

# JUST MONEY

## Your guide to personal 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.

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, heaven forbid, 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.

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.

### **What is a personal loan?**

A loan is when you borrow a sum of money from a credit provider and have to pay that money back over a period of time. Personal loans, also known as unsecured loans, are loans that you take out with a bank or lender that is not secured against any asset, for example your house.

A personal loan can be used for a variety of things, such as paying school fees or to pay for home renovations. These loans are best suited for people who need instant access to money.

As it is an unsecured loan, the interest rate on a personal loan is generally higher than the interest rate on a secured loan, such as vehicle finance. The loan repayment will be carried out over a set agreed timeframe, with applicable interest and fees included in the instalments.

Personal loans are available from a number of financial institutions, including banks and loan providers.

### **Can you afford a personal loan?**

South Africa has one of the strictest lending policies in the world and the National Credit Act (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! There are better deals out there and you don't have to settle for what is first offered to you.

Before you even consider borrowing money it is important that you make sure you can genuinely afford it. This doesn't only mean knowing that you can pay back what is owed now, but would you be able to continue to make these payments if you were to have your salary cut by 10%. 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.

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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 – you might be default and judgement free, but if you have too many other debts to pay off, you're unlikely to qualify for further credit.

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 your affordability and disclose all other debt obligations to them. Your credit provider will also consult credit bureaus to see if you have any other debts and how much they amount to so there is no point in lying about this information. You could be listed as a responsible borrower, a credit risk or a slow payer – all depending on how you have handled previous repayments.

## **What do I need to apply for a personal loan?**

The application criteria for a personal loan can vary according to the loan provider. However, there are a few standard documents that all loan providers will require. These are:

- A copy of your bank statement (some creditors may require more than one month's bank statement),
- Your South African ID book (some loan providers will not provide loans to foreign nationals),
- Proof of residence, usually not more than three month's old, and
- Your most recent payslip (some credit providers may require up to three month's payslips).

Furthermore, when applying for a personal loan, you have to be 18 years or older and employed. If you are a contract worker or are unemployed, some loan providers may not consider you for a loan as you are a risk when it comes to repaying the loan.

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.