

Early Repayment of Personal Loans: Position of Microfinance Institutions, Banks and Credit Unions

Kristina Barrett-Harrison Research Officer
FAIR TRADING COMMISSION

March 2021



30 Dominica Drive, Kingston 5
Unit 42A, New Kingston Business Centre
Jamaica

Telephone: 876.960.0120-4
<http://www.jftc.gov.jm>
ftc@cwjamaica.com

TABLE OF CONTENTS

| | |
|---|----|
| BACKGROUND | 2 |
| MICROFINANCE INSTITUTIONS..... | 3 |
| TRADITIONAL FINANCIAL INSTITUTIONS..... | 4 |
| Commercial Banks | 4 |
| Credit Unions..... | 4 |
| EARLY REPAYMENT OF LOANS | 4 |
| REVIEW OF OTHER JURISDICTIONS | 5 |
| METHODOLOGY..... | 5 |
| FINDINGS | 5 |
| Microfinance Institutions | 5 |
| Commercial Banks | 6 |
| Credit Unions..... | 7 |
| CONCLUSION | 9 |
| SOURCES..... | 10 |

BACKGROUND

Loans play an essential role in consumers' lives as it allows them to consume goods and services that they may not have had been able to afford based on their current disposable income. Loans allow easier access to major expenditures such as real estate and motor vehicles as well as minor expenditures such as furniture or appliances or unexpected life events. In Jamaica, the "partner" system is a longstanding private system that facilitates loans in a small, closed network of individuals. Commercially, consumers of loan products ('borrowers') acquire loans in Jamaica from a variety of financial institutions such as microfinance institutions (MFIs), commercial banks, credit unions, and building societies.

As with any product or service, borrowers involved in commercial transactions where they believed that the supplier deceived them in one way or another sometimes make a complaint to the Fair Trading Commission (FTC). Over the period 2015 to 2020, the FTC received eighteen complaints regarding loans. Of this number, twelve concerned loans from MFIs with four complaints relating to the early repayment of loans. The complaints allege that some MFIs demanded that the full interest be paid on loans despite the loans being cleared before the maturity date. There were also complaints that the MFIs charged an additional amount for borrowers who complete repayment of their loans before the maturity date.

The purpose of this paper is to provide borrowers with information on the practices of financial institutions concerning the early repayment of loans. It is hoped that this note will facilitate a more informed decision-making process on the part of borrowers. The paper identifies the stated policy of MFIs, commercial banks, and credit unions as it relates to the early repayment of loans. It is important to shed light on the policy of MFIs as, based on complaints, the expectation of borrowers regarding the early repayment of loans differ from their experience with MFIs. This suggests that there is some degree of information asymmetry in operation.¹

The extent of information asymmetry is of interest to the FTC, as the FTC's mandate is to promote competitive markets. One of the characteristics of a perfectly competitive market is that all parties in the transaction have all the relevant information. Further, firms must provide all material information about products and services offered to the public.

The FTC examines the policies of a select number of credit unions and commercial banks to identify differences, if any, in how financial institutions treated the early repayment of loans. Commercial banks (and

¹Information asymmetry refers to a situation in which one party in a transaction has more information than another party.

building societies) have long held the position of being the traditional institution in Jamaica's financial system, while credit unions cater to specific groups, wherein members are also owners.

MICROFINANCE INSTITUTIONS

MFIs play an essential role in Jamaica's financial system regarding increasing the access of consumers to credit. The World Bank defines financial inclusion as individuals and businesses having access to useful and affordable financial products that meet their needs. MFIs contribute to financial inclusion as they cater to individuals and businesses that cannot access financing from traditional and longstanding financial institutions such as commercial banks and credit unions. In a 2017 study on Moneylender Services in Jamaica, the FTC reported that many of the consumers who access services from moneylenders could be considered a part of the group of disadvantaged members of the society. The Minister of Foreign Affairs and Foreign Trade, Senator the Hon. Kamina Johnson Smith stated in a January 2021 *Jamaica Information Service* news report that "...the microcredit industry in Jamaica has given many low-income households the opportunity to become a part of the financial system, and has enabled micro and small businesses to access financing."

With the increasing number of MFIs, the Government of Jamaica in 2013 proposed a Microcredit Act to regulate MFIs. In January 2021, the Microcredit Act was passed to license and regulate microcredit institutions that provide financing to individuals and micro, small and medium-sized enterprises. Before the Microcredit Act, the Money Lending Act was the sole sector-specific legislation guiding moneylenders in Jamaica, and MFIs were not required to seek a license to operate, nor were they required to be registered with any central authority.

