

Buyers

Education

Manual



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What is the home buying process?

In the process of looking for your dream home, it is not just about finding a house that you like, but as a home buyer, it is very important to consider a number of **features that will affect the value of your home** in years to come.

On the **finance** side of the home buying process, you will learn how to go about getting your home financing application approved. You will discover what steps you can take if the application is not approved and what the next steps are if the financing is approved.

Buying a home also involves **a legal** side to the transaction. If your loan is approved and a bond is registered over the property, you will legally take ownership of the property. This is explained in detail in this manual. You will also learn why it can take some time between the lender approving the loan, to when you actually become the legal owner of the house.

Buying a home is an exciting step. And while the process may seem complex, with the help of the information provided in this manual, you will be making your most important investment as an **informed home buyer**.

Owning a home is easy / anyone with a little spare cash can do it. Sign a few / papers and pay every month. That's all there is to it.

Owning a home is a big responsibility. Buying is just the first step. It's a long term commitment to the credit provider and a lifelong commitment to looking after your investment.

Section 1:

This section will assist you in:

Deciding whether you should rent or own a home;
Measuring the pros and cons of renting versus homeownership; and
Understanding the costs involved in both renting and homeownership.

Points of discussion

The following will be discussed in this section:

The home buying decision;
The benefits of homeownership;
The challenges of homeownership;

Types of homeownership:

- Full title
- Sectional title

The costs of homeownership:

- Once off costs
- Monthly costs

The home buying decision

The most important question to ask yourself when deciding to fulfil your dreams is whether you can afford or not.

You might imagine a house with a garden in the suburbs as your ideal home, maybe an apartment in the city close to shops, your place of work and entertainment. We all have different dreams and ideas, but the most important question in deciding to fulfil your dream is, whether you can afford it or not.

Would it be as exciting if you bought the apartment close to shops and entertainment, if you had no money left after you paid your home loan instalment?

These are some of the things you need to think about when you start considering buying your dream home. You need to look at your job, your lifestyle and you and your family's needs for both now and in the future.

Let's have a look at the benefits and challenges of owning a home.

The benefits of homeownership

Owning a home is an investment. Like any investment it has the potential to grow in value. What makes this investment very different to any other investment is that you can live in it and gain the use of it while the investment grows. As you pay your monthly instalment you are paying for your investment and building equity (equity refers to the value of your assets, such as your home, and is the difference between what you owe on your home versus the market value of your home).

You have a lot more freedom when you own a home than when you rent. You can decorate your own home as you want to, you can paint the walls in the colors of your choice and even change the kitchen or bathrooms.

By owning your own home, you have a long-term commitment to living in the same place and so you become part of the community. The neighbourhood where you live becomes an extension of your home. You get involved in your community because you want the neighbourhood to remain a nice place to live for you and your family and also because one day, if you sell your home, the value of your home will also depend on the neighbourhood.

NB: a house does not grow in value automatically every year. It depends on how well the house is looked after and on the market conditions at the time. If the country is going through

a recession and people are losing their jobs, house prices can drop, or the value might not grow as quickly as you had hoped.

In this sense, it is also worth remembering that buying property has one golden rule: **'location, location, location'** If your home is close to public transport, schools and shops; and if the neighbourhood is safe, these are all factors that will add value to your property. Remember: When you are looking for a home, the neighbourhood is just as important as the house you choose.

The challenges of owning a home

Owning a home initially costs more than renting a home.

When you rent you will be asked to pay a deposit before you move in. This is usually one or two month's rent in advance and is repaid (less any damages) when your lease expires and / or you move out. When you purchase a home, there are more expenses involved in the beginning.

These can include:

- A deposit that is sometimes as much as 10% to 15% of the price of the property.
- Transfer fees and registration costs - these are amounts you pay to have legal ownership of the property. We will discuss these in detail later.
- Conveyancing and bond fees, as well as Deeds Office and rates clearance costs.

Your monthly costs when you **rent** a home include the agreed rent, electricity and water. Although tenants are expected to maintain the home and garden, it is the owner's responsibility to have anything fixed when it breaks. When you **own** a home, your monthly costs include the home loan repayment, water and lights, sewerage and refuse removal, rates and taxes (these are taxes on the land and buildings), insurance on the property (to provide cover if the home is damaged or destroyed) and you will need to pay for maintenance for things like fixing a leaking roof, repairing a broken window, re-doing shabby paint work and for example, maintaining a neat, tidy and attractive garden if you have one.

These **extra costs can become very expensive** and it is important that you budget for them when you are calculating what you can afford. Ongoing maintenance is a priority in protecting the value of your home and also in saving costs in the long run.

The Home loan Agreement that you enter into that will enable you to purchase your home is a **long term commitment** of monthly repayments lasting sometimes up to 20 and even 30 years. This means that you are committed to this property for a very long time.

A financial risk is that if you cannot afford to repay the loan. The bank will then take your home away from you and sell it to someone else so that they can recover the money that you owe.

Maintenance costs on your home can become expensive and it is important to budget for these costs when calculating what you can afford.

You may have a job that requires you to relocate regularly and at short notice. **Trying to sell a house too quickly could mean that it gets sold below market value.** For people in this situation, buying a home to live in might not be the best situation. An option might be to buy a house as an investment and to rather consider renting it out.

Types of homeownership

Every portion of land that is sold in South Africa has certain zoning rights attached to the land. This means that the property can be used for certain purposes only.

Residential zoning rights are for domestic living purposes only. These rights also give details of how many houses may be built on the land and the height and size of the buildings that are allowed on the land. For example, the zoning rights for a property may say one house not exceeding 50% of the area of the land and no more than two stories high may be built on the land or that 10 townhouses may be built on it. There is also land that is zoned for business purposes, schools and parks.

The purpose of the zoning of property is to protect the owner. Imagine if you bought a house and then suddenly a warehouse is built next to you and trucks drive in and out all day and night. This would make you a very unhappy homeowner.

When you buy your home it will be zoned for residential use and you will discover that there are two types of ownership -Freehold Title and Sectional Title.

Freehold Title

Freehold title means that when you make the purchase, you will own the land and everything on it. You may make internal changes to the house on the property in accordance with the zoning laws, but any external structural changes such as the building of an additional room or garage will need to be approved by the local planning council. This type of ownership allows you to do whatever you want to the interior of the house and the garden.

Sectional Title

Sectional Title is usually the way in which townhouses or apartments are sold. In sectional title you own your apartment, or townhouse. The staircases, walkways, driveway and recreational areas like the parks and pools (in other words the common areas) are owned jointly by everyone living in the complex or development.

Sectional title property is managed by a Body Corporate. Everyone that owns an apartment or townhouse in the complex becomes a member of the Body Corporate. A monthly levy is paid by each member to the Body Corporate; these fees go towards the general running and maintenance of the common areas in the complex. These fees may also be used to pay for security guards and gardeners.

For example, it may be decided that the complex needs to be painted. If there is enough money in the account, the body corporate will obtain quotations and a contractor will be hired for the painting to be done. Remember this is only for external work to the complex. You, as the owner, are responsible for the interior maintenance and painting of your apartment.

Body corporate make rules for the complex to make living together as easy as possible. Some rules might include (amongst others):

- Speed limits when you are driving around the complex.
- Rules about parties in the common areas.
- Generally no pets are allowed or there is a limit on the number of pets or the size of pets allowed.
- The number of occupants in each unit.
- Where laundry may be dried.

The costs of homeownership

There are two types of costs - the once off cost which is money you will only have to pay once in the purchase of your home and then there are the monthly costs which are money you will have to pay every month while you own the house.

It is very important to understand the costs involved in owning a home. There are once off fees to pay at the time of purchase and then there are the monthly costs.

Once off costs

You may have seen a property advertised and next to the price it says deposit and transfer costs.

Example:

R300 000 (R30 000 deposit and transfer costs) -Woodtree village in Centurion - 1 bedroom, 1 bathroom and single garage simplex with a garden! Beautiful and neat property. To view this property, contact

What this advertisement means is that the price of the house is R300 000, but you as the buyer will need R30 000 to pay upfront for the deposit and transfer costs. The deposit may vary according to your credit provider. Some banks require 10% of the value of the property as a deposit; this amount may go down to 5%. Your credit rating employment history and various other factors all influence the size of the deposit that the bank may require.

Transfer costs are fees you pay to have the property transferred into your name so that you can become the

legal owner of the property. The legal paperwork for the transfer will be done by conveyancing attorneys. These are attorneys who specialise in this process and are approved by the lender/bank. There may be two sets of attorneys - the lender's mortgage bond registering attorney and the seller's transferring attorney. The fees you pay the attorney is called the Transfer Duty and consists of the following five amounts:

1. Transfer duty - this amount is paid to SARS (The South African Revenue Services). The amount you pay depends on the cost of the property you purchased. If the property you purchased is below R500 000 there are no transfer fees payable to SARS. If you purchase a brand new home from a developer, you do not pay transfer duty, but you will pay VAT as part of the purchase price.

If you buy a property for less than R500 000 you will not pay any transfer duty but you will pay for conveyancing attorney fees, Deeds Office fees, petty charges and VAT.

Properties over R500 000 carry a transfer duty fee of 5% of the purchase price over R500 000. For properties over R1 m, **the fee** is 8% of the purchase price over R1 m plus **an additional R25 000**.

2. Attorney Costs - are fees paid to the attorneys for registering the transfer and for the registration of the bond. These fees will vary from attorney to attorney but is usually between 0.7% and 1.2% of the purchase price of the property.

3. Deeds Office fees - this is the fee that the Deeds Office charges to register the property in your name.

4. Petty charges - these are fees paid to cover administration expenses that the conveyancing attorney may have (such as postage fees, photocopying, etc) to transfer the property into your name. This amount can range between R200 and R500.

5. VAT is charged on the attorney costs and petty charges.

Another once off cost to consider is moving and settling in. These are costs to get you into your new home. Firstly, there is the actual cost of the move. You can do this on your own or you can get a professional moving company. It is important to get quotes for moving beforehand, so that you know what the cost will be and to check that you can afford these costs. Once you are in the house, you might discover that some of your existing furniture might not fit in, or that the windows are all different sizes and your current curtains don't fit. These are all additional costs that you will need to provide for.

Finally, as part of the once off costs, remember that you will also have to pay a deposit for your electricity and water at your local council to have your electricity and water connected. Find out what documentation your local municipality requires in order to process your request.

