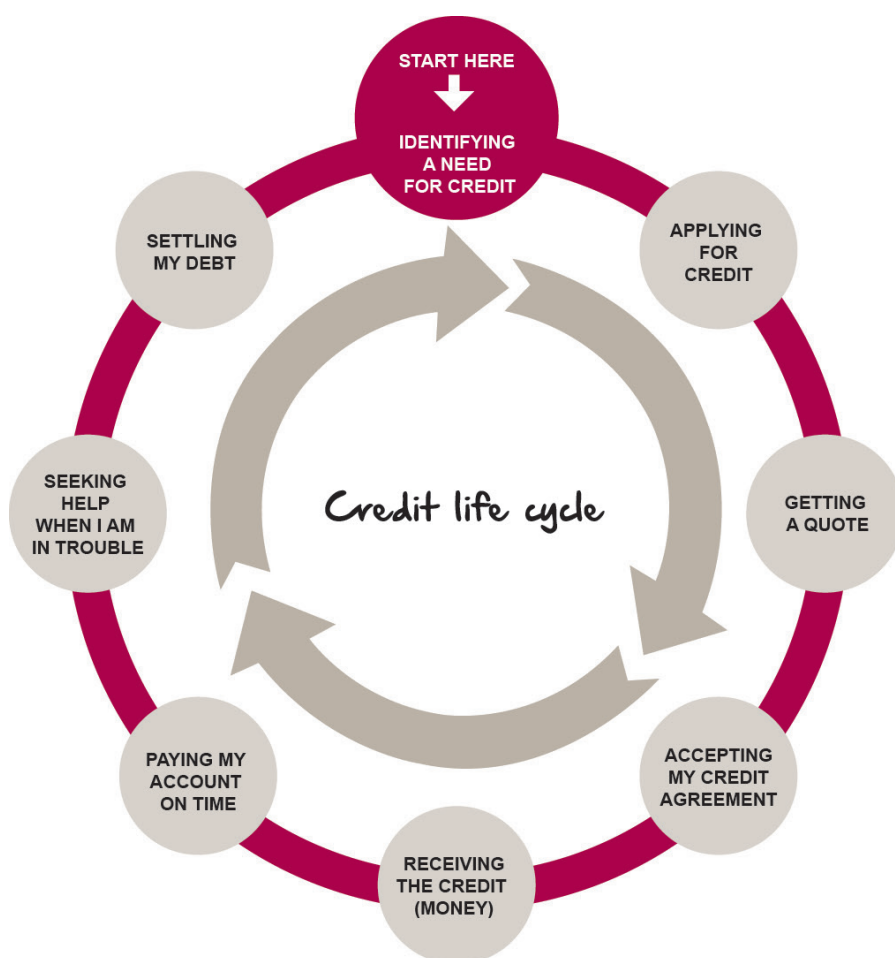




# Understanding the basics of credit

Are you credit savvy? Do you know the basics of credit to help you achieve financial success? It is important for you to understand credit in order to use it well.

To understand credit, you need to understand the credit cycle and that this process starts with identifying your need for credit. Credit has its benefits and consequences. You should only apply for credit for the right reasons, if you can afford it and if you have budgeted for it.



### What is credit?

### FAQ

Credit is the ability of a consumer (you) to obtain money, goods or services from a credit provider without immediate payment, based on the agreement that **payment will be made** in the future, usually with interest and other charges added.



### Credit Health Tips

There are reasons why credit is necessary, but there are also bad uses of credit. The following should be avoided:

- Using credit for any reason when you know you cannot afford the monthly payment.
- Using one credit account to pay another credit account, unless it is a consolidation loan.
- Being in the habit of using credit to make ends meet or buy everyday items. For example, buying groceries and paying for it over a long period of time.



Benefits of credit	Consequences of credit
<ul style="list-style-type: none"> <li>You can build a credit history for when you need to make a big purchase, for example a home.</li> <li>Credit can help you when you need money for an emergency.</li> <li>Enables you to buy needed items or assets now and pay it off over time.</li> </ul>	<ul style="list-style-type: none"> <li><b>Credit is not free: Interest, service, initiation fees and other costs are added, which means you pay a price for the money you borrowed.</b></li> <li>Financial difficulties may arise if one does not use credit responsibly and within one's means, leading to a debt spiral and over-indebtedness.</li> <li>Increased impulse buying may occur, because it is easy to overuse and buy more than you can afford to repay.</li> </ul>

### Role of credit bureaus

A credit bureau is an organisation that records all credit applications, credit agreements, payment history and payment behaviour, as well as other consumer credit-related information. The information stored by the credit bureau is a combination of both positive and negative information and it is a vital tool to enable responsible access to credit.

