

Finance, Competitiveness & Innovation Global Practice

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ABBREVIATIONS

APR	annual percentage rate
BSP	Bangko Sentral ng Pilipinas
KFS	key facts statement
MFI	microfinance institution
NBFI	non-bank financial institution
SEC	Securities and Exchange Commission (of the Philippines)
USD	United States dollar
USSD	unstructured supplementary service data



EXECUTIVE SUMMARY

The purpose of this technical note is to provide practical guidance to policy makers seeking to develop key facts statements (KFSs) and related disclosure requirements for consumer credit products. The technical note shares key principles, international good practices, and lessons learned for developing effective KFSs and precontractual disclosure requirements. A basic KFS for consumer credit is included in annex A for illustrative purposes only. Examples of KFSs from Ghana, Malaysia, the Philippines, South Africa, and the United Kingdom are also included in annex B.¹

Disclosure and transparency are a cornerstone of financial consumer protection. Aggressive, misleading advertising and sales practices by financial service providers and low levels of financial literacy can lead to poor choices by consumers. Information on relevant fees and charges and terms and conditions may be incomplete. Conversely, information may be presented in a manner that is overwhelming and difficult to comprehend. As a result, consumers may be unaware of the full costs they will incur for a credit product or the terms and conditions that may affect them (such as variable interest rates or loss of collateral). Without clear information provided during the pre-transactional stage, consumers are unable to compare shop or make informed choices regarding what credit product is best suited to their specific needs. Such a situation can harm consumer welfare and potentially lead to over-indebtedness.

A comprehensive regulatory framework for disclosure and transparency includes multiple components. For example, disclosure rules should ensure fair advertising and marketing that is not misleading. There should be basic rules for providing consumers with loan agreements that describe all terms and conditions. After purchasing a financial product or service, consumers should also receive ongoing statements and notifications of changes in rates, terms, and conditions. Efforts to increase financial literacy and financial capability are also important to complement disclosure regimes.

KFSs for consumer credit products are one component of this broader disclosure framework and can help to address transparency concerns by clearly conveying total cost metrics, key fees and charges, and key terms and conditions. KFSs should prominently disclose the total cost of a loan, including interest and all up-front and recurring fees and charges, using both percentages (annual percentage rate, or APR) and monetary figures (total cost of credit) to allow for both comparison and comprehension of total cost. Standardized methods for calculating total cost of credit and APR should be provided in implementing regulations. The regular installment amount for repayment should be displayed prominently. KFSs should also include standard, itemized fees and charges (such as documentation fees, account maintenance fees, and mandatory insurance fees) and key terms and conditions that are the most relevant or risky to consumers (such as variable interest rates, default interest rates, collateral requirements, the ability to prepay without penalties, and recourse mechanisms).

1. Note that KFSs from these jurisdictions are not presented as “best” practices per se, but to provide a range of practical examples. Similarly, in this technical note references to country examples are for demonstrative purposes and are not exhaustive.

KFSs should follow a standardized format that is designed to convey information in a simple and easy-to-understand manner. KFSs should be brief, preferably one to two pages, and limited to critical information. Ideally, the most important information should be presented in the top half of the first page. KFSs should utilize boxes and tables, bold font, plain language, legible font sizes, and graphics to convey the most important information to consumers clearly, in a format that attracts attention and is easy to understand. Insights from behavioral research have helped to shed light on good practices for effective disclosure, such as presenting numerical information in relation to other relevant examples in order to provide context and perspective.²

Requirements for oral communication by provider staff should complement the KFS itself. The information contained in a KFS must necessarily be limited, so as to not overwhelm consumers. Provider staff should be required to provide adequate oral explanations of information in KFSs, particularly regarding material concepts and terms that require more detailed explanation (such as how and when a borrower is reported to credit bureaus).

When a KFS is provided is critical. Key information should be provided early in the shopping and pre-transactional stages in order to ensure that consumers can utilize such information to comparison shop and sufficiently evaluate a credit product before deciding which product to purchase. Providing a KFS only when a consumer enters the provider's premises to sign an agreement is likely to be too late in the decision-making process to be useful.

Implementation of a KFS requirement will involve determining its scope of application. Ideally, all providers of similar consumer credit products should be required to use the same form of KFS. Achieving this may require coordination and harmonization across different government agencies. Policy makers will also need to consider for which types of consumer credit products KFS requirements should apply, and what adaptations may be needed depending on the type of product (for example, installment loan, revolving loan, mortgage, credit card). This technical note focuses in particular on personal installment loans with a fixed term, as this is a common product used by mass consumers.

2. See Hogarth and Merry, "Designing Disclosures."

Appropriate adaptations will be required for digital credit and digital disclosure. The nature of digital credit transactions, which are often remote, occur at rapid speeds, and are conducted via small mobile screens, raises multiple risks for consumers. The core requirements regarding what content should be disclosed in KFSs should apply to digital credit as well, such as requiring standardized calculation and presentation of APR and total cost of credit and disclosure of key terms and conditions. However, design elements will need substantial adjustment to make KFSs appropriate for a mobile screen. Adapted approaches could include the use of standardized icons as shorthand to convey key terms or concepts in an easily digestible manner and layered messaging, where summary information is presented on an initial screen and more detailed information is available at a secondary level. In addition, an interactive process could be utilized that takes consumers through multiple screens on their mobile phone to draw their attention to key terms and risks before they are able to proceed with obtaining a digital credit product.

Policy makers will need to consider their legal mandate to issue requirements for KFSs and how they will be supervised and enforced. Issuing KFS requirements may require clarifying or expanding existing regulatory mandates. Supervisory practices will also need to be adapted to ensure strong and consistent supervision and monitoring of new requirements, and proportionate enforcement action should be taken in instances where non-compliance is identified.

Consumer testing of KFSs is highly recommended. Designing a KFS effectively can be challenging. Finding the right balance between providing key information without overwhelming consumers is difficult. Effectively capturing a consumer's attention is also a challenge. What is effective will depend partly on country context. Consumer testing following an iterative process of testing and refining design elements of a KFS can be used to ensure that the final KFS effectively conveys key information to consumers and achieves the desired policy objectives.

Finally, policy makers should work with industry stakeholders and consumer groups to implement KFSs. Working with industry stakeholders such as industry associations can help to ensure familiarity and buy-in with a standardized KFS prior to its introduction in the market. Public-awareness campaigns should also be undertaken to ensure that consumers are aware of their rights to obtain a KFS and understand its content and format.

1. OBJECTIVES OF A KEY FACTS STATEMENT FOR CONSUMER CREDIT

Two primary objectives of disclosure are (1) increasing consumer comprehension and (2) increasing the ability to comparison shop. Consumer comprehension allows consumers to understand and choose appropriate products, while comparison shopping allows consumers to “vote with their feet” and leads to greater competition among providers, which may help to lower prices and improve the quality of products offered. A range of research has shown the beneficial, real-world impact of disclosure on consumer and market behavior.³

However, pricing and other terms and conditions of credit products can often be opaque or even deceptive, and advertisements are frequently incomplete or misleading. Nominal annual or monthly interest rates may be used, making it difficult to determine the total cost of a credit product. Different providers may use different terminology for the same fees (for example, “application fee,” “processing fee,” “arrangement fee”), or aggregate fees and charges into lump sums, adding to consumer confusion and diminishing the ability to compare products across providers. In addition, information on the potential risks of credit products, such as penalties or variable interest rates, may not be disclosed clearly. Advertising and marketing materials may be misleading or incomplete—for example, by emphasizing only positive aspects of products and neglecting to describe costs or risks.

Key information may not be disclosed early enough in the shopping and pre-transaction period, or it may be presented in a fragmented fashion. Key terms and conditions may be disclosed only in loan agreements received at the time of signing the agreement, or they may be scattered across various documents (such as repayment schedules, fee charts, facility letters, and loan agreements). When buried in a loan agreement, information is not likely to be read or understood by consumers. Information is often not presented in a straightforward man-

ner that is easy to comprehend, and it is not provided consistently across providers. Excessive fine print makes it more difficult for consumers to understand information that is disclosed.

Due to the lack of properly disclosed information, misunderstandings by consumers can be common. Borrowers are often surprised by unexpected fees and charges, such as the costs for insurance or default interest rates. This lack of understanding prevents comparison shopping and hampers the ability of consumers to make informed choices when selecting products, and it may increase the potential for over-indebtedness. These problems are compounded by low levels of financial literacy (particularly in developing countries, where consumers may be entering the formal financial sector for the first time), by a lack of responsible lending requirements such as suitability tests, and by a high demand for credit.

Pricing and terms need to be clear and understandable so consumers can choose appropriate products for their needs. Disclosure rules are intended to counteract information asymmetries in order to enable consumers to comprehend products, compare across providers, and select the product best suited for them. Effective disclosure also aims to combat irrational consumer behavior and behavioral biases, such as the tendency of borrowers to focus more on the present item being financed, to discount the future costs of the loan needed to finance its purchase, and to overestimate their capacity to repay.⁴

A comprehensive regulatory framework for disclosure and transparency includes multiple components.⁵ For example, there should be basic rules in place requiring that providers provide loan agreements that contain all terms and conditions, and that they disclose the total cost of a credit product using annual percentage rate (APR),⁶ total cost of

3. For examples of the positive impact of disclosure, see “Financial Inclusion and Consumer Protection in Peru,” which found that disclosing information about interest rates for consumer credit contributed to a decrease in price; “CARD Act Report,” which found that the CARD Act in the United States (which included a number of provisions on disclosure and transparency) led to a reduction in fees and an overall decline in total cost of credit (although it is unclear how much of that change is solely attributable to the CARD Act itself); and Jones, Loibl, and Tennyson, “Effects of Informational Nudges,” which found that new disclosure requirements in the CARD Act were effective in inducing households to increase the amount of credit card debt paid off each month.

4. For example, see Bertrand and Morse, “Information Disclosure, Cognitive Biases, and Payday Borrowing,” which found that information disclosure targeted at overcoming cognitive biases (by reinforcing how fees accompanying a loan add up over time and presenting comparative APR information) reduced the take-up of future payday loans.

5. For further details on developing a broader framework for disclosure and transparency, see “G20 High-Level Principles on Financial Consumer Protection,” “Effective Approaches to Support the Implementation of the G20 High-Level Principles,” the World Bank Group’s Good Practices for Financial Consumer Protection, and Chien, “Designing Disclosure Regimes.”

6. Precise definitions of “effective” APR can vary across jurisdictions. However, effective APR is generally considered to be an annualized interest rate that takes into account fees and charges (such as origination fees and monthly service charges), compounding, and the net present value of repayments as compared to the net present value of drawdowns. The formula for calculating effective APR typically incorporates certain assumptions (for example, no change in the nominal interest rate for a variable rate loan).

credit, or similar metrics. Disclosure rules should also ensure fair advertising and marketing that is not misleading. A well-designed key facts statement (KFS) is one component of this broader disclosure framework. Financial literacy and financial capability are also important complements to disclosure regimes.

A KFS summarizes total cost, fees and charges, and key terms and conditions in a clear, simple format. Requiring the use of a standardized KFS is more relevant for standard consumer credit products such as personal loans or mortgages (compared to other credit products), as these products are more likely to have common product features across providers and to be used by mass consumers.

A KFS increases the likelihood of consumer comprehension of a product's affordability and risks and can lead to better decision-making. Recent research has shown that a standardized, simplified KFS significantly improves consumer decision-making compared to marketing materials, increases price elasticity, and has three times the effect of financial education on better financial decision-making.⁷ A standardized KFS can thus help to facilitate product comparison across multiple providers, encourage competition, reduce costs, and lead to better outcomes for consumer welfare.

2. CONTENT OF KEY FACTS STATEMENTS

2.1 TOTAL COST

A KFS for consumer credit should clearly and prominently convey the total cost of a loan via three methods: (1) total cost of credit, (2) APR, and (3) installment amount for repayment. These three methods of conveying cost serve complementary purposes and allow for the greatest comprehension and comparability. Both total cost of credit and APR more accurately convey the total cost of a loan product, including fees and charges and bundled services, than nominal interest rates.

