Consumer Protection

Balancing Rights and Responsibilities

CONTENT NOTE

Financial Education
FROM POVERTY TO PROSPERITY

In targeting consumer protection, this module is a resource for a broader range of existing and potential customers of all financial institutions, from MFIs to formal banks. Both clients and their institutions are stakeholders in the emerging global movement for consumer protection. In today's climate of economic uncertainty, concerns about predatory lending and profiting from the poor lend some urgency to the need to embrace ethical treatment of clients. Efforts are well underway to guide and encourage financial institutions to commit to transparent pricing, appropriate collections practices, ethical staff behavior, client privacy and mechanisms for redress of grievances (See the SMART Campaign and the Center for Financial Inclusion, ACCION International; http://www.centerforfinancialinclusion.org/). Yet, the principles that financial institutions are adopting do not specify clients' right to ask questions, to understand products without fear or to shield themselves against aggressive marketing.

At the other half of the consumer protection equation, clients' greatest priority is respect. They want to preserve their dignity in the process of conducting business with a financial institution and they want to borrow without fear or humiliation. This module tries to represent these interests, empowering consumers to ask questions and seek the information they need to fully understand the products they choose and the contracts they sign. It targets information and skills that will enable consumers to participate in relationships with financial service providers on the basis of knowledge and choice, as opposed to fear. By responding to the concerns of consumers, this module is a valuable resource to all stakeholders in the consumer protection movement.

Looking forward, all stakeholders face the challenge of making consumer protection a reality — translating pledges and principles to ethical, accepted behavior that is shaped by the rights and responsibilities of both financial service providers and consumers. Financial education is a key element in making progress towards this goal. Consumers need to both know their rights and have the skills and confidence to exercise them. However, an unanswered challenge in the nascent movement for consumer protection is identifying the appropriate entities to lead this educational effort, an issue meriting attention from all stakeholders.

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Financial Institution Clients: Rights and Responsibilities

As a client of a financial institution, you have five basic rights described below. Because some microfinance institutions serve low income clients through groups, and members of such groups are often expected to guarantee each other's loans, some of these rights and responsibilities are linked to a group context, such as a village bank or solidarity group.

1. **You have the right to be treated with respect and dignity.** Every employee and/or representative of the institution or member of your group should be committed to affirming your dignity, be respectful of cultural and gender differences, and reject abusive collection practices.
2. **You have the right to decide which products or services you want to use.** You need to compare different products before choosing the one that is right for you and your family. You have the right to choose among different products without pressure from any institutional representative.
3. **You have the right to receive clear, truthful, complete and timely information.** To fully understand the terms and conditions of the services you are choosing, you have the right to complete information and answers to all of your questions. The staff serving you should dedicate the time you need to grasp the relevant information about the product. This information includes, but may not be limited to, the total cost of borrowing, transaction services and return on savings.
4. **You have the right to be heard.** When the services you are receiving do not meet your needs, or if any of the above rights have been violated, you should have an opportunity to notify the financial institution immediately. Your financial institution will benefit from your feedback and will suffer the consequences of your silence.
5. **You have the right to privacy.** You have the right to expect your personal information will be kept confidential between you, the loan officer and your group members. No one can disclose your personal information to the community without your authorization.

These five basic rights go hand-in-hand with five basic responsibilities:

1. **You have the responsibility to treat others with respect and dignity.** It is your responsibility to be respectful of others, including every employee, financial institution representative or group member. This responsibility extends to denouncing and/or preventing abusive collection practices.
2. **You have the responsibility to evaluate the benefits of the financial product you use.** Not everything that glitters is gold. Even if a product sounds very attractive, it is your responsibility to analyze its costs, terms and conditions before accepting it. Ask questions about the product and make sure you get all the information you need to make the right choice.

3. **You have the responsibility to comply with the terms and conditions of the product you are receiving.** When you sign a contract, you are making a commitment to fulfill the terms and conditions specified in that contract. To fulfill this responsibility, make sure you understand the contract before you sign it. If you are not sure about any part of the contract, ask questions and get the clarification you need.
4. **You have the responsibility to provide truthful and timely information.** Only honest and timely feedback can help your financial institution improve the services it provides. It is your responsibility to answer its questions truthfully.
5. **You have the responsibility to maintain confidentiality.** If you belong to a group of borrowers, you have the responsibility to keep your group members' personal information **inside** the group. The same holds true if you agree to guarantee someone else's loan. The information about that person's finances that you may have as guarantor is private. Keep it to yourself.

