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ALL ACCOUNTING OFFICERS AND CHIEF FINANCIAL OFFICERS

OFFICE OF THE ACCOUNTANT-GENERAL PRACTICE NOTE 13 OF 2001

DISCRETIONARY DEDUCTIONS ON PERSAL: MICRO LENDERS

1. In terms of paragraph 23.3.3 of the Treasury Regulations, which were published in Government Gazette 22219 of 9 April 2001, the Accountant General may approve the issuing deduction codes, in terms of an agreement between the Accountant General and a person qualifying for such a code.

2. In the case of micro lenders, deduction codes are only granted for the consolidation of and the run-off of existing loans.

3. Various micro lenders' applications for stop order facilities are currently being considered by the Accountant-General and business agreements will be entered into between the Accountant-General and the lenders.

4. The business agreement is a comprehensive document in which the terms and conditions on which deductions codes are granted are stipulated. Attention is drawn to the following aspects of the business agreement which may affect a department directly or indirectly:

4.1 Establishment of a Loan Register

A requirement for the concluding of the agreement is that a computerised solution be provided by the lending industry enabling an interface to Persal established with the consent of Government and developed in accordance with the criteria established by the Accountant-General, comprising *inter alia*, a database of loans in respect of which loan deductions are permitted after 30 June 2001. The register will enable the Accountant-General to: -

- regulate loan deductions from Persal;

- assess loan affordability in terms of the conditions prescribed by the Accountant-General in the agreement; and

- verify whether the approved lenders are complying with the pricing rules and conditions prescribed by the Accountant-General in the agreement.

This register has been established and is currently operational. All transactions in respect of loan deductions will in future be advised by the lenders via the register. Departments will only be able to advise the termination of deductions on PERSAL under certain circumstances. Please refer to paragraph 8 (c) below in this regard.

4.2 Currently only two types of deductions are allowed on PERSAL in respect of micro loans, namely-

- Run-off of existing loans (Registered loans)
- Consolidation of existing debt (Consolidation loans)

Registered Loans:

A registered loan means a loan in respect of which loan deductions were registered on Persal as at 30 August 2000 and which is permitted, in terms of the 2000 Payroll Deduction Regulation, to remain so registered until 30 June 2001;

Consolidation loans:

A consolidation loan means the single loan which arises as a result of the consolidation of more than one registered loans or the consolidation of one or more garnishee orders with one or more registered loans, in accordance with the provisions of the agreement.

4.3 Installments in respect of existing registered loans that are payable to approved lenders may until 31 October 2001, continue on the existing basis. After the close of business on 31 October 2001, if the aggregate of all discretionary deductions allowed against an employee's salary exceeds the 25% affordability rule, the registration of those loans for loan deductions which result in the 25% affordability rule being exceeded will be cancelled on a "last in – first out" basis (which will be calculated after all loan deductions of non-approved lenders have been cancelled).

4.4 Existing loans of approved lenders will have to be repriced according to the criteria as prescribed in the Treasury Regulations and the business agreement and will in all respects have to comply with the prescribed pricing and affordability criteria, if the deductions are to be allowed to continue beyond 31 October 2001.

4.5 Attention is drawn to the fact that the business agreement determines that loans which qualify for loan deductions as at 1 November 2001 on PERSAL shall continue for the duration of the loan term unless-

a) the relevant employee leaves the employ of Government;

b) the relevant employee pays the Lender the settlement balance in respect of such loan;

c) the relevant employee dies or becomes disabled;

d) the relevant employee, in writing, instructs the Government to cancel the loan deduction: provided that the relevant employee deposes, in an affidavit, that he/she has in writing so advised the Lender of his/her intentions and that the Lender consents in writing to such cancellation (which has to be attached to the deposition); or

   that the Lender is unreasonably withholding its consent: provided that a Lender will only be regarded as unreasonably withholding its consent if he fails to respond within 14 business days, to a motivated request by the relevant employee for the Lender's consent; or

   the Lender refuses to consent to a cancellation in circumstances where the relevant employee will, unless the Government cancels the loan deduction, have a net-take home pay of less than R500.00 (FIVE HUNDRED RAND): and provided further that the provisions of this Clause shall not be construed as having the effect of impliedly repealing or amending the provisions of the 2001 Payroll Deduction Regulation; or

e) the Government is legally entitled or required to withhold the salary of the employee concerned.

4.6 Instatement of Cancelled Loan Deductions

Please note that, should the Lender hold an irrevocable consent of the relevant employee for the repayment of such employee's loan obligations to the Lender *via* loan deductions from such employee's salary, the Lender shall be entitled to have its loan deductions in respect of any registered loan (i.e. loan granted before 30 August 2000) or consolidation loan, if such lender is approved as a consolidation lender, to such employee reinstated on Persal provided such loans comply with the pricing and other requirements set out in the agreement. The employee naturally has the right to instruct the Department in writing to cancel the deductions but the conditions as mentioned in paragraph 4.5 (d) above will then apply. In view of the fact that the number of deductions that are being cancelled as well as new garnishee orders that are issued are taking on alarming proportions, it is contemplated to adapt the control file to limit the number of users per department who are authorised to approve such transactions on PERSAL. Further details in this regard will be furnished in due course.

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ACCOUNTANT-GENERAL

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