The Jamaica Association of Micro Financing Limited (JAMFIN) is the trade association for MFIs in Jamaica, with sixteen members on record as of March 2021. The members are as follows: Access Financial Services Ltd., Kris an Charles Investment Company Ltd., JN Small Business Loans, Niche Financing Ltd., First Union Financial Group, Carib Cash, Aim Financial Corporation, ISP Finance Services, Lasco Microfinance Ltd., Mainline Finance Ltd., Mundo Finance, Direct Capital Funding, Caribbean Money Lenders, Dolla Financial Services, Genesis Premium Financing and Boost Financial Services.^A Jamaica Gleaner article, dated February 2021, estimated that 200 MFIs were operating in Jamaica.

TRADITIONAL FINANCIAL INSTITUTIONS

Commercial Banks

Commercial banks in Jamaica are regulated by the Bank of Jamaica (BOJ), and operate under the Banking Services Act. As of June 2020, the BOJ lists the commercial banks in Jamaica as Bank of Nova Scotia Jamaica Limited, Citibank N.A, FirstCaribbean International Bank (Jamaica) Limited, First Global Bank Limited, JMMB Bank (Jamaica) Limited, JN Bank Limited, and National Commercial Bank Jamaica Limited.

Credit Unions

As of November 2020, there were twenty-five credit unions in Jamaica. Credit Unions are regulated by the Department of Co-operatives and Friendly Societies. Since 1999, the government has taken steps to bring credit unions under the supervision of the BOJ. As of February 2021, the final set of BOJ regulations to give the central bank full supervisory function of credit unions had not been enacted. The *Jamaica Information Service* reported in March 2021 that for the 2021/2022 financial year, the government would be advancing the passage of the Credit Unions (Special Provisions) Bill and the Co-operative Societies (Amendment) Bill to bring the operations of credit unions fully under the supervision of the BOJ. The credit unions in Jamaica are as follows: BJ Staff CCUL, Broadcast & Allied CCUL, Community & Workers of Jamaica CCUL, COK. Sodality CCUL, EduCom CCUL, Essential & Emergency Services & Partners CCUL, First Heritage CCUL, First Regional CCUL, Gateway CCUL, Grace CCUL, Insurance Employees CCUL, Jamaica Defence Force CCUL, JPS. & Partners CCUL, JTA CCUL, Lascelles Employees CCUL, Manchester CCUL, NCB Employees CCUL, NAJ. & Health Services CCUL, Palisadoes CCUL, Jamaica Police CCUL, Portland CCUL, Postal CCUL, Public Sector Employees CCUL, PWD CCUL, and Trelawny CCUL.

EARLY REPAYMENT OF LOANS

There are two main components of loan repayment, principal and interest. The principal is the initial amount that the borrower secured from the financial institution. At the same time, the interest is a percentage of the principal charged by the financial institution for the service. When a consumer secures a loan, there is usually a loan agreement or contract which sets out the terms of the loan and may include the following: interest rate charged, duration of the loan agreement, payment dates, maturity date, and total amount to be repaid.

Early repayment of a loan refers to the full repayment of the loan in a lump sum at any time before the maturity date.

REVIEW OF OTHER JURISDICTIONS

Competition and consumer protection agencies have taken the approach that financial institutions should provide consumers with information on their early repayment policy at the start of the loan process. In 2008, the European Commission implemented the Consumer Credit Directive with the objective of providing consumers with all the necessary information and rights regarding accessing credit. Regarding information to be included in credit agreements, the Directive stated that consumers should be informed of the right to early repayment, the procedure for early repayment, as well as information concerning the creditor's fee for early repayment. The European Commission evaluated compliance to the Directive in 2020 and found that consumers were highly aware of their right to early repayment, with most receiving relevant information from financial institutions before contracting the credit. Notably, consumers with current loans were able to indicate whether there was a penalty for early repayment.

The consumer protection agency in New Zealand, in providing advice to consumers on 'Loans and Debt' indicated that where lenders failed to inform consumers of certain fees, including early repayment fees, there is justification for consumers to complain to the lender's dispute resolution scheme.

METHODOLOGY

To collect information on the financial institutions' position with respect to the early repayment of personal loans, the FTC reviewed the financial institutions' websites and conducted telephone surveys. The websites were reviewed in February and March 2021 to check whether there was any publicly available information on the early repayment of loans. For the telephone survey of MFIs, the sixteen members of JAMFIN were contacted. For the traditional financial institutions, all of the seven commercial banks and all twenty-five credit unions were contacted.

The financial institutions were contacted by telephone between January 12 and March 16, 2021, and were asked two questions: (i) Is there a penalty for the early repayment of a personal loan? and (ii) Are consumers made aware of this at the start of the loan process?