Exercising Each Right and Fulfilling Each Responsibility

There are three stages to your relationship with a financial institution:

1. **Before the sale of a product, institutional representatives offer you financial products and services.** They are engaged in marketing or product promotion.
2. **At the moment of the sale, you commit to buying or using a product or service of the institution.** For example, after you apply for a loan, the moment of the sale is when you sign the loan agreement or contract.
3. **After the sale, you begin to honor your commitment to the institution as specified in the contract you signed.** For example, if you have a loan, this is the stage during which you start making payments on that loan on time and in the amount specified in the loan contract.

At each of these stages there are clear opportunities to exercise our rights and fulfill our responsibilities. For example, if, before the sale, you experience aggressive or misleading marketing techniques, you can complain to the institution or try another lender. After the sale, you might discover a breach of confidentiality by group members, or by the lender. The table below describes the risks of abuse you might encounter at every stage of your relationship with a financial institution and how you can exercise your rights and fulfill your responsibilities to protect yourself:

	Risk of Abuse	Your Right	Your Responsibility
Before the Sale	Incorrect, aggressive or misleading marketing techniques	Do not let anyone pressure you to make a choice about a certain service. You have the right to decide which products or services you want to use. You also have the right to be treated with respect.	Before accepting a product, analyze it. Calculate its total cost and decide if and how you will be able to pay it back. Make sure it benefits you and your family. It is your responsibility to evaluate the costs of that product before you accept it!
At the Time of Sale	Inappropriate contract wording	It is your right to receive clear, truthful, complete and timely information. The institution has the responsibility to provide the information you need. If it does not, find another lender. Otherwise you will not be able to comply with all the terms and conditions in the contract.	Before signing a contract, make sure you understand ALL the information in it. Ask the bank officer or MFI staff as many questions as you need to until you understand every single word in that contract.
After Sale	Abusive behavior in collection practices	You have the right to be treated with respect in all phases of your interaction with a financial institution, even when you are late in making loan payments. You also have the right of privacy such that no one else in your community should hear about your financial affairs from a lender or your group members. There are many ways to collect a debt in default. Some are appropriate while others are inappropriate. Appropriate debt collection practices are those that are specified in the contract and that respect the dignity and the privacy of the borrower.	You have a responsibility to treat others with respect. You have a responsibility to keep other people's private information confidential.

If any of the rights mentioned above is not respected, remember your fourth right and your fourth responsibility: You have the right to be heard and the responsibility to provide truthful and timely information. Communicate effectively and make complaints when necessary. You and your financial institution will benefit from your feedback.

How to Exercise Your Rights and Fulfill Your Responsibilities

Ask as many questions as you need answered by the loan officer.

When a lender offers you a loan, you have the right to receive all the necessary information that will enable you to make an informed financial decision. To make a good decision, you should know how to answer the following questions before agreeing to the loan. In each question below, the word in italics is defined in the parentheses after the question.

- **What is the *size of my loan?*** (The amount you borrow.)
- **What is the *loan term*?** (Period of time you have to use the loan money and repay it.)
- **What is the *interest rate* on this loan?** (Percentage of the total loan amount charged to the borrower as a fee for using the loan capital temporarily. Interest is usually charged to the borrower on a monthly basis. It can be calculated on a flat or declining basis.)
- **What *fees* do I have to pay with this loan?** (Administrative charges, such as a loan processing fee, are an additional cost of borrowing and are usually paid only once at the time the borrower takes the loan.)
- **Do I have to purchase *insurance* with this loan? If so, what is the cost?** (Loan insurance will pay back your loan if something bad happens to you. It will protect your family from this obligation and ensure that the lender gets its money back.)
- **How much is my *loan payment?*** (Amount of money you have to pay at regular intervals to re-pay your loan.)
- **What is my *repayment schedule*?** (The frequency of loan payments (e.g., weekly, bi-weekly, monthly.)
- **Does this loan require *compulsory savings?* How much do I have to deposit?** (Amount of savings that the lender requires you to deposit in your savings account every time you make a loan payment. You can only take this money out of your savings account once you have repaid your loan.)
- **Do I need a *guarantor?*** (A person or group that ensures that you will pay the loan. If you default, this person is obligated to pay your loan.)
- **Do I need to put up *collateral?*** (Assets of value, such as land or a house, that you pledge as protection for your loan. If you fail to pay, the lender can take these assets to cover the value of your loan.)
- **What are the consequences of *late payment?*** (When you fail to make the repayment by the due date, you may be charged a penalty. Sometimes penalties, in the form of a fee or increased interest charges, are added to your payment for each day of delay.)
- **What are the consequences of *default?*** (If you stop re-paying the loan completely, the institution will take the assets pledged as collateral, and may also register you with the Credit Bureau as a borrower in default.)

Calculate the total cost of a loan before accepting it.

