



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

Notice : 2901 /2011

إشعار رقم : 2011/2901

Date : 28/04/2011

التاريخ : 2011/ 04 / 28

To : All Banks and Finance Companies

إلى : كافة البنوك وشركات التمويل.

Sub : Clarifications and Guidelines Manual for Regulations No 29/2011 regarding Bank Loans & Services Offered to Individual Customers

الموضوع : دليل التوضيحات والإرشادات للنظام رقم 2011/29 بشأن القروض المصرفية والخدمات المقدمة للعملاء الأفراد

After greetings,,

بعد التحية،،

As indicated in Para (a) of Article (17) of the Regulations No. 29/2011, Banking Supervision and Examination Department have prepared the attached clarification and guidance manual which may be used in conjunction with the aforesaid Regulations.

بموجب أحكام الفقرة (أ) من المادة (17) من النظام رقم 2011/29، قامت دائرة الرقابة والتفتيش على المصارف بإعداد دليل التوضيحات والإرشادات المرفق، والذي يمكن استخدامه بالاقتران مع النظام المذكور.

Any other enquiries in this regard may be addressed via email to: hari.mishra@cbuae.gov.ae

وبإمكانكم توجيه أي استفسارات قد تكون لديكم بهذا الشأن عن طريق البريد الإلكتروني إلى: hari.mishra@cbuae.gov.ae

Yours faithfully

وتفضلوا بقبول فائق التقدير والاحترام،،،،


صالح علاو الطنجي
مدير أول

دائرة الرقابة والتفتيش على المصارف

Saleh Allaw Al Tenaiji

Senior Manager

Banking Supervision & Examination Department

Encl: as above

المرفقات: كما ذكر أعلاه



**Regulations No 29/2011 dated 23.02.2011 on Bank Loans and
Services Offered to Individual Customers-
Clarifications and Guidelines Manual**

Introduction:

Central Bank of the United Arab Emirates has issued Circular No 29/2011 dated 23.02.2011 titled Loans and Services Offered to Individual Customers. In compliance with Article 17 of the Circular and based on feed-back received from Emirates Bankers Association/ various banks, this Manual is being issued to clarify certain relevant provisions and requirements.

Banks and finance companies (hereafter referred to as bank or banks) extending personal facilities in accordance with the underlying regulations must ensure that they have adequate risk management systems to approve and monitor such facilities. Banks should also ensure that they have trained staff to market the relative products with proper guidance being given to the borrowing customers

Article (2)- Personal Loan:

1. These regulations apply to personal facilities viz. loans, overdrafts, car loans and credit cards extended to individuals which are repayable from salary, end of service indemnity and/ or other verifiable regular income from a well defined source.
2. It should be ensured that the borrowers' salary and end of service benefits are properly ascertained from the employer. If the facility is partly or fully given against other income, it should be from a well defined source and its full details should be obtained.
3. In case of borrowers with heavy personal commitments and lower disposable income or uncertain employment/ job prospects, **banks may not allow facilities upto the upper limit of 20 times salary and/ or the total income, repayable within 48 months despite meeting the specified criteria.**
4. For sound loan decisions, banks should have clear policy guidelines on issues which have direct bearing on the quality of risk and repayment of the loan.
5. If a customer avails for a lower amount than his eligibility or there is significant increase in his income level in subsequent months due to promotion etc, banks may reassess his eligibility after proper verification. In such a case, either existing loan is enhanced or a new loan is set up (without disturbing the existing loan).
6. If other income is main or supplementary source of repayment, it should be ensured that such income is from a known regular source, the borrower has produced documentary evidence of such income.

7. Besides personal facilities against salary and other income as above, banks may extend loans and overdrafts against lien over fixed deposits held with them.

Article (3)- Car Loan:

1. Banks may finance passenger new and used cars to the extent of 80% of their value. Financing of commercial vehicles is outside the purview of these regulations unless repayment of the loan is from the salary of the customer and other laid down criteria are satisfied.
2. Financing of operating leases to individuals would not be considered as car finance and would not fall within these regulations.
3. Car loans may be allowed in addition to the personal loan as above but within the 50% of gross salary and any regular income as explained in Article (7).

Article (4)- Overdraft Facilities:

1. Overdrafts limits will be counted within 20 times salary as specified for the personal loans under Article (2) above
3. Islamic banks may allow overdraft facilities by whatever name described in accordance with Shariaah principles, without violating the upper limits and other requirements of these regulations.

Article (5)- Credit Cards:

1. In order to ensure that credit cards are issued to creditworthy individuals, a mandatory minimum income level of AED 60,000 per annum has been stipulated. Banks may fix the limits within the policy as stated in this regulation.
2. Those not meeting the above income criteria are required to place a pledged deposit of not less than AED 60,000 with the bank for issuance of credit card. However such persons may be permitted credit facility besides credit card provided aggregate of credit facility and credit card limit do not exceed 50% of the pledged deposit.
3. Credit card limit is allowed as additional facility but repayment of outstandings must remain within 50% of gross salary and any regular income as explained in Article (7).
4. Banks may encourage greater use of debit cards for the customers who are not found to be eligible for issuance of credit card.
5. If the cards have been issued to non-customers, banks should compile statistical data separately for residents and non-residents and review them from time to time.
6. Banks will take particular care in respect of credit cards issued to non-residents.

Article (6)- Computation of Interest:

1. Method of interest calculation has not been changed from the earlier Circular No 12/93. Banks should continue to follow reducing balance method, by taking a year of 365 days. However they must ensure that effective interest rate on per annum basis is disclosed to the customer, displayed on the Board, it is used for calculation and specified in the loan documentation.

