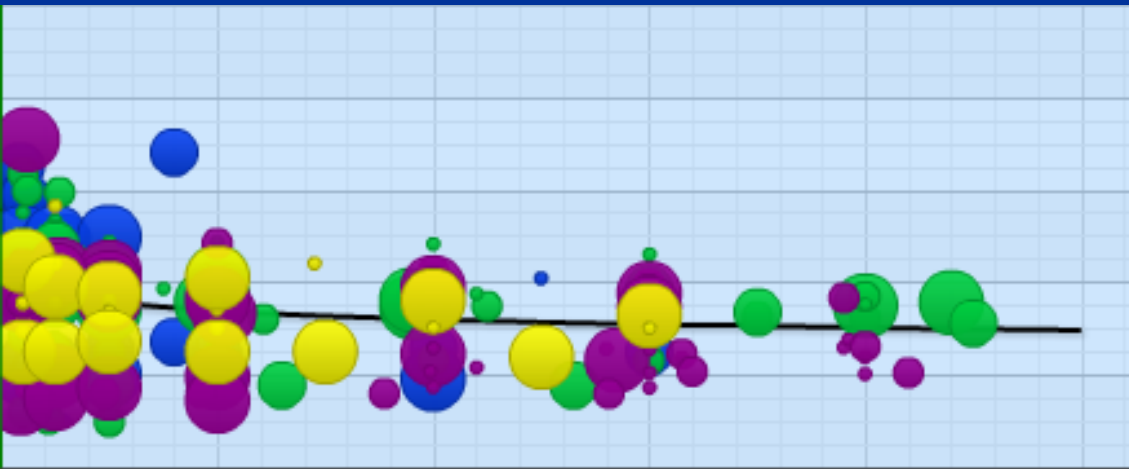


# Complications of Price Caps

Chuck Waterfield  
Africa Pricing Transparency  
Leadership Forum  
Nairobi  
June 2013



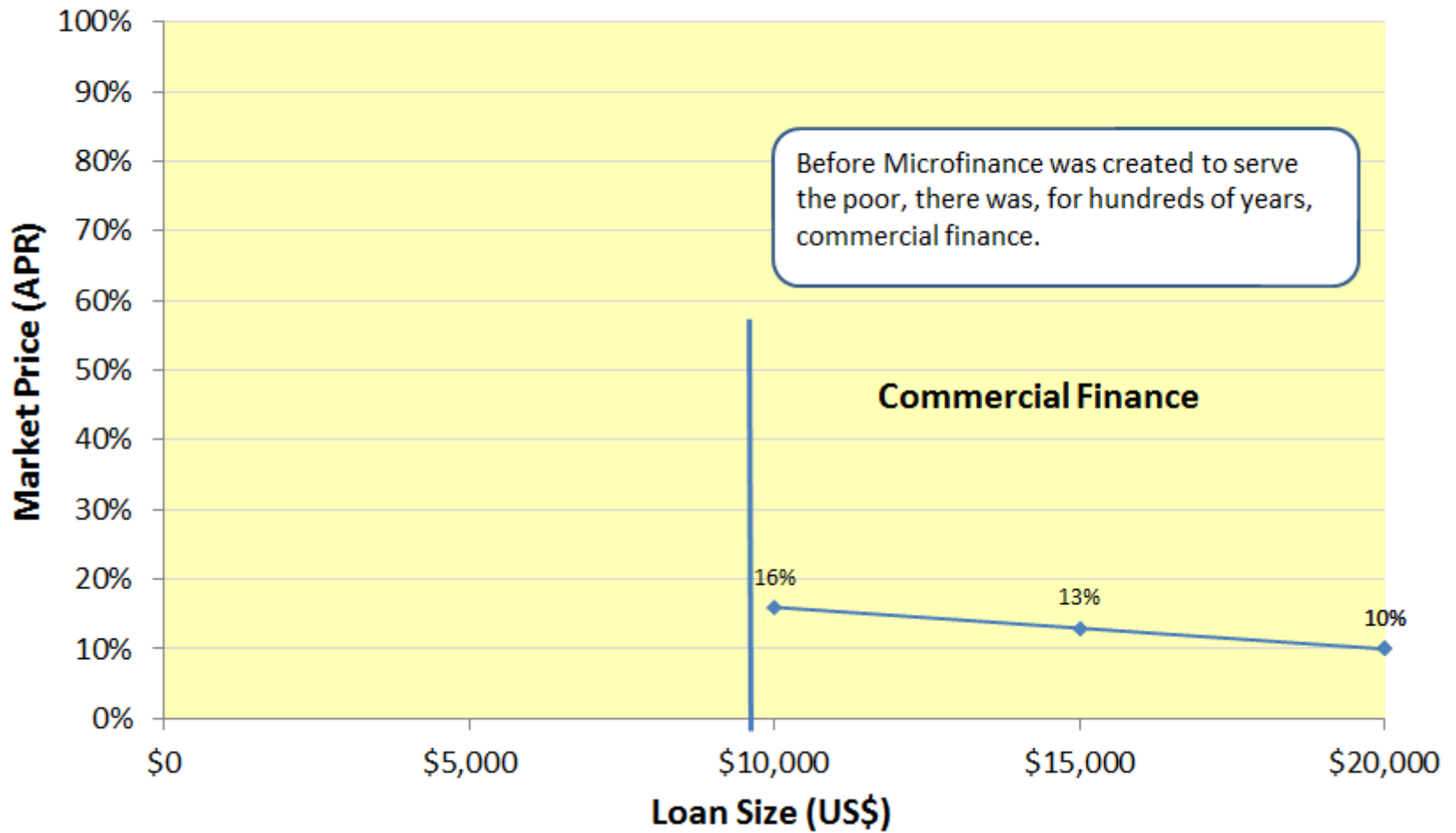
## **Conflicts between Price Caps and the Costs of Delivering Small Credits**

**For a business to be sustainable, prices must increase as loan sizes become smaller.**

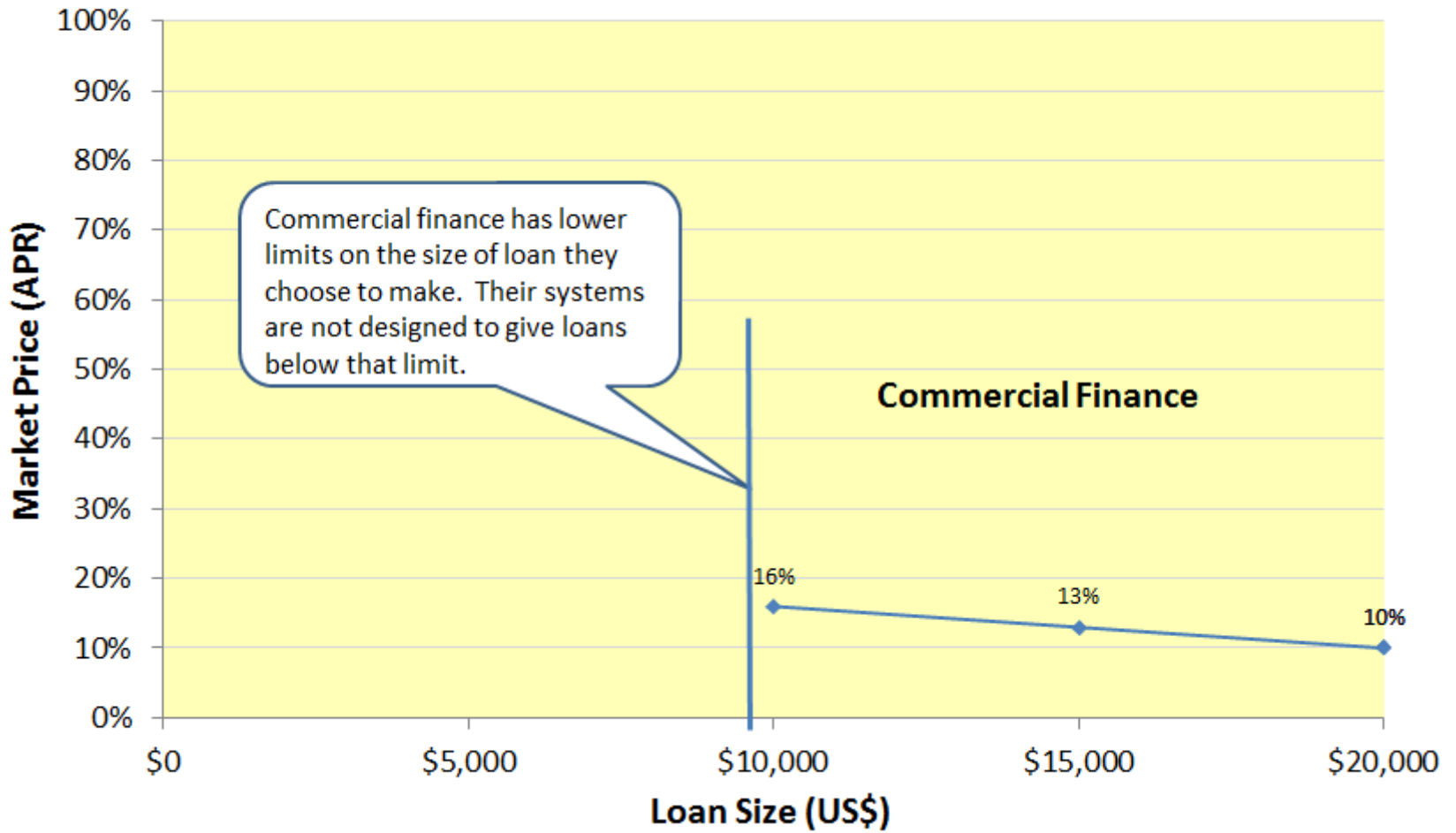
**High Prices do not necessarily mean high profits.**

