PENSION BACKED LENDING GUIDELINES

National Credit Regulator

002/2019

12 APRIL 2019

“B”

INTRODUCTION

The Credit Industry Forum (CIF) The Credit Industry Forum (CIF) identified operational difficulties by the credit industry when processing applications for debt review where Pension Backed Loan (PBL) is included in a consumer’s debt portfolio.

Following an intensive review process of the implementation difficulties of PBL and consultations with relevant authorities, the National Credit Regulator (“the NCR) is pleased to announce that the paper developed by the CIF with proposed operational solutions has been signed off and issued as guidelines to be applied by all industry participants effective immediately.

Please note that the amendments to the NCA, relevant legislation, its regulations or case law supersede provisions made in this guidelines and will when necessary be amended.

THE PRODUCT-PBL

- Pension Backed Loan is defined as an alternative form of housing finance where the loan is secured by way of the consumer’s retirement fund or pension benefits.
- Given the nature of the agreement which complies with the definition of a credit agreement it qualifies to be included under debt review.
- Some of the contributing factors to these operational difficulties are that for PBL the repayment of the loan is conducted via a salary deduction and it is a contract between 4 parties and not the usual debtor /creditor contract.
- These parties include the debtor (consumer), the pension fund, the employer and the credit provider.
- It is therefore common that the usual process of cancelling the “debit order” and making a proposal to extend the term and reduce interest rate, etc. is not always practical.
- Some of the difficulties include the inability to cancel the salary deduction as the repayment is via a contractual agreement for a salary deduction which cannot be terminated or deferred.
- In addition, while a marginal term extension could be considered, contractually the loan must be repaid by retirement date. Therefore such extension would be minimal.

GUIDELINES

- The CIF in its assessment considered that whereas the salary deduction for PBL under debt review may continue, to provide a degree of relief, the debt counsellor may propose reductions in fees and interest rate to a level in line with a secured mortgage agreement viz repo plus 2% and an extension of term up to retirement date.
- As is common with many credit providers it is hoped that restructure of these arrangements would take place on agreement to the proposal by the credit provider.