

Understanding interest

PERSONAL FINANCIAL LITERACY

Being able to understand interest is one of the best tools you can have to allow you to save large amounts of money, make better decisions about where to borrow money from, and where to buy from.

Always ask what the interest is on the money you are borrowing, whether that is from a mashonisa, a registered lender, or a bank. Ask the person that you are borrowing from and get them to write it down. You have to trust that they are being honest.

- Always shop around and get printouts from at least 3 lenders, but more if possible.
- Ask first if you need it, then decide which would be the best choice for you.
- Ask many questions. Ask yourself why. Know what questions you need to ask the lender.

Example of interest rates from four different lenders

	1	2	3	4
	THE XYZ BANK	PATRIC'S PAWN BROKERS	COMPANY SUBSIDISED LOAN	IMMEDIATE CASH LOANS
Amount to borrow	R12 000.00	R12 000.00	R12 000.00	R12 000.00
Interest Rate	20.75% per year	40% per month	21% per year	30% per month
Interest over 3 months	R622.50	R14 400.00	R630.00	R10 800.00
TOTAL REPAYMENT	R12 622.50	R26 400.00	R12 630.00	R22 800.00



Ask yourself, which lender would you borrow from, and WHY?

Buying things on hire purchase or instalments

It is scary to realize how much interest we are paying when we borrow money, but have you considered how much interest you are paying when you buy something on hire purchase?

Sometimes that interest is much higher than borrowing the money to buy it. It is shocking to compare the hire purchase price with the cash price. We are going to do some comparisons to show why we need to work out the final price of a product before signing the hire purchase agreement.



If we have considered all of the questions and need to buy it:

- Shop around and get printouts from at least 3 to 5 shops.
- Ask for the full amount that we will need to repay.
- Get a printout of all of the costs.
- Carefully read the agreement or contract, or get someone in the family to explain it. You have a right to ask for it in your own language and in simple terms.
- Take time to decide.
- Choose the best place to buy from.

Here is a comparison of the different amounts you could get for buying a flat-screen TV from 5 shops you would know that are on the same street on the same day.

The prices for the television for cash purchase or over 12 and 24 months:

	1	2	3	4	5
	SHOP 1	SHOP 2	SHOP 3	SHOP 4	SHOP 5
Cash	R2 999.00	R1 999.00	R2 299.00	R1 999.95	R1 999.00
12 Months	R5 701.00	R2 530.44	R4 500.00	R2 803.31	R2 520.00
24 Months	R7 594.99	R3 123.26	R5 916.00	R3 584.60	R3 108.00



Look at the remarkable difference between the cheapest cost of the TV, being R1 999.00 for cash, and the most expensive being R7 594.99 over 24 months. This is a difference of R5 595.99! You could actually buy almost 4 TVs for that amount.