# Why is there a price curve for micro-loans?

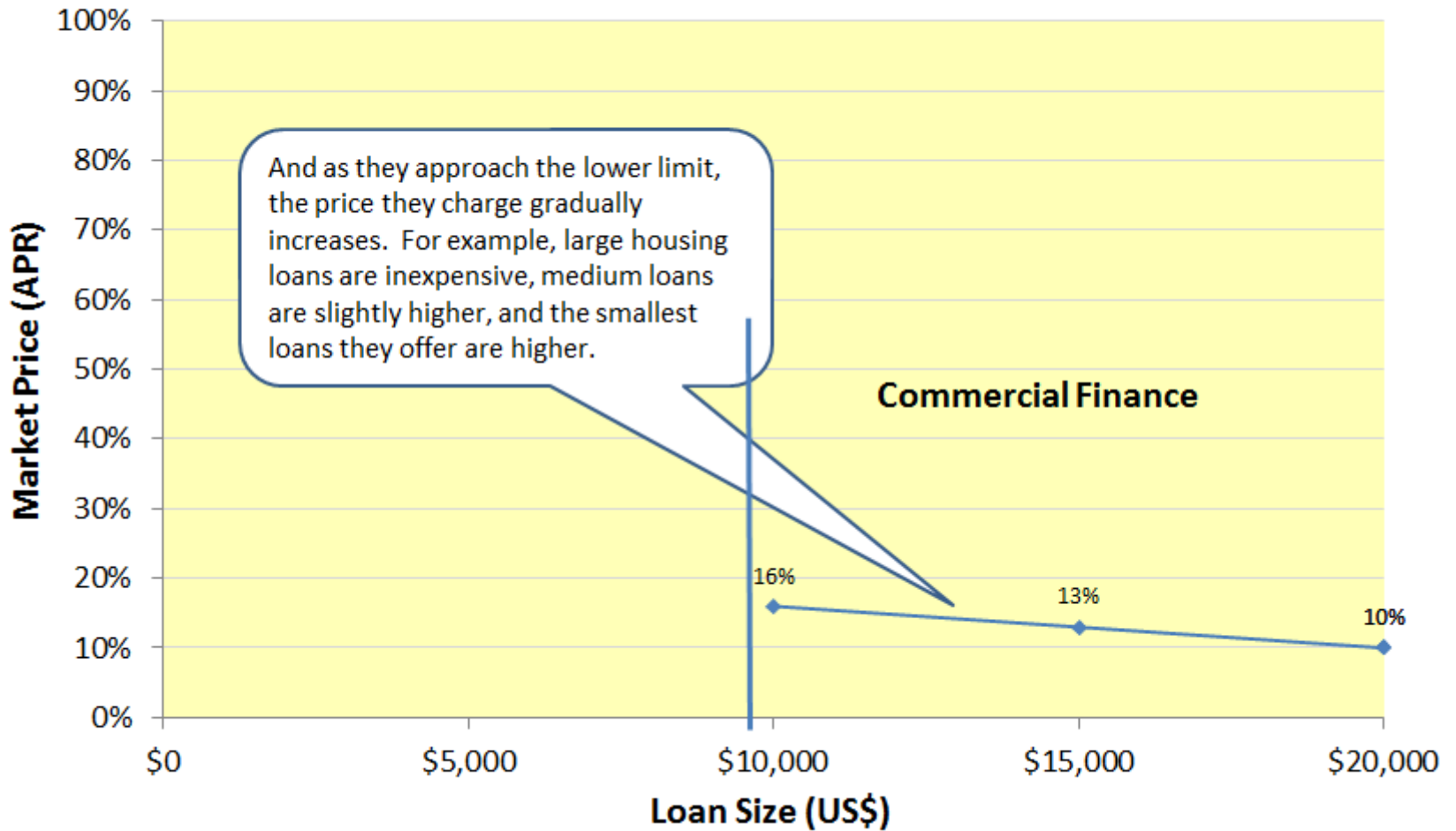
## Market Price by Size of Loan



## Market Price by Size of Loan

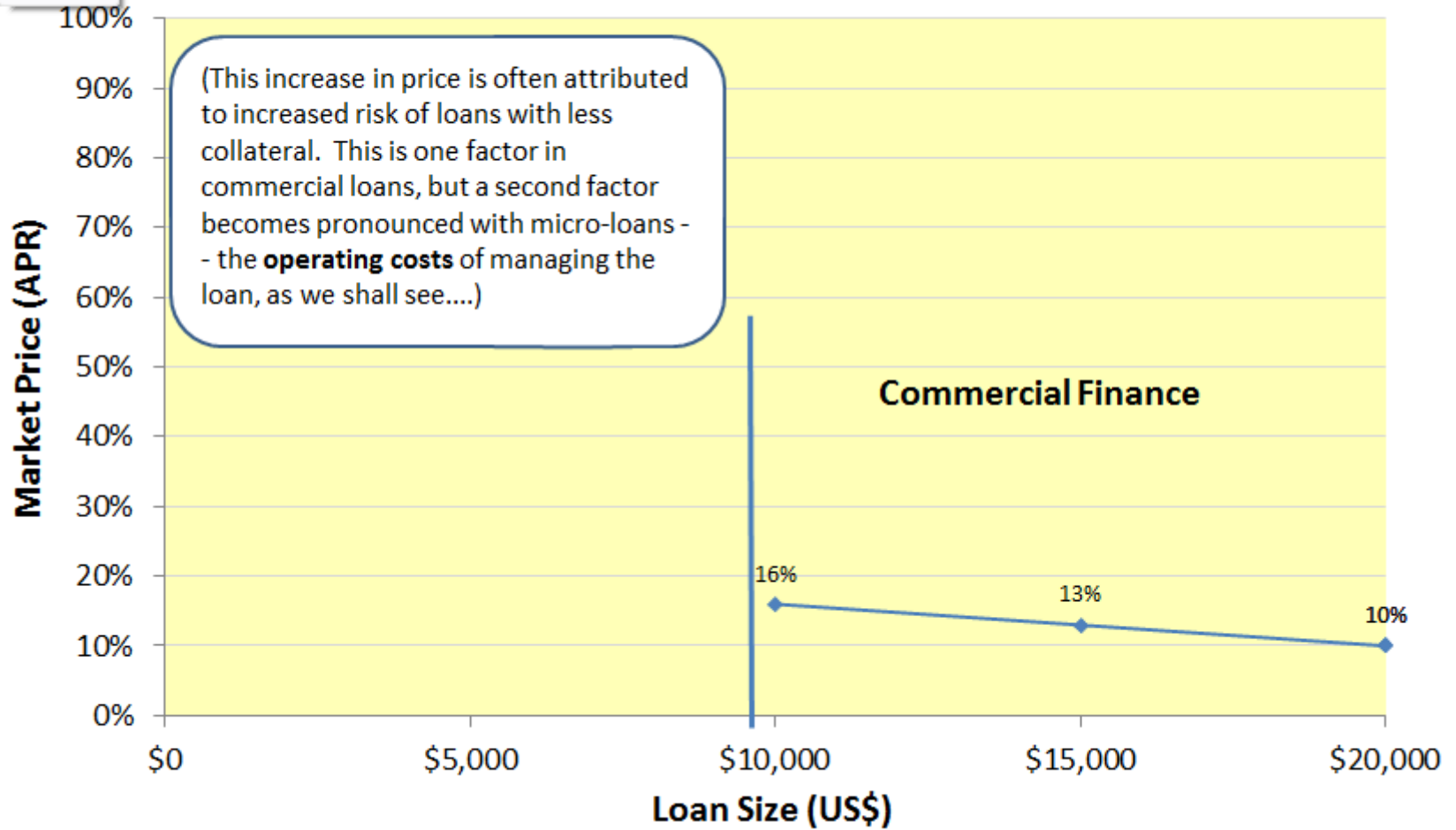


## Market Price by Size of Loan

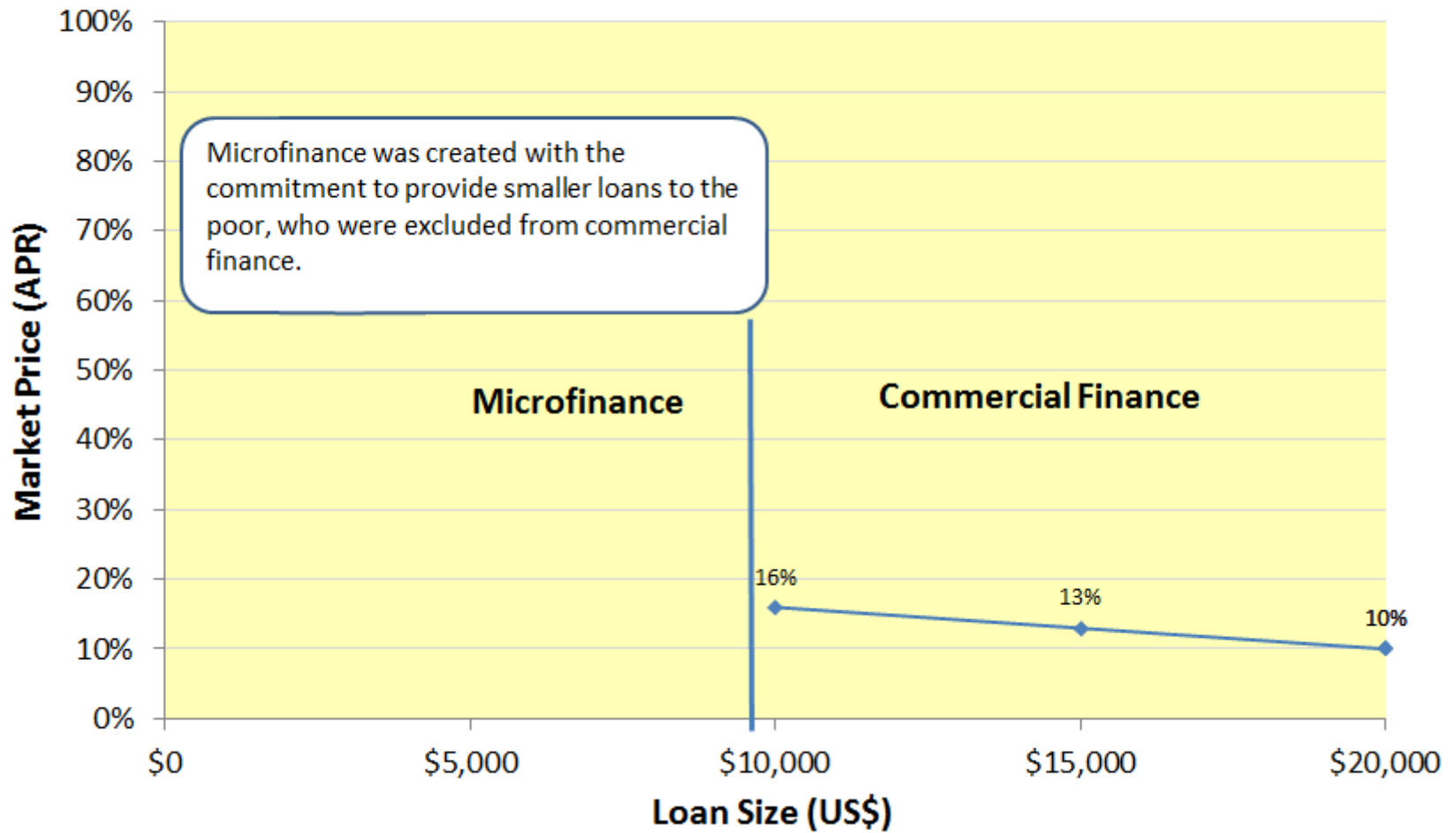


## Market Price by Size of Loan

Chart Area

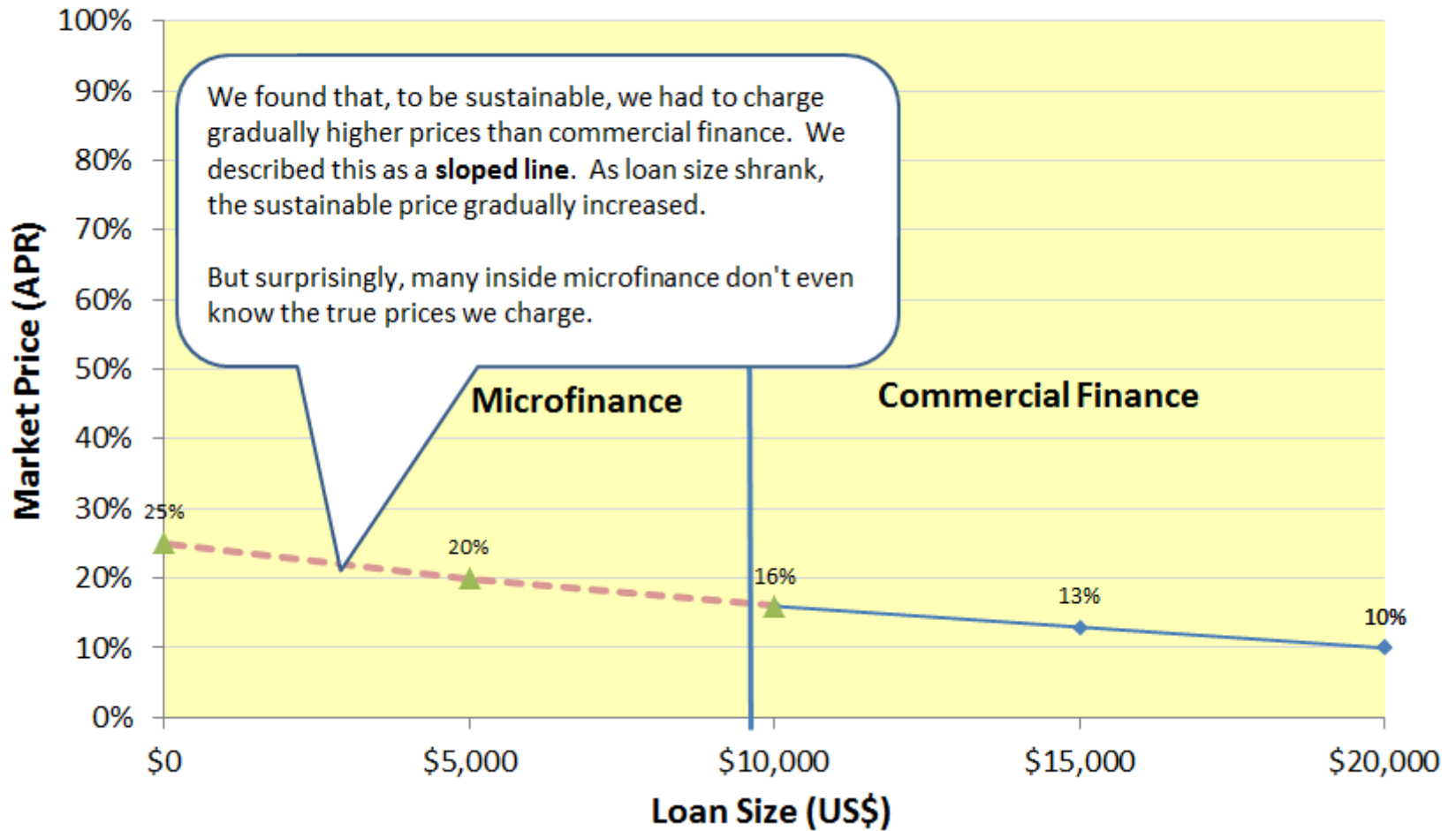


## Market Price by Size of Loan

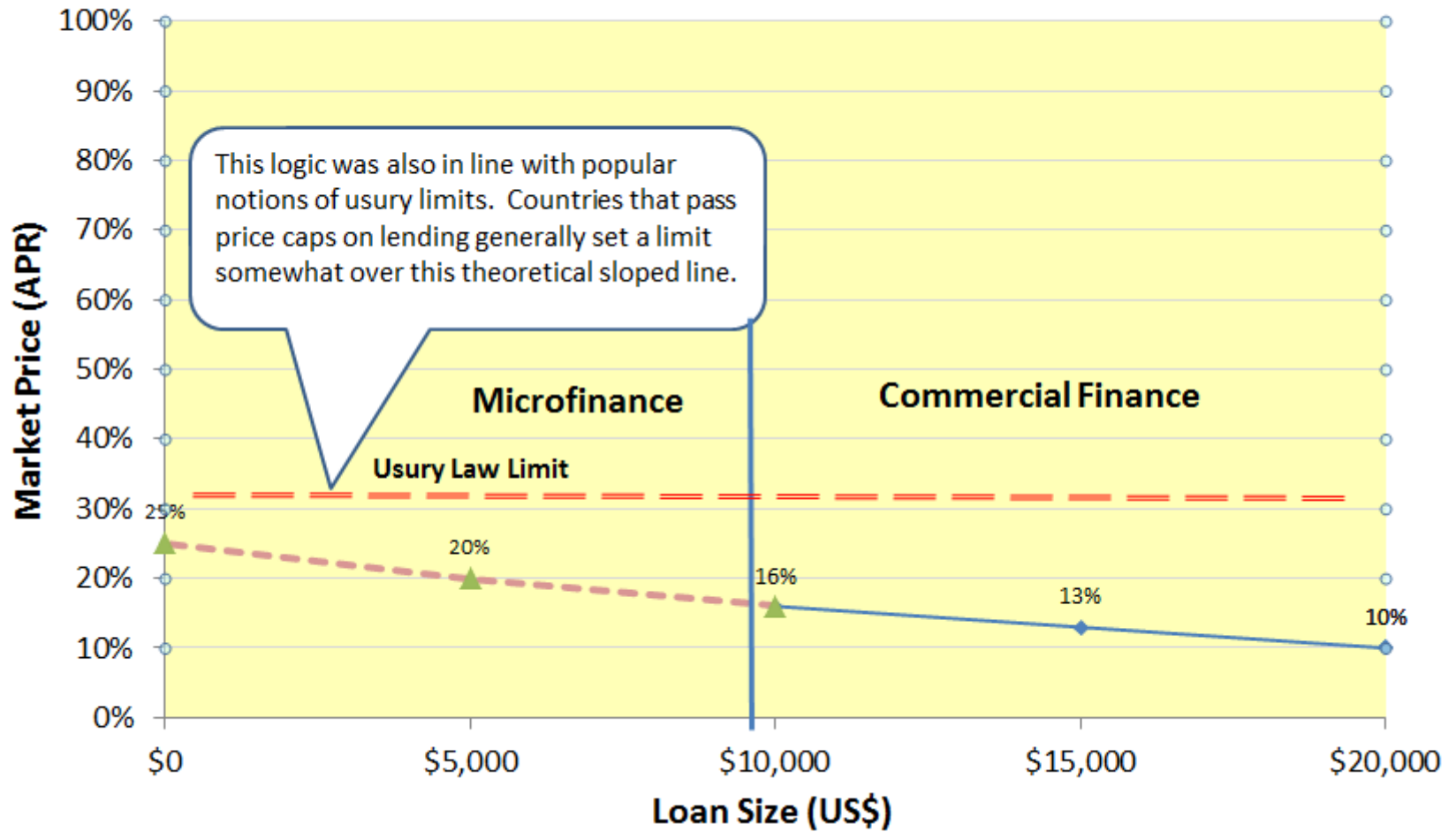




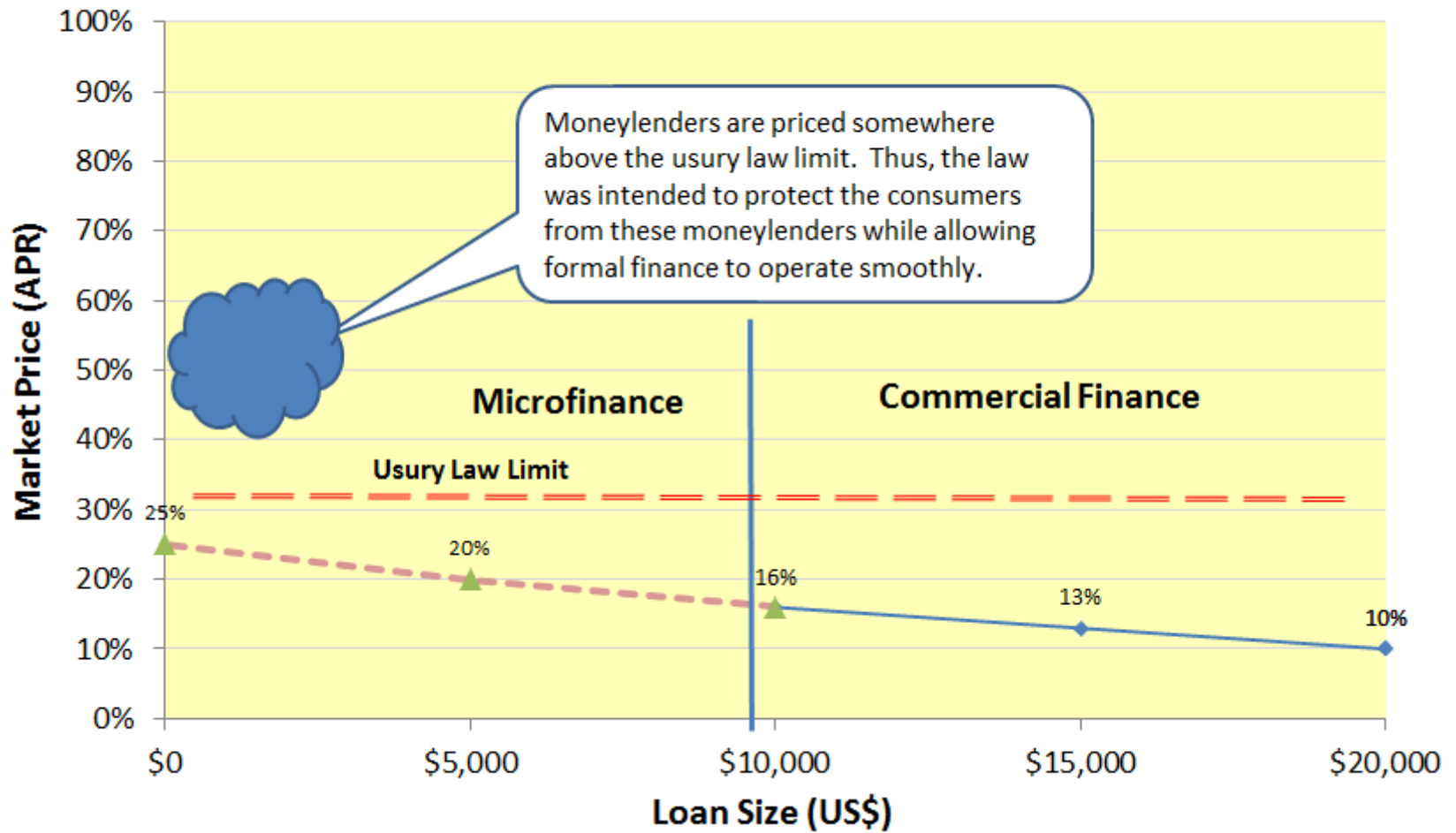