Monthly costs

Monthly costs are the costs that you will have to budget for and pay every month as a homeowner. The largest part of the monthly costs will be your monthly home loan repayment. This payment may change depending on the loan amount and the interest rate attached to your loan.

Rates and taxes is an amount that you pay each month to your local council for services they provide, such as refuse collection, sewerage and taxes on the property. These fees differ from area to area. Ask the current homeowner what the current rates and taxes are, or try to find a copy of a municipal account for a property in the area before you decide on the home you want to buy.

Another monthly cost to consider is water and electricity. These costs are dependent on your usage and are payable to your local council for services along with your rates and taxes.

Finally there are the maintenance and running costs of owning a home. These can include extra costs for watering the garden, painting, fees for plumbers to unblock drains and fix leaks, pest control, electricians - the list is endless and these costs can vary. Ongoing maintenance and the running costs of owning a home should form part of the monthly costs that you may have to budget for.

Remember, if you do not pay your rates and taxes the local council has the right to cut your electricity off and repossess your property.

Section 2:

This section will assist you in:

Understanding credit

Understanding what your personal financial requirements need to be to apply for a home loan;

- Understanding what it means to be credit-worthy;

Understanding a budget:

- What is a budget?
- Why do I need a budget?

Points of discussion

In this section the following will be discussed:

What is credit? What is interest? How much can you afford?

- Money for the deposit

What a credit check involves:

- Payment history
- New credit
- Types of credit you use
- Amount of outstanding debt
- Length of your credit history

Can I see my credit report?

The importance of a good credit history;

The importance of an effective budget and record keeping system;

- The importance of the NCA when you apply for credit.

What is credit?

Credit is simply a **contractual agreement** between the borrower (the person asking for the loan) and the lender (the credit provider giving the loan). The person or institution (a company or a bank) that lends money is known as **the creditor**, and the person (home buyer) or institution that borrows money is called **the debtor**.

A contractual agreement is a legal arrangement between two people. In the case of credit it is an arrangement where a lender agrees to lend money to a person. The person borrowing the money then promises to pay this back in agreed amounts overtime on a specific date each month.

If you do not pay these accounts, miss a few repayments or even pay a few days late (after the payment due date that shows on your account); this information (known as your payment history) will be sent to a credit bureau and this bad payment history will affect your ability to obtain any future loans. You will also be charged more interest on overdue amounts which means that this loan will cost you even more than when you first loaned the money.

What is interest?

When you rent a house you pay the owner a monthly rental amount. This gives you the right to stay in his property. Interest is very much the same - when you borrow money from a credit provider you need to **pay for the use of the money**. This is known as interest. You may have seen that interest is always given as a percentage, eg 12% or 10%. In the same way, you can also when you save money in your bank account. If you have a savings account at a bank or have invested money, you will receive interest from the bank. The bank is paying you interest for the use of your money.

How does interest work? Well, let's say you borrow R100 at an interest rate of 20% per year. This means that by the end of the year you will have to pay the credit provider R20 for interest and also the R100 you originally borrowed, this is a total of R120. If you have extra money and you pay the loan within six months you will only pay for half the year's interest which would be R10 and the R100 you borrowed. What can you learn from this? **The**

quicker you pay your debt off, the less interest you will pay. This can save you a lot of money!

Banks lend you money so that they can make money. They make their money by charging you interest on the amount you borrow from the bank. So, when you get credit in the form of a home loan, you must consider the 'cost of credit', which is the interest and all other costs they charge you for the loan.

How much can you afford?

To work out how much you can afford, you need to draw up a monthly budget. With a budget you will be able to work out how much money you have on hand each month to pay for a home loan. The monthly amount that you can afford will show what the total home loan amount is that you could qualify for.

We will show you how to draw up a detailed monthly budget further on in the manual, but in the meantime it is important to remember that a budget will show you what you can afford by looking at the following:

- **Total household income**, this is the net income that you earn after deductions, as well as any extra income that you may have; for example, you might offer extra lessons over the weekends to earn extra money which could be considered other income.
- **Total monthly expenses**, this includes all your monthly expenses such as transportation, insurances, school fees, entertainment, credit cards, loans, utility bills, savings, retirement annuities, etc - basically all your monthly costs.

Your total monthly income **less** your total monthly expenses (without the amount that you are paying for rent or towards a home loan at the moment) will more or less equal the monthly amount that you can afford on home loan repayments.

Remember that interest rates can change. When you calculate how much you can afford to spend on a home, ask the lender what your monthly repayments will be if the interest rate goes up by 2% or 3%. Imagine if you have calculated that you can just manage to afford a bond of R300 000 at an interest rate of 10% which is a payment of R2 895,06 a month - what if the interest rate goes up to 12,5%? This will push your monthly premium up to R3 408,42 per month. Would you still be able to afford this?

Also remember that all your debt is linked to interest rates so your car, credit cards and personal loans will also go up when the interest rates go up. You may suddenly realise that you can no longer afford your home.

Money for the deposit

When you are ready to start looking for your dream home you need to have some money available to cover transfer fees as well as the legal fees (we will discuss these fees in another section in more detail). You may also need to pay a deposit on the property. **A deposit is an upfront cash amount** and it can vary, depending on your credit provider and your credit history. Some credit providers will not require a deposit while most will require a deposit of anything from 5% to 10% of the purchase price of the property.

Example:

If the property you want to buy is R350 000 and the credit provider asks for a 10% deposit, you will need to have R35 000 cash in order to buy the home. The credit provider will provide the balance R315 000, as the loan amount. This is over and above the transfer fees and other legal costs.

It is very important to start saving for a deposit once you have decided that you would like to be a homeowner in the future. The best way to find the money for a deposit is by saving any extra money you have each month in an account where you earn interest. Speak to a financial advisor or your bank for advice on a secure savings account that offers you the best interest rate on your money.

When your loan is approved by your credit provider they will give you **a quote on the 'cost of credit'**. This will include all costs such as the deposit, the interest rate charged, the cost of opening the home loan, the monthly charges for managing the home loan and any other important credit related charges. This quotation is something you can request, by law, in terms of the National Credit Act (NCA).

What is credit worthiness?

When you apply for a home loan, the credit provider will check whether you **can afford the loan** and whether you are going to be a **good, safe customer** when it comes to the monthly home loan repayments. The only way the lender or credit provider can do this is to see how you have managed your previous debt. If you have not paid for items in the past and you have a judgment against your name, the credit provider will not give you a home loan. A judgment is granted when a court has ordered a payment be made on the debt or outstanding account. A judgment will remain on your record for a period of 5 years. The credit provider will think that if you have not paid loans before the chances are good that you will not pay loans in the future.

An affordability assessment or how much can you afford?

Firstly, the credit provider will request a **budget** from you (we will be doing a budget in the next section of the manual). This must include **all your monthly cost** like food, petrol, phone bills, school fees, etc. Your budget must also show **your monthly housing costs** when you have bought your home. They will want to know if you can afford **the deposit**. Your income (the money you earn every month) must be able to cover your living expenses as well as the home loan repayments and your housing costs. This is called an affordability assessment.

You will have to show them **proof of your salary or wages** and they will also want to know how long you have worked for your current employer. The affordability assessment will determine **the size of the loan that you qualify for** or can afford and the amount that the institution is allowed to lend to you in terms of the NCA. Conducting a proper **affordability study and credit risk assessment** is a legal requirement of the NCA and an essential part in giving credit. It aims to protect you, the consumer, from having more debt than you can afford.

The NCA says that you have the right to proper education regarding credit so that you can make the right decision. A credit provider must show you all the costs related to the credit you are applying for.

A credit assessment or; how good are you at managing your debt?

A credit assessment is when the credit provider approaches a credit bureau (credit bureaus are companies that keep a history of all your credit behaviour), in order to get a copy of your credit history. A credit history will show the credit provider if you are a **good, responsible payer** of your accounts. They also want to see if you are good at **managing other credit** or loans from other lenders. Information on your accounts is shared with credit bureaus - this is one way in which lenders get reports on your credit behaviour.

A credit check / assessment / report will look at the following:

Payment history

This is a check on how you pay or do not pay your accounts. They will check on all the stores or institutions that you are obliged to pay every month, for example clothing shops, furniture shops, telephone or cell phone accounts, car repayments, credit card accounts, etc. They also want to see if you pay on the due date, if you pay late or if you miss payments altogether. All this information will be supplied by the banks, shops or institutions that you have accounts with. This information is submitted every month to the credit bureaus.

New credit

The credit assessment will check how many new accounts you have opened recently or the number of credit inquiries or applications you have made to get new credit / new accounts.

Types of credit you use

The credit assessment will look at the different kinds of accounts you use; for example, cell phone contracts, retail store accounts, instalment loans.

Amount of outstanding debt

This is the total amount you owe on your different accounts, including other bank loans; as well as potential debt of credit facilities not yet used. For example, you may have opened a new clothing account and have a limit of R3 000. Even though you have not made use of this credit yet, it is counted as likely debt that you may have in the future.

Length of your credit history

This will show when you opened your accounts and how long you have been using them. Your credit history shows how you manage your finances. It is important to show that you have a history of paying on time as that is a sign of how you will behave in the future.

Can I see my credit report?

As we have mentioned in the beginning of this manual, one of the laws of the NCA is that you can approach credit bureaus and ask for a credit report. We will show you how to do this in the final section of this manual.

It is also law that the credit provider needs to explain why your application was declined. In this way you can try and correct the problem.

The importance of good credit history

It is very important to have a good credit history. Your credit history will affect all loans that you apply for. If you have been disciplined and have paid all your accounts on time you will have a healthy credit history. With a healthy credit history you can negotiate a better interest rate on your home loan and you could qualify for a lower deposit. With a bad credit report, you will find it very difficult to obtain a loan. However, if you have a bad credit history don't be tempted to go to illegal places to get credit; these people charge a much higher interest rate than legal credit providers.

The importance of an effective budget and record keeping system

Everybody needs to plan and a budget is a plan on how you are going to spend your money. With a budget you can see where you are spending too much money and where you are spending money on things you don't need. A budget will teach you financial discipline. With good financial discipline the chance of having a bad credit record will be very small.

A very important reason for a budget is to see if you are spending money you don't have. One of the ways in which you can keep an eye on this is by drawing up a monthly budget. All through the month keep all your receipts and slips. At the end of the month compare your budget against your actual spending. This will help you see where you are over-spending and allow you to make needed changes to your spending habits. Towards the end of this manual we will discuss what to do if you have reached a point where your expenses are more than your income and you are having difficulty paying your accounts.

