

Dti welcomes judgment on interest rate regulations

Trade and Industry Minister Rob Davies has welcomed the Supreme Court of Appeal's decision to dismiss the application of Micro Finance South Africa (MFSA) challenging the regulations reducing the interest rate on short-term loans.



Rob Davies, minister of trade and industry

In 2016, MFSA challenged the regulations in the High Court, which were introduced by the Department of Trade and Industry (dti) and the National Credit Regulator (NCR) to provide some relief for over-indebted consumers.

These regulations reduced the interest rate on a short-term loan from 5% per month on the first loan to 3% per month on subsequent loans in a calendar year.

MFSA argued that the reduction of the interest rate would, amongst others, drive micro-lenders out of business and consumers to loan sharks.

The High Court originally ruled in favour of the representative body of registered and legal micro finance credit providers in South Africa and the dti appealed the judgment to the Supreme Court of Appeal (SCA).

The SCA granted the dti leave to appeal the judgment to the full bench of the High Court.

The full bench ruled in favour of the dti and the NCR, and accepted that the reasons advanced by the department for the

reduction of the interest rate were prudent and rational.

The court found that the regulations should be allowed to stand so that millions of consumers of short-term loans obtain relief from higher interest rates.

“The interest rate was reduced in order to reduce the cost of credit for consumers, prevent consumers from falling into a debt spiral or trap, prevent the roll-over of short-term loans, and curb the over-indebtedness of consumers,” said Davies on Sunday.

The MFSA applied for special leave to appeal the judgment to the SCA, but the SCA dismissed the MFSA’s application for special leave to appeal.

“The reduction of the interest rate on short-term loans is benefiting millions of consumers, many of whom are in the low-income group of the population. This group of consumers have been exposed to over-indebtedness and the high costs of credit,” said Davies.

The minister said the judgment will go a long way in advancing the efforts of government to bring relief to over-indebted consumers.

For more, visit: <https://www.bizcommunity.com>