## Market Price by Size of Loan



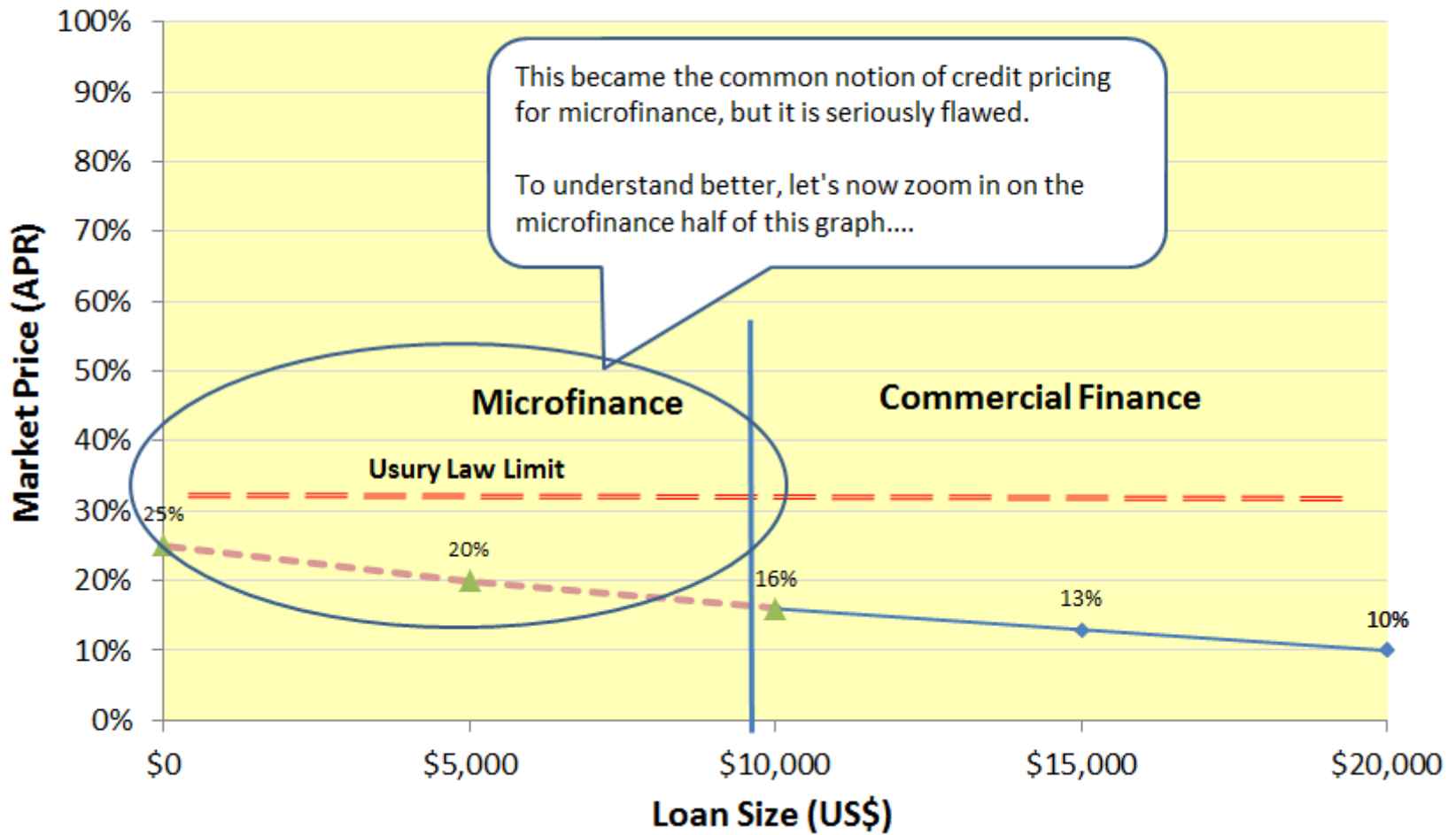
## Market Price by Size of Loan



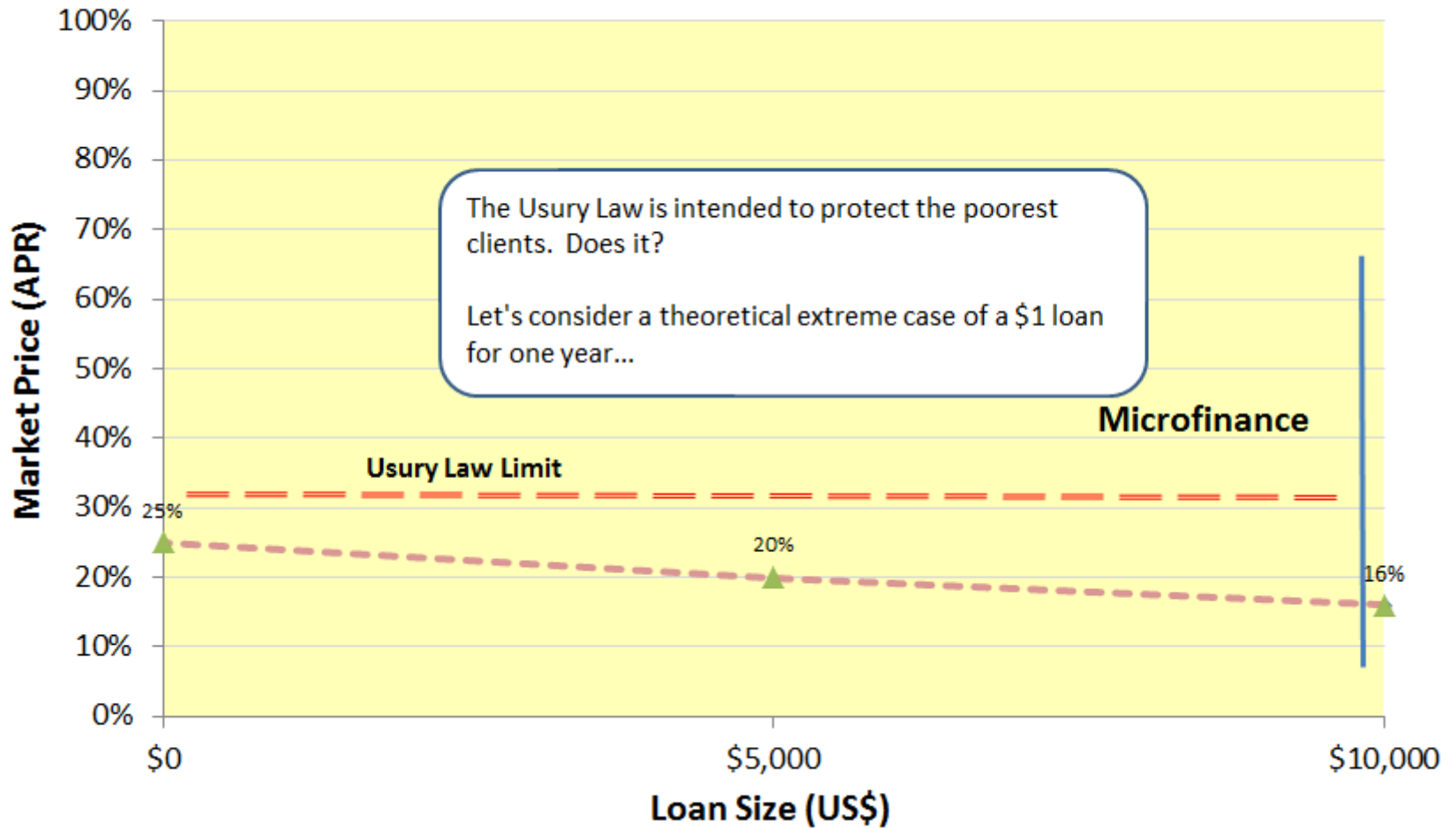
## Market Price by Size of Loan



## Market Price by Size of Loan



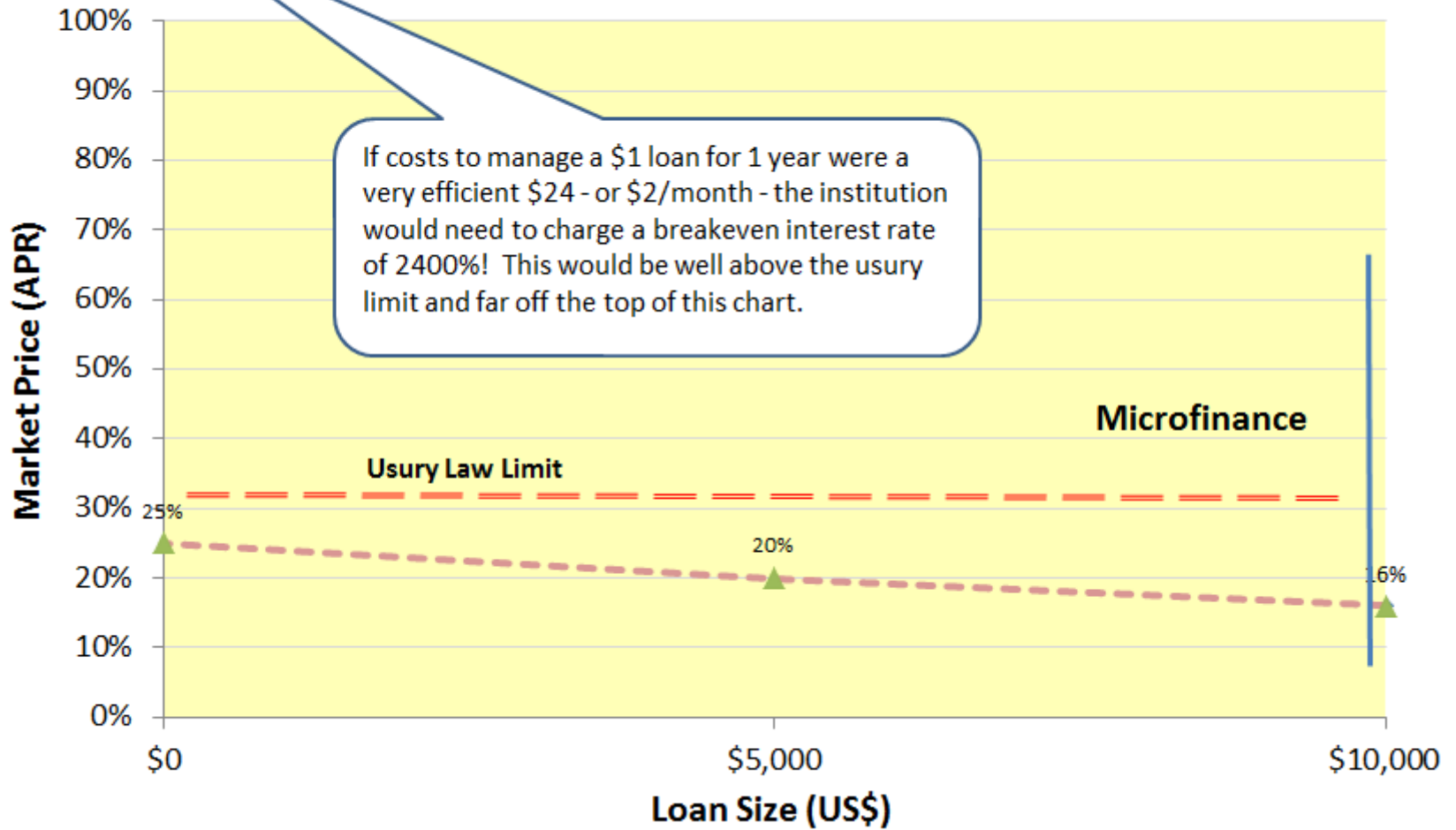
## Market Price by Size of Loan



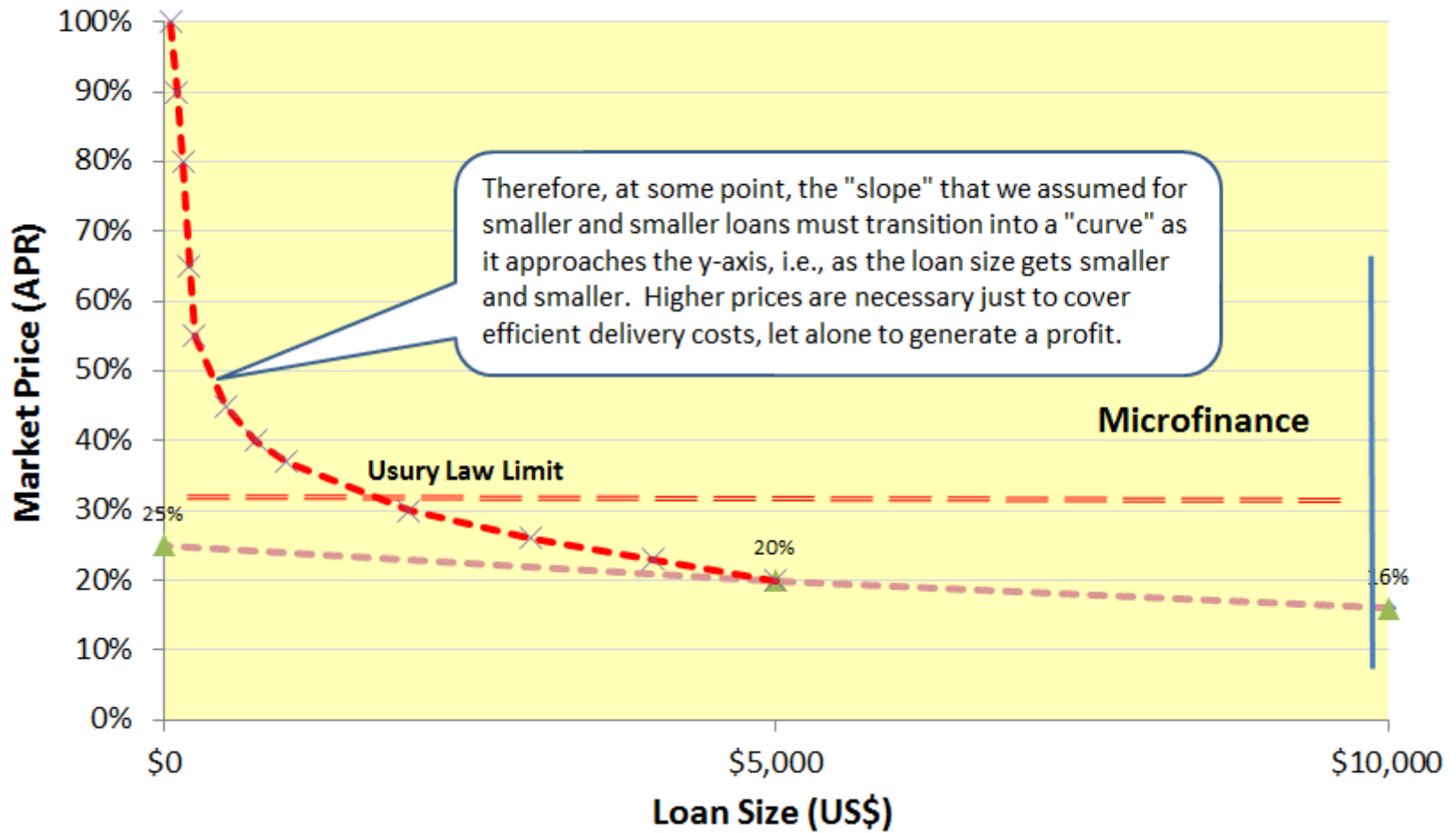
## Market Price by Size of Loan



## Market Price by Size of Loan

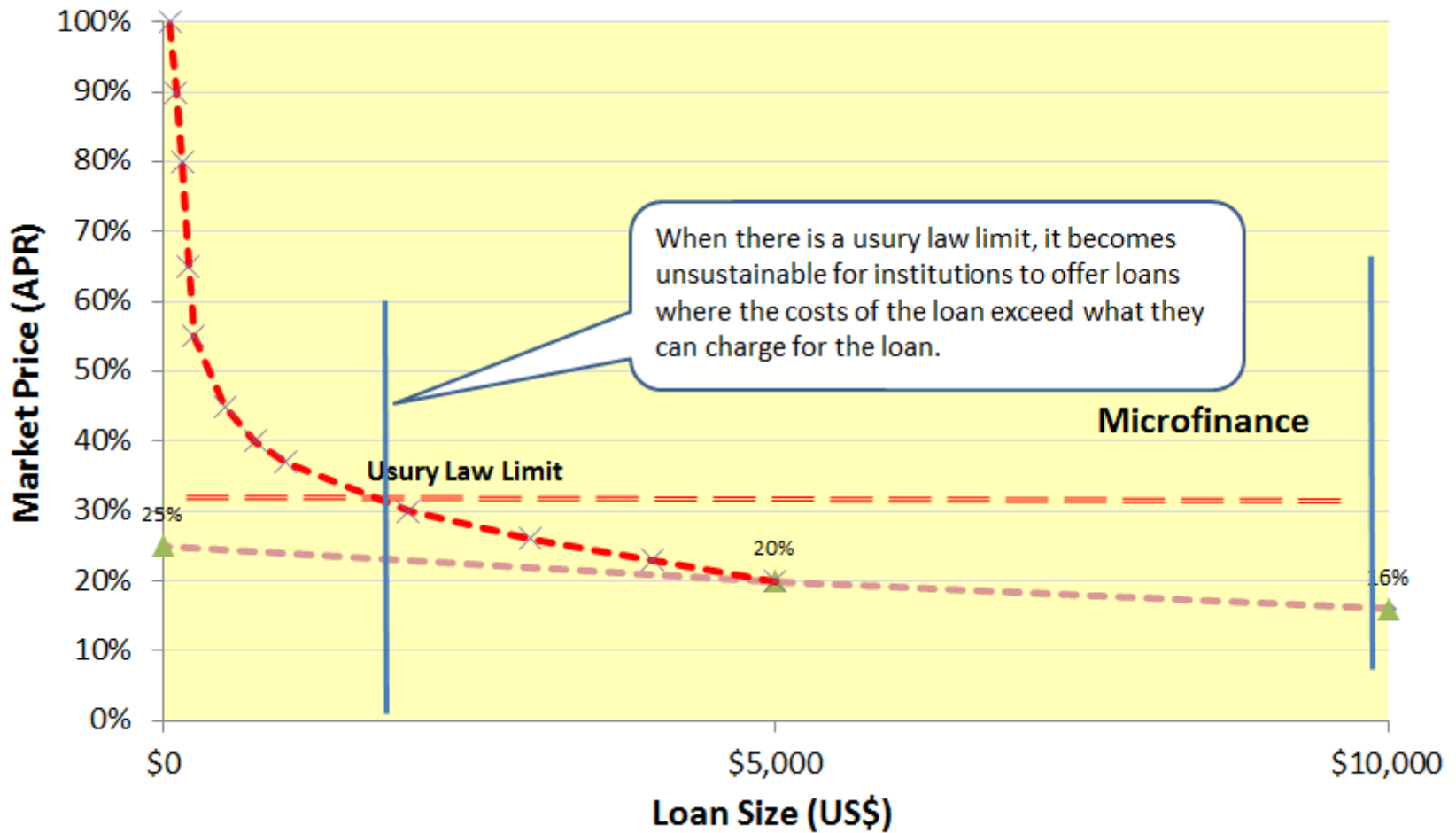


