

Conserve credit in 2013

Consumers are urged to review the cost of borrowing, as home loans may cost only 8-12% in interest on outstanding amounts but credit cards can cost up to 22% interest every month and short-term loans can cost as much as 60% interest, making repayments onerous.

Before taking on debt, the Credit Ombud, Manie van Schalkwyk urges consumers to make sure they understand the true costs of borrowing and payment conditions.

"You can end up paying many more times what you borrowed in interest alone," says Van Schalkwyk. "Interest rates differ for long term debt such as home loans and short term debt such as credit and store cards.

"Borrow as little as possible. Borrowing to fund your children's education or a home loan can be a good thing, but taking on debt to pay off other debt or fund luxuries such as designer clothing can condemn you to a lifetime of always being in the red."

Managing garnishee orders

Consumers should investigate debt consolidation offers from banks thoroughly - these are loans that offer to combine all one's debt into one loan agreement. "It may be easier to manage on repayments, but make sure you are not paying a very high interest rate on both your long and short term debt."

Consumers should also be aware of garnishee orders, which allow credit providers to deduct repayments from one's salary, after one has defaulted on the original debt repayment arrangement.

"Make sure you understand exactly what you are signing, what costs are involved and how much will be deducted from your salary each month. In some cases we find employees taking home next to nothing after deductions of garnishee orders."

He warns that it can be a lengthy and costly legal battle to change garnishee orders, so do not be afraid to ask all the questions up front and at the time of signing a consent to judgment document.

Consumers' rights

Under the National Credit Act (NCA), it is your right as a consumer to be given a pre-agreement statement and quotation when seeking credit. These will outline the terms and conditions of the proposed agreement and all costs involved such as cost of credit, interest, service fees, initiation fees, credit insurance, deposit required, number of instalments, date of first instalment and last instalment.

"You must know what is expected of you prior to signing the credit agreement. Be aware of exactly how much it will cost you and for how long. If you don't understand something, take your time and ask for assistance." It is also a good idea to take the agreement away and read it at home, or even to compare it to another offer from a different credit provider.

Consumers should never sign a blank credit agreement, as they will not have control over other information added after they sign. The loan agreement should also contain all other charges that will be added. "Only borrow from a reputable credit provider otherwise you will have no recourse if things go wrong later on."

Disclosure is key

Another key factor in the borrowing process is ensuring that the credit provider has all the necessary information for the affordability assessment. These are undertaken to ensure that you do not borrow more than you can afford and become over-indebted.

"If you become over-indebted and cannot repay your debt, credit providers can attach your assets, such as your home or car, or deduct the money directly from your salary. Not only could you end up in lengthy and expensive court battles, it may even affect your job prospects, so it's better not to borrow recklessly in the first place."

If consumers find themselves running behind on their repayments, they should contact the credit provider as soon as possible and before the account is handed over for collection and legal action. They may be willing to negotiate a payment holiday or reduce your instalments.

"The quicker you seek out help, the quicker you will be able to get out of debt," he concludes.

Wise borrowing tips:

- Budget. What is the difference between how much income a family earns and what its total expenses are each month? Will they be able to pay for their debt once they have covered all expenses? What if interest rates go up, how much more will they be paying? Consumers should also plan for unexpected costs; such as an accident or a family member is retrenched.
- Borrow as little as possible. As a rule of thumb one should not borrow more than 35% of income or one could run into trouble on repayments. Put aside at least 15% of income every month in a safe investment for retirement.
- Honesty is the best policy. Disclose all the information required to the credit provider, particularly for the affordability assessment. If one is dishonest, one could lose the protection offered by the NCA against reckless lending.
- Pay on time, every time. Paying late will adversely affect the credit rating and possibly the ability to take out credit in the future. If one thinks one cannot meet the monthly instalments, call the credit provider immediately and try to re-arrange payments. Do not wait until payments are skipped.
- Home loan comes first.
- Check one's credit report regularly. This way one is able to identify any errors and correct them. Under the NCA, a credit bureau must provide one free copy of a credit report each year from each of the eleven registered bureaus. Additional copies cost between R20 and R30 excluding VAT.

The office of the Credit Ombud enforces fairness in credit, credit bureaux and debt counselling matters and can be contacted on +27 (0)861 662837 or www.creditombud.org.za.