

## **SOUTH AFRICAN CREDIT ACT GUIDE 2007!**

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Will home loans become tougher to get with the new National Credit Act of South Africa?

Well let's explore some of the affects of the new credit act...

"Expect home loan approvals to get a bit tougher when the New National Credit Act comes into force on June 1st," says Gerhard Kotze of ERA South Africa property group.

Well is this entirely true? The Credit Act is there to prevent people from spending money they don't have. It's there to help the banks manage the massive **CREDIT DEBT** this country has and it's to stop **RECKELSS LENDING** of money by the banks.

The act puts banks and other lending sources on the spot with possible consequences for them if they found to have advanced loans irresponsibly (responsible lending ACT).

It's all to do with what's known as predatory lending practices and it's a global issue. What's more important is that Real Estate professionals and [Bond Originators](#) now have an added responsibility in this whole scenario, as intermediaries between home buyers and the banks. Having said that though, consumers/buyers need to watch their credit commitments and tailor their home loan application and the price of the home they buy accordingly.

### **CREDIT CREDIT CREDIT - It's time to watch it.**

**What is a CREDIT RECORD? Your credit record is exactly what it says, it shows your entire credit history which includes what loans you have applied for and what accounts you have opened as well as any negative credit listings where you may have fallen behind on payments or have a judgment or several judgments against you.**

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For instance, one of things to take into account is the bond term you apply for. The typical bond loan is over 20 years, but bonds of up to 30 years can be obtained, in which case your monthly costs will be lower but your debt over the longer period would be considerably greater.

Another thing to remember is the total cost of the buying transaction involved? Fees such as [transfer duty](#), [bond registration](#), [conveyancing fees](#) and other costs. It's really good idea to included these costs in your bond application (see [108% bond](#)). This would make it a whole lot easier for you to buy a property but the additional cost would increase your total debt in terms of the **New Credit Act of South Africa** .

IT COMES DOWN TO THE NEED FOR BOND PLANNING. MAKE SURE YOU HAVE A [GOOD ADVISOR](#)

So, before you commit to a property, it's sensible to first establish the availability of bond finance based on your credit status. Don't just go and sign that OFFER TO PURCHASE even if it's on condition of sale of your existing property and obtaining bond finance until you know where you stand in terms of financing your property. It all sounds pretty elementary but believe it, when you're in the HEAT of PASSION buying that always dreamt of property, it's amazing what you'll overlook!

*Make sure you do your ground work and make sure you speak to someone that knows what they're doing.*

It's basically going to come down to the banks assessment of the RISK of the borrower in terms of the ability to finance the bond.

Wizard is NCA compliant!!

**Good news: As of now you are able to access you credit records free of charge once as year!**

**[GET YOUR CREDIT CERTIFICATION NOW!](#)**

### **How will this affect home loan finance?**

The new national credit act of South Africa will come into affect towards the middle of 2007, compelling the banks to ensure that their mortgage clients do not over extend their credit limit. Previously, the bond repayments were not to exceed 30% of their proven dependable income. The new act will now make the banks legally responsible for checking the applicant's full credit situation. On bond application, clients will be asked to declare their income as well as their expenses.

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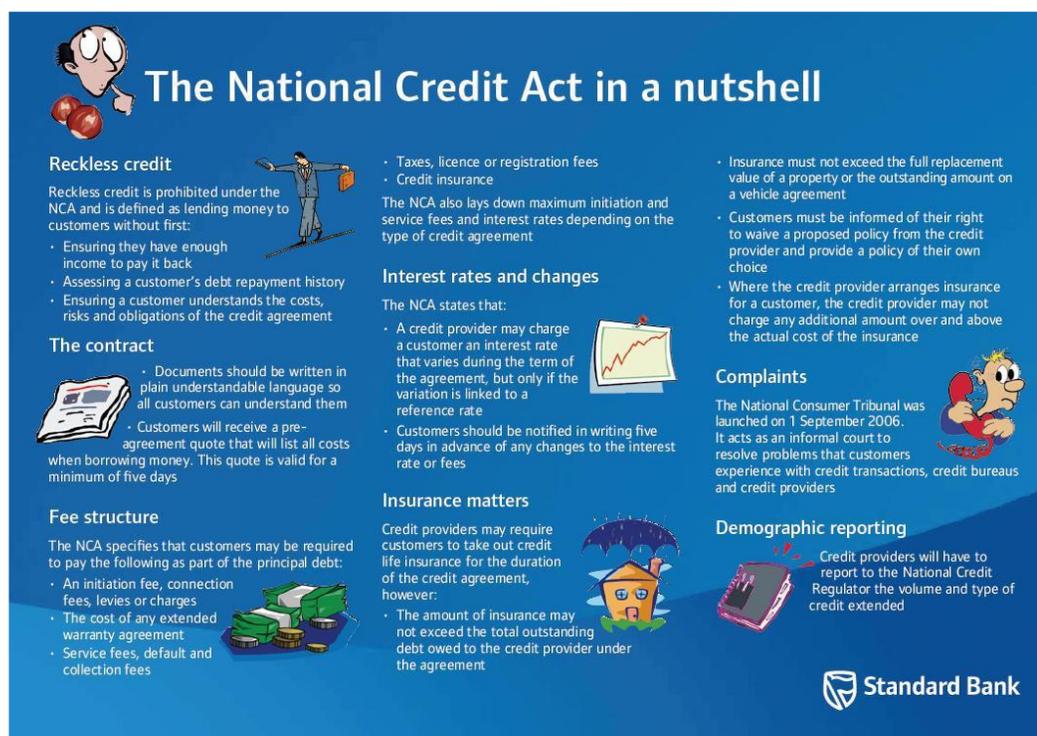
With the new act, the banks will have to be fastidious about ensuring that the client has declared all debt, for example car repayments, credit cards, retail accounts and any other debt the client may have; if they have another home loan; or a rental agreement (where applicable) it will also be regarded as a mandatory requirement.

