OVERVIEW

1. Introduction

1.1 A credit market that functions properly contributes significant benefits to the economy, helping individuals to take advantage of economic opportunities and build wealth, and businesses to grow and create jobs.

1.2 While consumers must be responsible to make informed financial decisions that are in their own best interests, the combination of easier access to credit and an increasingly competitive and innovative credit market has made it more important to also ensure that financial service providers (FSPs) adopt responsible financing practices in their dealings with retail consumers. In particular, there is a need to complement disclosure requirements and financial capability initiatives that support informed borrowing decisions by consumers, with clear expectations of FSPs to help consumers in this process by ensuring that financing products are suitable and affordable given a consumer's financial circumstances. More broadly, responsible lending and borrowing behaviours will promote a resilient household sector which in turn contributes to economic and financial stability.

1.3 FSPs currently have considerable flexibility in assessing the suitability and affordability of financing products for retail consumers. This will be substantially preserved. However, observations of the varying practices among FSPs and in some cases, inadequate assessments of suitability and affordability, over-reliance on collateral and inadequate regard for consumer interests in promoting financing products to retail customers, support the need for expectations to be strengthened with respect to the overall conduct of business in retail financing.

2. Objectives

2.1 The guidelines aim to promote a sustainable retail finance market that adequately protects consumers by requiring FSPs to engage in prudent, responsible and transparent business practices in all their retail financing operations.

2.2 While these guidelines focus on the FSPs' responsible financing behaviours, it is recognised that consumers also have, and must discharge, their responsibility for ensuring sound borrowing decisions that are appropriate to their financial circumstances. In this regard, the guidelines also serve to promote more effective engagements between FSPs and borrowers through better disclosures and advice to consumers.

3. Applicability

3.1 The guidelines are applicable to the following FSPs:

- Banking institutions licensed under the Banking and Financial Institutions Act 1989;
- Islamic banking institutions licensed under the Islamic Banking Act 1983;
- Life insurers licensed under the Insurance Act 1996;
- Takaful operators registered under the Takaful Act 1984;
- Development financial institutions prescribed under the Development Financial Institutions Act 2002; and
- Designated payment instrument issuers approved under the Payment Systems Act 2003.

4. Scope of Coverage

4.1 The guidelines are applicable to all financing products offered by the FSP, either directly or through the FSP's intermediaries, to individual customers. These include:

- home financing products;
- personal financing products;
- vehicle financing products; and
- credit card products.

4.2 The guidelines should be read in conjunction with other relevant guidelines or circulars issued by Bank Negara Malaysia from time to time.

5. Legal Provisions

5.1 The guidelines are issued pursuant to:

- Section 126 of the Banking and Financial Institutions Act 1989;
- Section 53A of the Islamic Banking Act 1983;
- Section 201 of the Insurance Act 1996;
- Section 69 of the Takaful Act 1984;
- Section 126 of the Development Financial Institutions Act 2002; and
- Section 70 of the Payment Systems Act 2003.

POLICY REQUIREMENTS

6. Suitability and Affordability Assessment

6.1 Financing that is based on inadequate suitability and affordability assessment exposes the customer and the FSP to increased credit risks.

6.2 A financial product is suitable and affordable if the amount and terms allow the customer to reasonably meet the repayment obligations in full throughout the course of financing, without recourse to debt relief or substantial hardship. In this connection, the FSP is required to take reasonable steps to establish that consumers are offered a financing product that is appropriate to their needs, financial circumstances and affordability by making enquiries and undertaking an assessment of the following:

(a) The purpose of financing;

(b) The customer's financing requirements; and

(c) The customer's financial situation which should take into account income, expenditure and outstanding debt obligations.

6.3 The suitability and affordability assessment must be carried out for each new and additional financing facility offered by the FSP.

Income

6.4 In assessing income, the FSP must enquire into the sources and amount of income. If variable income (such as overtime, commission, etc) is taken into account, the FSP must evaluate the variability of such income over time and generally only include a prudent portion as consistent income in assessing affordability. Where the customer has no permanent employment or is self-employed, the FSP should evaluate the stability of the primary sources of income by requiring customers to provide evidence of income over a sufficient period of time.

6.5 The FSP must verify the customer's income with reliable sources which are independent of the customer and must not rely solely on the customer's self-certification of income.

6.6 For financing above RM50,000, the FSP must require the submission of income tax returns for the purpose of verifying income.