Automatically filing all accounts and receipts (after you've paid them of course!) will make for easy referencing when you complete your tax returns for example or if you have questions about anything with the bank or if you need to claim on insurance.

Good record keeping saves you money because it makes deductions on tax possible and allows you to draw up a realistic and practical monthly budget. It is also necessary to keep certain documents, in terms of SARS (South African Revenue Services) requirements, so by having an up-to-date filing system you will save time if SARS ever asks for documents from you.

Some record keeping tips:

- Keep all tax records for a minimum of five years and long-term, important records for a minimum of 10 years. This includes home loan agreements, vehicle registration documents, policies or retirement plan purchases.
- Sort your receipts by date. Keep all receipts for one month in one envelope, in other words, don't keep all your grocery receipts in one envelope but rather sort these by date.
- Keep a simple mileage logbook in your car (if you own a car) to handle business-travel expenses for tax purposes. On the last day of every month, take the receipts from your mileage logbook and put them in an envelope. Write 'travel receipts' with the month and year, and then file it.

Simple steps like these can save you thousands of Rands and make sure that you stay on top of your budget and personal admin.

The importance of the NCA when you apply for credit

We have mentioned that the National Credit Act (NCA) was introduced by Government on 1 June 2007 to protect you, the consumer. When you apply for credit it is important to understand the basics about the NCA so that you know your rights as a consumer.

The NCA is there to protect ME as the consumer.

The NCA's main purpose is to avoid irresponsible lending and over-indebtedness (when you have more debt to pay than the money you earn each month) of consumers. The NCA also has a framework to control credit bureaus, credit providers and debt counselors (we will explain this further on in the manual).

Under the NCA, all credit providers have to, by law, carefully check your financial situation in terms of how much debt you have, your expenses and the value of the assets you own. The NCA affects everyone applying for credit, whether it's a home loan, vehicle finance, clothing accounts, etc.

The NCA is aimed at:

Controlling and checking credit information; Controlling and checking the way in which credit is lent to people and promoting responsible lending; Improving consumer rights in terms of credit lending; Stopping unfair credit-marketing (making sure that people are not persuaded through adverts and marketing into taking credit products that they might not be able to afford); and

Making the process of applying for credit easier to understand and more user-friendly for all consumers.

Important points you should know about the National Credit Act

Who does the Act apply to?

The NCA applies to all credit entered into after 1 June 2007. The NCA will affect you if you are applying for any of the following types of products:

- Overdrafts
- Credit cards
- Instalment agreements
- Home loans
- Financial leases
- Personal loans
- HP (Hire Purchase) and clothing accounts

Your rights:

- Credit bureaus: The NCA gives you the right to see and question your credit records and information held by credit bureaus. In addition, all information that credit bureaus keep about consumers is regulated.
- Language: You have the right to receive documents in plain and understandable English and you may also ask for a document in any one of two specified official languages.

Marketing practices:

The NCA aims to prevent false advertising around credit, credit products and facilities, and the cost of credit. These include:

- Marketing where you automatically get credit without agreeing to the credit; for example, in the past when you had a clothing account, a shop could increase your credit limit even if you didn't ask for it. Under the NCA this is not allowed and you first have to agree to the additional credit, before they can increase your limits or give you more credit.
- Words like "no credit checks", "free credit", and "guaranteed loans" cannot be used in adverts anymore.
- Marketing of credit at your home or workplace is not allowed without your permission.

Pricing:

- Interest rates, fees and additional charges must be clearly indicated in all new credit agreements. These rules prevent interest rates or other costs being too high. If you do not understand something you are allowed to ask your credit provider. Add-on costs for insurance are not allowed. You need to be told about all costs upfront and you have the right to arrange insurance directly, rather than paying the credit provider to do so, and to choose to arrange your own insurance policies

Applying for credit under the NCA:

The following is a must have under the NCA when you apply for credit:

Pre-agreement Credit assessment

Credit providers have to report all payments and loans or credit that they give to people, to a credit bureau. Credit providers have to keep records of all applications for credit, credit agreements and credit accounts for a certain amount of time. You may pre-pay any amount owing at any time and fully pay out the account at any time without penalty, except in the case of homeloans or agreements that are above R250 000, which can have a cancellation charge of not more than three months interest. For marriages in community of property, the written permission of the partner or spouse is required, when one spouse applies for credit.

Over-indebtedness and reckless lending:

The NCA aims to encourage responsible credit granting and use. To achieve this, when you apply for credit, the credit provider has to check whether you can afford the credit. If no check is done, or if it can be shown that you could not afford to repay the credit, the credit provider could be accused of providing credit recklessly (irresponsibly), with strict penalties to the credit provider.

When a credit provider is checking if you can afford a loan, it is your responsibility to fully and truthfully answer any requests by the credit provider for information. In the case where a consumer gets into too much debt, a debt counselling service is offered (this is explained later on in the manual).

Complaints:

The National Credit Regulator (NCR) monitors credit providers and checks that they obey the NCA and its rules.

Section 3:

This section will assist you in:

Understanding what a budget is; and Understanding how to budget effectively.

Points of discussion

In this section the following will be discussed: What is a budget? How to budget:

- Setting goals
- Estimating your income
- Find out what your spending patterns are
- Planning future spending
- Record keeping
- Looking at spending records and making changes

What is a budget?

A budget is a tool that helps you manage your money. A budget is there to help you get the most from what you earn. It will help you save more effectively so that you can achieve your financial goals, like saving to visit your family, or buying a new television, or saving for a deposit for a new home, or saving for changes to your home.

Let's have a look at a step by step guide to budgeting.

Step one

■ **Setting goals:**

Think carefully about your financial goals and list them in two categories - long term goals and short term goals. Short term goals could be for items that you want to save for in the near future, like buying a new television or saving for new school stationary for your kids. Long term goals are for plans that you have in the distant future, like saving for a deposit for a home and all the fees you will need to pay when buying a home, or saving for your children's education. A long term goal may take many years to achieve, but once you start seeing that you are getting closer to your goals every month, this will motivate you to continue saving.

■ **Understanding your income:**

Before you start working for a company, you reach an agreement on your daily, weekly or monthly salary or wages. When you receive your first salary you will notice that the money paid into your bank account is less than the amount that you agreed on. This is because there are deductions that are taken off your salary.

The amount you earn before deductions (or the amount that you and your employer agreed on beforehand) is called your gross salary. The amount that is paid into your bank account, after all your deductions is called your net income. It is important to remember that when you draw up a budget, you should use your net income, not your gross salary, when determining your monthly income.

What amounts are deducted from your gross salary?

- **Tax** - this amount is calculated by your employer using the latest tax tables supplied by the South African Revenue Services (SARS). Depending on what you earn you will pay either SITE and / or PAYE.
- **UIF** - you are required to pay 1 % of your earnings to the Government's Unemployment Insurance Fund (UIF). Your employer also pays 1% on your behalf. A total of 2% of your salary (your 1% + the 1% contributed by your employer) goes to the UIF as a saving so that you can receive money if you are ever unemployed because the company that you work for closes or in case you may go on maternity leave.
- **Pension or Provident Fund Contributions** - if your employer has a pension or provident fund that you contribute towards for your retirement, this will be deducted from your salary. Your deduction will be based on a percentage of your gross income and depending on your company benefits; your employer

may or may not contribute a portion towards this payment. If you resign from your employer before you retire, this money can be paid directly to you or transferred into another pension or provident fund. You can also choose to join a pension fund, provident fund or retirement annuity on your own, if your employer does not offer a pension or provident fund. (Contact Old Mutual for more information.)

- **Medical aid** - if your company has an option to join their medical aid scheme, your deduction will depend on what medical aid option you choose and how many dependants you have. Depending on your company benefits, your employer may contribute a portion towards this payment. You can choose to join a medical aid on your own, if your employer does not offer a medical aid fund. (Contact Old Mutual for more information).

Other deductions - your employer must request your permission to deduct money for any other costs such as a tea fund, parking and trade union fees.

Over and above your monthly net salary, you also need to think of any other forms of income that you have and count this as a form of income in your budget. Other income can be extra work that you do outside of your normal job; for example, you may earn money from servicing people's cars on the weekend, baking and selling birthday cakes to friends and relatives or helping out at the local shop. Even though this is extra money you should still put it in your budget. Using this extra money well could help make your dreams a reality much sooner than you had planned.

■ Checking your spending:

If you have been keeping a record of your spending, this step will be easy, if not, take some time to try and remember how you spend your money. From today start keeping a record of what you spend on everything - from groceries to school fees, from rent to entertainment, from water and lights to school uniforms and birthday presents. No matter how small the amount is, you need to keep it on record

Monthly debit orders like your insurance, rent and life policies are easy to budget for because these expenses are usually the same every month. It's the money you spend daily on food, clothes, entertainment, school outings and travel that you need to keep track of. What you need to do is to try to work out on average what your monthly spend is on all these everyday costs. You will see that you are spending a lot more money than you thought on these items. It is specifically the everyday costs that can break your budget. By using simple methods you can have a larger portion of your salary left over each month to save.

If you are married or living with a partner you should get into the habit of budgeting together. Working towards a goal can be a rewarding experience for your relationship.

Notes

Now complete your personal budget planner:

Section A	
Rent / bond payments	
Rates and taxes (if you own a home)	
Water and electricity	
Levies	
Homeowners Insurance (if own a home)	
TV license	
School fees	
Domestic worker	
Section B	
Car payments	
Personal loans	
Credit card payments	
Clothing accounts	
Furniture accounts	
Bank fees and charges	
Section C	
Food and household expenses	
Telephone account (landline)	

Cell phone account (contract / 'Pay-as-you-Go' vouchers)	
Internet	
Entertainment (eating out, movies, concerts, sporting events)	
Monthly subscriptions (magazines, newspapers, movie contracts)	
Petrol / transport money	
Clothing (cash and on account)	
Monthly membership fees (gym, sports clubs, hobbies)	
Pets	
MNet./DSTV (if applicable)	
Total monthly expenses	=

Now add up all these amounts and then deduct the total from you and your partner's (if applicable) net income. The money you have left over is what you have available to save towards your financial goals - we will refer to this amount as your extra cash:

Wages / salary * Net amount that you clear after deductions	+
Wages / salary (spouse) * Net amount that is cleared after deductions	+
Other income	+
Total monthly income (add up the amounts listed above to calculate your total monthly household income)	=
Less your monthly expenses All the amounts added up in section A, B, and C.	-
Extra cash	=

Now you need to identify areas where you can save. These are usually most of the items listed in Section C.

