



CENTRAL BANK OF
TRINIDAD & TOBAGO

Trinidad and Tobago Residential Real Estate Mortgage Market **GUIDELINE**

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Central Bank of Trinidad and Tobago

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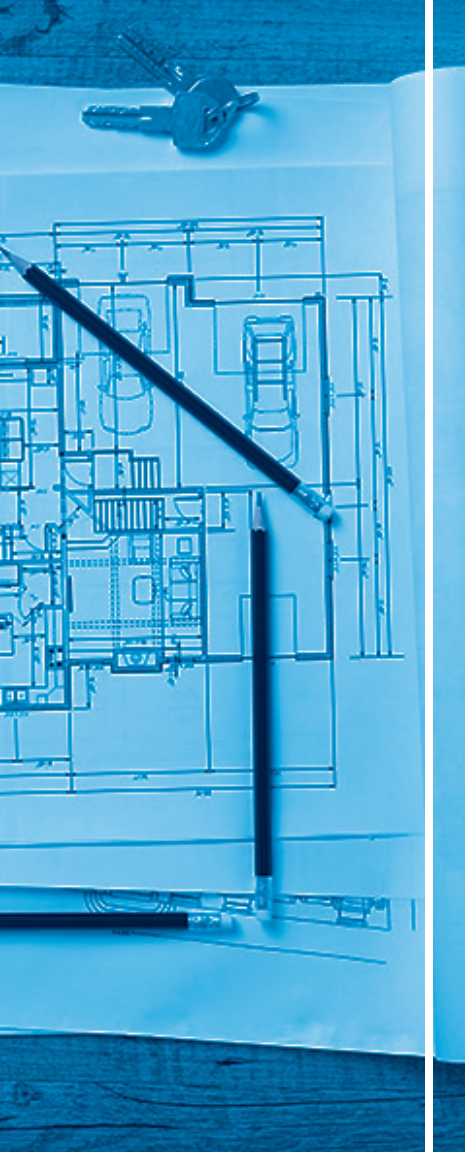


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1. Introduction

- 1.1 A home is one of the most important investments that an individual will undertake during his or her lifetime. Information compiled by the Central Bank of Trinidad and Tobago suggests that many consumers with residential mortgages are not well informed about key aspects of their mortgage contracts, in part, because of inadequate disclosure.
- 1.2 Section 10 (d) of the Financial Institutions Act, 2008 (the FIA) empowers the Central Bank of Trinidad and Tobago (the Central Bank) to issue guidelines on any matter it considers necessary to regulate the market conduct of licensed financial institutions (licensees¹).
- 1.3 After consultation with the Bankers Association of Trinidad and Tobago (BATT), the Central Bank hereby issues this Residential Real Estate Mortgage Market Guideline (the "Guideline") which specifies a minimum set of information that licensees must provide to mortgagors on the terms and conditions of their mortgage contracts². Greater disclosure by licensees will help mortgagors make more informed decisions and facilitate better financial planning. Increased transparency will also improve the operations of the mortgage market by increasing competition among lenders.
- 1.4 The Central Bank will meet with other mortgage lenders to discuss comparable guidelines as appropriate.

¹ For the purpose of this Guideline, licensees under the FIA 2008 will only include the commercial banks and their affiliated non-bank financial institutions that grant residential mortgages.

² This Guideline was initially issued on September 14, 2011 and updated on November 23, 2015 and June 1, 2017. From June 1, 2017 while all commercial banks in Trinidad and Tobago will continue to be bound by the disclosure requirements in the Guideline, individual commercial banks would choose whether they would continue to align their variable mortgage rates to the MMRR. The names of banks that are aligned to the MMRR will be published on the Central Bank's website; other commercial banks not aligned to the MMRR will need to declare to their customers and to the Central Bank the reference rate to which their mortgages are aligned.

