

Borrowing from a Microlender

Many people start off by borrowing a few hundred rand. They have to pay interest, so they end up repaying far more than they borrowed — and then they have less to spend on day-to-day expenses. As a result, they often take *another* loan to pay for the first one — and their repayments get even higher! Soon, they find themselves borrowing money just to put food on the table.

Microlending facts

- A microloan is a loan **smaller than R10 000** from a bank or microlender which must be repaid within **36 months**.
- Many lenders require you to sign consent to a **deduction from your salary** when you apply for a loan. There are strict rules controlling this, but you still have to be **careful**.
- **Interest rates** for microloans are not controlled by the Usury Act, and very high rates are still common - **much higher than bank rates**. Unfortunately, many people who borrow from microlenders take out new loans to pay off old ones. This is very **dangerous!**
- Debt collectors who work for microlenders sometimes use **threats** and even **violence** to collect money from borrowers.

This is illegal!

Our rights and our responsibilities

By law, microlenders must:

- **register with the Micro Finance Regulatory Council** if they charge a rate of interest higher than the maximum rate for normal loans
- give you a **copy of your contract**
- let you **cancel a contract within three days** (the "cooling off" period)
- let you **make early payments** (pay off the loan more quickly).

They may not:

- **keep a borrower's ATM card or ID book**, or ask for a **PIN number**
- charge more than the specified **maximum interest rate** (unless they are registered)
- claim they are registered when they are not. So check for their registration certificate in the window or on the wall.

When we borrow from a microlender, *we* also have responsibilities. We must :

- make sure we can **afford** the loan repayments and **be honest** about our **ability to pay** them
- insist on a **contract** which shows the **interest rate** clearly and sets out a **payment plan**
- **never sign any blank forms**
- get good **advice** before we borrow money
- **shop around** for the lowest interest rate.

Micro Finance Regulatory Council

The **Micro Finance Regulatory Council (MFRC)** is an organisation which requires certain **standards** of performance from its members, including **registered microlenders**. The MFRC has **rules** to protect borrowers from dishonest microlenders and investigates **complaints** about them. This is why it is important to deal **only with registered** microlenders.