Even if you had a large amount of money left over after you deducted your expenses from your net income, you can still benefit from the next step.

If you have spent more than you earn, don't stop the budgeting process. You have been honest about your spending and that is a good start. The great news is that this will be the last month it happens, because you are now going to start budgeting.

■ Plan your spending:

Carefully review each item in Section C and think of ways in which you can save money. Here are some ideas:

Food and household expenses - set a budget or limit for each meal and plan meals ahead. This will force you to look for specials and discounts. If there are discount vouchers in the store or in adverts in the newspaper, use them. Also compare prices at different supermarkets and plan your shopping in advance.

Telephone and cell phone costs - avoid making unnecessary phone calls. Contact your service provider to find out when the rates of calls are cheaper and try to make calls and send SMS's during these times. You might find that it will be cheaper to go onto a different contract, or you may need to upgrade your contract. Compare all the options available and make sure that you are getting the best deal.

Entertainment - think of ways to still have fun while saving money. Instead of buying take away food you can make food at home. Join a library, rather than buying books. Go for a picnic rather than eating out for lunch at a restaurant.

Clothing - look out for sales and buy better quality clothes that you will be able to wear for a longer time. Do not buy clothes simply because you feel like shopping.

Transport money - plan your trips. If your children need to go somewhere, try doing shopping and account payments in the same trip. If the school offers a service to drop your children off, consider the cost of transport fees and the running costs on your car (if you have one) - sometimes it's cheaper to use this service.

■ **Study your spending habits and make your extra funds work for you.**

Once you are in the habit of staying within your budget, you will have a good understanding of your spending habits. If you have not managed to stick to your budget over a few months, but are slowly managing to get closer to sticking to your budget, you are doing well.

Now you need to make the extra cash work for you. First and most importantly, use this extra cash to pay off any debt you still have like credit card debt, a personal loan or clothing account. Remember debt costs money so by settling debt you will have more to save.

With discipline and monthly practice, I am sure to master budgeting so that I can start saving for my future plans.

When your clothing account is paid up, rather try to buy clothes with cash. Shops that offer accounts need to finance the credit which they give clients so their prices are sometimes more expensive. With cash you can shop where you want and save a lot of money.

Some shops have cash cards, if you buy for cash from them they give you vouchers every few months for a percentage that you spend with them, saving you more money the next time you shop there.

Now that you have reduced your debt, don't rush out to open new accounts or start spending on your credit card. Remember in the long run, the more debt you have the less likely you are to reach your financial goals.

Budgeting is easy; it just takes a bit of practice. You should now know how best to budget to ensure that you know what you can afford each month, that you have the money to keep your home and that you can maintain a solid investment through careful saving and by reducing your debt.

Section 4:

When you buy a home there are contracts that you will need to complete. Understanding these contracts are the keys that unlock your path to homeownership. Just like you cannot enter a locked home without a key you cannot become a homeowner without first understanding the terms and conditions of the contract and then agreeing to these terms by signing the contract.

The credit evaluation process of a loan application. The legal transfer of the ownership of the property

When you buy a home, there are a lot of different forms that you will need to complete and contracts to sign. The process of buying a home can also be lengthy and complicated. This section helps make it all easier to understand.

This section will assist you in:

Understanding what a bond is;

Understanding how a homeloans works and the application process.

Offer to purchase or a sale agreement and what the terms mean;

Understanding what a contract is and what it involves - including all the legal aspects, your rights and responsibilities.

Points of discussion

In this section the following will be discussed:

- What is an estate agent and what do they do?
- What is a mortgage or bond originator and what do they do?
- The sales contract
- Negotiating tips
- What is a bond and how does it differ to a homeloans?
- Completing the application form

What is a real estate agent and what do they do?

A real estate agent (or estate agent) is a **trained professional** who finds buyers (people wanting to buy a home) for people who want to sell their homes (sellers). Even though the estate agent is usually hired by the seller, the estate agent is required by law to protect the rights of both the buyer and seller.

The estate agent works on commission (this means they are paid a percentage of the selling price of the property once the sale is successful), and the commission is paid by the seller. This means **their service to you, as the buyer, is free.**

If one estate agent does not have what you are looking for, go to another estate agent. Stick to your needs and do not get bullied into a property that does not meet your needs. Also remember that **the law prevents an estate agent from asking you, the buyer, for any money** upfront - even if they have shown you a lot of properties and you have decided not to buy a home from them.

As soon as you have found a home you like and it is in your price range, you will fill in and sign an **Offer to Purchase** (this will be explained in detail later on in this section) with the estate agent. The estate agent, acting as the middleman between you and the seller will take the Offer to Purchase (OTP) to the seller. If the seller, accepts the price that you have offered for the property on the Offer to Purchase, the seller will sign it. **Once the OTP has been signed by the buyer, the seller and the estate agent, it becomes a binding contract of sale.**

Check that the details in the OTP are correct - that the description of the property is accurate, and that the timings and price negotiated is correct.

If an estate agent has shown you a home which you later see advertised on a website, and you approach the owner privately you could end up paying the agent's commission.

It can be very useful to use an estate agent because they have access to a lot of homes that are on the market

and the more homes you see, the better your chances of finding the right home will be. Estate agents will also save you time because they will make appointments with owners to view the homes and will ensure that they take you to view homes that meet your requirements.

Other options

There are other options available when you are searching for your dream home. Some owners sell their homes privately and advertise in newspapers, others will also place ads on websites. You can make use of websites that allow owners to sell privately. These websites do not charge as much commission as estate agents do so the property prices might be lower than through an estate agent but be careful and use a conveyancer to assist in drawing up the Offer to Purchase.

What is a mortgage / bond originator and what do they do?

Once you have decided to buy a home and you start the process of applying for financing, a bond originator can assist you in this process. The bond originator, on your behalf, takes your application for a home loan to all the credit providers offering homeloans to source you the best deal. They are paid commission by the credit providers and their service to you is free.

The benefit of using bond originators is that they will save you a lot of time. Firstly, they can come to your office or can meet you after hours. This means that you won't have to try to go to the bank during work hours to fill in forms. Secondly, you will only need to complete one application form, even though it will be to all the different credit providers.

The bond originator's main aim is to get your loan approved and to negotiate the best interest rate from the banks.

There is no rule that you have to use a bond originator. If you have a good relationship with your bank or credit provider you can go directly to them and apply for a home loan. Some banks also have a facility that allows you to apply online (on their website).

NB. A bond originator cannot ask you for any money to submit your application to the credit providers.

Remember you can use any bond originator you like; an estate agent cannot, by law, force you to use one of their originators. There are many special offers available; for instance, some origination companies offer to pay the first month of your loan, etc. So look out for the best offer and use an originator of your choice.

Sales Contract

When the buyer, seller and estate agent have all signed the **Offer to Purchase**, it becomes a binding contract. It can now also be called the **Sales Contract** or Sales Agreement.

There is certain information that has to be on the Sales Contract. This information includes:

- **The names of the seller and the buyer;**
- **The description of the property being sold;**
- **The amount the property is sold for;**
- **A date and provision stating how long the offer is valid for; and**
- **Signatures of the buyer, seller and estate agent.**

If these details are not listed then the [Sales Contract](#) may not be [legal](#).

Other information might also be detailed in the Sales Contract. This information [can](#) include the following:

- The buyer is usually given a certain amount of **time to pay the deposit** to the conveyancing attorney or the estate agent (make sure the estate agent has a current Fidelity Fund certificate). This time frame will be written in the contract.
- **Occupation and occupational rent.** Usually occupation (the date you move into your new home) happens once the property is registered in your name. Sometimes the buyer needs to move in before this date, or the seller might need to stay in the house a bit longer. The contract must give the **date** when the new owner will take occupation. If the property is not yet registered the seller can ask for

occupational rent from the buyer from the date of occupation until the date the property is registered in the buyer's name. Occupational rent is usually calculated at 1 % of the sales price or a monthly market related rent.

Example:

Your work has transferred you to a new town and you need to start working there on 1 June. You have found your dream home to the value of R350 000 and your offer is accepted but transfer and registration of the property into your name, will only take place in August. So, in the Sales Contract it has been agreed between you and the seller that you will take occupation on 1 June and you will pay the owner occupational rent of R3 500 a month until the bond is registered.

Items to be included in the sale. These are items that may not be fixed property but you, as the buyer, would like them included in the sale. You need to specify these items in the sales contract. It is important to remember that any item that is not fixed to the property is not automatically included in the sale and must be specified in the sales contract.

Fixture:

Items that form part of the property, for example:

- Built in cupboards
- Light fittings
- Curtain rails

Voetstoots clause. All property in South Africa is sold voetstoots, which basically means 'as is'. This means that the seller is not responsible for any faults the property might have. However if the seller hides certain faults and you only see these faults when you move in, the seller may be held responsible for the repair of these defects. You, as the buyer, can include a clause that specifies that you have understood that something is not faulty and in a good condition; for instance, 'the roof does not leak.' This could mean that the seller is responsible for repair should this come to be an existing fault that has been hidden from you during the sale but this is usually only for a limited time, for example, until first rains.

Suspensive conditions

There is usually a clause in the Sales Contract that says that the **conditions of the sale are suspended till certain conditions are met.** A usual condition is the buyer's loan being approved by the bank.

If you need to sell your property first you can include a section in the contract that the Offer to Purchase is subject to the sale of your property before a certain date.

- The Sales Contract could include a cooling off period - a period of time in which the buyer can change their mind about the purchase. At the moment, the cooling off period only applies to properties purchased up to the value of R250000. This cooling off period gives the buyer five days to withdraw his / her Offer to Purchase.
- By law, the seller has to submit an electrical compliance certificate to the conveyancing attorneys. This is to prove that the property's electrical wiring, plugs and distribution board is safe and in a good working condition.

Important points to remember:

- Once the seller signs your Offer to Purchase it becomes a legal document, so think very carefully before you complete and sign the document.
- It is always best to pay the deposit to the conveyancing attorney.
- Never leave blank spaces or empty lines in the Sales Contract. Cross these out because details could be filled in later that you did not agree to.
- Read everything very carefully. If you do not understand anything take the contract to someone knowledgeable who you trust. Never be forced into signing anything you are unsure about.
- Never take verbal promises given to you by the seller or estate agent. If something is not in writing, you have no proof of any promises made.
- If changes are made to the document you have to sign next to these changes and every page must be initialled by you and the seller.

