

# Questions related to the new Regulations for Consumer Finance

## 1. What is Consumer Finance?

Consumer Finance is finance such as personal finance provided to individual customers for purposes that are not related to a business or professional work. This does not include home finance or lease finance as these are covered under separate regulations.

## 2. When will the new Regulations for Consumer Finance regulations will become effective?

The new Regulations for Consumer Finance will take effect 11 Dhul Qada 1435H corresponding to 16/09/2014G.

## 3. What rights are allowed to the customers under the new regulations?

The new regulations include a number of clauses related to the customers right, such as:

- Allowing the customers to partially or fully pay the remaining Finance anytime during the finance period.
- Unification of management fee across all the banks in Saudi Arabia.
- Providing customers with a finance summary, which includes the basic finance details and also refer to key clauses.
- Setting rules and standards in dealing with customers.
- Emphasising the principles of transparency and disclosure.

## 4. What are the salient feature of finance contract under the new regulations?

The new regulations are aimed at ensuring that finance contracts have enhanced level of disclosure and transparency enabling customers to know their rights and obligations, such as:

- Details of finance and total cost of finance.
- Calculation method for determining profit.
- All charges, commission and administration fees.
- Consequences of delay in payment of instalments.
- Procedure for exercising the right of withdrawal, early settlement or termination.

## 5. Where can I find the new Consumer Finance regulations?

The official version the new Regulations for Consumer Finance is available on website: [www.sama.gov.sa](http://www.sama.gov.sa)

## 6. What is the maximum amount allowed for administrative fees?

Total of all fees and cost shall not exceed 1% of the finance amount or SAR 5,000 whichever is less.

## 7. Does the customer need to state the purpose of the finance?

Yes, the customer has to disclose to the bank the purpose of finance.

## 8. Does the bank have the right to refuse customers finance applications?

Based on its credit criteria the bank may reject customer's finance application. However the bank has to provide the customer with the reasons for rejection.

## 9. Can the customer get refinance and what are the refinance conditions?

Yes, the new Regulations Consumer Finance allows refinance to customers who have settled at least 20% of their principle finance amount.

## 10. What is the Initial Disclosure Statement? What are its contents?

The statement of initial disclosure includes the amount of finance, the Annual Percentage Rate, the total profit, the nature and amounts of administrative fees, the installment amount, the period for which a statement of account must be provided, the date of profit maturity, the profit calculation method, as well as information on any optional service related to the finance contract.

## 11. When does the bank provide the customer with the initial disclosure statement?

The bank should provide the customer with the initial disclosure statement before or upon conclusion of the financing contract.

## 12. What is Annual Percentage Rate (APR) and how is it different from currently used flat rate?

Annual Percentage Rate (APR): is the discount rate at which the present value of the Total Amount Payable by the customer, equals the present value of all payments of the Amount of Financing available to the bank on the date on which the Financing amount or the first payment thereof is available to the customer. The APR uses reducing balance payment method to calculate the profit for the finance.

Flat rate is simple average rate which is multiplied with original finance amount by number of years to calculate profit for the finance.

<b>Example:</b>	<b>Flat Rate</b>	<b>Annual Percentage Rate APR</b>
<b>Finance Amount:</b>	100,000	100,000
<b>Rate:</b>	1.75%	3.35%
<b>Finance Period:</b>	60 month	60 month
<b>Installment:</b>	1,812.50	1,812.50
<b>Total Profit:</b>	<b>8,750</b>	<b>8,750</b>

## 13. How Annual Percentage Rate (APR) is used to calculate profit portion in each installment?

The profit portion in each installment can be calculated using following formula: Outstanding principal amount X Monthly APR.

## 14. Method of terminating the finance contract? Does the bank have the right to charge any fees, commissions or cost in case of contract termination?

Customers may terminate the finance contract by providing a written notice to the bank within 10 days from the date of the contract unless any part of the finance was already withdrawn through any means. In the event of contract termination, the bank may not impose any cost or fees, or request commission from the customer.

## 15. How does partial or early settlement calculated?

- The customer can only choose to partially pay a single installment or multiple installments under the financing contract before its due date.
- The customer has the right to early settle the remaining finance amount at any time during finance period. However, the customer has to pay to the bank a compensation which shall not exceed the amount of profit for the next three months based on the payment schedule.

## 16. Can a customer request a detailed statement of finance in case of early settlement or default to pay his installment? will the customer be charged for it?

The customer has the right to request a statement of finance free of cost.

## 17. How the term "Gross Salary" is defined under the new Regulations for Consumer Finance?

The gross salary include basic monthly salary plus all fixed allowances, which are given to the employee by his employer on a monthly basis less GOSI and pension contribution.

## 18. What is the finance contract synopsis?

The financing contract synopsis includes basic finance information in addition to the total finance cost. In addition, finance contract synopsis also contains reference to key clauses in the finance contract.

## 19. What is a quarterly statement?

It is a quarterly statement that shows the activity of the finance such as new finance obtained, instalment paid giving break up of principal and profit and any other charges paid during each quarter.

## 20. What is the maximum finance period that can be given to a customer?

Five years from the date the finance amount has been deposited.