Investors who invest in off-plan purchases may find it more difficult to obtain finance if they have mortgages with other financial institutions, thereby making multi-property ownership finance more difficult to secure.

The simple answer to obtaining mortgage finance is to make sure that your finances are in check as this will enable the bank to make a quick assessment of your affordability.

The interesting part about the new act is that if a bank does allow a borrower to over extend on their credit after disclosure of their financial situation, the bank could be sued by the borrower should the debt result in the borrower not being able to repay that debt, as well as incurring a possible fine for contravention of the act.

It also works in the bank's favour. Should the disclosure from the borrower not be accurate, the property could be repossessed and the client blacklisted.



## The National Credit Act in a nutshell

- Reckless credit**
  - Reckless credit is prohibited under the NCA and is defined as lending money to customers without first:
    - Ensuring they have enough income to pay it back
    - Assessing a customer's debt repayment history
    - Ensuring a customer understands the costs, risks and obligations of the credit agreement
- The contract**
  - Documents should be written in plain understandable language so all customers can understand them
  - Customers will receive a pre-agreement quote that will list all costs when borrowing money. This quote is valid for a minimum of five days
- Fee structure**
  - The NCA specifies that customers may be required to pay the following as part of the principal debt:
    - An initiation fee, connection fees, levies or charges
    - The cost of any extended warranty agreement
    - Service fees, default and collection fees
- Interest rates and changes**
  - The NCA states that:
    - A credit provider may charge a customer an interest rate that varies during the term of the agreement, but only if the variation is linked to a reference rate
    - Customers should be notified in writing five days in advance of any changes to the interest rate or fees
- Insurance matters**
  - Credit providers may require customers to take out credit life insurance for the duration of the credit agreement, however:
    - The amount of insurance may not exceed the total outstanding debt owed to the credit provider under the agreement
- Complaints**
  - The National Consumer Tribunal was launched on 1 September 2006. It acts as an informal court to resolve problems that customers experience with credit transactions, credit bureaus and credit providers
- Demographic reporting**
  - Credit providers will have to report to the National Credit Regulator the volume and type of credit extended

**Standard Bank**



## The National Credit Act in a nutshell

### Get all the facts

The NCA seeks to inform customers on these major issues:

- Quotations must disclose the full cost of the credit applied for including all fees
  - Interest rate payments and the effect of not paying a deposit
  - The cost of skipping payments and "free for the first six months" offers
  - Penalties, hidden costs and implications of compound interest on long-term loans



### Why does SA need the Act?

The NCA will ensure that:

- Credit providers lend money in a responsible manner
- Customers don't borrow more than they can afford to repay
- If customers are over indebted they can apply for debt counselling
- Customers are protected from unfair discrimination



### Credit Bureau information

Credit providers must:

- Ensure that the information submitted is accurate, up to date, relevant, complete, valid and not duplicated

- Give the customer 20 business days' notice before they submit their name to a Bureau

The Bureau must:

- Ensure that the information they hold is accurate, up to date and remains confidential and secure
- Any person may question the validity or accuracy of their credit record

### Can customers afford the loan?

- Credit providers are obliged to make sure customers can afford to repay their debt
- Customers will need to provide details on income and expenses when applying for credit



### Advertising and marketing

The NCA aims to stop misleading or deceptive advertising:

- Words like "no credit checks required", "free credit" and "guaranteed loans" cannot be used
- Negative option marketing where the credit provider enters into a credit agreement is not allowed without a customer's express consent



### No more pushy salesmen

The NCA specifically prohibits credit providers from:

- Harassing customers to apply for credit or to enter into a credit agreement
- Increasing the limits on a customer's credit card, overdraft or any other credit facility without their consent



### Spousal consent

Married in community of property? The NCA requires all customers applying for credit to obtain their spouse's consent

