

Dollars & Sense



Ontario Bankers
Association




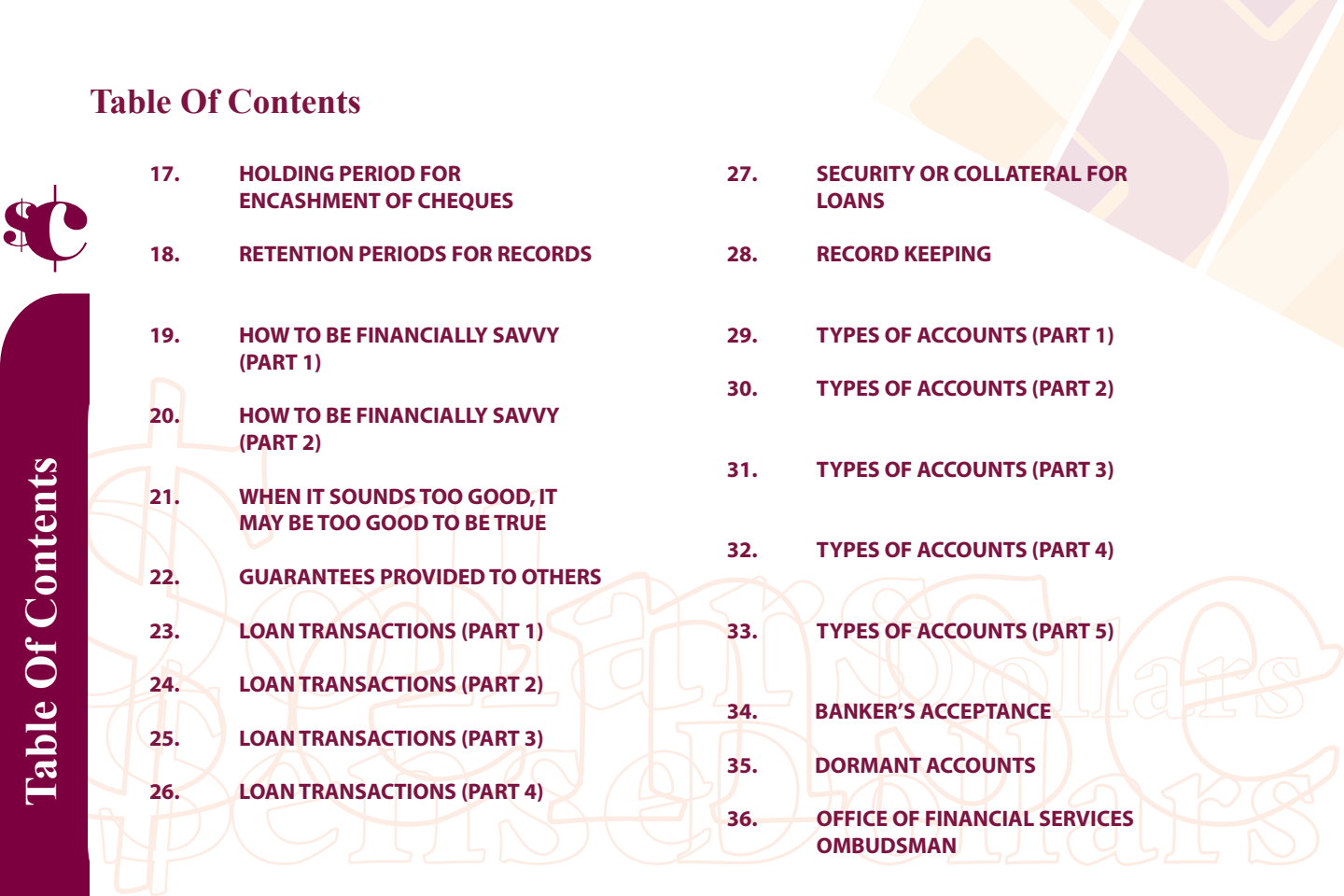
Office of the Financial Services Ombudsman
Facilitating resolution of banking and insurance disputes

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Foreword



In January 2007, the Central Bank of Trinidad and Tobago launched the National Financial Literacy Programme to be administered with the support of a wide range of stakeholders. The main objectives of the programme are to:

- Sensitize the population to the significance of personal financial planning, budgeting, and management as a mechanism for the improvement in the quality of life;
- Provide the population with the tools and skills necessary to enable them to better confront the marketplace with the confidence and knowledge required to deal with basic financial issues;
- Develop the awareness and consciousness of the public in general about the products and services being offered in the marketplace and the potential opportunities and risks associated with their acquisition.

The programme, which is directed to five target groups (primary school students, young adults, employees in the workplace, new and prospective home owners and community groups) is being delivered through direct education/information sessions as well as through wider participation viz: advertising, brochures and other publications.

I am pleased to present this handbook as one of the first of the publications to be issued under the National Financial Literacy Programme. This issue “Dollars and Sense” is a compilation of tips and bulletins issued by the Office of the Financial Services Ombudsman.

It is hoped that this issue provides readers with useful information and a better understanding about everyday bank instruments and processes

Ewart S. Williams
Governor
Central Bank of Trinidad and Tobago



Introduction



OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN

Under the auspices of the Central Bank, the Ombudsman's Office started in 2003 covering the commercial banks and expanded to cover the insurance industry as of May 2005. Currently, the Office of the Financial Services Ombudsman (OFSO) handles complaints against providers of both banking and insurance services.

An analysis of the range of banking complaints indicated that many consumers of banking services lacked a satisfactory understanding of the banking products and failed to fully consider the agreements and obligations they were taking on. This prompted the OFSO to compile a series of tips and information bulletins which were published in the daily media from time to time.

In this booklet the OFSO presents a compilation of information as part of the National Financial Literacy Programme.