## Market Price by Size of Loan

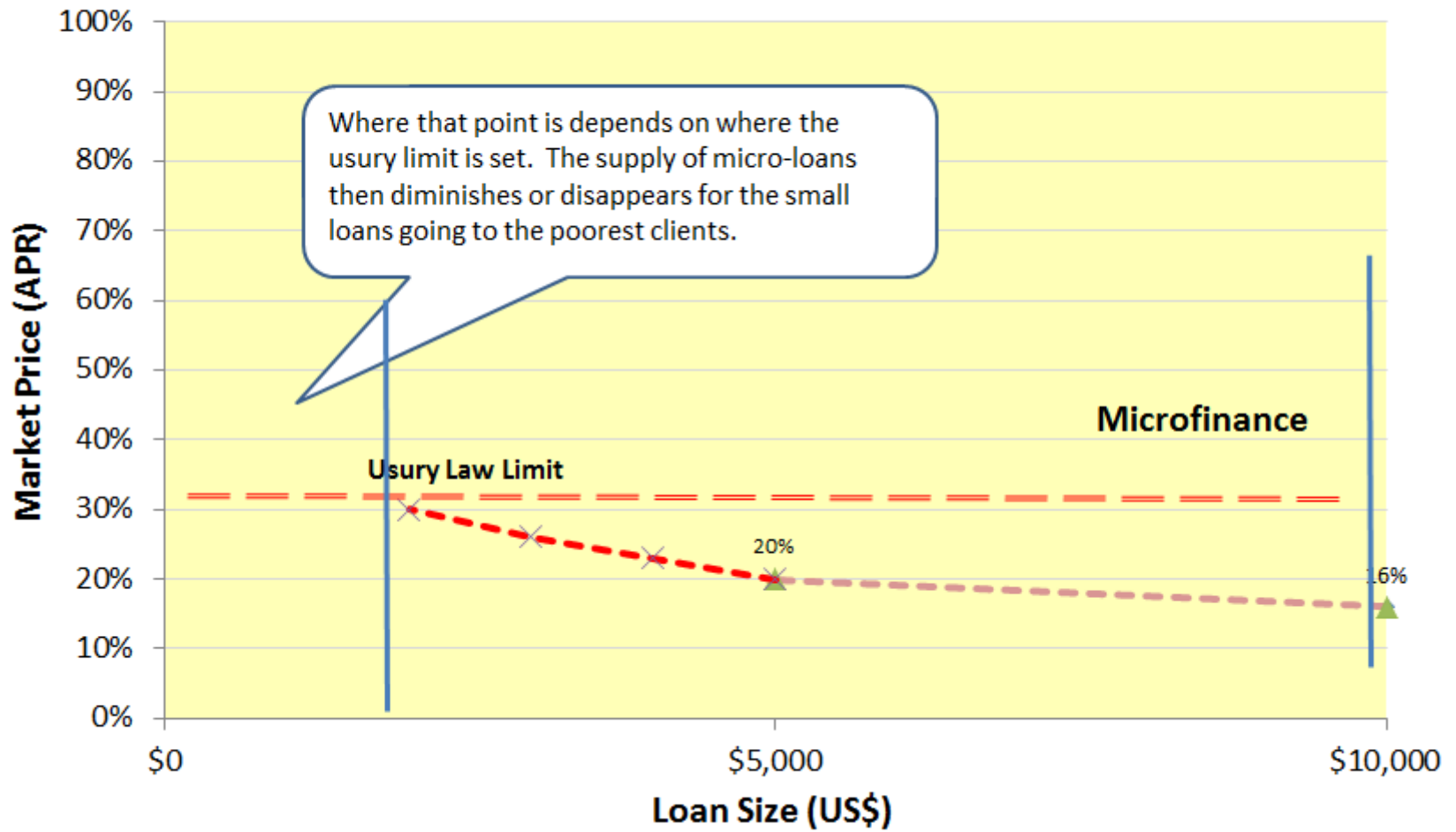




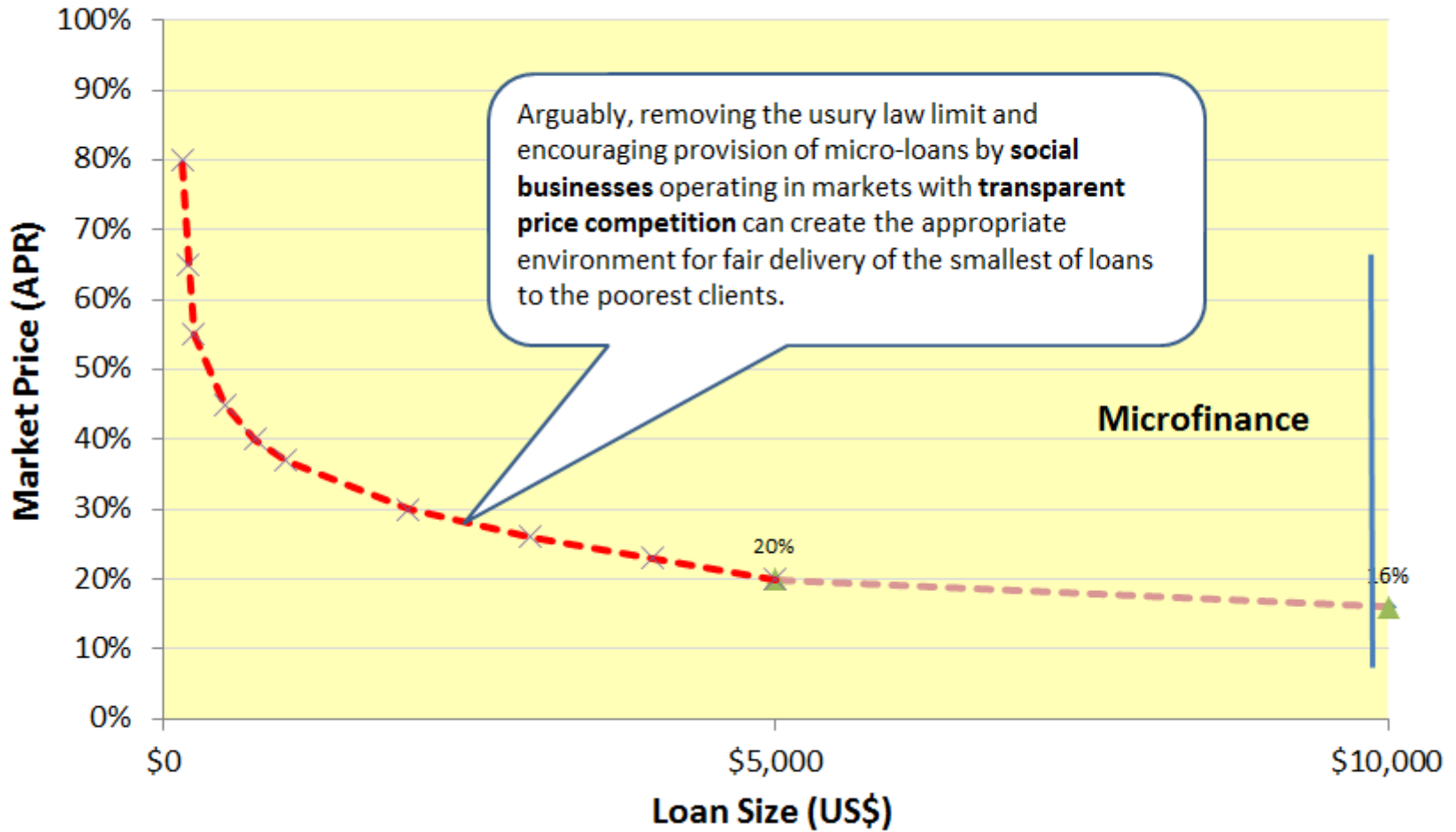
## Market Price by Size of Loan



## Market Price by Size of Loan

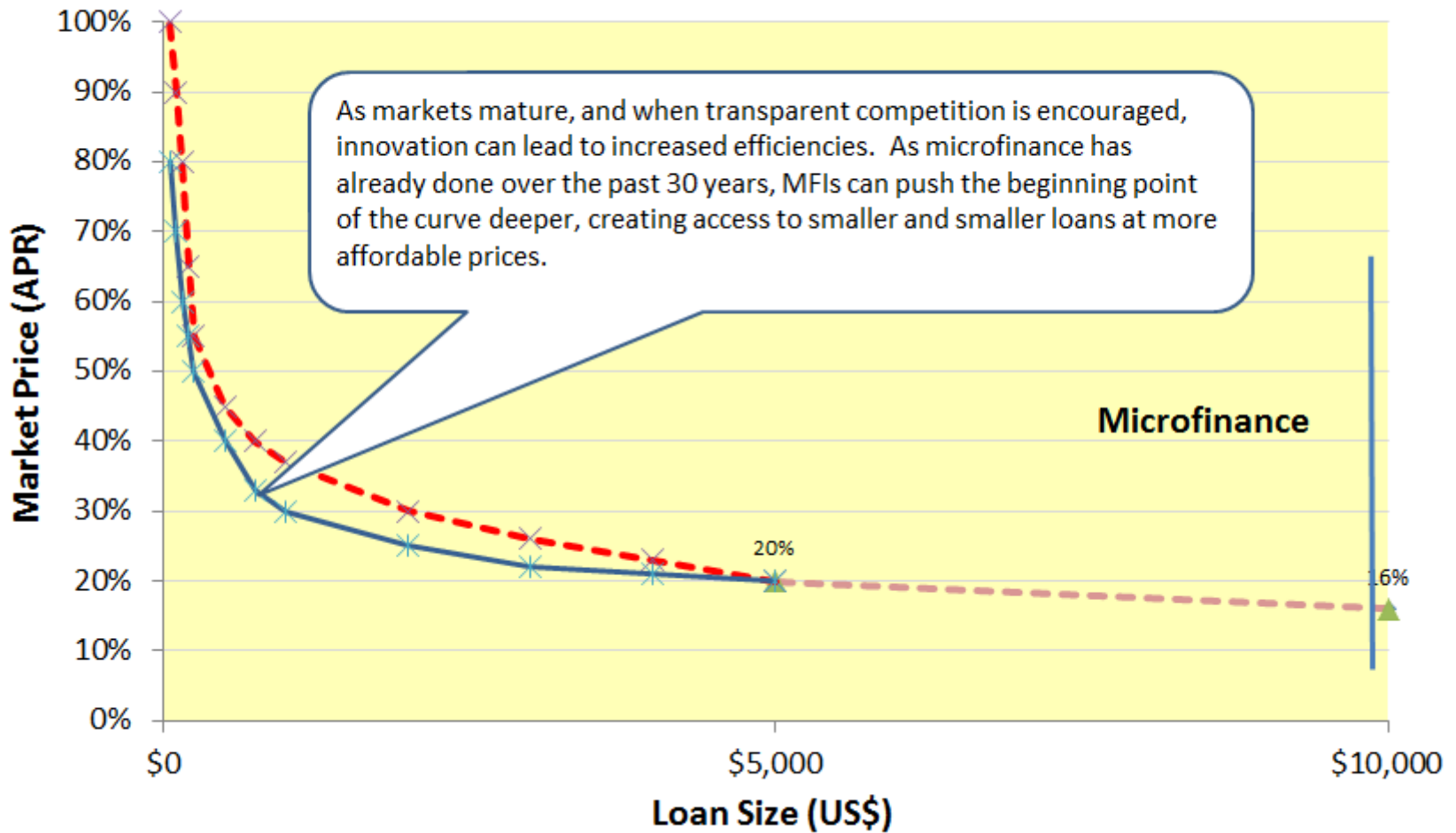


## Market Price by Size of Loan

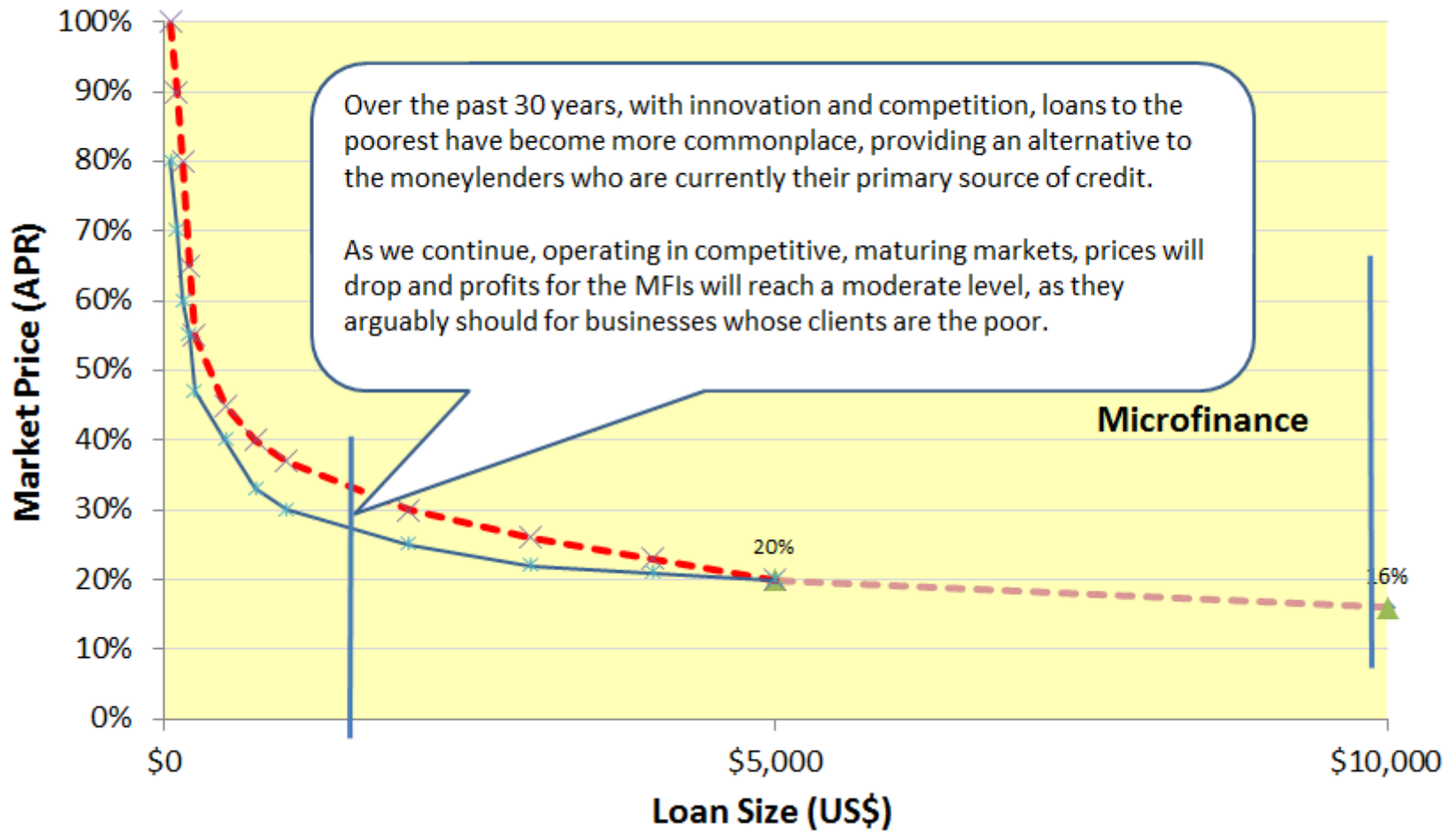




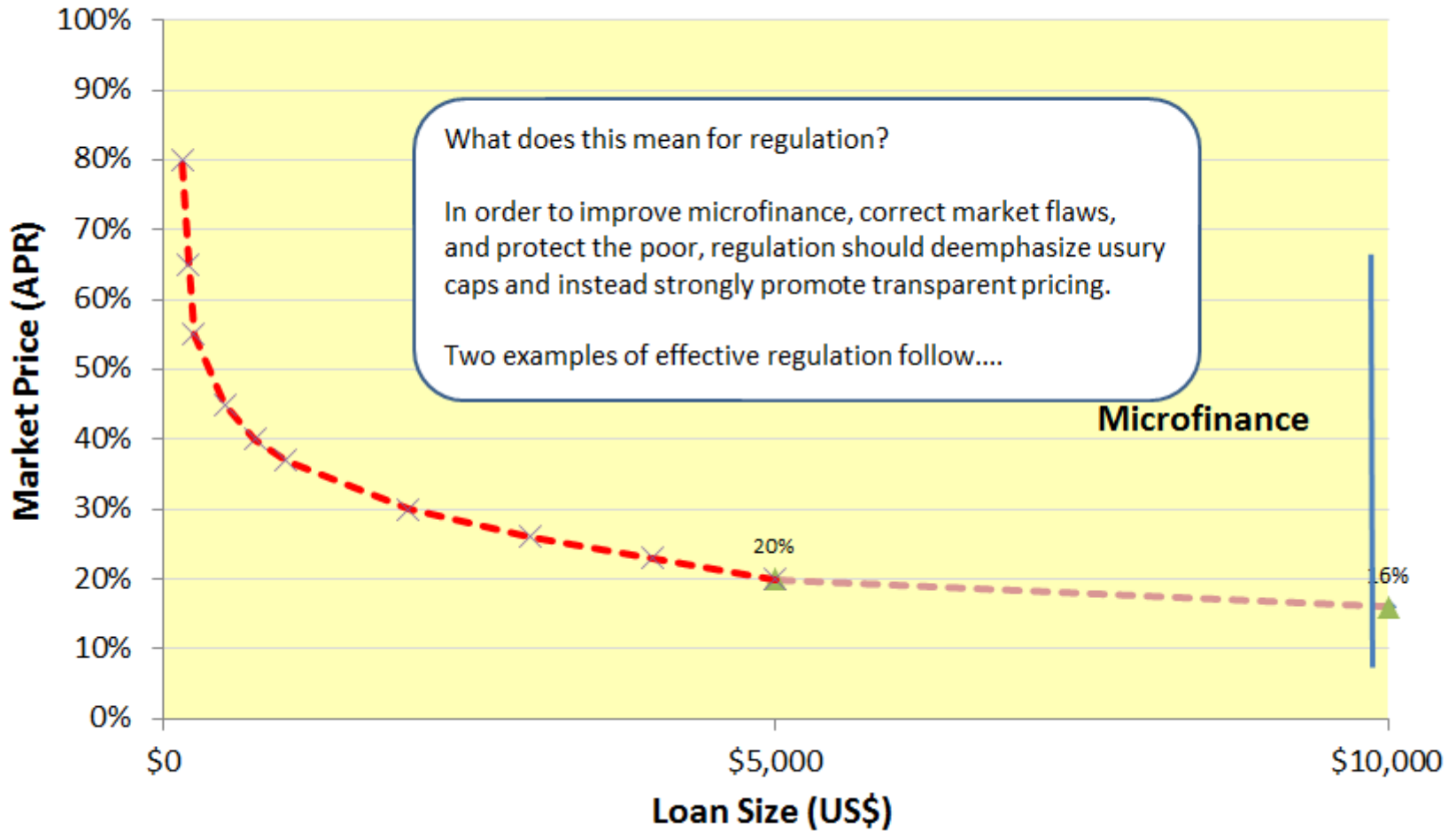
## Market Price by Size of Loan



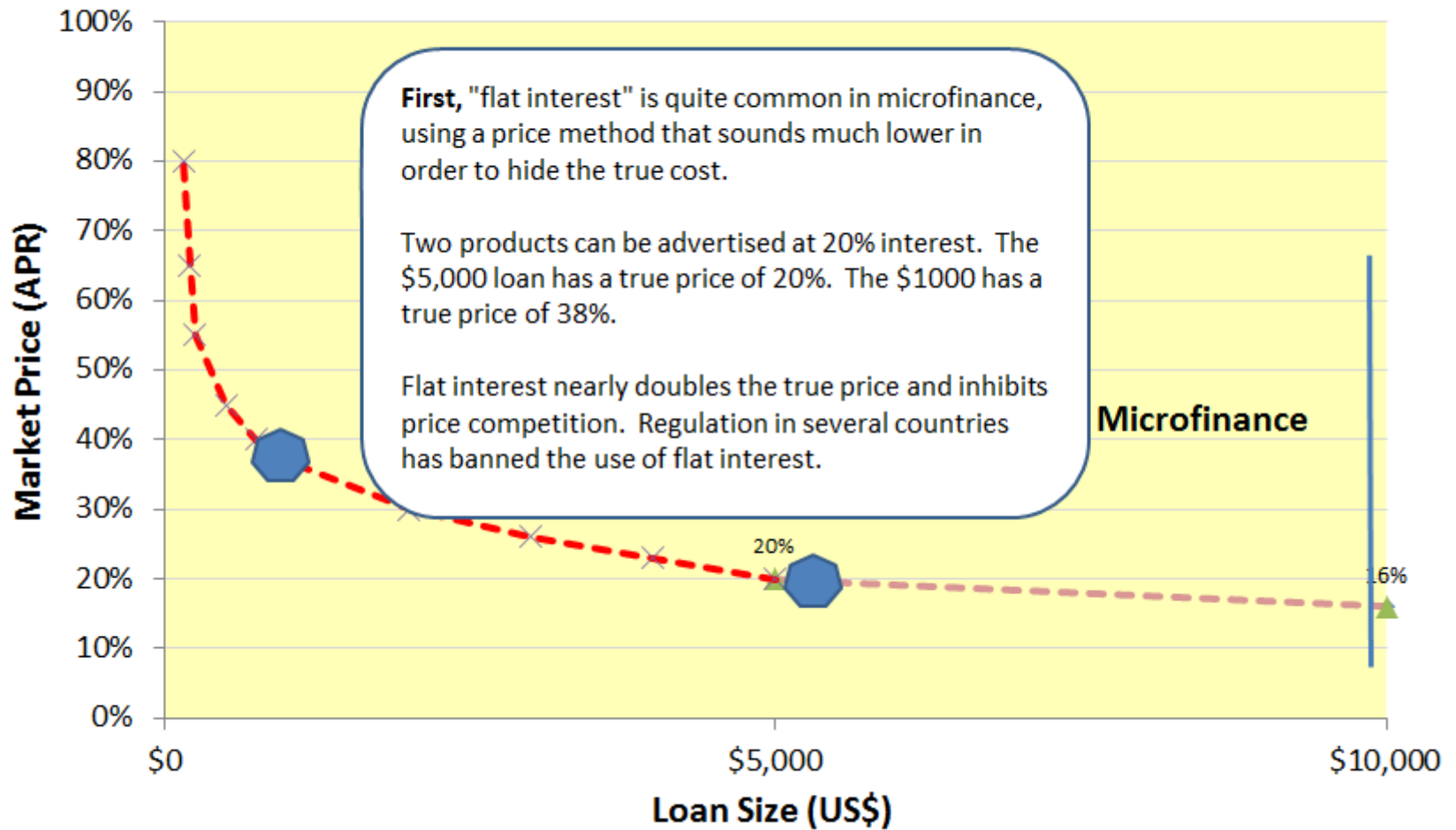
## Market Price by Size of Loan



## Market Price by Size of Loan

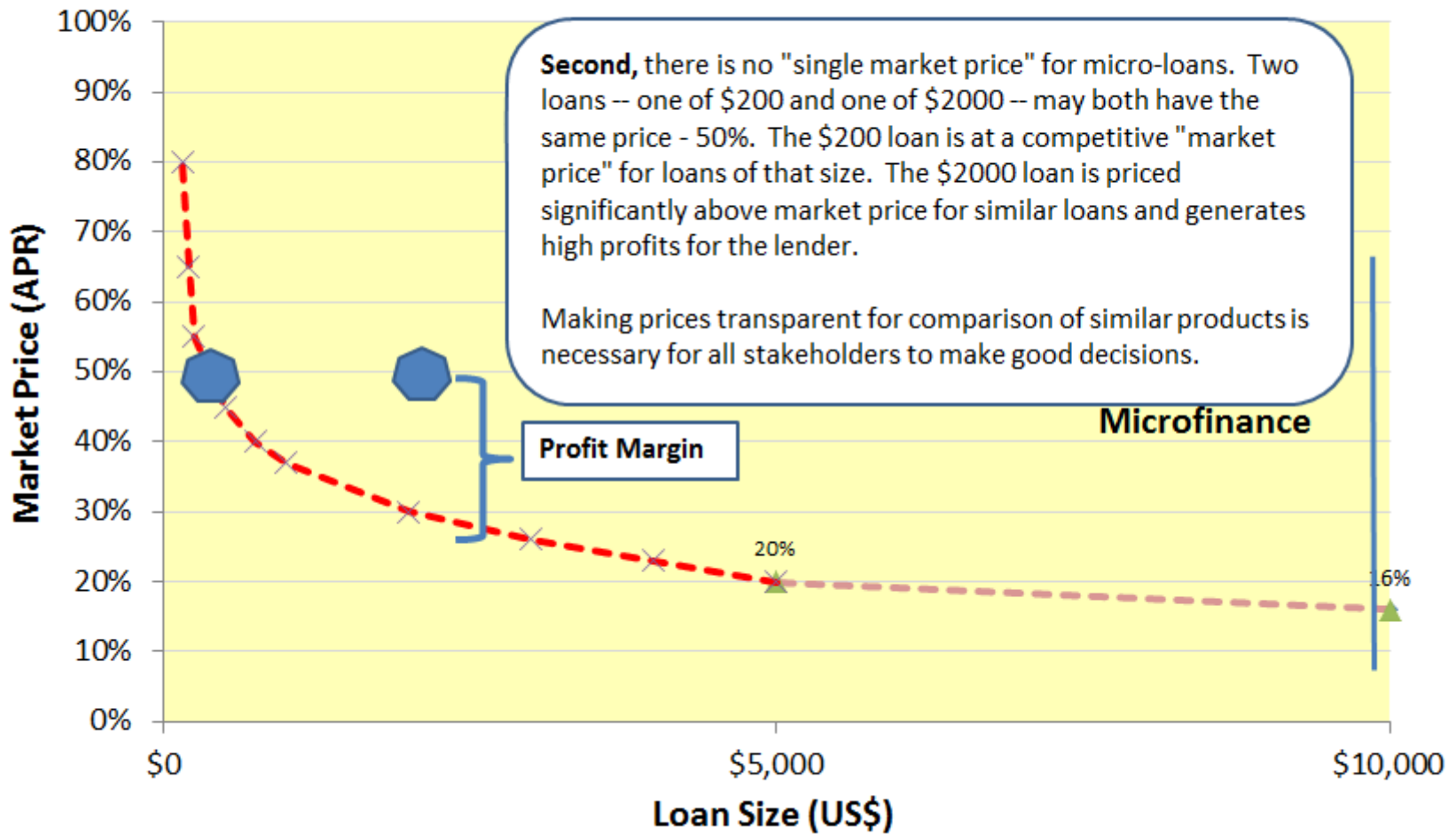