Total cost of credit conveys the total costs a borrower must pay for a loan product over the term of a loan as a monetary figure, which has been shown to be easier for the average consumer to comprehend than APR. On the other hand, as an annualized, standardized, and compounded rate, APR is a more accurate means of conveying the full cost of a loan than nominal monthly interest

rates and allows for greater comparability across products and providers than total cost of credit, particularly for loans with varying terms and repayment periods. Finally, the installment amount for repayment serves a complementary role to both total cost of credit and APR by helping a consumer assess the affordability of a product in relation to his or her cash flow. In consumer testing, this figure has been noted to be particularly important to low-income consumers.⁸

A clear, standardized definition of total cost of credit should be provided by law that captures all normal, anticipated costs that arise during the term of a credit agreement. Establishing a comprehensive definition of total cost of credit is a critical first step for both the calculation of total cost of credit by providers as well as for the calculation of APR. Providers are likely to calculate total cost of credit inconsistently without a standardized definition and clear guidelines, defeating the purpose of providing a metric that consumers can use to compare offerings across providers.

Total cost of credit should include all interest, fees, and charges expected to be incurred over the duration of the loan, including fees for bundled services. Both up-front fees (for example, administration fees, application fees, collateral appraisal fees, loan origination fees, credit reference bureau fees, processing fees, drawdown fees) and recurring charges (such as maintenance fees and mandatory credit life insurance fees) should be included in total cost of credit calculations.⁹ Box 1 presents the definition of total cost of credit in the European Union.

Standard assumptions that providers should make when calculating fees and charges should be specified by policy makers in order to achieve consistency across providers. For example, for purposes of calculating total cost of credit for pre-contractual disclosure in the United Kingdom, it is assumed (if not otherwise specified) that the interest rate stays at the initial level for the duration of agreement, that drawdown is immediate and in full, that credit is provided for the period of one year and repaid in equal monthly installments, and that non-interest charges expressed as multiple payments (such as insurance pay-

7. Giné, Cuellar, and Mazer, "Information Disclosure and Demand Elasticity of Financial Products."

8. For example, see Tiwari, Khandelwal, and Ramji, "How Do Microfinance Clients Understand Their Loans?," and Collins, Jentzsch, and Mazer, "Incorporating Consumer Research into Consumer Protection Policy Making."

9. Whether third-party fees are included in total cost of credit and APR, and what types of third-party fees, varies by jurisdiction. Policy makers may wish to focus on including those third-party fees that are incurred for third-party services that are required by the provider in order to obtain credit. Estimates for such fees may need to be made in certain cases.

BOX 1**Definition of Total Cost of Credit from EU Consumer Credit Directive¹⁰**

- All the costs, including interest, commissions, taxes and any other kind of fees which the consumer is required to pay in connection with the credit agreement and which are known to the creditor, except notarial costs;
- Costs in respect of ancillary services relating to the credit agreement, in particular insurance premiums, are also included if, in addition, the conclusion of a service contract is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed.

10. See Directive 2008/48/EC.

ments) are paid in equal amounts on regular intervals beginning with the first repayment of capital.¹¹

A comprehensive definition of APR, and a standardized formula for its calculation, should also be provided by law in order to ensure that all necessary information on costs is conveyed to consumers. APR can be viewed conceptually as the conversion of total cost of credit, including interest rates and fees and charges, into a standardized annual rate. Unlike total cost of credit, APR can be used to make it easier to compare loans of different sizes, terms, and repayment schedules. A formula should be provided for its calculation that equalizes the net present value of all drawdowns with the net present value of all repayments (including loan repayments, interest, and fees and charges). As with total cost of credit, a representative example and certain assumptions regarding the amount and timing of repayments may be necessary to calculate APR during the pre-contractual stage.¹² For example, Bosnia-Herzegovina and the United Kingdom require clear and prominent disclosure of APR or effective interest rate, a similar metric to APR, and provide detailed formulas and rules regarding its calculation.¹³

The installment amount for repayment serves a complementary role to both total cost of credit and APR. In practice, many low-income consumers determine whether a loan product is affordable by assessing whether their cash

flow covers the installment amount for repayment. Providers should be required to disclose prominently the regular installment amount for repayment as part of pre-contractual disclosure, as is the case in countries such as Bosnia-Herzegovina, Malaysia, Peru, the Philippines, and the United Kingdom. Consumers should also receive a full repayment schedule describing the precise timing of all installment repayments when signing the loan agreement (which should indicate where there are variations in the installment amount—for example, for the first or final installment payment).

In addition to disclosing total cost, KFSs can also include other key figures related to financing. In particular, the total amount that a borrower pays after making all payments should also be disclosed prominently in a KFS. (For an example, see figure 1.) This amount represents the sum of the amount of the loan principal plus the total cost of credit, thereby representing all payments made by the borrower over the term of the loan. Additional basic information about the loan that could be considered for inclusion in a KFS include the total amount of the loan, total amount received by the borrower, total interest payments, total other payments, and term of the loan. However, the general principle to keep in mind is to limit the content of KFSs to critical information only.

It is open to debate whether to include nominal interest rate in a KFS. Nominal interest rate conveys the price of the loan, but not the total cost. While it is arguably a fundamental component of a credit product and one that may be expected by consumers, research has found that disclosing both nominal interest rate as well as APR in a KFS can confuse consumers.¹⁴ If including both interest rates in a KFS, it

11. For further details on these and other types of assumptions that may be necessary, see Appendix 1.2.5 in the United Kingdom's Consumer Credit Sourcebook. Note that the Sourcebook replaces and consolidates various regulations previously issued on consumer credit prior to the creation of the Financial Conduct Authority in 2013. However, certain provisions of the Consumer Credit Act of 1974 and secondary legislation issued under the Act still remain in force, including rules on pre-contract credit information.

12. See 3.5.5 in the Consumer Credit Sourcebook regarding the requirements for a representative example.

13. For a further example, see the APR calculator (simulator) provided by the European Union.

14. For example, focus group testing of disclosure formats for credit products in the Philippines found that consumers were confused when both nominal and effective interest rates were included on the forms and preferred to have only the effective interest rate displayed. See Collins, Jentzsch, and Mazer, "Incorporating Consumer Research into Consumer Protection Policy Making."

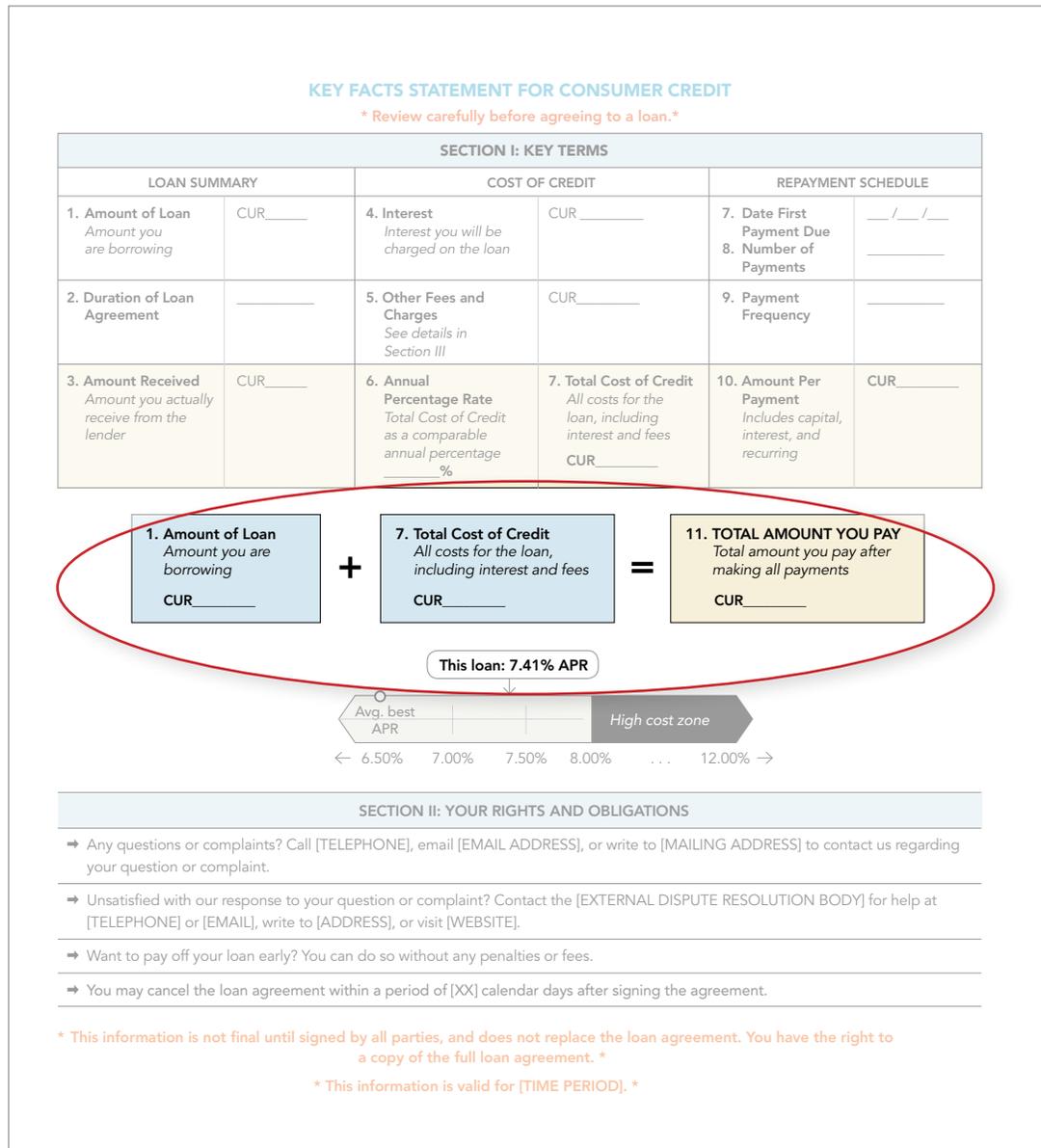
is advisable to ensure that, at a minimum, there is guidance on how the two interest rates relate to one another.

2.2 FEES AND CHARGES

A KFS should highlight the most common, significant fees broken out from the total cost of credit and item-

ized, including both up-front fees and charges as well as those that are anticipated throughout the term of the loan. Common fees to highlight could include application and documentation fees, credit reference bureau fees, drawdown fees, quarterly maintenance fees, and mandatory credit life insurance fees. Recurring fees should be listed by applicable time period and also summed up in a box conveying total up-front and recur-

FIGURE 1: Illustrative Key Facts Statement for Consumer Credit (see Annex A)



ring fees and charges (excluding interest). For an example, see figure 2.

Although regulation can provide a comprehensive list of the types of anticipated fees and charges that should be disclosed, policy makers should choose which standardized fees and charges to include in a KFS on an itemized basis. Such fees and charges should be selected based on whether they are determined to be priority due to being broadly applicable, significant, or known to be hidden or misleading. Remaining, lower priority fees can

be summed up and presented as “other” fees in the KFS, while actual loan agreements and readily available price lists should list all fees and charges in itemized fashion.¹⁵

15. As a separate though related policy measure, policy makers may also wish to consider the need to standardize certain basic fees and charges and the terminology for such fees and charges across the industry. In many countries, different types of fees and charges, as well as different names for the same fees and charges, can lead to confusion for consumers and difficulties in comparing products across providers.

