

Read fine print on credit agreements

Credit Ombud, Manie van Schalkwyk advises consumers to regularly check the status of the outstanding amount of their loan and what charges they are being billed.

A recent complaint laid by a consumer with the Credit Ombud against a credit provider shows just how vigilant consumers should be when taking out loans. The consumer took out a loan of R5000 with a micro lender, but soon realised that he would not be able to pay back the loan as agreed.

"The credit provider put a garnishee order on my salary for R800 per month to recover the debt from October 2008 to March 2011," he explains. "The total amount I had paid by April 2011 was R24000, but I was told that I still owed R6760 on the loan."

The Credit Ombud investigated the case and found that the collections agent for the micro lender had acted in contravention of the National Credit Act (NCA) and was ordered to close the file and write off the outstanding balance. The Credit Ombud also issued a letter to the consumer's salary department, requesting that the garnishee be stopped with immediate effect.

"Credit providers are entitled to include a number of charges in a credit agreement, but these must be in line with the national credit regulations," says van Schalkwyk.

Costs which a credit provider is allowed to include in the credit agreement over and above the principle debt or capital amount include service fees, initiation fees, credit insurance and interest.

"The credit agreement must explain all the costs to the consumer. The consumer must, for example, be able to choose whether he or she cedes an existing life policy, instead of taking out credit insurance from the credit provider."

He says that monthly service fees are never allowed to be more than R50 plus VAT per month or R600 plus VAT per year. All interest and initiation fees are regulated under the Act.

"A consumer must also be made aware that should they default on a credit agreement, they are liable for collection and attorney fees as legislated in the Magistrates Court Act and Rules, Debt Collectors Act, High Court Act and Rules and the frameworks of the relevant law societies. Not paying back a loan on time can cost consumers far more than the original amount they borrowed just in interest and collection fees alone. The best way to avoid this is to make sure that you really can afford the loan in the first place.

"A consumer must be advised on the total amount that they will be liable for, inclusive of all applicable costs. Once you see

that something untoward is happening on your account or you suspect that you are being over-charged, you can complain to the Credit Ombud.

"Educating yourself about how much of the original loan amount and of the interest you are paying off will help you put a budget and financial plan in place to pay off your debt more quickly. Also beware of loan agreements that seem to offer very good terms - if you default you could end up sacrificing your financial freedom," he concludes.

For more information, go to www.creditombud.org.za.

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