I encourage you to study the information contained in this Handbook as it would assist you in making better financial decisions. Remember, it is your money. Take charge and make your money grow.



Judy Y Chang
Financial Services Ombudsman



1. USING YOUR ATM CARD AS A DEBIT CARD


You can use your Automatic Teller Machine (ATM) card to pay for goods and services from merchants and service providers at the point of sale. Except for one bank, there is a small charge for each transaction (usually 50 to 75 cents). It is just like drawing cash from an ATM. The amount of your purchase is charged to your bank account right away.

You can purchase only up to the amount of available funds in your bank account. However, as with cash withdrawals, there is a limit to the amount you can charge for purchases each day or, each week in the case of one bank. The limit differs from bank to bank, and is greater than the limit for cash withdrawals at an ATM. The limit on your card is fixed. For security purposes, the system does not allow the bank any discretion to manually increase the limit set on your card at the time of purchase.

It is advisable to use an account with a limited balance for ATM withdrawals and point of sale purchases in the event that your card becomes the subject of a fraudulent operation.



2. SECURING YOUR PERSONAL IDENTIFICATION NUMBER (PIN) FOR YOUR ATM AND CREDIT CARD



Never give your PIN to anyone. If you do, you will be liable for any losses suffered. Memorize your PIN. Do not write it down. If you must write it down, keep your PIN where no one else can identify it; do not keep it with your card.

Disguise your PIN well. Do not select numbers that others can easily guess, e.g. your birth date or phone number. If you suspect that someone may know your PIN, go to your bank immediately and have it changed.

Always keep your card with you, in a safe place. Report the loss of your card as soon as you become aware of its loss. If you report the loss of your card within 48 hours followed by a written report within fourteen (14) days, you should not suffer any loss.

3. ATM TRANSACTIONS

Be aware of your surroundings before entering an ATM area. If there are any suspicious persons around, leave and come back later or go to another location. Avoid being in the same booth with others, or having others hover around you.


If you must use the machine when someone else is around, stand over the machine when punching in your PIN and try to shield the keypad with your other hand or your body. Never allow anyone to assist you at an ATM. Thieves are often well dressed and very friendly. Avoid using ATM machines located in a lonely area or where there is no human traffic.

If the ATM retains your card, it is possible that a criminal has rigged the machine so that he/she will retrieve your card after you leave. Phone your home bank immediately to report the incident and cancel your card.

Do not accept assistance from or give your PIN to any stranger. Remember that bank employees are not allowed to have access to your PIN.



4. FOREIGN TRANSACTIONS USING A DEBIT CARD



If you have an international card, you can pay for purchases in a foreign country using your debit card; you can also withdraw foreign cash in a foreign country. The international card is usually identified with the *CIRRUS* logo.

The TT\$ equivalent will be charged to your bank account.

There is usually a relatively small fee for using your debit card in the foreign country for withdrawing foreign funds or making foreign purchases.

However, if you use your credit card to access foreign funds, you will be charged 2.3% of the cash drawn in addition to other charges. You should therefore only use your credit card to withdraw foreign cash in an emergency.

5. RECORD KEEPING AND YOUR ATM CARD

Keep the receipt from your ATM transaction to compare with your next bank statement. Unless you need to keep the receipt for a particular purpose, destroy it after it is checked to your statement. If you must keep your receipt, put it in a safe place. Remember that the receipt usually contains confidential information such as your account number and balance. Do not leave your receipt at the ATM booth, even if it is a voided transaction. Someone else might use the information contained in it to your disadvantage.

If there are any irregularities (e.g. incorrect amount of cash received, abnormal account balance) when using the ATM machine, report them immediately to the branch at which you conducted your transaction and to your home branch, if it is not the same. If you make the report within 48 hours, followed by confirmation in writing within 14 days, you should be able to recover any losses in full.



6. HOW TO INTERPRET YOUR ATM WITHDRAWAL SLIP

Each bank usually sets a limit to the amount of cash that you can withdraw for the day or, in the case of one bank, for the week. You will not be able to withdraw from the ATM more than the limit set. If you need more than the limit, the teller will be able to accommodate you, provided you have sufficient funds in your account.

In the case of a particular bank, if the limit for cash withdrawals at the ATM machine is \$5,000.00 for the week, and the week starts on a Thursday at midnight, then the withdrawal slip would show three different amounts after a withdrawal:

1. the amount withdrawn
2. the balance in the account after the withdrawal
3. the balance remaining of the limit of \$5,000.00 that can be withdrawn for the rest of the week

Naturally, if the balance remaining of your limit (item 3 above), is greater than the balance in your account (item 2 above), you can only withdraw up to the balance in your account.

7. ATM FEES

One of the banks does not charge a fee for using the ATM machines at any of their outlets, whether at a branch or other facility (e.g. a gas station); the other banks do. However, all banks charge a fee if you use an ATM machine at an outlet belonging to another bank via the LINX system; for example, a RBTT customer using a First Citizens ATM machine.

If you have an international **debit** card, you can withdraw foreign funds (in the currency of the country in which the funds are withdrawn). The TT\$ equivalent will be charged to your account. There is usually a charge for such a transaction.

However, withdrawal of cash, local or foreign, from a **credit** card attracts an automatic charge of 2.3% of the cash drawn in addition to other charges and should only be used in an emergency.



