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Media Release

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If you have to borrow, borrow wisely!

The festive season is over and reality has dawned that we are in a new year which is meant to at least bring all things new. Unfortunately, if consumers did not spend wisely during last year, this will mean that they will have to start the year on a tough note with taking out credit being the only option for some. Didi Sebothoma, Acting Manager: Education & Communication at the National Credit regulator (NCR) says there are many reasons why consumers might need to borrow at this time of the year. It may be because of reckless spending last year, loss of jobs, unplanned costs such as medical, death etc.

We have seen some consumers battling financially last year as the VAT increased and petrol increases making things expensive for consumers. However, statistics from the National Credit Regulator shows that the consumer credit health has slightly improved from 38.9% to 37.4% .This number signifies consumers / accounts that are three or more months in arrears.

“Consumers who need to borrow money to get by should only borrow from registered credit providers”, says Sebothoma. “They should never leave their bank cards, SASSA cards, PINs and identity documents with credit providers”, he adds. It is a criminal offence for a credit provider to take and retain consumers’ instruments. Consumers should also refuse to pay any upfront payments before they are granted a loan. They should report credit providers who charge them such fees to the National Credit Regulator.

Amongst, other things, the NCR regulates interest and fees that credit providers should charge consumers when they take out credit. There are different interest rates for different credit types and most of these are calculated using the repurchase rate (repo rate). The repo rate remains unchanged at 6.75%. For mortgage agreements, the maximum interest rate credit providers can charge a consumer is 18.75% per annum. Credit facilities which include credit cards, overdrafts and petrol cards is 20.75% per annum; unsecured credit transactions which consist mainly of personal loans is 27.75% per annum; developmental credit agreements is 33.75% per annum; short-term transactions is 5 % per month on the first loan then 3% per month on subsequent loans; other credit which includes furniture and vehicle finance is 23.75% per annum; and incidental credit is 2% per month.

Credit providers are also allowed to charge consumers an initiation fee. This is a fee charged to consumers for entering into credit agreements with credit providers. An initiation fee may never exceed 15% of the principal debt. A service fee can also be charged by the credit provider for servicing the credit agreement and it must not exceed R60 excluding VAT.

Other fees that credit providers can charge include credit life insurance which will cover the credit agreement in case the consumer dies, gets retrenched or disabled whilst they still owe the credit provider. This fee is also capped.

There is also a default administration charge which is a fee chargeable by credit providers if the consumer's account is in arrears. It basically relates to costs incurred by credit providers in advising the consumer that their account is in arrears. Collection costs are costs incurred by a credit provider in attempting to collect outstanding or overdue debt from a consumer. They can also charge costs of an extended warranty agreement, delivery, installation, initial fueling charges, connection fees, levies or charges, taxes, license or registration fees.

Sebothoma advises consumers to get a pre-agreement statement and quotation when seeking credit as these will outline the cost of credit for the proposed agreement. "Consumers should not rush to signing anything at this point until they are clear and certain", he adds.

He concludes by advising consumers to aim at paying off their debt and building up savings over the longer term.

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About The National Credit Regulator

The National Credit Regulator (NCR) was established as the regulator under the National Credit Act 34 of 2005 (the Act) and is responsible for the regulation of the South African credit industry. The NCR is mandated with the registration of Credit Providers, Credit Bureaus, Debt Counsellors, Payment Distribution Agents, and Alternative Dispute Resolution Agents; and monitoring their conduct in compliance with the National Credit Act as amended. The National Credit Regulator offers education and protection to consumers of credit in promotion of a South African credit market that is fair, transparent, accessible and dynamic.

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