African Bank Limited press release

September 2017

The real cost of credit

When you need money for an emergency or are unable to afford something that you really want or need, credit can offer benefits and can assist you

However credit isn't free, warns African Bank. Initiating credit with any bank entails interest, service and initiation fees added onto the required amount, which means you pay an increased price for the money that you borrowed when you finally pay that amount back. It is definitely worth shopping around to find the best deal possible and important to compare offers from a few credit providers before you decide to accept an offer.

African Bank's Group Executive: Sales, Branch Network, Mellony Ramalho points out that when you apply for credit, it is important to ask for a quotation or a pre-agreement that shows the different fees and costs that will be added to your agreement. "This will ensure you are fully aware of the total amount of money that you will end up paying. Some of the fees mentioned in your quotation or pre-agreement could be included in your regular instalment or it may show as an extra amount to be paid. Make sure that you know the difference," says Ramalho.

Here are some of the fees and charges that you may see in your pre-agreement:
African Bank suggests that you make sure you understand and agree to them before signing your agreement.

Interest
This is the amount that a credit provider charges you on the outstanding balance of a credit agreement. It is shown as a percentage of the principal amount. The National Credit Act has set the maximum percentage of interest that you may be charged depending on the type of credit agreement. It is definitely worth taking note of interest rates. They may look like small percentages, but they make a big difference to the total cost of your credit. The lower the interest rate, the lower the instalments and the total cost of your credit.

Loan term

The interest rate is not the only factor to look at. The term of the credit is also important. Longer terms mean smaller instalments, which is a good idea if you want more affordable monthly payments. On the other hand, the total cost of credit will be higher because interest is charged over a longer period so it is worth looking at various term options.

Initiation fee
This is a once-off fee that credit providers charge you to enter into a credit agreement. The credit provider must give you the option to pay this fee up front and with no interest.

Service fee
This is a fee that a credit provider charges you for servicing, administering or maintaining the credit agreement. Credit providers can charge this on a monthly, annual or transactional basis.

Asset insurance or vehicle insurance

Credit providers may require you to have insurance cover for the asset you are financing - for instance a home or vehicle.

You may obtain your own asset insurance cover or request that the credit provider supplies you with such cover, but the credit may not be approved unless you have insurance cover in place.

Credit life insurance (depending on the credit agreement)
Credit providers may require you to take out credit life insurance for the term of the agreement, which would settle your debt in certain events such as death, disability or retrenchment.

The policy should stipulate the exact type of cover provided and which events are covered. Taking credit insurance is always a good idea but again you need to remember that you don't have to take out credit insurance from the same credit provider. Make sure you compare the cost of the credit insurance separately and choose one that suits your needs and affordability.

Remember, you don't have to take out credit insurance from the same credit provider. Make sure you compare the cost of the credit insurance separately and choose one that suits your needs and affordability.

As mentioned earlier it is important for you to get quotes from a number of credit providers so that you can compare your options, including the costs, and choose the best one to suit your needs based on what you can afford.

"Ask the consultant about all of the fees and make sure you understand your pre agreement when you sign the document. Maybe even take a friend or family member along who has some financial understanding with you to the meeting so that you can both ask questions and better understand the agreement," concludes Ramalho.

Ends

Visit the African Bank website or like them on Facebook

PREPARED ON BEHALF OF AFRICAN BANK BY CATHY FINDLEY PR. CONTACT JACQUI RORKE ON JACQUI@FINDLEYPR.CO.ZA OR (011) 463-6372 WITH ANY CONSUMER PR QUERIES.