8. WAIVER OF BANK CHARGES

Since October 2003, the commercial banks have agreed to waive the service charges on the following transactions:

- Third party withdrawals
- Encashment of cheques at different branches of the same bank
- Deposit items returned
- Photocopying services related to transactions at the banks
- Closing accounts within three months
- Withdrawals without pass books (in the banks where this is allowed)
- Notification/activation of dormant accounts
- Payment of utility bills


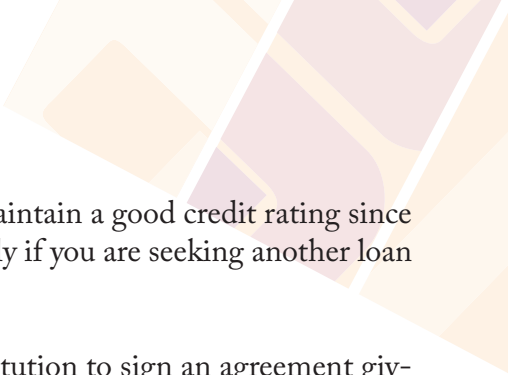
9. CREDIT BUREAUS & CREDIT RATINGS

Credit bureaus accumulate and provide information about a person's or company's credit rating. Information is usually gathered from the public domain. This would include judgments of court cases relating to the collection process by banks and other financial institutions, the interventions by bailiffs and foreclosures. However, of recent times, most of the banks and other financial institutions, including credit unions, subscribe to a common agency and exchange credit information with one another.

A person's credit rating is based on his/her performance in repaying loans with a financial institution. It can influence an institution's future decision to grant loans. Naturally, if a person repays his/her loan on time and meets all the conditions under the agreement, he/she will likely get another loan readily. If the opposite is true, he/she may encounter difficulties in getting a loan in the future.



CREDIT BUREAUS & CREDIT RATINGS continued



It is very important for a customer to try, as far as possible, to maintain a good credit rating since it will help him/her to get a loan more easily. This applies not only if you are seeking another loan at your bank, but at other banks and lending institutions.

When applying for a loan, you will be asked by the lending institution to sign an agreement giving approval to the institution to obtain credit information from various sources, including the credit agencies.

10. CREDIT CARDS

Credit cards are becoming the preferred method of doing business for many customers and merchants. Most banks offer credit card facilities to their customers. They are equivalent to overdraft facilities, with prearranged approved credit limits based on the individual customers' credit ratings with their banks.

When opening a credit card account, each cardholder is asked to sign an agreement which details the terms and conditions under which the card is issued. Read the fine print of such agreement carefully and become familiar with the terms and conditions. It can be very tedious, but it is extremely important.

If you can afford it, it is advisable to have two credit cards, and preferably with two different banks - one card with a small balance for making online or telephone purchases, and the other as your main card. The second card can come in handy if the other card is rejected by the system for whatever reason.

However do not have too many credit cards. Otherwise, you may find yourself with more debt than you can handle comfortably. Too many cards can also cause accounting problems.



CREDIT CARDS continued



Be careful when someone asks you to give them your credit card number when making a telephone purchase. Only do so if you know the person or the company to be reputable.

If an attempt to charge an amount has failed, keep the slip until your next statement to verify whether it appears as a charge; if it does, query it immediately.

11. ADVANTAGES OF USING CREDIT CARDS

Credit cards are convenient and take away the need to carry large sums of cash. There is an annual subscription fee for the use of the card. The amount varies from bank to bank. The fee is waived by some banks for senior citizens.

Apart from the annual subscription fees, the use of credit cards is free to consumers if used properly. Credit cards can provide as much as 50 days credit if purchases are paid for in full on the due date stipulated by the credit card company.

For example, if the cut-off date for your statement is the 20th May, and the payment due date is the 10th of June, you can enjoy 50 days credit if you purchase on 21st May since the purchase will appear on your statement to 20th June and you do not have to pay until 10th July. However, the purchase made on 19th May will only enjoy 21 days credit since it will appear on your statement to 20th May and you have to pay by 10th June. But you must pay the balance in full and on time; otherwise hefty charges are incurred.



ADVANTAGES OF USING CREDIT CARDS *continued*

If you are disciplined, it is wise to charge all your monthly purchases through your credit card and pay them off in full by the due date. Most credit card issuers offer bonus points, credits to your account, coupons encashable at merchants or travel miles for purchases made on their credit cards. Be careful; do not get carried away with the incentives.

12. DISADVANTAGES OF USING CREDIT CARDS

Because they are so convenient to use, credit cards can be abused. It is very tempting and easy for consumers to purchase more than they can afford to pay in full at the statement due date.

High interest charges apply if the account is not paid off in full on the due date; interest is charged on all the transactions for the month from the date of each transaction and not on the balance short paid. Charges have been applied even if the amount paid is one cent short. If that happens, talk to your banker. In all likelihood, the charges generated automatically by the computer will be reversed.

The interest charges on a credit card account can be as high as 26% per annum. It is cheaper to finance purchases via a bank loan or overdraft facility rather than to continue to pay only the minimum balance on your statement. Worse still, if no payment at all is made, you will be charged a late payment fee in addition.



DISADVANTAGES OF USING CREDIT CARDS continued



Interest is charged on the balance brought forward plus all the transactions for the month if you pay only the minimum balance each month. It is estimated that if you pay only the minimum balance, it would take you up to 24 months to pay off your debt without any new purchases. If you add new purchases and continue only to pay the minimum balance, the credit card charges will continue to be compounded and very soon you can find yourself with a huge unmanageable debt.

In addition to the hefty interest charges on outstanding balances, one must also be aware of an automatic charge of 2.3% of any cash drawn via your credit card. It is far cheaper to withdraw cash by using your ATM or debit card.

13. CREDIT CARD PROTECTION

Keep your credit cards with you at all times and in a safe place. Do not write the PIN down in a place where it can be identified. Never disclose it to anyone.

If possible, keep your eye on your card when paying for goods and services, for example, in a restaurant or gas station. This will avoid a fraudster making a duplicate of your card while it is out of your sight. When making a purchase, be sure that your credit card and receipt are returned to you.

Report the loss of your card immediately to the bank that issued your card, to avoid being held responsible for any unauthorized transactions that may be incurred. Reconcile statements immediately after receipt and report any discrepancies to the bank as soon as you become aware of any irregularities.



