

paying back the loan. Collateral may be in the form of equipment, buildings, vehicles, inventories or stocks of goods. Financial assets, such as shares and bonds may also be accepted by lenders as collateral.

Capital: This is a measure of financial strength of a borrower. It is concerned with the tangible net worth (assets – liabilities) and ratio analysis of the borrower’s most recent financial statements.

Conditions: This refers to the lender’s assessment of the changes in the industry, the general economic conditions; seasonal fluctuations in income or cashflow, and specific industry/employment characteristics that affect a borrower’s ability to repay the loan regularly.

GUARANTEE

Sometimes financial institutions ask their borrowers to provide “guarantors” to further strengthen their security requirements. The guarantor is usually someone who is gainfully employed. He or she accepts to make good the loan to financial institution in the event that the borrower defaults in payment. As a borrower you are not supposed to make any payment to the guarantor if he or she offers to be a guarantor.

Think twice before borrowing against your home or retirement account. Never offer something as security that you cannot live without. Usually, lenders base their lending decision on good credit and character of a borrower. They use collateral only as a last resort. For example, in granting a loan to a worker who has an assured salary, the lending institution will look for that worker’s pay slip and a letter from his/her employer that his/her salary will be paid through the bank. For a self employed person, the lender would usually request for business registration documents as well as statements of his/her earnings or bank accounts.

When requesting a loan, you should try to put yourself in the potential lender’s position. You know your business, and you are confident about its results and your ability to repay the loan. You need to convey that same confidence to the lender.

HOW TO MANAGE YOUR LOAN

Every day we are confronted with many situations for which money is required. We may always be tempted to apply a loan amount to a totally unrelated need. For example, you may take a loan for your business with the intention of paying it back with revenues from the business but find yourself spending it on your wedding. This may create problems for you. There are some things you can do to ensure that the loan you have taken does not end up becoming a burden for you. They include the following:

- Apply the loan amount in a way that enables you to pay it back as agreed with the financial institution (the lender).
- Negotiate for payment options that fit your income stream or your business operating cycle. For example, if you collect cash every 90 days, then opt for a quarterly payment on interest and principal.
- Make payments on time! This boosts your credit rating and improves your chances of getting future loans at lower interest rates.
- A financial institution can make a mistake, so keep records of your payments. Closely review your bank statements and other correspondence from your lender. This will help you detect errors, unauthorized withdrawals, and matters you might want to question or challenge.

TAKING A LOAN - SOME BASIC STEPS

Below we present the basic steps for taking a loan from a financial institution:

1. Ask an official of the institution about the different forms of loans they offer.
2. Once you receive the information either orally or in writing, take a bit of time to think about it and relate it to your current situation and your financial need.

3. Select the loan option that best fits your life situation.
4. Make a loan application to the financial institution for your loan request to be approved.
5. The staff of the financial institution will give you a form to complete and will help you to complete it.

This form usually requires the following information:

- a. Name;
- b. Date of birth/age;
- c. Occupation;
- d. Address
- e. Identification e.g. National Registration Card, passport, birth certificate.

The financial institution may verify your personal information and address using any one or more of the following methods:

- Utility bills such as an electricity, water, telephone or property rate bill. Some financial institutions may also accept any of the mentioned bills in the name of your landlord;
- Obtaining a reference from a professional or a letter from your employer or school;
- A known customer of the regulated institution; or
- A customary authority, civic or community leader that knows you.

Once you have gone through the formalities, a loan agreement or contract will be prepared for you to sign to enable you to have access to the loan amount granted you.

Do not lie in your loan application; be honest about the reason you want the loan.

To lower your risk and improve your chances of getting a loan, you need to present the lender insights into your income that may enable him to easily approve your loan.

Watch out for unexpected fees! Ask your lender carefully about fees connected with drawing up the loan documents, or other costs.

Before you sign the paper work, find out about the loan processing fees which may be payable in lump sum at the time the loan is disbursed.

Bank of Zambia | Tel: 0211-228888 / 221118 | Fax: 0211-223502 | Email: fecu@boz.zm

Pensions and Insurance Authority | Tel: 0211-251401 / 251405 | Fax: 0211-251492 | Email: pia@pia.org

Securities and Exchange Commission | Tel: 0211-222368 / 227012 | Fax: 0211-225443 | Email: sec@zamnet.zm

Finanzgruppe
Sparkassenstiftung für internationale Kooperation



KNOW MORE ABOUT LOANS!

Imagine desperately needing money to construct your home, pay for your child’s college fees, acquire household items, finance your further studies, buy farming equipment, or a car and finding that you have nowhere to obtain it from. What you may wish to do is to take a loan. A loan is an amount of money that an individual borrows.

The most common source for borrowing money is a licensed financial institution such as a bank. Other sources include another person or a group of people.

A loan can be granted to an individual, a community group, a company or an organization. A loan is usually for a specific time frame which can be a number of days, weeks, months, or years.

The person or organisation taking the loan initially receives an amount of money from the one providing the loan and agrees to pay it back, in regular installments to the one who provided the loan.

