BANKING COMMISSION
P.O. Box D
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INSTRUCTIONS AND REPORTING FORMS 5

REPORT ON INTEREST RATES

PURPOSE

The month-end "Report of Interest Rates" replaces the prior version. The new return is intended to be more sensitive of the interest rate risk that arises in the normal course of lending and deposit taking activity and to provide greater information on the distribution of advances to different classes of borrowers by interest rate.

STATUTORY REFERENCE

Section 137 (1) of the Banking Act, 1987, provides the Banking Commissioner discretion over returns required for supervisory purposes, so long as the banks are notified in writing. In part, this return is to monitor adherence with Section 131 of the Act and to enable the Banking Commission to meet its obligations under Public Law 2006-63 which requires the Banking Commissioner to report to the Cabinet every six months on the level of interest rates banks charge on loans and other credit operations.

Banks that fail to submit timely and accurate Report on Interest Rates returns may be subjected to fines under Section 137 (3).

FREQUENCY/SUBMISSION DATE

Monthly: Within 30 days after the last business day of each month, to be attached to the corresponding month-end "Statement of Assets and Liabilities" as per Instructions for Reporting Form 1.

RECIPIENT

Banking Commission, MIDB Building, Floor 5, Room 501, Majuro.

Phone: (692) 625-6310; Fax (692) 625-6309; Email: bankcomm@ntamar.net

SIGNING AUTHORITY

The Senior RMI Officer of the institution concerned must sign the completed return, or in his absence the officer deputizing, to certify the accuracy of the information submitted.

INSTRUCTIONS 5
REPORT OF INTEREST RATES

This report replaces its predecessor of the same name, and is to monitor the sensitivity of the bank's lending and deposit rates and to provide further information on the distribution of advances by interest rates to different classes of borrowers. It remains a monthly report with the same reporting timeframe, but requires the bank to highlight the monthly volumes associated with the lending and time deposit rates being reported and to provide greater granularity on deposit and lending rates in the Republic of the Marshall Islands.

The report is in three parts. **Part 1** requires banks to provide information on lending and deposit rates at the end of the month, new loans and deposits over the month and deposit balances outstanding at the end of the month. These reporting requirements remain largely unchanged from the predecessor report. **Part 2** requires banks to report the distribution of time deposits by interest rate and provide information on the weighted average interest rate payable on various types of deposit. **Part 3** requires banks to report the distribution of selected advances by interest rates.

COLUMN HEADS

Annual Interest Rates (%) – The lending and deposit rates reported in this return are "as at" the month-end.

Gross Loan Disbursements ($ 000) this month – Amounts reported are to include all "new" loans for the month of the return. As a result, the amounts reported as "new" loans would include loans that were rolled over during the month. The level and trend of loans renewed at maturity should accordingly feature in the bank's management information systems.

Time Deposit Volume ($ 000) This Month – Amounts reported are to include all new time deposits booked for the month, with Central Government (as defined under Instructions 1 to include Social Security and Trust Funds that are instruments of the central authority) placements separately identified.

Other (interest bearing) Deposit Balances Outstanding ($ 000) – This return is designed to capture interest-bearing deposits only. It accordingly requires the reporting of the amount outstanding at month-end of checkable savings, along with any other demand deposit categories that are interest bearing (per the listing requirement), and the amount of savings deposits outstanding at month-end.

Weighted Average - An average that takes into account the proportional relevance of each component.

LINE ITEMS (LOANS)

The line entries applicable to private sector loans are:

Base Rate – The "Base Rate" is set by "Head Office" or some other "Person" and is referenced for purposes of establishing spreads on new floating rate business loans. The "base rate" is used to establish rates, as distinct from a "Prime Rate" used in the US and elsewhere for loans to the bank's most creditworthy borrowers; this explains why the return omits the dollar amount line opposite the "base rate". The reporting bank is to footnote the "person" responsible for setting this rate (e.g. Head Office), its relationship to money market rates (e.g. to US Prime, federal funds rates or other rate indicators) and the spread over the base rate (e.g. Base plus 5%) being targeted at month-end.

Floating Rate Business Loans – The "floating" rate will accordingly reflect the prevailing spread over the "base rate".

Fully Secured Fixed Rate Business Loans – Security is specific property that a borrower pledges as collateral for the repayment of a loan, which the bank has the right to sell if the borrower defaults under the terms of the loan agreement. Loans that are fully secured with readily encashable collateral generally obtained advantageous rates.

Other Fixed Rate Business Loans – Whether such loans are partially secured or locally guaranteed or not, they are to be reported as a component of the "Other" line in the return.

Consumer Allotment Loans – These are loans deducted from the borrower's paycheck by the employer and paid directly to the bank.

Other Installment Loans – Include all other consumer loans.

Overdrafts – Current Account overdrafts are rare in the RMI, so banks that do not offer this facility should enter "N/A". Where permitted, however, the bank will set a limit on the overdraft amount. For purposes of this return report any new overdraft agreements entered into in the current month, namely by providing the applicable interest rate(s) charged and the aggregate amount of the dollar limits being imposed.

LINE ITEMS (DEPOSITS)

The normal maturities for **Time Deposits** in the RMI are 3 months, 6 months, 9 months, 12 months and, in certain instances, the "original term to maturity" will exceed one year. The tiering of maturities for reporting the volume (gross) of time deposits booked during the month is intended to reflect the "normal" maturity pattern in the RMI. According to the reporting format, therefore, a time deposit with an original maturity of 6 months would be included in the "6 Months" bracket, whereas a 7 months would be included in the "9 Months" bracket. The interest rates quoted, on the other hand, are strictly those applicable for 3 months, 6 months, 9 months and 1-year time deposits. The "over 1 year" interest rate, where applicable may be entered as a range.

The remaining line entries for deposits relate to the outstanding savings and demand deposits as follows:

Savings – Enter the prevailing rate being paid on savings deposits. The outstanding balance should reconcile to the balances reflected on the corresponding month-end Balance Sheet.

Demand Deposits – Report the prevailing rate being paid on **Checkable Savings** Accounts. The balance outstanding should reconcile with the corresponding month-end Balance Sheet amount, which includes Government and Private Sector accounts.

If the reporting bank is paying or offering interest on any **other demand deposit** category, list the type of account, the applicable month-end rate offered and the amount outstanding for such accounts. Where applicable, any such balance would be a modest fraction of total demand deposits.

BANKING COMMISSION

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