Now that you know what to expect from the Sales Contract and what to look out for, let's have a look at the art of negotiation.

Negotiating tips

Once you have decided that you like the home and want to buy it, your next decision is what amount you would like to offer for the property and how best to go about getting the seller to accept your price. If the property is on the market for R350 000 you do not have to offer the same price. You might decide to offer R300 000.

Always remember to put your emotions aside when you are negotiating a price. Stick to the price you can afford - no matter how badly you want the property. If the offer is rejected, walk away and keep looking. You will find another home that will meet your needs and who knows, it may even be closer to your dream home than the previous property.

Don't be bullied into a sale. Remember that estate agents are paid commission by the seller based on the selling price of the house. The more you spend (the higher your offer) the more commission they will receive. Stay in control and stay within your budget.

A home loan is a long term financial commitment that makes it possible for you to buy a home.

What is a home loan and how does it work?

By now you have heard the words 'home loan' often enough, but what exactly is a home loan? A home loan is a loan to buy a property. Many people cannot afford to buy a property for cash, so they need to borrow the money for the purchase of the property from a credit provider that offers homeloans.

The length of time a person has to pay off the home loan can range from 20 to 30 years. The most popular length is 20 years. The length of time that is given to repay the loan is called the loan term.

During the loan term your monthly payments will be doing two things:

- **Firstly it will be paying off the amount you borrowed. This is known as the principal debt.**
- **Secondly it will be paying off the interest on the loan. This is the cost you pay to the bank for borrowing the money.**

It is very important to understand that the full amount you pay every month towards your loan does not go towards the principal loan amount. A portion of the money that you pay is towards the loan amount and another portion goes towards interest.

To understand how much interest you pay on a loan; let's look at the following example:

If you borrow R350 000 at an interest rate of 13% over a period of 20 years you will pay R634 123.60 in interest. That means that the total amount you will pay back to the bank over 20 years for the loan of R350 000 will be R984 123.60.

The amount you end up paying may seem scary but remember that your property's value should grow far more than the amount you pay - still making it a secure investment for the future.

Repossessions

When you sign the Loan Agreement with the credit provider; you are agreeing to pay the loan for the entire loan term. You are also signing the title of the property to the credit provider as security for the loan. What this means is that if you cannot afford to pay the loan, the credit provider has the right to repossess your home - that means to take the property back from you to cover the loan. You and your family will need to leave the home and all the monthly payments you have made to the bank will be lost. The bank will then sell the house at an auction. If the

house sells for less than the amount owed you are still liable to the bank for the balance; and you wont even have the house anymore!

Example:

Your house is repossessed and it is calculated that you still owe R320 000 on the loan. The bank, following a legal process, takes your home away from you and puts it up for auction. At the auction the house sells for R300 000 plus the auction fees. This means you will still owe the bank R20 000. You will have to pay the R20 000 and move out of your house.

This is not a situation that you want to get into, which is why there is a section further on in the manual that will show you where to get assistance if you are struggling to pay your home loan.

Early settlement:

You can also settle your loan earlier than the agreed loan period. This is called early settlement. You can either do this by paying extra, over and above the minimum payment that is due each month or by selling the house.

By paying extra towards your home loan each month, you will be able to save a lot of money on interest and even reduce the number of years on your home loan term. There are a number of ways in which you can pay extra on your home loan, if you have extra money available.

Example:

If you have a loan of R100 000 at 11% interest, which you have agreed to pay over 20 years, your monthly repayments will be R1 032.19. If you pay an additional 10% of your instalment (ie, R103.22 each month), you will settle your loan in just over 15 years, instead of over 20 years saving about R42 216 in interest.

You can also make extra deposits into your home loan account. You can save a lot of money over the long term if you deposit any additional income you receive (for instance, a bonus or income from overtime work) into your home loan account.

Example:

If you pay a lump sum of R2 000 into your R100 000 home loan (taken out over 20 years at 11% a year) three months after taking out the loan, you will settle your debt in just over 18 years instead of over 20 years and save almost R14 662 in interest charges.

You can also save money by paying earlier each month. Many people pay their home loan instalment on the last day of each month. However, you will pay less interest if you pay your instalments earlier every month.

Example:

If you have a R100 000 loan over 20 years at an interest rate of 11% per year, by paying your instalment five days earlier each month you will reduce your home loan term by nearly one and a half months and save about R1 366.

Remember: a mortgage is exactly the same as a bond. It is the security that the lender takes over the property. A home loan is the amount of money that a credit provider lends to you to buy a property and which you have to repay with interest over the term of the loan.

Completing the application form

The next step in the home buying process is the application for financing - to borrow money to purchase your dream home. You can either complete the application form, with the help of a person working for the credit provider (for instance, the banker at your bank), or with a bond originator. The forms are long and there are a lot of questions, but with the help of a trained person, they will be easy enough to complete.

As part of the application process, you will need to supply the following documents, which will be attached to the application form:

- **Your latest three pay slips (meaning salary slips for the three months before the application).**
- **Bank statements for the past three to six months.**
- **Proof of residential address (any utility bill such as an electricity account that is addressed to you and that gets posted to your residential address).**
- **ID documents.**
- **Marriage certificate, if you are married.**

- If you are self employed you will be asked for certified financial statements from your accountant or bank.

Why are these documents important? The credit provider needs these documents to check proof of your income, check your credit rating and to find out, by your monthly expenses, if you can afford to repay the loan.

Evaluation process of the loan

Once you have completed the application forms you are told that they have been sent to the credit provider for approval. What does this mean? It means that all the information you filled in on the application form has to be carefully checked and evaluated. That is why it is very important that you fill in all the information on your application form as truthfully and accurately as possible.

It is important to understand that not every loan is approved.

Each home loan application will go through three approval stages.

The first approval stage is to check your personal profile.

The credit provider will verify your salary slip, they will also check to see how long you have worked for your current employer and if the company that you are working for is stable and has a good reputation. They will also check your previous employment history and FICA details. The credit provider needs to check these details because a home loan is payable over many years. They need to make sure that your income history has been stable as this is a good sign of your income in the future.

As part of the application you will list your monthly expenses. These are things like accounts that you pay every month; such as your clothing accounts, utility bills, car payments or transport money, medical aid and insurance. Over and above these expenses, you will also list your monthly spend on groceries, entertainment, petrol and school fees. This information is checked to decide if you will still have enough of your salary left over to pay the bond after all your monthly expenses are paid. This is very much like the budget you filled in, in the previous section of the manual.

The credit provider will also check your age, because, as an example, a 60 year old person cannot apply for a 20 year loan if they only have five years left to work before they retire.

If you have any other assets, like another property, or an investment, or pension with your employer this will increase your net worth (your wealth) and improve your chances of getting the loan approved.

If the credit provider is happy with all this information they will send your application to the second phase of approval.

The second approval stage is to check your credit profile.

The credit provider will request credit reports from the various credit bureaus. Remember these are companies that keep a record of all your credit activity - credit applications, payment history and judgments listed against your name. The credit provider checks your credit behaviour so that they can decide if you will be a safe person to lend money to. A 'safe' person is someone with a stable credit history, a responsible payer who always pays on time, who has not applied for credit irresponsibly and who does not have any judgments listed against them - see Section 7, The Back Door. If your credit record is clear, your application will go to the final stage of approval.

The final approval stage is to value the property.

In the final stage of approval, the credit provider needs to assess the property you are wanting them to loan you the money to buy. The credit provider will send an assessor or valuer out to value the property. It is their job to check that the property purchase price equals the market value. In other words, it is worth the amount of money you are wanting to pay and there are no obvious signs that the property will decrease in value.

Example

When the credit provider agrees to give you a loan to buy a property, they require you to sign the property over as security for the loan. If the property is valued at R230 000 by the valuer and you are asking for a loan of R400 000, the credit provider is at risk of not getting their money back if you cannot repay the loan. The credit provider will not approve the loan because the value of the property is not high enough to cover the loan.

This process of property valuation by the credit provider's assessor is not a bad thing; it is also there to help you so that you do not pay more for a property than it is worth in the market.

Should each of the three approval stages be successful then your loan will be approved.

The transfer of the property

Your loan application is approved. Does this mean you can move into your house immediately? No, the loan approval is the financial part of the home loan process; the next part of the home buying process is where the property legally becomes yours. Let's have a look at the process of legal transfer of the property title into your name. The seller has the right to appoint a transferring attorney of their choice. The name of the attorney will be written on the Offer to Purchase or Sales Contract.

Remember earlier when we spoke about Sales Contracts we discussed the term 'Suspensive condition'. This means that the sale can only continue if certain conditions are met. You will probably add the condition that the sale can only continue if the buyer's home loan application is approved. So, now that your home loan is approved, the sale can continue.

Once the home loan is approved, the seller can advise the transferring attorney to transfer the property. This means the name on the title deed, (which is the legal ownership of the property), will be transferred into your name. It is quite a long process so let's go through the steps.

Step one

The transferring attorney will request the existing **title deed and cancellation figures** from the bank that currently holds the bond over the property. They will also ask for a **rates and taxes statement** from the local council.

Once your home loan application is approved, the property still needs to be transferred and registered into your name. You only become the legal owner of your new home on the date of registration.

Title deed is the legal document registered at the Deeds Office which shows proof of ownership of the property. Cancellation figure is the amount the seller still owes on his existing home loan.

Rates and taxes statement is known as a Clearance Certificate. All rates and taxes on a property which are due to the Government, must be up to date before it can be sold. The Clearance Certificate will confirm that the account is up to date. The seller has to provide a valid tax certificate.

Step two

When the transferring attorney receives the title deed and the cancellation figures he requests guarantees from the bond attorneys to cover the cancellation figures and the balance of the purchase price. At this point the transferring attorney will contact you, the buyer, as well as the seller to set up an appointment to sign the transfer documents. As soon as you go to sign the documents you will have to pay the attorney fees for the transfer to the transferring attorney.

A guarantee is a written document issued by the credit provider who is granting the home loan to the buyer. It promises to pay a person (the seller) and / or financial institution (where the seller's existing bond is held) a specific amount in exchange for the property.