The credit providers themselves make the decision about whether or not to grant you credit. The credit bureau only supplies the information about your credit history to the credit provider.

To avoid any unwelcome surprises, it is important to get a copy of your credit report before you apply for credit. You must check the credit report carefully for any errors or inconsistencies, and dispute these with the credit bureau.

You can get one free credit report every year from any one of the registered credit bureaus in South Africa.

### Take Note



Credit providers have different requirements to process an application for credit. They may also require different documents to those mentioned. You should therefore contact your credit provider and ask what documents you will need before you apply.

You should ensure that when you apply for credit that you give all information as fully and truthfully as possible.

### Credit application documents

Some of the documents and information a credit provider may request to determine creditworthiness and affordability are:

Documents required to apply for credit	Documents required for credit assessment	Information required
<ul style="list-style-type: none"> <li>South African ID or valid passport</li> <li>Proof of address (FICA documents)</li> <li>Marriage certificate or written spousal consent (if married in community of property)</li> <li>Ownership (title deed/bond statement/rates and taxes account/copy of deed of sale/transfer documents)</li> </ul>	<ul style="list-style-type: none"> <li>Latest 3 months' payslips, and/or</li> <li>Latest 3 months' bank statements, and/or</li> <li>Latest three documented proof of income, and/or</li> <li>Latest financial statements for a self-employed consumer, and/or</li> <li>An employment letter</li> </ul>	<ul style="list-style-type: none"> <li>Personal information</li> <li>Number of dependants</li> <li>Employment details</li> <li>Income, expenses and other committed obligations</li> <li>Disclosure of sequestration, administration or debt review</li> </ul>



## Making a decision to apply for credit

Debt is not our enemy; bad credit habits are. You should use credit well and wisely. In order for you to ensure that you are making the right decision, you should follow these steps:

Step 1	Look at your budget and determine if you can afford to take credit at this time and how much you have available for credit repayments.
Step 2	Shop around for the best deal. Compare credit products and determine which best suits your needs. Do not be tempted to take more than you need.
Step 3	Look at any hidden costs and check all fees and charges, and read the small print.
Step 4	Ensure that the credit provider you have chosen is reputable and registered. This is important because it means they comply with the law and will respect and protect your rights as a consumer.
Step 5	Once you have chosen a credit provider, go back to your budget and see if you can afford the monthly instalment shown on the quotation, and still have an amount saved for emergencies. If yes, you can proceed.

### Take Note



There is a cost of credit, strictly regulated by legislation in South Africa. It includes interest, an initiation fee, service fees, and possible insurance. These are all added to your principal (capital) amount.

That is why it is very important for you to get quotes from a number of credit providers so that you can compare your options and choose the best one to suit your needs based on what you can afford.

## Credit shopping list

When shopping for credit, there **are important aspects to consider** before taking any credit product.

- Why am I borrowing? Is it a need or a want?
- What is the total amount of money I am borrowing? Will it be enough (does the amount match my need)?
- What is the amount that I will pay every month, and can I afford it for the full term of the credit offered?
- How stable is my income or employment? Do I see a foreseeable change in my income due to life events?
- What are all the fees and costs associated with this credit product? Can any of these be negotiated?
- What is the total cost of the credit for which I am applying, and have I compared quotes from different reputable and registered credit providers?
- Is it a fixed rate or a variable rate product (based on the prime rate)? How often can the rate change? How often can my payments change?
- For mortgage loans: Does my payment include only principal and interest, or are my property taxes and homeowner's insurance premiums also included?
- When the term expires, will the balance be completely paid off or will there be a balloon payment due?
- For credit cards: What are the charges for purchases, balance transfers and cash advances, and how and when might those rates change? Are there any other costs associated with my card, such as late payment fees or an over-limit fee?
- With all these costs and fees added, as well as value-added features such as credit life insurance, can I still afford my monthly payment?



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