FIGURE 2: Illustrative Key Facts Statement for Consumer Credit (see Annex A)

SECTION III: UPFRONT AND RECURRING FEES					
UPFRONT FEES		UPFRONT FEES		RECURRING FEES	
Arrangement fee	<input type="checkbox"/> CUR _____	Collateral appraisal	<input type="checkbox"/> CUR _____	Credit life insurance	<input type="checkbox"/> CUR _____ per _____
Documentation fee	<input type="checkbox"/> CUR _____	Credit history check	<input type="checkbox"/> CUR _____	Management fee	<input type="checkbox"/> CUR _____ per _____
Other fees (list all)	<input type="checkbox"/> CUR _____ _____ _____ _____	TOTAL UPFRONT AND RECURRING FEES AND CHARGES (EXCLUDING INTEREST) CUR _____			

SECTION IV: IMPORTANT TERMS AND CONDITIONS TO CONSIDER					
LATE PAYMENT PENALTIES		TERMS AND CONDITIONS		TERMS AND CONDITIONS	
<input type="checkbox"/> Late fees if payment is more than _____ days late	CUR _____	<input type="checkbox"/> Cash deposit mandatory savings:	CUR _____	<input type="checkbox"/> Variable interest rate applies	CUR _____
<input type="checkbox"/> Default interest if payment is more than _____ days late	_____% per _____	<input type="checkbox"/> COLLATERAL: You are committing the following as collateral: _____ _____ _____		<input type="checkbox"/> Other _____ _____ _____	

* Late or missing payments may have severe consequences on your collateral and your credit history, hurting your ability to reborrow. *

CERTIFIED CORRECT: _____ <i>Credit provider representative</i>	I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE LOAN AGREEMENT: _____ <i>Borrower</i>	I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE THE GUARANTEE: _____ <i>Guarantor (if applicable)</i>
--	--	--

Name of Borrower:	Application No:	Date prepared:
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Note: This KFS is a generic illustration only, provided to help the reader visualize elements discussed in this technical note. The APR graphic from the preceding page is from Hogarth and Merry, "Designing Disclosures." See source for descriptions of "Avg. Best APR" and "high cost zone."

Information should also be disclosed on potential fees and charges that can be triggered by future events, such as late fees and prepayment penalties, so that consumers can adequately assess these risks. (See figure 3.) Given the potential for there to be a range of contingent fees, some of which may pose less risk or concern, policy makers should select a set of contingent fees that warrant highlighting in a KFS given the potential impact on the consumer. Complementary requirements could also be put in place for provider staff to orally disclose the conditions for the application and calculation of such fees or penalties.

The KFS itself can indicate that complete information on fees and charges and other terms and conditions can be found in the loan agreement.

For example, late-payment penalties and prepayment penalties must be disclosed in Peru and Malaysia. In Bosnia-Herzegovina and the United Kingdom, the fact that certain other charges may apply during the course of the loan and the conditions under which they would apply must also be disclosed.

FIGURE 3: Illustrative Key Facts Statement for Consumer Credit (see Annex A)

SECTION III: UPFRONT AND RECURRING FEES					
UPFRONT FEES		UPFRONT FEES		RECURRING FEES	
Arrangement fee	<input type="checkbox"/> CUR _____	Collateral appraisal	<input type="checkbox"/> CUR _____	Credit life insurance	<input type="checkbox"/> CUR _____ per _____
Documentation fee	<input type="checkbox"/> CUR _____	Credit history check	<input type="checkbox"/> CUR _____	Management fee	<input type="checkbox"/> CUR _____ per _____
Other fees (list all)	<input type="checkbox"/> CUR _____		TOTAL UPFRONT AND RECURRING FEES AND CHARGES (EXCLUDING INTEREST) CUR _____		

SECTION IV: IMPORTANT TERMS AND CONDITIONS TO CONSIDER					
LATE PAYMENT PENALTIES		TERMS AND CONDITIONS		TERMS AND CONDITIONS	
<input type="checkbox"/> Late fees if payment is more than _____ days late	CUR _____	<input type="checkbox"/> Cash deposit mandatory savings:	CUR _____	<input type="checkbox"/> Variable interest rate applies	CUR _____
<input type="checkbox"/> Default interest if payment is more than _____ days late	_____ % per _____	<input type="checkbox"/> COLLATERAL: You are committing the following as collateral: _____ _____ _____		<input type="checkbox"/> Other _____ _____ _____	
* Late or missing payments may have severe consequences on your collateral and your credit history, hurting your ability to reborrow. *					
CERTIFIED CORRECT:		I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE LOAN AGREEMENT:		I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE THE GUARANTEE:	
_____		_____		_____	
Credit provider representative		Borrower		Guarantor (if applicable)	
Name of Borrower:		Application No:		Date prepared:	
_____		_____		_____	
<p><i>Note: This KFS is a generic illustration only, provided to help the reader visualize elements discussed in this technical note. The APR graphic from the preceding page is from Hogarth and Merry, "Designing Disclosures." See source for descriptions of "Avg. Best APR" and "high cost zone."</i></p>					

2.3 TERMS AND CONDITIONS

In addition to cost metrics, fees, and charges, other terms and conditions that are deemed critical for pre-contractual disclosure should be included in a KFS. As with disclosure of fees and charges, pre-contractual disclosure of terms and conditions should focus on those items that pose greater risks, uncertainty, or additional costs to consumers. Regulation should provide guidance on the list of priority terms and conditions that should be disclosed where applicable. Terms and conditions—such as cash collateral/mandatory savings requirements, default interest rates, and whether the borrower has the right to prepay the loan without any penalties—should be disclosed in a KFS.

For terms and conditions such as the variability of interest rates and the conditions for being reported to a credit

reference bureau, a KFS should aim to convey briefly the implications of such conditions. A clear and concise explanation of why and how interest rates may change and the impact on repayment amounts and total cost of credit is recommended. For example, when interest rates are variable, providers in Peru are required to disclose the criteria for modification of rates. Similarly, as low-income consumers may not understand the implications of a negative credit history, the implications of being reported to a credit reference bureau could be briefly noted in a KFS.

The availability of recourse mechanisms and the existence of cooling-off periods should also be disclosed in a KFS. For example, the Pre-Agreement Truth in Lending Disclosure Statement in Ghana includes information on cooling-off periods and customer service at the bottom of the statement. (See figure 4.) For recourse mechanisms, a KFS

FIGURE 4: Pre-Agreement Truth in Lending Disclosure Statement in Ghana¹⁶

PRE-AGREEMENT TRUTH IN LENDING DISCLOSURE STATEMENT					
Lender's Name:	Applicant Name:	Date prepared:			
Prepared by:	Address:	Application No:			
KEY TERMS & CONDITIONS - Review Carefully Before Agreeing to Loan					
GHS	Loan Amount	All Interest and Other Fees	Amount you will pay		
	10,000.00	+ GHS 1,326.60	= GHS 11,326.60		
LOAN SUMMARY		FEES & COMMISSIONS		REPAYMENT SCHEDULE	
Amount of Loan <i>The value of the loan you are signing for</i>	GHS 10,000.00	Interest charges	GHS 1,001.60	Amount of each payment	GHS 916.80
Amount Received <i>The actual amount the lender provides you at beginning of loan</i>	GHS 9,800.00	Other charges and fees (see below for details)	GHS 325.00	Payment frequency	Monthly
Required Compulsory Deposit	GHS 325.00	APR*	23.84%	Number of payments	12
*APR reflects the cost of the credit you are taking on a yearly basis. It is a useful tool to compare costs of similar loans and credits.					
DETAILED DESCRIPTION OF PENALTIES AND CHARGES AND ADDITIONAL REQUIREMENTS					
PENALTY CHARGES		PREPAYMENT		OTHER CHARGES & FEES	
Late Payment: If a payment is more than [] days late, you will be charged ___% on the remaining balance of the loan.		Prepayment: If you pay the loan off early you: <input type="checkbox"/> Will have to pay a penalty of _____ <input type="checkbox"/> May be entitled to a refund of part of the interest fees and other charges		Insurance Charges GHS 100.00 Credit history consultation fee GHS - Commitment fee GHS - Processing fees GHS 100.00 Other charges GHS - Mandatory Savings Cost GHS 125.00	
PAYMENT SCHEDULE					
Date First Payment Due	31/01/2016				
Payment Due Date	Payment Amount	Interest Charges	Principal Payment	Remaining Balance	
31/01/2016	GHS 916.80	GHS 150.00	GHS 766.80	GHS 9,333.20	
28/02/2016	GHS 916.80	GHS 138.50	GHS 778.30	GHS 8,454.90	
31/03/2016	GHS 916.80	GHS 126.82	GHS 789.98	GHS 7,664.92	
30/04/2016	GHS 916.80	GHS 114.97	GHS 801.83	GHS 6,863.10	
31/05/2016	GHS 916.80	GHS 102.95	GHS 813.85	GHS 6,049.24	
30/06/2016	GHS 916.80	GHS 90.74	GHS 826.06	GHS 5,223.18	
31/07/2016	GHS 916.80	GHS 78.35	GHS 838.45	GHS 4,384.73	
31/08/2016	GHS 916.80	GHS 65.77	GHS 851.03	GHS 3,533.70	
30/09/2016	GHS 916.80	GHS 53.01	GHS 863.79	GHS 2,669.91	
31/10/2016	GHS 916.80	GHS 40.05	GHS 876.75	GHS 1,793.15	
31/11/2016	GHS 916.80	GHS 26.90	GHS 889.90	GHS 893.25	
31/12/2016	GHS 916.80	GHS 13.55	GHS 903.25	GHS 0.00	
TOTAL	GHS 11,001.60	GHS 1,001.60	GHS 10,000.00	GHS 0.00	
Cooling Off Period: You may, up to 5 days after signing the loan agreement, cancel the loan, and only pay any disbursements to date, as well as an administrative fee of ___% of the Amount of Loan. To exercise such right, you shall give a written notice through this address:					
For any questions or complaints, please contact the customer service hotline:		Telephone:	Address:	Email:	Complaints Unit Manager:
Signature of Customer _____		Signature of Loan Officer _____		Date _____	
NOTE: This is neither a contract nor a commitment to lend.					

16. Disclosure and Product Transparency Rules, Annex 2 ("Pre-Agreement Truth in Lending Disclosure Statement").

should identify the contact information for submitting complaints to the provider, as well as how to submit complaints to an external dispute-resolution mechanism if not satisfied with resolution efforts by the provider. Consumer testing in the Philippines also found that consumers prefer to have recourse mechanisms displayed prominently on the front page of disclosure statements.¹⁷

2.4 MESSAGES AND WARNINGS

A KFS should give visual prominence to important messages that are intended to be prioritized for consumers in that particular country. Policy makers should consider what consumer behaviors are meant to be discouraged

or encouraged or what particular risks need highlighting in their country and tailor the KFS to address these specific objectives. For example, the Product Disclosure Sheet for Personal Loans in Malaysia includes explicit warnings to consumers that legal action may be taken against them if they do not keep up with repayments. (See figure 5.) Other important messages or warnings that can be highlighted in KFSs include the fact that the customer may lose their collateral or that failure to repay the loan will harm a customer’s credit history. For example, the KFS for consumer credit in Zambia includes a section on risks that notes (in bold, red font) that “late or missing payments may be reported to a credit reference bureau and may severely affect your financial situation, collateral, and ability to reborrow.”¹⁸

17. See Collins, Jentzsch, and Mazer, “Incorporating Consumer Research into Consumer Protection Policy Making.”

18. “Removal of Interest Rate Caps and Consumer Protection Measures,” Annex 1 (“Key Facts Statement for Consumer Credit”).

FIGURE 5: Product Disclosure Sheet for Personal Loans in Malaysia¹⁹

BNM/RH/GL 000-3	Consumer and Market Conduct Department	Guidelines on Product Transparency and Disclosure: Schedule I - Conventional Banking Products	Page 26/29
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7. What are the major risks?

The interest rate on this loan is variable and it may change according to changes in the reference rates. An increase in interest rate may result in higher monthly repayment.

If you have problems meeting your loan obligations, contact us early to discuss repayment alternatives.

8. Do I need a guarantor or collateral?

Indicate if a guarantor or collateral is required.

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 further information?

If you have any enquiries, please contact us at:

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

11. Other personal loan packages available

- abc
- xyz

IMPORTANT NOTE: LEGAL ACTION MAY BE TAKEN AGAINST YOU IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR PERSONAL LOAN.

