

# THE BANKS AND YOU

Banking is as important to a country's economy as industry and commerce. When people manufacture products and when they buy and sell these products, they need banks to handle the money ... the financial transaction. Can you imagine the owners of a big gold mine selling their gold output for cash, and then locking the cash in a cupboard until they need it to buy new machinery?

Private individuals also need banks. Banks act as intermediaries between customers who want to save (invest) money and customers who want to borrow money – and between customers who want to deal with one another, e.g. buyers and producers.



## THE MAIN SERVICES THAT BANKS OFFER

*Modern banks provide a wide range of services to the public. The services listed here are the main ones that most people are likely to use. As your needs grow, you can ask your bank about any other services it offers.*



*It is good to establish a personal relationship with your bank. Get to know your personal banker or consultant. He or she will get to know your particular circumstances, and will be able to ensure that you get the best advice at all times.*

### Savings account

This is mainly for saving, but you can also use it to make other transactions. You need only a small amount of money to open a savings account and maintain a minimum balance – and you are paid interest on your money. Some banks allow you to make a certain number of cheque withdrawals from your savings account. ATMs (Automatic Teller Machines) give you access to your savings 24 hours a day.

### Personal loans

When you have a good track record with your bank, they may allow you to take out a personal loan.

### Cheque account and overdraft

With a cheque account (or current account) you receive a cheque book, and you can pay people by cheque. But there is a fee for every transaction. Your cheque account often pays no interest, but your bank may allow you an overdraft (a type of loan) on it, depending on your credit record. Interest is payable on an overdrawn balance.



## Debit cards

A debit card gives you the benefits of “electronic banking” without the danger of spending money you do not actually have. Managing your finances is easy — you can only spend money that you have in your account and it comes out of your account immediately! You also get a printout once you have finished your transaction, showing how much money is left in your account. You can now pay for your shopping with a debit card at more and more businesses.

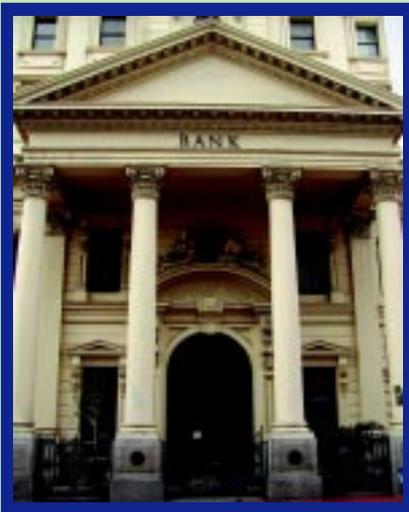


## Credit cards

With a credit card, you can pay for your shopping without having to carry a cheque book or cash. All your purchases go onto your account (you buy “on credit”) and you pay the bank once a month. You will only qualify for a credit card once you have a good credit record. Don't use it for term purchases and avoid only paying the minimum instalment. If you can't pay the full amount, pay as much as possible. The interest rate on credit cards is very high.

## Hire Purchase (HP) accounts

Certain banks specialise in hire purchase loans which are registered over the items you buy. If you don't pay your instalments, the items you have purchased are repossessed. Usually the dealer negotiates the loan with the bank on your behalf, but you can talk to the bank directly to try to get a better interest rate. Before you take out an HP, the company usually checks your credit record. A bad credit record may mean the HP application is turned down.



## Notice deposit accounts

Notice deposit accounts earn you higher interest, but there are restrictions. The minimum amount needed to open the account is higher than for an ordinary savings account. The main difference is that you have to give the bank an agreed period of notice (e.g. 32 or 60 days) before you can draw the money in your account.

## Fixed deposit accounts

This account offers a fixed interest rate over a fixed period of time (say 12 or 24 months). The money must remain in the account for the



specified period of time. This protects you from the temptation of drawing the money, and is a good form of saving for a particular goal, such as education or a new car.

