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EN SINT MAARTEN
(Central Bank)**

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**Provisions on Preventing
Overextension of Credit
(POC provisions)**

Provisions on Preventing Overextension of Credit

1. Purpose

These Provisions on Preventing Overextension of Credit (hereafter the “POC provisions”) are aimed at preventing consumers from being overextended with credits and the fostering of prudent credit extension practices.

2. Definitions

For the purpose of the POC provisions the following definitions apply:

“**Acceptance Policy**” means the lender’s written policy containing the terms and conditions on which the approval of the credit extension is based.

“**Consumer**” means the individual applying for a credit.

“**Credit**” comprises all other types of loans and lines of credit provided by lenders with the exception of business loans.

“**Credit extension**” means the process of extension, renewal or increase of a credit.

“**Creditworthiness**” means the consumer’s ability to meet the repayment obligation of the credit.

“**Gross income**” means the total monetary payment received for goods or services delivered or from other sources (e.g. wage, dividend, rent, cost of goods sold, etc.) before any deductions (e.g. taxes or child allowance).

“**Lender**” means an institution, a corporation or a natural person listed in one of the divisions or annexes of the credit institutions’ register maintained by the Bank extending or promising to extend credit in the course of its trade, business or profession.

“**Net monthly wage**” (also referred to as the net take home pay) means the gross wage less deductions such as taxes; social security and (legal) dues.

“**Overextension of credit**” means credit extension beyond a consumer’s creditworthiness.

“**The Total Debt Service Ratio (TDSR)**” means the ratio expressed as the monthly housing expenses plus all other debt service, including car payments, student loans and credit cards divided by the gross monthly income.

$$\text{TDSR} = \frac{\text{Mortgage payments} + \text{all other (related) debt payments}}{\text{Gross income}}$$

“**Wage**” means the fixed payment earned for work or services, typically paid on a monthly basis including contractual benefits such as: vacation bonus, premium, gratuity, car allowances, year-end payments and other exceptional payments.

3. Legal basis

These provisions are issued pursuant to article 2, paragraph 2 and article 45, paragraph 2 of the National Ordinance on the Supervision of Banking and Credit Institutions 1994 (N.G. 1994, no 4) and are made part of each individual license or dispensation in conjunction with a letter sent to its holder.

4. Applicability

The POC provisions apply as of May 1, 2015 to all locally operating lenders in Curaçao or Sint Maarten.

5. Credit extension

A lender's decision to extend a consumer credit should be based on at least:

- an acceptance policy approved by its highest governing body which aims, amongst other, to prevent overextension of credit; and
- a thorough assessment reflecting that the consumer was found creditworthy.

The acceptance policy should require that at least the following information regarding the consumer be included in each individual's file:

- an income/expenses analysis of the individual;
- the individual's background;
- the purpose of the requested credit;
- current total amount of credit and the constituent parts thereof; and
- credit history (among which, amount and duration of credit(s), and history of default).

Lenders should obtain sufficient information on a consumer's financial condition in order to assess the consumer's creditworthiness. Approved credits must be well documented and must clearly substantiate the consumers' creditworthiness.

Lenders should also take appropriate measures to promote responsible credit extension practices during the credit relationship and consider all other relevant regulations (e.g. Article 7A:1614g of the Civil Code¹, the Annual Percentage Rate provisions²) before extending credit.

¹ The Bank reminds lenders that based on article 7A:1614g, paragraph 2, of the Civil Code, credit extension whereby a consumer assigns any right beyond 33.33% of the consumer's net monthly wage is not allowed. Moreover, in accordance with article 7A: 1614g, paragraph 4, of the Civil Code, any such credit will be deemed null and void.

² The relevant regulations are available on the Central Bank's website: www.centralbank.cw

6. Overextension

Lenders may not extend credit if:

- the monthly installments of all outstanding and prospective credits exceed the TDSR of 37%;
- the financial information obtained from, amongst other, the consumer indicates that additional credit may lead to a situation of overextension of credit.

Any deviation from the requirements set out above in this paragraph should be properly motivated and documented.

7. Intermediaries and responsibilities

Lenders relying on intermediaries for part(s) of the lender's credit extension process, remain ultimately responsible for the adherence by their intermediaries to the requirements set out in these POC provisions.

8. Recordkeeping

Lenders must retain all records regarding compliance with the POC provisions for a period of at least ten (10) years after expiration of a credit agreement or rejection of a credit request.

The records should include at least:

- the identity of the consumer;
- the information used to assess and to determine the consumer's creditworthiness;
- the conclusion reached whether or not to extend the credit; and
- the amount and terms of each credit extended by the lender.

During its on-site examinations, the Central Bank will verify the lender's compliance with the POC provisions.

Centrale Bank van Curaçao en Sint Maarten
Willemstad, January 2015

Dr. E.D. Tromp
President