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

19. “Guidelines on Product Transparency and Disclosure,” Schedule I (“Conventional Banking Products”), Appendix II (“Product Disclosure Sheet Samples”), Section B (“Personal Loan”).

3. DESIGN OF KEY FACTS STATEMENTS

The manner in which information is disclosed to consumers is as important as the actual information required to be disclosed. A standardized KFS should be designed to enable consumers to comprehend the disclosed information and to facilitate comparison-shopping. While policy makers may consider providing a limited degree of flexibility for providers to use their own branding, logos, and color schemes, the core design and format of a KFS should be made consistent across providers.

“Less is more” is an important rule—too much information in a format that does not highlight key items will overwhelm consumers and ultimately prove ineffective. Therefore, a KFS should aim to strike a careful balance, providing sufficient information on total costs, key charges, and key terms and conditions while not including so much information that consumers become confused. Among other important design considerations, a KFS for consumer credit should (1) preferably be kept to one to two pages in length, (2) be limited to critical information, (3) highlight key information visually by means of a summary box, bold font, and graphics, and (4) use standardized terms and plain language and include intuitive descriptions.²⁰

3.1 DESIGN ELEMENTS

A summary box containing key cost information should be placed in the top half of the first page of a KFS. This top half of the first page is typically the section on which consumers will focus the most attention. Total cost of credit and APR should be displayed prominently in this box. Additional financing information that could be considered for inclusion in the summary box includes the total amount of the loan, total amount received by the borrower, total amount of repayments, total interest payments, total other payments, term of the loan, and amount, number, and frequency of repayment installments. For example, the Pre-Agreement Statement and Quotation for Small Credit Agreements in South Africa includes a summary box at the top of the page that includes total cost metrics, key up-front and recurring fees and charges, and repayment information. (See figure 6.)

20. For example, consumer testing in the United States found that disclosure language should be plain but meaningful; that carefully designed visual elements can increase a reader's willingness to read the disclosure and help him or her navigate the document; and that contextual information framing the information presented can improve comprehension. For further details, see Hogarth and Merry, “Designing Disclosures.”

More detailed information is best left on the second (back) page of a KFS. For example, the back page can be used to convey information regarding key fees and charges and terms and conditions.²¹

The visual design of a KFS should be easy to read and not overcrowded with text and information. A KFS should focus on presenting key information prominently and have a clear and uncluttered format with sufficient white space. Boxes, bold font, and highlighting should be used to draw a reader's attention to critical information.

Requirements regarding the use of color should be considered carefully. While color can potentially assist in emphasizing key information, policy makers should consider whether mandating color elements is practical and effective given the country context. For example, this could effectively mean requiring color printing at all provider locations (including agents), increasing compliance costs for providers.

Graphics can be employed strategically to visualize key concepts that are difficult to grasp, such as APR comparisons. Contextual information can be quite helpful in improving consumer comprehension by framing information in a more familiar context or providing reference points. For example, to help consumers better understand APR, a graphic could illustrate where APR falls within a range of APRs for similar loans in the market. (See figure 7.) Similarly, as total amount repayable represents the sum of the amount of the loan principal plus total cost of credit, a simple and straightforward graphical equation could be provided in the KFS to illustrate this relationship. (See annex A.)

3.2 LANGUAGE ELEMENTS

Regulation should include rules on legible font size and plain-language requirements for KFSs. Providers should be required to use clear, simple language. In South Africa, documents must use “plain language,” which is further described as language for which it is reasonable to conclude that an ordinary consumer of the class of persons for whom the document is intended, with average literacy skills and minimal credit experience, could

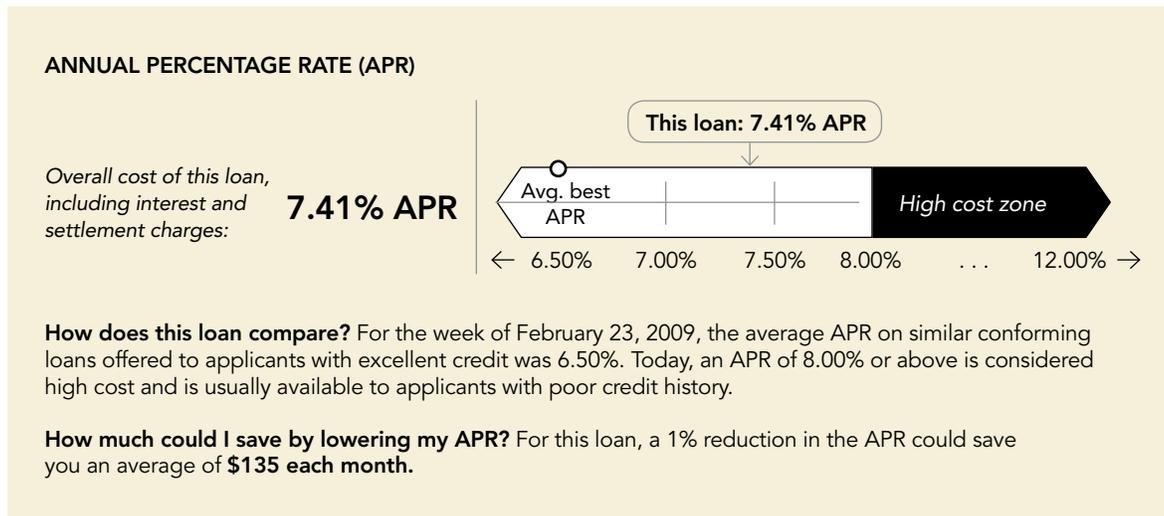
21. For example, when the Federal Trade Commission in the United States was designing and testing a new form of mortgage disclosure for consumers in order to improve effectiveness, it found that conveying key costs in simple, easy-to-understand language, excluding less important or confusing information, and layering information so that summary information was on the first page and more detailed information was on subsequent pages improved the effectiveness of disclosure.

FIGURE 6: Pre-Agreement Statement and Quotation for Small Credit Agreements in South Africa²²

PRE-AGREEMENT STATEMENT & QUOTATION FOR SMALL CREDIT AGREEMENTS in terms of section 92 of the National Credit Act 34 of 2005 -page 1-		English	
NCR number:	<input style="width: 150px;" type="text"/>	FORM 20	
Name of credit provider:	Name of consumer:		
Physical address:	Physical address:		
Contact number of credit provider:	Contact number of consumer:		
Date:	Id No/CIPRO/registration number:		
SUMMARY			
Credit advanced / value of goods or services provided on credit	R	Instalment, including interest, fees & required insurance, excluding optional insurance	R
Deposit to be paid & deducted	R	Number of instalments	
Instalments payable <i>specify: monthly/weekly/other</i>	R	Total all instalments including interest, fees & required insurance, excluding optional insurance	R
Initiation fee, charged up front	R	Annual interest rate	%
Monthly service fee, included in instalment	R	Required insurance included in instalment	R
ADDITIONAL INFORMATION			
PART A: Additional charges, per section 102 (b) – (f)			
Total of additional charges which will be included in the account, and have been included in the calculation of the instalment:		R	
Additional charges per section 102 (b) to (f)			
	R	R	
	R	R	
	R	R	
PART B: Optional items			
OPTIONAL ITEMS WHICH WILL BE ADDED TO INSTALMENT		OTHER OPTIONAL ITEMS	
Additional monthly premium for optional insurance	R		
Description of optional insurance:			
PART C: Security provided		PART D: Repayment arrangements	
<i>{Description of security required & of conditions under which possession would occur}</i>		<i>{Information regarding payment, including method of payment, date of the first payment and date of last payment}</i>	
PART E: Further information on rights and obligations			
<i>Further information on significant rights or obligations imposed on the consumer</i>			
Signature:			
Credit Provider Representative		Consumer	
[THIS QUOTE IS BINDING FOR 5 DAYS]			

22. Regulations Made in Terms of the National Credit Act, 2005, Form 20.

FIGURE 7: Graphic Showing APR in Relation to APRs on Similar Loans²³



23. From mortgage disclosure forms proposed by the Federal Reserve Board in the United States in 2009. For more details, see Hogarth and Merry, "Designing Disclosures."

be expected to understand the content, significance, and importance of the document without undue effort. In Peru, disclosed information must be of a font size that is sufficiently legible, with phrasing and terms that are comprehensible to clients. In some countries, the font size and type is mandated by law.

Policy makers should consider in what languages KFSs must be produced. KFSs should be provided in the official language of a country. In addition, providers could also be required to produce (or at least have available) KFSs in the most commonly used local languages. Such requirements would need to be balanced with cost considerations for providers. This will require balancing compliance costs for providers against the potential benefits for financial inclusion and overall consumer understanding.

Standardized terms and simple terminology should be used to facilitate reader comprehension and comparison. In particular, a brief explanation of what APR is and how it can be used should be included in KFSs, as the concept of APR is not well understood by consumers. KFSs in Ghana (see figure 8) and the United Kingdom²⁴ include short, intuitive descriptions accompanying key terms. One such description explains that the "total amount you will have to pay" means "the amount you have borrowed plus interest and other costs." Another

explains that "APR" reflects "the cost of credit you are taking on a yearly basis. It is a useful tool to compare costs of similar loans and credits."

3.3 FORMAT

KFSs in some countries are short and concise, providing only material information and using summary sections, boxes, bold font, or narrative-like sections to focus readers' attention. Examples follow. (See annex B for full copies of these disclosure documents.)

- The Pre-Agreement Statement and Quotation for Small Credit Agreements in South Africa²⁵ includes a summary box at the top of the page including total cost metrics, key up-front and recurring fees and charges, and repayment information. The form itself is clearly split into sections (summary, additional charges, optional items, security, repayment arrangements), with each section organized in a table format.
- The Format of Disclosure Statement on Small Business/Retail/Consumer Credit in the Philippines²⁶ uses boxes and bold font to highlight loan amount, total charges, net proceeds of the loan, and effective interest rate. The form is one page in length (with a repayment schedule as an annex), limited to six num-

24. Consumer Credit (Disclosure of Information) Regulations 2010, Schedule 1 ("Pre-Contract Credit Information").

25. Regulations Made in Terms of the National Credit Act, 2005, Form 20.

26. *Manual of Regulations for Banks*, Appendix 19.

4. ORAL COMMUNICATION AND STAFF TRAINING

Providers should be required to provide adequate oral explanations for any information in KFSs that may raise questions among consumers. As noted previously, it is counter-productive to include too much information in a KFS. Presenting information both in a written document and through face-to-face communication can enhance consumer comprehension. Establishing clear rules for what information should be conveyed to consumers orally during the pre-contractual stage can both reinforce and expand upon written disclosure. In effect, these requirements create a “duty” on the part of the provider not only to hand over a written disclosure document but also to ensure that a potential customer comprehends the contents of a KFS. For consumers with lower levels of literacy, or who are unfamiliar with financial terminology, oral communication is particularly important.

Again, policy makers will need to consider carefully how to determine the scope and design of such requirements. Considerations include to what extent providers will be mandated to give verbal explanations about specific items automatically to all consumers; to what extent the onus will be placed on providers to judge where such oral explanations are necessary, depending on the type of product and customer characteristics (such as limited literacy); and to what extent explanations will be required only on request, but perhaps with an obligation to make consumers actively aware that they have the right to ask for further explanations and clarifications.

For example, providers should be required to communicate material terms and concepts orally to potential customers who require more detailed explanations than a KFS can convey easily. These types of requirements should strategically target those issues for which written disclosure may be insufficient, providing further context to enable potential customers to fully understand the features of a product and the risks they are undertaking. This could include rights of customers, such as recourse mechanisms and cooling-off periods, or information regarding bundled services, such as mandatory credit life insurance. Requiring a brief oral explanation of the meaning and purpose of APR could also be considered. Product features that are triggered by future events (such as variable interest rates, prepayment penalties, late fees, and default interest rates) should also be explained through face-to-face interaction. The conditions that trigger these events and what processes to expect when such events occur should be conveyed as well.