FINDINGS

Microfinance Institutions

Of the sixteen MFIs included in the study, thirteen had websites promoting their loan products, however, none of the websites addressed the early repayment of personal loans. The FTC canvassed information on the

position of fourteen MFIs on the early repayment of loans by telephone interview in March 2021, as two MFIs could not be reached by telephone. A total of thirteen MFIs indicated that there was no penalty for the early repayment of personal loans. In contrast, one MFI indicated that a penalty may be applied for the early repayment of personal loans based on the terms of the contract. Regarding providing consumers with the policy beforehand, 64 percent stated that loan applicants were advised of the policy, 29 percent indicated that if the consumer raised the matter, the policy would be shared with them. In comparison, 7 percent indicated that consumers were not advised of the policy. See Table 1 for the responses of the MFIs. The information in the table is based on telephone contact with the MFIs in March 2021.

Table 1 Approach of MFIs to Early Repayment of Loans

| MFIs | I) Is there a penalty applied for the early repayment of personal loans? | II) Are loan applicants made aware of this at the start of loan process? |
|-------------------------------------|---|---|
| Access Financial Services Ltd | No | Yes |
| Kris an Charles Investment Co. Ltd. | No | Yes |
| JN Small Business Loans | No | Yes |
| Niche Financing Ltd | No | Yes |
| First Union Financial Group | No | The information is shared if the customer asks. |
| Carib Cash | No | Yes |
| Aim Financial Corporation | No | The information is shared if the customer asks. |
| ISP Finance Services | No | Yes |
| Lasco Microfinance Ltd | Not available by phone | |
| MainLine Finance Ltd | No | The information is shared if the customer asks. |
| Mundo Finance | Depends on contract | Yes |
| Direct Capital Funding | No | Yes |
| Caribbean Money Lenders | Not available by phone | |
| Dolla Financial Services | No | The information is shared if the customer asks. |
| GPF Genesis Premium Financing | No | No |
| Boost Financial Services | No | Yes |

Commercial Banks

The commercial banks' websites were checked in February 2021 to determine whether they highlighted their positions on the early repayment of personal loans. Of the seven banks, only First Global Bank stated on the Loans page of its website that "No penalty for early repayment" with FGB Pay Day Loan. In an article on its

website titled 'Navigating loans during COVID-19', JMMB Bank stated that "At JMMB Bank, we do not charge you for early repayment."

Of the seven commercial banks, five indicated that there was no penalty for the early repayment of personal loans, and two indicated that a penalty applied. Of the two that indicated that a penalty applied, the National Commercial Bank specified that the penalty applied to one particular personal loan, and there was no penalty for other types of personal loans. Regarding providing consumers with the policy beforehand, all commercial banks indicated that consumers were advised of their position on early loan repayment at the start of the loan process. See Table 2 for the responses of the banks. The information in the table is based on telephone contact with the banks in January and March 2021.

Table 2 Approach of Commercial Banks to Early Repayment of Loans

| Banks | I) Is there a penalty applied for the early repayment of personal loans? | II) Are loan applicants made aware of this at the start of loan process? |
|------------------------------------|---|---|
| Bank of Nova Scotia | No | Yes |
| National Commercial Bank | Fast cash loan – Yes All other loans - No | Yes |
| Sagicor Bank | No | Yes |
| Jamaica National Bank | Yes | Yes |
| First Global Bank | No | Yes |
| JMMB Bank | No | Yes |
| First Caribbean International Bank | No | Yes |

Credit Unions

A total of twenty-two credit unions had websites that listed their loan products and, in some instances, provided information on their policies concerning the early repayment of loans. For example, Trelawny CCUL indicated that 'no prepay penalties' apply to its domestic loan, while Portland CCUL indicated that 'there is no penalty for early repayment of loans.' Three other credit unions (Essential & Emergency Services & Partners CCUL, NCB Employees CCUL, and the Jamaica Police CCUL) indicated that customers who engaged in early repayment would benefit from reduced interest payment.

The FTC obtained information on the position of twenty-two credit unions on the early repayment of loans by telephone interview in February and March 2021, as three were unavailable by telephone. A total of twenty-

one credit unions indicated that there was no penalty for the early repayment of personal loans. As it relates to communicating the information to consumers at the start of the loan process, 50 percent stated that loan applicants were advised of the policy, 27 percent indicated that if the consumer raised the matter, the policy would be shared with them. In comparison, 23 percent indicated that consumers were not advised of the policy. Of note is that the credit union that indicated that there was a penalty for the early repayment of loans was one of those who informed consumers of the early repayment policy at the start of the loan process. See Table 3 for the responses of the credit unions.