Expenditure

6.7 In assessing expenditure, the FSP must include expenditure of both the customer and his dependents, if any. This should include:

- **committed expenditure** such as monthly payment for existing debt and expenditure associated with the asset purchased for which the proposed financing is being secured such as insurance premium, assessment tax and maintenance fee;
- **essential and daily expenditure** for items such as rental, food, clothes, transport, utility bills and leisure; and
- **contingency expenditure** such as for medical or car/house repairs including an allowance for underestimated or undeclared expenditure.

6.8 For practical reasons, the FSP may apply statistical methods and assumptions to estimate expenditures. Where such methods are used, the FSP must be able to support and explain the basis of its approach and have a process in place to validate the methods used over time.

6.9 The FSP that relies on information regarding expenditures provided by the customer is expected to test the reasonableness of the expenditures declared taking into account the circumstances of the customer, and make appropriate adjustments to the allowance for underestimated / undeclared expenditure.

Debt obligations

6.10 The FSP is required to conduct a comprehensive check on a customer's overall indebtedness by obtaining information on the customer's outstanding debt obligation, both secured and unsecured financing from all FSPs, and other entities that provide credit facilities (e.g. cooperatives, building societies and merchants). In this connection, the FSP must:

(a) refer to the Central Credit Reference Information System (CCRIS) to establish the customer's outstanding debt obligations captured in the CCRIS system;

(b) make specific inquiries regarding financing from entities not covered by CCRIS, if any;

(c) enquire whether the customer is in the process of applying for any other financing; and

(d) alert the customer of his duty to disclose adequate and correct information in the financing application as well as the consequence of providing incomplete or incorrect information e.g non-disclosure that affects risk profile of the customer.

Q1. What do you foresee as implementation issues in complying with the requirements on assessments of income, expenditure and debt obligations?

Financing decision

6.11 Financing decisions shall be based on the FSP's assessment of a customer's ability to repay the proposed financing, taking into account:

(a) the customer's net income after deduction of all expenditure and debt obligations;

(b) the customer's ability to make the scheduled repayment of principal and interest/profit (including any fees and charges included in the financing amount) from the net income assessed. Where discounted interest/profit rates apply in the early part of a financing plan, the highest applicable rate (based on applicable Base Lending Rate at the point of assessment) of interest/profit should be used to assess affordability. For interest/profit-only home financing extended during the construction phase of new housing development projects, the affordability assessment should also evaluate the ability of the customer to repay the financing on a principal and interest/profit basis at the end of the interest/profit-only period; and

(c) reasonably foreseeable changes in the circumstances of the customer that have implications on his/her repayment ability. In particular, when the financing term extends into retirement, the FSP should satisfy itself that the level of income in retirement will be sufficient for the financing to remain affordable. This may be achieved by considering the rate of accumulation of pension provisions or contracted annuity payments. As part of this process, the FSP should actively engage the customer on how he/she will continue to meet the financing repayments during retirement.

6.12 The basis for a financing decision shall be properly documented and supported with information relevant to the decision. This should facilitate internal and supervisory reviews of the FSP's compliance with these guidelines.

6.13 The consideration of collateral alone should not lead the FSP to extend financing to a customer who has otherwise been assessed by the FSP to be unable to afford the financing.

6.14 If a customer's financing application is declined, the FSP must provide reasons for the decision upon request by the customer.

7. Marketing & Disclosure

7.1 This section should be read with the disclosure requirements on loan/financing products as contained in the Guidelines on Product Transparency and Disclosure issued by Bank Negara Malaysia.

7.2 The FSP must ensure that advertisement and promotion materials on financing products are clear, fair and not misleading or deceptive. Critical information that is likely to affect consumers' borrowing decisions must be prominently displayed.

7.3 Sales and marketing staff / representatives should pay due regard to the interests of the customer by inquiring into the customer's financial requirements and financial situation to ensure that the financing product offered is suitable in meeting the customer's needs and circumstances.

7.4 Sales and marketing staff / representatives are required to provide a product disclosure sheet (as per the format provided in the Appendices) to facilitate the comparisons and informed decisions by consumers. The product disclosure sheet (PDS) must also be provided to the customer at the point of entering into the financing contract if there is a material change in the information. The customer must be alerted to the importance of reading and understanding the PDS. The effective annual financing rate and any applicable fees and charges must be clearly disclosed. In addition, the sales and marketing staff / representatives must draw the customer's attention to the total repayment amount and total interest / profit cost as contained in the PDS for comparison with similar products offered by other FSPs.

