



WHAT SHOULD YOU KNOW ABOUT LOANS?

What is a Loan, What Kind of Loan?

Types of a Loan, Which bank?

Documents you need to provide before you apply for a Loan:

Loan agreement, The Principal Amount

Total amount repayable, The term

Interest Rate, Effective interest rate , Penalty rates

CRK classification, Unilateral changes of contract

Collateral for the loan, Early repayment

Grace period, Instalment, Copies for client and

Conclusion.

Read carefully every article of the Loan Agreement.

Introduction

At some point of life, many people want to a house, a flat, a car or to start a new business buy but do not have enough money to carry out these activities, and one of the solutions that help them solve these issues is to get a Loan.

What is good to know before you get a Loan?

There are certain things that one should know before applying for a loan:

Loan Agreements are very important decisions for the personal finances of every person. Therefore when taking important decisions, we need to have all the necessary information. Loan agreements should be designed to make every aspect of the loan crystal clear to the borrower. However, these agreements can be complicated and even confusing sometimes. If you're not sure what a particular part or a document means, never hesitate to ask for explanation or assistance. Take your time as long as you need but, do not sign the agreement unless you know and understand every article of the agreement. ***Read very carefully every article of the Loan Agreement.***

What is a Loan?

A loan is a debt (a sum of money), provided to you by a Commercial Bank or Microfinance Institution now in order to repay it later with definite conditions, on a specific term, with an interest.



What Kind of Loan?

The first step is to figure out what you need; how you get the loan will depend on the type of borrowing you're doing. Choose the type of loan that best fits your needs. ***Therefore it is very important that you are determined for the proper Loan that fits your needs.***

Types of a Loan

There are many types of Loans, but the most usual ones used in Kosovo are: Personal Loan, Mortgage Loan, Business Loan, Consumers loan, Overdraft, Agricultural loan, Education Loan, etc.

Which bank?

Search all the banks licensed by the CBK, and find out the terms and conditions, which bank offers the best offer that fit your needs. ***Check with several banks and compare interest rates and other costs.*** They can run some numbers for you and help you figure out exactly how much you can borrow. Sometimes also they offer their special rates; however, you may or may not qualify for those

After you get the above-mentioned information, you are ready to apply for a Credit.

When you get preapproved, creditor reviews your credit, income, and assets.

Documents you need to provide before you apply for a Loan:

- ID card (Valid identification documents issued by the Republic of Kosovo)
- Working contract (Regular monthly payments), and
- Additional documents depending which loan you apply for.

Credit agreement

Credit agreement is an agreement whereby a creditor grants or promises to grant to a consumer credit in the form of a deferred payment, loan or other similar financial accommodation. The creditor usually is a financial Institution, commercial bank, microfinance institution etc licensed by the Central Bank of the Republic of Kosovo.

Usual loan agreements consist of:

Name/surname/Id of the consumer

"The Consumer" is the person that receives value from the Creditor on the condition that he will pay the principal amount plus any interest to the Creditor.

"The Creditor" is the financial institution (commercial bank, microcredit institution, etc.), licensed by the Central Bank of the Republic of Kosovo, that gives money to the Consumer on the condition that the Creditor will be paid a certain amount in the future.

The principal amount

The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest), is called principal. Principal is the original amount of the loan that is owed by the Consumer to the Creditor (bank) on the date the loan contract is signed. Once the Consumer has begun to pay back the loan, principal refers to the amount of money still owed to the Creditor.

Choose the bank that gives you the best offer.

Total amount repayable

In addition to the specified principal, the credit contract should contain the total amount for repayment (loan value and total cost related to the loan, including interest rates and fees).

Loan repayment is made up of two main portions; the principal (the amount you originally borrowed) and the interest (calculated on the principal you owe) and it may also include fees.

The Term

Term is the time length of the loan contract. At the end of the term, the full amount of loan must be repaid, the Consumer must repay the outstanding balance of the loan. Choose a term that represents the desired frequency of payments (e.g. select 36 months for 3 years). All banks have different offers for the term, therefore and you can select (chose) the institution (bank) that gives you best offer in this regard.

Interest Rate

Interest rate is the amount charged to the Consumer for the use of the Creditor's funds. It is expressed as a percentage of the amount borrowed and is calculated at a specific interval over the course of the term of the loan contract.

Interest rate can be specified either as fixed interest rate or variable interest rate.