For example, such approaches to oral communication are utilized in Malaysia and Rwanda. Providers in Malaysia are required to highlight key contractual terms and conditions, including cooling-off rights and liability for loss, and to inform customers of hotlines or contact details for feedback, enquiry, or complaint channels. In Rwanda, providers are required to provide “adequate oral explanations for any information provided in the key facts statements, or with regard to Annual Percentage Rate, about which the consumer has question or concern.”²⁹

Providers should be required to train their staff to be able to convey information in KFSs effectively. Staff training is necessary to ensure familiarity with the content and purpose of, and requirements with respect to, KFSs. Such requirements should apply to sales agents and customer representatives in particular. Staff should be able to explain cost metrics to consumers, including low-literacy consumers, and be aware of any particular oral communication requirements. For example, providers in Peru must designate personnel to be specially trained in customer service to respond to clients’ questions and to resolve any questions regarding form contracts (which are made publicly available in advance). In Malaysia, management must ensure that staff, particularly those involved in selling and marketing financial products and services, are adequately trained and have sufficient knowledge of disclosure requirements, products, and their operations. Policy makers may also wish to consider special requirements, such as specially trained staff, to assist consumers who speak only common local languages or who are affected by a disability.

Both consumers as well as provider staff should be required to sign a KFS, which should be retained by the provider. These signatures are an added confirmation that a finalized KFS was received and reviewed by the consumer at the point of sale.³⁰ For example, such a requirement exists in Ghana, Peru, the Philippines, and South Africa. In Armenia, three fields for customer signatures are placed near important terms and conditions of the loan (for example, fees and penalties) and at the end of the KFS. During the signing process, the customer is instructed to sign the KFS three times but is not told

29. Determining Key Facts Statements and Disclosure of Annual Percentage Rates for Fixed Term Credit Contracts.

30. Where a consumer credit product involves a guarantor, the guarantor could also be required to sign the KFS in order to ensure that the guarantor has received key information about the credit product (in addition to other information that should be provided regarding the guarantee itself).

where to put these signatures, thereby forcing him or her to review the whole KFS more closely.³¹ Financial service providers should be required to provide a signed copy of the KFS to consumers, to retain signed copies for a reasonable number of years, and to make the copies available during inspections by supervisory authorities.

5. TIMING AND MANNER OF PROVISION

When information is disclosed is an important component of an effective disclosure framework. Bank Negara Malaysia studied the effectiveness of product disclosure sheets and found that consumers' awareness of the existence and purpose of such sheets was low. In many cases, the disclosure sheets were provided to consumers only after a decision had already been made to purchase the product. Disclosure via KFSs delivered at multiple stages can help to reinforce the information conveyed and improve the likelihood of consumer comprehension and usage. In order to ensure that information does not arrive too late in the decision-making process to be utilized by consumers, a version of KFSs should be made available during the following stages: (1) the shopping stage, (2) the pre-transactional stage, and (3) the transaction stage.

KFSs should be made available during the shopping stage through a variety of convenient and accessible channels. Disclosure as early as possible during the shopping stage is critical, as this is when information can highly influence consumers' decision-making processes regarding which product or service to purchase. At any time prior to a consumer indicating an intention to enter into a loan agreement, a provider should be required to make available a generic KFS. The statement should be made available through a variety of channels, including advertising materials, websites, branches, and upon request.

A KFS during the shopping stage will necessarily be generic, but it should be required to contain reasonable assumptions regarding the average type of loan or average consumer. Because total cost of credit, APR, and other cost metrics will be based at this stage on hypotheticals and not tied to a particular customer, disclosure requirements should require that providers use a reasonable representative example. For example, in the United Kingdom, the standard information disclosed in advertisements must be what the advertiser reasonably expects

to be representative of the consumer credit agreements to which a representative APR applies and which are expected to be entered into as a result of the advertisement. The representative APR must reflect at least 51 percent of the business expected to result from the advertisement. A note should be included in such generic KFSs indicating that such assumptions have been made and that the terms of the final product offered to the customer will likely change.

A personalized KFS should be provided to a potential customer during the pre-transactional stage, before a loan agreement is entered into. Once the consumer indicates an intention to enter into a loan agreement, the provider should be required to make available a personalized KFS incorporating all consumer-specific variables known at the time.

A general, flexible standard should be established as to how early in the process pre-contractual information should be provided to consumers. Rather than designate a set time period for a consumer to become familiarized with a KFS, which may be impractical and objectionable to providers, staff could be required to communicate to consumers specifically that they have the right to take KFSs away with them and review them at their own speed and convenience (and not in a pressurized setting, such as in front of provider staff at the branch). For example, in the United Kingdom, pre-contractual information must be provided "in good time before the agreement is made."³² Regulations further explain that "in good time" may depend on the precise circumstances of the transaction, but in all circumstances, the borrower must be given adequate opportunity to consider the pre-contractual information before being invited to sign the credit agreement.

KFSs provided during the shopping and pre-transactional stages should indicate how long the terms and conditions included therein will remain valid. When a borrower first applies for a loan, the pre-transactional KFS will most likely need to be preliminary pending processing of the borrower's application. KFSs should therefore highlight the fact that the final interest rate, term of the loan, and installment amount for repayment may vary from what is included in the pre-transactional KFS, which will affect the final total cost of credit, APR, and total amount the borrower will pay.

A final KFS should be provided at the signing of the loan agreement. The final KFS should be provided at the point-

31. See Procedure, Terms, Forms and the Minimum Requirements for Communication Between Bank and Depositor, Creditor and Consumer.

32. See Consumer Credit (Disclosure of Information) Regulations 2010.

of-sale stage and have all key costs, fees and charges, and terms and conditions fixed. If any items in the final KFS have changed since the pre-transactional KFS was provided, these changes should be highlighted to the borrower. Providers should be required to give the KFS prominent placement when it is handed to the consumer. For example, the KFS should be the first two pages or on top of other documentation, such as marketing materials or a form loan agreement.

6. SCOPE OF APPLICATION

Ideally, the same form of KFS should be used by all providers of consumer credit in a country, including banks and non-bank financial institutions (NBFIs), such as financial cooperatives, microfinance institutions (MFIs), payday lenders, and money lenders. Having a standardized KFS across all providers of consumer credit is critical for effectiveness, as this creates a level playing field, provides consumers with equal and comprehensive levels of protection, allows for easy comparison shopping, and increases consumers' comprehension and familiarity with the standardized KFS. However, this is often not the case in practice, as KFS requirements tend to vary depending on type of provider and are less commonly applied to NBFIs.³³

Given that certain types of consumer credit providers may fall under the oversight of different agencies, requirements for the use of a common KFS may need to be coordinated and harmonized. For example, in the Philippines, some NBFIs are supervised by the Bangko Sentral ng Pilipinas (BSP), while MFIs are overseen by the Securities and Exchange Commission (SEC). To provide for consistent application of disclosure rules, the BSP reached out to the SEC to harmonize requirements. As a result, the SEC issued a circular to its own lending and financing companies adopting the BSP's disclosure requirements (including those pertaining to KFSs).³⁴

Policy makers will also need to consider for which types of consumer credit products KFSs should be required. A log-

ical focus would be on the most common, standardized credit products used by mass consumers. As noted previously, many of the recommendations provided in this technical note and in the sample KFS included in annex A are tailored to personal installment loans with a fixed term. Modifications will be required for mortgages, revolving loans, lines of credit, credit cards, or other types of consumer credit.³⁵

Policy makers may also wish to consider whether the requirement for KFSs should be limited to loans below or above a certain size. The rationale is to focus the use of a standardized KFS on common loans with standard features, and to exclude loans that are either too small (as these loans arguably pose less risk to consumers and KFSs may be impractical and costly to implement for such loans) or, conversely, too large (as these loans may be more complicated than a standardized KFS allows for and the borrowers of such loans are likely to be more financially sophisticated).

However, typical consumers for certain types of small loans may be disproportionately vulnerable to and harmed by poor disclosure and transparency. The approach to this topic varies across countries, given that there are competing policy concerns to balance. As one example, the disclosure regime in Armenia applies to consumer credit agreements for amounts between 100,000 and 10 million Armenian drams (USD 206–USD 20,547). Alternatively, regulation could define "consumer credit" using a more qualitative than quantitative approach, to allow for flexible application and to ensure that consumers of microloans in particular are sufficiently protected.

7. DIGITAL CREDIT AND DIGITAL DISCLOSURE

Digital financial services involve new products and business models (such as digital credit), new delivery channels (such as mobile phones and agents), and new providers (such as mobile network operators and peer-to-peer lenders). While providing substantial benefits for financial inclusion, digital financial services can raise new financial consumer protection concerns or heighten existing concerns. While covering these topics extensively is beyond

33. For example, 124 jurisdictions were surveyed on their approaches to key financial consumer protection topics. Of them, 81 jurisdictions (65 percent) reported that a KFS (or similar document) was required for at least one financial product for commercial banks, but the requirement was significantly less common for other types of financial service providers, even for common financial products and services. See *Global Financial Inclusion and Consumer Protection Survey*.

34. See SEC Memorandum Circular No. 7, issued by the Securities and Exchange Commission in September 2011 and addressed to all lending and financing companies. It adopted Circular No. 730 of July 2011 issued by the BSP.

35. For example, see Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property. The directive amends the definition of total cost of credit from Directive 2008/48/EC to include such items as the cost of valuation of property where such valuation is necessary to obtain the credit and fees required to obtain the credit, such as fees for life insurance or fire insurance.

the scope of this technical note, this section will highlight a few key concerns regarding digital credit offered via mobile phones and emerging approaches to address these concerns.

The nature of digital credit transactions, which are often remote, occur at rapid speeds, and are conducted via small mobile screens, raises multiple risks for consumers. Disclosure of information via digital channels such as mobile phones is often less comprehensive and more difficult to read. Digital credit products offered via mobile phones will necessarily involve a more limited visual format as a result of device and network limitations (such as smaller screen size and, depending on USSD versus full-feature smartphones, lower graphical capabilities). Furthermore, given the remote nature of the transactions, the opportunity to supplement written information with oral explanations from provider staff ranges from limited to none.

The current practices of digital credit providers often fall short of international good practices for disclosure and transparency. For example, a recent review of 18 digital financial services user agreements from nine African countries³⁶ found that user agreements often contained complex language that was difficult for consumers to understand. In addition, not all fees and charges were disclosed; rather, consumers who wanted more complete information were often referred to provider websites or publications that were available only at physical locations. Similarly, a review of digital lenders' disclosure practices in Kenya and Tanzania found numerous failings, including inaccurate presentation of costs (including a lack of APR and no disclosure of fees for bundled services), failure to disclose full terms and conditions, and lack of a KFS summarizing key terms and conditions.³⁷

The same general principles for KFSs discussed herein should be applied to digital credit products, but adaptations will be required. The core requirements regarding the content of disclosure—such as requiring standardized calculation and presentation of APR and total cost of credit, and disclosure of key terms and conditions—should apply to digital credit. However, design elements will need careful adaptation. For example, established font sizes for KFSs will need to be adapted to work on mobile phones. Adapted approaches for conveying key

information could include the use of standardized icons to convey key terms or concepts in an easily digestible manner, and layered messaging (that is, presenting key summary information on an initial screen and making more detailed information available by clicking through to additional screens).³⁸

The design of the interactive process for obtaining a digital credit product on a mobile phone can also be used to draw consumer attention to certain terms and conditions. For example, before a consumer reaches the final screen to obtain a digital credit product, a separate screen could be used to highlight key risks, such as late-payment penalties. Consumers can also be taken through a screen that requires them to actively agree to terms and conditions (and includes a click-through to a summary of key terms and conditions) before being able to proceed with their loan application.³⁹

Consumers should also be able to read, store, and retrieve disclosed information without unreasonable effort and for a reasonable time period. Given that it may not be possible to provide consumers with a full KFS, policy makers should consider what other protections may be needed to compensate—for example, cooling-off periods for sales of digital credit. Another approach may be to ensure easy access to hard copies of more comprehensive information than can be disclosed via mobile phones. The Australian Securities and Investments Commission recommends that providers “make it easy for clients to request a digital copy of the disclosure at no cost to the client (e.g., by providing a toll-free telephone number or an electronic address or a request button clients can use to request a copy).”⁴⁰

Finally, whether the existing consumer protection framework applies to all digital credit providers often poses a problem. In many countries, existing disclosure rules may not apply to all providers of digital credit, as some providers do not fall under the oversight of a financial sector authority. As noted in section 6, policy makers should make efforts to ensure that there is comprehensive protection for consumers across all types of providers, consistency of approach, and a level playing field in the market. Achieving comprehensive coverage may require addressing regulatory gaps.