CREDIT CARD PROTECTION *continued*



Some credit card providers offer insurance cover in the event you are not able to pay off the balance on your credit card due to sickness or death. Be careful you understand what the insurance covers. Some policies only pay the minimum monthly balance in case of sickness (so the interest on the balance accumulates) and only pay off the balance in full upon death.

14. CHARGES APPLIED TO CREDIT CARD BALANCES

If the full balance on your credit card statement is not paid by the due date, an interest charge is imposed, usually at approximately 26% per annum. This applies as well when the minimum balance only is paid.

Interest charges are not applied on the unpaid balance at the due date indicated on the statement, but from the date of each item purchased for the month until it is fully paid. In addition, there is a late penalty fee if a payment is made after the due date. The bank may exercise their discretion to waive the late payment fee if it is paid a day or two after the due date; otherwise, there is no grace period.

If the credit card is used to withdraw cash, an immediate charge of approximately 2.3% of the cash withdrawn is charged. This charge applies even if the balance in your account is in credit and you made a deposit into the account for that purpose.



CHARGES APPLIED TO CREDIT CARD BALANCES *continued*



Limit on credit cards

Each credit card carries a limit based on the individual holder's credit rating with his or her bank. The policies vary from one bank to another but usually, you will not be allowed to charge more than the limit on your card, even if you have funds to your credit on your account.

Consider the following example with one of the credit card providers:

You are going on a holiday and you anticipate that you may incur charges in excess of the limit of \$5,000.00 on your card. You deposit \$10,000.00 to your account so the balance is now \$9,000.00 in credit (you had charged \$1,000.00 prior to the deposit). You go on holiday and charge your expenses to the card. You would have thought that you could charge up to \$14,000.00 (\$5,000.00 limit plus \$9,000.00 credit from funds deposited) but not so. You can only charge \$4,000.00 (limit of \$5,000.00 less amount of \$1,000.00 charged prior). If you need to take advantage of the use of your funds, you should instead ask for the limit on your card to be increased for the period that you will be away until you have paid off the travel expenses.


CHARGES APPLIED TO CREDIT CARD BALANCES *continued*

Consider the above example further:

When you left for your holiday, you had a credit balance of \$9,000.00. You need some cash and you go to an ATM in Miami to draw funds. You will be charged for the TT\$ equivalent of the amount of the US\$ drawn. In addition you will be charged 2.3% of the amount of the cash drawn, even though your account is in credit. You will be better off, therefore to take cash or travellers' cheques or a money card. Be aware however, that there is a charge for the purchase of travellers' cheques and money card although the charges will not be as high as for drawing cash by using your credit card. In addition, you can arrange to get an international debit card, if available at your bank. The charges for withdrawing foreign cash from your international debit card are the lowest of the above alternatives.



15. NON-NEGOTIABLE OR “& CO” CHEQUES



When a cheque is crossed with the words “Non-negotiable” or “& Co”, it means that the cheque can only be deposited into an account; it cannot be exchanged for cash. A crossed cheque may be “uncrossed” and initialed by the signatory(ies) to the cheque, in which case the payee may be able to get cash for the sum issued.

The payee of a crossed cheque may endorse the back of the cheque in favor of someone else and the second or third party then deposits the cheque into his or her account. In that sense, it can be considered to be negotiable.

Under the Bills of Exchange Act, the person in whose favour a crossed cheque is endorsed is in no better position than the original payee, so that if it is a NSF(not sufficient funds) cheque, he/she cannot claim any funds from the endorser, and he/she accepts the cheque at his/her own risk.

If a cheque is crossed with the words “For account payee only”, it cannot be negotiated in favour of anyone else. It must be deposited into the account of the payee only.

16. DEPOSIT INSURANCE

All commercial banks and non-bank financial institutions licensed under the Financial Institutions Act 1993 are members of the Deposit Insurance Corporation. Each chequing, savings, demand or time deposit account holder of funds deposited at a member institution is insured for a total amount up to \$50,000.00 in the event that the member institution were to be placed into liquidation. The account holder is considered separately in his or her own “right and capacity” with respect to each single account, joint account or trust (irrevocable express trust) account.

For example, if you hold an account in your name only, you will be entitled to a maximum of \$50,000.00.

If you hold an account jointly with your sister, you will be considered as having a separate account (in a different capacity) and you will be entitled to half of the balance in the joint account to a maximum of \$50,000.00. However, all joint accounts with you as one of the account holders will be considered in the same capacity so that only a maximum of \$50,000.00 will apply across all joint accounts held.



DEPOSIT INSURANCE continued



In addition, if you hold an account in your name in an irrecoverable trust for someone (like your child), you will be entitled to a further maximum amount of \$50,000.00. However, the trust must be clearly established and recorded at the time of opening the account.

Not all accounts at member institutions are covered by the Deposit Insurance Scheme. Examples of accounts not covered under the Deposit Insurance Scheme include, but are not limited to, Bankers' Acceptances, Units in Mutual Funds, accounts denominated in foreign currency (for example in US\$ and Sterling). Investments held in shares of public companies traded on the Trinidad and Tobago Stock Exchange are also not covered.

It is not prudent to hold all of your life savings at any one commercial bank or other licensed non-bank financial institution. In order to achieve the maximum cover under the Deposit Insurance Corporation Scheme, you should allocate your deposit savings among the various member institutions bearing in mind the maximum coverage limit of TT\$50,000.00 for each account within the same right and capacity, be it a single, joint or trust account.

17. HOLDING PERIOD FOR ENCASHMENT OF CHEQUES

Most banks hold cheques for four (4) working days before allowing cash to be withdrawn against the deposit. This will apply not only to withdrawal of cash from the tellers, but also to all transactions involving the equivalent of cash, for example ATM transactions, and point of sale purchases from merchants, purchases of bank drafts or travellers cheques. In recent times, it has been the practice for banks to apply the four-day hold on all cheques, including managers' cheques which were previously considered to be as good as cash.

