

New accounting rules signal rise in loan charges

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NAIROBI. Bank borrowers face higher monthly loan repayments as lenders shorten credit tenures following the new global accounting standards.

The new accounting standard, among other measures, requires banks to immediately start setting aside cash for the loans they advance to risky borrowers.

This is a departure from the cur-

rent rule where banks start setting aside cash when a borrower defaults on loan repayment.

Shortening of the loan repayment period is likely to help lenders cut costs of maintaining unsecured facilities, said Barclays Bank Kenya CEO Jeremy Awori, following the implementation the stringent conditions in accessing loans when the International Financial Reporting Standard (IFRS) 9 took effect this month.

“With IFRS 9, once you move to where a customer has defaulted,

you have to provide for the life of the loan,” Mr Awori said.

Shorter loan tenure

“So if you have got a longer tenure loan, you have to provide more and that’s where we could start seeing a shortening of the tenures of the products which had moved out to 84 or even 96 months for unsecured loans. I expect that to start shortening.”

Those paying Shs827,000 (Ksh23,268) monthly for a Shs35m (Ksh1 million) loan of 60 months bor-

rowed at 14 per cent interest will pay Shs1.2m (Ksh34,177) when they take a similar credit with a repayment period of 36 months.

Monthly repayments for a Shs177m (Ksh500,000) loan will increase to Shs605,000 (Ksh17,088) from Shs412,000 (Ksh11,634), reflecting an increase of 31 per cent, when subjected to a similar shortening.

IFRS 9 has been adopted to build buffers against unforeseen shocks drawing from lessons during the 2008-9 global financial crisis.