

SECURITIES COMMISSION OF THE BAHAMAS

PUBLIC NOTICE

No. 8 of 2010

December 1st, 2010

FACTS RELATING TO THE CALCULATION OF THE RATE OF INTEREST TO BE CHARGED UNDER THE RATE OF INTEREST ACT, 1990

This **NOTICE** is issued by the Inspector of Financial and Corporate Services (“Inspector”) pursuant to its authority under Section 11(3) of the Financial and Corporate Service Providers Act, Chapter 369 (“FCSPA”). The Securities Commission of The Bahamas was appointed as the Inspector on January 1, 2008 and is therefore responsible for ensuring all persons operate in accordance with the Act, which provides for the licensing and regulation of Financial and Corporate Services.

One such type of financial service which is captured by the FCSPA and is subject to regulation by the Inspector is money lending services. Money lending is the lending of loans at prescribed interest rates by non-bank companies or private individuals whose business is that of providing loans or who advertise or hold themselves out in any way as carrying on that business. Money lending services that may be offered by a non-bank company or private individual may include:-

- Salary advances;
- Cash advances;
- Cash Loans;
- Fast cash / Fast loans;
- Bad credit loans;
- Debt collection;
- Same day lending;
- Credit extension and/or
- Short term loans to consumers, e.g. Government employees.

The purpose of this Notice is to advise the public of the maximum rates of interest which may be charged under the Rate of Interest Act (“RIA”) 1990, Chapter 341, and to provide guidance on the calculation of interest rates to be charged to consumers.

The RIA regulates the rate of interest which may be charged by any person on any loan of money except:

- Loans made in the currency of The Bahamas by any bank licensed under the Banks and Trust Companies Regulation Act, 2000; and
- Loans made in a currency other than the currency of The Bahamas.

Pursuant to the RIA, interest charged on any loan of money should not exceed 20% per annum simple interest on loans of more than \$100 and not more than 30% per annum simple interest on loans of \$100 or less.

See the list of Frequently Asked Questions “**FAQ**” and “**Things to Consider Before You Borrow**” for further guidance on the calculation of interest and tips on borrowing.

If you suspect you have been overcharged by a non-bank company or private individual in the business of money lending or if you have any questions about the information set out in this notice, you should contact the Securities Commission of The Bahamas via email, post mail, phone or fax as follows:

**The Secretary of the Commission,
Securities Commission of The Bahamas**

3rd Floor, Charlotte House Shirley & Charlotte Streets

P.O. Box N-8347

Nassau, Bahamas

Tel: (242) 397-4100 Fax: (242) 356-7330

Email: info@scb.gov.bs

Website: www.scb.gov.bs

**Frequently Asked Questions “FAQ” regarding the administration of the
Rate of Interest Act Chapter 341, (“RIA”)**

1. What is the purpose of the RIA?

The RIA governs the interest rate that can be charged on loans by persons other than licensed banks.

2. Does the RIA apply to Money Lenders/Pay Day Advance Companies?

Yes it does. These companies are not banks licensed under the Banks and Trust Companies Regulation Act, 2000 and therefore are not exempted from the RIA.

3. How much interest can legally be charged on sums greater than \$100?

The maximum amount of interest that can legally be charged is 20% per annum simple interest on loans greater than \$100.

4. What about sums less than \$100?

The maximum amount of interest that can legally be charged is 30% per annum simple interest on loans of \$100 or less.

5. Does the RIA apply only to cash loans?

No, it applies to any contract, promissory note, bill of exchange, cheque, receipt or any other document entered into for the repayment of a borrowed sum.

6. Does it matter whether the repayment period is two weeks, one month or one year?

No, the maximum rates remain unchanged regardless of the time allowed for repayment.

7. What if the loan is in a foreign currency?

The RIA only applies to loans made in Bahamian Dollars by persons or institutions that are not licensed under the Banks and Trust Companies Regulation Act.

8. Can a Bahamian court force me to pay the interest on a loan that violates the RIA?

No, courts in The Bahamas would not entertain proceedings for the recovery of a loan or any interest that is in violation of the RIA.

