III.12 Publication of the Effective Interest Rate (or Annual Percentage Rate (APR)) on Consumer Credit

1. Introduction

This directive on the Publication of the Effective Interest Rate (or Annual Percentage Rate (APR) on Consumer Credit is aimed at enhancing transparency in the local credit market and providing the public with adequate information on the costs of consumer credit.

It is issued pursuant to section 12, paragraph 1, of the State Ordinance on the Supervision of the Credit System (AB 1998, No. 16) (SOSCS).

2. Definitions

For the purpose of this directive, the following definitions shall apply:

- *Effective interest rate or APR:* reflects the "true" cost of credit, expressed as a percentage on an annual basis, taking into consideration the amortization of loans balances through periodic payments.

- *Nominal interest rate:* reflects the stated rate of interest, ignoring compounding interest or other factors.

- *Consumer credit:* comprises credit extended to individuals for personal or household use (e.g. personal loans and car loans).

- *Relevant Party:* means the licensed credit institution or the (legal) person with an exemption pursuant to article 48 of the SOSCS to extend consumer credit to the public (together hereafter referred to as "the relevant parties").

- *Advertisement:* Any form of communication intended to persuade an audience (viewers, readers or listeners) to purchase or take some action upon products, services or ideas.

3. Disclosure of Effective Interest Rate or APR

When a relevant party offers consumer credit products to the public, for example through advertising, whereby a direct or indirect reference is made to any pricing element of this type of credit, then the relevant party must adhere to the following:

1. Disclose the "effective interest rate" or APR, in the same format as the nominal interest rate.
2. It is strictly forbidden to publish other types of interest rates, for example the add-on interest rate.
3. Insofar applicable, disclose the insurance contracts and security that need to be established in order for a person to become eligible for this type of credit.
4. Insofar applicable, disclose the penalty interest or fees applicable in case of early repayment of the loan.

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If the advertisement refers to an interest rate which will be offered for a limited period or an interest rate with a variable component that will differ for a limited period from normal rates, then the financial institution must also provide the following information:

1. The specific time frame in which the offered interest rates will be applicable.
2. The effective interest rate or APR applicable upon expiration of the aforementioned specific time frame.
3. In case of a grace period, the weighted average effective interest rate or APR during the entire term of the loan must also be disclosed.

A financial institution shall not include in its advertisement on credit such statements that:

- are aimed at the ease or speed of obtaining the credit;
- imply that current credit agreements do not or play only a subordinate role in the evaluation of credit requests;
- imply that despite negative outcome of the credit screening process or deviation from the applicable rules of conduct a client can still obtain credit;
- refer to the characteristics of the credit in which tax advantages are implied.

Furthermore, the effective interest rate or APR must be clearly mentioned in the loan agreement.

4. Calculation of Effective Interest Rate or APR
The effective interest rate or APR must be calculated according to the method outlined in the appendix to this directive.

5. Sanctions
Pursuant to section 35, paragraph 1 of the SOSCS, the CBA may impose either an administrative fine not exceeding Afl. 250,000 and/or a penalty order ("last onder dwangsom") not exceeding Afl. 250,000 in case of non-compliance with the provisions contained in this directive.

In accordance with section 53 of the SOSCS, acting in violation with section 12, paragraph 1, of the SOSCS is punishable.

June 1, 2011

APPENDIX

Method to calculate the effective interest rate or APR

The interest on consumer credit is usually calculated on the principal amount. In those cases, the effective interest rate or APR is higher than the nominal interest rate. The allowed method for calculating the effective interest rate or effective interest rate or APR follows. Each relevant person has to ensure that the calculation of the effective interest rate or APR is done systematically in accordance with these provisions.

The monthly annuity[1] (of consumer credit) is commonly calculated by using the following formula:

$$\text{Annuity} = \frac{\text{loan amount} + (\text{loan amount x annual nominal interest percentage x number of years})}{\text{Number of (monthly) payments}}$$

The following example illustrates calculations using this aforementioned formula.

Client	*A*	*B*
Loan amount (Afl.)	10,000	10,000
Annual nominal interest rate	10%	12%
Number of years	3	2
Number of (monthly) payments	36	24

Calculation:

$$\text{Annuity A} = \frac{10{,}000 + (10{,}000 \text{ x } 0.10 \text{ x } 3)}{36} = \frac{10{,}000 + 3{,}000}{36} = 361.11$$

