

NDMA advises consumers to borrow wisely

Before taking loans in this still tough economic climate, the National Debt Mediation Association (NDMA) warns consumers to borrow and manage their debt wisely.

"It is tempting to purchase things you might not otherwise be able to afford on credit, but debt can be a major drain on your finances and dent your long-term financial goals," says NDMA CEO, Magauta Mphahlele.

She says just because lenders may be willing to give you a loan, does not mean you should take up the loan or the full amount offered.

"Before taking on credit make sure that you have enough money to cover your regular expenses, emergencies and future price increases. Taking all these factors into consideration, can you afford the repayments on the money you borrow over the term of the loan, in addition to what you already owe?"

Important expenses to consider include household and car maintenance, school fees, transport, food and municipality bills. It is also important to set money aside or have insurance to cover emergencies like illness, death and retrenchment. She suggests drawing up a budget to determine regular expenses and income. Under the National Credit Act (NCA), lenders are also required to do a thorough affordability assessment to ensure that you can afford to repay the debt.

"Make sure you honestly disclose all your expenses and are upfront about how much other debt you already have. You do not want to get into a situation where your loan is possibly reckless and you lose your rights to claim reckless lending."

She also warns against borrowing money from some informal lenders that may not comply with the law, especially about the interest they charge and their collection methods. "All lenders, whether registered or not, are required to comply with the NCA and it is important for consumers to understand their rights and obligations. The retention of ID books, bank cards and pin numbers is outlawed and should be reported to the National Credit Regulator (NCR)."

She adds that consumers should also be aware of garnishee orders. These allow the lender to deduct repayments directly from a salary after the obtaining of a court order by the credit provider. In particular, be aware of signing blank consent forms or any other document that consumers do not understand. Consumers can approach the NDMA for advice if they are not sure of what their rights or options are.

It is also important to be proactive in handling any repayment problems. Contact the lender or the NDMA as soon as one thinks one may not be able to make a payment, as one may be able to work out a solution. If one falls behind on payments and one does not act early, one may also face late payment charges as well as collection and legal fees, which can add up to many times the amount initially borrowed.

Borrowing tips:

- *Understand your rights and obligations:* Know your rights and obligations as this will ensure that you make the right decisions. More importantly know your options and where to go in case problems arise.
- *Borrow within your means:* Only borrow what you can afford and try as much as possible to borrow for essential things like a house, a car, small business, education etc.
- *Make your payments on time and in full:* You may think missing a payment is not a big deal, but doing so without the lender's permission will negatively impact your credit rating and you could pay more interest in the long run.
- *Understand how much interest you will pay:* The amount of the loan and the time you take to repay the loan will have a big impact on how much you'll spend over the life of the loan. Make sure you understand how interest is calculated and what the loan will cost you after all other fees and charges are included.
- *Be aware of all the fees:* Lenders can charge you a range of fees including up-front initiation, and monthly service

fees. Credit cards may charge annual fees, and additional fees for certain transactions, so find out what costs you will be paying and factor this into your budget. If credit life insurance is included, ensure that it is reasonable, that you have the policy document and you understand the claims conditions and procedure.

- *Shop around:* Credit costs money, so compare different interest rates from different lenders. In addition to ensuring that the interest rate you are charged is legal; also check the terms of the loan and the period over which you will pay back.
- *Read the small print:* Do not feel pressurised into signing a loan agreement without taking the time to understand the conditions. It is also your right to ask an independent person to explain the terms to you in the contract before you sign.

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