Media Release

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Affordability Assessment Regulations – what they mean to the consumer!

The National Credit Amendment Act (NCAA) introduced affordability assessment regulations with an aim of assisting credit providers to effectively assess the consumer's ability to repay credit and to also protect consumers from reckless lending.

These regulations require credit providers to verify consumers' income before granting credit, says Louisa Hetisani, Manager: Compliance at the National Credit Regulator (NCR).

Prior to these regulations, the National Credit Act (NCA) was not prescriptive on how affordability assessments should be conducted. "The regulations apply to current, prospective, joint consumers, credit providers and all credit agreements to which the National Credit Act applies with exceptions to developmental credit, school /student loans, public interest credit agreements, pawn transactions, incidental credit agreements, emergency loans, temporary increases of a credit limit under a credit facility, unilateral credit limit increases under a credit facility and the FLISP subsidy linked mortgages", explains Hetisani.

Credit providers must take practical steps to assess the prospective consumer's discretionary income. For those consumers who receive salaries, it simply means that the credit provider should request the latest three (3) payslips or bank statements showing the latest three salary deposits and for those consumers who don't receive salaries, the credit provider should request the latest three (3) documented proof of income or latest three (3) months bank statements.

However, for self-employed, informally employed consumers or consumers who don't receive a payslip, the credit provider should request for three (3) months bank statements or the latest financial statements.

Where there are material variances on a consumer's income, the credit provider should use an average gross income for at least three (3) pay periods.

"It is imperative for consumers to disclose accurately to the credit provider all their financial obligations and to also provide the credit provider with authentic documentation". "If consumers fail to truthfully disclose any information to credit providers, they may lose protection offered by the NCA", stresses Hetisani.

The credit provider must take practical steps to assess whether the consumer has the financial means and prospects to pay the proposed new credit instalment. A consumer's discretionary income is calculated by taking the gross income and subtracting tax, unemployment insurance fund, maintenance payments and all other payment obligations. The credit provider is required to consider all debt repayment obligations that the consumer has as reflected by a registered credit bureau.

The affordability regulations introduce the minimum living expense norms table which serves as a guide for calculating consumers living expenses. This table is based on the gross monthly income of the consumer. “In practice, the NCR has observed that some consumers tend to under declare their monthly living expenses in order to improve their chances of qualifying for a loan” says Hetisani. The minimum living expense norms table aims to address this challenge. In instances where the consumer’s declared minimum expenses are lower than those in the NCAA, the credit provider should make the consumer complete a questionnaire provided in the National Credit Amendment Act.

In instances where the consumer is substituting one credit agreement for another such as for consolidation loans, the credit provider is required to take practical steps to ensure that the new loan is used for its intended purpose.

These regulations have allowed for the disclosure of the credit cost multiple which should be disclosed in the pre-agreement statement and quotation. Credit insurance should also be shown in the total cost of credit, concludes Hetisani.

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