2. Scope of the Guideline

- 2.1 The Guideline introduces the new reference rate – the residential Mortgage Market Reference Rate (MMRR) – which will be computed quarterly by the Central Bank of Trinidad and Tobago based on information supplied by the licensees. The calculation will be made available to the public on the websites of the Central Bank and the participating institutions. The actual mortgage rate charged to consumers will be the most recent MMRR or other applicable reference rate plus a margin determined by the licensees. The margin to be set by the licensees will reflect, inter alia, the borrower's credit rating, the amount of the down payment and the location of the property. The reference rate will be used to determine the initial mortgage rate on all residential mortgages and for re-pricing variable- and adjustable-rate mortgages.
- 2.2 The formula for calculating other applicable mortgage reference rates adopted by licensees, other than the MMRR, is to be disclosed to customers and the Central Bank.
- 2.3 At the time of signing of the mortgage contract, licensees will also be required to provide a **Disclosure Statement** to their customers.

3. Disclosure Requirements

- 3.1 The Disclosure Statement must be written in plain language and must contain, at a minimum, the following information:
 - i. the type of residential mortgage contract granted (fixed, adjustable or variable) (See Appendix 1);
 - ii. the principal amount of the residential mortgage;
 - iii. the term of the residential mortgage;
 - iv. the reference rate used to price or re-price the residential mortgage and the margin;
 - v. the formula for the calculation of reference rate or the measure to which it is aligned
 - vi. the mortgage rate that is applicable at the time of signing of the mortgage contract and the period for which this rate applies (e.g. one (1) year, three (3) years, etc.);
 - vii. the terms and conditions governing pre-payments and accelerated payments, including fees and charges;

- viii. the monthly instalment and the date the instalment is due. In the case of a fixed-rate mortgage, the instalment is fixed for the life of the mortgage. In the case of variable- and adjustable-rate mortgages, the instalment remains unchanged until the next re-pricing date; and
- ix. an amortization schedule showing how instalments would be split between principal and interest repayments over a twelve-month period until the mortgage is re-priced.

(See Appendix 3 for a sample Residential Mortgage Market Disclosure Statement)



4. Application of the Guideline

- 4.1 The Guideline is applicable to all financial institutions licensed under the Financial Institutions Act, 2008 (FIA) that are engaged in residential real estate mortgage lending. The licensees should provide the customer with a separate statement reflecting the disclosure requirements outlined in **Section 3 and Appendices 1, 2 and 3**. All licensees should provide the Disclosure Statement to customers at the time of signing of the mortgage contract. In addition, the Disclosure Statement shall be provided on an on-going basis every time the residential mortgage is re-priced.
- 4.2 The Guideline is intended to take into account all residential mortgages existing in the books of licensees as well as new mortgages granted.
- 4.3 The Guideline is not currently applicable to:
 - i. mortgages granted under any special housing arrangement with the Government of the Republic of Trinidad and Tobago;
 - ii. mortgages (or the portion of the mortgage) granted to employees of licensees at preferential rates;
 - iii. mortgages granted by the Home Mortgage Bank and the Trinidad and Tobago Mortgage Finance Company Limited; and
 - iv. commercial mortgages.

5. Operational Framework for Licensees Utilising The Mortgage Market Reference Rate

5.1 The MMRR will be calculated by the Central Bank on a quarterly basis based on externally sourced data and made available on the websites of the Central Bank and participating institutions³. This reference rate is not a policy rate of the Central Bank but shall be calculated automatically based on the formula in 5.2 below utilizing:

- i. information on the cost of funds in the banking system; and
- ii. yields from applicable treasury bonds⁴.

5.2 The formula for calculating the MMRR is as follows:

MMRR_t = 0.5 YC_t + 0.5 COF_t; where

MMRR_t = Mortgage Market Reference Rate, in time period t;

YC_t = the applicable treasury bond yield (**50 per cent weighting**); and

COF_t = Cost of Funds (**50 per cent weighting**)⁵.

5.3 Licensees using the MMRR are required to price all applicable residential mortgages based on the MMRR. For variable- and adjustable-rate mortgages, licensees are required to re-price when the current mortgage market reference rate is lower than that on which the last re-pricing was based.

5.4 Licensees may choose not to re-price residential mortgage rates against the MMRR if the current mortgage market reference rate is higher than the corresponding rate at the time of the last re-pricing.

5.5 There is an agreement between the Central Bank and the Bankers Association of Trinidad and Tobago that the MMRR will be reviewed at least once every five (5) years⁶.

