



HINTS TO HELP YOU BE RESPONSIBLE WITH YOUR HOME LOAN

In this edition of Money Matters Hints and Tips, Bank Windhoek provides you with easy hints on how to be responsible as far as repayments on your home loan is concerned.



Dries Bornman
Manager:
Property Finance

Why does the bank need to repossess a home if a client defaults on his payment?

A home loan approved by the Bank is linked to the value of the property offered as security to the Bank and the ability of the client to repay the loan. When a client defaults on paying the monthly loan installment, the outstanding loan balance increases as a result of monthly interest charges not being countered by monthly installment payments.

The Bank of Namibia BID 2 regulation determines asset classification, suspension of interest and provision of bad debt. Banks need to comply with these requirements and a process of recovery is followed in case of defaults on payments. Should the Bank be unsuccessful in recovering the installments and the account is in arrears for longer than 90 days, the account is transferred to the Bank's Legal Collection branch. This branch will then institute legal action in order to recover the outstanding debt, which can lead to repossession and sale of the property at an auction.

Has the default rate on home loans increased during the past year?

Between 3% and 4% of Bank Windhoek's total home loan clients occasionally fall behind on their monthly home loan installments. However, usually remedial action is taken before it reaches the point where the Bank has to take legal action against the client. Compared to the corresponding period last year, the number of clients defaulting on their home loan installments did not increase. This rather positive trend in the current market circumstances is mainly attributable to a thorough loan appraisal process; a credit policy of ensuring that the client can afford the monthly installment on the home loan; and an effective arrears management system.

What do I need to do when I find it difficult to pay my home loan installment?

The most important rule is that prevention is always better than cure. Buying a house is not just a matter of "What can I afford?" Instead, it is a long term commitment for which you should rather ask: "What can I afford on a sustainable basis?" A useful guideline is that the monthly home loan installment should not exceed 30% of the client's gross monthly income. Furthermore, it is important that you speak to the Bank pro-actively, should you find it difficult to fulfill the monthly installments on your existing home loan. In most cases a solution can be reached, should this communication take place in time and pro-actively. As a rule, it is always better to repay your loan quicker than required, if you can afford it.

How does the Bank calculate monthly installments on houses?

There are no complicated methods involved when calculating monthly installments on home loans. Home loans are usually financed over periods of 20 years or longer, in line with the needs of the client and his/her repayment ability. A longer repayment period obviously decreases the monthly installment to be repaid by the client on a home loan, thereby positively influencing the client's monthly cash flow situation. On the other hand, should the client be able to afford a shorter repayment period, the monthly installment will be higher, but less interest will in total be paid over the term of the home loan.

For more information on home loans, please do not hesitate to contact the Bank Windhoek Property Finance branch on (061) 299 0500.

If you have a pressing issue or question about the banking industry that you want covered in this Money Matters column, please feel free to email hornm@bankwindhoek.com.na with your suggestions. The complete series of published Money Matters issues can be viewed at www.bankwindhoek.com.na.