African Bank Ltd press release

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Get loan savvy with these top 5 tips

Most people have to take out some sort of loan in their lifetime. Whether it's a short-term loan or a longer-term loan, it's important to be smart and make sure you know what you are getting into before signing on the dotted line.

Firstly, understand exactly what a personal loan is. Essentially it is money borrowed from a bank or other credit provider that you pay back as a fixed monthly loan repayment. A personal loan is an unsecured loan, which means it is not backed by collateral (which is what your home is when you take out a bond – the bank always has your home as security and can sell it to recover the debt, if necessary).

Also, not everyone can take out a loan. You must be over 18 to apply for a loan and will need to produce a recent proof of income which reflects at least three salary payments (i.e. payslips) and a recent bank statement reflecting three salary deposits.

Research from African Bank has shown that the top five reasons for taking out a loan include: home improvements followed by education/fees (college or school); family member assistance/loan; assistance with funeral or other 'specific' big item payment/purchase and last but not least, to consolidate finances.

Neil Thompson, Head of Product and Customer Value Proposition at African Bank, says, "If you are considering a loan, one of the first things you should do is speak to a professional. We speak to experts when buying a car or considering a medical procedure, for example, so the same should apply to our money. A financial advisor at your bank would be more than willing to talk you through the ins and outs of loans and what would make the most sense for you. Otherwise speak to a family member or a friend whom you trust and who is financially savvy and ask for their advice."

He offers these 5 tips that could be discussion points with your financial advisor and will make you smarter about loans:

1. Understand the true cost of the loan

When you are shopping around for the right loan make sure that you compare apples with apples. The true cost of a loan takes into account the interest payable, any other charges and when the payments are due. Some banks say that they offer preferential rates to their current account customers but you might still find there are more affordable loans available elsewhere. So, shop around and get all the facts before comparing loans.

Also find out what happens if you miss a payment. Are there penalties, how is it handled, and so on.

2. Check your credit rating and the small print

Before applying for a loan check your credit rating. This can be done annually free of charge through several bureaux. If your credit rating is not in good shape, you may be offered a more expensive deal.

Also, before you apply for a loan, check the small print to see if you're eligible. Some lenders have many conditions that have to be met before a loan is granted. By only applying for loans that you are eligible for, will cut out a lot of admin and minimise the chances of a rejected loan application.

3. Ask about early repayment charges

Did you know that some lenders charge you if you pay back your loan earlier than the time frame agreed upon? It's a good idea to check how much this charge will be before you apply for a particular loan. If you think there is a good chance you will want to settle your loan early, it may be worth searching for a deal that comes without any early repayment charges.

4. You may save more by borrowing more

In general, the larger the loan the lower the interest rate. So, there's a chance that you may actually save money by borrowing slightly more. An extra R500 on your loan, for example, may bump you up into a better interest rate bracket which may save you money over the repayment period.

5. Don't apply for too many loans and consider consolidation

Having lots of applications on your record makes you look desperate or in financial difficulties and could jeopardise your chances of getting a loan. Rather do your homework and apply only to where you meet the criteria and there is a good chance of securing the loan.

Also, if you have existing loans you may want to consider debt consolidation. Consolidation loans are especially helpful if you want to simplify your credit by settling other debt and turning several loan payments into one cost-effective payment. They are a great solution for those that need help with debt.

"Remember that good planning ahead of taking out a loan can make all the difference in terms of sticking to repayments and budgeting," concludes Thompson.

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