Step three

The bond attorney prepares the documentation for the bond. You will then sign these documents and pay the attorneys fees for the bond registration. It is now the job of the bond attorney to prepare all the guarantees and forward them to the transferring attorney. He then also prepares the bond documents to be lodged at the Deeds Office.

Step four

When the transferring attorney receives the guarantees, he forwards them to the cancellation attorney who will then receive permission for cancellation from the bank that holds the seller's bond.

Once all the fees are paid and everything is signed, all the attorneys prepare the documentation for lodging at the Deeds Office.

Step five

All the various documents from the different attorneys are lodged at the same time in one batch at the Deeds Office. It takes the Deeds Office about two to three weeks to check all the documentation before the transactions can be registered.

Step six

After lodgement of the documents at the Deeds office, the examiners check to see if the documents can be registered. If the documents are found to be correct, the transactions can be registered.

On the date the property is registered, you will become the legal owner of the property. The seller will receive any money that is left from the sales price once his home loan is paid.

The process might seem very difficult and complex, but by keeping in touch with the transferring attorney throughout the process you will know what is going on. Some transfer attorneys will SMS you, as a way to stay in contact and to keep you informed throughout the process. Ask the transferring attorney that you are dealing with if they offer this service.

Transferring and registration can take about two or three months depending on rates/clearances. Keep this in mind when planning your moving date.

Note: You can hold the process up by... Not paying the deposit on time. Not paying all the fees on time, delaying the signing of the documents.

Some important points to remember:

- Always get a receipt with the date indicated on it when you pay the deposit. You can pay the deposit to the estate agent or transferring attorneys.
- The entire process from signing the sales contract to registration of the bond can take about two to three months.
- Make arrangements with the estate agent regarding the property's keys, once the property is registered, so that you know where to get them.
- Don't be afraid to phone the transferring attorney to stay updated throughout the process.
- Once the seller has accepted your offer, start getting your deposit and transfer fees ready. Waiting for this money can delay the process.

Section 5:

This section explains how you can protect your home so that it remains a valuable investment for you and your family's future.

This section will assist you in:

Understanding Homeowners Insurance;

Maintaining your property as an investment; and
Homeowners Insurance if you own a home in a sectional title development.

Points of discussion

The following will be discussed in this section: Homeowners Insurance:

- What is Homeowners Insurance?
- Why is it important?
- What does Homeowners Insurance not cover?
- How will this affect my budget? _ Maintenance:
- How to look after my home as my biggest investment

Homeowners Insurance, maintenance and the Body Corporate

Homeowners Insurance

What is Homeowners Insurance?

When you apply and qualify for a home loan, you will be told that you need Homeowners Insurance. You might be thinking, "But I have insurance on my car and household items-1 don't need more insurance". Homeowners Insurance is very different. This type of insurance provides insurance cover for the structure of your home.

So, why do you need to cover the structure of your home - it's not as if it is a movable item that people can steal? The reason is that it can be damaged and this type of insurance provides cover for damage to the structure. Think about this: you move into your new home and there is a huge storm and your roof is blown off. It will cost a lot of money to replace the roof. What will you do? This is where Homeowners Insurance helps.

Homeowners Insurance gives you cover for damage to the structure of your home that could be caused by lightning, earthquakes, water, and wind and storm damage. It is an insurance to give you and your credit provider peace of mind that your home (your biggest investment) can be repaired back to its original condition if any disaster happens that is covered by the policy.

Homeowners Insurance also covers you for any permanent fixtures in your home. Fixtures are things that aren't part of the building's structure; like the roof, walls and windows, but are items that are added and fitted to the structure; like lights in the ceiling, security gates, carpets and burglar bars. So, if your home's roof is blown off, the insurance company will not only pay to fix your roof, but they will also pay to fix the electrical and plumbing that are in the roof if it is damaged. They will replace the light fittings that blew away. If the carpets get wet and damaged, the insurance will replace these as well, but if your TV.(which is not a permanent fixture) gets wet and breaks, they will not cover that - you will have to claim from your household contents insurance for that; if you have such a policy.

Fixtures in your home will be covered by your Homeowners Insurance policy if they are damaged in a way that is covered by the policy, but not if they are damaged because of your own mistake. What this means is that the light fittings will be replaced if the roof is blown off in a storm and the lights get damaged, but if you are playing soccer in your home and the ball breaks a light, Homeowners Insurance will, in this case, not cover the cost of replacing the light fitting.

Should you make a claim, a representative (insurance assessor) from the Homeowners Insurance company will come to your house to assess the damage. This means that the insurance assessor will look to see how the damage was caused and if it will be covered by Homeowners Insurance. It is also the assessor's job to determine how much it will cost to fix the damage.

Fixtures in your home will be covered by your Homeowners Insurance policy if they are / damaged.

Useful hints

Homeowners Insurance is something lenders require you to take out for the duration or full term of the home loan. Homeowners Insurance is compulsory when you take out a home loan as the lender needs to be sure that the property is protected from damages during the time that you are paying off the loan. Remember that you have signed the property over as security for the home loan that you have borrowed. If something were to happen to the property, the lender needs to know that the property can be restored to its previous condition and value.

Even if you do not need a home loan and buy your property for cash, it is wise to have Homeowners Insurance to protect yourself against damages that can be very expensive.

Check exactly what is covered and included in the insurance policy. See if there are any additional benefits or limits on what you can claim for, check what amount you will have to pay in before a claim is paid and check the reputation of the company when it comes to paying claims.

Homeowners Insurance is important to make sure that your building is protected against damages that are beyond your control. This includes damages caused by **floods, storms, landslides, lightning, burst geysers, falling trees, fire or explosions.**

Example:

Your geyser bursts while you are at work and the ceiling collapses. The damage caused is bad and will cost thousands of Rands to repair. Luckily you have Homeowners Insurance and report the accident straight away. The assessor from the insurance company inspects the damages. Your claim is approved and the insurance company appoints a contractor to fix the damage. You then pay the excess (the small amount of money you have to pay upfront for any claim as specified in your insurance policy). The insurance company pays for the entire cost of replacing the geyser, the ceiling, the carpet and repainting the walls.

Example:

You have a home with R100 000 still outstanding on the loan. You have cancelled your Homeowners Insurance (which you are not allowed to do). Disaster strikes - your home burns down while you are away! Even though you have nowhere to live, the money you have already paid towards your home loan is lost other than the land with no asset to show for it and you will still owe the credit provider R100 000.

Looking at these two examples, it is easy to see that Homeowners Insurance is very important. It is not a very expensive insurance, but it offers total peace of mind and protection for your biggest asset - your home.

Keep your policy number and the contact details of your insurance company on hand so that you can easily contact them in the case of an emergency.

How will this affect my budget?

Usually the credit provider that is giving you the home loan will also offer you Homeowners Insurance or will advise you on the best supplier to use. Remember that according to the NCA, you do not have to buy the policies that they offer; you can shop around and choose any registered insurance company, such as Old Mutual, that offers Homeowners Insurance products.

Without Homeowners Insurance you might lose your entire house if it is seriously damaged by a fire or flood.

You will pay a **monthly premium** to the insurance company from the moment you take ownership of the home and **for as long as you have the home loan**. So you should see this as part of your monthly costs when you are drawing up your monthly budget.

Don't forget that premiums (the amount of money you have to pay every month for the insurance) might increase every year depending on inflation or the growing replacement cost of your home. A good idea is to compare premiums (what is charged for insurance) with different insurance companies each year, to make sure that you

are still getting value for money on your Homeowners Insurance premiums.

What is the 'excess amount' all about?

If your property is damaged and you make a claim, you will also need to pay an **excess** amount which is an amount you agree to pay if you make a claim to the insurance company to fix the damage.

Make sure that you know what the excess is on your insurances so that you are not in for any surprises.

If your car has ever been in an accident or stolen, you will know what excess is. If you have never had to pay excess before it works like this: in your policy it will say that for any claim you will have to pay a preset excess amount out of your own pocket. This can either be a fixed amount; for example R1 000, or it can be a percentage of the cost of repair.

Example:

Your insurance policy says that you have a fixed excess amount of R1 000 per claim. Let's say that when your geyser burst, the cost of replacing the geyser, ceiling, carpets and painting the walls is R11 000. You will have to pay R1 000 from your own pocket and the insurance company will pay the remaining R10 000.

How is your insurance premium calculated?

Your insurance premium is the amount you pay each month for your insurance cover. **Your premium will be based on the value of your property.**

When you apply for Homeowners Insurance, the insurance company will give you a quote based on the value of your property. This will show your monthly premium as well as the excess amount that you would have to pay if something happens. When you shop around for Homeowners Insurance, make sure that you compare quotes beforehand and check that the insurance provides cover for the full value of your property. Also compare the excess each company charges - one company might offer slightly reduced premiums but a much higher excess. You will need to think about whether you will be able to afford the higher excess if disaster strikes.

Tip: Building costs go up each year This means that the cost to rebuild your house increases every year Make sure your property is insured for the current replacement value or you may discover you are not fully insured.

Maintenance

How to look after your home, your biggest investment.

Remember your **home is an investment** and as time goes by the value of your investment should grow. One way that you can improve the chances of your home growing in value is by making sure that you look after your property. You can do this by doing the following:

Maintenance means taking care of the small things to prevent bigger problems. If there is a crack in the wall or a leak in the roof or the paint is peeling or a few tiles come loose on your roof, they can easily be repaired at little cost. If you leave the problem, it can become an expensive problem to fix later on, and it could affect the value of your property.

I can prevent my property from devaluing by just maintaining it?

Adding value to your investment can include improvements and additions to your home, from things like the quality of the kitchen or bathrooms fittings you put inside the home. It can include **improvements and additions** to your home. It can also depend on how well you take care of the garden. If you take the time and spend a little bit of money on planting a few trees, bushes or flowers, when it is time to sell your property it will look more attractive to buyers and you might get a higher price.

Useful home maintenance tips

Regularly check your home for damages or things that need repairs. If you are not sure how to check every crack and water leak in your home, hire a handyman. Not only will he be able to spot any problems, but he can also give advice on repairs and provide costs on the spot. In most instances, simply paying attention to your home is all it takes to see any problems. For example, if your toilet runs all the time, chances are it needs to be fixed. Make a list of things that need attention and tend to them one by one.

Do you have a leak inside the house? It could be your roof or plumbing. Look for chipped or missing roof tiles or tiles that may have moved. Roof tiles that don't fit properly will cause leaks. Trim away hanging branches from trees as these branches can cause roof tiles to move.