5.6 The methodology for calculating the mortgage rate utilizing the MMRR is as follows:

MR_t = MMRR_t + Margin; where

MR_t = the Mortgage Rate for time period t; and

MMRR_t = the Mortgage Market Reference Rate for time period t;

5.7 Adjustable- and variable-rate residential mortgages may be re-priced by licensees no more than once every twelve (12) months on the anniversary date of the mortgages.

5.8 Over any three-year (3) period, the residential mortgage rate could increase by a maximum of 350 basis points or by the increase in the Central Bank's 'Repo' rate, whichever is larger.

5.9 Over any three-year (3) period, the residential mortgage rate could fall by a maximum of 350 basis points or by the decrease in the Central Bank's 'Repo' rate, whichever is larger.

³ Licensees using their own reference rate should also disclose the applicable reference rate on their website.

⁴ From December 2013 the tenor was adjusted from 10 years to 15 years.

⁵ From June 1, 2017 the weights were adjusted from 60:40 (YC:COF) to 50:50.

⁶ From June 1, 2017 the period was extended from 3 to 5 years.

APPENDIX 1

Definitions Of Key Market Terminology

The definitions of **key terms** are provided below to ensure that a consistent approach is adopted by institutions in the application of the Guideline. Further, the definitions also seek to bring about clarity as well as a degree of standardization to the terms used in mortgage contracts issued by licensed financial institutions in the local market.

- i. A **real estate mortgage** is defined as a written agreement that creates a claim or lien upon real estate as security for the payment of a specified debt.
- ii. A **residential mortgage** is a written agreement that creates a claim or lien upon real estate for residential use as security for the payment of a specified debt.
- iii. A **fixed-rate mortgage** (FRM) is a mortgage in which the rate of interest charged remains unchanged throughout the entire term of the loan.
- iv. A **variable-rate mortgage** (VRM) is a mortgage in which the rate of interest charged is subject to change during the term of the loan.
- v. An **adjustable-rate mortgage** (ARM) is a mortgage in which the rate of interest charged is fixed for a specified period but is subject to change thereafter.
- vi. A **reference rate** is an interest rate benchmark against which mortgages are priced or re-priced.
- vii. A **margin** is defined as the difference (in basis or percentage points) between the mortgage market reference rate and the interest rate applicable to the mortgage.

APPENDIX 2

Minimum Requirements Of The Residential Mortgage Market Disclosure Statement

Principal Amount	<i>Indicate the principal amount of the mortgage.</i>
Term	<i>Indicate the term of the residential mortgage.</i>
Residential Mortgage Rate	<i>Indicate the rate of interest applicable to the residential mortgage.</i>
Reference Rate	<i>Indicate the reference rate used to price and/or re-price the residential mortgage.</i>
Reference Rate Formula	<i>Indicate the formula used to calculate the reference rate or measure it is aligned to</i>
Margin	<i>Disclose the interest rate margin applicable to the residential mortgage.</i>
Interest Rate Cap	<i>Indicate and explain the interest rate cap applicable to the residential mortgage.</i>
Date of Advance	<i>Indicate the date on which the principal amount of the loan is to be advanced and the date from which interest is to be charged.</i>
Amortization Schedule	<i>Indicate the frequency of instalments and how they are split between principal and interest repayments.</i>
Amortization Period	<i>Indicate the number of months or years of the amortization period, if that period is different from the term of the loan.</i>
Prepayment Privilege	<i>Provide a brief description of the conditions under which a borrower may repay a greater portion of the loan than required in any given period without incurring penalty charges for the prepayment of the loan, if applicable.</i>
Prepayment Charges	<i>Indicate the amount of prepayment charges, if any, for prepayment of the loan.</i>
Default Insurance	<i>Indicate the amount of charges for insurance against default on a high-ratio mortgage, if any.</i>
Other Fees and Charges	<i>Provide a list of the types and amounts of any other fees and charges applicable to the residential mortgage.</i>