## DORMANT ACCOUNTS

*Some accounts have no upper or lower limits, as long as you keep them open and you use them regularly. When an account has been dormant (not used) for a certain period, the banks have the right to close it and keep your money unless, and until, you claim it.*

## Home loan account (mortgage bond)

A home loan account, or **mortgage bond**, is probably the most important contract, apart from marriage, that you will sign in your life. It is a **long-term agreement** between you and your bank. If you qualify, the bank lends you money to buy or build a home. The loan, with **interest**, is repayable over 20 or 30 years. If you repay it sooner, you will save on interest. (Remember Plan B on page 5.) Your home is the bank's security. If you fall behind with your repayments, the bank may repossess your home to recover any money that you still owe and to protect its other clients' deposits.

Most banks nowadays offer customers the convenience of re-borrowing as much of the original bond amount as they have repaid. If you have paid off enough, you can draw money from your home loan to pay for new furniture, travel, or even a car – at a much lower interest rate than normal.

This is a convenient and economical way of buying on credit. But it is dangerous too. You can find yourself in a position where your home loan **never gets paid**, and you eventually face retirement with a massive amount still outstanding ... and the risk of losing your home in your old age.

A much better idea is to use your home loan as a savings plan. Pay off extra each month. This is often the most efficient way of investing until your bond is fully paid. In so doing, you can save huge amounts of interest.

In this way you save a large amount in interest and your home loan may get paid off sooner too. Ask your bank to help you work out the details if you want to use your home loan to plan for a future expense.



*A home loan is the biggest single debt the average South African will incur in his or her life. You should aim to have repaid your home loan by the time you retire.*

## Society or group accounts

Designed for a group of people who want to **save together**, this type of account is similar to a stokvel. Bank costs are low and your savings earn **interest**. A minimum amount has to remain in the account to keep it open.

### REMEMBER THE GOLDEN RULE:

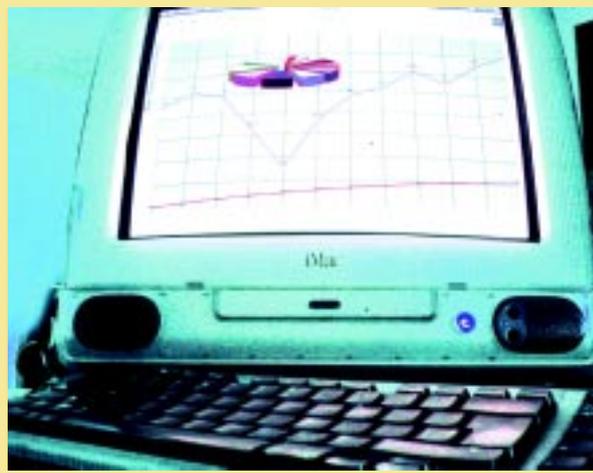
**MONEY THAT YOU SAVE  
MAKES YOU MONEY.  
MONEY THAT YOU BORROW  
COSTS YOU MONEY—  
AT HIGHER INTEREST RATES  
THAN YOU EARN ON  
YOUR SAVINGS!**



# OTHER USEFUL BANKING SERVICES

## Internet and telephone banking

If you have a **computer** (and you subscribe to the **Internet**) or your own **touch-tone phone**, you can do a lot of your banking from home or from your office.



## Investment advice

Whenever you are ready to plan your investment strategy for the next few years, one of your first stops may well be at your bank. Bank staff members are professionally trained to provide good advice on different forms of investments. They will also be able to refer you to a reliable insurance broker, if you do not have one yet.

Choosing the right investment account can make a big difference to the interest you earn – and to the future value of your investment portfolio.

## Consolidating your debt

When one is in financial trouble, it is sometimes appropriate to consolidate one's debts. In certain circumstances your bank may be willing to help you do this by lending you enough money to pay all your accounts and then you need to repay only one loan, i.e. the bank. If you think this may be a good idea in your case, talk to your personal banking adviser. She or he will explain the conditions to you.

## Foreign exchange payments

In the modern world of international travel, the banks play a key role in advising you and arranging for you to have access to your money when you are out of South Africa. There are regulations regarding the amount of money you are allowed to take out of the country and in what form. The appropriate bank staff member will explain the legal requirements and what can and cannot be done, as well as organise travellers' cheques in the currency you will need and arrange for you to be able to use your credit cards in other countries. There is a charge for these services, which may vary from one bank to another.

The banks also arrange for purchases made outside the country and transfer of funds.

If you have arrived at a point where you would like to invest money directly overseas, your bank will be able to explain the Reserve Bank's requirements to you.