36. *Review of DFS User Agreements in Africa*.

37. Mazer and McKee, “Consumer Protection in Digital Credit.”

38. For example, see *Mobile Privacy Disclosures*.

39. For more details, see Mazer and McKee, “Consumer Protection in Digital Credit.”

40. *Facilitating Digital Financial Services Disclosure*.

8. LEGAL MANDATE, SUPERVISION, AND ENFORCEMENT

Formal regulation requiring KFSs is the preferred approach, as regulation would provide greater legal weight and allow for formal enforcement. Depending on country context, policy makers may need to clarify whether a legal authority exists to issue such a regulation. Where legal mandate is an obstacle, alternative short-term approaches could include voluntary guidelines on KFSs. However, over the long term, the legal mandate for a financial sector authority to require the provision of KFSs (as well as to establish broader disclosure and financial consumer protection rules) should be clearly enumerated.

Strong and consistent supervision, monitoring, and enforcement of KFS requirements will be necessary. Supervisors will require training for new rules on KFSs, and examination manuals may require revision. In general, financial sector authorities will need to have a range of supervisory and enforcement powers to monitor and ensure compliance with financial consumer protection rules. A mix of supervisory tools and techniques should be used to check financial service providers' compliance with new disclosure requirements.

New rules on KFSs can be monitored through both traditional supervisory tools (for example, on-site and off-site examinations) and new supervisory tools (for example, mystery shopping). On-site examinations can be used to check for signed copies of KFSs, examine training protocols for sales staff and ensure sufficient levels of training, and review internal audit reports on compliance with rules. Off-site examinations can be used to verify the accuracy of generic KFSs obtained from branches or websites, verify the accuracy of APR and total cost of credit calculations, and monitor complaints with respect to KFSs (or broader issues with disclosure and transparency). Resources permitting, mystery shopping can be utilized to test interactions with provider staff and see how and when KFSs are presented to potential borrowers. Mystery-shopping techniques can be particularly useful for monitoring compliance with rules on oral communication and sales practices.⁴¹

Enforcement action should be applied when non-compliance and misconduct are identified. Enforcement tools (for example, suspension or withdrawal of products/services, fines, compensation to consumers) should be applied according to the issues identified and the powers

of the respective authority in a proportional, timely, and consistent manner. Action plans for corrective measures may also be agreed upon with the financial service provider, and its implementation should be monitored by supervisors.⁴²

9. CONSUMER TESTING, WORKING WITH INDUSTRY, AND RAISING CONSUMER AWARENESS

Consumer testing of a draft KFS should be undertaken to test what content and format most effectively conveys key information to consumers. Consumer testing is critical to ensuring the effectiveness of KFSs in achieving policy objectives, particularly in a specific country context where consumers may be confused about particular issues or react differently to design elements according to local social and cultural norms. The clear international guidance is that designing an effective KFS requires iterations of testing and refinement. Testing can consist of small focus groups, cognitive interviews, or broader consumer surveys. Consumer testing can be used to test different versions of a KFS and compare levels of comprehension, as well as consumers' decision-making processes based on the KFSs. This type of testing can provide the opportunity to learn what information consumers typically focus on, how much information they can comprehend and process, and how their behavior is altered by different designs and different information.

Compliance costs are frequently raised by providers as an obstacle to disclosure rules. For less sophisticated financial providers serving low-income consumers, there is a risk that compliance costs may discourage responsible providers from serving this market and limit financial access. Any regulation should therefore strike a careful balance between costs and benefits and not require superfluous items that impose additional compliance costs and do not benefit consumers. The main cost components for providers include changes to management and information systems (particularly with respect to the calculation of total cost of credit and APR), changes to written materials, and training of staff. These can generally be viewed as one-time expenses; recurring costs may therefore be much lower.

Working with industry associations and providers will be important for the ultimate success of rolling out a KFS for

41. For example, see Mazer, Gine, and Martinez, *Mystery Shopping for Financial Services*.

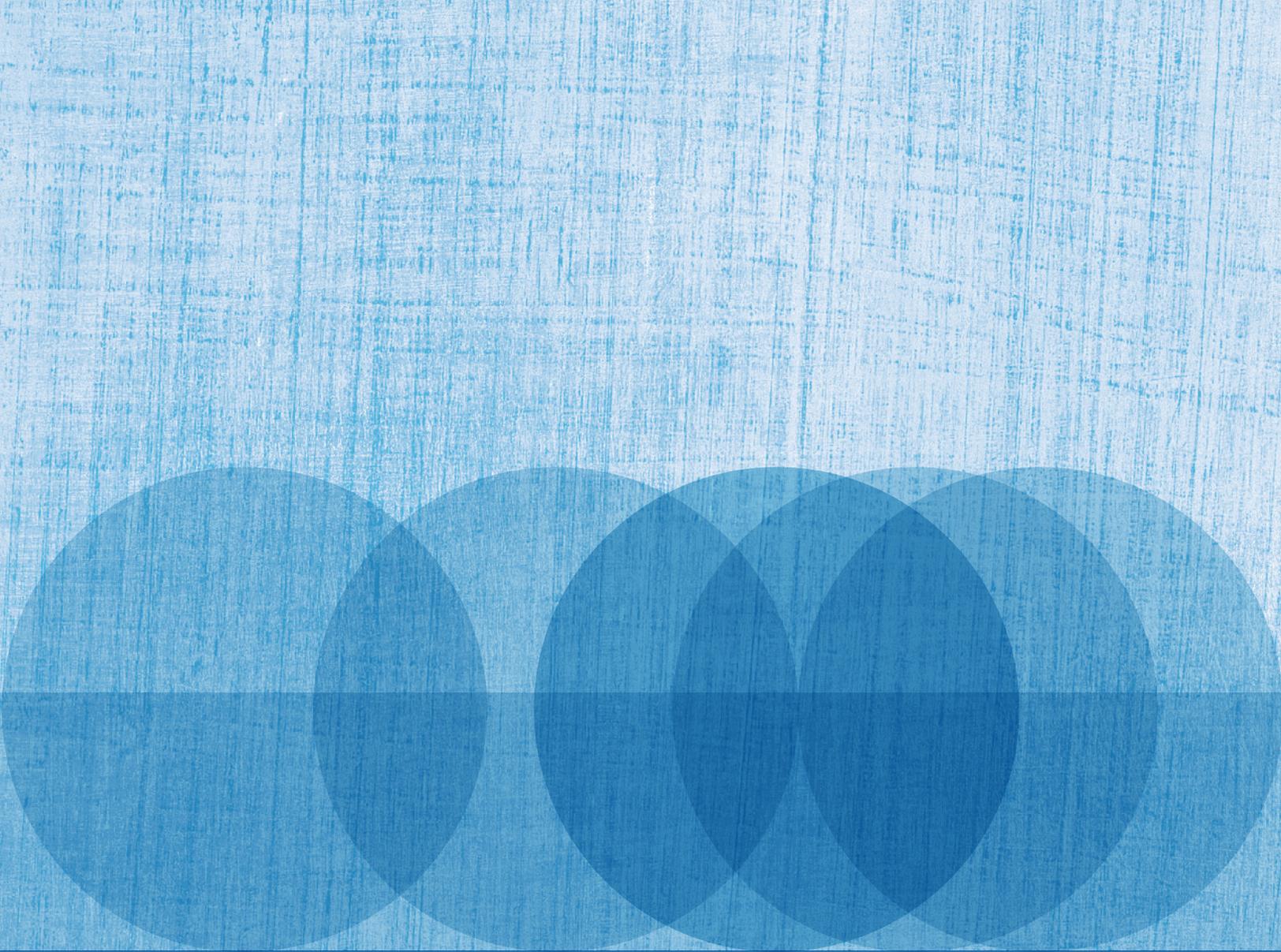
42. For more information, see *Good Practices for Financial Consumer Protection*, A5 ("Enforcement") in Deposit and Credit Products and Services Chapter.

consumer credit. The success of the disclosure regime in Peru is partly attributed to the Superintendency of Banking, Insurance, and Private Pension Funds Administrators' extensive efforts to work with stakeholders throughout the development phase—discussing disclosure rules, addressing concerns about compliance costs, and working with financial providers to increase familiarity with formulas for calculating effective interest rate. When discussing KFS and related disclosure rules with industry, it should be emphasized that such requirements have strong benefits for responsible providers by creating a level playing field and allowing for more transparent competition among providers.

There should be an appropriate transition period for the industry once new regulation on KFSs has been passed. All providers should be given adequate time to adapt their internal processes to calculate total cost of credit and APR, prepare KFSs, and train staff appropriately in their delivery.

Special consideration may need to be given to the implementation of KFSs by NBFIs. Differing levels of capacity among financial providers should be taken into consideration. For example, smaller MFIs and less formal financial cooperatives may find it difficult to calculate APR. Certain NBFIs may require special training, educational materials, or software to help implement KFS requirements.

Consumer awareness campaigns should be undertaken to publicize the final draft of a new KFS. Particularly in countries with low levels of financial literacy, efforts will be necessary to raise consumer awareness of what total cost of credit and APR represent, how they relate to one another, and how they should be used (both their usefulness and their inherent limitations), as well as to familiarize consumers with the format and content of the KFS and how and when such a statement should be made accessible to them. These efforts will likely require coordination among various government agencies and consumer and industry associations. In Peru, consumer awareness campaigns were developed with consumer associations.



ANNEXES

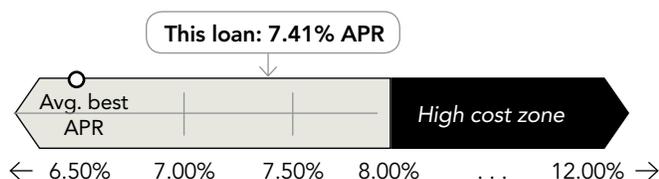
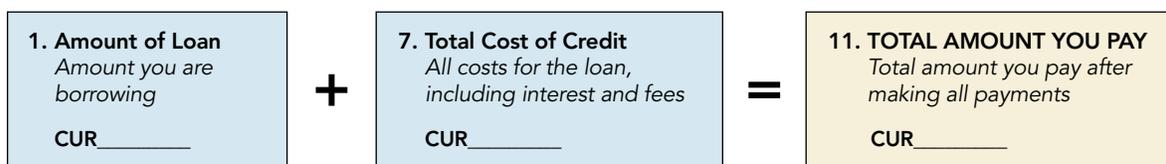
ANNEX A

ILLUSTRATIVE KEY FACTS STATEMENT FOR CONSUMER CREDIT

KEY FACTS STATEMENT FOR CONSUMER CREDIT

* Review carefully before agreeing to a loan.*

SECTION I: KEY TERMS					
LOAN SUMMARY		COST OF CREDIT		REPAYMENT SCHEDULE	
1. Amount of Loan <i>Amount you are borrowing</i>	CUR_____	4. Interest <i>Interest you will be charged on the loan</i>	CUR_____	7. Date First Payment Due	___/___/___
2. Duration of Loan Agreement	_____	5. Other Fees and Charges <i>See details in Section III</i>	CUR_____	8. Number of Payments	_____
3. Amount Received <i>Amount you actually receive from the lender</i>	CUR_____	6. Annual Percentage Rate <i>Total Cost of Credit as a comparable annual percentage _____%</i>	7. Total Cost of Credit <i>All costs for the loan, including interest and fees</i> CUR_____	9. Payment Frequency	_____
				10. Amount Per Payment <i>Includes capital, interest, and recurring fees</i>	CUR_____



SECTION II: YOUR RIGHTS AND OBLIGATIONS

- Any questions or complaints? Call [TELEPHONE], email [EMAIL ADDRESS], or write to [MAILING ADDRESS] to contact us regarding your question or complaint.
- Unsatisfied with our response to your question or complaint? Contact the [EXTERNAL DISPUTE RESOLUTION BODY] for help at [TELEPHONE] or [EMAIL], write to [ADDRESS], or visit [WEBSITE].
- Want to pay off your loan early? You can do so without any penalties or fees.
- You may cancel the loan agreement within a period of [XX] calendar days after signing the agreement.

