

Quick Guide to Borrowing



What are personal loans?

The two most common kinds of personal loans are secured loans and unsecured loans. Secured loans are usually for bigger amounts of money and are paid back over longer periods of time; like five years or more. Home loans are a type of secured loan, where you use the value of your property as a guarantee that you'll pay the loan back. You can also get smaller loans which are borrowed against your personal assets.

If you miss your repayments on a secured loan, you risk losing the assets you've tied to the deal – often, that can mean your house. The main benefit of secured loans – other than being able to borrow more money over a longer time – is that you can usually get a lower interest rate which could be fixed, or variable.

Unsecured loans are usually used for smaller sums, over shorter periods of time. They don't require any personal assets to be tied into the agreement, although failing to repay the loan will still have serious consequences.

One type of unsecured loan is a payday loan. A payday loan is a very short-term loan for a smaller amount of money, usually between R100 and R8 000. Many people take payday loans to carry them over until their next payday. The interest rates are usually much higher than traditional loans taken over longer time periods, and the application process is usually quicker and easier.

Choosing a personal loan

Different types of loans work better for different things – you wouldn't buy a car with a credit card and you wouldn't take out a five-year loan for a weekend away! If you don't do some basic homework or you just take the first loan you're offered, you could end up paying far more than you needed to, or being stuck with repayments for way too long. Here are a few pointers when thinking about getting a loan:

- **Shop around** – it's never a good idea to commit to anything without at least researching some of the alternatives, especially when it comes to money.
- **Can you afford it?** Think carefully about whether or not you can comfortably afford to repay a loan. If you have any doubts, it's probably better not to take the loan.
- **Consider the loan duration** – the repayments might be smaller with longer loans, because you are spreading them over more months, but the total amount you have to repay may be higher in the long run.
- **Check out all the fees** – some loans come with additional fees, such as arrangement fees or early repayment fees. They might be worth paying if the overall cost of the loan is still appealing, but make sure you double-check all the terms and fees first.
- **Look for flexibility** – you might not always have the option, but it can pay to have flexibility, especially with a longer-term loan. It could mean your payments have the option to be higher or lower some months, the option to take a temporary repayment break, or perhaps pay off the loan early without any extra charges.
- **Make sure you understand exactly what's being offered** – insist on clear advice and, if you don't understand something or feel you are being confused by big words, don't be afraid to ask for simpler explanations.

Credit History

Your credit history can have a big impact on the cost of borrowing money and the options available to you. It is like an ongoing school report that keeps track of your financial behavior.

Your credit history also looks at any debt you have at the moment, plus a number of other factors. Always remember, it's easier to harm your credit rating than to improve it – prevention is better than cure!

Most lenders use some form of credit-checking whenever you apply for a loan, so do everything you can to protect your credit rating. If you're having problems getting credit, it can be worth using a service like www.transunion.co.za to find out more about your credit rating and how you can improve it.

Is Wonga right for me?

It's impossible to give one piece of advice to everyone about the right type of loan for them – it's down to your individual circumstances – but our service is designed to help you get through short periods, when you know some money is coming your way afterwards. Because it's 100% online, it's quick and convenient.

Wonga's services are not designed for managing your existing debt, as a long-term credit solution, nor if you aren't sure whether you will be able to pay back your repayments on time. The application process is completely transparent and we calculate the cost of the loan up front, so you can see the full cost of your loan before you apply.

Facing up to debt problems

If you are feeling financial strain, or you're struggling to repay a loan, it never helps to pretend there isn't a problem. The sooner you face up to the situation, the sooner you can start fixing it.

Make a list of all your outstanding credit, the lenders' details, how much you owe, and how much your repayments are. If you're struggling to keep up with repayments, talk to your creditors quickly. Depending on the lender and the type of credit, you might be able to lower your payments, extend your loan period, suspend repayments for a short time, or even repay the loan early if you owe a small amount and want to reduce your number of monthly repayments.

Can you afford a loan?

Draw up a basic monthly budget, comparing your income to your regular costs like bills, entertainment and house-keeping. If you're left with a positive number each month, that number should help you decide what kind of loan repayments you can afford if you're considering a new loan, or calculating how to pay off debt you already have. If you're left with a negative number – in other words, your monthly costs are regularly higher than your monthly income – you should try hard to find any monthly costs you can reduce or remove altogether. Cutting back on luxuries and non-essential costs in the short to medium term is well worth it if it means you can settle debts and be more financially stable in the long run.

If you are budgeting to work out what you can afford to pay back to existing creditors, try to plan a timeline showing which debts you might be able to settle, and when. Also, prioritise the most important debts and tackle them first. High priorities could include a home loan or rent arrears (because you might lose your home if you don't pay them), household bills which are necessities (like water and electricity), and court fines.

Seeking Further Help

There are debt counselling services which can help with advice and counselling when you are having tough times financially. Don't bottle up stress and anxiety about financial problems. Click [here](#) if you'd like us to introduce you to a trusted debt counselling partner.

Check your credit history and find out more about how you can improve your rating. You can request a copy of your credit history and get more advice on how to improve your credit rating here:

www.transunion.co.za