

# **NATIONAL RESERVE BANK OF TONGA**

## **Prudential Statement No. 4 Revised 2017**

### **DISCLOSURES OF INTEREST RATES AND FEES AND CHARGES BY LICENCED FINANCIAL INSTITUTIONS**

#### **1. INTRODUCTION**

1.1 This Statement is issued under Section 15(3) of the Financial Institutions Act, 2004.

1.2 One of the principal objectives of the Reserve Bank is to “promote financial stability”. As part of its response to this objective the Reserve Bank requires a licensed financial institution (LFI) to publicly disclose the interest rates and fees and charges relating to its products and services. This enables the general public to compare interest rates and fees and charges between various services/products and providers. This in turn fosters market discipline and competitiveness.

1.3 The lack of understanding and awareness by the members of the public about the financial services and products of LFIs they use/purchase is contributing to increasing concerns on interest rates and fees and charges.

1.4 This Statement sets out the Reserve Bank’s requirements with regard to the form and content of the disclosure of interest rates and fees and charges for LFIs in Tonga.

#### **2. INTEREST RATES**

##### **Disclosure of Interest Rates**

2.1 A LFI shall display in a conspicuous manner in each of its offices and branches in Tonga the interest rates offered for deposits and charged on loan products.

2.2 The method of disclosure undertaken by a LFI for interest rates is entirely at its discretion. The interest rates shall be publicly displayed in a conspicuous manner in each office, branch and agency of the bank in Tonga through brochures, leaflets, booklets, or electronic or static displays placed in a conspicuous place in the office, branch or agency. It is a contravention of this Prudential Statement to not make available this information.

2.3 In response to enquiries about LFI services or products, LFI personnel must inform the potential customer about applicable interest rates and related requirements/conditions.

2.4 Before a customer is committed to a particular deposit or loan product, LFI personnel must provide clear and simple written disclosure of the annual percentage rate and amount (or cost of credit)<sup>1</sup> as illustrated in Appendix D, the current interest rate for the deposit or loan, the manner in which interest is calculated, the circumstances under which the interest rate will vary, and penalties and forfeitures, if any. In the case of fixed maturity loan products an LFI must also provide written advice of the amount of interest which will be payable if the loan is repaid according to contractual terms and conditions. All LFIs must be able to demonstrate that disclosure has taken place by maintaining in file a copy of the calculation of annual percentage rate and the disclosure signed and dated by borrowers before they are committed to a loan contract.

### **Effective Date**

2.5 Where a LFI is proposing to increase or decrease interest rates for loan products it shall ensure that existing customers are made aware of the revised rates **at least thirty (30) calendar days** before the effective date by:

(1) posting in each office, branch and agency of the LFI in Tonga, a notice detailing the proposed change in interest rates in a conspicuous place and at all teller stations or other places in the office, branch or agency where funds are normally received or paid out by the LFI;

(2) broadcasting over the radio and/or publishing in a local newspaper in general circulation in Tonga for four (4) weeks a notice detailing the proposed increase or decrease in interest rates on loan and deposit products.

2.6 A LFI should also give notice of interest rate decreases or increases for deposit products at least **thirty (30) calendar days** before the effective date in the same manner as outlined in 2.5 above. This is because a decrease or increase for one type of product may make it relatively more or less attractive than was previously the case.

2.7 A LFI must notify the Reserve Bank in writing of the variation in interest rates on loan and deposit products at least **thirty (30) calendar days** prior to effective date of the decrease or increase in interest rates on loan and deposit products.

## **3. FEES AND CHARGES**

### **Disclosure of Fees and Charges**

3.1 A LFI shall fully disclose all fees and charges on all the services and products it offers to members of the public. Fees and charges can be disclosed in brochures, leaflets,

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<sup>1</sup> Annual Percentage Rate is the rate that represents the actual annual cost of credit over the term of a loan. This includes any fees charged by the banks or additional costs associated with a loan excluding third party fees (PPSA, Insurance Premium etc). It provides borrowers with a bottom-line number they can easily compare to rates charged by other potential lenders. A soft copy of the Annual Percentage Rate Calculator, in Microsoft Excel format, has been circulated to all LFIs.

pamphlets or booklets placed in a conspicuous position in each of its offices and branches in Tonga.

3.2 The method of disclosure undertaken by a LFI for fees and charges is entirely at its discretion but the format used must conform to the disclosure standard of the Reserve Bank as outlined in this Prudential Statement.

