

NCR warns about pawning vehicles for loans

The National Credit Regulator (NCR) is concerned about the rising number of consumers who pawn their motor vehicles in order to obtain loans.



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“While pawning of assets for loans is allowed under the National Credit Act (NCA), the NCR would like to caution consumers against pawning their motor vehicles due to the high risk that they could lose them to pawn brokers if they are unable to repay the loans within the agreed time,” says Nthupang Magolego, senior legal advisor at the NCR.

The NCA allows the pawn broker to keep the consumer’s pawned asset as security and to return the asset to the consumer once the loan is repaid. If the loan is not repaid, the pawn broker can sell the asset and use the proceeds of the sale to settle the loan.

“Consumers are advised to read the pawn broker’s credit agreement carefully to avoid signing agreements that transfer ownership of their pawned assets to pawn brokers before they default. The pawned asset only serves as security for the loan and can only be sold if the consumer has not paid back the loan,” Magolego says.

The pawn broker keeps the pawned asset at its own risk.

Illegal charges

“Over and above the loan that consumers must pay back, some pawn brokers also charge consumers illegal charges such as storage charges, resulting in very expensive loans,” Magolego added.

A pawn transaction is a short-term credit transaction under the NCA. The interest which the pawn broker can charge is limited to 5% per month on the first loan and 3% per month on subsequent loans in one calendar year.

According to Magolego pawning assets for loans should ideally be used for small amounts of loans, where small assets such as cell phones, laptops or similar assets are pawned.

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