Akurra AI

AN AKURRA AI REFERENCE GUIDE

BALLOON PAYMENTS – THE TRUTH

The lower instalment looks great on paper. Here's what it really costs, what you owe at the end, and how to decide if it's right for you.



South Africa · figures as at November 2026 · prime 10.75%

General information, not financial advice

1 · THE BASICS

What is a balloon payment?

A balloon payment (also called a **residual**) is a large lump sum you agree to pay at the **end** of a loan. Your monthly instalments are lower because part of what you borrowed is left over for that final payment.

In South Africa balloons are mostly used in vehicle finance. Lenders commonly offer balloons of up to about 35–40% of the purchase price, depending on the lender and the car.

How a R500 000 car loan with a 35% balloon is split



...and you pay interest on the full R175 000 every month for all six years.

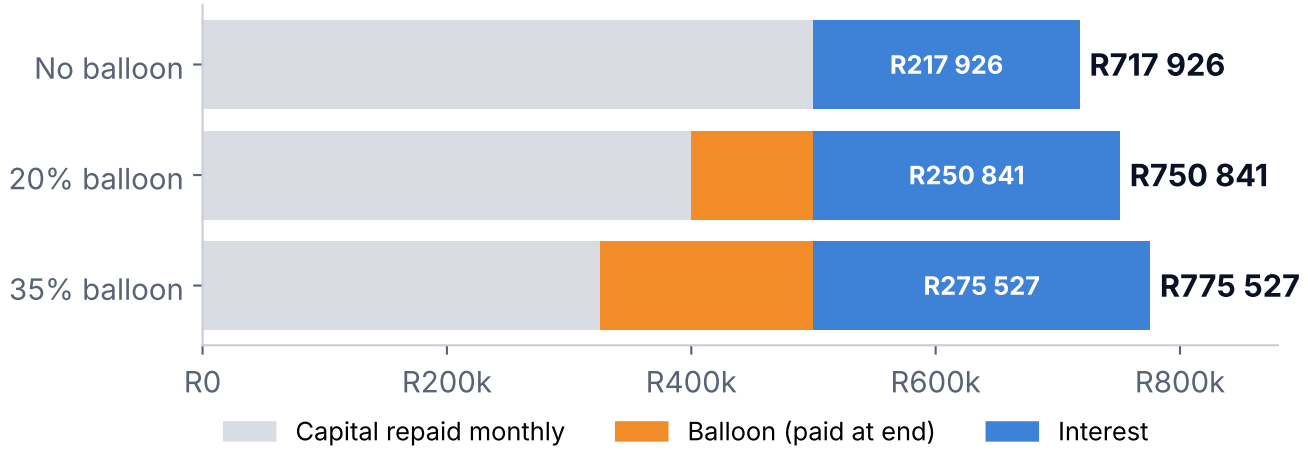
The worked example

R500 000 car · 72 months · 12.75% (prime 10.75% + 2%) · before fees

	NO BALLOON	20% BALLOON	35% BALLOON
Monthly instalment	R9 971	R9 039	R8 341
Balloon due at month 72	R0	R100 000	R175 000
Total repaid	R717 926	R750 841	R775 527
Interest paid	**R217 926**	**R250 841**	**R275 527**

R1 630 less
per month with a 35% balloon

R57 600 more
interest overall, plus R175 000 still owed at the end



2 · WEIGHING IT UP

The pros and the cons

The pros

Lower monthly instalments

The main benefit. It frees up cash flow, which helps if your income is tight now but likely to grow.

A better car on the same budget

It can put a safer or more reliable vehicle within reach.

Useful if you change cars often

If you trade in every 3–5 years, the balloon roughly matches what the car will be worth. The dealer settles it from the trade-in value.

Can suit businesses

A business that writes off the vehicle, or expects a lump sum later (a bonus, a maturing policy, a property sale), can plan for it.

Predictable

The amount is fixed upfront and written into your agreement, so you know exactly what's coming.

The cons

More interest overall

The cheaper instalment costs more in total. A bigger balloon and a longer term make it worse.

A large bill at the end

Most people don't save for it, so they need cash, a trade-in or a new loan.

Refinancing adds more cost

Refinancing R175 000 over three more years adds about R5 875 a month and roughly R36 500 more interest.

Negative equity

If the car is worth less than the balloon, you cover the gap. Many roll it into the next loan and sink deeper.

It can mask unaffordability

If the balloon is the only way you can afford the car, the car is too expensive. The balloon is still debt.

