ratio | Ratio of a loan provided by the Bank or Finance Company to the value of a property purchased and determined as property market value. |
| Payment type | Interest/profit only payments or, both principal and interest/profit payments or else. |
| Early payment charge | A fee the customer will be required to pay to a lender if the customer pays off a loan early and before the scheduled maturity term of the credit facility, also sometimes referred to as a Redemption Penalty. |
| Deposit amount | Amount deposited with the Bank in savings or investment products. |

4. DISCLOSURE REQUIREMENTS

- a) Banks and Finance Companies are required to disclose and publish information for Retail financing and saving products (if any) in a detailed and clear manner on the website, marketing channels, and other marketing materials according to the disclosure tables contained in Section (5) of these Rules.
- b) Banks and Finance Companies are required to disclose and publish information for Micro and Small Enterprises financing and saving products (if any) in a detailed and clear manner on the

website, marketing channels, and other marketing materials and disclose the price range for each product according to the disclosure tables contained in Section (6) of these Rules.

- c) If disclosure tables cannot be included in some marketing channels and materials such as paper publications, prices or competitive benefits should not be included or referred to in a misleading way, and customers should be advised to visit the website for more details about the product.
- d) A calculator should be developed for each financing or savings product showing the price and payments based on the consumer's input, and if not possible, disclosure should be made by giving at least three examples that include financing or saving amount, prices, maturity, and the category of the consumer.
- e) A calculator should be developed for credit cards to calculate the APR and all commissions and expenses that the consumer will bear in advance or monthly, also, the calculator must clarify the appropriate credit card type and limit based on the consumer's input.
- f) Financing limits, charges and tariffs should be subject to the relevant laws, regulations, and any other regulatory requirements.
- g) Prices, ratios or rates that do not match disclosure tables and calculator results on the website should not be used in marketing campaigns.
- h) The process of calculation and factors that affect the pricing should be clarified for the purpose of transparency e.g. if floating interest/profit rate is used, this should be clarified.
- i) Disclosing the minimum or maximum limit for products of which the prices that cannot be determined e.g. savings products whose prices are determined based on the average amount kept in the customer's account.
- j) If one of the disclosure requirements in the disclosure forms is not applicable to a product, it should be clarified in the disclosure form as "Not Applicable - N/A" given that a reasonable justification is provided.
- k) For mortgage loans, which contain multiple features, Banks and Finance Companies should develop a mortgage calculator on their websites considering the inputs prescribed in section 5 (C) of these Rules. For other printed materials, one example per type should be used.
- l) Consumers should be informed, in writing, that prices in the disclosure tables or calculator are examples and customers could be offered different prices based on certain factors such as the consumer credit worthiness.
- m) Where applicable, disclosure tables and calculator for financing and savings products (if any) should be consolidated in one page under an icon called "Prices of Financing and Savings Products" in the website. Also, Banks and finance companies should enable direct access to the page by adding the icon on the top right of the website home page to make it easier for consumers to access prices. In addition, disclosure tables and calculators should be included on the page dedicated to each product.
- n) Prices should be reviewed periodically, at least monthly, and any modification to prices should be reflected in the disclosure tables and calculator within one business day. In addition, the date of the last update should be mentioned at the top of the page.

5. DISCLOSURE TABLES FOR RETAIL CUSTOMERS

Banks and Finance Companies should use the examples below as illustration with the minimum type of information the disclosure forms should include. Additional information can be added to the minimum requirements stated in this section.

a) Different types of financing products

(On balance sheet products, such as loans, should be disclosed, and there is no need to disclose off balance sheet products)

Example: Term loan

| Financing Amount | Maturity in Years | APR* | Monthly Payment Amount |
|------------------|-------------------|------|------------------------|
| 100,000 | 5 years | 5.5% | 1,901 |

*The above table is just an example and APR may differ depending on the amount, the maturity period, and the credit scoring of each customer.

b) All Credit Cards types and classes

Example: Platinum balance-transfer card

| APR* | Credit Card Purchase Rate | Minimum Repayment Amount %age | Months Until Balance Repaid** |
|------|---------------------------|-------------------------------|-------------------------------|
| 19% | 17% | 5% | 60 months |

* Banks and Finance Companies should clearly disclose all the elements of the APR and commissions in the contracts, and separate between the commissions and expenses that the consumers will bear in advance and the monthly payments on the outstanding amount.

*If minimum repayment is made every month, it will take almost 60 months to repay the full amount keeping in view compounded interest/added profits each month.

c) Residential Mortgages

Example: First home buy*

| Property Market Value | Loan to Value Ratio | Fixed or Variable Interest/Profit Rate** | Annual Percentage Rate (APR) | Maturity in Years | Payment Type | Monthly Payment Amount | Early payment Charge |
|-----------------------|---------------------|--|------------------------------|-------------------|-------------------------------|------------------------|---------------------------------|
| 500,000 | 90% | Fixed interest/profit rate | 4.5% | 25 years | Principal and interest/profit | 19,378 | Profit of future 3 installments |

*Banks and Finance Companies should disclose the repayment period for off-plan and self-construction products in the mortgage calculator.

**Including initial interest/profit rate (interest/profit rate fixed for few years at the start of mortgage) and follow on rate (interest/profit rate to be used once initial rate term is over) e.g. Fixed interest/profit rate for few years and thereafter using variable interest/profit rate e.g. 3 month SAIBOR + 20 basis point.

d) **Financial Leasing Products for each type of assets**

Example: Auto loan

| Asset Type | Financing Amount | Maturity in Years | Annual Percentage Rate (APR) | Monthly Payment Amount | Residual Value |
|------------|------------------|-------------------|------------------------------|------------------------|----------------|
| Car | 200,000 | 5 years | 5% | 4,051 | 20,000 |

e) **Savings for each Class and Type of Product**

Example: 2 years fixed deposits

| Minimum Deposit Amount | Maturity in Years | AER | Number of Withdrawals Permitted in the 1 st Year | Number of Withdrawals Permitted in the 2 nd Year |
|------------------------|-------------------|------|---|---|
| 20,000 | 2 years | 1.5% | 0 | 2 |

6. DISCLOSURE TABLES FOR MICRO AND SMALL ENTERPRISES

a) Financing Products

(On balance sheet products for micro and small enterprises, such as loans, should be disclosed, and there is no need to disclose off balance sheet products)

Example: Loan types for small enterprises

| <u>Product</u> | <u>APR*</u> | <u>Administrative Fees</u> | <u>Minimum (or) Maximum Administrative Fees</u> |
|-------------------------|-----------------|----------------------------|---|
| <u>Short term loan</u> | <u>4% to 6%</u> | <u>2% to 3%</u> | <u>SAR 1000</u> |
| <u>Medium term loan</u> | <u>3% to 5%</u> | <u>1% to 2%</u> | <u>SAR 1000</u> |

*The above table is just an example and APR may differ depending on the amount, the maturity period, and the credit scoring of each customer.

b) Savings Products

Example: 2 years fixed deposits

| <u>Minimum Deposit Amount</u> | <u>Maturity in Years</u> | <u>AER</u> | <u>Number of Withdrawals Permitted in the 1st Year</u> | <u>Number of Withdrawals Permitted in the 2nd Year</u> |
|-------------------------------|--------------------------|-------------|--|--|
| <u>20,000</u> | <u>2 years</u> | <u>1.5%</u> | <u>0</u> | <u>2</u> |

7. IMPLEMENTATION DATE

These Rules shall enter into force within 15 days from issuance date.

