



DIRECTIVE ON ISSUANCE OF THE REPAYMENT SCHEDULE

LENDING ACTIVITIES DIRECTIVE OF NBFIRA 2024/PS/FC/LC/U3 FOR PAWNSHOPS, FINANCE AND LEASING COMPANIES

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, Pawnshops, Finance and Leasing Companies are directed to issue a Repayment Schedule to borrowers.

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 regulated entities 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-

Pawnshop, means a person licensed to operate a business that-

(a) advances money on personal property that is physically delivered to him or her as security for the money advanced or advances money upon goods, wares or merchandise pledged, stored or deposited as security;

(b) purchases tangible personal property to be left in pawn on the condition that it may be redeemed by the seller for a fixed price within a fixed period of time.

Finance company, mean a body corporate that advances loans, invoice discounting, purchase order financing, factoring, debt financing, debt financing, debt administration, project finance, loan syndication or such other facility identified as a credit facility, availed by the finance company to any client, but does not include a bank or a deposit taking institutions.

Leasing company, means a body corporate which engages in a contract with a person using the equipment or machinery of the leasing company, and paying an agreed fee for such use, but does not include a bank or a deposit taking institution.

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 Paragraph 6.1 of the General Terms and Conditions for Lending Business other than Micro-Lending (“General Terms & Condition”) states that the maximum cost of credit (including interest, administration fees, arrears penalty interest etc) but excluding insurance premiums shall not exceed the total principal amount. In addition, paragraph 6.2 states that penalties should not exceed five percent of the outstanding principal amount per month, with a maximum not exceeding the outstanding principal amount.

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 Pawnshops, Finance and Leasing Companies through this Directive, to issue Repayment Schedules to borrowers.

5.2 Pawnshops, Finance and Leasing Companies are also directed to comply with paragraph 6.1 and 6.2 of the General Terms & Conditions when calculating maximum cost of credit and penalties, respectively.

5.2.1 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	Outstanding Balance
		Interest amount (b)	Other charges (c)	(a)+(b)+(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.

5.2.2 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

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

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

5.2.4 Paragraph 6.1 of the General Terms & Conditions.

Total Cost of Credit = Interest Amount + Other Charges

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

5.2.5 Repayment Period = Total Number of Periodic Payments

Example: Repayment Period = 6 Months

5.2.6 (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

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

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

5.2.8 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 = $(720/6000)*100 = 12\%$*

5.2.9 Paragraph 6.2 of the General Terms & Conditions.

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.

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

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

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

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

5.2.10 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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