

NOTICE PERIOD and PENALTY INTEREST - HOW DOES THIS ACTUALLY WORK?

We are often asked the above question, so we thought it best to do a short write up on the topic!

All banks charge 90 days' penalty interest once they receive notice from a property owner, of the intention to sell and cancel an existing home loan (mortgage bond) in terms of their loan agreements with us. What this means is that if the bond is in fact cancelled within the first 90 days of the bank receiving such a notice, then over and above the normal interest that remains payable on the bond during that time, the bank may also charge this "penalty" interest. It basically boils down to additional (penalty) interest for those 90 days.

However, what is important to note is that the 90 days commences as from the day that notice is given, and with every day that passes, the penalty becomes less. In simple terms, let's say the penalty interest for those 90 days was R9000, and the bond is settled/cancelled on the 60th day, then the bank will only collect R3000 as penalty interest.

If a seller therefore wants to avoid paying penalty interest, it means he/she should give the bank notice as soon as he/she decides to give an agent a mandate to sell, so that the 90 days can start to run as early as possible. If the seller does not give notice him/herself, then the 90-day penalty period will only commence once the transferring attorneys call for cancellation requirements, and that is often much later than the date when a mandate was first given.

Lastly, one must also bear the following in mind: Once the bank activates the 90-day penalty period, they will probably freeze any access facility on the bond. If a seller therefore intends to still draw funds out of the home loan facility, this must be withdrawn before notice is given to the bank. Secondly, once the penalty clock starts to tick, the bank will also require the bond to be cancelled within a certain time after the 90 days has lapsed. In other words, one cannot give this notice and then only sell a year or two later. All the banks have different cut off dates, and all sellers must be advised to check with their particular bondholder how much time is allowed after the 90-day penalty period has run out. One is therefore not required to cancel on the 90th day to avoid interest for example (as some people think). One does have a grace period of around 180 days after the 90 days has lapsed – each seller must check with his/her bond holder to be sure because it differs from bank to bank. If they miss this deadline, a fresh notice must be given, and the 90 days starts all over again.