Bear in mind that the first loan is usually the hardest to get. In general, lenders prefer to lend money to borrowers who have borrowed at least once and have paid back the loan on time.

Be sure you understand what the terms of the loan are. For instance, are there circumstances under which the lender requires the entire loan to be paid off? Under what circumstances and by how much can the interest rate change?



Plan ahead! Processing of loans takes time.

BORROWER AND LENDER

In the loan arrangement the person taking the money is the **BORROWER** and the one giving the money is the **LENDER**.

Typically, the borrower pays back a certain fixed amount per month which includes a portion of the principal (or amount borrowed) plus interest.



Ask the lender to explain any unclear terms. If you don't like a lender's attitude, go elsewhere.

INTEREST CHARGE

A loan always comes with an interest charge. Interest is an agreed amount the borrower pays in addition to payments on the borrowed sum. Interest charge generally comes in two forms:

A VARIABLE INTEREST RATE

This makes the interest payment rise or fall in line with changes in interest rates.

A FIXED INTEREST RATE

This means the interest payment stays the same throughout the term of the loan, regardless of any changes in the level of interest rates.



Watch out for unexpected fees: Ask your lender carefully about fees connected with drawing up the loan documents, or other costs.

You pay interest on a loan.



You can always negotiate to get a lower interest rate on your loan. Compare the loan terms offered by your lender with those of other competitors and then negotiate the best deal.

WHAT TYPES OF LOANS ARE AVAILABLE TO YOU?

There are two types of Loans:

Unsecured Loans:

This is a loan arrangement in which collateral or guarantee is not pledged. The loan is granted on the good credit of the borrower.

Secured Loans:

These are loan arrangements in which collateral or guarantee is pledged.

THE TERM OF A LOAN

The term of a loan is the repayment period. This means it is the length of time during which you are required to pay back the loan e.g. a 3 year personal loan.

WHY ARE LOANS TAKEN?

Many people invest their savings to enable them achieve a financial goal like buying a house, buying a car or starting a business. There are, however, times that the investment so far made is insufficient to help us meet our financial goals including kick-starting a wealth creation process.



Taking a loan can help you meet your financial goal, but only when you carefully consider the responsibilities associated with taking the loan. It is, therefore, advisable to take a loan only when all other options for accessing resources including your savings or investments have been fully explored and your financial outlook justifies taking on this further responsibility.

Use the loan for the intended purpose.



Do not take more than one loan. Too many loans may strangle you.



Before you sign for the loan, ask yourself if you really need the loan. Is it something you could save up for? Chances are you may not need the loan as badly as you think you do. Get a loan only when you need it and when it is the only option left.



As much as possible do not borrow multiple loans as you may face problems making multiple loan repayments at the same time.

HOW AND WHERE CAN YOU TAKE A LOAN?

There are many financial institutions that offer loans to individuals. These include banks, building societies, micro finance institutions, leasing companies etc.

A variety of loan arrangements are offered by different financial institutions and they are always happy to advise you on what best suits your specific need and how you should go about your loan application and relevant arrangements.



It always helps to operate an account at the financial institution you hope to borrow from.



Before you go to the lender, make sure you know your exact purpose for the loan, how much you need, how long it will take you to repay the loan and what collateral you can provide.

PAYING BACK THE LOAN

Every loan taken must be paid back. The financial institution gives you the loan from the savings or investments other people have made with it. You must therefore pay back your loan so that others who provided the funds to the financial institution can be paid. Again the financial institution uses the same pool of funds to give loans to its customers, it is therefore when you pay back your loan that other customers including your friends and relatives can also be granted loans by the financial institution.



A loan always comes with a repayment schedule which indicates the loan instalment amount and dates that the borrower must repay the loan. If you fail to meet the repayment schedule of your loan, you lose the trust of the lender and a penalty may be imposed on you. If you persist in failing to meet the repayment schedule, the lender may take legal action against you.

If you pay your loan on time, your financial institution can provide loans to other clients.



Avoid late repayments to avoid payment of penalties.

HOW TO CHOOSE THE RIGHT KIND OF LOAN

The kind of loan you choose will depend on your age, your financial objective, the pressing need, and your risk tolerance level (the extent to which you can withstand uncertainties).

Ask your financial institution about the types of loans they offer and determine which of them is suitable for you.



WHO CAN ACCESS A LOAN?

Everyone can seek to obtain a loan but loans are normally given to people who are considered to be in a position to pay back the loan, e.g. someone gainfully employed or self-employed.

Carefully read the terms and understand the type of loans that best suits your needs.

Traditionally, lenders look at what are called the 5 "Cs" of credit namely;

Capacity: This is what makes the lender confident that a borrower has the resources and ability to pay back the loan. The borrower's ability to generate sufficient cash flow is what the borrower uses to convince the lender of their ability to pay back the loan.

Character: This is what makes the lender confident that the borrower is credible and responsible and will not suddenly disappear if he/she runs into financial problems.

Collateral: To ensure that borrowers pay back loans they have taken, they may be required to put up a personal or business asset that may be used to secure the loan. This asset may be used to offset the unpaid loan if the borrower defaults in