7.5 The FSP must ensure that the sales and marketing staff / representatives explain the following, at a minimum, to the customer:

- Key terms affecting the obligations of the customer;
- Except for fixed rate financing, the impact of an increase in financing rate on the monthly instalment and total repayment amount;
- Fees and charges that the customer may incur;

- The Customer's responsibility and obligations; and
- Consequences of defaulting on any repayments, for example, possibility of an increase in financing rate, penalty charges and foreclosure of property.

7.6 Customers should be advised to read and consider the information and explanation given in order to satisfy themselves that they understand the key features of the financing product and the associated risks, prior to entering into a financing contract.

7.7 The FSP must ensure that all sales and marketing staff / representatives are properly trained and competent to carry out their functions. Marketing staff / representatives should be knowledgeable in the key features, risks and critical terms of the financing products. The FSP is required to provide appropriate initial and ongoing training to its marketing staff/representatives, and such training shall also cover marketing ethics and relevant regulatory obligations which must be observed in the marketing of financing products.

7.8 The FSP must establish a process to periodically check that marketing staff / representatives remain competent to explain the FSP's products and comply fully with applicable regulatory requirements. Such a process should include obtaining direct customer feedback on the quality of advice given to the customer, and the ability of the marketing staff / representatives to clearly and accurately explain relevant product information.

7.9 The FSP must also ensure that marketing staff / representatives do not harass, unduly pressure or inappropriately entice consumers into signing up for a financing product (e.g. through exaggerated special offers with undisclosed conditions attached).

7.10 In remunerating sales and marketing staff / representatives, the FSP must establish and maintain remuneration policies and procedures that promote fair and responsible conduct. The reward system should not inappropriately incentivise behaviour which focuses solely on achieving sales targets without regard to the interests of the customer.

7.11 To discourage undesirable behaviour, the FSP should include non-financial indicators in monitoring the performance of sales and marketing staff / representatives. The Bank expects FSPs to deal firmly and expediently with any mis-selling of financing products, including actions to provide appropriate remedies to affected customers.

8. Fees and Charges

8.1 In determining the type and quantum of fees and charges on any financing products and services, the FSP must ensure compliance with the Guidelines on Imposition of Fees and Charges on Financial Products and Services.

8.2 Early termination fees imposed on the customer for repaying the financing contract in part or in full during the lock-in period shall reflect a reasonable estimate of the costs to be incurred by the FSP as a direct result of early termination. Such costs may include:

- costs that have not been recovered because a financing contract with discounted rate during the lock-in period is terminated early;
- initial costs that have not been recovered (e.g. for zero moving cost products); and
- administrative costs for processing the early termination.

Q2. Are there any other direct costs that should be included in the computation of early termination fee?

8.3 The early termination fee should not penalise or act as a barrier to prevent the customer from switching or closing a financing account. In this regard, the fee shall exclude any consideration of following costs:

- loss of profit that would have been received if the financing continues until the end of the expected tenure; and
- marketing cost and other costs associated with obtaining new customers.

8.4 The financial contract must not contain any term which gives the FSP a unilateral right to vary an early termination fee or the circumstances in which the fee applies.

8.5 The FSP may impose a late payment fee of not more than 1% per annum on the arrears in default (excluding credit card and hire purchase loans). Late payment fees shall not be added to the outstanding amount in arrears for purposes of computing interest/profit due or early termination fees. The computation method for late payment fees should be clearly disclosed to the customer.

8.6 Payments made by the customer should first be allocated to clearing any instalments in arrears before fees.

9. Monitoring and Recovery

9.1 The FSP is required to comply with the debt collection requirements as contained in the Guidelines on "Fair Debt Collection Practices".

9.2 The FSP is expected to implement and enforce clear policies and procedures to ensure that a customer who is unable to meet his repayment due to illness, unemployment or other reasonable cause, is treated fairly and with due consideration. Such procedures should provide for the FSP to explore all viable options in assisting the customer to meet his financial obligation.

9.3 As part of its regular monitoring of financing accounts, the FSP should contact the customer promptly upon detecting early signs of repayment difficulty. The customer should be informed of the importance of engaging with the FSP early to discuss alternative repayment measures since it is in the interests of both the FSP and the customer to address financial difficulties speedily.

9.4 The FSP is expected to make reasonable efforts to offer an alternative repayment plan that is appropriate to the customer's changed circumstances and financial situation with the aim of resolving repayment difficulties of the customer. The customer should be given adequate information to understand the implications of any proposed repayment arrangement.

