Part 3 of 4

Collect all 4

the money guide

Tips and tools for financial success

Understanding credit

How to bank safely

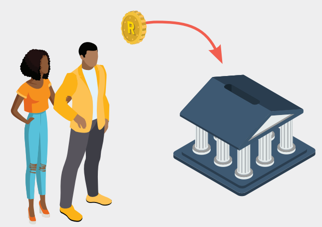
CAPITEC

understanding credit

Almost everyone uses credit at some point in their lives, so it's important to understand how to use it.

The difference between credit and debt

Credit is the amount a credit provider is willing to lend you. How you use credit will affect how much you are allowed to borrow in the future.



Debt is what you owe. This is money you have already borrowed and are paying interest on, for example, a credit card or home loan.

How debt works

When you borrow money, you don't repay only the money you borrowed. You also pay costs called interest and fees. These costs are what makes debt expensive, so it is important to use credit carefully and only when you can afford it. Some debt is more expensive than other debt. The higher the interest rate, the more it will cost you to repay it.

The total cost of credit

The total cost of credit is the whole amount you have to pay over the lifetime of an agreement.

Original amount borrowed + Interest charged + Initiation fee + Service fees + Credit insurance = Total cost of credit

Monthly instalment **x** number of months over which the money must be repaid **=** total cost of credit

Your affordability

Use your money plan to check your affordability.

Your income		**Living expenses**		**Other payments**		**Affordability amount**
R	-	R	-	R	=	R
Income after salary deductions such as tax, policies and medical aid. (If you have variable income, calculate the average net income received into your bank account for the past 6 months.)		Deduct all your necessary living expenses.		Deduct all other payment obligations such as existing debt repayments, insurance and savings.		This is the amount of money left to repay the credit. When you know how much money you can spend on repayments, you'll know how much credit you can afford. Remember that you may need to give up on certain wants when you apply for credit.

Find the best credit offer

1. **Know what you can afford.** You shouldn't have to compromise on any necessary living expenses, existing payment obligations and savings in order to afford the debt.
2. **Compare options.** Not all credit providers charge the same, so compare the options and decide what will work for you.
3. **Know the total cost of credit** over the full term of the agreement.
4. **Choose a registered credit provider** with a good reputation. They must comply with the law and respect and protect your rights as a consumer.

Good credit decisions

Credit can benefit you if it is used to invest in your future, e.g. paying for your studies, buying a car that is necessary for your work, buying a house or doing home improvements.

Answer yes or no to these questions

Is borrowing money the only way I can get what I need?

yes no

Is my employment and/or income stable?

yes no

Can I afford to repay the monthly instalment (after deducting living expenses, insurance and savings)?

yes no

Will I be able to repay the instalments on time, every time, until the full amount is paid off?

yes no

Do I know what my credit report looks like?

yes no

Do I understand the full amount I'll need to pay back when I add all the fees and interest?

yes no

If you answered "no" to any of these questions, you might need to rethink your decision to get credit.

Repaying credit

Repaying credit is often the fastest way to improve your financial health. This is because the interest you are charged on credit is usually higher than the interest you earn when you save.

If you can add even a little extra to your credit instalment each month, you will pay less interest over time and your debt will begin to decrease more quickly.

Different repayment options

Let's consider 3 payment scenarios for a personal loan of R100 000. In the example below, the interest rate is 20% and the term of the loan is 60 months (5 years). The minimum repayment each month is R2 649. All fees are excluded for these scenarios.

		Total borrowed	Total repaid	Months to repay
Scenario 1	Minimum repayment is paid every month for the duration of the loan.	R100 000	**R158 963**	**60**
Scenario 2	In month 6, the borrower misses a payment. From month 7, they reschedule the loan and the monthly repayment is reduced to R2 200 for the remaining duration of the loan.	R100 000	**R188 051**	**86**
Scenario 3	From the first month, for the duration of the loan, the borrower pays R500 more than the minimum repayment every month (R2 649 + R500 = R3 149 monthly repayment).	R100 000	**R143 541**	**46**

The smart way to repay: the snowball method

The snowball method is a debt-repayment strategy that focuses on repaying all your debts, starting from smallest to largest. Here's how it works:

1. List all your credit accounts and their balances, ordered from smallest to largest.
2. Keep paying the minimum repayments on all of your accounts.
3. Using your money plan to review your expenses, find an amount you can add to your debt repayments every month. Use this money to pay more than the minimum on your account with the smallest balance. Keep doing this until the account is paid off. Now, add that full repayment (the minimum plus extra amount) to the repayment on your next smallest debt. Keep repeating this step until all of your accounts are repaid.

