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Your guide to loans

As the cost of living continues to skyrocket, many of us are forced to borrow money, whether it's for a deposit on the flat you want to rent or whether you are trying to survive until pay-day, we are all a bit strapped for cash at some point.

Loan process

Thanks to the wonderful world of technology, some loan companies now allow for a simple online application process which uses your ID number as a way of determining some of your credit information, checking for things like defaulted payments or judgements against your name. If all is well in terms of your credit score, the required documents are e-mailed to you, you print them out and fax them through to the lender and the process is completed once the credit provider is 100% sure that you can afford it, the myriad of lending legislation is checked by law.

Loans rates and fees

Typically, the money is usually available in your bank account within a couple of days, but while these sorts of loans are convenient, it is important to remember that the interest you pay on these loans can be quite costly and you will end up paying a lot more than what you originally borrow.

South Africa has one of the strictest lending policies in the world and the National Credit Act or the NCA is there to help protect consumers who get into credit agreements with lenders. There is a regulator which sets the maximum fees and credit rates lenders can charge, so before you sign a credit agreement all these rates and fees should be made available to you. If you are not happy with the rates and fees provided to you by a certain lender, shop around.

Before you even consider borrowing money it is important that you make sure you can genuinely afford it. When drawing up your budget make sure that the estimated monthly repayment is affordable and that you still have some room to breathe in case of unforeseen eventualities- see how much you'll be left with and ask yourself if you can sustain yourself on that amount.

This is where the NCA plays yet another vital role. Registered credit providers have to run credit checks on each of their prospective clients in order to determine their monthly expense commitments.

Affordability will vary from credit provider to credit provider and the type of loan that is being taken out. For instance, a home loan will not be granted if more than 30% or 35% of the household income. Personal loans and credit cards would be easier, but the affordability calculation is not standardised.

It is imperative to be honest to your credit providers with regards to your affordability and disclose all other debt obligations to them. Your credit provider will also consult credit bureaus about this information.

Forms of borrowing

When you borrow money you make a commitment to paying it back over time. The period over which you will pay off your debt will depend on how much money you borrow and what for, and of course the agreement with your lender.

Short/mid- term borrowing – the main types of borrowing you may choose to use are short and mid-term loans, such as personal loans (also known as short-term loans), credit cards, bank

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overdrafts, vehicle finance, store cards and in-store finance, which is sometimes referred to as hire-purchase or a credit agreement.

Long- term borrowing – there are fewer types of long-term borrowing, but they include long-term personal loans and mortgages, also known as home loans and bonds. Debt consolidation is another long-term option because this is usually a form of mortgage that is secured on a property.

Other forms of long-term borrowing in other parts of the world include second charge loans or secured loans, which are again loans secured against a property. Also growing in popularity in South Africa are equity release mortgages, designed for older people.

Only get a personal loan if you know you can make the repayments. If you are looking at a personal loan because you are struggling to pay off other debts, then debt consolidation or debt management might be more suitable.

All loans can be categorised in to two main groups, namely secured and unsecured loans.

Secured loan

A secured loan is a type of loan that offers credit providers the security of being able to resell should you not be able to repay the loan as per the credit agreement. This loan is therefore less of a risk to the credit providers and the interest is, as a result, typically lower than that of an unsecured loan.

Examples of secured loans

Home loan – A loan that is granted by a bank, mortgage company or other financial institution in order to purchase a house.

Vehicle finance loan – A loan taken out from a financial institution to finance the purchasing of a car.

Unsecured loans

An unsecured loan is type of loan that offers no security to the credit provider as they do not have the option of resale. For this reason the interest rate on these loans is usually more expensive than that of an unsecured loan. These loans are advanced to the consumer on the basis of their credit history and assessed ability to repay.

Examples of unsecured loans

Pay day loans – A relatively small amount of money borrowed at a high interest rate upon the agreement that the provider will be repaid on the debtor’s next pay day.

Personal loans – Loans granted to a consumer for personal use e.g. medical expenses, family needs, education, household repairs etc.

Credit card – A card is issued by a bank or other financial institution or retailer and allows the card holder to make purchases on credit.

Student loans – The money borrowed from a financial institution to fund studies at an educational institution, usually for tertiary education.

Peer to Peer loans – This institutes the borrowing of money to non-related individuals without going through a traditional financial institution.

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