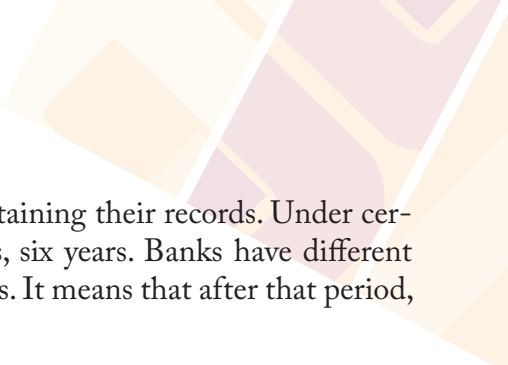
The four-day hold allows the banks time to verify for sufficient funds, authenticity of signatures and other checks. Even after the four-day period, if a cheque is found to be irregular (e.g., words and figures differ, it is postdated, stale-dated, not sufficient funds in the account* or the cheque is forged), the bank will normally return the cheque to the payee (depositor) and his/her account will be debited under advice.

Even though the balance in your account will reflect the amount of a deposit made, you will not be able to withdraw cash or use your debit card to the full extent of your balance, if it includes recent deposits of cheques that are not yet cleared.

* It is a criminal offence to issue a cheque if there are insufficient funds in your account to cover the cheque.



18. RETENTION PERIODS FOR RECORDS



All businesses, including commercial banks, have a policy for retaining their records. Under certain legislation, the statutory period is four years and in others, six years. Banks have different retention periods for different records, ranging from 6 to 10 years. It means that after that period, they would destroy the records.

It is therefore very important for you to verify your records with your bank(s) on a regular basis. Do not let your bank records go unchecked for an extended period of time without verifying the balances for accuracy and validity.

It is easier for the banks to check any discrepancies soon after they occur. The longer the discrepancies are left, the more difficult it is to verify the records.

19. HOW TO BE FINANCIALLY SAVVY (PART 1)


Be vigilant in all your bank transactions. Check all transactions right away and query any irregularities or odd bank charges. Make sure you understand all the costs attached to any banking transaction and ask questions, however silly you think they may be, until you are sure that you understand the transaction completely.

Find out what are the implications if you are not able to meet a payment on time due to illness or unemployment. Do not be in a hurry to sign on the dotted line. Ask for time to mull over any proposed transaction and discuss it with others who may be able to advise you fully of the implications.

Shop around for better rates or conditions even if you are committed to a particular bank. You can then negotiate for better rates or conditions. Do not overextend yourself. Make sure you can meet payments comfortably. Negotiate for better terms or ask for a longer period to repay the loan. Otherwise, you may find yourself in default and having to forfeit any collateral security that you may have pledged. Your credit rating will also be adversely affected.



20. HOW TO BE FINANCIALLY SAVVY (PART 2)



Keep the bank updated with any change in circumstances and refinance if necessary. Be aware that there are usually charges for refinancing or paying off early or in one lump sum. Try and negotiate at the beginning of a loan to get a waiver on the interest on the loan or penalty charge if you pay off early or in one lump sum, so that it becomes part of the terms and conditions.

Check your bank statements on a regular basis and preferably as soon as you receive them. Bring any irregularities to the attention of the bank right away and query them. Ask them to reverse any charges that should not be there, with interest (if it is an interest-bearing account).

If possible, keep a small interest-earning account separate from your regular account, as emergency funds in case of illness or other unforeseen emergencies.

21. WHEN IT SOUNDS TOO GOOD, IT MAY BE TOO GOOD TO BE TRUE

Banks often use aggressive advertising campaigns to promote their products. If an advertisement seems too good, it may indeed be too good to be true and there may be a catch to it.

Check it out carefully before getting caught in the hype – usually the fine print will tell you the conditions attached.

Enquire from the bank of the conditions attached and make sure you are comfortable with them before signing on the dotted line.



22. GUARANTEES PROVIDED TO OTHERS

When someone applies for a loan at a bank but does not have sufficient collateral security to offer to the bank, that person may be asked by the bank to arrange for someone else to guarantee the loan. The guarantor may be a family member or a friend.

It means that if the borrower cannot meet the payments under the loan agreement or is otherwise in default, the guarantor will be called upon to service the loan.

If you are asked to provide a guarantee for the indebtedness of another person, observe the following:

- Read the document carefully to make sure that you are guaranteeing only the particular loan in question and not all the other indebtedness of the person. If possible, only agree to guarantee up to a certain amount and do not leave the amount open.
- When the particular loan is paid up, make sure the security you have pledged is released to you and have the bank confirm that you are no longer a guarantor. If possible, have that condition written into the document of guarantee.

23. LOAN TRANSACTIONS (PART 1)

There are various types of bank loans. The interest rate varies depending on the type of loan, the customer's credit rating and past record in servicing any loan.


ADD-ON INTEREST LOANS are usually used for short to medium term hire purchase and installment type loans, as well as for purchasing consumer products such as furniture, appliances and cars.

Interest for the number of years of the loan is calculated and added to the principal. The total of the principal and interest is then divided by the number of months to repay the loan, to arrive at the monthly installment. For example, if a customer borrows \$10,000 to be repaid over 24 months at a rate of 8% per annum, the interest for 24 months is \$1,600 and when added to the principal, a total of \$11,600 is repayable. Over 24 months, the monthly installment is \$483.33.

The effective annual rate is usually much higher than the basic add-on rate. For example, on an 8% add-on rate over 24 months, the APR (Annual Percentage Rate) is 14.68%.