Table 3 Approach of Credit Unions to Early Repayment of Loans

| Credit Unions | I) Is there a penalty applied for the early repayment of personal loans? | II) Are loan applicants made aware of this at the start of loan process? |
|---|---|---|
| BJ Staff | No | No |
| Broadcast & Allied | No | No |
| C&WJ | No | No |
| COK. | No | Yes |
| EduCom | No | No |
| Essential and Emergency Services & Partners Co-operative Credit Union | No | Yes |
| First Heritage | No | Yes |
| First Regional | No | Yes |
| Gateway | No | The information is shared if the customer asks. |
| Grace | No | Yes |
| Insurance Employees | No | The information is shared if the customer asks. |
| JDF. | No | No |
| JPS.& Partners | Not available by phone | |
| JTA. | No | Yes |
| Lascelles Employees | No | Yes |
| Manchester | No | No |
| NCB Employees | No | The information is shared if the customer asks. |
| NAJ.& Health Services | Yes | Yes |
| Palisadoes | No | Yes |
| Jamaica Police | Not available by phone | |
| Portland | No | Yes |
| Postal | Not available by phone | |
| Public Sector Employees | No | The information is shared if the customer asks. |
| PWD. | No | The information is shared if the customer asks. |
| Trelawny | No | Yes |

CONCLUSION

Based on the website reviews conducted, none of the MFIs that were a part of the study had information on their website regarding their position on the early repayment of personal loans. From the review, a few of the traditional financial institutions published information on their websites on their treatment of the early repayment of personal loans. While the information was not largely available by website review, telephone contact proved to be a successful method of attaining information on the approach taken to the early repayment of loans by financial institutions. All of the institutions contacted provided information on their policy on the early repayment of loans.

As it relates to information sharing on their approach to the early repayment of loans, almost two-thirds of the members of JAMFIN, all of the commercial banks, and half of the credit unions indicated that consumers would have been made aware of their policy on the early loan repayment at the start of the loan process. Further, just over a quarter of both MFIs and credit unions indicated that the information would have been supplied if the client specifically asked. Therefore, JAMFIN members are more likely than credit unions to inform consumers of their early repayment of loan policy but are less likely than commercial banks. This finding cannot be generalized to the estimated 200 MFIs in Jamaica, as only sixteen MFIs were included in the study.

The information garnered from the study suggests that MFIs who are members of JAMFIN generally inform consumers of their early repayment policy at the start of the loan process. Further, the recently passed Microcredit Act has a provision to address information sharing as it relates to the early repayment of loans. Section 43 (1) (a) of the Microcredit Act states that 'Where a licensee grants a loan to a consumer, the licensee shall provide the consumer with a loan agreement and the loan agreement between the parties shall be disclosed to the borrower prior to its signing and shall contain the particulars relating to - the terms and conditions for repayment of the loan ahead of the stipulated loan period.'

Therefore, this legislative change is expected to reduce, if not eliminate, incidences of information asymmetry in the microfinance sector. Until the Microcredit Act is gazetted, the FTC encourages consumers to ask questions if they are unclear about early repayment.

SOURCES

- Bank of Jamaica. 2021. Commercial Banks. <http://boj.org.jm/>. Accessed February 15, 2021.
- Bennett, Karena. 2021. Microfins putting out M&A feelers. *Jamaica Gleaner*, February 14. Accessed February. www.jamaicagleaner.com
- Brown University. 2021. Understanding Interest. <https://www.brown.edu/>
Accessed February 15, 2021.
- Consumer Protection. 2021. Loans and debt. Accessed February 22, 2021. <https://www.consumerprotection.govt.nz/>
- European Commission. 2020. Evaluation of Directive on Credit Agreement for Consumers. Accessed February 22, 2021. <https://ec.europa.eu/>
- European Union. 2008. Directive of the European Parliament and of the Council on Credit Agreements for Consumers. *Official Journal of the European Union*. Accessed February 22, 2021. <https://eur-lex.europa.eu/>
- Fair Trading Commission. 2017. "An Exploratory Review of Moneylender Services." <https://jftc.gov.jm/>
Accessed February 15, 2021.
- Jamaica Co-operative Credit Union League. 2021. About Credit Unions. <https://creditunionsofjamaica.com/>
Accessed February 15, 2021.
- JAMFIN. 2021. Our Members. Accessed February 26, 2021. <http://www.jamfin.com/index.php/members>
- Patterson, Chris. 2021. Senate passes microcredit act. *Jamaica Information Service*, January 24. Accessed February 15, 2021. <https://jis.gov.jm/senate-passes-microcredit-act/>
- Smith, Alecia. 2021. Bills to bring Credit Unions under BOJ'S supervisory and regulatory regime to be advanced. *Jamaica Information Service*, March 10. Accessed March 15, 2021. <https://jis.gov.jm/bills-to-bring-credit-unions-under-bojs-supervisory-and-regulatory-regime-to-be-advanced/>
- WorldBank. 2021. Financial Inclusion. <https://www.worldbank.org/en/topic/financialinclusion/overview>
Accessed February 15, 2021.