3.3 All disclosure brochures, leaflets, booklets, or electronic or static displays must be made available to members of the public at all times. The brochures, leaflets, booklets, or electronic or static displays must be clearly displayed in a manner noticeable to all customers at each location of the bank's operation and the bank's website. It is a contravention of this Prudential Statement to not make available this information.

3.4 In response to enquiries about LFI services or products, LFI personnel must provide a copy of the fees and charges disclosure information. Customers should be encouraged to study the fees and charges disclosure before proceeding.

### **Format for disclosure of Fees and Charges**

3.5 A LFI's fees and charges shall be grouped for disclosure purposes under three main business headings - customer banking services, lending and international in the formats set out in Appendix A, B and C. The generic names in the Reserve Bank's formats must be retained but a LFI may insert in brackets the specific names of accounts/products it uses. Where a LFI offers additional products or services it should clearly itemise these products and services under the appropriate sub-headings.

3.6 If a LFI does not have a fee or charge for a particular service or product, that should be noted in the fees and charges brochure for the benefit of customers. For example, a LFI should specifically state the number of free withdrawals and charges associated with any additional withdrawals on passbooks accounts and electronic debit cards.

3.7 If a LFI does not offer a particular service or product that is specified in the sub-heading of the disclosure format prepared by the Reserve Bank, the LFI should disclose this in the fees and charges brochure as Not Applicable (N/A).

### **Pre-Contractual Conduct**

3.8 LFIs shall fully disclose in writing to a customer before entering into a contract for a loan or deposit product. The pre contractual document should set out at a minimum the following:

- (i) *For Open-End Credit*<sup>2</sup>:

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<sup>2</sup> Means pre-approved loan between a bank and borrower that may be used repeatedly up to a certain limit and can subsequently be paid back prior to payments coming due. The pre-approved amount will be set out in the agreement between the lender and the borrower. Open end credit is also referred to as a "line of credit" or "revolving line of credit".

- (a) The name and address of the bank;
  - (b) Description and function of the Credit Contract;
  - (c) Amount of credit limit;
  - (d) Annual interest rate, base lending rate and Annual Percentage Rate;
  - (e) Fees and charges (including explanation on how and when the fees and charges apply)
  - (f) Calculation of interest charges including the frequency with which interest is compounded and debited to the loan account and the balance on which interest is calculated;
  - (g) Default interest rate/loan arrear fee;
  - (h) Changes to interest rates, fees and charges, and terms and conditions of the contract;
  - (i) Statement of accounts (refer section 5);
  - (j) Payment obligations including due date of payments and amounts;
  - (k) Default, Subsequent bank's actions & consequences, cancellation and termination;
  - (l) Error and Dispute/Complaints Resolution; and;
  - (m) Glossary – Definition of words in relation to the credit contract.
- (ii) *For closed-end credit*<sup>3</sup>:
- (a) The name and address of the bank;
  - (b) Description and function of the credit contract;
  - (c) Required deposit amount or percentage;
  - (d) Amount of credit;
  - (e) Acceptance expiry date;
  - (f) Annual interest rate, base lending rate and Annual Percentage Rate;
  - (g) Calculation of interest rate including the frequency with which interest is compounded and debited to the loan account and the balance on which interest is calculated;
  - (h) Fees and charges (including explanation on how and when the fees and charges apply);
  - (i) Default interest rate/loan arrear fee;
  - (j) Total payments – this includes the principal credit; interest payable and any fees and charges;
  - (k) Payment schedule – specify the total costs (interest and fees) and repayment of principal loan for each year, the number of years, amounts of each payment and timing of payments scheduled to repay the obligation;
  - (l) Frequency of statement of account (refer section 5);
  - (m) Changes to Interest Rates, Fees and charges, and terms and conditions of the contract;
  - (n) Payment obligations;
  - (o) Default, Subsequent Bank's Actions & Consequences, Cancellation and Termination;
  - (p) Error and Dispute/Complaints Resolution;

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<sup>3</sup> Closed end credit refers to a loan for a specific amount of money that requires full repayment of principal and interest by a predetermined rate.

- (q) Enforcement expenses;
- (r) Mortgage/Security and Guarantee – relevant information about the terms and conditions on Mortgage/Security and Guarantee; and
- (s) Glossary – Definition of words in relation to the Credit Contract; and,
- (t) Credit Contract Cancellation.