24. LOAN TRANSACTIONS (PART 2)



AMORTIZED LOANS are usually used for medium to long term mortgage type loans. The interest is based on the reducing balance, so that over time, even though the same monthly installment is made, the principal portion of the monthly payment becomes bigger and the interest portion becomes smaller. The effective annual rate remains the same throughout the period of the loan.

OVERDRAFT FACILITIES are mainly used by businesses but are also extended to individuals whose cash flow fluctuates over a period of time. Interest charges are usually computed on a daily balance basis and debited monthly.

Interest is usually based on the bank's prime rate. The prime rate is charged to those customers who are considered by the bank to be low risk. Other customers are charged prime plus additional percentage points, based on the bank's assessment of the customer's risk.

An overdraft account is a demand loan. The bank can call on the customer to repay the loan in full without any notice. This is not expected to be done if the account is being serviced properly.

25. LOAN TRANSACTIONS (PART 3)

When transacting a loan, the following should be considered:

The loan should fulfill a need. It can be for a short, medium or long term. It may be used for financing the purchase of a home or a car, for medical expenses, for educating oneself or for one's family and should not be used for financing immediate wants rather than needs.

Loan repayments should be manageable so that defaults are avoided. You should be aware of the terms of the loan and the implications of any default before signing on the dotted line. If not, ask the bank officer to explain. Do not sign until you are comfortable and you understand all the terms and conditions. Read your agreement carefully.

Ask the loan officer to advise you of the following:

- . The rate of interest charged
- . The method of calculating the interest – whether add-on or on reducing balance



LOAN TRANSACTIONS (PART 3) continued

- The effective annual percentage rate, commonly referred to as “APR”
- The overall cost of credit including all fees and other charges
Any legal fees, such as charges for property searches, preparation of mortgage documents, stamp duties and life insurance premiums (if required)
- The terms of the loan agreement
- The monthly loan instalment
- Penalty charges for late payment, early lump sum payments and restructuring/ refinancing of the loan
- Whether the interest is subject to change as interest rates change or is fixed over the term of the loan
- The collateral or guarantee, if applicable

26. LOAN TRANSACTIONS (PART 4)

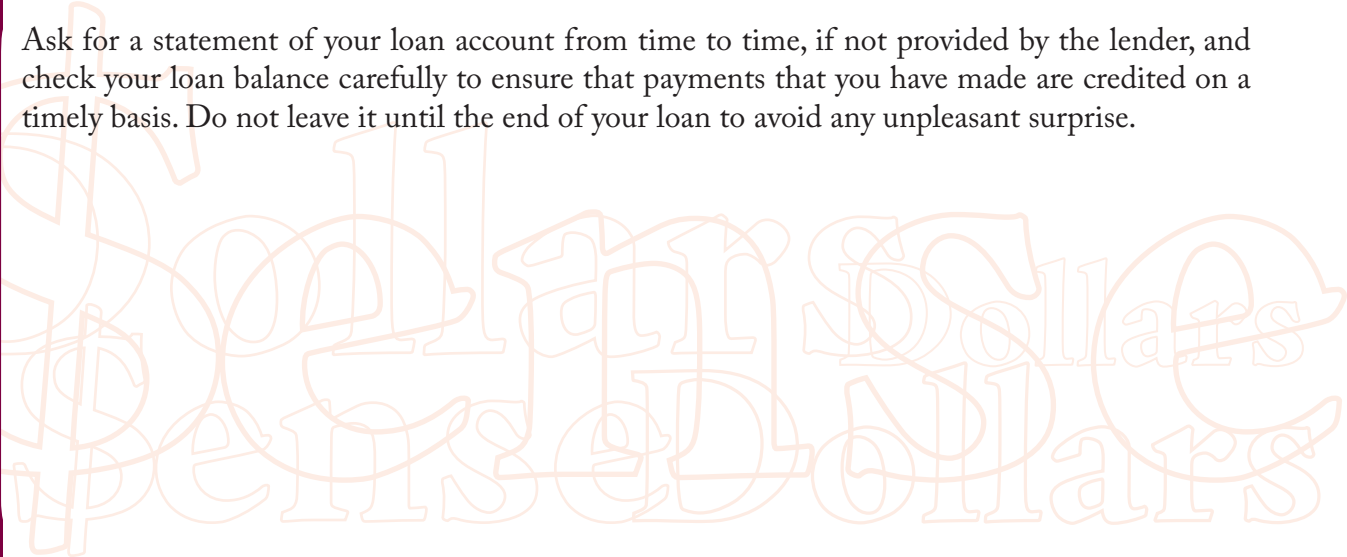
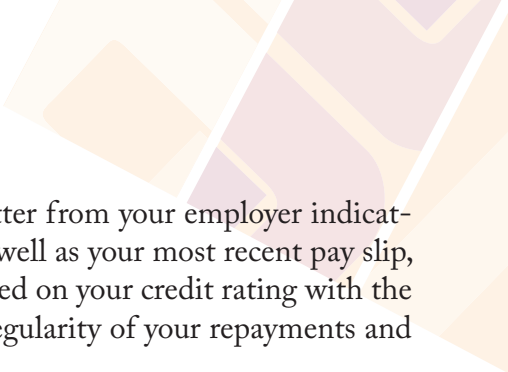
Do not be bullied into signing and committing to terms and conditions about which you are not comfortable. It is very tempting to sign on the dotted line when a loan is granted, without fully understanding the implications and hoping that nothing will go wrong.

There is usually a penalty fee if you are late in paying your monthly loan installment. Do not agree to pay by the 23rd of each month if you know that you expect your salary to be credited on the 25th. Not only will you be charged a late penalty fee each month, you will not enjoy a good credit rating.

Some banks allow a grace period of one or two days for paying your loan installment. Do not abuse the grace period. It should only be used on the odd occasion and not for each payment. Otherwise you are likely to be charged a late payment fee and additional interest each month and end up with a poor credit rating.



