4 Understanding the pre-agreement statement and quotation

Before committing to a new credit agreement, you must know and understand fully what you are signing yourself up for. Before you put pen to paper, you need to understand and know how to read a pre-agreement statement and quotation.

When applying for credit, consumers should receive a pre-agreement statement and quotation from the credit provider before entering into the credit agreement. These documents outline all the costs as well as the terms and conditions of your credit agreement.

No agreement is entered into at this stage; you do not have to accept the offer or sign anything or pay any fee.

Take Note

Some of the costs and fees mentioned in your pre-agreement statement or quotation may be included in your regular instalment, or it may show as an extra cost.

This means your instalment will be deducted and other debits for these additional products will reflect separately on your account.

You do not have to accept the offer in the pre-agreement. You can take five business days to consider it, and if you are not interested, you do not have to take any action. The quotation is valid for five business days, meaning that you have some time to consider whether or not you should enter into the proposed credit agreement once you have an understanding of the cost implications (and your own affordability). At any time before the expiration of the five-day period, you may hold the credit provider to the terms and conditions as disclosed in the pre-agreement statement and quotation.

FAQ

What is a pre-agreement statement and quotation?

Before the conclusion of a credit agreement, you must be given a pre-agreement statement and quotation. The statement is a document that **details the terms and conditions** of the credit agreement the creditor is offering you. The quotation discloses all the costs of the credit, showing the principal debt, the repayment schedule, the interest rate, other credit costs and the total cost of the proposed credit agreement. If you agree to and sign these documents, these become your credit agreement.

The National Credit Act, and its subsequent amendments and Regulations, states that credit providers must **disclose and explain the total cost of credit** to you so that you understand it. They must also ensure that the cost shown for credit facilities (like store or credit cards, or an overdraft) is based on one year of full utilisation up to the credit limit proposed. The total cost of credit includes but is not limited to the principal debt, interest, initiation fee, a sum total of the service fee for the entire period of a loan, and credit insurance aggregated to the life of a loan.

The costs and fees of credit

Summary			
Credit advanced/value of goods or services provided on credit	R	Instalment, including interest, fees and credit life insurance, excluding optional insurance	R
Deposit, to be paid and deducted	R	Number of instalments	
Instalments payable	*specify: monthly/weekly/other*	Total of all instalments, including interest, fees and credit life insurance, excluding optional insurance	R
		Interest rate	%
Initiation fee	R	Total cost of credit	R
Monthly service fee	R	Credit cost multiple	

The following are the fees and charges you can expect to see on the quotation or that are discussed in your pre-agreement statement (which shows what would be charged in your credit agreement). It is vital that you take note of these before signing the credit agreement. The pre-agreement statement and quotation must show the total cost of credit for the duration of the loan or for one year of a credit facility.

- **Interest:** This is the amount that a credit provider charges you on the outstanding balance of a credit agreement. It is shown as a percentage of the principal amount. The National Credit Act has set the maximum percentage of interest that you may be charged depending on the type of credit agreement.
- **Initiation fee:** These are once-off fees credit providers charge you for entering into a credit agreement. The credit provider must give you the option to pay this fee upfront and with no interest.
- **Service fee:** This is a fee that a credit provider charges you for servicing, administering or maintaining the credit agreement between you and the provider. Credit providers can charge this on a monthly, annual or transactional basis. The quote must show the service fee total for the period of the loan or for one year for a credit facility.
- **Credit life insurance (depending on the credit agreement):** Credit providers may require you to take out credit life insurance during the term of the agreement, which may settle your debt in certain events such as death, disability or retrenchment. The policy will stipulate the exact type of cover provided and which events are covered. The credit life insurance cost shown in the quote must be for the whole term of the loan or for one year for a credit facility.
- **Default administration charges:** These are fees discussed in your agreement and will only be charged if you were to default, to let you know that your account is in arrears (in other words, that you are behind on making regular payments on money owed). These costs are limited to a letter sent by the credit provider to you to inform you that you are in default in terms of the agreement.
- **Collection costs:** These are costs that are listed in your agreement and will only be charged should the credit provider try to collect outstanding or overdue debt from you if you are in default.
- **Asset insurance or vehicle insurance:** Credit providers will require you to have insurance cover for the asset, for example the house or vehicle you are financing. You may obtain your own asset insurance cover or request that the credit provider supply you with such cover, but the credit will not be approved unless you have such cover in place.

Understanding the pre-agreement documents

Read the pre-agreement statement and the quotation carefully and **take note** of the following:

- Are the total costs of the credit applied for shown?
- Are all costs shown in line with the National Credit Act?
- If a balloon or residual payment is shown, do you understand what that means for your future (you will be liable for a large amount at the end of the credit agreement)?
- Is a deposit required? Make sure that you have enough saved to pay this amount.
- Is the credit provider registered with the National Credit Regulator?
- Is the repayment amount shown, and can you comfortably afford this payment every month?
- Is there a delay of payment (for example, you only start paying after three months)? Determine what impact this would have on your total cost of credit, as you will still be charged interest and fees for that period.
- What is the repayment term and will you be able to continue paying for the entire period?
- Do you understand your responsibilities under the credit agreement in terms of payment?
- Are any insurance products offered? Determine whether you could find cheaper insurance elsewhere.

Take Note

Asset insurance is required in respect of covering the damage to goods such as a house, motor vehicle or furniture. You should note that you can choose an insurance provider, so you do not have to use the credit provider's insurer.

Other charges credit providers can impose include the cost of an extended warranty agreement, delivery or installation; initial fuelling charges; connection fees; levies or charges; taxes; and license or registration fees. For vehicle and home loans you should also consider licence costs, as well as bond and transfer fees.

Take Note

On the pre-agreement statement and quotation, the credit provider must also show the Credit Cost Multiple. This refers to the total cost of credit divided by the original loan amount (advanced principal debt).

For example: A consumer takes a loan of R2 000 but will repay R2 900 (total cost of credit including interest, fees etc.).

The Credit Cost Multiple is then calculated as follows:

Total cost of credit ÷ Advanced principal debt
R2 900 ÷ R2 000 = 1.45 ratio.

FAQ

Do I have to take out credit life insurance?

Some credit providers may require you to have credit life insurance for credit, which is why it is important for you to shop around and compare quotes, and look at all the costs involved.

What is important to note is that you do not have to accept the credit life insurance product offered by the credit provider from which you are taking the credit.

You can **shop for a cheaper alternative** and then provide proof to the credit provider that you have been covered.

You need to look at exactly what the insurance policy covers, for example in the event of death or disability, and determine whether it suits your needs.

That said, you should keep in mind that credit insurance has value in that it offers protection for you, your family, and the credit provider, in the event that something should happen to you. For example, if your policy covers you for death then your family would not have to pay the debt back in this event.