9.5 The alternative repayment plan should not unfairly increase the debt burden or payment difficulty of the customer. For instance, capitalising the amount in arrears without any reduction in the new monthly instalment would not help a customer who suffers a reduction in income, while increasing the total repayment amount of the customer.

9.6 If the FSP has a valid reason to refuse the customer's request for restructuring or rescheduling, the FSP should provide a written explanation for the refusal and information on available redress avenues.

9.7 In the event that the FSP decides to increase the financing rate in accordance with the relevant terms and conditions following successive defaults by the customer, the FSP must provide written advance notice to the customer before the new rate takes effect. The FSP is expected to revert the financing rate to the normal rate when the customer's risk profile improves. Flexibility is given to the FSP to determine the period over which a customer is required to demonstrate a sustained ability to meet scheduled repayments before reverting to the normal financing rate.

9.8 The FSP should alert the customer of possible recovery actions if the customer continues to be in default, such as legal proceedings and foreclosure and that the related costs will be borne by the customer.

9.9 Legal action to foreclose a customer's property should generally only be initiated when other reasonable attempts to reach a resolution have been unsuccessful. The FSP should provide a reasonable opportunity for the customer to conduct a private sale before initiating foreclosure action if there are favourable prospects for a private sale to be concluded more expeditiously and this benefits efforts to resolve the customer's indebtedness. The FSP must also inform the customer that he will be held liable for the outstanding debt if there is a shortfall after the property is sold.

10. Avenue for Redress or Assistance

10.1 In addition to the requirements under the Guidelines on Complaints Handling issued by Bank Negara Malaysia, the FSP must have a dedicated point of contact for customers undergoing recovery actions to seek assistance. The contact details should be clearly communicated to all customers. The FSP is expected to provide appropriate training for staff dealing with customers experiencing difficulties in repayment. Staff should be able to explain and provide advice on options and avenues available to assist the customer in resolving repayment difficulties.

10.2 The FSP is also required to inform the customer of the services of Agensi Kaunseling Dan Pengurusan Kredit (AKPK) by inserting the note below in the PDS and all financing statements sent to the customer:

<u>English version</u>
"Agensi Kaunseling Dan Pengurusan Kredit has been established by Bank Negara Malaysia to provide free services on money management, credit counselling, financial education and debt restructuring for individuals. For enquiry, please call 1-800-88-2575".

<u>Bahasa Malaysia version</u>
"Agensi Kaunseling Dan Pengurusan Kredit telah ditubuhkan oleh Bank Negara Malaysia untuk menyediakan perkhidmatan pengurusan kewangan, kaunseling kredit, pendidikan kewangan dan penstrukturan semula pinjaman secara percuma kepada individu. Untuk membuat pertanyaan, sila hubungi talian 1-800-88-2575".

10.3 All sales and marketing staff / representatives of FSPs are required to inform new customers about the "Program Pengurusan Wang Ringgit Anda" or

"POWER!" offered by AKPK and encourage them to attend the programme. FSPs shall facilitate interests by such customers to register for the programme.

11. Compliance

11.1 As part of the FSP's risk management and internal control review processes, the Bank expects the FSP to have in place and be able to demonstrate the effective functioning of proper systems and processes for ensuring the compliance with these guidelines. Material non-compliance with the requirements should be reported to the Board together with action plans to rectify the non-compliance. The Board is ultimately responsible to ensure that appropriate actions are taken to redress any deficiencies with respect to expectations of the FSP to conduct its retail financing business responsibly which would expose the FSP to financial and reputational risks.

11.2 The FSP is also accountable to ensure that its intermediaries comply with the guidelines and take appropriate action against any non-compliance, misconduct or unacceptable practices.

Q3. What are your suggestions for appropriate transitioning arrangements to facilitate the implementation of these guidelines?

Q4. Are there any other considerations that are relevant to the guidelines?

Appendix 1 – Product Disclosure Sheet – Housing Loan

PRODUCT DISCLOSURE SHEET

(Read this Product Disclosure Sheet before you decide to take out the <Name of Product>. Be sure to also read the general terms and conditions in the letter of offer. Seek clarification from your institution if you do not understand any part of this document or the general terms and)

<Name of Financial Service Provider>

<Name of Product>

<Date>

1. What is this product about?

This housing loan is calculated on a variable rate basis and you are offering your house as a security for this loan.

