Welcome again to the Public Awareness column provided by the Reserve Bank of Fiji (RBF). This month's article focuses on borrowing money and managing that credit. We also provide some issues you should consider if you are thinking of taking out a loan.

Borrowing money - Obtaining and managing credit

Almost all of us rely on borrowed money at some point to achieve a financial goal – whether it's buying clothes or a DVD player with a credit card, or taking out a loan to buy a car, a business, or a house. In fact, without some form of credit, many of life's bigger purchases would be unattainable. But to make borrowed money work for you rather than against you, it's important to keep credit under control. This fact sheet outlines the ins and outs of obtaining and managing credit.

What is credit?

Credit (or loan) is borrowed money that allows you to buy goods or services now, but pay for them later. Credit cards (such as those offered by credit providers like banks and credit institutions), store/fuel cards (which allow you to purchase in specific stores or retail groups), personal loans, lay-bys and mortgages are all forms of credit.

Who offers credit?

Credit providers include: all commercial banks in Fiji. Commercial banks are licensed by the RBF and provide all of the most commonly used forms of credit, including credit cards, personal loans, business loans and mortgages. Contact your bank to see what options they have available.

The RBF also licenses some credit institutions that provide personal loans (for education, travel etc), business loans, mortgages and vehicle loans.

In Fiji, we also have finance companies that also provide credit facilities similar to those provided by the licensed institutions and registered money lenders who offer credit for very small amounts only. Both finance companies and money lenders are not licensed by the RBF.

Dealing with an RBF licensed entity means that you can take any queries or complaints you have about that entity or product to the RBF. If the RBF does not license the person or entity you take credit from, there is little that the RBF can do if you run into a problem with the credit provider.

Why use credit?

Credit can be a convenient way to purchase goods and pay for them over an extended period of time – especially larger items that we generally can't afford to purchase on the spot.

For example, a personal loan can make it possible to buy a car, and then pay it off in installments over a few years. Credit cards can also be a convenient form of credit – they provide a number of benefits including 24-hour access to money, the ability to shop online, and access to money in emergencies. You need to be aware that using your credit card to access cash - a cash advance - can attract a fee and interest can be charged from the day you make the withdrawal.

The cost of credit

Borrowed money comes at a price – interest is calculated on the amount of money you have borrowed (or the amount you still owe), and is then added to the total amount you must pay back. Generally, the more money you borrow and the longer it takes to pay it off, the more you will have to pay in interest.

The type of interest can vary depending on the product and the bank. Two forms of interest commonly applied to personal loans are:

Fixed interest - a set interest rate which does not change over the term of the loan;

Variable interest - an interest rate that can go up or down over the term of the loan.

Interest on credit cards also differs. Some cards offer interest-free days, others offer ongoing interest:

Interest-free days - a set number of days (up to 55 days), before interest is payable on your purchases. If your purchases are not paid off in full by the end of the interest-free period, interest then applies to the entire balance owing;

Ongoing interest - an ongoing rate of interest which usually applies from the date you make the purchase. Generally, these cards have a lower interest rate than those with interest-free days.

Low interest and no interest

Sometimes you may see loans or credit cards offering low interest, or even no interest, for a fixed period of time (for example, for six months or one year). Most often these offers are made by retailers, in particular for store credit. Some of these offers provide good opportunities for consumers. However, some also come with a catch, such as significantly higher interest once the initial 'honeymoon' period is over. Always read the product information and terms and conditions very carefully before entering into any arrangements to be sure of what you'll be paying – now, and down the track. And don't confuse interest-free with fee-free – fees may still apply, even if interest doesn't.

Other costs

In addition to interest, other charges usually apply to credit arrangements, such as annual fees on credit cards, or administration fees on personal loans. It is vital to be fully aware of any fees that apply (and interest rates) before entering into a credit arrangement. Your product information will outline all fees, but if there is anything that you don't understand, call the bank for clarification.

Applying for credit

What type of credit is best?

Different types of credit suit different circumstances. As a general guide, credit cards generally have higher interest rates, so they are best used as a short-term credit option for making smaller purchases. Personal loans, on the other hand, tend to have lower rates of interest, and are therefore more often used to purchase larger items that take longer to pay off, such as a car. Bank customers can also set up an overdraft – this arrangement allows your account to go into debit, usually up to a specified limit. In addition, there are mortgages which enable bank customers to access the equity in their home – borrowing money at home loan interest rates which can sometimes be lower than other forms of credit, for example, credit card interest rates.

The type of credit that's best for you will depend on how you want to use the borrowed funds, and also on your individual financial circumstances. Remember to shop around for the best rates and terms of credit. If you know a financial adviser who can help you compare the different rates and offers by banks and credit institutions you should consult them. Sometimes your accountant or bank may be able to provide more information to help you determine which products will best suit your needs.

Before applying for credit

Credit is a big responsibility, so it pays to do your sums before applying for a credit arrangement. Do a budget to get a clear understanding of your current financial situation. Can you afford to take on the debt? Can you afford to make the repayments?

And don't forget to think ahead. If your circumstances change – e.g. if you are temporarily out of work, or if you encounter an unexpected expense such as medical or a car repair bill – will you still be able to make the repayments?

Managing credit

Credit is a fact of life for most people, no matter what country they live in. For many of us, borrowing money helps us work towards and gradually pay off our dreams – whether it's a holiday, a car, a house or a new business. But from time to time, debts can become a burden, and for some, these times can result in significant financial hardship. The key to ensuring that credit continues to work for you, rather than against you, is careful management. Consider these tips for paying off your debts:

- ✓ modify your budget to make sure it accounts for your debt repayments;
- ✓ consider paying off debts with the highest interest rates first, as these can cost you more in the long run;
- ✓ consider paying more money than the minimum required so you can pay off your debt faster and pay less interest. This works for mortgage and other loans and credit cards which require you to pay a minimum amount each month;
- ✓ think about consolidating your debts if you have more than one, but only do so if it will help you to minimise your overall interest payments and the fees and charges you pay;
- ✓ once you've paid off a debt, keep setting aside the repayment amount to help reduce other debts faster.

Shop around

Every bank, credit institution or credit provider is different, and may offer a range of options when it comes to borrowing money. Don't just take the first product you hear about – instead, take the time to find out about the products they offer. Then, compare the results of your search and select the product and the provider that you feel best suits your needs.

Dealing with a problem debt

Contact your bank or credit provider: If you can no longer afford the repayments on a loan or credit card, the first thing you should do is contact your credit provider. Once your credit provider is aware of the problem, they may be able to negotiate a different repayment schedule to help you make your payments – but make sure you alert them to the problem early.

Financial advisers: If you can't resolve your debt situation, a financial adviser may be able to help you. This person could be a friend, your accountant or an experienced financial adviser. Ask your adviser to work with you to develop strategies to manage your money and work out repayment plans.

Don't ignore the problem: Never ignore a problem debt – it won't go away on its own. The sooner you deal with the problem, the sooner you will get on top of the situation and work your way towards a more manageable financial situation.

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