Clean out your gutters and downpipes twice a year or more often if you have big trees. Check for any places that they may be pulling away from the house or leaking. If paint is peeling, it is good to repair where necessary. Check for any cracks, deterioration, mildew or peeling paint on outside walls, doors, window frames, ceilings and inside walls.

If the foundation is cracking, call for a professional assessment by a reputable building company or structural engineer. The NHBC (National Home Builders Registration Council) is there to protect consumers by managing the quality of new building done by the building industry. They will take the necessary action should a home start to deteriorate because of poor building quality, within five years of being built. Check your patio or veranda for cracking or loose bricks.

Homeowners Insurance, maintenance and the Body Corporate

If your home is part of a **sectional title** development, **Homeowners Insurance is usually part of the levy** you pay every month to the Body Corporate. The levy should also cover the **maintenance of all the common property** areas like driveways, security gates and the painting of outside walls and the watering of gardens. As an individual homeowner, **you will still have to maintain the inside** of your own property. So, for example, you will have to maintain the paint on the walls inside your house/flat. If you are a sectional title owner (see page 9), it is a good idea to check **how the Body Corporate spends the levies**.

Make sure their Homeowners Insurance is with an insurance company that has a good reputation. Also, check exactly what the Homeowners Insurance or levies cover and what areas of your property you will still have to cover with your own insurance. Also check what the excess is, should you have to claim for damages.

The Body Corporate has to have regular meetings. Every owner of a property in the complex is a member of the Body Corporate and some members become trustees of the Body Corporate. Find out when the meetings occur from the Trustees and become an active member and make sure your complex is well managed.

Attending Body Corporate meetings means that you will be kept up to date on what is happening in your complex.

Imagine if the common areas of your complex are a mess and haven't been painted for years, but you have looked after your place beautifully. When you try to sell it one day, potential buyers who like your apartment will probably be put off by the general state of the complex. Remember that this is a potential buyer's first impression. If this happens, you only have yourself to blame if you did not take an active role in the running of your Body Corporate.

Section 6:

As a homeowner, it is important to protect yourself, your family and your possessions.

This section will assist you in:

- Understanding the benefits and reasons for having a life and funeral policy; and
- Understanding why you need household contents insurance.

Points of discussion

- The following will be discussed in this section: Life assurance and funeral policies Household contents Insurance

Life assurance

You may have heard about life assurance, you may even have a life policy. If you don't have life assurance, it is a good idea to take out a life policy now that you are becoming a homeowner. When it comes to a life policy, you will pay an amount of money, every month, to an assurance company who will pay off your home loan if you pass away before your house is paid off. Some people have more than one life policy - this can become expensive. Speak to a financial advisor.

Why is a life policy important now that I am a homeowner?

A home loan is a very big debt and it is paid off over a long time - normally 20 years, but sometimes up to 30 years. A lot can happen in your life during this time. That is why it is important to have a plan in place in case you pass away or are disabled.

What will happen to my home if something happens to me?

Example:

You may buy a home as a single person. Later on you get married and have children. One day something happens -you are in a car accident and you sadly pass away. In your will, you have left your home to your partner, but your partner cannot afford to pay the remaining home loan on your home. Now your children have lost a parent and face the uncertainty of losing their home.

In this example, if you had purchased a life policy to cover your home loan when you first bought your home, the loan would have been fully paid off by the policy. So, your family could continue living in the home you have provided for them and not have to worry about paying off a home loan as it would be paid up. Looking at the same example, let's say your home loan is R380 000 and you took out a life policy for R380 000. Let's say when you passed away, you still owed R200 000 on your home loan. The policy would pay off the home loan of R200 000 and your family would get the other R180 000. This money could then be used to educate your children. The money could also be invested to help your partner survive without your income.

Do you have to take out a life Policy?

According to the National Credit Act, **a credit provider may require you to take out a life policy** as a condition of getting the loan approved. There are however certain points in the Act to protect you:

- A credit provider cannot force you to take out a life policy for more than the outstanding debt (or covering more than what your loan is on the house). According to the NCA, the credit provider cannot force you into an 'unreasonable' insurance at an 'unreasonable' price.

The other type of life cover is a standard life policy. This means you will take out a policy covering the full loan or more. As the amount owing on your home loan gets less over time, the value of your life policy stays the same. If you pass away this life policy will first pay the outstanding amount on your loan and any money left over will be

paid to the person you have nominated in your will. If you do not have a will, contact your insurance broker for assistance in drawing up a will.

A will is a document containing your instructions and wishes that must be carried out when you pass away. It is a document that explains who your property and assets should go to after your death.

There are two types of life policies you can choose from if your credit provider requires you to take out a life policy, they are:

- The cheapest form of life cover against a property is a **reducing term life insurance policy**. This means that the value of the life policy value gets less as your bond gets less because you have been making your monthly payments. If you pass away this policy will only pay out enough to pay off the loan.

It is important to understand that your credit provider can insist on you taking out a life policy covering the home loan. According to the NCA, however, a credit provider is not allowed to force you to take out a specific life policy - you have the right to shop around for the best deal. (Contact your insurance broker for more information).

What happens if you (don't pass away but you) become disabled in an accident or have a dreaded disease or are retrenched? Some policies also have **added disability benefits and income protection plans**. These are added benefits and are sometimes included in life policies. Sometimes you may need to take out separate policies for this type of cover. If any of these things happen to you, the policy will pay you a portion of your salary or a lump sum of money. This is important so that you can continue to pay your homeloan if you are unable to carry on working temporarily or permanently.

Remember to check that your policy includes these benefits because it is important to plan for these types of unfortunate events.

Many home loan credit providers offer these policies as additional benefits. However you can also take out a policy with any insurance

There is one more thing you need to plan for in case you pass away. A life policy will ensure that your home loan is paid for and your family is provided for, but it is also a good idea to have a **funeral policy**. A funeral policy will make sure that if you or a member of your family passes away, there is money for a proper funeral. A funeral policy means you or your family will not need to use your savings or go into debt to cover expensive funeral costs. This is not a policy you must have when applying for a home loan but it is something to think about. It will give **peace of mind to you and your family**.

For more information on life, disability and funeral policies and wills contact your insurance broker.

Household contents insurance

We have already discussed Homeowners Insurance in this manual. We explained that your personal belongings are not covered by Homeowners Insurance. To cover your household goods and personal belongings you need household contents insurance.

What is household contents insurance?

Household contents insurance provides cover for contents in your home, like your furniture, your television, electrical appliances, your clothes, etc. If your home is robbed or a fire breaks out and causes damage, your personal items will be replaced if you have a household contents insurance policy.

If you have ever bought furniture on credit, you may have been asked for proof of your household contents insurance. The credit provider wants to make sure that if something happens to the furniture (for example, if it gets stolen); you will be able to replace the furniture and carry on paying the monthly amount for the credit you owe.

Do I really need this insurance as well?

Household insurance **is not compulsory and nobody can force you to take it up**, but it does provide you with security and can save you a lot of money in the future. Think about what you would do if you get home from work and discover that your clothes, television and microwave have been stolen? Will you have spare cash to replace these items, will you go without these items or will it cause you to go into debt if you replace them?

Remember that if the items that you buy on credit are damaged or destroyed, and you do not have household insurance to replace these items, you still need to pay the credit provider every month until your debt is paid off.

If you go into debt, it might become difficult to pay your monthly home loan. This will lead to even more problems. For a long term safety net or back-up, it is important to have household contents insurance.

For Homeowners Insurance and household contents insurance you will pay a monthly premium. If you make an insurance claim, the only other cost you will pay is the excess you agree to pay the insurance company. Your insurance company will let you know what amount you will be expected to pay in if they need to pay you out for loss or damage.

Example:

You come home from work and discover that you have been burgled. Your house is empty. Everything is stolen. Luckily you have household insurance and contact your insurance company immediately. An assessor from your insurance company works out that the value of the contents you have lost is R20 000. Your excess is R1 000. This means that you only have to pay R1 000 from your own pocket while your insurance company pays R19 000 to replace everything. This means that because you have household insurance you have saved R19 000!

There are many insurance companies that offer household insurance. The amount of cover, the restrictions (what the policy does not cover) and the excess (what you have to pay from your own pocket) might be slightly different with each company. It is a good idea to compare quotes and benefits. Be careful though, because cheaper premiums could mean you get less cover or fewer benefits. You need to check that you have the right cover for your needs as well as getting the best price.

The minimum your household insurance must cover is damage or loss due to:

- Fire and explosions
- Acts of nature (wind, thunder, hail, lightning, floods and earthquakes)
- Power surges
- Damage caused by burst geysers or water pipes
- Theft

Tip: shop around for the best deal on insurance - many insurance companies offer value-added benefits, like free emergency plumbers, electricians and locksmiths.

It is also very important to make sure you have **enough insurance cover** for the value of the stolen or damaged contents. If you don't, the insurance company will use an averaging calculation to work out how much they will pay you, which can work out to the payout being less than the cost to replace the item.

Section 7:

This section explains how you can keep your home during difficult times when unfortunate, unplanned and unexpected things happen that may put your home at risk. It explains where you can go to get help and what you can do to keep your home, rather than losing it.

This section will assist you in:

- Understanding that there is no such thing as 'easy money';
- What a 'loan shark' and a micro-lending scheme is; and
- How to identify when you're in financial trouble.

Points of discussion

The following will be discussed in this section:

- Being responsible about your home loan repayments
- What you should do if you cannot afford to pay your home loan
- What is over-indebtedness?
- What is a debt counsellor?
- Predatory lending
- Protection under the NCA and NCR
- Where can you obtain your credit information and profile?

Be a responsible payer

When you accept your homeloan, you sign a legal and binding contract promising that you will pay the monthly payments on time every month for the entire length of the loan. In this manual, you have learnt that your homeloan is money your credit provider lends to you to purchase your home and that the property you are buying acts as security (by way of the bond) for the loan. This means that if you cannot afford to pay your loan and you fall behind on payments, your credit provider will take your home away from you and sell it to someone else, so that they can recover the money that you owe them.

Always make sure that your payments are kept up-to-date and paid in full and on time

This is why it is so important to **budget and to stay financially secure**. We have mentioned before that a home loan is payable over many years and a lot can happen during this time. You might lose your job, or you might get divorced, or there may be a death in your family. These are all examples of circumstances that you cannot prevent, but which you can prepare for beforehand.

What should you do if you cannot afford to pay your home loan?

