

CBK Issued Instructions Regarding the Rules and Regulations for Granting Personal Loans and Financing Facilities (Consumer/Housing) in Addition to Issuance of Credit Cards

His Excellency the Governor of the Central Bank of Kuwait (CBK), Dr. Mohammad Y. Al-Hashel, stated that within the framework of CBK's routine revision of its issued regulations and rules in view of economic and banking developments related to the goals and consequences of these instructions, CBK had, in cooperation with an international consultancy company, reviewed and assessed its issued instructions regarding the rules and regulations for granting consumer and installment loans/ finance.

The study took into consideration the changes in the indicators of macroeconomic performance since the last amendment to the maximum limits for such loans back in 2004, including changes in population growth rates, inflation rates, rise in consumable and durable goods prices, and increases in salaries and wages, in view of relevance of loans to a large segment of nationals and residents and their relative share in credit and financing portfolios of banks and finance companies, as well as the importance of regulating growth of such loans in a manner that maintains monetary and financial stability.

Dr. Al-Hashel stated that, "based on the findings of this study, trial implementation of proposed alternatives, and key CBK observations in this regard, CBK has issued new instructions regarding the rules and regulations for extending personal loans and financing facilities (consumer/housing) in addition to issuance of credit cards."

The Governor pointed out that the new instructions aim to regulate granting of loans by banks, investment and finance companies on the bases of customers' actual needs, as well as to curb excessive use of these loans within the framework of stressing the principle of flexibility and balance in a manner that guarantees the rights of the two parties.

The instructions included raising the maximum limit of loans and Islamic financing for consumer purposes to an independent limit not exceeding 25-fold the net monthly salary of the client to a maximum of KD 25,000. As for loans and Islamic financing for housing purposes, its maximum limit remained unchanged at KD 70,000. Thus, a client may receive a total of KD 95,000 in loans and Islamic financing should he comply with other conditions stated in relevant instructions. Said conditions stipulate that a monthly instalment is not to exceed 40% of the client's net salary and 30% of a retiree's pension. Instructions also stipulate that consideration is not given to on-going monthly income but, rather, to the net monthly salary plus the national labor allowance.

In light of the new instructions, the client is no longer required to present documents and invoices indicating utilization of the loan or Islamic financing for the purpose stated for it, except when the purpose is construction, renovation, or purchase of private housing property, in which case all documents requested by the party extending the loan/financing must be provided.

In case of revising a contract due to early repayment of an Islamic financing, the instructions oblige the Islamic financing lender to waive the interest receivable for the remaining period, and the same applies for the conventional financial institutions.

Eager for these instructions to guarantee clients rights and transparency, CBK instructions stressed that lenders extending loans or Islamic financing must provide financial counsel for clients and ascertain the state of their monthly obligations and financial burden, and advise them on their needs and commitments and the consequences of increasing them, especially in case of change of financial condition upon change of employment or upon retirement.

The instructions had also included a segment on credit cards, indicating previously issued regulations concerning bolstering systems related to monitoring fraud and enhancing information security relative to bankcards.

CBK formulated these new instructions so that they serve as comprehensive source for reference on all regulations on these matters. These instructions will come into force as of 14 November 2018 and previous instructions on this regard shall be repealed. A copy of the instructions is available on the CBK website: www.cbk.gov.kw

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