



UNDERSTANDING AFFORDABILITY

A QUICK REFERENCE GUIDE



Purpose

The Understanding Affordability learning guide is meant to serve as a quick reference tool for all Finbond Mutual Bank employees and representatives. It is not an all encompassing manual and does not replace the company's Credit Policy.

The purpose of this document is to educate the employee on the important elements of the Affordability assessment and the internal rules and safety protocols of Finbond Mutual Bank. This quick reference guide should be studied in conjunction with the Finbond Mutual Bank Credit Policy.

Learning Outcome

At the end of this learning guide, you will:

- ▷ Understand the importance of the Affordability assessment
- ▷ Understand the Affordability calculation
- ▷ Be able to make better lending decisions



Introduction and Background

The availability of credit is one of the cornerstones of modern capitalism that lubricates the economy and promotes commercial activity. However, it also enables people to spend money they don't have, spend more money than they earn, use credit lines for ordinary purchases, use credit even when they have cash and use debt to pay off debt. The use of credit and poor money management skills often leads people into a situation of over-indebtedness where they are unable to service credit agreements.

Up until 2005, the regulation of the credit lending was a largely overlooked area of the financial services industry. There were no guidelines or specific regulations in place which governed how a credit provider determined a consumer's credit worthiness and their ability to repay a debt. As a result, many South Africans were living well beyond their means, drowning in debt they could not afford to repay.

This led to the establishment of the National Credit Act no. 34 of 2005.

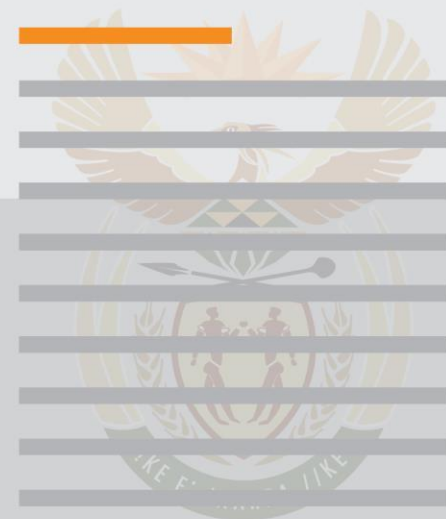


The National Credit Act 34 of 2005

The National Credit Act (NCA) was effectively the first credit enactment (legislation) in South Africa that made an assessment of affordability compulsory before credit can be extended to a consumer. The NCA was designed to protect the consumer of credit services and to make credit and banking services more accessible to the marketplace. The principal objectives of the act were to:

- ▷ promote a fair and non-discriminating marketplace for the access of credit
- ▷ to prohibit unfair credit lending practices
- ▷ to promote responsible credit-granting practices by credit providers
- ▷ to provide for the general regulation of consumer credit and improved standards of consumer information
- ▷ to promote black economic empowerment and ownership within the consumer credit industry
- ▷ to provide for debt restructuring in cases of over-indebtedness
- ▷ to establish national norms and standards relating to consumer credit
- ▷ To establish the National Credit Regulator and to establish the National Consumer Tribunal

NATIONAL CREDIT ACT



Important Role-players

- NCR – *National Credit Regulator. The NCR is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring enforcement of the Act.*
- NCT – *The National Consumer Tribunal hears cases of non compliance with the Act, issues fines and provides redress to consumers. Consumers may appeal to the Tribunal against any decision made by the National Credit Regulator. The Tribunal is a separate institution that is independent of the NCR.*
- FSP – *Financial Service Provider*
Credit Provider *i.e. Finbond Mutual Bank*
- CONSUMER – *For the purposes of the NCA, a consumer is the party/person to whom credit is granted under a credit or instalment agreement.*



The NCA's Role in Affordability

As mentioned previously, the NCA was the first legislation in South Africa that made it compulsory for credit providers to first conduct an affordability assessment before extending credit to a consumer. The NCA established a number of basic rights that the consumer has with regard to the credit market. In the past, some consumers especially the illiterate were being exploited by unscrupulous operators who through complicated credit agreements, had an unfair advantage over the consumer.



Since the South African workforce is made up of predominantly low income earners, many consumers did not have equal access to credit other than that provided by micro-lenders. The micro-lenders were over-pricing debt repayments and capitalizing on this vulnerable market which resulted in a large number of consumers being heavily over-indebted and unable to service their monthly debt repayments.