*(iii) For Deposits:*

- (a) Rate Information – rate of interest of the deposit product
- (b) Compounding & Crediting – the frequency with which interest is compounded and credited and the balance on which interest is calculated. Each bank must disclose the effect of closing an account before accrued interest is calculated.
- (c) Balance Information – information on the minimum balance required to open an account, balance to be maintained to avoid the imposition of a fee (or not); and required balance to obtain the annual yield must be disclosed.
- (d) Fees and Charges – list the applicable fees and charges for the deposit accounts and explain when and how these fees will apply.
- (e) Transaction Limits – transaction limits include any limitations on the number of free withdrawals or deposits.
- (f) Time Deposit Accounts – For time deposit accounts, the maturity date and early withdrawal penalties must be disclosed.
- (g) Frequency of Interest Payment – details on the frequency of interest payment during the period of the term deposits.
- (h) Renewal Policies – explain how the bank will inform the customers on maturity of term deposits.
- (i) Bonuses – For account with bonus interest rates, the disclosure of bonuses must be disclosed including the amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus.
- (j) Glossary – Definition of Words in Relation to Deposits.

### **Contractual Requirements**

3.9 All contracts shall be in writing and customers must be provided with a copy of the contract free of charge. **The written consumer loan contracts shall be in plain English and Tongan language, effective from 1<sup>st</sup> October 2017.** Any additional copies requested may be charged by the bank, which the customer must be informed prior to purchase.

3.10 LFIs shall only apply interest rates, fees and charges that are disclosed in loan and deposit contracts.

#### ***Variable fees***

3.11 No new fees shall be effected by a LFI after a customer enters into a contract for a loan or deposit product. No increase in fees and charges shall be effected by a LFI after a customer enters into a loan or deposit contract unless the contract specifically provides

for variable fees and charges. In which case the LFI must state in the loan or deposit contract in specific terms the date(s) or frequency at which the fees and charges are subject to recalculation and disclosed in the methodology to be used by the LFI for calculating changes in fees and charges. A LFI must increase or decrease variable fees and charges on the required date(s) or frequency in accordance with the methodology disclosed in the loan or deposit contract. Where loan or deposit contracts provide for variable fees and charges, the LFI must maintain written documentation of the calculation using the methodology disclosed in the contract and such calculations shall be made available to the customer and the Reserve Bank on request free of charge.

### ***Variable interest rates***

3.12 Loan and deposit contracts which provide for variable interest rates must state in specific terms the date(s) or frequency at which the interest rate will be recalculated and increased or decreased and disclosed in the methodology to be used by the LFI for adjusting the interest rate. A LFI must increase or decrease the interest rate on the required date(s) or frequency and in accordance with the methodology disclosed in the loan or deposit contract. Where a loan provides for a variable interest rate, the LFI must maintain written documentation of the calculation using the methodology disclosed in the contract and such calculations must be made available to the customer and the Reserve Bank on request free of charge.

### **External Parties' Fees**

3.13 Where customers are expected to pay fees or charges to external parties e.g. solicitors' fees, valuation fees etc, a LFI should put customers on notice that a third party fee or charge may be applicable. Third party fee or charge will not be included in the Annual Percentage Rate calculation in Appendix D.

### **Effective Date of Fees and Charges**

3.14 A LFI's fees and charges brochures etc shall specify the effective date of those charges. If charges for some products and services have been reduced or increased for a specified time, the effective dates are to be covered by a separate notice.

3.15 In the case where a LFI is proposing to increase fees and charges or impose a new fee or charge, it shall ensure that the customers are made aware of the revised fees and charges at least 30 calendar days before the effective date by:

(i) posting in each office, branch and agency of the LFI in Tonga, a notice detailing the proposed change in fees or other charges in a conspicuous place and at all teller stations or other places in the office, branch or agency where funds are normally received or paid out by the LFI. This includes changes to existing fees and the introduction of new fees on all products and services;

(ii) publishing in a local newspaper in general circulation in Tonga, the changes in fees and other charges, for four (4) weeks a notice detailing the proposed changes in fees and other charges on all products and services.

3.16 A LFI should give notice of fee and charge decreases as well as increases at least 30 calendar days before the effective date. This is because a decrease for one type of product may make it relatively more or less attractive than was previously the case.

