

Should a need arise, Borrow Wisely - cautions the Credit Regulator

For Immediate Release

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Despite interest rates coming down 5% since the start of the rate cutting cycle in December 2008, the economy remains depressed and the national Credit Regulator (NCR) continues to see a monthly average of 9000 consumers applying for debt counselling. "Consumers still need to be highly responsible and conservative when borrowing money" says Peter Setou, Senior Manager: Education and Strategy at the National Credit Regulator (NCR).

Consumers should rather see the interest rate relief afforded to them over the past year as an opportunity to pay off debt quicker. They should not simply borrow more unless there are compelling reasons for doing that. Nevertheless, it is paramount that consumers are au fait with their rights as borrowers in order to protect themselves from unscrupulous lenders. We believe that an informed consumer is an educated consumer.

Before signing any agreement, Setou says consumers should have a detailed plan of how such debt will be repaid, and the implications of every single clause should be understood. "Otherwise, consumers could find themselves significantly worse off. Particular attention should be paid to 'no-deposit required' offers as these can prove to be highly expensive in the long term."

Setou highlights that credit includes a range of financial products such as credit cards, clothing accounts, overdraft and long-term and short-term loans. "Consumers need to take their entire debt profile into consideration when considering further borrowing."

The National Credit Act aims to regulate the credit granting industry, curb reckless lending and ensure that consumers are protected from harmful lending business practices. Setou says these rights become far more effective when consumers actually know what they are. "When seeking out credit, consumers should be aware that interest and fees are regulated by law, and that the advertising and marketing of credit must contain prescribed information on its true cost."

"Another key technique to wise borrowing is to shop around and compare interest rates and other costs. Consumers should be fully aware of what total monthly payments will be as well as what additional charges such as insurance will be."

According to Setou, a credit provider must not enter into a credit agreement unless it has given the consumer a pre-agreement statement and quotation in the prescribed form. Use this quotation to compare costs against different lenders. Only sign the agreement if you understand its implications for you. The credit provider must also provide the consumer with a copy of a document that records the final credit agreement.

Tips for consumers when borrowing:-

- Make the loan term as short as possible - Avoid paying over too many months as it will cost you more in the end;
- Make sure you understand the terms and conditions of the credit agreement; total monthly payments, including insurance and all other charges before signing. Also take into consideration the interest and other charges as well as how this will affect your ability to save;
- Shop around and compare interest rates and other costs from different credit providers before entering into an agreement, use the pre-agreement statement and quotation to assist you to compare;
- Remember credit including loans cost money – make sure that you can afford to repay the loan or credit you have taken out and still meet your necessary living expenses to avoid being caught in a debt cycle;
- Plan the repayments before you apply for a credit card, clothing card, overdraft etc;
- Draw up a budget on a monthly basis and stick to it;
- Start saving consistently and seriously for your retirement years from the day you get your first job. Put aside at least 15% of your income every month in a safe investment;
- Only borrow what you need. Do not take out credit for things you can pay cash for or those that you can save money for and pay cash at a later stage.

Setou also advises that consumers should look at the longer term and aspire to moving out of being continually indebted to actually building up some reasonable savings. If consumers have already over-borrowed and are struggling to meet repayments, Setou recommends that consumers should negotiate payments with their credit providers. Only approach a registered debt counsellor if you cannot resolve your problems with your credit providers. It is important to know that you are not allowed to get further credit whilst under debt counselling.

To get hold of a registered debt counsellor,
please contact the NCR on 0860 627 627 or log onto www.ncr.org.za

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