Although the NCA required a fair and objective affordability assessment of each consumer, it did not prescribe how that assessment should be carried out and left the affordability assessment in the hands of the credit provider.



The NCA's Role in Affordability

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Unfortunately, this meant that credit providers could still assess a consumer's affordability according to their interpretation of the act. Although the consumer of credit products now had more rights than before, it did solve the problem of over-indebtedness due to reckless lending.

The NCA was amended under the National Credit Amendment Act 19 of 2014 and came into full force and effect on 13 March 2015. The amendment to the act now provided clearer guidelines for how a consumer's affordability should be conducted and introduced important provisions such as minimum expense calculations, income verification via bank statements / payslips and the requirement for all monthly debt repayment obligations in terms of credit agreements as reflected on the consumer's credit profile held by a registered credit bureau.

The amendment also clarifies important definitions and specifies what is considered applicable under those definitions.

i.e. GROSS INCOME



Rights of the Consumer

Under the NCA, the consumer is afforded the following rights:

- ▷ The right to apply for credit, free of discrimination against the borrower
- ▷ The right to plain and understandable language being used in the credit agreements
- ▷ The right to receive a copy of the credit agreement and a replacement copy when one is requested
- ▷ The right to privacy regarding your personal information
- ▷ The right to redress
- ▷ The right to a free Credit Bureau record once a year
- ▷ The right to assistance by a Debt Counsellor to assist over-indebted consumers with restructuring debts to prevent unnecessary forfeiture of assets
- ▷ The right to reasons why the credit application may have been refused
- ▷ Access to pre-agreement documentation prior to any credit transaction. This document must contain certain prescribed information including the interest rate charged, the instalment repayment period and the monthly repayment amount



The Credit Policy

The NCA provides a framework for all credit providers to operate within, however each provider must establish its own internal rules as a guideline for all employees. These “rules” are referred to as the Credit Policy. It is important to note that the Credit Policy may NOT contravene any provisions of the National Credit Act.

The Credit Policy is a clear and written set of guidelines that the company uses to determine whether or not to do business with a consumer. A few of the rules stipulated in the Credit Policy are:

- ▷ the terms and conditions for supplying credit
- ▷ the customer qualification criteria
- ▷ the administrative requirements of applying for credit
- ▷ the type of consumers the company is authorized to provide credit to

The Credit Policy therefore is a vitally important document as it contains the rules used to determine a fair and objective affordability assessment for all consumers, as required by the NCA.

The conditions of the Credit Policy must be fully met in all cases where credit is applied for. Failure to comply with the terms and conditions of the Credit Policy may result in a direct contravention of the NCA.

Non-compliance could have severe consequences for the individual as well as the company and could result in a hefty fine or the suspension/rescission of the company's operating license.

Affordability Rules

Section C of Finbond Mutual Bank's Credit Policy contains the following Affordability rules, in summary:

- I. The consumer's average NETT income for the latest three (3) months (as per the payslip and bank statement) should be reflected as income on the affordability. The Area Manager must be consulted for income types other than salaried income.
- II. All regular debit orders as reflected on the bank statement must be shown as expenses.
- III. All other active loan instalments as shown on the NLR/Compuscan Summary Report must be reflected as expenses. Be careful not to duplicate instalments already reflected on the bank statement.
- IV. Bank statements must be carefully inspected with expenses shown on the Delfin Affordability Calculation. Only original bank statements with bank stamp must be used.
- V. Customers must be asked about ALL expenses.

For the loan to be granted, the remaining credit limit according to the affordability must remain positive and must not exceed the loan instalment.



Affordability Checks

The following checks need to be done when conducting an affordability assessment:

Pay-slip checks

1. Confirm the company details on the pay-slip
2. Determine the Gross Salary earnings – *NO Bonuses or commissions may be taken into account*
3. Deductions on Gross Salary – *Maintenance, housing, court order deductions, travel costs etc.*
4. Check that the Nett Salary indicated on the payslip corresponds to the salary that was paid/transferred into the client's bank account as indicated on the Bank Statement

Bank Statement checks

- ☐ Salary Transfer – (must be the same as the Nett Income as indicated on the payslip provided)
- ☐ The Bank Statement must show the last 3 month's deposited salaries or wages
- ☐ Monthly Debit Orders
- ☐ Monthly Airtime purchases
- ☐ Monthly Bank Charges
- ☐ Regular transfers (Stokvel, Maintenance, savings, etc.)
- ☐ Inspect the statement for possible food purchases to ensure the correct amount for groceries are deducted.
- ☐ Petrol Station deductions, this could help with the transport costs
- ☐ Rental deductions
- ☐ School fees

Income Definitions

GROSS INCOME

Is the employees total income before tax and deductions.

