



FINANCIAL **JOURNEY**

FOR A SECURE AND PLANNED FUTURE

PREPARING YOURSELF FOR A

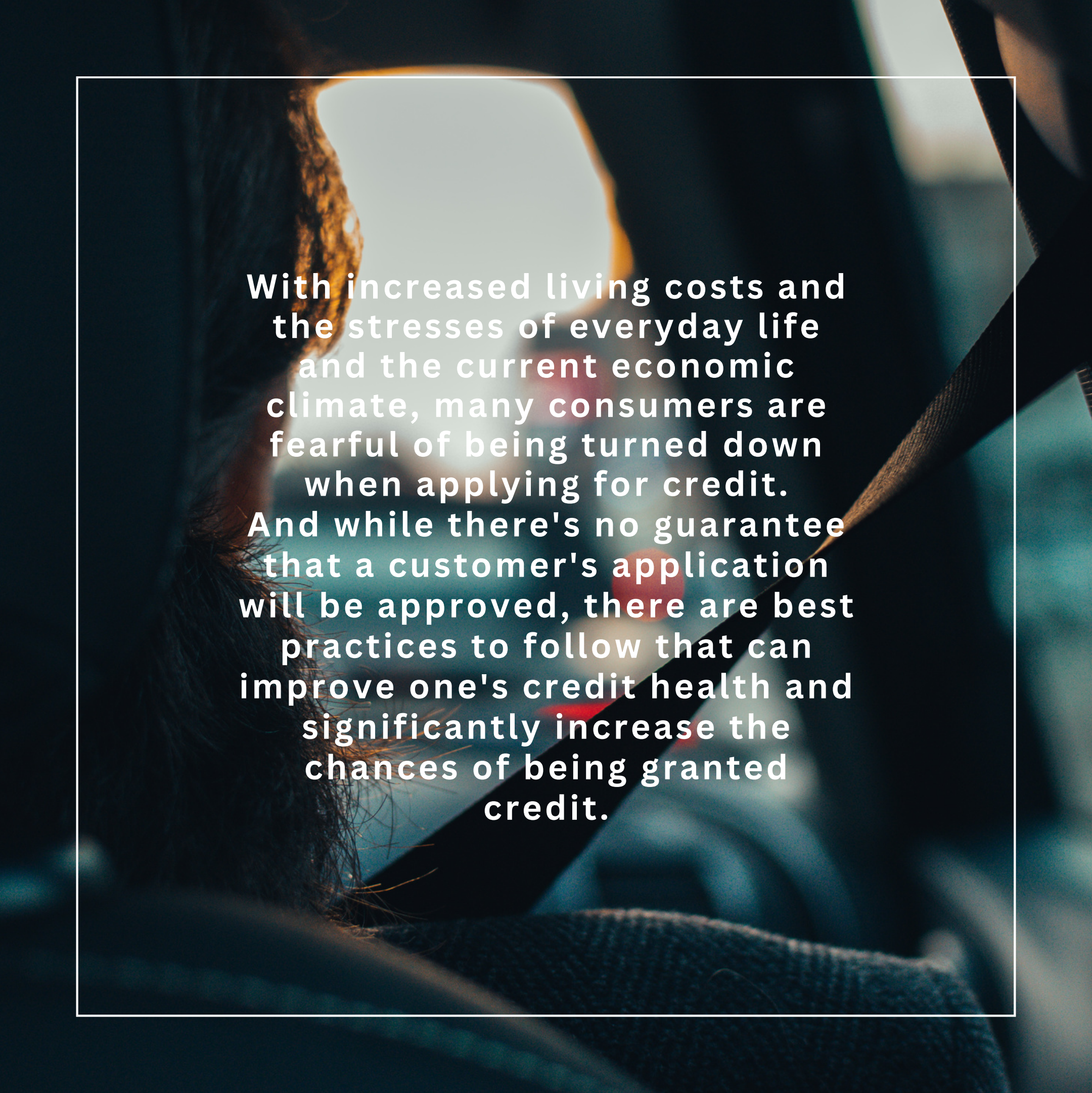
# CAR FINANCE

# TODAY

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**With increased living costs and the stresses of everyday life and the current economic climate, many consumers are fearful of being turned down when applying for credit. And while there's no guarantee that a customer's application will be approved, there are best practices to follow that can improve one's credit health and significantly increase the chances of being granted credit.**

# Banks generally look at the following factors in order to make credit decisions:

## 1. Your credit.

What you should do:

- Check your credit report:
- Check your credit score; make sure it is above 661. If not, find ways to increase your credit score.
- Make sure you have NO negative credit information, such as an account in arrears. If you do, pay them up immediately.

## 2. Your debt-to-income ratio.

## 3. Your income and employment history

What you should consider:

- The longer you have worked in one company, the better your profile looks.
- Your income – (your personal expenses and your debts) = your affordability. Banks expect you to have the expected installment amount available after all expenses and debts are paid.
- Your income-to-debt ratio is the amount of your income that pays your debt. Banks generally accept up to 50% for vehicle finance.