Rate risk

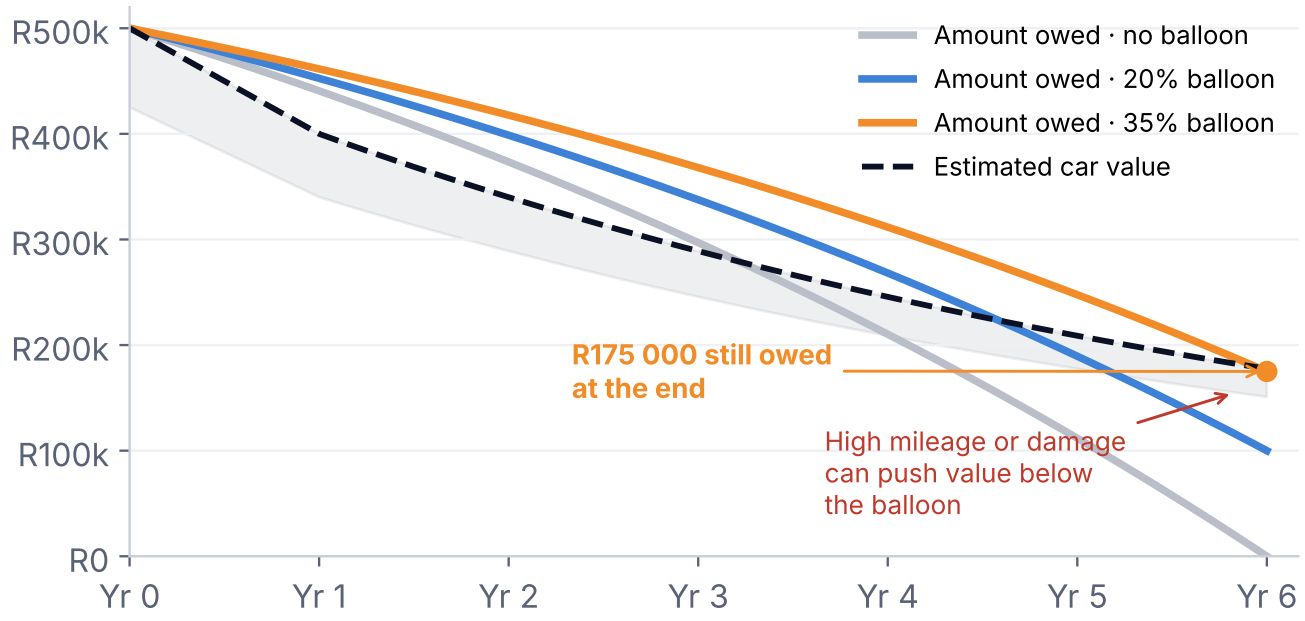
Most SA vehicle finance is linked to prime. When rates rise, you pay more on a larger balance throughout.

Harder to settle or resell

The balance stays high for longer, so selling the car may not cover what you owe.

What you owe vs what the car is worth

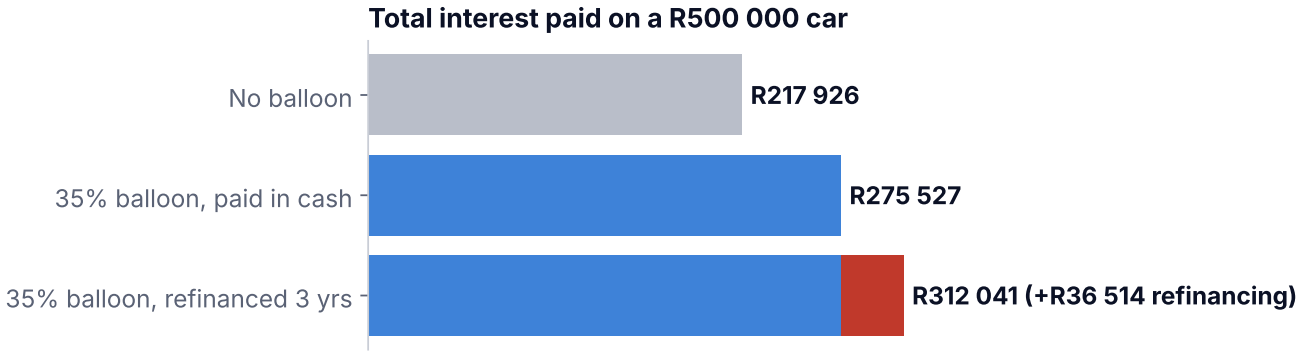
With a balloon, your balance falls far more slowly. Cars lose value quickly, often around half within about five years. If the car is worth less than the balloon when it falls due, **you pay the difference**.



Illustrative car value: −20% in year one, then −15% a year (≈R177 000 after six years). The shaded band shows a further 15% drop for high mileage or damage (≈R151 000).

THE REFINANCE TRAP

Can't pay the R175 000? Refinancing it over another three years at the same rate costs about **R5 875 a month** and roughly **R36 500 more interest**, pushing total interest to about **R312 000 on a R500 000 car**. Your rate could also be higher by then.



4 · MAKING THE CALL

When can a balloon make sense?

Most defensible when...

- the balloon is modest (10–20%)
- the car holds its value well
- you have a written plan to pay it: a monthly savings account or an expected lump sum
- your budget could handle the full instalment anyway

Riskiest when...

- it's the only way you can afford the car
- you plan to "sort it out later" by refinancing
- the car loses value fast or you drive high mileage
- your debt is already near 30% of take-home pay

Six checks before you sign

1. **Compare total cost, not the instalment.** Ask for quotes with and without a balloon, side by side.
2. **Check the agreement.** The balloon amount, its due date and how interest is calculated must all be written in it.
3. **Estimate the car's value at the end.** Use resale data for similar cars of that age and mileage, and compare it to the balloon.
4. **Start saving now.** R175 000 over 72 months is about **R2 430 a month**. If you can't set that aside, think again.
5. **Pay extra if you can.** Extra payments cut the balance and the interest. Under the National Credit Act you can settle early.
6. **Check their maths every year.** Make sure interest is charged at the agreed rate on the correct balance, including the balloon portion.

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Upload your agreement and statements and Akurra AI recalculates every month of interest, balloon included. **Try Akurra AI online · app.akurra.ai**

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