9. What if I have already paid the excessive interest rate?

The excess paid can be recovered from the recipient or his successor in title.

10. Will I be bound by a contract with interest rates higher than that authorized by the RIA?

No, such contracts are null and void and cannot be enforced in a Bahamian court of law.

11. What is the formula for simple interest?

- **Formula: $I = P \times r \times n$**
- **I** is the amount of simple interest owed
- **P** is the principal (the initial amount you borrow or deposit).
- **r** is the annual rate of interest (percentage).
- **n** is the number of years (or fraction of a year) the principal is deposited or borrowed for.

12. How much would I owe if I borrowed \$100 for one month at a simple interest rate of 30% per annum?

- A simple interest calculation would be $\$100 \times 30\% \times 1/12$. Therefore, at the end of the month the total that you owe would be **\$102.50** (\$100 principal + 2.50 interest = **\$102.50**);
- However, often when dealing with money lenders, the length of time of the loan is not considered in the calculation of interest. The interest calculation that is used would exclude the “n” factor. Therefore, if you borrowed \$100 for one month at a rate of 30% the calculation would be $\$100 \times 30\% =$ **\$130.00**. You would have paid excess interest of \$27.50.

13. How would I calculate the rate of simple interest I was actually charged?

Convert the simple interest formula as follows:

$$r = I / (P \times n).$$

If you borrowed \$100 for one month and paid \$30 interest charges, the actual annual simple interest rate you were charged was $\$30 / (100 \times 1/12) = 360\%$.

14. What is compound interest?

This is interest calculated on both the principal and the accrued (unpaid) interest.

15. How would I go from paying simple interest to paying compound interest?

When interest becomes due and is not paid, the lender will add the unpaid interest to the original amount borrowed and then calculate interest on the total. This results in more costs to the borrower.

16. What is the formula for compound interest?

- **Formula:** $A = P(1+r)^n$ when the interest is compounded once a year, where $n=1$.
- **P** is the principal (the initial amount you borrow or deposit).
- **r** is the annual rate of interest (percentage).
- **n** is the number of years or compounding periods the amount is deposited or borrowed for.
- **A** is the amount of money accumulated after n years, including interest.

17. What is the formula for interest compounded monthly?

The formula is $P(1+r/12)^n$, where n is the number of months.

E.g. - If interest is compounded monthly for three months, the formula is $P(1+r/12)^3$.

18. If I borrowed \$100 for one month at a rate of simple interest rate of 30% per annum, how much would I owe if I delay payment and repay the loan at the end of two months?

If you delay payment and repay the loan at the end of two months, interest may be charged on your total outstanding balance of \$102.50 depending on the terms of your loan. If interest is compounded, you will owe \$105.06 (\$102.50 outstanding + $102.50 \times (1+30\%/12)^1$). You pay \$2.56 additional interest instead of \$2.50.

- A compounded interest calculation for two months would be $100(1 + .30/12)^2 = \mathbf{\$105.06}$ if the loan is not repaid until the second month.
- If payment is delayed until the end of the third month, the compounded interest calculation for three months would be $100(1 + .30/12)^3 = \mathbf{\$107.69}$.

19. How can I avoid paying compound interest?

Every time you miss a payment, your balance grows. You can avoid paying compound interest by paying your loan on time or at least the interest when it becomes due to avoid it being added to the principal amount.

20. Are there any penalties for persons who violate the RIA?

Yes, any person violating the provisions of the RIA is guilty of an offence and is liable on summary conviction to a fine of four hundred dollars or to six months imprisonment or to both.

Things to Consider Before You Borrow

- 1. Make sure you fully understand the loan agreement you're about to sign.**
Don't be pressured into signing something you don't understand. If you don't understand the agreement, take a copy of it and get advice.
- 2. Make sure you fully understand how interest on your loan will be calculated.**
- 3. Find out if there are any "hidden costs" that you may be liable to pay.**
For example, some lenders may charge an extra fee or penalty if you pay off a loan early or if you miss a payment.
- 4. Don't borrow for longer than necessary.**
You may pay less each month, but you could pay more interest overall.