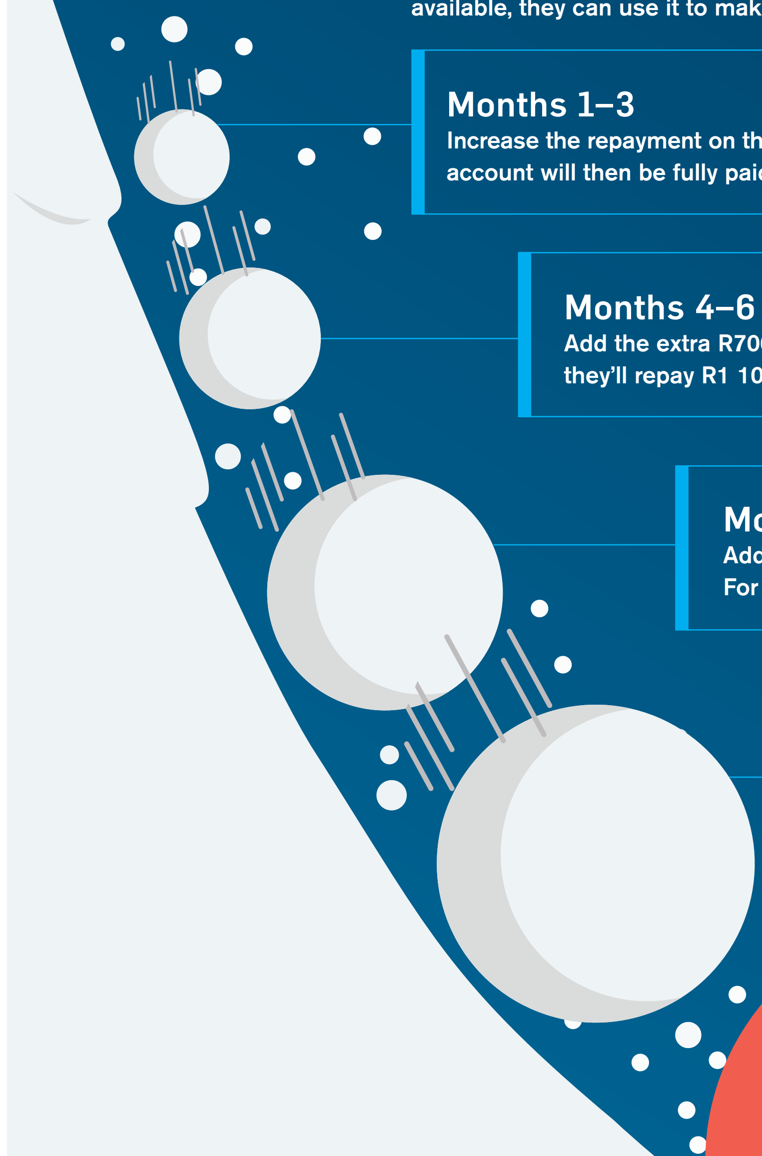
You'll find that with each debt you repay, your progress on the next account will become faster – like a snowball rolling faster as it grows.

How John and Nandi can use the snowball method to pay off their debt

They have the following outstanding credit balances:

Account and balance	Minimum repayment	Interest rate	Months to repay
Clothing account: R2 000	R200	19.5%	11
Store account: R4 000	R400	19.5%	11
Personal loan: R12 000	R500	20.2%	31
Credit card debt: R18 000	R1 000	15.0%	21
Total owed: R36 000			

If they use their money plan and reduce their expenses so they have an extra R500 a month available, they can use it to make additional payments as follows:



Months 1–3

Increase the repayment on their clothing account by R500 to R700 per month. Their clothing account will then be fully paid off at the end of 3 months. They now have R700 a month.

Months 4–6

Add the extra R700 to the R400 payment on their store account. For 3 months they'll repay R1 100 monthly on their store account until it is fully paid off.

