



## INTEREST RATE CAPS ON CREDIT EFFECTIVE FROM 6 MAY 2016

Credit providers must disclose all fees, interest and charges before any credit is given but consumers must also make an effort to determine and understand the maximum fees that are allowed and to ensure that charges levied by the credit providers are lawful before accepting the credit.

Revised caps to interest rates and fees charged on loans came into effect on 6 May 2016, reducing interest costs on personal loans and forming part of government's efforts to promote affordable access to credit and prevent reckless lending.

Caps on rates and fees must be viewed together with the affordability assessment regulations – which came into effect in September 2015 and require credit providers to more thorough when determining whether a borrower can afford a loan.

### NEW MAXIMUM INTEREST RATE LIMITS

- Mortgages (bonds): repo rate + 12% (per year)  
Current: 18.2%  
New regulations: 18%
- Credit facilities: repo rate + 14% (per year)  
Current: 23.2%  
New regulations: 20%
- Unsecured credit: repo rate + 21%  
Current: 33.2%  
New regulations: 27%

### MAXIMUM INITIATION FEES

This fee is for a calendar month and payable on a pro rate basis where the credit agreement was conducted during the course of that calendar month.

- Mortgages (bonds): R1 100 plus 10% of the amount in excess of R10 000.  
The maximum charge must never be more than R5 250.
- Credit facilities: R165 plus 10% of the amount in excess of R1 000.  
The maximum charge must never be more than R1 050.
- Unsecured credit: R165 plus 10% of the amount in excess of R1 000.  
The maximum charge must never be more than R1 050.  
Monthly account fees: R60 (was R50).

### CREDIT LIFE INSURANCE

Readers are referred to our article last month on the purpose of credit life insurance. Credit providers may require consumers to take out credit life insurance for the term of the agreement, which would settle their debt in events such as death, disability or retrenchment.

It is within your right to decline the insurance offered by the credit providers and apply for your own policy to the debt. According to the new regulations, the maximum prescribed cost of credit life insurance is:

- Mortgage agreements: R2 per R1 000 of the deferred amount (excluding cost of credit)
- Credit facilities: R4.50 per R1 000 of the deferred amount (excluding cost of credit)
- Unsecured credit transaction: R4.50 per R1 000 of the deferred amount (excluding cost of credit)
- Short term credit transaction: R4.50 per R1 000 of the deferred amount (excluding cost of credit)
- Short term credit transaction: R4.50 per R1 000 of the deferred amount (excluding cost of credit)
- Developmental credit agreements: R2.00 per R1 000 of the deferred amount (excluding cost of credit)