



CENTRAL BANK OF
TRINIDAD & TOBAGO

RESIDENTIAL REAL ESTATE MORTGAGE MARKET GUIDELINE

September 14, 2011.

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1. INTRODUCTION

1.1 A home is one of the most important investments that an individual will undertake during his or her lifetime. Information compiled by the Central Bank of Trinidad and Tobago suggests that many consumers with residential mortgages are not well informed about key aspects of their mortgage contracts, in part, because of inadequate disclosure.

1.2 Section 10 (d) of the Financial Institutions Act, 2008 (the FIA) empowers the Central Bank of Trinidad and Tobago (the Central Bank) to issue guidelines on any matter it considers necessary to regulate the market conduct of licensed financial institutions (licensees¹).

1.3 After consultation with the Bankers Association of Trinidad and Tobago (BATT), the Central Bank hereby issues this Residential Real Estate Mortgage Market Guideline (the “Guideline”) which specifies a minimum set of information that licensees must provide to mortgagors on the terms and conditions of their mortgage contracts. Greater disclosure by licensees will help mortgagors make more informed decisions and facilitate better financial planning. Increased transparency will also improve the operations of the mortgage market by increasing competition among lenders.

1.4 The Central Bank will meet with other mortgage lenders to discuss comparable guidelines as appropriate.

2. SCOPE OF THE GUIDELINE

2.1 The Guideline introduces the new reference rate – the residential Mortgage Market Reference Rate (MMRR) – which will be computed quarterly by the Central Bank of Trinidad and Tobago based on information supplied by the licensees. The actual mortgage rate charged to consumers will be the most recent MMRR plus a margin determined by the licensees. The margin to be set by the licensees will reflect, inter alia, the borrower’s credit rating, the amount of the down payment and the location of the property. The MMRR will be used to

¹ For the purpose of this Guideline, licensees under the FIA 2008 will only include the commercial banks and their affiliated non-bank financial institutions that grant residential mortgages.

determine the initial mortgage rate on all residential mortgages and for re-pricing variable- and adjustable-rate mortgages.

2.2 At the time of signing of the mortgage contract, licensees will also be required to provide a **Disclosure Statement** to their customers.

3. DISCLOSURE REQUIREMENTS

3.1 The Disclosure Statement should be written in plain language and must contain, at a minimum, the following information:

- i. the type of residential mortgage contract granted (*fixed, adjustable or variable*) (See Appendix 1);
- ii. the principal amount of the residential mortgage;
- iii. the term of the residential mortgage;
- iv. the MMRR used to price or re-price the residential mortgage and the margin;
- v. the mortgage rate that is applicable at the time of signing of the mortgage contract and the period for which this rate applies (e.g. one (1) year, three (3) years, etc);
- vi. the terms and conditions governing pre-payments and accelerated payments, including fees and charges;
- vii. the monthly instalment and the date the instalment is due. In the case of a fixed-rate mortgage, the instalment is fixed for the life of the mortgage. In the case of variable- and adjustable-rate mortgages, the instalment remains unchanged until the next re-pricing date; and
- viii. an amortization schedule showing how instalments would be split between principal and interest repayments over a twelve-month period until the mortgage is re-priced.

(See Appendix 3 for a sample Residential Mortgage Market Disclosure Statement)

4. APPLICATION OF THE GUIDELINE

4.1 The Guideline is applicable to all financial institutions licensed (licensees) under the Financial Institutions Act, 2008 (FIA) that are engaged in residential real estate mortgage lending. The licensees should provide the customer with a separate statement reflecting the disclosure requirements outlined in **Section 3 and Appendices 1, 2 and 3**. All licensees should provide the Disclosure Statement to customers at the time of signing of the mortgage contract. In addition, the Disclosure Statement should be provided on an on-going basis every time the residential mortgage is re-priced.

4.2 The Guideline is intended to take into account all residential mortgages existing in the books of licensees as well as new mortgages granted.

4.3 The Guideline is not applicable to:

- i. mortgages granted under any special housing arrangement with the Government of the Republic of Trinidad and Tobago;
- ii. mortgages (or the portion of the mortgage) granted to employees of licensees at preferential rates;
- iii. mortgages granted by the Home Mortgage Bank; and
- iv. commercial mortgages.

5. OPERATIONAL FRAMEWORK FOR THE MORTGAGE MARKET REFERENCE RATE

5.1 The MMRR will be independently calculated and announced by the Central Bank on a quarterly basis. This reference rate shall be determined from:

- i. information on the cost of funds in the banking system; and
- ii. yields from applicable treasury bonds. The Central Bank will determine the appropriate tenor of treasury bonds from which yields are to be obtained.