NETT INCOME

Is the income an employee takes home after tax and other deductions. It is important to use the client's Nett Income when calculating the client's affordability.

DEDUCTIONS

Deductions are amounts that are deducted upfront from an employees salary, such as income tax, pension fund, medical aid, UIF, etc...

DISPOSABLE INCOME

Disposable income is the amount of money an individual has left over to spend as they wish, after all their other expenses have been paid.



Income

It is extremely important to understand the relationship between a consumer's disposable income and their ability to repay their debt. Credit providers have the responsibility to correctly assess whether a consumer's disposable income (remaining income after all expenses have been deducted) is sufficient in order to service a particular debt. If a credit provider grants credit to a consumer which exceeds their ability to repay, the credit provider could be charged with reckless lending.

It is therefore critical to understand a consumer's income. The NCA requires that an average income calculation over three (3) recent months be used for the affordability assessment but this poses a possible problem. It is possible that during one (1) of these months the consumer received an additional payment other than their salary which greatly inflated their income.

This in turn will inflate the average figure used to calculate the consumer's affordability and may result in the consumer receiving a larger credit facility than they ordinarily would.

Let's look at a practical example.



Income

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This is a snapshot over a period of three (3) regular month's into Thandeka's financials:

▷ Salary	R 5000.00
▷ <u>minus</u> Deductions	R 1500.00
▷ NETT INCOME	<u>R 3500.00</u>

Thandeka's average NETT income will therefore be R 3500.00 over a period of three (3) months $[3500.00 \times 3] / 3$.

▷ <u>minus</u> Expenses	R 1500.00
▷ <u>minus</u> Other Loans	R 1000.00
▷ DISPOSABLE INCOME	<u>R 1000.00</u>

Thandeka can therefore afford to service a credit instalment or loan costing no more than R 1000.00 pm during a regular month.

Now let's investigate how this picture changes in the following example:



Income

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Thandeka received a once-off performance bonus during one (1) of the three months:

▷ Salary	R 5000.00
▷ <i>plus</i> Performance Bonus	R 3000.00
▷ <u>minus</u> Deductions	R 2000.00
▷ NETT INCOME	<u>R 6000.00</u>

Taking into account Thandeka's NETT income of R 3500.00 for the other two (2) month's, her average NETT income will now work out to R 4333.33 $([3500+3500+6000] / 3)$.

▷ <u>minus</u> Expenses	R 1500.00
▷ <u>minus</u> Other Loans	R 1000.00
▷ DISPOSABLE INCOME	<u>R 1833.33</u>

According to this assessment, Thandeka can now afford a loan instalment of R1 833.33 pm! Remember that during a normal month Thandeka can only afford to pay back R 1000.00 pm. If we give Thandeka a loan with an instalment greater than R 1000.00, she will NOT be able to repay it.



Income

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As illustrated, it is crucial to base the affordability assessment on a consumer's **regular** income. Therefore any amounts which the consumer does NOT receive consistently every month should be excluded from their affordability calculation. The general rule of thumb for the inclusion of any income other than salary is if the additional income is consistent for at least three (3) recent months and is reasonably expected to continue thereafter, it may be included as regular income as long as it reflects on the consumer's payslip and/or bank statement.

Additional income may include:

- ▷ Rent received from property
- ▷ Investment income
- ▷ Allowance
- ▷ Maintenance / Grant / Pension
- ▷ Overtime
- ▷ Second job

IMPORTANT!

PLEASE CONTACT YOUR AREA MANAGER FOR ALL ADDITIONAL INCOME AMOUNTS OTHER THAN SALARY. INCOME THAT MAY BE ACCEPTED MAY DIFFER FROM COMPANY TO COMPANY IS SUBJECT TO THE COMPANY'S CREDIT RULES AND POLICIES.

YOUR AREA MANAGER WILL GUIDE YOU AS TO WHICH ADDITIONAL INCOME TYPES ARE ACCEPTABLE.