## 4. Value of your collateral.

- In the case of vehicle finance and a mortgage loan, the asset that you are buying will be a form of collateral/security.

## 5. Size of down payment.

- Offering a deposit as a down payment puts you in a better position for approval.

## 6. Loan term.

What you should consider:

- If your loan term is above the norm, it is a sign that you might not have enough affordability for what you are about to purchase on credit.

# INTEREST

The bank uses the prime rate as a reference point when they make an offer to you. Prime rate at the moment of writing this information is 11.25%. The further away from the prime rate the offer is, the more of a risk you are to the bank. i.e. if the bank offers prime plus 1-4, that is currently within the norm.

1. The bank normally offers two types of interest for you to choose from: either fixed or variable/prime-linked rate.
  - Fixed interest rate: tends to be higher than the prime-linked rate, however it offers the stability of knowing exactly how much your installment will be for the whole duration of the payment term.
  - Prime-linked interest rate: tends to be lower than the fixed interest rate, however it fluctuates according to the prime rate. E.g. if you are offered prime plus 3, currently this will be 11.25% plus 3%, which is 14.25%. If the prime rate changes by 25 basis points, your interest rate will also change equally, to 14.50%.



# BALLOON OR NO BALLOON?

## **What is a balloon payment:**

In short, this is offered to you when you cannot afford the car you are currently buying:

E.g. Let's say the car is worth R200 000 but you can afford an instalment of a car worth R150 000.

You are offered a R200 000 car BUT you pay an instalment for R150 000 for 5, 6 or 7 years. However, the interest and the fees are charged at full rate, i.e. R200 000. At the end of the term, you are expected to pay the remaining R50 000 in cash, this is the balloon payment.

(remember, the longer the term, it means you probably do not have affordability, now the term is stretched so that your instalment is reduced)

Sometimes this is presented as residual payment. It is a similar concept presented differently:

Assuming that you are buying a car that is worth R200 000 and you do a residual of 10 per cent, you will then make a monthly repayment based on R190 000 with the remaining 10 per cent of which in this case will be R20 000, payable at the end of the loan period.

Also when it comes to trading in a vehicle bought through residual, the process can be a bit daunting since you will have to include the residual amount on top of what the dealership offers to initiate the trade-in.

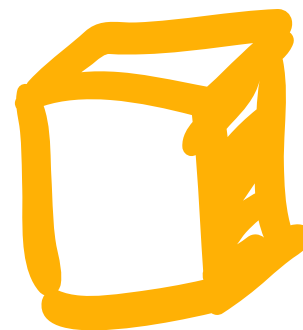
A residual may work in your favour if you keep the vehicle's mileage low so that the dealer will be able to trade in your car at a higher price and cover the residual amount.



# HOW TO INCREASE YOUR CREDIT SCORE

Credit Score is calculated from many variables.  
Key variables include:

- Payment history: 35% of credit score.
- Amounts owed: 30% of credit score.
- Credit history length: 15% of credit score.
- Credit mix: 10% of credit score.
- New credit: 10% of credit score.
- Missed payments.
- Too many inquiries.
- Outstanding debt.





# TIPS

Open a store card or credit card.

- Find out how much time you are given interest-free, e.g. 30 days interest-free.
- Use credit: Ideally buy what you would buy in cash, that you already have cash for.
- Pay in full within the interest-free period.

This will appear as a use of credit with up-to-date payment. Changes will take up to 3 months to reflect on your credit score. Remember, this will work well if you do not have any other negative information on your credit report such as:

- Accounts in arrears
- Late payments
- Debt review
- Judgments



## MORE THINGS TO CONSIDER

- ◆ Know how much you can spend.
- ◆ Know what type of car matches your lifestyle and budget.
- ◆ Stick to reputable dealers.
- ◆ Keep maintenance in mind.
- ◆ It's your right to request dealer/finance certification.
- ◆ Know when to walk away.
- ◆ Pay deposits by bank transfer or EFT, never use cash!
- ◆ Get your documentation, read it through first, before you sign.
- ◆ It is advisable to get at least 3 quotes from reputable banks and compare offers.
- ◆ It is advisable not to use dealership finance as it is usually more expensive than bank finance, to cater for the finance application work they do on your behalf.

# WHAT IT REALLY MEANS FOR YOU

**If your car quotation is R412 340,00.**

**Assuming your interest rate is at 14.25%, it means:**

**Term: 72 months**

- o Your installment will be approximate: R8 645.91 per month over 72 months**
- o Your total interest payment will be R203 990.10 over 72 months**
- o Your total cost of credit over 72 months: R622 505 .60**

**Term: 60 months**

- o Your installment will be approximate: R9 745.21 per month over 60 months**
- o Your total interest payment will be R167 025.13 over 60 months**
- o Your total cost of credit over 60 months: R584 712 .63**



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# Thank You

Thank you for reading. Now you can go and look for that dream car! We wish you all the best in your car buying journey.