

BANKI
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KENYA



CENTRAL
BANK OF
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MICROFINANCE BANKING CIRCULAR NO. 2 OF 2017

TO ALL CHIEF EXECUTIVES OF MICROFINANCE BANKS

OPERATIONALISATION OF THE COST OF CREDIT WEBSITE INITIATIVE

As you are aware, the Central Bank of Kenya (CBK) considers transparency to be a key element of an effective, safe and sound banking system. Thus, it is in the interest of CBK to continue pursuing innovative initiatives that promote greater transparency and full disclosure of credit information to enable customers make informed credit decisions.

In the spirit of the Consumer Protection Act, 2012 which requires all credit providers to disclose all the prescribed information relating to credit agreement to the borrower, and the Banking Prudential Guidelines on Consumer Protection - CBK/PG/22, CBK in collaboration with Kenya Bankers Association (KBA) have developed a 'cost of credit' website which provides standardized information on the total cost of credit (TCC). The cost of credit website provides credit disclosures including; Annual Percentage Rate (APR), the Repayment Schedule (RS) and the TCC. The culmination of this development process was on 23rd May 2017, when KBA held a training workshop with designated representatives from member commercial banks and microfinance banks to train them on how to use the website portal in readiness for the full implementation of the initiative.

Given the importance of credit disclosure, we invite all KBA member and non-member microfinance banks, as critical members of the banking industry, to participate in the 'cost of credit' website initiative. The website will be operationalised as follows:

- i) This initiative will be rolled out in phases. For now, only three types of loans will be featured on the website: personal secured loans, personal unsecured loans and mortgage loans. Additional loan facilities will be added gradually.
- ii) All microfinance banks will fully participate in this initiative.
- iii) All microfinance banks will submit, update and upload their data on the three types of loans highlighted in point (i) above. The data submission and updates will be done on quarterly basis or as and when there is any change in the data input variables. The Chief Executive Officers and Heads of Credit of the respective microfinance banks shall be held responsible for the accuracy and timeliness of the data submitted.
- iv) All microfinance banks will use the provided TCC template as a standard template to disclose all the total cost of credit of the loan products.

CBK believes that the 'cost of credit' website initiative, with your support of course, will go a long way in promoting greater transparency in the banking sector. Your participation in this initiative is therefore critical to its' success.

Yours faithfully,



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