

## Lowering The Interest Rate On Your Debts

By Konrad Wentzel

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Have you ever considered just how expensive the money we lend from credit providers is?

We borrow money for a variety of reasons at different times in our lives, including when buying a car, paying for student loans, purchasing a home or for capital when starting a business.

In fact, in today's financial environment, it is almost impossible for a young person to own a house, business or even a car without borrowing money to do so.

Of course, the word "own" is used lightly, because we do not really own the item we bought, until the day it is paid off completely.

Should you not be able to pay back your monthly instalment, the lender will take the item back, so in reality they own the item until you have paid them back the original capital amount and the accrued interest.

### **A very brief explanation of how "lending" works**

Credit provider institutions such as banks make money by charging debtors an interest rate, which is called the *Prime Lending Rate*.

The credit provider in turn lends money from the Reserve Bank at a rate known as the *Repo Rate*. The Prime Lending Rate is higher than the Repo Rate, which is what results in the bank's tidy profit.

In other words, the local bank lends the money from the Reserve Bank and then lends it back to us, at a much higher rate.

### **Negotiating a better rate**

We often hear people talk about paying back a lending rate of "Prime -1%" or Prime -2% on their house or car. This means that the bank have given this person a very good rate, where they are willing to forego a percentage of their own profit to secure the business.

The bank can decide to do this for a variety of reasons. It could be because the customer has been with the bank for a long time, has a clean credit history, is in a very good profession and/or earns a high income.

More than often than not, a person who secures a better interest rate does so because he or she took the time to negotiate with the bank and was unwilling to accept the Prime interest rate.

To secure a 1.5% reduction on your interest rate will have a dramatic effect on your monthly installment and an even a greater result when it comes to the full term of your contract.

## **Budget-boosting savings**

To give you an example, let's say you bought a house for R1 000 000.

The Reserve Bank's Repo Rate is at 5%.

The bank's Prime lending rate is at 8.50%

You were given a lending rate of 8.50% and your contract term is for 20 years.

Your monthly repayment installment will be R8 678.23

Should you go back to your credit provider and negotiate your lending rate at 7%, your monthly installment will be 7 752.99 – almost R1000 more in your pocket every month!

The difference of R925.24 monthly adds up to R222 057 over 20 years straight.

Even more interesting is what you do with the money you save. You could for instance invest this R925.24 back into your outstanding bond - in other words, if after you have negotiated your lower rate at 7%, you keep your monthly contribution at the original R8 678.23, you will settle your house in 16 years, rather than 20.

By cutting 4 years from your bond repayment, you could save a total of R372 143.52.

As you can see, this would be a dramatic saving!

The impact of a higher interest rate is often not realised at the time, particularly when you are reaching out and simply hoping the bank says "yes". But negotiating a lower interest rate is your right as a consumer and can make a big difference to your monthly budget, as well as the actual, long-term cost of the purchase in question.

Do not be afraid to shop around and negotiate with various lenders and use this as leverage with your preferred lender. The reality is that if your bank does not want to offer you a better rate, there will always be another institution willing to accept your offer.

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