UNDERSTANDING CONSUMER CREDIT

What happens when a loan is not repaid according to the agreed terms?

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THE Consumer Credit Act, 2016 defines a credit agreement as an arrangement in which a credit provider agrees to extend credit to a consumer, and the consumer accepts that credit subject to agreed terms and conditions. Once such an agreement has been concluded, both parties are legally bound by its provisions.

The case study below is about a complaint received from a consumer, *Anele Smith, concerning a loan obtained from *Dazzy Credit Providers.





THE CASE OF ANELE SMITH AND DAZZY CREDIT PROVIDERS

In 2017, Anele Smith obtained a loan of E105 000 from Dazzy Credit Providers to finance the purchase of a motor vehicle. According to Anele, she consistently serviced the loan until she resigned from her employment to pursue further studies on a full-time basis.

Anele contends that, prior to resigning, she notified Dazzy Credit Providers in writing of her change in circumstances and requested that her loan repayments be temporarily suspended because she would no longer have a source of income. She further alleges that she was verbally informed that the loan would be placed on hold.

In 2023, Anele received communication from the credit provider requesting payment on the loan account. She states that she subsequently made payments towards the loan. However, in 2026, she discovered that the account had accumulated significant arrears, with the outstanding balance having increased to E153 000 as a result of accrued interest and unpaid instalments.

DAZZY CREDIT PROVIDERS' RESPONSE

Dazzy Credit Providers disputed Anele's claims, stating that no written request to suspend the loan repayments was ever received. The institution maintained that the loan account continued to be administered in accordance with the original credit agreement because no formal arrangement had been made to adjust or suspend the repayment obligations.

The credit provider further argued that before resigning from her employment, Anele did not engage the institution to restructure the debt, negotiate alternative repayment arrangements, or make any payments towards reducing the outstanding balance from any terminal benefits she may have received.

While acknowledging the financial difficulties faced by Anele, Dazzy Credit Providers maintained that consumers have a responsibility to communicate and formally negotiate repayment arrangements when they encounter financial challenges. The credit provider also emphasized that interest on a loan does not stop accruing automatically unless there is a formally approved agreement to that effect. In the absence of such an agreement, interest continued to accumulate, leading to the increased outstanding balance.

THE OMBUDSMAN'S FINDINGS AND DECISION

The Ombudsman noted that the parties entered into a valid credit agreement in October 2017 and that the loan was granted pursuant to that agreement. The agreement provided for repayment over a period of sixty (60) months.

The Ombudsman emphasised that when a consumer accepts credit from a credit provider, the consumer assumes a contractual obligation to repay the loan in accordance with the agreed terms and conditions. As such, both parties are expected to honour their respective obligations under the contract. Although Anele submitted that she had informed the credit provider of her intention to resign and her inability to continue servicing the loan, no evidence of such correspondence was provided by Anele to the Ombudsman during the investigation. Furthermore, Dazzy Credit Providers denied receiving any such notification.

In the absence of documentary proof and a formal agreement suspending or restructuring the loan, the Ombudsman found that the original credit agreement remained binding on the parties. Consequently, Anele's failure to continue making the required repayments constituted a breach of the credit agreement.

The Ombudsman, therefore, concluded that consumers who experience financial difficulties should proactively engage their credit providers and obtain formal approval for any repayment arrangements, restructuring, or payment holidays. Where no such agreement exists, loan obligations remain enforceable and interest will continue to accrue in accordance with the terms of the credit agreement.

KEY CONSUMER LESSONS

Consumers should understand that resigning from employment, changing jobs or experiencing financial hardship does not automatically suspend loan obligations. Any request for a payment holiday, loan restructuring, or amendment to repayment terms should be made in writing and formally approved by the credit provider. Maintaining records of all correspondence and agreements is essential, as these documents may be required in the event of a dispute. Failure to service a loan as agreed can result in arrears, the accumulation of interest and an increased outstanding balance, ultimately making the debt more difficult to repay.

***Not real names**

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