



## **DIRECTIVE ON ISSUANCE OF THE REPAYMENT SCHEDULE**

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### **LENDING ACTIVITIES DIRECTIVE OF NBFIRA 2024/ML/U2 FOR MICRO LENDERS**

**Effective: April 1, 2024**

## **1. Introduction**

1.1 The Non-Bank Financial Institution Regulatory Authority (“NBFIRA”) is empowered by Section 56(1)(f) of the NBFIRA Act, 2023, to give a non-bank financial institution a written direction on the manner in which the affairs of the non-bank financial institution may be conducted if it appears to the Regulatory Authority that the direction is necessary to protect the interests of clients of such non-bank financial institution and the public.

1.2 In that regard, Micro Lenders are directed to issue a Repayment Schedule to borrowers. The Directive also provides guidance on Regulation 10(1) of the NBFIRA Micro Lending Regulations, 2012.

## **2. The Current Practice**

2.1 It is observed that there is insufficient disclosure of loan information to the borrowers. There is lack of consistency in the market on the application and calculation of the total cost of credit. Consequently, this has resulted in numerous complaints lodged by borrowers on inadequate disclosure of loan information by micro lenders prior to signing of the loan agreements, as well as miscalculations and divergent views on the application and calculation of total cost of credit.

## **3. The Law**

3.1 In terms of Part I of the NBFIRA Act, 2023, a micro lender, means a person who advances money to another person, where the money does not exceed the prescribed amount, but does not include a person licensed in terms of the Banking Act or Building Societies Act.

3.2 Section 56(5) of the NBFIRA Act, 2023 stipulates that the direction referred to under subsection (1) may specify the period by which, or the period during which, such direction is to be complied with.

3.3 In terms of section 56(7) of the NBFIRA Act, 2023, a person who, without reasonable cause, fails to comply with a direction given in terms of this section commits an offence and is liable to a civil penalty not exceeding P250 000 to be imposed by the Regulatory Authority.

3.4 Regulation 10(1) of the NBFIRA Micro Lending Regulations, 2012, states that a micro lender shall provide a borrower, prior to signing a loan agreement, at the latest, with a schedule in writing, stating-

- (a) the principal amount;
- (b) the total amount payable over the repayment period;
- (c) the total cost of credit;
- (d) the repayment period;
- (e) the number of instalments and the amount of each instalment;
- (f) total monthly cost of credit rate;
- (g) a statement providing details of whether the interest rate element of the total monthly cost of credit is fixed for the repayment period or variable, and if variable, how and under which conditions it may vary;
- (h) the circumstances under which penalties would be charged, the amount of the penalty, any additional costs that may have to be paid and a method of calculating the penalty; and
- (i) the nature and amount of any insurance if required, including the name of the insurer, the amount and frequency of the premiums payable.

#### **4. Conclusion**

4.1 It is apparent that there is no clear guidance on the information to be shared with borrowers prior to signing the loan agreements. Furthermore, there are inconsistencies in the calculation of total cost of credit across the industry.

#### **5. The Directive**

5.1 Therefore, pursuant to Section 56(1)(f) of the NBFIRA Act, 2023, the Regulatory Authority hereby directs micro lenders, through this Directive, to issue Repayment Schedules to borrowers. In addition, micro lenders are directed to ensure that they comply with the requirements of Regulation 10(1) of the NBFIRA Micro Lending Regulation, 2012, as a minimum and as guided below.

### 5.1.1 Repayment Schedule

Payment Summary					
Principal Amount (BWP)	P6,000				
Monthly interest rate (Percentage)	0.02				
Administrative fee (BWP)	P500				
Other Initial fees (Specify)	P0				
Monthly Collection Charge (BWP)	P10				
Number of Instalments (Months)	6				
Total Interest Amount Payable (BWP)	P720				
Total Collection Charge (BWP)	P60				
Total Cost of Credit (BWP)	P780				
Total Amount Payable (BWP)	P6,780				
Payment Details					
Period	Principal Payment (a)	Cost of Credit		Monthly Instalment (a)+(b)+(c)	Outstanding Balance
		Interest amount (b)	Other charges (c)		
1	P1,000	P120	P10	P1,130	P5,650
2	P1,000	P120	P10	P1,130	P4,520
3	P1,000	P120	P10	P1,130	P3,390
4	P1,000	P120	P10	P1,130	P2,260
5	P1,000	P120	P10	P1,130	P1,130
6	P1,000	P120	P10	P1,130	P0

NB: The Administrative fee and Other Initial fees are deducted at loan initiation stage. These are not included as part of the principal amount.

### 5.1.2 Regulation 10(1)(a)

The Principal Amount- This is the amount borrowed and disbursed to the borrower. It excludes the Administrative Fee and Other Initial Fees.

*Example: Principal Amount= P6,000*

### 5.1.3 Regulation 10(1)(b)

Total Amount Payable = Principal Amount + Interest Amount + Other Charges

*Example: Total Amount Payable = P6,000 + P720 + P60 = P6,780*

### 5.1.4 Regulation 10(1)(c)

Total Cost of Credit = Interest Amount + Other Charges

*Example: Total Cost of Credit = P720 + P60 = P780*

### 5.1.5 Regulation 10(1)(d)

Repayment Period = Total Number of Periodic Payments

*Example: Repayment Period = 6 Months*

### 5.1.6 Regulation 10(1)(e)

(a) Number of Instalments = Total Number of Monthly Instalments

(b) Monthly instalment = Monthly Instalments (Principal + Cost of Credit Amount)

*Example: (i) Number of Instalments = 6 Instalments*

*(ii) Monthly Instalment = P1,000 + P130 = P1,130*

### 5.1.7 Regulation 10(1)(f)

Total Cost of Credit Rate = Interest Rate + Rates of Other Charges

*Example: Total Cost of Credit Rate =  $(720/6000)*100 + (60/6000)*100 = 13\%$*

### 5.1.8 Regulation 10(1)(g)

The interest rate is expressed in terms of the simple interest only, as outlined in the Micro Lending Regulations. It is calculated as  $R=I/P_t *100$ , where I is the total interest paid, P is the principal amount and t is the period of time the loan is outstanding.

*Example: Six Months Interest Rate =  $(720/6000)*100 = 12\%$*

### 5.1.9 Regulation 10(1)(h)

Penalty must be charged at default only. The total of the penalty amount and additional costs, excluding the identifiable legal fees shall not exceed five percent of the outstanding principal amount per month with a maximum not exceeding the outstanding principal amount as outlined in Regulation 10(2).

*Example: If client defaults at month 4, Outstanding Balance = P3,390 and Outstanding Principal = P3,000.*

*(a) Maximum Penalty Amount (Month 4) = 5%\*Outstanding Principal Amount=  
5%\* P3,000= P150*

*(b) Maximum Penalty Amount (Month 5)= 5%\*Outstanding Principal Amount=  
5%\*P3,000= P150.*

*The sum of the monthly penalty amount must not exceed P3,000. If client resumes paying on the 6<sup>th</sup> month, P130 cost of credit is applied until the loan is fully paid.*

#### 5.1.10 Regulation 10(1)(i)

If the insurance cover is required, it must be included in the Repayment Schedule. The insurance amount, name of the insurer, amount and frequency of premium payments must be stated in the Repayment Schedule.

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