## Keeping banking fees down

Banks charge their customers banking fees for the services they provide. By carefully selecting the services or accounts that you need, you can minimise these fees. You can also shop around and compare the fee structures of the different banks. Finally, you can ask the bank you have chosen to offer you the best possible fee structure.

# THE IMPORTANCE OF BEING A GOOD CUSTOMER

In a world where we are being encouraged to **spend, spend, spend** (even money we haven't worked for yet) we forget that everything we **borrow or buy on credit will have to be paid for eventually**. Most banking or credit customers keep their affairs in order – but there are still far too many who get caught in the debt trap. You can ask anyone who has been there, and they will tell you how difficult it is to get out of financial trouble once you are in it.

**It is much easier, they will tell you, to stay out of trouble in the first place!**

## HOW TO BE A GOOD CUSTOMER IN GENERAL

If you buy anything on credit, follow these rules:

- Make sure that you really need the item. The test is to ask yourself: "Can I live without it?" And if the answer is "yes", think very carefully about it.
- Make your repayments punctually and in full – on or before the due date.
- If you cannot afford the payment for any reason, write to your creditor, explain the situation, include the amount that you can pay, and undertake to catch up the next month.
- If you really are in trouble and you cannot afford your repayments, write to your creditor, explain the situation, and commit yourself to such smaller regular amount as you can afford. As long as you keep to your new promise, the creditor is not likely to take legal steps against you.

## HOW TO BE A GOOD BANK CUSTOMER

In the course of your career, your bank manager can become a very important person in your life. It is therefore worthwhile to keep your relationship with your bank sound and healthy – come what may!

- Keep to all the rules.
- Be honest with your bank. If your job status or salary changes, let them know.
- If you make a promise to your bank, confirm it in writing and fax or post it to them. A handwritten letter is fine.
- If you have an overdraft facility, treat it with care. Don't use it for unnecessary expenditure, and don't exceed the limit. How you are managing your overdraft is the bank's best way of telling what kind of customer you are!



# WHATEVER YOU DO, STAY OFF THE BLACKLIST!

If you do not manage your accounts properly, your bank will give you a **poor credit rating**. Even if you do not have a bank account, if you do not pay your accounts regularly, your creditors will give you a poor credit rating. They will give that rating to any business that contacts them to find out whether you are a reliable customer or a poor risk.

But it gets worse. If you fail to pay more than one instalment, your creditor can take legal steps against you. **Summons** will be issued against you, and then **judgement**. Then your name will automatically be handed over to a **Credit Bureau** and you will be **blacklisted**. Once this happens, you will not be able to open any account anywhere or take out a bank loan (including a home loan).

It generally takes five years for your name to be removed from the list. Although you can negotiate to have this done earlier, it is a long and frustrating process which requires great determination and patience. (Find out how to challenge unfair blacklisting on page 33.)

In effect, a judgement against your name might affect your financial standing and your ability to get credit and open accounts.

## *SOME OF YOUR FURTHER RIGHTS AND OBLIGATIONS AS A DEBTOR*

When you borrow money or buy on credit, you accept responsibility for your actions. Make sure that:

- You deal only with a registered bank or moneylender (all microlenders that operate outside the Usury Act have to be registered with the MFRC – see last page)
- You demand a **written contract** explaining the terms of the deal
- You know whether a **cooling-off period** applies, and how long it is
- You have not signed any **blank forms** for the dealer or moneylender to complete afterwards
- You are allowed to pay the debt off sooner than the contract states, if you want to. Check with the creditor to find out if there are special conditions governing early settlement
- The dealer or moneylender does not keep your **ATM card or ID book**. It is against the law
- You are able to keep to the **terms of the contract**.

A microloan is any loan under R10 000 from a bank or microlender which must be repaid within 36 months. Interest rates vary as the Usury Act only limits the amount of interest that can be charged on loans over R10 000. So **shop around!** Check what the rate is before you borrow money.

## *BEWARE OF THE MICROLENDING CYCLE!*

Many people have met their downfall through the vicious cycle of borrowing from a friend to settle an urgent debt ... and then borrowing from a microlender to pay the friend ... and then borrowing from a second microlender to pay the first microlender!

Registered microlenders provide a service. But use them with caution – and in a responsible way!