Once you have obtained all the information above from the lender, you can use it to calculate the total cost of the product and decide if you are comfortable with its terms and conditions. It is your responsibility to analyze the product before accepting it.

The main cost associated with a loan is usually the interest charged for the use of the money. This is calculated as a percentage of the total loan amount, and you typically pay it in monthly installments as part of your loan payment. There are two different methods to calculate the interest that you will pay on a loan. The method that your financial institution uses to calculate the interest will affect the total amount of money you pay for the loan.

- **Flat method.** Using this method, interest is calculated on the full amount of the loan for its full term. That means that if you borrow $500 for six months, the interest charged to you will be calculated on $500 every month until you finish repaying the $500.
- **Declining balance method.** With this method, interest is calculated on the amount of money you still owe the institution after each payment (your loan balance). For example, with a loan of $500, the first month you will pay interest on $500, but the next month, the interest you owe will be calculated on the remaining loan balance, which will be less than the full $500. Each loan payment you make reduces the balance you owe. Thus, the interest, calculated only on the balance owed (vs. the full amount of the loan), will be less with each payment.

Some institutions also require that you take out insurance to guarantee that they can recover the amount of the loan in the event that something bad happens to you. Additionally, some lenders require that you maintain a savings balance or save an obligatory amount of money every time you make a loan payment. The total cost of the loan is made up of these charges: interest charges, administrative fees, insurance and required savings.

You can follow seven simple steps to calculate the total cost of a loan:

STEPS TO CALCULATE THE TOTAL COST OF A LOAN

Steps	*Action*	*Calculation*
Amount of loan = $1000		
1. How many payments will I have to make?	Multiply the number of months in the loan period by the number of times you have to pay per month.	No. of months in loan term = 10 No. of payments per month = 1 No. of payments over term of the loan (1X10) = 10
2. What is the amount of principle and interest due at each payment?	Add the amount of principle due at each payment and the amount of interest due at each payment.	Amount of principle/month = $100 Amount of interest/month = $20 Total amount due each month ($100+$20) = $120
3. What is the total amount owed in principle plus interest?	Multiply the number of payments (10) by the amount **obtained in Step 2** (principle plus interest owed at each payment).	Number of payments = 10 Amount due each month = 120 Total amount due over term of loan (10 x $120) = $1,200
4. What is the amount of insurance I will pay by the end of the loan term?	Multiply the number of payments you will make by the amount of insurance you have to pay **with each payment**.	Number of payments = 10 Insurance due each month = 10 Total insurance paid over term of loan (10 x $10) = $100
5. What amount of savings will I have to deposit in total?	Multiply the number of payments you will make by the amount of savings you have to deposit **with each payment**.	Number of payments = 10 Savings due each month = 10 Total savings deposited over term of loan (10 x $10) = $100

STEPS TO CALCULATE THE TOTAL COST OF A LOAN (CONTINUED)

Steps	*Action*	*Calculation*
Amount of loan = $1000		
6. What other fees do I have to pay for this loan?	Add together any additional application and/or administration fees.	Application fee = $50
7. What is the total amount I will have to pay, including the loan payment, the insurance, savings and other charges?	Add together the following amounts obtained in Step 3 Step 4 Step 5 + Step 6 Total Amount Paid	$1,200 + 100 + 100 + 50 = $ 1,450
8. How much is the total cost?	Subtract the amount of the loan from the total you obtained in Step 7.	$1,450 – $ 1,000 = $ 450
9. How much is the total cost of the loan — obligatory savings?	Subtract the amount you obtained in Step 5 **(total amount of savings)** from the total you obtained in Step 8.	$450 – $100 = $350

Know the amount of debt you can afford before signing the contract

Once you calculate the total cost of the product, analyze your capacity to repay the loan. Too much debt can cause serious problems; if you take on more debt than you can afford, you may not be able to fulfill all your responsibilities as a client of the financial institution.

How do you figure out how much debt is too much? Unfortunately, there is no simple guideline about a safe debt-to-income ratio, although 20 to 40 percent of household income is widely used. Should your household always avoid carrying more than one loan at a time? Not necessarily. There may be times that you urgently need cash to manage a crisis and expect to be able to repay it, or you may have an investment opportunity and need cash to take advantage of it.

Before taking a loan, you should consider both the costs and risks of borrowing. Answer the following questions based on your own circumstances:

- What percentage of my household and/or business budget can I afford to make available for debt repayment? Will I have enough left over to adequately cover other household expenses?
- What are the consequences if I cannot repay my loan? What is the value of the collateral (for example, a motorbike, house, etc.) I have pledged?
- Can my guarantors afford to repay my loan? How will they feel towards me if they have to do so?
- Will I be better off if I save for the intended purpose instead of borrow?