APPENDIX 3

Sample Residential Mortgage
Market Disclosure Statement

Sample Amortization Schedule

Date	Outstanding Mortgage Balance (Start of Month)	Monthly Interest Payment	Principal Repayment	Monthly Instalments	Outstanding Mortgage Balance (End of Month)
Jan-12	850000.00	5666.67	1443.07	7109.74	848556.93
Feb-12	848556.93	5657.05	1452.69	7109.74	847104.23
Mar-12	847104.23	5647.36	1462.38	7109.74	845641.85
Apr-12	845641.85	5637.61	1472.13	7109.74	844169.72
May-12	844169.72	5627.80	1481.94	7109.74	842687.78
Jun-12	842687.78	5617.92	1491.82	7109.74	841195.96
Jul-12	841195.96	5607.97	1501.77	7109.74	839694.19
Aug-12	839694.19	5597.96	1511.78	7109.74	838182.41
Sep-12	838182.41	5587.88	1521.86	7109.74	836660.56
Oct-12	836660.56	5577.74	5577.74	7109.74	835128.55
Nov-12	835128.55	5567.52	5567.52	7109.74	833586.33
Dec-12	833586.33	5557.24	5557.24	7109.74	832033.84

Lending Institution

Your Mortgage

Name: John Doe

Date : 15 - Dec - 2011

Address: #4 Street, Woodbrook
Port of Spain

Account Number: #1001

Mortgage Agreement Disclosure Statement

Information Box - Part 1

Location: Port of Spain

Type of Property: Land Only Land and Building

Type of Mortgage: Fixed Rate Mortgage Adjustable Rate Mortgage Variable Rate Mortgage

Information Box - Part 2

Date of Advance: 1 - Jan - 2012

Statement Date: 15 - Dec - 11

Initial Principal Amount: \$850,000.00

Outstanding Principal: \$850,000.00

Term of Mortgage: 20 years

Amortization Period: 20 years

Instalments: \$7,109.74

Frequency: Monthly

Information Box - Part 3

Date of Next Interest Review: 15 - Dec - 2012

Mortgage Interest Rate: 8.00%

Margin: 4.00%

Reference Rate: 4.00%

Mortgage Interest Rate Cap: 3.50%

Reference Rate is calculated as

Information Box - Part 4

Prepayment Privileges: Lumpsum payments of not less than \$10,000.00 are permitted at the end of any month without penalty or notice.

Prepayment Charges: None.

Default Insurance: None.

Other Fees: Late payment fee applicable.

Mortgage Definitions

Information Box - 1

Fixed rate mortgage (FRM) – This is a loan that is secured by a claim or liens on real estate in which the rate of interest charged remains unchanged throughout the entire term of the mortgage loan.

Adjustable rate mortgage (ARM) – This is a loan that is secured by a claim or liens on real estate in which the rate of interest charged is fixed for a specified period but is subject to change thereafter, as outlined in the mortgage agreement.

Variable rate mortgage (VRM) – This is a loan that is secured by a claim on real estate in which the rate of interest charged is subject to change during the term of the loan.

Information Box – 2

Date of Advance – This is the date on which the principal amount was loaned, and is the date on which interest charges begin.

Initial Principal Amount – This is the original sum of money borrowed.

Term of Mortgage – This is the initial life of the mortgage.

Instalment Payment – This is the amount payable over specified intervals (for example, monthly) over a given period and is comprised of both interest and principal repayments.

Outstanding Principal – This is the value of the loan which is owed to the mortgagee as at the statement date.

Amortization Period – This is the length of time your mortgage will be paid off based on interest and monthly instalment payments.

Information Box – 3

Mortgage Interest Rate – This is the interest rate applicable to your mortgage loan. This interest rate is charged to the principal outstanding amount (i.e. reducing balance).

Reference Rate – This is the benchmark interest rate upon which your mortgage interest rate will be based.

Margin – This is the difference in the interest rate applicable to your mortgage and the mortgage reference rate and includes components such as credit and term premiums.

Interest Rate Cap – This is the maximum interest rate that can be charged on your mortgage.

Information Box – 4

Prepayment Privileges – These are the conditions under which you may repay a greater portion of the loan than required in any given period without incurring penalty charges for the prepayment of the loan.

Prepayment Charge – This is the amount of the penalty charges, if any, for prepayment of the loan.

Default Insurance – This is the amount of charges for insurance against default on a high-ratio mortgage.

Other Fees – These are the various amounts of other fees that are applicable to your mortgage, other than interest charges, for example late payment fees.



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