***Fees or changes to be on a cost recovery basis***

3.17 Each LFI must notify the Reserve Bank in writing of any new fee or charge and an increase in the existing fee or charge for any product or service at least 30 calendar days before the effective date and provide details on how this was determined. LFIs must ensure that all fees and charges are reasonably priced based on the costs associated with the respective banking products and services, and may take into account any cross subsidies. With the full details provided, the Reserve Bank shall raise any objections within 30 calendar days.

3.18 LFIs shall not introduce new fees or charges on increase existing fees and charges before a written notice through acceptable media has been made available to all customers at least 30 calendar days before the effective date.

***Changes to variable interest rates***

3.19 For any increment on variable interest rates on existing credit and deposit contracts, banks must provide a written notice through acceptable media<sup>4</sup> to all customers at least 30 calendar days prior to the effective date. The new interest rates shall apply to transactions that occur on or after the effective date of the new interest rates.

3.20 For marketing promotions which offer promotional rates, banks must ensure to disclose the length of time the promotional rates will apply after a product is sold.

3.21 Further to the above responsibilities, LFIs engaging in foreign exchange business are also required to quote fair market exchange rates for daily public display.

***Risk Premium***

3.22 LFIs shall submit to the Reserve Bank (annually by the end of December of every year) the latest Board approved calculation of the LFI's risk premiums that are included in the calculation of the interest rate. (E.g. Interest Rate = base rate + country risk premium + customer risk premium + other factors)

3.23 LFIs shall provide same information on the risk premium when interest rates charged on loans change.

**4. DEBITING AND CREDITING OF ACCOUNTS**

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<sup>4</sup> Acceptable media include written letter, newspaper advertisement, emails and SMS.

A LFI shall charge to a customer's loan account and pay to a customer's deposit account only the disclosed interest rate and fees and charges.

## **5. STATEMENTS OF ACCOUNT**

5.1 A LFI shall provide customers, free of charge, with up to 4 written statement of transactions on each deposit (other than a passbook or term deposit) and loan account maintained with the LFI per annum upon the request of the customers. This statement should clearly identify the amount of interest credited or debited to the account and the amount and type of fees and charges debited to the account. A LFI must publish in a newspaper(s) that is circulated in Tonga for four consecutive weeks a public announcement notifying all customers that quarterly statements are available on request free of charge. This public announcement must be made every quarter no later than 2 days from the end of each quarter.

5.2 A LFI may charge a fee, if disclosed, for additional statements requested by customers.

## **6. REPORTING REQUIREMENTS**

6.1 Each LFI is required to provide to the Reserve Bank a list of all products and services offered, along with the applicable fees and charges of each product and service. The list must be provided in an electronic copy in the format in Appendices every six months within 30 calendar days from the end of each LFI's financial year, and each time changes are made to the list of products and services and the list of fees and charges within 30 calendar days from the date when the changes were made.

6.2 Each LFI must inform the Reserve Bank in writing of its intention to introduce a new product or service at least 30 calendar days before it is introduced. Each LFI must also inform the Reserve Bank in writing of the withdrawal of any existing product or service within 30 calendar days after the product or service is withdrawn and the rationale for this.

6.3 The Reserve Bank reserves the right to use and replicate the information provided on each product and service for the objectives of this Prudential Statement and may request the LFI to explain the rationale on how the fees and charges are determined at any time.

## **7. LANGUAGE**

7.1 A LFI should disclose information required in 2.5, 2.6, and 3.15 above in both the English and Tongan languages.

## **8. COMPLIANCE WITH THE DISCLOSURE REQUIREMENTS**

8.1 This disclosure statement is effective from 1<sup>st</sup> April 2017, except for the revised requirement in 3.9 which shall take effect from 1<sup>st</sup> October 2017.

8.2 The Reserve Bank will conduct an annual survey to check compliance on the disclosure practices of LFIs. If the survey finds that a LFI is not fully disclosing its interest rates and fees and charges as required in this Prudential Statement the Reserve Bank will first request the LFI to comply with the disclosure standard within 30 days. If the LFI fails to comply with the request within the specified time or repeatedly breaches the requirement, the Reserve Bank will take appropriate action under Section 33 of the Financial Institutions Act 2004 and the administrative penalties outlined in Prudential Statement No.3 Administrative Penalties.

**National Reserve Bank of Tonga**  
**March 2017**