* This information is not final until signed by all parties, and does not replace the loan agreement. You have the right to a copy of the full loan agreement. *

* This information is valid for [TIME PERIOD]. *

SECTION III: UPFRONT AND RECURRING FEES					
UPFRONT FEES		UPFRONT FEES		RECURRING FEES	
Arrangement fee	<input type="checkbox"/> CUR _____	Collateral appraisal	<input type="checkbox"/> CUR _____	Credit life insurance	<input type="checkbox"/> CUR _____ per _____
Documentation fee	<input type="checkbox"/> CUR _____	Credit history check	<input type="checkbox"/> CUR _____	Management fee	<input type="checkbox"/> CUR _____ per _____
Other fees (list all) _____ _____ _____		<input type="checkbox"/> CUR _____	TOTAL UPFRONT AND RECURRING FEES AND CHARGES (EXCLUDING INTEREST)		CUR _____

SECTION IV: IMPORTANT TERMS AND CONDITIONS TO CONSIDER					
LATE PAYMENT PENALTIES		TERMS AND CONDITIONS		TERMS AND CONDITIONS	
<input type="checkbox"/> Late fees if payment is more than _____ days late	CUR _____	<input type="checkbox"/> Cash deposit/ mandatory savings:	CUR _____	<input type="checkbox"/> Variable interest rate applies	CUR _____
<input type="checkbox"/> Default interest if payment is more than _____ days late	_____ % per _____	<input type="checkbox"/> COLLATERAL: You are committing the following as collateral: _____ _____ _____		<input type="checkbox"/> Other _____ _____ _____	

*** Late or missing payments may have severe consequences on your collateral and your credit history, hurting your ability to reborrow. ***

CERTIFIED CORRECT:

I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE LOAN AGREEMENT:

I ACKNOWLEDGE RECEIPT OF THIS STATEMENT PRIOR TO SIGNING THE THE GUARANTEE:

Credit provider representative

Borrower

Guarantor (if applicable)

Name of Borrower:	Application No:	Date prepared:
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Note: This KFS is a generic illustration only, provided to help the reader visualize elements discussed in this technical note. The APR graphic from the preceding page is from Hogarth and Merry, "Designing Disclosures." See source for descriptions of "Avg. Best APR" and "high cost zone."

ANNEX B

EXAMPLES OF KEY FACTS STATEMENTS

GHANA: Pre-Agreement Truth in Lending Disclosure Statement for Credit Products and Services

PRE-AGREEMENT TRUTH IN LENDING DISCLOSURE STATEMENT						
Lender's Name:		Applicant Name:		Date prepared:		
Prepared by:		Address:		Application No:		
KEY TERMS & CONDITIONS - Review Carefully Before Agreeing to Loan						
Loan Amount		All Interest and Other Fees		Amount you will pay		
GHS 10,000.00		+ GHS 1,326.60		= GHS 11,326.60		
LOAN SUMMARY		FEES & COMMISSIONS		REPAYMENT SCHEDULE		
Amount of Loan <i>The value of the loan you are signing for</i>	GHS 10,000.00	Interest charges	GHS 1,001.60	Amount of each payment	GHS 916.80	
Amount Received <i>The actual amount the lender provides you at beginning of loan</i>	GHS 9,800.00	Other charges and fees (see below for details)	GHS 325.00	Payment frequency	Monthly	
Required Compulsory Deposit	GHS 325.00	APR*	23.84%	Number of payments	12	
*APR reflects the cost of the credit you are taking on a yearly basis. It is a useful tool to compare costs of similar loans and credits.						
DETAILED DESCRIPTION OF PENALTIES AND CHARGES AND ADDITIONAL REQUIREMENTS						
PENALTY CHARGES		OTHER CHARGES & FEES				
Late Payment: If a payment is more than [] days late, you will be charged ___% on the remaining balance of the loan.		Prepayment: If you pay the loan off early you: <input type="checkbox"/> Will have to pay a penalty of _____ <input type="checkbox"/> May be entitled to a refund of part of the interest fees and other charges		Insurance Charges	GHS 100.00	
				Credit history consultation fee	GHS -	
				Commitment fee	GHS -	
				Processing fees	GHS 100.00	
				Other charges	GHS -	
				Mandatory Savings Cost	GHS 125.00	
PAYMENT SCHEDULE						
Date First Payment Due	31/01/2016					
Payment Due Date	Payment Amount	Interest Charges	Principal Payment	Remaining Balance		
31/01/2016	GHS 916.80	GHS 150.00	GHS 766.80	GHS 9,233.20		
28/02/2016	GHS 916.80	GHS 138.50	GHS 778.30	GHS 8,454.90		
31/03/2016	GHS 916.80	GHS 126.82	GHS 789.98	GHS 7,664.92		
30/04/2016	GHS 916.80	GHS 114.97	GHS 801.83	GHS 6,863.10		
31/05/2016	GHS 916.80	GHS 102.95	GHS 813.85	GHS 6,049.24		
30/06/2016	GHS 916.80	GHS 90.74	GHS 826.06	GHS 5,223.18		
31/07/2016	GHS 916.80	GHS 78.35	GHS 838.45	GHS 4,384.73		
31/08/2016	GHS 916.80	GHS 65.77	GHS 851.03	GHS 3,533.70		
30/09/2016	GHS 916.80	GHS 53.01	GHS 863.79	GHS 2,669.91		
31/10/2016	GHS 916.80	GHS 40.05	GHS 876.75	GHS 1,793.15		
30/11/2016	GHS 916.80	GHS 26.90	GHS 889.90	GHS 903.25		
31/12/2016	GHS 916.80	GHS 13.55	GHS 903.25	GHS 0.00		
TOTAL	GHS 11,001.60	GHS 1,001.60	GHS 10,000.00	GHS 0.00		
Cooling Off Period: You may, up to 5 days after signing the loan agreement, cancel the loan, and only pay any disbursements to date, as well as an administrative fee of ___% of the Amount of Loan. To exercise such right, you shall give a written notice through this address :						
For any questions or complaints, please contact the customer service hotline:		Telephone:	Address:	Email:	Complaints Unit Manager:	
Signature of Customer _____			Signature of Loan Officer _____			
Date _____			Date _____			
NOTE: This is neither a contract nor a commitment to lend.						

MALAYSIA: Product Disclosure Sheet for Personal Loans

<p>PRODUCT DISCLOSURE SHEET</p> <p>(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.)</p>	<p><Name of Financial Service Provider></p> <p><Name of Product></p> <p><Date></p>
<p>1. What is this product about?</p> <p>This unsecured personal loan is calculated on a variable rate basis.</p>	
<p>2. What do I get from this product?</p> <ul style="list-style-type: none"> • Total amount borrowed: RM xxx • Interest rate: BLR + y% p.a. • Effective lending rate: z% • Tenure: k years 	
<p>3. What are my obligations?</p> <ul style="list-style-type: none"> • Monthly instalment: RM xxx • The total amount you must pay back, including the amount borrowed is: RM xx <p>Note:</p> <ul style="list-style-type: none"> • Total repayment amount may vary if BLR changes. 	
<p>4. What are the fees and charges I have to pay?</p> <p>Stamp Duties</p> <p>As per the Stamp Duty Act 1949 (Revised 1989).</p>	
<p>5. What if I fail to fulfil my obligations?</p> <ul style="list-style-type: none"> • Late payment penalty: y% p.a. on the amount in arrears • Right to set-off: We have the right to set-off any credit balance in your account maintained with us against any outstanding balance in this loan account. <p><i>(To highlight other key terms and conditions.)</i></p>	
<p>6. What if I fully settle the loan before its maturity?</p> <ul style="list-style-type: none"> • Lock-in period: k months • Early settlement penalty: y% on the prepaid amount or minimum RM xx 	

MALAYSIA: Product Disclosure Sheet for Personal Loans

7. What are the major risks?

The interest rate on this loan is variable and it may change according to changes in the reference rates. An increase in interest rate may result in higher monthly repayment.

If you have problems meeting your loan obligations, contact us early to discuss repayment alternatives.

8. Do I need a guarantor or collateral?

Indicate if a guarantor or collateral is required.

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 further information?

If you have any enquiries, please contact us at:

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

11. Other personal loan packages available

- abc
- xyz

IMPORTANT NOTE: LEGAL ACTION MAY BE TAKEN AGAINST YOU IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR PERSONAL LOAN.

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

PHILIPPINES: Format of Disclosure Statement on Small Business/Retail/Consumer Credit

ANNEX A

**APPENDIX 19
FORMAT OF DISCLOSURE STATEMENT ON
SMALL BUSINESS/RETAIL/CONSUMER CREDIT**

(Business Name of Creditor)

**DISCLOSURE STATEMENT ON LOAN/CREDIT TRANSACTION
(As Required under R.A. 3765, Truth in Lending Act)**

NAME OF BORROWER : _____
ADDRESS : _____

1. LOAN AMOUNT ₱ XXX

2. OTHER BANK CHARGES/DEDUCTIONS COLLECTED ¹ ₱ XXX

- a. Documentary/Science Stamps ₱ _____
- b. Mandatory Credit Insurance _____
- c. Others (Specify) _____ _____

3. NET PROCEEDS OF LOAN (Item 1 less Items 2 and 3) ₱ XXX

4. SCHEDULE OF PAYMENTS

- a. Single payment due on (date) ₱ XXX
- b. Installment Payments (Please see attached amortization schedule)

5. EFFECTIVE INTEREST RATE (Interest and Other Charges) XXX %

Explanation: The effective interest rate is higher than the contractual interest rate of ___% because of item 2 deductions above.

6. CONDITIONAL CHARGES THAT MAY BE IMPOSED (if applicable). Please specify manner of imposition:

- a. Late Charge _____
- b. Prepayment (penalty/refund) _____
- c. Others (Specify) _____ _____

CERTIFIED CORRECT:

(Signature of Creditor/Authorized Representative Over Printed Name) _____
Position

I ACKNOWLEDGE RECEIPT OF A COPY OF THIS STATEMENT PRIOR TO THE CONSUMMATION OF THE CREDIT TRANSACTION.