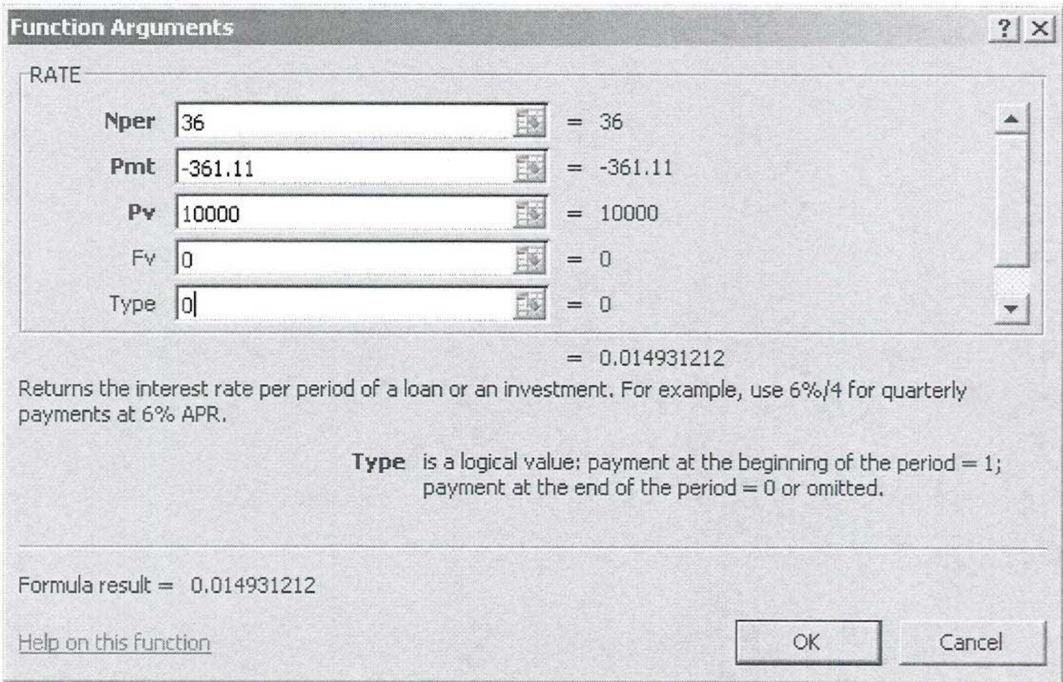
$$\text{Annuity B} = \frac{10{,}000 + (10{,}000 \text{ x } 0.12 \text{ x } 2)}{24} = \frac{10{,}000 + 2{,}400}{24} = 516.67$$

The effective interest rate or APR can be calculated as follows:

The use of the MS Excel RATE function is a simple and efficient method for determining the exact pricing of loans. Therefore, the CBA recommends the use of this method. For illustrative purpose we provide the following examples:

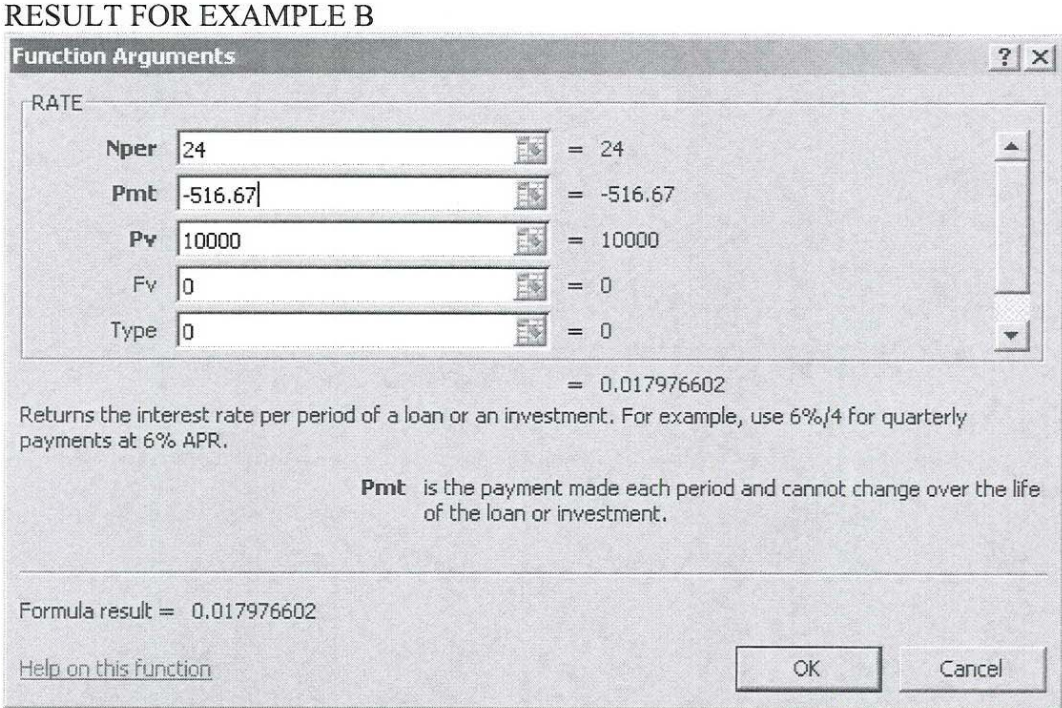
[1] The annuity, being the monthly equal payment, typically includes a principal and an interest element.

RESULT FOR EXAMPLE A



Example A	= RATE {36,-361.11,10000,0,0} = 0.014931212
Effective interest rate or APR (annual basis)	= 0.014931212 x 12 = 0.179174544 = 17.92%

RESULT FOR EXAMPLE B



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Example B = RATE {24,-516.67,10000,0,0} = 0.017976602
Effective interest rate or
APR (annual basis) = 0.017976602 x 12 = 0.215719224 = 21.57%

Remark:
The calculations are based on the following assumptions:

- The loan will run its full term.
- The interest percentage remains fixed during the term of the loan.
- Loan-related fees are not included.