Months 7–13

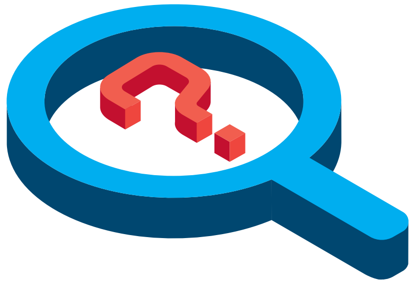
Add the R1 100 to the R500 repayment on their personal loan. For 7 months they'll repay R1 600 monthly until it is fully paid off.

Months 14–16

Add R1 600 to the R1 000 repayment on their credit card balance – repaying R2 600 monthly means it will be paid off in 3 months. They will be debt-free!

The final numbers

It will take John and Nandi **16 months instead of 31 months to pay off their debt,** and **they will save R2 219 in interest.** They will then have R2 600 per month to save towards their money goals.



Know your rights

Your rights under the National Credit Act

The credit agreement must be clear and easy to read.

A pre-agreement quote is valid for 5 days.

You are entitled to know why your credit application was unsuccessful.

Taking up credit with a registered credit provider means that you have protection against reckless lending.

Credit provider fees and interest are regulated.

You can get help if you are over-indebted.

You are entitled to one free credit report a year from a registered credit bureau.

The National Credit Regulator (NCR) can help you if you have any questions – call 0860 62 76 27.

Questions to ask about a credit agreement

How should I make payments, how many payments will I have to make, and what are the dates of the first and last payments?

How often will I receive statements, and how will they be delivered?

What are the fees and interest that I will pay?

How will my information be shared with credit bureaus?

How does the credit insurance work? In other words, how will my debt be covered in case I lose my job or otherwise become unable to earn an income?

What are my rights and obligations if I want to pay off my debt faster?

Banking safety

Cellphones

Never leave your **phone unlocked**.

Don't share your mobile banking or remote banking **PIN** with anyone.

Whenever possible, **make use of your bank's app** – this will always be **the most secure way to bank from your phone**.

Never use free wireless hotspots to sign in to your banking app.

Don't believe any SMSs claiming to be from your bank that ask you to confirm personal details, banking information, PINs or a transaction.

Bank cards

Don't share your ATM card **PIN** with anyone.

Ensure that **no one can see your PIN** when entering it at the ATM.

Never accept help from strangers at ATMs, even if they are friendly and well dressed.

Avoid ATMs that are dimly lit or surrounded by loiterers. And **never allow your children to draw money for you**, as they are most vulnerable to perpetrators.

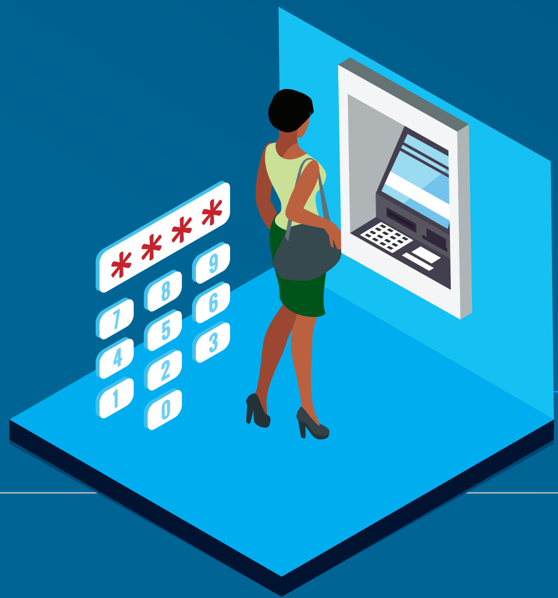
Follow the instructions on the ATM screen carefully.

Only enter your PIN when prompted to do so by the ATM.

Do not insert your card into the ATM **if the screen does not look familiar to you**, as it could have been tampered with.

Set a **daily withdrawal limit** that will meet your needs. You can always increase the limit on your banking app should you need to draw more cash than usual. This way you will protect yourself, should your card and PIN be stolen.

Contact your bank immediately if your card is lost or stolen, or stop it on the app or at your nearest branch.



PIN numbers

Keep your ATM and cellphone app **PIN safe and secret** – never share it with anyone.

Memorise your PIN; never write it down.

A bank, or any staff member of a bank, will never ask for your PIN, so **if anyone asks, be suspicious** and never share it.

Don't save your PIN on your cellphone or in your wallet in case it gets stolen.

Conditions apply. Fees include VAT.
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