## Market Price by Size of Loan





## Market Price by Size of Loan



# True Price Caps and Enforcement

**Price Caps create a sense of security for borrowers.**

**They believe they are protected for high prices.**

**But if there is no verification that products actually respect that price cap, the system breaks down.**

## What is a True Price Cap?

The formula used to determine the price cap may leave (accidentally or intentionally) loopholes.

The true price charged on the loan may then be in excess of what the client believes.

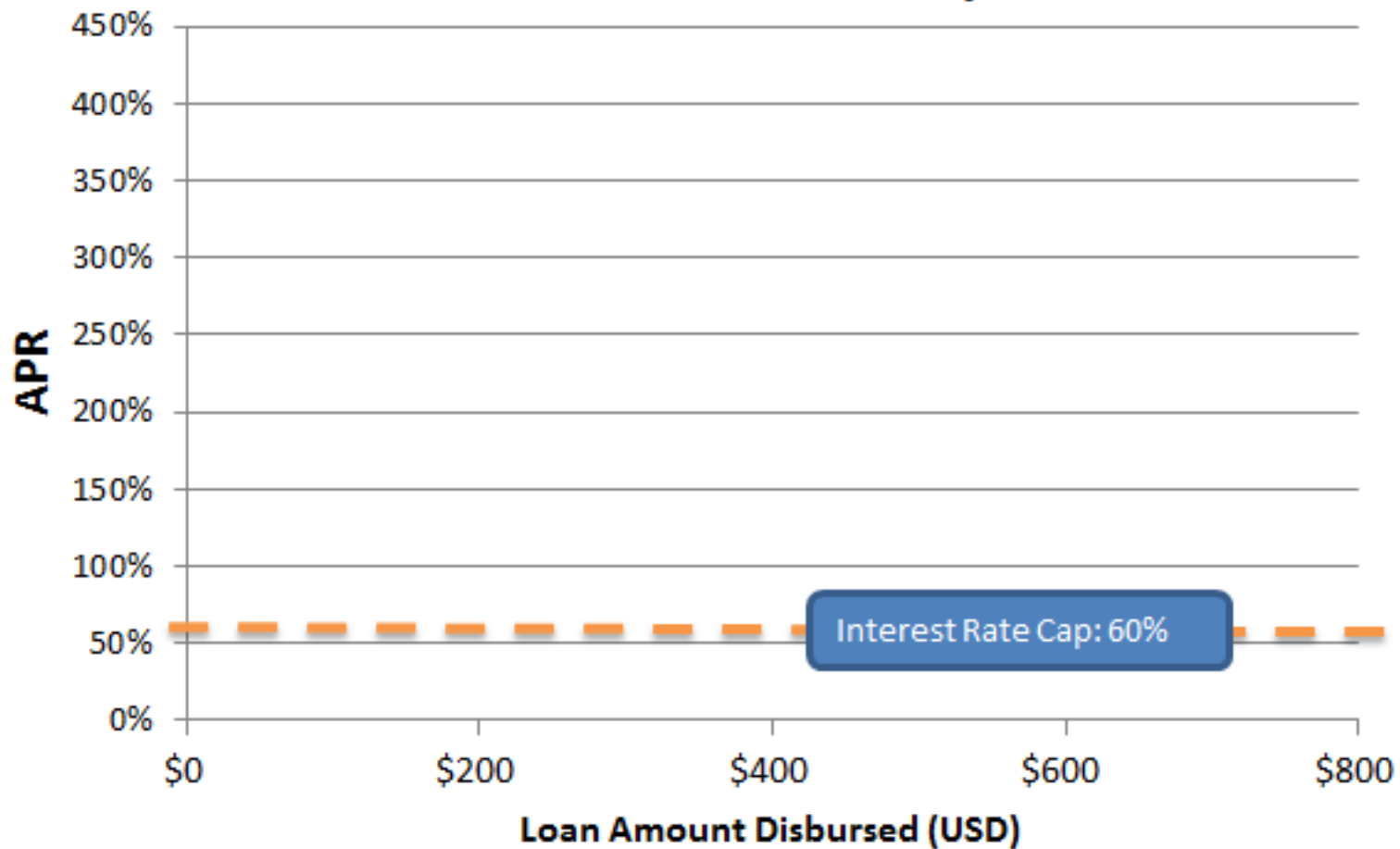
## **South Africa Self-Regulatory False Price Cap**

**After a serious crisis when consumer lending was challenged for exploiting clients, the financial industry developed a self-regulatory body, the National Credit Regulator (NCR)**

Table A: Maximum Prescribed Interest Rates

Sub-sector	Maximum Prescribed Interest Rate
Mortgage agreements	[(RR x 2.2) + 5%] per year
Credit facilities	[(RR x 2.2) + 10%] per year
Unsecured credit transactions	[(RR x 2.2) + 20%] per year
<b>Developmental credit agreements</b>	
for the development of a small business	[(RR x 2.2) + 20%] per year
for low income housing (unsecured)	[(RR x 2.2) + 20%] per year
Short term credit transactions	5% per month
Other credit agreements	[(RR x 2.2) + 10%] per year
Incidental credit agreements	2% per month

