

# **NATIONAL RESERVE BANK OF TONGA**

## **Prudential Statement No. 4 Revised 2009**

### **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 functions of the Reserve Bank is to “promote sound financial structure”. As part of its response to this function the Reserve Bank requires a licensed financial institutions (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 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 e.g. it may be an electronic or static display.

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

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 effective interest rate<sup>1</sup>, 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.

### **Effective Date**

2.5 Where a LFI is proposing to increase interest rates for loan products it shall ensure that existing customers are made aware of the revised rates at least 30 days before the effective date.

2.6 A LFI should also give notice of interest rate decreases for loan products as well as increases for deposit products. This is because a decrease or increase for one type of product may make it relatively more attractive than was previously the case. However, decreases for loan products and increases for deposit products do not require 30 days notice.

## **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, 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.

3.3 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 customers to study the fees and charges disclosure before proceeding.

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<sup>1</sup> The total amount of interest payments for the term of loan, the amount of interest paid at closing, establishment fees spread over the term of the loan and any other fees and charges over the term of the loan as a percentage of the Principal amount borrowed.

For example, a T\$50,000 loan for 2 years. Total interest payments of \$5000 per annum, establishment fee of \$2,000 [\$1,000 per annum], \$600 in fees charges per annum.

The effective interest rate would be 13.2% per annum

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

3.4 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 format set out in Appendix A, B and C. The generic names in the Reserve Bank's format 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.

3.5 If a LFI does not have a fee or charge for a particular service or product, it should be disclosed 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.

3.6 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).

## **External Parties Fees**

3.7 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.

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

3.8 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.

3.9 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 days before the effective date.

3.10 A LFI should give notice of fee and charge decreases as well as increases. This is because a decrease for one type of product may make it relatively more attractive than was previously the case. However, decreases do not require 30 days notice.

## **4. DEBITING AND CREDITING OF ACCOUNTS**

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.

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

## **6. LANGUAGE**

6.1 A LFI should disclose information required in 2.4 above in both the English and Tongan languages.

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

7.1 This disclosure statement is effective from 4 August 2009.

7.2 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, the Reserve Bank will then take appropriate actions under Section 33 of the Financial Institutions Act 2004.

**National Reserve Bank of Tonga  
August 2009**