Pay-slip Example

Pay-slip checks

1. Confirm the company details that appear on the client's latest payslip

PicknPay Inspired by you	Co. Name	SANOBEL 185 PTY LTD	Co. Address	Cnr Baartman & Eeufes S Bethlehem Bethlehem 9700	Payment Dt	31/05/2019
	Emp Code	133			Dt Engaged	01/06/2015
	Emp Name	LS TSHABALA				
	Emp Address	Rite Park Centre 2 Baartman & Eeufesroad Bethlehem Centre Bet 9701	Paypoint	picknpay minima	Bank Name	BIDVEST BANK
			Job Title	General Assista	Account No	12014368301
					Branch Code	462005

1 Check the company details

2. Gross Salary earnings – *NO Bonuses or commissions may be used.*

EARNINGS			DEDUCTIONS			Closing Balance
Description	Hrs/Units	Amount	Description	Hrs/Units	Amount	
Salary	155.00	3100.00	U.I.F.		43.48	
Sunday	22.00	660.00	Garnishee		400.00	
Public Holiday	6.00	200.00	Transport		258.06	
Night allowance		84.00				
ALLOWANCE		258.06				
FUNERAL PLAN		45.75				

2 Gross Salary (Total salary before tax and deductions)

Pay-slip Example

Pay-slip checks

3. Deduction on Gross Salary – *Maintenance, housing, court order deductions, travel costs etc.*

4. Nett Salary corresponds to Bank Statement transfer

EARNINGS			DEDUCTIONS		Closing Balance
Description	Hrs/Units	Amount	Description	Hrs/Units	
Salary	155.00	3100.00	U.I.F.		43.48
Sunday	22.00	660.00	Garnishee		400.00
Public Holiday	5.00	200.00	Transport		268.08
Night allowance		84.00			
ALLOWANCE		258.06			
FUNERAL PLAN		45.75			
Total Earnings			Total Deductions		
4347.81			701.64		

3 Check the total deductions and ensure that they are valid deductions and that the individual amounts add up to the Total Deductions amount.

4 Ensure that the Nett Pay is correct if you deduct the Total Deductions from the Gross Income

NETT PAY	3,646.27
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Income

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Common types of additional income that should be EXCLUDED from the affordability assessment includes but is not limited to:

- ▷ Bonus
- ▷ Incentives
- ▷ Commission
- ▷ Cash prizes / winnings
- ▷ Gifts
- ▷ Sale of goods

In summary, all types of income which is non-recurring must be excluded from an affordability assessment.




Expenses

The under-declaration of expenses in part led to the amendment of the NCA in 2014. The National Credit Amendment Act 19 of 2014 introduced the rule of a minimum expense calculation for various ranges of income. The aim of the minimum expense calculation was to counteract the under-declaration of expenses and protect consumers from over-indebtedness. If a consumer's declared expenses are less than the minimum expenses calculated under the National Credit Amendment Act 19 of 2014, the consumer's expense declaration is ignored and the affordability is calculated with the minimum expense amount.

- Living expenses

☐ Affordability -1,070.00 OR ☒ minimum -1,315.18



THE MINIMUM EXPENSE CALCULATION IS A SAFETY MEASURE. IT IS FOR THE CONSUMER'S PROTECTION AS WELL AS THE COMPANY. UNDER NO CIRCUMSTANCES SHOULD YOU OVERRIDE THIS FIELD!



Expenses - Due Diligence

The credit provider has a responsibility to perform a proper due diligence of the consumer's declared expense. Although a safety mechanism exists in the minimum expense calculation, this does not prevent a consumer from under-declaring their expenses, should the expenses exceed the minimum calculation.

Therefore it is important to use the bank statement to verify the consumer's declaration. The consumer's declaration must also make sense. Is it likely for someone to earn R 5000.00pm but only have R 500.00 worth of expenses?

When inspecting the bank statement, compare the transactions with the consumer's declaration. If the consumer declares R 500.00 for monthly groceries but you notice transactions from Pick n Pay / Checkers, etc. totaling to R 1500.00, it is your responsibility to question the consumer's declaration in a polite manner.

The consumer's reasons should then be clearly added as NOTES next to the expenses amount.