Ask the loan officer questions about the contract.

If you determine that that you do indeed have the capacity to repay the loan, you should analyze the contract before signing it. Review all the information in the contract and make sure that it corresponds to the information that was given to you during the "before the sale" stage. Remember, it is your right to receive truthful information. There are three key questions you should ask the loan officer before signing:

- **What are the obligations of the institution to me?** The obligations of the institution are to give you the loan according to the terms and conditions in the contract. Make sure these terms correspond to those that were given to you during the "before the sale" stage.
- **What are my obligations when signing the contract?** Normally, your obligations are to make the loan payment on the date stipulated in the contract.
- **What happens if I do not fulfill my obligations?** Find out what penalties you will have to pay in case you miss one payment or you make a late payment. Also, make sure you ask about the consequences for your guarantor and whether you and your guarantor will be reported to the credit bureau in case of default.

Use appropriate debt collection practices.

Failure to repay a loan is serious business. It can stir up volatile emotions and lead to harsh actions. To protect all parties from the consequences of inappropriate debt collection practices, most contracts explain the lender's policies and practices regarding collecting on bad debt. If you become the victim of inappropriate debt collection practices that are not stated in the contract (such as painting your house with graffiti, or seizing your assets), make a complaint! You have the right to be heard.

If you are a member of a solidarity group, you have a similar responsibility to avoid inappropriate practices when collecting a delinquent or defaulted loan from one of your group members. While you do have a responsibility to recover the loan, you must respect the dignity of your fellow borrowers in the process. Talk with the member to find a mutually beneficial agreement or ask your loan officer for help. Remember, everyone has the right to be treated with respect.

Make a justified complaint.

At any time, you have the right to be heard. Remember, a justified complaint helps you and it helps the institution to improve their services. Before making a complaint, ask yourself the following questions to determine if it is justified:

1. Is my complaint founded on an agreement and/or a written contract?
2. Does my complaint relate to any of my five basic rights?
3. Is my complaint based on facts?

If you are certain that yours is a justified complaint, make sure to include the five following elements when you submit it to the lending institution.

- **What.** What is the basis of the complaint (which of your rights has been violated)?
- **Who.** The person(s) involved.
- **When.** Time/day/month when the event occurred. (You should submit your complaint as soon after the event as possible and be as specific as you can about when it occurred.)
- **Where.** Where did the event take place?
- **What for.** What do you want to achieve by making the complaint? What is its objective? What answer are you looking for? Once you make a complaint, it is important to follow up and ensure that it gets answered.

Your case will be stronger if you provide evidence demonstrating the truth of your complaint. Be sure to find out what mechanisms your institution provides for filing complaints and use them! Examples of these mechanisms are as follows:

- **A suggestion box.** Some institutions provide a "suggestion box" where you can 'deposit' your written complaint.
- **Toll-free number.** Some institutions provide a toll-free number that you can use to submit your complaint by telephone.
- **Letters or Complaint Forms.** Some institutions ask you to write a letter or fill in a special form to make your complaint.
- **Oral complaints.** Most institutions give you the opportunity to complain about their services orally. In this case, it is very important that you talk to the right person. For example, go first to your loan officer. If the loan officer cannot resolve your problem, go to his or her supervisor, and so on.

Independent of the mechanism available, it is very important to follow up with the institution until you get a satisfactory response to your complaint. If you are not satisfied with the answer you receive, and you have exhausted all avenues available with the lender, you can go outside the institution. Examples of external complaint mechanisms are as follows:

- **Ombudsman.** In some countries this is an institution or the person designated by the government to watch over the fulfillment of the rights of all the people in the community.
- **Consumer Protection Offices.** These are government or nongovernment institutions that protect consumers' rights.
- **The media.** TV stations, radio stations, or newspapers.

Use communication techniques to help you exercise your rights and help you fulfill your responsibilities.

In order to exercise your rights and fulfill your responsibilities you may use the four techniques of effective communication:

- **Say what you want and need.** State clearly what you need, or what you need to get from the conversation.
- **Listen carefully to what the other person says to you.** Paying close attention to what the other person has to say may help you to explain better what you want or to ask more questions.
- **Stay focused.** Do not let the conversation go off the subject. If necessary, you may need to explain your point again.
- **Reach a conclusion or an agreement.** At the end, it is essential that all the people involved in the conversation reach an agreement. At this point, it is also important that you thank the other person for his or her time and for the conclusion reached.

The Bottom Line

As a client of a financial institution, you have five basic rights and five basic responsibilities. Exercise them wisely and everyone will benefit.

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