## The True "Price Cap" in South Africa Hiding behind an "Interest Rate Cap"

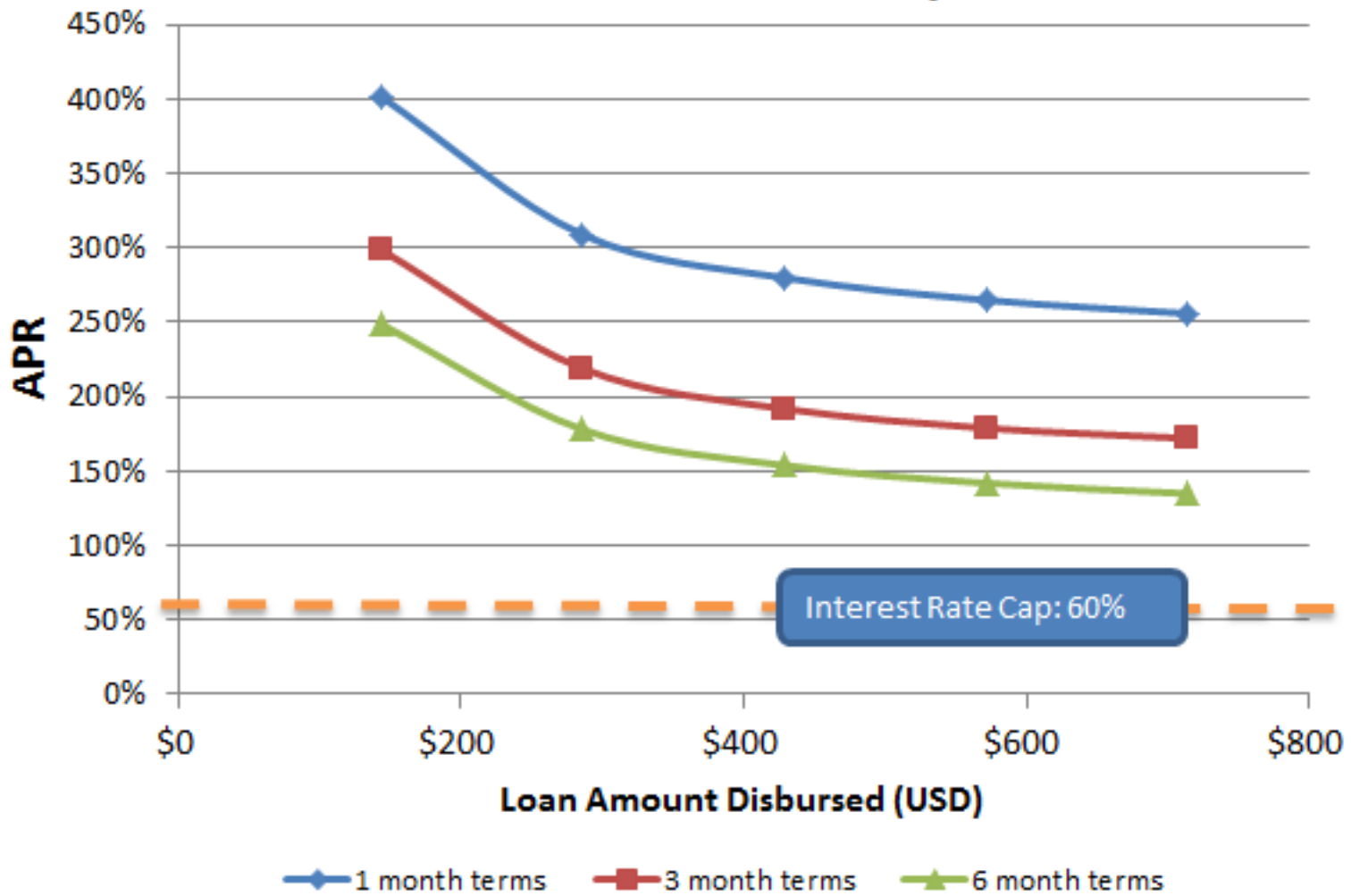


1 month terms

Table B:

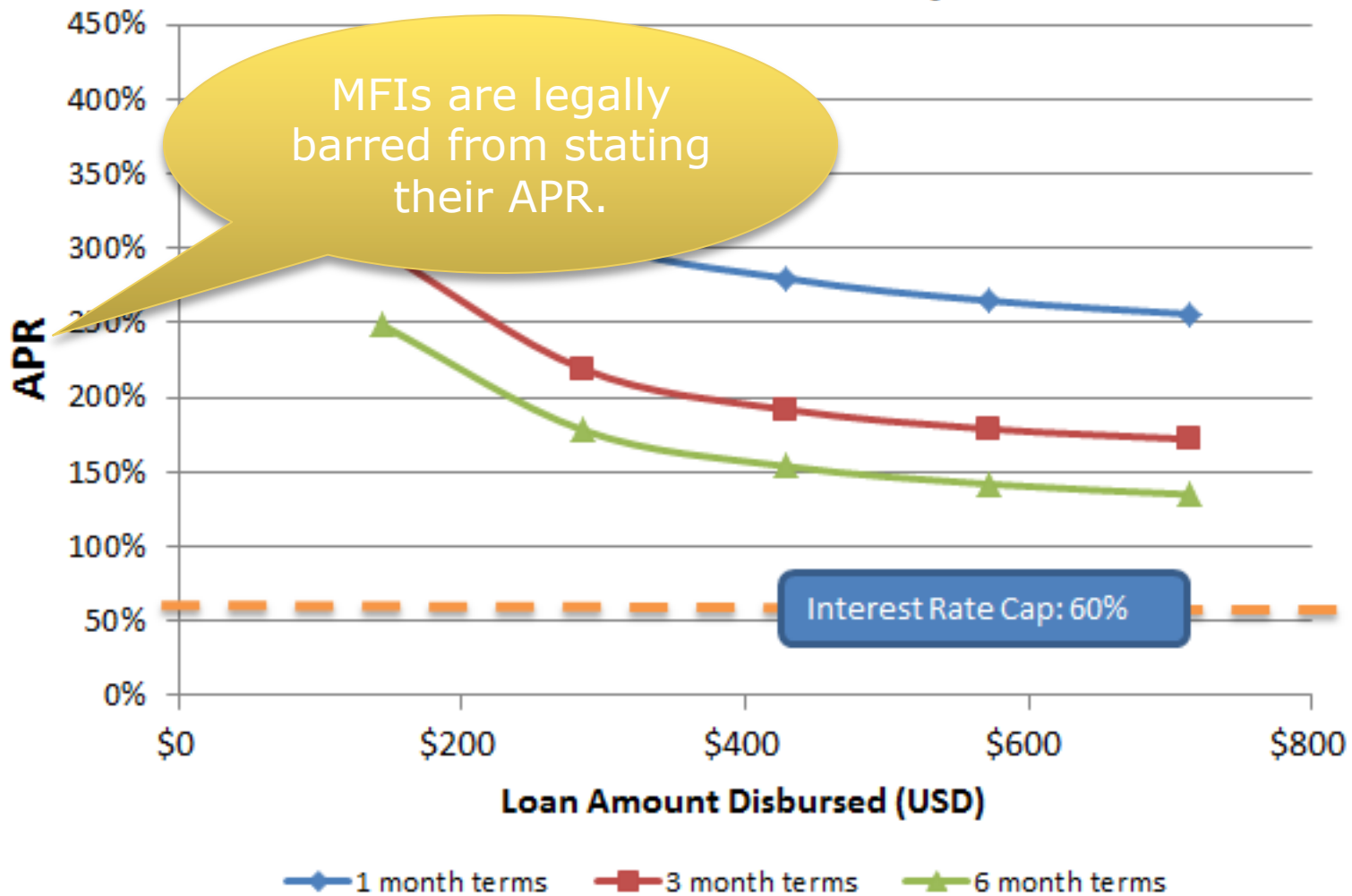
Sub-sector	Initiation fee
<b>Mortgage agreements</b>	(a) R1,000 per credit agreement, plus, 10% of the amount of the agreement in excess of R10,000 (b) But never to exceed R5,000.
<b>Credit facilities</b>	(a) R150 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R1,000.
<b>Unsecured credit transactions</b>	a) R150 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R1,000.
<b>Developmental credit agreements</b>	
for the development of a small business	a) R250 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R2,500.
for low income housing (unsecured)	a) R500 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R2,500.
<b>Short term credit transactions</b>	a) R150 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R1,000.
<b>Other credit transactions</b>	a) R150 per credit agreement, plus, 10% of the amount of the agreement in excess of R1,000 (b) But never to exceed R1,000.
<b>Incidental credit agreements</b>	Nil

# The True "Price Cap" in South Africa Hiding behind an "Interest Rate Cap"

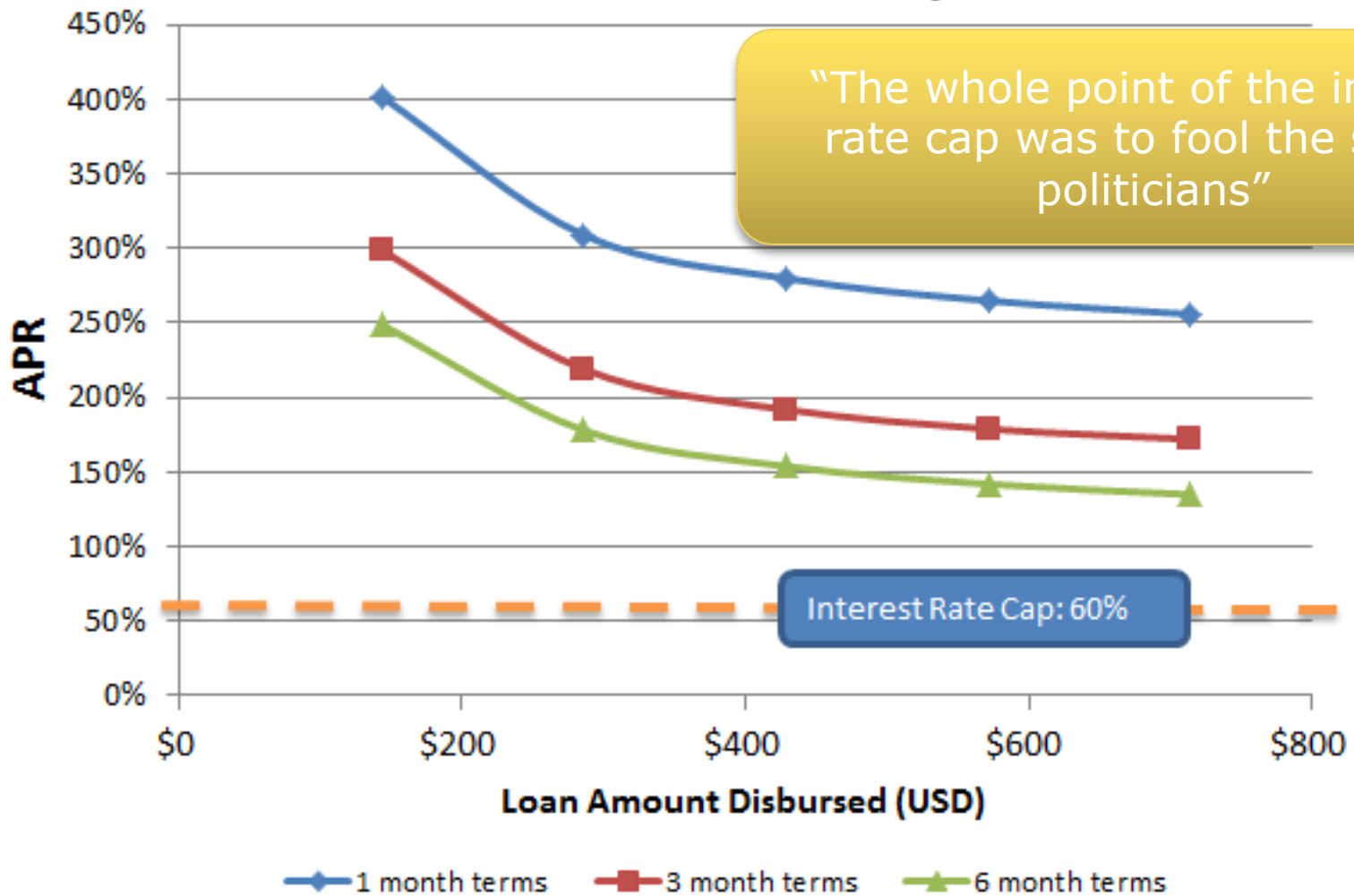




# The True "Price Cap" in South Africa Hiding behind an "Interest Rate Cap"



# The True "Price Cap" in South Africa Hiding behind an "Interest Rate Cap"



# Extreme Distortions

*“We find some potential for banks to even offer negative interest rates and still maintain very profitable total prices”*

- Africa Bank representative





# Promoting Transparent Pricing in the Microfinance Industry

MicroFinance Transparency is an NGO registered in the USA

