

## Team Activity: Enforcement

### Background for the activity

**The findings of the off-site inspection include the following:**

* The standard contract for SuperLoan is a single page and refers consumers to a 20-page "Special Conditions" annex available on request or online (for comparison, most competitors have 5-7 pages long consumer credit contracts, including any annexes and price lists).
* The font size of the contract and annex is 10 pts (Times New Roman).
* The list of fees and penalties are shown on page 17 of the annex.
* Some penalties are vaguely defined (e.g. a penalty for "not informing the bank about negative changes in borrower's situation") and can be as high as 40% of the borrowed sum.
* Although the bank is advertising that customers may apply for loans over 100,000 USD by visiting a branch, the internal documents of MaxBank cap the loan amount at 100,000 USD.
* The interest payments are fixed. However, Article 53 on page 14 of the Special Conditions gives MaxBank power to unilaterally raise the interest rate: "If the average inflation of the last 12 months exceeds 13%, the bank has a right to increase the interest rate to reflect the rising inflation". For information, the inflation has been within the band between 6%-9% for the last 5 years.
* The average interest rate for consumer loans of peer group is 32% and of the whole banking sector is 29%. MaxBank presents the following interest rate for its four variants of the SuperLoan:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Loan (USD) | Interest Rate | Term of Loan | Loan (USD) | Interest Rate | Term of Loan |
| 20,000 | 60% | 7 | 75,000 | 44.22% | 20 |
| 50,000 | 51.07% | 15 | 100,000 | 42.56% | 25 |

When verifying the calculation of the interest rate (that should be presented in the form of an Annual Percentage Rate to cover all relevant costs), the supervisors found that MaxBank had not included the 5% loan tax and the 3% upfront fee into the calculation of APR.

For other findings see the *Complaints Handling Team Activity*.

**The findings of the on-site supervision included the following facts:**

* No detailed evaluation of the risks that may arise from the SuperLoan was conducted.
* SuperLoan and SaveNow have not been evaluated by the compliance personnel of the bank before or after offering the product.
* Information about complaints concerning SuperLoan has not been presented to the management board and no action plan to tackle the issue has been taken.
* 64% of the consumers who got SuperLoan were scored by the bank's internal algorithm without consulting the National Credit Bureau.
* 32% of the consumers who got SuperLoan have no standard agreement signed with MaxBank on file and their files show no proof of disclosure information provided.
* While examining the customer files, supervisors did not find any payment plans and acknowledgments of payments received and any document about important terms and conditions in 27% of the files.
* Every sales person – MaxBank’s employees at branches – has target amounts for SuperLoan and SaveNow with salary being lowered by 35% if the individual target is not met and by 20% if the branch-wide target is not met. For overreaching the target amount the individual sales agent will receive a bonus of 35-70% of monthly salary. The bonuses and maluses are based only on the number and volume of new contracts, further life of the new contracts has no effect. (For remuneration of third-party distributors see the information about the bank above.)

**The mystery shopping has shown the following:**

* The monthly payment is the main sales point for SuperLoan.
* Customers that ask about APR are told that it is an irrelevant calculation and that customers should focus on how much they could borrow based on their monthly repayment ability.
* The sales agents accept documentation from customers without any verification of employment or salary.
* For customers interested in the SaveNow account the sales agents provide a model of their returns, disregarding the monthly account maintenance fee, any other applicable fees as well as the 15% tax on interest returns.

### Questions for Participants

* Prioritize the identified findings. What is the most serious issue identified? What is the most urgent issue?
* What kind of enforcement actions should be applied and how would you monitor their implementation?
* Are there any authorities that should be consulted with respect to or informed about the planned enforcement actions?
* Which of the enforcement actions should be publicized and how should they be communicated for maximum "industry guidance" and "customer education" effects?