

African Bank Limited press release

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Can you afford a loan?

You need to think carefully before you decide to take out a personal loan. Some people make the mistake of taking out personal loans to pay for their short-term goals such as a dream wedding or holiday or even a favourite designer outfit. Most financial experts will however caution against this.

Though the reasons for taking out a loan are endless, personal loans are most commonly used for consolidating debt, medical bills, home repairs or improvements, emergencies, car maintenance, education and funeral expenses. They are also sometimes used as a necessary stopgap when extra funds are needed. Whatever your reason for considering a loan, remember a loan must be used both smartly and sparingly. With this in mind you may be wondering if you qualify for a loan?

It all boils down to affordability. Mellony Ramalho, African Bank's Group Executive: Sales, Branch Network, explains affordability is about how much money you have left after all your necessary expenses and financial obligations have been paid. This is the important portion which can be used to repay the loan you apply for. She says before any loan is granted your credit provider will use, amongst other information, the information on your salary slip and bank statements to check if you are able to repay your loan. "Your status with the Credit Bureau, physical identification, and historical performance on loans are also factored into account," she says.

"It is important to appreciate that the assessment of the customer affordability is done in two parts, the first ensuring compliance with the NCA Affordability guidelines, and the second according to the Bank's own credit risk model affordability calculation, based on a repayment to income ratio model.

Each lender works off their own credit scoring model so there is not one set agreed formula. Based on their specific formula they will work out who will get credit and how

much credit they should get. Credit scoring is a highly dependable assessment of a person's credit worthiness since it is based on actual data. The lender generally bases his formula on a large sample of previous customers with their application details, behavioural patterns, and subsequent credit history available.

She recommends before you even approach your bank, you should work out your own affordability to avoid disappointment:

- Start by taking your monthly income after all statutory deductions such as UIF, pension and tax have been deducted.
- Then you need to subtract all your necessary expenses such as your bond or rent, transport/car repayments and food
- Once you have subtracted those costs you need to look at any other financial obligations such as other debt repayments, insurance and policy payments, cell phone, school fees for your children etc.
- Only then will you have an accurate picture of how much money you have left over at the end of each month. This is referred to as your discretionary income.

Ramalho says when it comes to reasons for loan applications being rejected, the main ones include affordability and bureau information. “We often see loan applicants trying to get more credit when they already have debt that they are struggling to pay off. We also encounter many applicants who have a bad credit rating with the credit bureaus because of missed payments on loans.”

It is therefore equally important to check your credit profile.

So what is a credit profile? “It all starts with information from the Credit Bureau,” says Ramalho. The organisation records all credit applications, credit agreements, payment history and payment behaviour, as well as other consumer credit-related information. “Your information - both positive and negative - is stored by the Bureau. Importantly to get good credit, it helps if you have existing credit.” Ramalho explains that good credit

profiles are gained when you borrow money and pay it back on time and for the full amount. Having a good credit profile enables you to borrow more money on more favourable repayment terms.

If you default on payments your credit profile is affected, which could make it much more difficult for you to obtain credit in future years. “While adverse legal information is cleared as soon as the account is settled, the negative repayment history however remains for a couple of years,” explains Ramalho.

It is important to understand your credit profile as this affects whether you are granted credit and may even impact on the interest rate you are charged. “If you are perceived as ‘high risk’ your loan will either be rejected or could be charged at a higher rate,” she says.

You can check your profile at any one of the credit bureaux and you are entitled to one free credit check every 12 months. Contact either: TransUnion - 086 148 2482; Experian - 086 110 5665; Xpert Decision Systems (XDS) - 086 112 7334 or Compuscan - 086 151 4131.

If you find you have an unhealthy credit profile, investigate the reasons listed. A big part of fixing your credit profile is determining what caused it to go ‘bad’ in the first place. Was it one dramatic incident, like a foreclosure or bankruptcy? Or was the problem a series of smaller things, like late and missed payments that went on for a period of time?

Important information that you should take note of on your credit report includes the following:

- Whether all personal information is up to date, including your address, contact details, etc.
- Whether any accounts have been opened fraudulently in your name
- Whether any enquiries reflect on your credit report are made by Credit Providers you have no relationship with.
- Whether any accounts that you closed reflect as open on your report

- Whether any accounts that are still open reflect as closed on your report

There are a number of ways to improve your credit profile. It starts by keeping outstanding balances relatively low on credit cards and other credit accounts. High outstanding debt can affect your ability to repay credit, so importantly only apply for and open new credit accounts as and when needed and don't open accounts just for the sake of it. "Rather pay off debt than simply move it around," says Ramalho.

"It is never too late to begin working towards an improved credit profile. After all, it could be the difference between you being able to purchase your dream house, finance a vehicle, pay emergency medical expenses or further your studies one day," concludes Ramalho.

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PREPARED ON BEHALF OF AFRICAN BANK BY CATHY FINDLEY PR. CONTACT JACQUI RORKE ON JACQUI@FINDLEYPR.CO.ZA OR (011) 463-6372 WITH ANY CONSUMER PR QUERIES.