

African Bank Ltd press release

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## Understanding loans

Most people have to take out some sort of loan in their lifetime. “During Covid-19 we have seen a large increase in the number of people looking for a loan to tide them over. Unfortunately we are also seeing many people who just cannot pay off their existing loans. Many South Africans are experiencing financial hardship at the moment and we are constantly looking at ways we can ease their financial burden,” says Neil Thompson, Head of Product and Customer Value Proposition at African Bank.

Thompson says before taking out a loan it is very key you do your homework and do not get scammed by any unscrupulous credit providers.

You need to 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.

Thompson says, “If you are considering a loan, one of the first things you should do is speak to a professional. 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.”

He offers these 6 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.

### 2. What if I miss a payment or pay in lump sums

The most important thing to remember is you have to repay your loan every month to avoid being flagged as a lapsed payer or incurring interest. “We were contacted by a woman recently who paid her loan off in lump sums four times a year. She calculated she owed R500 a month and paid R1 500 every four months, believing the payment would be covered for the next three months. It was only on claiming her credit insurance that she discovered that she had been flagged as someone who missed her payments. “This is because loans don’t allow for forward payment of instalments. When you pay a lump sum,

it goes to settling the capital, so while it reduces the amount she owed, and therefore her monthly instalment, she still owed the instalment every month,” explains Thompson.

## **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 or monthly through the African Bank site. 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 you 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 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.

## **6. I have an existing loan but I have lost my job and cannot pay my instalments**

Credit Life insurance is the first option to consider. All new personal loans taken out in South Africa since August 2017 are covered by extended Credit Life insurance. Credit life is an insurance cover that a consumer is compelled to take up when applying for a credit card or a loan. For employed people, it covers the monthly instalments of up to 12 months in the case of loss of income/retrenchment, short time and compulsory unpaid leave. It also provides cover of instalments for up to 12 months in the case of temporary disability.

In the case of permanent disability and death, the outstanding balance of the credit facility is settled.

Loan or credit card customers who qualify should use their Credit Life insurance policy to cover their full monthly repayments on their loan for up to 12 months.

You are eligible for this provided your monthly instalments are up to date.

“Moving forward we are definitely looking at ways we can make loans more accessible to self employed people for example who do not get regular monthly salaries. We are looking at how we can innovate around more flexible payment options that are not necessarily based on a monthly payment profile. We already have a weekly option which allows our customers to fit this in with their payment schedule, but we appreciate we need to do more to assist our customers,” concludes Thompson.

Ends

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