5.2 The methodology for calculating the MMRR is as follows:

$$\mathbf{MMRR}_t = \mathbf{0.6 YC}_t + \mathbf{0.4 COF}_t;$$

where \mathbf{MMRR}_t = Mortgage Market Reference Rate, in time period t ;

\mathbf{YC}_t = the applicable treasury bond yield (**60 per cent weighting**);

and \mathbf{COF}_t = Cost of Funds (**40 per cent weighting**).

5.3 Licensees will now be required to price all residential mortgages based on the MMRR. For variable- and adjustable-rate mortgages, licensees are required to re-price when the current mortgage market reference rate is lower than that on which the last re-pricing was based.

5.4 Licensees may choose not to re-price residential mortgage rates against the MMRR if the current mortgage market reference rate is higher than the corresponding rate at the time of the last re-pricing.

5.5 There is an agreement between the Central Bank and the Bankers Association of Trinidad and Tobago that the MMRR will be reviewed at least once every three (3) years.

5.6 The methodology for calculating the mortgage rate is as follows:

$$\mathbf{MR}_t = \mathbf{MMRR}_t + \mathbf{Margin};$$

where \mathbf{MR}_t = the Mortgage Rate for time period t ;

and \mathbf{MMRR}_t = the Mortgage Market Reference Rate for time period t ;

5.7 Adjustable- and variable-rate residential mortgages may be re-priced by licensees no more than once every twelve (12) months on the anniversary date of the mortgages.

5.8 Over any three-year (3) period, the residential 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.

APPENDIX 1

DEFINITIONS OF KEY MARKET TERMINOLOGY

The definitions of **key terms** are provided below to ensure that a consistent approach is adopted by institutions in the application of the Guideline. Further, the definitions also seek to bring about clarity as well as a degree of standardization to the terms used in mortgage contracts issued by licensed financial institutions in the local market.

- i. A **real estate mortgage** is defined as a written agreement that creates a claim or lien upon real estate as security for the payment of a specified debt.
- ii. A **residential mortgage** is a written agreement that creates a claim or lien upon real estate for residential use as security for the payment of a specified debt.
- iii. A **fixed-rate mortgage** (FRM) is a mortgage in which the rate of interest charged remains unchanged throughout the entire term of the loan.
- iv. A **variable-rate mortgage** (VRM) is a mortgage in which the rate of interest charged is subject to change during the term of the loan.
- v. An **adjustable-rate mortgage** (ARM) is a mortgage in which the rate of interest charged is fixed for a specified period but is subject to change thereafter.
- vi. A **mortgage market reference rate** is an interest rate benchmark against which mortgages are priced or re-priced.
- vii. A **margin** is defined as the difference (in basis or percentage points) between the mortgage market reference rate and the interest rate applicable to the mortgage.

APPENDIX 2
MINIMUM REQUIREMENTS OF THE RESIDENTIAL MORTGAGE MARKET
DISCLOSURE STATEMENT

Principal Amount	<i>Indicate the principal amount of the mortgage.</i>
Term	<i>Indicate the term of the residential mortgage.</i>
Residential Mortgage Rate	<i>Indicate the rate of interest applicable to the residential mortgage.</i>
Mortgage Market Reference Rate	<i>Indicate the mortgage market reference rate used to price and/or re-price the residential mortgage.</i>
Margin	<i>Disclose the interest rate margin applicable to the residential mortgage.</i>
Interest Rate Cap	<i>Indicate and explain the interest rate cap applicable to the residential mortgage.</i>
Date of Advance	<i>Indicate the date on which the principal amount of the loan is to be advanced and the date from which interest is to be charged.</i>
Amortization Schedule	<i>Indicate the frequency of instalments and how they are split between principal and interest repayments.</i>
Amortization Period	<i>Indicate the number of months or years of the amortization period, if that period is different from the term of the loan.</i>
Prepayment Privilege	<i>Provide a brief description of the conditions under which a borrower may repay a greater portion of the loan than required in any given period without incurring penalty charges for the prepayment of the loan, if applicable.</i>
Prepayment Charges	<i>Indicate the amount of prepayment charges, if any, for prepayment of the loan.</i>
Default Insurance	<i>Indicate the amount of charges for insurance against default on a high-ratio mortgage, if any.</i>
Other Fees and Charges	<i>Provide a list of the types and amounts of any other fees and charges applicable to the residential mortgage.</i>

APPENDIX 3 SAMPLE RESIDENTIAL MORTGAGE MARKET DISCLOSURE STATEMENT

Lending Institution	Your Mortgage
Name: <u>John Doe</u>	Date: <u>15 - Dec - 2011</u>
Address: <u>#4 Street, Woodbrook</u> <u>Port of Spain</u>	Account Number: <u>#1001</u>

