



## The key is to know the basics and take it from there!

As you leave school and move on to other stages of your life, you may require a little help, financially speaking. For many people, this help comes in the form of bank loans. No longer are they the stuff of your parents' conversations, but an increasingly necessary part of your financial future. They are something you need to consider and understand so that when the time comes, you can make the most informed decisions possible.

School-leavers, students and working adults take out loans for many different reasons: unexpected repairs or other expenses, further education, a car or a start-up business. But loans can be complicated: full of numbers and confusing stuff!

## Why Would I Need A Loan?

- To have money to spend on cool stuff? Wrong. A loan needs to be repaid, so wanting one just because you need cash doesn't qualify. You can get a job for that.
- To go to university, start your own business or buy a car? Right. Loans are there to provide you with cash so that you can do things to further yourself that your current bank balance won't allow for.

## Am I Eligible For A Loan?

- You must be a South African citizen or have permanent South African residence.
- You must have an ID book (see Apply for an ID Book, Passport and Visa).
- Most banks require you to be 18 or older and you must provide proof of income like a payslip, so the bank knows that your financial situation will enable you to repay the loan.
- Banks may also ask you for surety or collateral. Surety is when a family member or friend is required to guarantee that they will pay the loan back in case you can't. Collateral is asked for when the bank is loaning a large sum of money, as start-up capital for a business for example. Collateral means that the bank can take possession of your other assets - like your car, house or furniture - should you be unable to repay your loan.
- If you're applying for a student loan you'll need documents to prove that you're studying. Some banks may also require a certain pass average.
- Finally, you'll have to have a good credit rating if your loan application is to succeed.

## What Types Of Loans Are Available?

Different loans are designed to suit specific needs. Banks usually divide loans into 2 types: home loans and personal loans.

A **home loan** is exactly that: a loan that allows you to buy a home. It's also called a bond or mortgage. A lot goes into buying a house, like finding one that suits your lifestyle and pocket (see Buy/Rent a Property).

Different banks have different names for the types of personal loans they offer. Some of the basic ones are student loans, revolving loans and flexi loans, as well as loans to start your own business. There

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are a lot of details when it comes to personal loans, which is why it's important to see a loan consultant at a bank to find the right type of loan for you.

### **How Much Should I Apply For?**

You should only apply for the amount that you need and can afford to pay back, so don't get greedy. Banks also have minimum and maximum limits depending on your financial status. Limits can be as low as R1 000 and as high as a few million Rands (usually for a start-up business).

### **What Do I Need To Know About Getting A Loan?**

If banks simply loaned money and asked for the same amount back, they would be making no profit. So banks charge interest (a percentage of funds) on the loans they give, with the result that you have to pay back more than you borrowed (see Open a Bank Account). You may also have to pay administration fees, service charges or legal fees when taking out a loan.

**First of all, make sure you go to a well-known bank - not some loan shark. Going to an established bank means that everything is legal and above-board. It also ensures that you're protected.**

**Loan sharks can loan you money, but they don't insist on a legal agreement with proper documents. It's usually a verbal agreement, which doesn't count for much when it comes to money. There is no structure to your repayments and loan sharks often charge very high interest on the amount they loan you. They can also demand most or all of their money back whenever they want to and if you don't have it, they can cause trouble for you!**

Loan repayments are set amounts that you have to pay the bank monthly and they are subtracted from the total amount that you owe. You can repay the bank for a period of as little as 6 months (for a personal loan) to as long as 240 months (for a home loan).

Banks charge interest according to the standard interest rate set by the Reserve Bank (see The South African Economy). This means that your interest can go up and down. Check with your bank what the amount will be, as this will be an additional payment over and above your loan repayments. For example, if your loan repayment is R500 a month and your interest is R200, then your total loan repayment will come to R700 a month. Also keep in mind that each individual bank determines its own prime interest rate (the rate that it uses to lend money to its best customers).

### **How Do I Apply For A Loan?**

You can apply for a loan on most banks' websites, but it would probably be better to make an appointment to see a consultant personally so that you can have any questions answered there and then.

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**Banks are usually quick to lend you money and just as quick to ask for it back. Make sure you understand your repayment terms and if you have any questions, ask. It's your money! Read the fine print (legal and other details, usually at the back of a contract and usually presented in very small writing) and ask questions if you don't understand. It might also be a good idea to take someone (like your mother or father) with you when visiting the bank in case they catch something you missed.**

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