(Signature of Borrower over Printed Name) _____
Date

Notes:

- ¹ Itemize all charges including advance deductions
- Small business/Retail/Consumer Loans includes microfinance, auto (motor), salary, personal, medical, educational and other loans of similar nature
- This document contains the minimum information required to be disclosed to the borrower and maybe enhanced to improve client information

PHILIPPINES: Format of Disclosure Statement on Small Business/Retail/Consumer Credit

ANNEX A-1

AMORTIZATION SCHEDULE
(Sample Only)

Installment (A)	Loan (B)	Principal (C)	Interest (D)	Total (E)	O/S Balance (F)
	xxx				xxx
1		xxx	xxx	xxx	xxx
2		xxx	xxx	xxx	xxx
3		xxx	xxx	xxx	xxx
4		xxx	xxx	xxx	xxx
5		xxx	xxx	xxx	xxx
6		xxx	xxx	xxx	xxx
7		xxx	xxx	xxx	xxx
8		xxx	xxx	xxx	xxx
9		xxx	xxx	xxx	xxx
10		xxx	xxx	xxx	xxx
11		xxx	xxx	xxx	xxx
12		xxx	xxx	xxx	xxx
	Total	xxx	xxx	xxx	

Legends:

- A - Number of installment periods based on loan term
- B - Gross amount of loan
- C - Installment payment on the principal
- D - Installment payment on the interest
- E - Total amortization payment for the installment period
- F - Outstanding principal balance of the loan

SOUTH AFRICA: Pre-Agreement Statement & Quotation for Small Credit Agreements

PRE-AGREEMENT STATEMENT & QUOTATION FOR SMALL CREDIT AGREEMENTS	English
in terms of section 92 of the National Credit Act 34 of 2005	
-page 1-	

NCR number:

FORM 20

Name of credit provider:	Name of consumer:
Physical address:	Physical address:
Contact number of credit provider:	Contact number of consumer:
Date:	Id No/CIPRO/registration number:

SUMMARY

Credit advanced / value of goods or services provided on credit	R	Instalment, including interest, fees & required insurance, excluding optional insurance	R
Deposit to be paid & deducted	R	Number of instalments	
Instalments payable	R	Total all instalments including interest, fees & required insurance, excluding optional insurance	R
<i>specify: monthly/weekly/other</i>			
Initiation fee, charged up front	R	Annual Interest rate	%
Monthly service fee, included in instalment	R	Required insurance included in instalment	R

ADDITIONAL INFORMATION

PART A: Additional charges, per section 102 (b) – (f)

Total of additional charges which will be included in the account, and have been included in the calculation of the instalment:	R		
<i>Additional charges per section 102 (b) to (f)</i>			
	R		R
	R		R
	R		R

PART B: Optional items

OPTIONAL ITEMS WHICH WILL BE ADDED TO INSTALMENT	OTHER OPTIONAL ITEMS
Additional monthly premium for optional insurance	R
Description of optional insurance:	

PART C: Security provided

PART D: Repayment arrangements

<i>{Description of security required & of conditions under which possession would occur}</i>	<i>{Information regarding payment, including method of payment, date of the first payment and date of last payment}</i>

PART E: Further information on rights and obligations

Further information on significant rights or obligations imposed on the consumer

Signature:	
Credit Provider Representative	Consumer

[THIS QUOTE IS BINDING FOR 5 DAYS]

UNITED KINGDOM: Pre-Contract Credit Information

SCHEDULE 1		Regulation 8(1)
PRE-CONTRACT CREDIT INFORMATION		
(Standard European Consumer Credit Information)		
1. Contact details		
Creditor. Address. Telephone number(s).* E-mail address.* Fax number.* Web address.*	[Identity.] [Geographical address of the creditor to be used by the debtor.]	
If applicable Credit intermediary. Address. Telephone number(s).* E-mail address.* Fax number.* Web address.*	[Identity.] [Geographical address of the credit intermediary to be used by the debtor.]	
<p>* This information is optional for the creditor. The row may be deleted if the information is not provided.</p> <p>Wherever “if applicable” is indicated, the creditor must give the information relevant to the credit product or, if the information is not relevant for the type of credit considered, delete the respective information or the entire row, or indicate that the information is not applicable.</p> <p>Indications between square brackets provide explanations for the creditor and must be replaced with the corresponding information.</p>		
2. Key features of the credit product		
<i>The type of credit.</i> The total amount of credit. This means the amount of credit to be provided under the proposed credit agreement or the credit limit.	[The amount is to be expressed as a sum of money. In the case of running-account credit, the total amount may be expressed as a statement indicating the manner in which the credit limit will be determined where it is not practicable to express the limit as a sum of money.]	
How and when credit would be provided.	[Details of how and when any credit being advanced is to be drawn down.]	
The duration of the credit agreement.	[The duration or minimum duration of the agreement or a statement that the agreement has no fixed or minimum duration.]	
Repayments. If applicable: Your repayments will pay off what you owe in the following order.	[The amount (expressed as a sum of money), number (if applicable) and frequency of repayments to be made by the debtor. In the case of an agreement for running-account credit, the amount may be expressed as a sum of money or a specified proportion of a specified amount or both, or in a case where the amount of any repayment cannot be expressed	

UNITED KINGDOM: Pre-Contract Credit Information

	<p>as a sum of money or a specified proportion, a statement indicating the manner in which the amount will be determined.</p> <p>[The order in which repayments will be allocated to different outstanding balances charged at different rates of interest.]</p>
<p>The total amount you will have to pay. This means the amount you have borrowed plus interest and other costs.</p>	<p>[The amount payable by the debtor under the agreement (where necessary, illustrated by means of a representative example).</p> <p>The total amount payable will be the sum of the total amount of credit and the total charge for credit payable under the agreement as well as any advance payment where required. In the case of running account credit, where it is not practicable to express the limit as a sum of money, a credit limit of £1200 should be assumed.</p> <p>In a case where credit is to be provided subject to a maximum credit limit of less than £1200, an amount equal to that maximum limit.</p> <p>The total charge for credit is to be calculated using the relevant APR assumptions set out in Schedule 2 to the Consumer Credit (Disclosure of Information) Regulations 2010 and the Total Charge for Credit Regulations, and where appropriate the relevant components of the debtor's preferred credit.]</p>
<p>If applicable [The proposed credit will be granted in the form of a deferred payment for goods or service.] or [The proposed credit will be linked to the supply of specific goods or the provision of a service.] Description of goods/services/land (as applicable). Cash price.</p>	<p>[A list or other description] [Cash price of goods or service.] [Total cash price.]</p>
<p>If applicable Security required. This is a description of the security to be provided by you in relation to the credit agreement.</p>	<p>[Description of any security to be provided by or on behalf of the debtor.]</p>
<p>If applicable Repayments will not immediately reduce the amount you owe.</p>	<p>[In the case of a credit agreement under which repayments do not give rise to an immediate reduction in the total amount of credit advanced but are used to constitute capital as provided by the agreement (or an ancillary agreement a clear and concise statement) where applicable, that the agreement does not provide for a guarantee of the repayment of the total amount of credit drawn down under the credit agreement.]</p>

3. Costs of the credit

The rates of interest which apply to the credit	[Details of the rate of interest charged, any
---	---

UNITED KINGDOM: Pre-Contract Credit Information

<p>agreement</p>	<p>conditions applicable to that rate, where available, any reference rate on which that rate is based and any information on changes to the rate of interest (including the periods that the rate applies, and any conditions or procedure applicable to changing the rate). Where different rates of interest are charged in different circumstances, the creditor must provide the above information in respect of each rate.]</p>
<p>Annual Percentage Rate of Charge (APR). This is the total cost expressed as an annual percentage of the total amount of credit. The APR is there to help you compare different offers.</p>	<p>[% if known. If the APR is not known a representative example (expressed as a %) mentioning all the necessary assumptions used for calculating the rate (as set out in Schedule 2 to the Consumer Credit (Disclosure of Information) Regulations 2010, the Total Charge for Credit Regulations and, where appropriate, the relevant components of the debtor's preferred credit). Where the creditor uses the assumption set out in regulation 6(g) of the Total Charge for Credit Regulations, the creditor shall indicate that other draw down mechanisms for this type of agreement may result in a higher APR.]</p>
<p>If applicable In order to obtain the credit or to obtain it on the terms and conditions marketed, you must take out: — an insurance policy securing the credit, or — another ancillary service contract. If we do not know the costs of these services they are not included in the APR.</p>	<p>[Nature and description of any insurance or other ancillary service contract required.]</p>
<p>Related costs</p>	
<p>If applicable You must have a separate account for recording both payment transactions and drawdowns.</p>	<p>[Details of any account or accounts that the creditor requires to be set up in order to obtain the credit together with the amount of any charge for this.]</p>
<p>If applicable Charge for using a specific payment method.</p>	<p>[Specify means of payment and the amount of charge.]</p>
<p>If applicable Any other costs deriving from the credit agreement. If applicable Conditions under which the above charges can be changed.</p>	<p>[Description and amount of any other charges not otherwise referred to in this form.] [Details of the conditions under which any of the charges mentioned above can be changed.]</p>
<p>If applicable You will be required to pay notarial fees.</p>	<p>[Description and amount of any fee.]</p>
<p>Costs in the case of late payments.</p>	<p>Either [A statement that there are no charges for late or missed payments.] Or [Applicable rate of interest in the case of late payments and arrangements for its adjustment</p>

UNITED KINGDOM: Pre-Contract Credit Information

	and, where applicable any charges payable for default.]
Consequences of missing payments.	[A statement warning about the consequences of missing payments, including: — a reference to possible legal proceedings and repossession of the debtor’s home where this is a possibility, and — the possibility of missing payments making it more difficult to obtain credit in the future.]

4. Other important legal aspects

Right of withdrawal.	Either: [A statement that the debtor has the right to withdraw from the credit agreement before the end of 14 days beginning with the day after the day on which the agreement is made, or if information is provided after the agreement is made, the day on which the debtor receives a copy of the executed agreement under sections 61A or 63 of the Consumer Credit Act 1974, the day on which the debtor receives the information required in section 61A(3) of that Act or the day on which the creditor notifies the debtor of the credit limit, the first time it is provided, whichever is the latest.] Or [There is no right to withdraw from this agreement – if there is a right to cancel the agreement this should be stated.](a) [If the right to cancel is under the Financial Services (Distance Marketing) Regulations 2004 refer to section 5 of the form.]
Early repayment. If applicable Compensation payable in the case of early repayment.	[A statement that the debtor has the right to repay the credit early at any time in full or partially.](b). [Determination of the compensation (calculation method) in accordance with section 95A of the Consumer Credit Act 1974.]
Consultation with a Credit Reference Agency(c).	[A statement that if the creditor decides not to proceed with a prospective regulated consumer credit agreement on the basis of information from a credit reference agency the creditor must, when informing the debtor of the decision, inform the debtor that it has been reached on the basis of information from a credit reference agency and of the particulars of that agency.]

(a) i.e. if there is a cancellation right in respect of an agreement involving credit in excess of £60,260.
 (b) the words “or partially” may be excluded in the case of agreements secured on land.
 (c) this requirement does not apply in the case of agreements secured on land.

UNITED KINGDOM: Pre-Contract Credit Information

Right to a draft credit agreement(a).	[A statement that the debtor has the right, upon request, to obtain a copy of the draft credit agreement free of charge, unless the creditor is unwilling at the time of the request to proceed to the conclusion of the credit agreement.]
If applicable The period of time during which the creditor is bound by the pre-contractual information.	[This information is valid from [—] until [—].]or [Period of time during which the information on this form is valid.]

If applicable

5. Additional information in the case of distance marketing of financial services

(a) concerning the creditor	
If applicable The creditor's representative in your Member State of residence. Address. Telephone number(s). E-mail address.* Fax number.* Web address.*	[i.e. where different from section I.] [Identity.] [Geographical address to be used by the debtor.]
If applicable Registration number.	[Consumer credit licence number and any other relevant registration number of the creditor.]
If applicable The supervisory authority.	[The Office of Fair Trading or any other relevant supervisory authority or both.]
(b) concerning the credit agreement	
If applicable(b) Right to cancel the credit agreement.	[Practical instructions for exercising the right to cancel indicating, amongst other things, the period for exercising the right, the address to which notification of exercise of the right to cancel should be sent and the consequences of non- exercise of that right.]
If applicable The law taken by the creditor as a basis for the establishment of relations with you before the conclusion of the credit agreement.	[English/other law]
If applicable The law applicable to the credit agreement and/or the competent court.	[A statement concerning the law which governs the contract and the courts to which disputes may be referred.]
If applicable Language to be used in connection with the credit agreement.	[Details of the language that the information and contractual terms will be supplied in and used, with your consent, for communication during the duration of the credit agreement.]
(c) concerning redress	
Access to out-of-court complaint and redress mechanism.	[Whether or not there is an out-of-court complaint and redress mechanism for the debtor and, if so, the methods of access to it.]

(a) this requirement does not apply in the case of agreements secured on land, agreements for credit agreements exceeding £60,260, pawn agreements and business purpose agreements.
 (b) if the right to withdraw referred to in section 4 does not apply.



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