Mortgage Agreement Disclosure Statement

Information Box -Part 1

Location: Port of Spain

Type of Property: Land Only Land and Building

Type of Mortgage: Fixed Rate Mortgage Adjustable Rate Mortgage Variable Rate Mortgage

Information Box - Part 2

Date of Advance:	<u>1 - Jan - 2012</u>	Statement Date:	<u>15 - Dec -11</u>
Initial Principal Amount:	<u>\$850,000.00</u>	Outstanding Principal:	<u>\$850,000.00</u>
Term of Mortgage:	<u>20 years</u>	Amortization Period:	<u>20 years</u>
Instalments:	<u>\$7,109.74</u>	Frequency:	<u>Monthly</u>

Information Box - Part 3

Date of Next Interest Review: 15 - Dec - 2012

Mortgage Interest Rate: 8.00% Margin: 4.00%
Mortgage Interest Rate = Reference Rate + Margin

Mortgage Market Reference Rate (MMRR): 4.00% Mortgage Interest Rate Cap: 3.50%

Information Box - Part 4

Prepayment Privileges: Lumpsum payments of not less than \$10,000.00 are permitted at the end of any month without penalty or notice.

Prepayment Charges: None.

Default Insurance: None.

Other Fees: Late payment fee applicable.

Sample Amortization Schedule

Date	Outstanding Mortgage Balance (Start of Month)	Monthly Interest Payment	Principal Repayment	Monthly Instalments	Outstanding Mortgage Balance (End of Month)
Jan-12	850000.00	5666.67	1443.07	7109.74	848556.93
Feb-12	848556.93	5657.05	1452.69	7109.74	847104.23
Mar-12	847104.23	5647.36	1462.38	7109.74	845641.85
Apr-12	845641.85	5637.61	1472.13	7109.74	844169.72
May-12	844169.72	5627.80	1481.94	7109.74	842687.78
Jun-12	842687.78	5617.92	1491.82	7109.74	841195.96
Jul-12	841195.96	5607.97	1501.77	7109.74	839694.19
Aug-12	839694.19	5597.96	1511.78	7109.74	838182.41
Sep-12	838182.41	5587.88	1521.86	7109.74	836660.56
Oct-12	836660.56	5577.74	1532.00	7109.74	835128.55
Nov-12	835128.55	5567.52	1542.22	7109.74	833586.33
Dec-12	833586.33	5557.24	1552.50	7109.74	832033.84



Information Box - 1

Fixed rate mortgage (FRM) – This is a loan that is secured by a claim or liens on real estate in which the rate of interest charged remains unchanged throughout the entire term of the mortgage loan.

Adjustable rate mortgage (ARM) – This is a loan that is secured by a claim or liens on real estate in which the rate of interest charged is fixed for a specified period but is subject to change thereafter, as outlined in the mortgage agreement.

Variable rate mortgage (VRM) – This is a loan that is secured by a claim on real estate in which the rate of interest charged is subject to change during the term of the loan.

Information Box – 2

Date of Advance – This is the date on which the principal amount was loaned, and is the date on which interest charges begin.

Initial Principal Amount – This is the original sum of money borrowed.

Term of Mortgage – This is the initial life of the mortgage.

Instalment Payment – This is the amount payable over specified intervals (for example, monthly) over a given period and is comprised of both interest and principal repayments.

Outstanding Principal – This is the value of the loan which is owed to the mortgagee as at the statement date.

Amortization Period – This is the length of time your mortgage will be paid off based on interest and monthly instalment payments.

Information Box – 3

Mortgage Interest Rate – This is the interest rate applicable to your mortgage loan. This interest rate is charged to the principal outstanding amount (i.e. reducing balance).

Mortgage Market Reference Rate – This is the benchmark interest rate upon which your mortgage interest rate will be based.

Margin – This is the difference in the interest rate applicable to your mortgage and the mortgage reference rate and includes components such as credit and term premiums.

Interest Rate Cap – This is the maximum interest rate that can be charged on your mortgage.

Information Box – 4

Prepayment Privileges – These are the conditions under which you may repay a greater portion of the loan than required in any given period without incurring penalty charges for the prepayment of the loan.

Prepayment Charge – This is the amount of the penalty charges, if any, for prepayment of the loan.

Default Insurance – This is the amount of charges for insurance against default on a high-ratio mortgage.

Other Fees – These are the various amounts of other fees that are applicable to your mortgage, other than interest charges, for example late payment fees.