LOAN TRANSACTIONS (PART 4) continued



When negotiating for a loan, banks will usually ask for a job letter from your employer indicating your position, length of employment, your current salary, as well as your most recent pay slip, details and purpose of the loan. Your loan will be considered based on your credit rating with the bank – how well you have managed your debt in the past, the regularity of your repayments and any report they may have requested from a credit bureau.

Ask for a statement of your loan account from time to time, if not provided by the lender, and check your loan balance carefully to ensure that payments that you have made are credited on a timely basis. Do not leave it until the end of your loan to avoid any unpleasant surprise.

27. SECURITY OR COLLATERAL FOR LOANS

Most loans are securitized. Some loans will be securitized by the item purchased, e.g., a car, a house, or furniture. Other loans may be securitized by other assets, e.g., a fixed deposit, shares in a public company, mutual fund units at Unit Trust or at the bank. Other loans may be guaranteed by a third party, e.g., a relative or a friend.

If the borrower defaults in his or her repayment terms, the collateral security is usually cashed in and used by the bank to pay off the balance of the loan. If there is a surplus, the balance is returned to the guarantor/borrower. However, if the security is not sufficient to repay the balance of the loan, the shortfall will be demanded from the borrower/guarantor.

There are certain costs attached to a securitized loan. They must be considered when contracting a loan. Such costs include:

- Legal fees in preparing document of collateral security, for example, mortgage deed or bill of sale
- Stamp duty on the security document, if applicable



SECURITY OR COLLATERAL FOR LOANS *continued*



- Cost of surveying and valuation of property in the case of a mortgage
- Insurance premium
- Any bank charges e.g. commitment fee or negotiation fee

There is also a cost attached to the document for releasing the security when the loan is paid off in full.

It is important that the release be done as soon as the loan is repaid in order to establish clear title to the asset which was the subject of the mortgage/security. To do it at a later stage may pose difficulties in securing proof of full repayment and in locating the person/entity who was party to the original deed of collateral security.

Banks should advise their customers to have the release done soon after the loan is repaid. But it is in the interest of the borrower to see that the release is done.

28. RECORD KEEPING

It is very important that proper records be kept of all banking transactions. You should especially keep copies of loan agreements, documents of guarantees and bank mandate forms with the signing authorities. The bank should provide you with copies when the transaction is signed. Ask for copies if they are not provided. The copies will assist you in determining your rights if there are any discrepancies at a later stage.

Follow up on any transactions e.g., expiry of fixed deposits or verification of any charges made by the bank. When a transaction is completed (e.g., a fixed deposit has expired or a loan has been paid off), make a note on the documents right away as to what has transpired and put it into a closed file.

If you wish, you may destroy the files after six years of closing the files, six years being the statutory period for retaining files for tax purposes.



29. TYPES OF ACCOUNTS (PART 1)

JOINT ACCOUNT

If an account is “joint with right of survivorship”, it means that either party can sign on the account, including withdrawing the balance on the account in full. It is usually titled “and/or”, for example, Mr John Doe and/or Mrs Jane Doe.

If you are one of the parties to a joint account and the funds are beneficially owned by you, either in whole or in part, you should check the balance in the account from time to time, to avoid any unfortunate surprises which may be too late to rectify.

If a party dies, the account is passed on automatically to the other party(ies) named on the account. The funds do not pass on to the estate of the deceased.

TYPES OF ACCOUNTS (PART 1) continued

JOINT TENANTS IN COMMON

If an account is “joint” as tenants in common, it means that except for the deposit of funds into the account, which may be done by either party, all parties must sign on the account to authorize the bank to do any transaction – e.g. withdrawal of funds. If one party dies, the share belonging to the deceased passes on to his or her estate and not to the other parties named in the account.

The Account is usually titled “and”, for example, Mr John Doe and Mrs Jane Doe



30. TYPES OF ACCOUNTS (PART 2)

CHEQUING ACCOUNT

A chequing account allows for cheques to be written. Some chequing accounts pay interest on the balances held; others do not. Some chequing accounts allow for a certain number of cheques per month free of charge, provided that a certain minimum balance is maintained (maybe \$5,000 or \$10,000). If the balance goes below the minimum, a charge is made for each cheque debited to the account.

Some chequing accounts charge for each cheque debited on the account. Some cheque books are free; you may be asked to pay for the customized prettier and fancier cheque books. The plain ones (which are usually free) are just as good and will do what is required.

Select the chequing account and cheque book that best suit your needs and recognise the cost and trade-offs.

31. TYPES OF ACCOUNTS (PART 3)

SAVINGS ACCOUNT

A savings account is the most conservative method of saving. It pays the lowest rate of interest, and the rate varies from one type of account to another. Some accounts pay on the minimum monthly balance; others pay on the minimum quarterly balance. Very few pay on the daily balance.

If an account pays on the minimum monthly (or quarterly) balance, very little interest is earned if the balance fluctuates widely and especially if it dips almost down to zero. For example, if you start with a balance of \$500.00 at the beginning of the month and on the 5th of the month, you deposit \$10,000.00 into the account and withdraw \$9,500 on the 31st of the month, you will only get interest on \$500.00 for the month (being the minimum balance for the month), even though the balance for most of the month was \$10,500.00. You would get no interest on the deposit of \$10,000.00 that was sitting in the account for 26 days.

Most banks charge a maintenance fee if the balance is below a certain amount, usually \$500.00.



32. TYPES OF ACCOUNTS (PART 4)

FIXED DEPOSIT AND CERTIFICATE OF DEPOSIT

A fixed deposit, sometimes referred to as a certificate of deposit, is a financial instrument involving the deposit of a certain sum of money at a bank (or non-bank financial institution) for a defined period of time at a fixed rate of interest over the period.

