Applying for credit

Each credit provider uses its own policies and rules in assessing your credit application, but you should understand the basics of affordability and creditworthiness as assessment criteria.

Being able to apply for credit, or qualifying for credit, does not mean you are ready to take it up. You need to be responsible enough to take up only what you can afford, and to pay your account regularly as per your agreement without being reminded. Getting credit before you are fully prepared can be disastrous for your credit profile or record, and can lead to over-indebtedness. Do not set yourself up for failure – understand credit, and your rights and obligations, before you apply.

Consumer rights in terms of applying for credit	Credit provider rights and responsibilities
The National Credit Act states that you have the right to: ■ apply for credit (not to get credit, because a credit provider has the right to decline it); ■ be protected against discrimination in the granting of credit; ■ be given reasons why credit was declined if requested; ■ receive documents, such as a pre-agreement statement and quotation or statements; and ■ receive information in plain and understandable language.	When applying for credit, the National Credit Act stipulates that the credit provider has the right to: ■ request permission to access your credit records from a credit bureau; and ■ decline credit, but must provide you with a reason why credit was declined if you request it. Remember that a credit provider's assessment and decision to grant you credit are based on the information you provide in your application. This is then compared to information it receives from your credit profile. It is your responsibility to give all the information as fully and truthfully as possible, because if you do not, it may lead to you being over-indebted or your application being declined.

Take Note

The National Credit Act has specific guidelines for calculating affordability. You can visit the National Credit Regulator's website at www.ncr.org.za for more information on the prescribed cost of credit.

Criteria to obtain credit

Credit providers want to be comfortable that the credit they grant will be paid back on time and in full. Therefore, they conduct a credit risk assessment to evaluate potential borrowers. Generally speaking credit providers make decisions about whether to grant credit, and the rates they will charge for the credit, based on a review of specific areas of your financial situation. Credit providers will normally consider the following criteria:

- **Are you able to pay it back?**
  This is a measure of your affordability and is your capacity to repay the loan on time. The credit provider will have to validate your gross income and determine whether you will be able to make the payments in terms of the credit for which you applied. If your monthly income varies, for example with overtime or commission, the credit provider will take an average of your income over at least three months (the last three months before you applied). It might also average your income over six months or a year, depending on the individual credit provider's internal assessment standards.

  The credit provider will also look at how stable your employment or income is. It might, therefore, look at how long you have worked for your current employer. Some credit providers even request a letter from your employer. Another consideration in determining your ability is how much you already owe and whether you will be able to afford the new credit while continuing to make payments on your current debt obligations. So, they need to determine how much your budget allows you to borrow at this time.

- **Do you have anything to contribute, for example a deposit?**
  For secured credit, such as vehicle finance or a home loan, a deposit would lower the amount of credit you are taking and would therefore also lower your credit repayments.

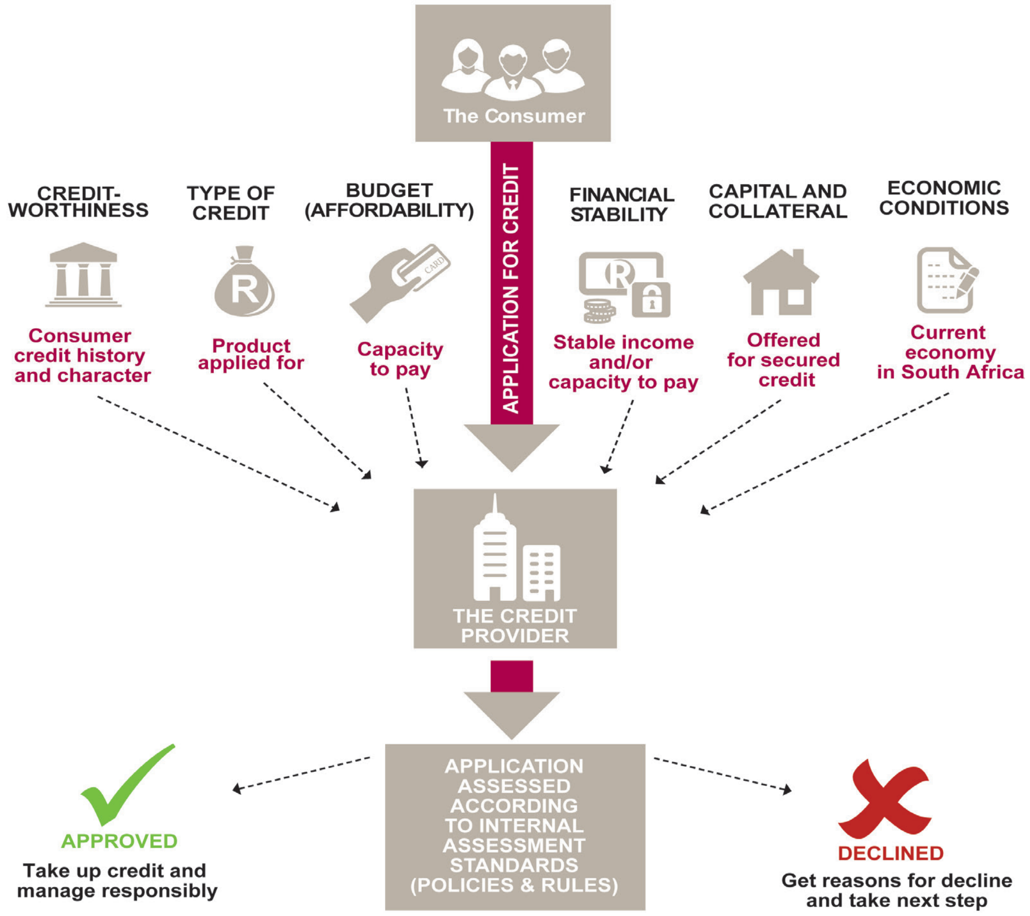
- **Do you have an asset to secure your loan?**
  Collateral is property or an object of value that a credit provider can take and sell in case of default. This would be if you were applying specifically for a secured loan. This would then lower the risk for the credit provider, and you may then be given a lower interest rate.

