ARTICLE SERIES

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ARE YOU BEING OVERCHARGED?

It’s been more than a year since Namibia reported its first confirmed COVID-19 positive case in March 2020. Since then, the pandemic has continued to wreak havoc across the country, with the death toll reaching worrisome levels between May and June 2021. Whilst there is no price higher than the loss of human lives, the pandemic first squeezed the life out of the local economy, before the number of fatalities started to increase.

As a result, many have lost their jobs and with it, their livelihood. According to a Bank of Namibia survey, about 7 830 formal jobs were lost in the tourism sector alone. The tourism sector may be one of the sectors most severely impacted as a direct result of traveling restrictions imposed in countries across the globe. However, those previously employed in the tourism sector are not the only ones that have lost income due to the COVID-19 pandemic.

Therefore, it comes as no surprise that the Bank of Namibia’s 2020 Annual Report indicates that the number of overdue loans has increased by 15.2 per-cent from N$9.1 billion to N$10.5 billion. The report cites the failure to pay mortgages, overdrafts and other personal loans on time, amongst the reasons for this increase. In addition, NAMFISA, the regulator of non-banking financial services, reports that the number of loans outstanding in the non-banking financial services sector stood at N$6.1 billion by the end of 2020. This is a clear indication that the pandemic has worsened the precarious financial position of many Namibian households, likely pushing them deeper into debt.

The Government of the Republic of Namibia is the single biggest employer in the country. And, several lenders and other financial service providers consider it less risky to extend loans and offer other types of financial services and products to government employees. As a result, GIPF members are amongst the biggest consumers of financial services and products, including loans.

For this reason, Namibian households, and especially GIPF members, should take a keen interest in understanding how the cost of the average loan is calculated. The Usury Act (Act No. 73 of 1968) governs how charges in respect of loans that do not exceed N$500 000.00 are calculated. Although the Usury Act also applies to credit transactions and leasing transactions, such transactions are beyond the scope of this article.

As a point of departure, lenders are only required to include certain amounts in the calculation of what a borrower owes. Generally, the following amounts may be included:

1. The cash amount – which is the amount borrowed.
2. Stamp duties – which is the amount paid for the revenue stamps that are used on the loan agreement document.
3. Insurance premiums – this may either be premiums in respect of a life policy (where an amount is paid to the beneficiary if, for instance, the person whose life is covered by the policy dies) or premiums in respect of a short-term policy (where an amount is paid if, for instance, the property covered by the policy is damaged, destroyed or lost).

The above is a rather short list. However, if you have ever entered into a loan transaction, you would know that these are usually not the only amounts that lenders would charge a borrower. In most instances, a borrower's loan statement would show that, in addition to these three types of amounts, various other amounts would be added to the loan. These include all sorts of initiation and administration fees. Amounts that lenders are not automatically allowed to demand or receive from borrowers.

The inclusion of these amounts has become such a common feature on loan statements that many borrowers don't even bother understanding what they are for. Unfortunately, on the rare occasion that a borrower decides to query the amounts that they are compelled to pay to a lender, such a query is usually met with a very vague response that only serves to confuse the borrower even more.

If one looks at these amounts in isolation, they do not always appear to be significant. However, this practice of adding amounts that should not be added to a borrower's loan inadvertently contributes to creating a perpetual cycle of debt. Thereby contributing to the financial exploitation of a population that already find themselves knee deep in debt.

More concerning, in most cases, this practice leads to lenders charging borrowers more than they are allowed to charge them in accordance with the provisions of the Usury Act. With all the uncertainty brought about by COVID-19, the number of Namibian households that are financially vulnerable is bound to increase. This increases the likelihood that more people will default on their loans, increasing financial strain, and adding to the woes of a nation still battling to come to terms with the socio-economic impact of the pandemic.

The article is the first in a series of articles that attempts to demystify how the cost for the average loan is calculated. This article introduces three categories of amounts that are usually included in the calculation of what a borrower owes and is thus expected to repay. In most instances, borrowers are expected to repay a rather significant amount in respect of insurance premiums. Sometimes, this amount may represent up to 40 percent of the borrower's total debt.

In the next article we will take a closer look at when the cost of insurance premiums can be passed on to the borrower, and when passing on such cost to the borrower is not allowed.

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