

BANKING & FINANCE ALERT

SARB issues consultation paper on Prime Rate demise

The South African Reserve Bank ("SARB") published a consultation paper on 16 February 2026 with proposals to demise the prime lending rate ("Prime Rate") and designating the Repurchase Rate ("Repo Rate") (to be called the SARB policy rate or SPR) as its replacement.

The difference between Prime Rate and Repo Rate

The Monetary Policy Committee ("MCP") of the SARB sets the Repo Rate which is the rate that the SARB (as central bank) lends to commercial banks in South Africa and is based on overnight, secured transactions and is a fluctuating rate.

The Prime Rate on the other hand, is not set by the SARB but is quoted by major banks in South Africa. It is a fluctuating interest rate used by major commercial banks to lend to their most trusted borrowers and has been consistently set at 3.5% above the Repo Rate for many years. Banks may then add or subtract a further margin depending on the risk determined by the bank for a particular borrower. The practice has been that banks published their own Prime Rate rather than a reference rate that closely tracks to the SPR which the MCP considered undesirable.

Lenders use different benchmarks to calculate interest depending on the type of loan, the term (duration), the risk profile of the borrower and what security the borrower can provide. Another rate banks use is the Johannesburg Interbank Average Rate ("JIBAR"). JIBAR's demise is already well underway and will be fully phased out by 31 December 2026 with the new replacement rate being ZARONIA.

Lessons learned from JIBAR demise

The process implemented by the SARB and lenders in the JIBAR demise process will be informative in the process to demise the Prime Rate. However, as the Prime Rate is usually used in consumer products, including retail mortgage loans, vehicle finance, consumer credit cards etc. there will be unique differences to the approach used. Some of this will include more of a hand-holding process with less sophisticated borrowers.

The demise of the Prime Rate will result in an onerous re-documentation process and clearly the sooner this process is started, the better placed a lender will be. Dealing with consumer re-documentation requires a methodical approach focused on regulatory compliance, clear customer communication and the use of standard but robust amendment or "fallback" language.

SARB recommended strategies for lenders

The consultation paper identifies three essential steps to prepare. This would include:

- Reviewing legacy impacted contracts (including reviewing the remaining tenor of existing loans)
- Implementing fallback language clearly defining the replacement rate and any spread adjustments on the occurrence of clearly defined trigger events;
- Setting the fallback spread at the current fixed spread of 350 bps above the Repo Rate;
- Drafting standard fallback language, approved by management, to reduce a variability in amending language and to prevent legal disputes;
- Inclusion of fallback language in new contract templates;
- Adjusting business operations to facilitate the switch;
- IT system upgrades;
- Developing effective communication strategies as many retail borrowers will be impacted;
- Evaluating legal considerations to mitigate transition risks.

The SARB recognises that it may not be feasible to amend existing retail contracts given the wide range of Prime Rate linked products and the impact of consumer protection laws in the retail market (for example the Consumer Protection Act). This may result in the inclusion of safe harbour provisions in such legislation.

The SARB recommends that lenders engage in active transition at the beginning of 2027 at the earliest and SARB will engage in a data collection exercise and consultation with relevant stakeholders.

Legal strategies that can be considered are prioritising contracts to identify the method of amending legacy contracts which can be achieved by way of:

- **Amended and Restated Contracts:** This is best for complex loans to consolidate all changes in one document
- **Overriding Amendment Agreement / Letter / Notice:** A simpler approach for less complex loans where a generic amendment document is used without redoing the entire contract



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