CENTRAL BANK OF TRINIDAD & TOBAGO

INTRODUCTION TO THE RESIDENTIAL REAL ESTATE MORTGAGE MARKET GUIDELINE

FREQUENTLY ASKED QUESTIONS (FAQs)

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a) Why the need to bring greater disclosure and transparency to the mortgage market?

A home is one of the largest and most important investments that the average individual will undertake during her/his lifetime. Most individuals purchase a home/house by borrowing from a bank or other mortgage provider. Given that the value of a mortgage is usually quite large relative to the size of an individual's income and is long term in nature, it is important that the mortgagor (that is, the borrower) clearly understands the terms and conditions of the mortgage.

Information compiled by the Central Bank suggests that many consumers are not well informed about key aspects of their mortgage contracts. Indeed, several customers do not pay sufficient attention to the type of the mortgage facility that they own (fixed, variable or adjustable rate), the additional fees and charges that they need to pay and importantly when, why and how their mortgage rates change.

b) What measures are being taken to increase the disclosure and transparency in the mortgage market?

In an effort to improve the disclosure and transparency in the local residential mortgage market, the Central Bank of Trinidad and Tobago has introduced a "Residential Real Estate Mortgage Market Guideline" from September 14 2011. **All new and existing** residential real estate mortgages granted by licensees[1] fall under the scope of this Guideline. The Guideline contains two important features: 1) the requirement for licensees to provide a **"Disclosure Statement"** to customers; and 2) the introduction of a **"Mortgage Market Reference Rate" (MMRR)**.

<u>Key Features of the Disclosure Statement</u>
The Disclosure Statement is designed to summarize the pertinent facts of the mortgage contract in an easy to read and understandable format. This Statement will provide important information about the mortgage contract such as:

- ✓ The type of mortgage (**fixed, variable or adjustable**);
- ✓ The interest rate that is applied to your mortgage;
- ✓ When your mortgage interest rate is expected to be reviewed and/or changed;
- ✓ The mortgage market reference rate;
- ✓ The margin applied by the bank to your mortgage;
- ✓ How your mortgage payments will be split between principal and interest (**the amortization schedule**);

[1] Licensees include the commercial banks and their affiliated non-bank financial institutions that grant residential mortgages.

- ✓ The various charges and fees which form part of your mortgage contract.

The Mortgage Market Reference Rate (MMRR)

The MMRR is an interest rate benchmark against which mortgages are to be priced and re-priced and will be announced by the Central Bank on a quarterly basis. The MMRR is computed by the Central Bank based on information on commercial banks' funding costs and yields on applicable treasury bonds. Your mortgage rate will be based on the MMRR plus the margin charged by your bank.

c) What are the benefits to you, the customer?

The main aim of the Guideline is to help you, the customer, become better informed on your mortgage. You need to ensure that your bank provides you with a Disclosure Statement which will contain the main elements of the mortgage contract in an easy to understand format. This Disclosure Statement must be accompanied by an amortization schedule for the mortgage, which will show how your monthly instalments will be split between principal and interest payments.

The MMRR will make you aware of changing conditions in the mortgage market. This will enable you to better determine when and why your mortgage rate is likely to change. You should anticipate that your mortgage rate can change when the MMRR changes. If the MMRR declines, you should benefit from lower mortgage rates once you have a variable rate mortgage or an adjustable rate mortgage that is due to be re-priced. You should also note that if the MMRR rises, your mortgage rate could rise but your bank has an option not to increase this rate.

d) Question and Answer Bank

Question 1: Why has the Central Bank introduced this Guideline at this point in time?

Answer: There was increasing evidence that customers were not fully aware of some of the key aspects of their mortgage contracts. The intent of this Guideline is to ensure that customers are better informed about the terms and conditions of their mortgage contracts.

Question 2: When does the Guideline come into effect?

Answer: The Guideline comes into effect on December 1 2011 for new mortgages and on March 1 2012 for existing mortgages.

Question 3: As an existing customer, why must I wait to be moved to the new MMRR regime, while new customers are subjected to the Guideline from the outset?

Answer: Current mortgage contracts mandate that customers be given prior notice before their mortgage rates are adjusted. This period of notice ranges between one to three months depending on your mortgage contract.

Question 4: Why is this Guideline not applicable to mortgages granted under special housing arrangements by the TTMF?

Answer: The Government has put in place special housing programmes to assist vulnerable groups in the society. This Guideline does not apply to these programmes.

Question 5: What is the purpose of the Disclosure Statement?

Answer: The Disclosure Statement is intended to provide, in as simple a manner as possible, information on key aspects of your mortgage contract.

Question 6: Is there anything I need to do to be converted to the new regime?

Answer: This Guideline will apply to all new and existing residential real estate mortgages granted by licensees on the respective dates as indicated above. You should consult your bank about the conditions governing your mortgage contract.

Question 7: What exactly is the MMRR?

Answer: The MMRR is an interest rate benchmark against which mortgages are to be priced and re-priced.

Question 8: How is the MMRR determined?

Answer: The MMRR is computed by the Central Bank based on information on commercial banks' funding cost and yields on applicable treasury bonds.

Question 9: Why does my mortgage rate not match the MMRR announced by the Central Bank?

Answer: Your mortgage rate will be determined on the basis of the MMRR and a margin that your bank will charge you to take account of your risks.

Question 10: What is the frequency with which the MMRR will be announced?

Answer: The MMRR will be announced by the Central Bank on a quarterly basis.

Question 11: Must my bank adjust my mortgage rate when the MMRR changes?

Answer: The Guideline requires that all mortgage rates be linked to the MMRR. Licensees are expected to adjust mortgage rates downwards if the MMRR is declining, but have the option not to adjust mortgage rates upwards if the MMRR is rising. The type of mortgage contract that you hold will also govern movements in your mortgage rate.

Question 12: What protection do customers have if interest rates rise rapidly?

Answer: There are two main mechanisms to protect customers against rapidly rising interest rates. Firstly, licensees have the option not to increase mortgage rates even if the MMRR is rising. Secondly, the Guideline states that over any three-year period, your mortgage rate could increase by a maximum of 350 basis points or by the increase in the Central Bank's 'Repo' rate, whichever is larger. Therefore, the Guideline places a limit on the size of increase in your mortgage rate over any three-year period.

Question 13: Will the new Guideline result in lower monthly payments for me?

Answer: This depends on a number of factors including how the MMRR moves and how your risks are assessed by your bank.

Question 14: What measures are the Central Bank and the Bankers' Association of Trinidad and Tobago (BATT) putting in place to ensure customers are aware of this Guideline?

Answer: Banks will be training their staff on the requirements of the new Guideline. The Central Bank and BATT will also be undertaking a public education campaign to sensitize the public on the Guideline.

Question 15: Can I make lump-sum payments on my residential mortgage?

Answer: Your bank will inform you about the arrangement governing lump-sum payments and is required to indicate this in the Disclosure Statement.

Question 16: How can I get more information about the Guideline?

Answer: Information on the Guideline can be obtained from your banker, as well as the web-sites of the Central Bank of Trinidad and Tobago, the National Financial Literacy Programme (NFLP) and the Bankers' Association of Trinidad and Tobago (BATT) via the following links:

http://www.central-bank.org.tt
http://www.national-financial-literacy.org.tt
http://www.batt.org.tt/