- **Will you pay if you can? Do you repay your debts as agreed?**
  In determining your creditworthiness, credit providers look at your credit behaviour. Here they will access your credit profile from a credit bureau and will check their own credit records to see whether you have a previous relationship with them. By looking at your past behaviour with credit, they are able to determine the risk you might pose to them.

- **What does the economy look like?**
  The worse the economic conditions in the country, the tighter lending conditions become. This is especially true for companies that want credit, but for an individual it is also true because a poor economy might make it harder for you to repay the credit. Credit providers might also look at the potential for strikes in your industry, which might affect your job and income.

Credit providers will measure your **creditworthiness** and **affordability**, as well as the other factors, against their own policies and procedures to determine whether or not you qualify for credit.

How your application will be assessed



Learn more

A credit provider measures two primary factors among others (for example its own policies and procedures), when deciding whether or not to grant credit to you, namely your ***affordability*** and your ***creditworthiness***.

Affordability checks try to answer the following question: Do you have the financial means to repay the credit taken up every month?

Creditworthiness checks need to answer the question: Will you pay the money back?
This means looking at your risk factors. The lower your risk, the higher your creditworthiness, and the higher your chances are of getting credit. Risk is measured by looking at your credit profile and examining your payment behaviour, how you use accounts, and whether you have been under a judgement or sequestration. Credit providers will also look at your past behaviour with them, and how you have managed your accounts.

So, as you can see, a credit provider looks at your actual ability to repay the credit given, as well as your willingness or behaviour regarding repaying the credit with them and with other credit providers.

Determining affordability

INCOME — How much do you have when you take your gross income less statutory deductions like maintenance, tax or an EAO.

– LESS NECESSARY EXPENSES — All your necessary expenses, including what the credit provider sets as a minimum,against what has been declared. This includes accommodation, transport, food etc.

– LESS ALL OTHER PAYMENT OBLIGATIONS — How much are all your other committed payment obligations, including debt payments and other fixed expenses. This must be supported by your credit profile.

= EQUALS DISCRETIONARY INCOME — How much do you have left over that can be used to repay the credit you applied for? (The affordability amount)

Using the above diagram as a guideline, an example of an affordability calculation would be as follows:

Affordability calculation example		
Gross monthly income	R	24 000.00
Less Statutory deductions (e.g. UIF, PAYE and maintenance)	R	4 133.80
Equals Income after deductions	R	19 866.20
Less Necessary living expenses	R	11 638.74
Less Other committed payment obligations (including debt)	R	3 865.26
= Affordability amount	R	4 362.20

Take Note

Where the consumer's monthly gross income shows material variance, which means their income changes from month to month, the average gross income over the period of not less than 3 pay periods before the credit application must be used.

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Necessary expenses are your minimum living expenses, including maintenance payments if applicable, and excluding monthly debt repayment obligations in terms of credit agreements. **The 7 categories of necessary expenses are:**

- Accommodation
- Transport
- Food
- Education
- Medical
- Water and electricity
- Maintenance

The law sets a minimum amount for declared expenses, based on your gross income, that credit providers need to follow to ensure that consumers do not under-declare their expenses.

Credit application checklist

Before you apply for credit it is important that you ensure that you are making the **right decision to borrow**. Use this checklist as a tool to help you make a responsible decision to take up credit.

- [ ] Did I draw up a personal budget to ensure that I really can afford this credit before applying?
- [ ] Have I checked my own personal credit report before applying to ensure that it is healthy and will not delay my application?
- [ ] Do I have all the documents required to support my application?
- [ ] Do I have my latest 3 months' payslips and/or bank statements?
- [ ] Is my employment or income stable enough that I feel comfortable to take up this credit for the required duration?
- [ ] Have I given an accurate account of my expenses and have I been transparent in my application?
- [ ] Have I answered all questions fully and truthfully in my application, to the best of my knowledge?
- [ ] Did I include all my credit agreements, so that the creditor has a real picture of my current debt obligations?
- [ ] If I am making a joint application, have I included my spouse's income, expenses and debt obligations in my application?
- [ ] Did I include all my credit agreements, so that the credit provider has a real picture of my current debt obligations?
- [ ] Do I understand what the cost of credit will be for the credit I need?