For variable interest rates it is important to provide all necessary details on its variability.

Effective interest rate

The effective interest rate reflects the full cost associated with the loan and should be clearly stated in the loan contract. It enables direct comparisons with other loan products and helps clients to understand how much has to be paid for the loan.

Effective interest rate is influenced by many factors, such as the nominal monthly interest, fees and commissions, the chosen repayment method and the term of the loan.

Detailed information on calculating methodology of the effective interest rate and definition of elements used for its calculation are determined by sub-legal acts issued by the Central Bank of the Republic of Kosovo, who issued the Regulation on Effective Interest Rate and Disclosure elements for Commercial Banks and the Regulation on Effective Interest Rate and Disclosure for Micro Finance Institutions.

Purpose of these two Regulations is to determine the unified methodology for calculation and disclosure of the effective interest rate on credits granted and deposits received, and the minimum disclosure requirements in order to provide full and accurate information on products and services that Banks and MFIs offer for customers

It is very important to understand the difference between the nominal interest rate and the effective interest rate.

As noted above the nominal interest rate is a percentage of the amount borrowed and it determines the amount of interest paid by the client in monthly or annual instalments, whereas the effective interest rate is used to present, in a single figure, all of the expenses associated with a loan. Thus, the effective interest rate also includes all of the additional costs of processing the loan application, etc., taking into account the time at which these costs are incurred.

Penalty rates

Banks normally charge additional fees for late debt service. The loan contract should contain details about such charges expressed as a percentage and the rules for its later adjustments and any other fees, if applicable, for late payments.

CRK classification (Credit Registry of Kosovo)

Before one gets qualified for a loan, creditors look at customer's personal credit history (credit cards, mortgage payments and personal bills) to get a sense of their track record with financial responsibilities. In order to help the creditors, in taking the right decision within a shorter time, in more accurate and more objective way, the CBK issued a Regulation on Credit Registry, based on which the CRK collects and distributes credit information between financial institutions for purposes of improving credit quality and performance of the supervisory function of the Central Bank.

Based on this regulation, all lending institutions report and may obtain a summary report on the level and status of active credit and history of each borrower upon a client's consent.

Unilateral changes of contract

Banks may retain the right to make certain changes in loan conditions irrespective of the client. If these conditions exist in the credit agreement the credit contract should specify which conditions and under what circumstances they can be changed.

Collateral

A creditor won't approve a loan that he doesn't think has a chance of getting paid back. Therefore, loans are very often secured with different instruments (especially, long-term mortgage loans). The loan contract should contain details about instruments which are used as collateral, and sequence and ways for their execution.

Early repayment

The consumer shall be entitled at any time to discharge fully or partially his obligations under a credit agreement. Therefore when signing the contract, pay attention to the part for early repayment, if the loan contract envisages such a possibility and whether there will be any fee for that.

Article 97 of the Law No. 06/L-034 on Consumer Protection specifies information for the rights and obligations in cases of settlement / payment of credit prior to maturity time.

Grace Period

Grace period is the period when the money is available to the Borrower, but repayment has not yet begun. Most of the loan contracts, payments outstanding during grace periods are interest free, however some have interest compounding during the grace period. It is very important for the Customer to specify in the contract if interest is charged during the grace period.

Instalment

Instalments are payments made at fixed periods of time (usually monthly) for loan repayment. The loan contract or annex agreement (payment plan) may specify the exact amount of instalment (including principal and interest) payment and number of installments.

The bank is obliged to provide an instalment plan (amortization schedule), which is considered as an integral part of the loan contract. Instalment plans contain a list of instalments and respective changes in remaining principal and interest payments.

Copies for the client

All credit contracts need to be signed, at least in two copies and the the consumer should get one of them together with the amortization schedule.

Conclusion

Financial system operating in Kosovo has proven to be a sound and stable system. However in order to build up the trust in people regarding the financial system in Kosovo, CBK continues to enhance the supervision and regulation of financial institutions especially the credits issue.

From the customer's viewpoint, having a loan with a bank means being in debt, and therefore **it is very important that before deciding to take a loan, to think not only how to take the loan but how you will return it.**

There is a range of financial products and services from which you can choose. Be careful you choose the one that fits your needs. Do not take a 5 years loan to go on holiday, take a short-term loan. **The most important one, read and understand very carefully every article of the loan!**