2. While reducing balance method of interest calculation will be followed on personal and car loans, average daily outstanding balances will form the basis for interest calculation in all cases.
3. In case of credit cards, the banks may continue to follow the global practice where no interest/ finance charges are levied on the outstanding balance (excluding cash advance transactions) when the new balance outstanding shown in the statement is paid in full by the Payment Due Date. Finance/ interest charges on cash advance may be applied from the transaction date till final repayment.
4. Within the above broad framework, Islamic banks may vary display of interest rates or use appropriate terminology as permitted under the Shariaah.
5. Any bank advertising or propagating 'Flat' interest rate must invariably state the equivalent effective rate side by side.

Article (7)- Repayment Installments:

1. All the lenders are obliged to carry out proper due diligence to ascertain the applicants' liabilities and income sources so that total installments including payments on account of credit card do not exceed 50% of their gross salary and other regular income.
2. Personal loans will be setup for a maximum tenor of 48 months. However if a borrower retires before full repayment, his loan will be restructured from the date of retirement so that his total repayments do not exceed 30% of income (or pension salary).
3. Existing loans will continue in accordance with the present arrangement and documentation. However no top ups, deferrals or rescheduling will be permitted beyond eligibility in terms of salary multiplier, tenor and repayment percentage.
4. Banks should formulate specific policy on top ups and rescheduling in order to restrict their frequency. It should be ensured that there is no 'ever greening' of loans to disguise problem or delinquent loans.
5. In case of Islamic banks, they have to ensure that in case of prepayment, adequate rebate is allowed to a customer so that final charge to him does not exceed the level given in Annexure 2 to the Circular.

Article (9)- Bank Accounts & Related Commissions and Charges:

1. Banks may continue with their present practices and internal guidelines to control and monitor dormant accounts. However in no case they should transfer the balance of such accounts to their profit and loss account.
2. Central Bank is in the process of issuing suitable guidelines in respect of dormant accounts. In the interim, banks may continue to comply with Notice No 24/2000 in respect of dormant accounts and take necessary precautions for operating such accounts.

Articles (10) and (11)- Personal Banking Services & Fees and Commissions Charged on them:

1. Relevant fees, charges and commissions applicable to personal customers have been specified in the Appendices to the Circular. Banks are not allowed to levy any other commissions, fees, charges or fines without Central Bank's written

- approval. Banks are however free to reduce or exempt their customers from payment of certain fees and charges at their discretion.
2. Loans and insurance are separate products. Hence it should be a customer's choice to select either to pay them together over the period of loan or to pay upfront. Banks should however explain to the customer properly and obtain his concurrence before charging him for the insurance.
 3. List of charges and commissions apply to personal loans, car loans and personal overdrafts. Banks may continue to levy charges and commissions on credit cards as hitherto as no change has been proposed in the regulations.
 4. If there are other important fees and charges applicable to certain segment of customers but left out in the Appendices, these may be submitted for consideration of the Central Bank.

Article (12)- Conditions for Opening of Accounts, Providing of Credit Cards and Granting Loans & Bank Facilities:

1. Emirates Banks Association will be providing the banks with standard account opening forms including general terms and conditions and other loan documentation which will be beneficial to various user groups. Pending finalization and introduction of new forms, the banks may continue to use the existing forms as hitherto.
2. In addition to the above, each bank will also be allowed to define specific terms and conditions which do not require prior approval from the Emirates Banks Association or Central Bank provided these are signed by the customer and do not contravene or contradict any other requirement. These terms will be shown in a separate section along with general terms and conditions.

Article (13)- Shariaah Compliant Banking Services:

Islamic banks will be allowed to use certain special terms applicable only to such banks, viz profit, finance, etc. However scheduled rates under different names or descriptions should be in accordance with these regulations and sent to Central Bank for information and publication.

Article (15)- General Provisions:

1. If a bank uses additional pages to the forms prescribed by the Emirates Banks Association, such sheets containing terms and conditions should be accepted by the borrower under his signature.
2. Banks are not expected to upgrade a customer's status whether for his credit card or other similar facility unless his prior concurrence has been obtained. Besides written concurrence, banks would be allowed to use SMS or email facility to communicate with the customers and obtain their concurrence.
3. Effective 1 May, 2011 all new personal accounts will be subject to the revised fee structure. Existing customers will however be given two months notice from that date through letters or via electronic means. Further the revised fee and charges will not be applied retrospectively.
4. Banks should continue to pay greater emphasis on cash flow/ repaying capacity of the borrower and less on security or guarantee.

5. As hitherto, banks are prohibited to take private houses as security for personal loans or take personal guarantees as security when these loans are given to non-UAE nationals.
6. No fees and charges have been mentioned for credit cards and banks may maintain status quo.
7. Banks may levy relationship based fee on personal accounts and offer incentives to high value customers provided a specific fee or charge does not exceed the maximum permissible rate specified in the rate structure.

Article (20)- Currently Outstanding Loans:

1. Existing loans and overdrafts will continue to be governed by the terms and conditions agreed between the parties. However early settlement charges, other charges, fees and commissions levied after 1st May, 2011 will be in accordance with the new structure.
2. New loans extended after 1st May, 2011 or rescheduled after that date will be subject to the new regulations.
3. In exceptional circumstances such as rescheduling due to retirement of the borrower or loss of his income for any other reason, a longer repayment period beyond 48 months could be permitted.

Issued in Abu Dhabi on 28th April, 2011