Bank Statement Examples

Bank Statement checks

- ☐ Salary Transfer – (must be the same as the payslip provided) (3month salary deposited)
- ☐ Monthly Debit Orders
- ☐ Monthly Airtime purchases
- ☐ Monthly Bank Charges
- ☐ Regular transfers (Stokvel, Maintenance, savings, etc.)
- ☐ Inspect the statement for possible food purchases to ensure the correct amount for groceries are deducted.
- ☐ Petrol Station deductions, this could help with the transport costs
- ☐ Rental deductions
- ☐ School fees

24hr Client Care Centre 0860 10 20 43 E ClientCare@capitecbank.co.za
capitecbank.co.za

One of the Global One money management products or services

Savings Account Statement



Tax Invoice

VAT Registration Number
4680173723

From Date: 26/09/2019
To Date: 26/10/2019
Print Date: 26/10/2019

Account Number: 1234567890

Capitec Bank Limited
1 Quantum Street
Techno Park
Stellenbosch
7600

Personal Details

Ms Cheryl Crow
1546 Park Road
Johannesburg
6001

Capitec Bank

26/10/2019
Branch: 470010
Device: 4016

	Posting Date	Transaction Date	Description	Money In (R)	Money Out (R)	Balance (R)
1.	30/09/2019	30/09/2019	Payment Received: Sapolisile 90 Pay4429010 00470salary.1671559760	53011.21		53033.23
	30/09/2019	30/09/2019	Np-finboa20000a175895697190930aedo Dr		-1855.39	51177.84
	30/09/2019	30/09/2019	1670572363			
	30/09/2019	30/09/2019	*Debit Order Fee		-3.50	51174.14
2.	30/09/2019	30/09/2019	Capitec 60016485050001190930naedo Card1875563708		-893.39	50280.75
	30/09/2019	30/09/2019	Capitec 16153035860001 190930		-4586.08	45694.67
	30/09/2019	30/09/2019	Np-finboa20000a176416003190927aedo Dr		-1278.35	44416.32
	30/09/2019	30/09/2019	1668482927			
	30/09/2019	30/09/2019	*Debit Order Fee		-3.50	44412.82
3.	30/09/2019	30/09/2019	Capfin 29621435-001190927naedoUr		-1332.79	43080.03
	30/09/2019	30/09/2019	1670947984			
	30/09/2019	30/09/2019	*Debit Order Fee		-3.50	43076.53
	30/09/2019	30/09/2019	Np-finboa20000a177587865190927aedo Dr		-2869.30	40207.23
	30/09/2019	30/09/2019	1668476617			
	30/09/2019	30/09/2019	*Debit Order Fee		-3.50	40203.73
	30/09/2019	30/09/2019	Capitec 16279812070001 190926		-2411.93	37791.80
	30/09/2019	30/09/2019	Capitec 16319917770001 190926		-300.54	37491.26
4.	30/09/2019	30/09/2019	Vodacom 0322774609 15271206 Transfer		-958.47	36532.79
	30/09/2019	30/09/2019	1673287685			
	30/09/2019	30/09/2019	*Debit Order Fee		-3.50	36529.29
	30/09/2019	30/09/2019	Senekal Bande 76356 Senekal (Card 8102)		-1040.00	35489.29
	30/09/2019	30/09/2019	*Branch Change Daily Card Limit Fee		-6.00	35483.29
	30/09/2019	30/09/2019	Cash Withdrawal Dnr Senekal (Card 3460)		-2000.00	33483.29
	30/09/2019	30/09/2019	*ATM Cash Withdrawal Fee		-12.00	33471.29
	30/09/2019	30/09/2019	Cash Withdrawal Dnr Senekal (Card 3460)		-3000.00	30471.29
	30/09/2019	30/09/2019	*ATM Cash Withdrawal Fee		-18.00	30453.29
	30/09/2019	30/09/2019	Correction: Cash Withdrawal (Card 3460)	3000.00		33453.29
	30/09/2019	30/09/2019	*Correction: ATM Cash Withdrawal Fee	18.00		33471.29
	30/09/2019	30/09/2019	ATM Cash Withdrawal Absa Senekal Branch 2 (Card 3460)		-2000.00	31471.29
	30/09/2019	30/09/2019	*Cash Withdrawal Fee (ATM)		-16.00	31455.29
	30/09/2019	30/09/2019	ATM Cash Withdrawal Absa Senekal Branch 2 (Card 3460)		-1000.00	30455.29
	30/09/2019	30/09/2019	*Cash Withdrawal Fee (ATM)		-8.00	30447.29
	30/09/2019	30/09/2019	ATM Cash Withdrawal Absa Senekal Branch 2 (Card 3468)		-2000.00	28447.29
	30/09/2019	30/09/2019	*Cash Withdrawal Fee (ATM)		-16.00	28431.29
	30/09/2019	30/09/2019	ATM Cash Withdrawal Absa Senekal Branch 2 (Card 3468)		-2000.00	26431.29
	30/09/2019	30/09/2019	*Cash Withdrawal Fee (ATM)		-16.00	26415.29
	30/09/2019	30/09/2019	Interest Received	12.21		26427.50
	30/09/2019	30/09/2019	*SMS Notification Fee		-8.40	26419.10
	30/09/2019	30/09/2019	*Monthly Account Admin Fee		-5.00	26414.10
	01/10/2019	01/10/2019	ATM Cash Withdrawal A100 35 Dreyer Str		-1150.00	25264.10

