Press Release 2017-007

Central Bank to cap interest rates at 27%

WILLEMSTAD/PHILIPSBURG – As of May 5, 2017 a maximum Annual Percentage Rate (APR) will be included in the *Provisions on the Disclosure of Pricing Information on Consumer Credit ("APR provisions")*, which became effective on May 5, 2015. These provisions are designed to protect consumers by providing them with adequate information to make better informed decisions when applying for consumer credit and to foster greater transparency in the local financial market.

The development in which lenders are charging increasingly higher costs and the developments in the international regulations, have led to the amendment of the APR provisions of 2015. The APR[1] consists of the total costs of consumer credit, expressed as an annual percentage of the total credit amount. It reflects all the costs of the credit to the consumer over the duration of the credit agreement.

The Bank conducted extensive research in 2016 which led to a better understanding of the scope and the inherent risks within the micro-lending sector. The results of this study indicate that the micro-lending sector has an average APR of 437% and a maximum APR which exceeds 3,500%. These unacceptably high APRs are contrary to international standards of conduct and reflect disproportional and exorbitant interest rates. High APRs are a great cause for concern as they can lead to a vicious cycle. For an individual, this process can result in future financial distress, while for a country, systemic breakdowns in the credit process can create problems that slow down real economic growth.

Aside from the results of the APR research, the maximum APR has also been based on:

- The ruling of a maximum APR of 18% by the Joint Court of Justice of the Netherlands Antilles and Aruba in 1999 which ruled that each percentage above 18% is against the moral; and

[1] The methodology for the calculation of the APR is equal to the Consumer Credit Directive of the European Commission and the APR calculation of the Dutch Authority for the Financial Markets (AFM).

- The harmonization of laws within the Kingdom of the Netherlands: the current maximum APRs in the BES islands (Bonaire, Saba, and Sint Eustatius) and the Netherlands stands at 23% and 14%, respectively

The Bank is aware that implementing a maximum APR will have an impact on the financial sector, and although necessary for the protection of consumers, still requires a cautious approach. Therefore, in order to arrive at a maximum APR, the Bank also conducted meetings with the stakeholders, such as, the sectors affected by the APR provisions, judges of the Joint Court of Justice, government officials, and various other stakeholders.

Taking all these precautionary steps, and considering the structure and composition of the markets on Curaçao and Sint Maarten, the Bank has decided to introduce a maximum APR of 27%, which will become effective as of May 5, 2017, with a transition period of two months. The maximum APR will apply to all locally operating lenders in both Curaçao and Sint Maarten.

The Bank is aware that the introduction of a maximum APR will have an impact on the supply of credit and that a shift to the informal sector can occur. However, from a supervisory perspective, the current market reflects abusive rates. For some credit providers, capping the interest rate will have a direct impact on their earnings. If they for that reason offer less credit or change their conditions, consumers will, despite the advantage of lower interest rates, also be affected by the capping.

With regards to the possible shift to the informal sector, collaboration between the Bank, government, and public prosecution is required. Furthermore, a recent verdict by the Joint Court of Justice in 2015 will deter institutions to shift to the informal sector, as the ruling is a clear indication that credits which are granted without a permit of the Bank are annulled.

For more information regarding this topic please refer to the website of the Central Bank, www.centralbank.cw.

Willemstad, May 5, 2017
CENTRALE BANK VAN CURACAO EN SINT MAARTEN