If you have come into a situation where you cannot afford to make the payment due on your home loan, **immediately contact your credit provider!** You have entered into a 20 year relationship with them, do not be afraid to go in and talk to your credit provider. Depending on your situation, they might be able to offer some help.

Here are some situations that your credit provider can help you with:

If you have missed a payment on your home loan because you are changing jobs and you will be able to continue paying the next month, your credit provider will require a letter from your new employer confirming your new employment. You will also have to come to an agreement with your credit provider on how you will make up the payment you have missed.

i If you have money but, because of unforeseen circumstances, it is not enough to pay your full monthly payment the credit provider could **extend the loan term** to 30 years. This will reduce your payments in that way assisting you towards paying your full monthly instalment. If this situation happens, you need to review (or look at) your budget and consider how you are going to get back into a good spending habit. It is important to remember that the amount of extra interest that you will pay when extending your home loan by an additional 10 years will add up to a lot of money in the long term. **It is wise** to use this as a short-term option and to change back to a 20 year loan term as soon as your budget is back on track again - saving you a lot of money.

Example:

A homeloan for an amount of R300 000 at 12% interest per year paid over 20 years will add up to a total of R492 782,02 in interest over and above the capital amount of R300 000. The total cost of the loan over 20 years will be approximately R792 782,02.

A homeloan for an amount of R300 000 at 12% interest per year paid over 30 years will add up to a total of R810 901.60 in interest over and above the capital amount (what the home was worth when you bought it) of R300 000. The total cost of the loan over 30 years will be approximately R1 110 901.60.

As you can see, the interest over 30 years is about R318 000 more than the interest paid over 20 years!

It is very important to contact your credit provider as soon as you see that you will not be able to afford a monthly payment on your home loan. Do not wait until you are behind on your payments, rather contact your credit provider straight away.

NB: the NCA ensures that you have the right to get help from a registered debt counsellor

What is over-indebtedness?

Earlier in this manual we helped you draw up a budget. After looking at your income and calculating your expenses, you calculated your extra cash - the amount left over from your income after paying for all your monthly expenses. Over-indebtedness is when you have no money left over from your salary and you haven't managed to pay all your accounts or meet your monthly commitments. This means that you are **spending more money than you earn** - this is a dangerous situation to be in.

If you are in this situation you have too much debt. You need to admit that you have a problem and get help - it's the right thing to do! Under the NCA you **have the right to get help from a debt counsellor** if you are having problems paying your debt.

What is a debt counsellor?

Debt counsellors are companies or individuals who are accredited by the NCR and that can **help you if you have too much debt** and can't afford to pay all your monthly payments. They restructure your debt in a way that is acceptable to your credit providers. This means they agree to lower payments over a longer loan term with your credit provider so that you can afford to meet your living expenses.

If you make use of a debt counsellor, you will make one payment to your debt counsellor and they will pay all your credit providers on your behalf. Debt counsellors charge you a fee for this service but the law prevents them from charging more than a capped amount. The fees that they may charge are listed under guidelines provided by the National Credit Regulator (NCR).

It is very important to use a **debt counsellor who is registered with the NCR**. There are a lot of phony companies advertising debt counselling services that aren't registered and that will charge you very high fees. Investigate and make sure that the company you are using has a good reputation - you need to use a company you can trust.

You can find a list of accredited debt counsellors, in your area, on the NCR's website at www.ncr.org.za. If you do not have internet access ask a friend, or go to an internet cafe and ask someone to help you. It will only cost a few Rands. You can also contact the NCR directly for more information. The contact number for the NCR is **0860 627 627**.

Debt counsellors provide the following services:

They **rearrange your payments** to fit your budget.

They **communicate with your credit providers** on your behalf, so that you will not get phone calls from credit providers at all hours of the day demanding money.

They will help you **relax and take away the stress** of the threat of repossession (a credit provider taking back your home). They start the process that will eventually lead to you becoming **debt free**.

While you are under debt counselling you will not be allowed to open any new accounts or apply for any additional credit.

While you are under debt counselling you will not be able to open any new accounts. This is because all the credit bureaus will list you as being **'under debt review'**. The NCA credit providers are not allowed to give you more credit while you are under debt review, if they do, the credit provider will get into trouble because they are lending recklessly.

You will not be blacklisted while you are under debt counselling, and the 'under debt review' status will only be removed once all your account arrears have been paid off and most of your debt (excluding long-term debt such as homeloans) has been paid in full.

To be placed under debt review, you need to **apply for debt counselling**. It is not **guaranteed** that your application will be successful and it can take up to 60 days to be approved. You must continue paying what you can to your credit providers until you receive a letter from your debt counselor confirming that you are now under debt review.

Predatory lending

When you enter a branch of a lender that offers credit, or see an advert in a newspaper offering credit, you will notice the **NCR logo**. This means that the credit provider is registered by the National Credit Regulator to lend money and that it does this according to the laws set out in the National Credit Act.

National Credit Regulator

Companies will usually also say that they are a registered credit provider on all their adverts, eg: *"We are an authorised financial service provider. We are a registered credit provider in terms of the National Credit Act."*

This means that you are protected, as a consumer, by the laws in the NCA. If you borrow money from companies that are not registered with the NCR, like a loan shark, you will not be protected. Illegal lenders like loan sharks can charge any interest rate, and also include a lot of other fees that are not legal. These loan sharks don't do credit checks, so people that have a bad credit record feel forced to use these illegal methods to borrow money.

Remember: the laws of the NCA are there to protect you, but only if you are honest about your financial situation.

You must never borrow money from a company that is not registered with the NCR as a credit provider.

If you are really in trouble, urgently need cash and you have a bad credit reference; rather consider borrowing the money from friends or family. If you have borrowed money from them in the past and not paid them back, make sure you pay them back!

Protection under the National Credit Act and the National Credit Regulator

When you apply for credit from a lender that is **registered as a credit provider with the NCR** you should be totally honest when you complete your application form. If you aren't, you may find that you are not protected by under the NCA when you cannot pay your accounts.

When you fill in your monthly expenses on the application form use the amounts that you are using for your

budget to confirm how much you are spending on clothes, school fees, food, petrol, etc. **If you cannot afford the loan, don't be dishonest about your expenses** - you will only be getting credit that you cannot afford. Remember these laws protect you, but you cannot expect to be protected if you are not honest about your financial circumstances.

How can I get a copy of my credit report?

You can get a copy of your own credit report by going directly to the credit bureaus. There are three major credit bureaus they are: **TransUnion, Experian and XDS.**

To get a free credit report (one free credit report every 12 months) from TransUnion go to:
<http://www.mycredit.co.za/>

To get a free credit report (one free credit report every 12 months) from Experian go to:
<https://www.creditexpert.co.za>

To get a free credit report from XDS phone: 0860 937 000

To get your credit report, your identification (ID number, address) will be verified by a representative from the credit bureau. Your credit report will be faxed, posted or emailed to you. You can ask for your credit report in English, Xhosa, Zulu or Afrikaans.

The NCA provides you with the following important rights as a consumer:

- When you take out a loan, you will receive a pre-agreement which explains the total amount payable in easily understood language.
- A credit provider has to show you all the costs of the loan. There can be no hidden costs; this means you won't get any nasty surprises when you receive your first account.
- If your loan is declined, you can ask the credit provider to give the reasons why the loan was declined.
- You can now go directly to a credit bureau to access your own credit record.
- The NCA protects you from getting into too much debt because credit providers are guided by law not to lend money recklessly, but rather to ensure that you can afford the debt.
- If you are having problems paying your debt you can get help and advice from a debt counselor.
- The credit provider needs to supply sufficient education so that you, the consumer, can make an informed and educated decision when you apply for credit.

Getting your head around some of the terms

1. **Affordability assessment** - this is the assessment done, based on your income and expenses, that will determine if you qualify for a home loan and if you do how much you qualify for.
2. **Buyer** - this is the person who is buying the property from the seller.
3. **Conveyancer** - you may come across this term as another word for the attorney who handles the transfer of the property from the seller to the buyer. This person is also responsible for the registration and cancellation of any existing mortgage bonds on the property being purchased.
4. **Debt counsellor** - this is a service whereby the counsellor will assist if you cannot manage the monthly debts you have. This service will reorganize your debts and arrange a new payment to each of the credit providers that you owe money to, until you have settled the debt. During your debt counselling process, you will not be eligible to qualify for any new credit at any other institutions or retail stores.
5. **Interest rate** - this is the percentage of interest that the bank will charge you on your home loan based on your credit history and level of borrowing. If you have not fixed your interest rate your interest rate will change when the Prime Lending Rate changes.
6. **Fixed interest rate** - this option is sometimes available to home loan applicants so that they may fix their interest rate on their home loan for a period of 12, 18 or 24 months. This is a way to ensure that your monthly home loan payment will not be affected if the Prime Lending Rate should increase.
7. **Homeowner's Comprehensive (HOC) insurance** - this is insurance that covers the replacement value of the house (and other buildings on the property), and is compulsory for anyone who is granted a home loan from a bank. It is your protection should anything happen to destroy or damage the house.
8. **Monthly repayment amount** - this is the monthly installment (comprising capital and interest) that you will be debited to your bank account for your home loan every month.
9. **Monthly service fees** - this is the monthly service fee that may be charged by the Bank that covers the administration costs of maintaining your home loan.
10. **Number of monthly repayments** - this is the amount of months it will take you to pay off your loan, as agreed by you and the bank; this is also called the loan term.
11. **Reckless credit** - this is when the Bank has not followed the rules governed by the National Credit Act and granted you credit without going through the proper channels and not taking your current financial obligations into account.
12. **Over indebtedness** - this is when you are spending more than you earn - this is a dangerous position to be in. You should seek debt counselling if you are over indebted.
13. **Registration fees** - these are the fees that you will pay to the attorney - including the attorney's fees - for the registration of the mortgage bond and transfer of the property.
14. **Seller** - this is the person who is selling their property, with the possible intention to buy another.
15. **The capital amount** - this is the total amount of your home loan and is the same as the Principal Debt.
16. **Principal debt** - this is the amount of your loan from the credit provider. Remember that your monthly instalments are made up of interest and some of the principal debt.
17. **Transfer Duty** - this is the tax that is imposed by the Government for the transfer of property from the seller's name into the buyer's name.
18. **Transfer Fees** - this is similar to Registration Fees and is the amount payable to the attorney and includes the attorneys fees - for the transfer of ownership of the property.