1. Bank Information Checks

On the top part of the Bank Statement, do the following checks:

24hr Client Care Centre 0860 10 20 43 E ClientCare@capitecbank.co.za
capitecbank.co.za

One of the Global One money management products or services

Savings Account Statement

1 Check that the Bank Statement has an official Bank Stamp on it

Capitec Bank

26/10/2019
Branch: 470010
Device: 4016

3 Check that the personal details of the client are correct

2 Check that the bank account number is correct and in line with account numbers issued for the specific bank

Capitec Bank Limited
1 Quantum Street
Techno Park
Stellenbosch
7600

Personal Details
Mr Daniel Wilhelmus Van Deventer
Langer Street 03
Senekal - 9600

Tax Invoice
VAT Registration Number
4680173723

From Date: 26/09/2019
To Date: 26/10/2019
Print Date: 26/10/2019

Account Number: 1354638997

Examples of information that should be checked on the Bank Statement

1. Salary Deposit

	Date			
1.	30/09/2019	30/09/2019	Payment Received: Sapolisie 90 Pay4429010 00470salary 1671559760	53011.21 53033.23
	30/09/2019	30/09/2019	Np-finboa20000a175895697190930aedo Dr 1670572363	-1855.59 51177.64
	30/09/2019	30/09/2019	*Debit Order Fee	-3.50 51174.14

2. Capitec debit order

2.	30/09/2019	30/09/2019	Capitec 60016485050001190930naedo Card1675563708	-893.39 50280.75
	30/09/2019	30/09/2019	Capitec 16153035860001 190930	-4586.08 45694.67
	30/09/2019	30/09/2019	Np-finboa20000a176416003190927aedo Dr 1668482927	-1278.35 44416.32
	30/09/2019	30/09/2019	*Debit Order Fee	-3.50 44412.82

3. Capfin Debit Order

3.	30/09/2019	30/09/2019	Capfin 29621435-001190927naedo Dr 1670947984	-1332.79 43080.03
	30/09/2019	30/09/2019	*Debit Order Fee	-3.50 43076.53
	30/09/2019	30/09/2019	Np-finboa20000a177587865190927aedo Dr 1668476617	-2869.30 40207.23
	30/09/2019	30/09/2019	*Debit Order Fee	-3.50 40203.73
	30/09/2019	30/09/2019	Capitec 16279812070001 190926	-2411.93 37791.80
	30/09/2019	30/09/2019	Capitec 16319917770001 190926	-300.54 37491.26

4. Cellphone Contract debit order

4.	30/09/2019	30/09/2019	Vodacom 0322774609 15271206 Transfer 1673287685	-958.47 36532.79
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Important Points

- ▶ The National Credit Act no. 34 of 2005 was introduced to protect the consumer from over-indebtedness by making compulsory the fair and objective assessment of a consumer's affordability before granting credit.
- ▶ It is important to distinguish between types of income in order to prevent inflating the consumer's income. This will result in a bad loan, and over-indebted consumer and a possible charge of reckless lending against the company.
- ▶ The minimum expense calculation is a requirement under the National Credit Amendment Act 19 of 2014 and should not be overridden under any circumstances.
- ▶ Due diligence must be performed on the consumer's bank statement to verify the declared expenses. Clear notes must be provided next to the expense amount with the consumer's reasons.
- ▶ Consult your Regional Trainer and Area Manager for affordability queries.





It's my bank!

Thank you!

Please contact your
Regional Trainer for
additional assistance.

