



Interest Rates
Advisory Centre

Verifying the Cost of your money

21st September 2016

PRESS RELEASE

In the public interest, Interest Rates Advisory Centre (IRAC) wishes to inform all consumers of Banking and mortgage services the following:

- The recently enacted **Banking (Amendment) Act, 2016** introduces Section 31A and 33B to The Banking Act cap 488 of the Laws of Kenya to put a control on interest rates that will be charged on loans.
- The said Act has caused a lot of confusion in the industry with regard to how banks would implement this new Act so that borrowers can benefit from the cap in interest rates.
- The lack of direction and supervision by the regulator whether deliberate or not has given the banks the freedom to introduce charges to cover for loss in interest income.
- IRAC would want to sensitize the public and remind the banking sector that **Section 44 of The Banking Act** cap 488 of the Laws of Kenya is still in existence and needs no further direction or explanation for its operation.
- The section for the purpose of clarification says *“No institution shall increase its rate of banking or other charges except with the prior approval of the Minister.”*
- So then, have the new charges being illegally loaded on borrowers been approved by the Minister? Does the regulator intend on cautioning the rouge banks or taking disciplinary measures as provided for by The Banking Act?
- It was expected that aside from lowering the base rate from 10.5% to 10% the Central Bank of Kenya would not leave individual banks to interpret section 33B (1) of The Banking (Amendment) Act, 2016 to circumvent the interest rate cap in order to maintain their profit margins.
- There is already for many years an outstanding issue of illegal, un-approved bank charges. This should not now be compounded in an effort to defeat interest rate caps.

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