2. What do I get from this product?

- Total amount borrowed: RM xx (k% of house price) + RM yy (legal fee) = RM zz
- Tenure: 20 years

- Base Lending Rate (BLR): k%
- Interest rate:

  Year 1-3: x%

  Year 4-5: BLR + y%

  Thereafter: BLR + z%

3. What are my obligations?

- Your monthly instalment is **RM xx**
- Total repayment amount (amount borrowed + interest) at the end of 20 years is **RM xx**

Important: Your monthly instalment and total repayment amount will vary if the BLR changes. E.g.

Rate	Today (BLR=k%)	If BLR goes up 1%	If BLR goes up 2%
Monthly instalment	RM xx		
Total interest cost at the end of 20 years	RM yy		
Total repayment amount at the end of 20 years	RM zz		

- *State whether the borrower has to serve interest during construction period for a property under construction. Explain mechanism of how interest is calculated.*

4. What other charges do I have to pay?

a) Stamp Duties

As per the Stamp Act 1949 (Revised 1989).

b) Disbursement Fee

Include fees for registration of charge, land search and bankruptcy search.

c) Processing Fees

One time fee charged for approved loan	**Rate (RM)**	**Range (RM)**
	50	Up to 30,000
	100	30,001 - 100,000
	200	100,000 and above

5. What if I fail to fulfil my obligations?

If you have problem meeting your loan obligations, contact us early to discuss repayment alternatives. Delay on you part could lead to the following consequences:

- Late payment penalty of 1% p.a. on the amount in arrears will be imposed, causing the total outstanding to increase.
- If you fail to pay 3 monthly instalments consecutively, we may increase the financing rate.
- We have the right to set-off any credit balance in your account maintained with us against any outstanding balance in this loan account.
- We may proceed with legal action if you fail to respond to our reminder notices. Your property may be foreclosed. You will have to bear all costs related to foreclosure. In the event that there is a shortfall after your property is sold, you are responsible to settle the balance.
- Legal action against you may affect your credit rating leading to credit being more difficult or expensive to you.

(To highlight other key terms and conditions.)

6. What if I fully settle the loan during the lock-in period?

- Lock-in period: **k years** (to start from…)
- Penalty: x% of outstanding or original loan amount

7. Do I need any insurance / takaful coverage

- Indicate if mortgage reducing term assurance (MRTA) / mortgage reducing term takaful (MRTT) is required.
- Indicate if other insurance coverage is required.

8. What are the major risks?

- The financing rate on this loan is fixed only for the first x years. For the subsequent years, the financing rate may change according to changes in the reference rates. An increase in financing rate may result in higher monthly repayment.
- Changes in your financial situation, for example, loss of employment, reduced income and illness, may impact your ability to repay your loan.

9. What do I need to do if there are changes to my contact details?

It is important that you inform us of any change in your contact details to ensure that all correspondences reach you in a timely manner.

10. Where can I get assistance and redress?

- If you have difficulties in making repayments, you should contact us earliest possible.
- Alternatively, you may seek the services of Agensi Kaunseling dan Pengurusan Kredit (AKPK), an agency established by Bank Negara Malaysia to provide free services on money management, credit counselling, financial education and debt restructuring for individuals. You can contact AKPK at :

  Tingkat 8, Maju Junction Mall
  1001, Jalan Sultan Ismail
  50250 Kuala Lumpur
  Tel : 1-800-22-2575
  E-mail : enquiry@akpk.org.my

- If you wish to complaint on the product or services provided by us, you may contact us at :

  ABC Bank Berhad
  51, Jalan Sultan Ismail
  50122 Kuala Lumpur
  Tel:
  Fax:
  E-mail:

- If your query or complaint is not satisfactorily resolved by us, you may contact Bank Negara Malaysia LINK or TELELINK at:

  Block D, Bank Negara Malaysia
  Jalan Dato' Onn
  50480 Kuala Lumpur.
  Tel : 1-300-88-5465
  Fax : 03-21741515
  E-mail : bnmtelelink@bnm.gov.my

11. Where can I get further information?

Should you require additional information about taking a housing loan, please refer to the *bankinginfo* booklet on 'Housing Loans', available at all our branches and the www.bankinginfo.com.my website.

12. Other housing loan packages available

- abc
- xyz

IMPORTANT NOTE: YOUR HOUSE MAY BE FORECLOSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR HOUSING LOAN.

The information provided in this disclosure sheet is valid as at ***or until*** dd/mm/yy.