

## CENTRAL BANK OF THE UAE

23/2/1993

To : All Banks and Finance Companies

**Subject:** Interest rates & fees applicable to Personal Loans, plus fees & charges on services provided to personal customers.

Dear Sirs,

In order to determine the relationship between banks & Finance companies on one hand and their personal customers on the other hand, in a better and clearer way, the UAE Central Bank has decided, after reviewing reports and banks' responses to the questionnaire sent to all banks on "Personal Loans", that all banks and Finance companies must abide by the following:

**1. Personal Loans are defined as "loans that are given to individuals for specific purposes, secured by assigning salary and end of service indemnity or any regular income from a well defined source, and which do not exceed Dhs. 250,000 (Dirhams two hundred fifty thousand only) in total value".**

It is prohibited to take private houses as security for the said loans or take personal guarantees as security when these loans are given to non-UAE Nationals.

Banks and finance companies must make sure that the principal amount of the loan and the monthly installments are kept in a reasonable proportion to the customer's income.

**2. The interest rate applicable to Personal Loans would be determined by each bank and disclosed to customers on the board mentioned in para (4) below (use of Flat rate is prohibited). Banks then would use the said rate to arrive at the interest amount as follows:**

**a - Interest amount =**

Principal Amount X Interest rate X (Period of loan +1 (In Months ))

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2 X 100 X 12

For the purpose of this formula, the interest rate would be a "fixed" one for the whole period of the loan. Any changes would be applicable to new loans only. Banks must also deduct a constant installment amount at the end of each month (or three months, six months, 12 months, depending on each bank's preference), starting from the next month following the month in which the loan was given. The amount of installment will be governed by the formula:

Installment amount = Principal + Interest amount / Total No. of instalments

**b - "Interest amount"** for Personal Loans could alternatively be determined at the end of each month on a reducing balance basis using the following simple formula:

Interest amount = Balance of the loan at the beginning of the month x interest rate

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12 X 100

Banks then would take the "interest amount" deduct it from the agreed monthly installment amount and use the net amount to reduce the balance of the loan to make the new "balance of the loan at beginning of the month" to be used again for calculations at end of the next month.

For the purpose of this formula both interest rate and installment amount would be fixed for the whole period of the loan, otherwise, these would have to be agreed in a clearly drafted loan agreement.

If a borrower decides to prepay his personal loan, the bank must charge the applicable penalty on the balance outstanding, as a percentage (in the form of interest rate), and in case of (a), above, refund the interest for the remaining period of the loan, using the first formula.

**3. Management fees and charges, including insurance charges, on Personal Loans must be expressed as one figure, but if these are different for different loan amounts they should be expressed against the appropriate range of amounts in each case.**

**4. Interest rate, Fees, Commissions and charges pertaining to persons' transactions at Banks and Finance Companies must be clearly written in Arabic and English on a board measuring at least (80 by 100 cm) and fixed in a prominent position in the banking hall, as shown below:**

#### **Personal Loans and fees/charges relating to persons' transactions**

Interest rate on Personal Loans:

Management fees on Personal Loans:  
(Including insurance charges)

- Amounts from DH \_\_\_\_\_ to \_\_\_\_\_
- Amounts from DH \_\_\_\_\_ to \_\_\_\_\_
- Amounts above DH \_\_\_\_\_

Penalty rate for payment of loan before maturity: \_\_\_\_\_

Current, Call and Savings accounts:

- Minimum balance
- Charges if balance fall below the minimum balance (once, twice, three times) at any time from 1st Jan to 30 June and from 1st July to 31 Dec.
- Dates when such charges would be deducted.
- Charges on closing of accounts.
- Any other charges relating to these accounts.

Cheque collection fees, if:

- Drawn on another bank within the same town/city
- Drawn on another bank at another town/city

Returned cheques' fees, when:

- Deposited into your account
- Drawn on your account

Credit Card fees:

- Enrollment
- Annual
- To replace lost/stolen
- Monthly rate of interest on unpaid balance

ATM Card fees: - Issuing

- To replace Lost/Stolen.

**5. Fees/commissions on Purchase/Sale of Currency notes, Travellers Cheques, Demand Drafts, and Telegraphic Transfers for major countries, must also be clearly written in Arabic and English on a board of an appropriate size to be fixed next to the Exchange Rate Board in the banking hall at banks' branches as shown below:**

#### **Foreign Exchange related fees/commissions**

Fees for Purchase/Sale Currency notes & TC's (Over & Above posted Exchange rates)

Fees on Sale of TCs:

- Thomas Cook
- American Express
- Others

Fees on issuing Demand Drafts:

Fees on Telegraphic Transfers to:

- India
- Pakistan
- Egypt
- .....
- .....
- ..... etc.

**6. The said boards must be updated as soon as any change is decided.**

**7. Interest rates, method of calculating interest, Interest rate periods, fees/commissions & charges on commercial Loans/Transactions plus fees/commissions/charges relating to Letters of Credit and Letters of Guarantee, must be agreed with concerned customers within well-defined facilities - agreements.**

(Please note that finance companies are not permitted to open Letters of Credit or issue Letters of Guarantee).

Based on the above, Circular No. 197 dated 11th June 1975 and its subsequent amendments, Circular No. 49 dated 4th June 1981, and circular No. 328 dated 28th November 1976 are hereby cancelled with effect from 31st March 1993.

The above mentioned rules comes into force on 1st April 1993. The rules concerning Personal Loans may be applied for new loans only, sanctioned on or this date.

**Yours faithfully,**

**Sultan Bin Nasser Al Suwaidi**

**Governor**

Circular No. : 12/93