Depending on the terms arranged at the start of the fixed deposit:

- Interest may be payable either monthly, quarterly, semi-annually or annually
- Interest may be paid into an account held at the bank or by a cheque sent to your address.
- Interest may be accumulated to the end of the term, added to the principal, and rolled over for another term, in which case, the principal of the new deposit will include the interest earned for the prior period.

It is important to establish at the start of the fixed deposit how the principal is to be treated at the end of the term; otherwise, in the absence of any instructions, interest may not continue to accrue after the expiry date and the account may become dormant.

33 TYPES OF ACCOUNTS (PART 5)

FIXED DEPOSIT AND CERTIFICATE OF DEPOSIT

If you are not likely to be in the country at the maturity date, you should give precise instructions at the start of the fixed deposit to roll over the fixed deposit at the prevailing rate of interest upon expiry and to send the new deposit receipt to you.

When a fixed deposit expires, a new certificate of deposit is usually issued in the case of a renewal or roll-over, or a cheque is issued if it is to be encashed. The old certificate therefore is no longer valid for redemption. A note should be placed on the certificates of all expired deposits to indicate how the proceeds were disposed of.

Fixed deposits taken out at a non-bank financial institution must be for a minimum period of a year and are usually not allowed to be broken. However, if the need arises, application may be made by an individual to the Central Bank for approval to break such a deposit.



TYPES OF ACCOUNTS (PART 5) continued



Fixed deposits taken out at a commercial bank may be for less than a year and may be broken without reference to the Central Bank.

However, in all cases, whether at a bank or non-bank institution, there are penalties for breaking a deposit. In some cases, you will get no interest at all. It is wise to find out the “break-rate” before committing funds to a fixed deposit and make sure you understand what it means.

34. BANKER'S ACCEPTANCE


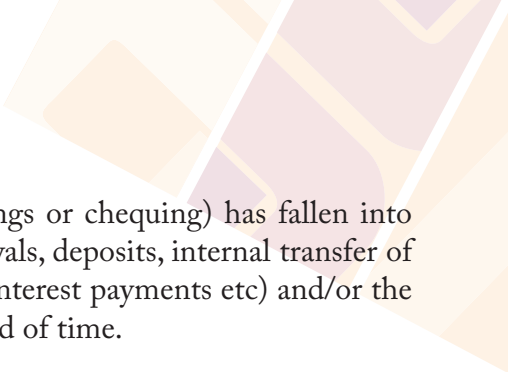
A banker's acceptance is a financial instrument arranged by a bank between two of its customers. The bank acts as an intermediary to allow Customer A to borrow a certain sum of money from Customer B at an agreed rate of interest for a defined period of time. The interest rate is usually a percentage point or so higher than on a conventional fixed deposit.

The bank merely facilitates the transaction between two parties, usually two of their prime banking customers. The bank is not liable in the case of default by the lender, except perhaps on ethical grounds. The funds in question are not covered by the Deposit Insurance Corporation; the customer must understand the risk involved.

A Bankers Acceptance is usually for large sums of money and for short periods of time.



35. DORMANT ACCOUNTS



Dormant accounts are created when an account (deposit, savings or chequing) has fallen into disuse, with no customer generated activity, that is, no withdrawals, deposits, internal transfer of funds etc except for those initiated by the bank itself (charges, interest payments etc) and/or the bank has been unable to contact the account holder over a period of time.

The period of account inactivity varies among banks from six to nine months to one to two years. During this period the banks will initiate several procedures to contact the account holder, including telephone calls and letters requesting the customer's instructions on the accounts. If no reply is received within the time stipulated by the individual bank, then the status of the account will be changed to dormant.

Interest continues to accrue on credit balances and will be credited on the due dates. However, there is usually a fee charged for maintaining a dormant account and over time, the fees charged could wipe off the balance in the account altogether.

DORMANT ACCOUNTS continued

Accounts that do not require customer activity are not subject to becoming dormant. These would be usually investment accounts such as mutual funds and fixed deposits where the customer has left instructions for the renewal of the proceeds upon maturity. Some banks automatically renew fixed deposits upon maturity. However, it should be noted that fixed deposits without renewal instructions can become dormant if they remain uncollected.

An account that remains dormant for fourteen (14) years will be considered as escheat and will be transferred to the Central Bank in accordance with Section 41 of the Financial Institutions Act, 1993. This includes the publication in the daily newspapers of those accounts that the bank intends to transfer to the Central Bank. If a customer notices his account published, he may go to his bank and have the account activated by making a deposit, withdrawal or closing the account altogether. Strict rules are applied including the approval by an officer of no less a ranking than a Supervisor.



DORMANT ACCOUNTS continued

Dormant accounts which are lodged at the Central Bank can be claimed by account holders. The procedures require that the account holder makes his claim from his bank. Upon presentation of proper identification and proof of ownership, the claim would be honoured by his bank. The bank would then make a claim from the Central Bank. There is no need for a customer to make a claim directly from the Central Bank. Interest no longer accrues when the funds are sent to the Central Bank.

36. OFFICE OF THE FINANCIAL SERVICES OMBUDSMAN



The main objectives of the Office of the Financial Services Ombudsman (OFSO) are to receive complaints arising from the provision of financial services by banks and insurance companies to individuals and small businesses and to facilitate the settlement of these complaints.

The OFSO is located on the first floor of the Central Bank Building, Eric Williams Plaza, Independence Square, Port of Spain. Accessing the services of the OFSO is **FREE** to the customers of the participating commercial banks and insurance companies.

For further information, please call 625-4835, extensions 2685, 2681, 2675 or 2657 or email us at info@ofso.org.tt. In addition, interested persons can visit our website at www.ofso.org.tt to find out more about the operations, the names of the participating commercial banks and insurance companies and information on how to file a complaint.

June 2007



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