



# THE FINANCIAL SERVICES BOARD

## DEBT MANAGEMENT

Debt is the number one financial problem for high and low income earners alike. According to the *National Credit Regulator*, the total cost of credit transactions entered into during the fourth quarter of 2008 was R58.84 billion. Mortgages accounted for 46.2% of the total credit transactions granted. A total of R7.23 billion was granted for other types of credit facilities during the same period last year. Credit cards and garage cards accounted for 37.09%, followed by store cards at 35.9%, bank overdrafts at 16.14%, services and other at 2.37% and other facilities, e.g. retail furniture accounts at 9.26%.

Despite the decline in total credit granted, the actual number of accounts increased due to an increase in store cards. The increase in store cards, according to *Econometrix*, can be attributed to the increased burden on disposable household income as a result of rising inflation and interest rates. In contrast, credit and garage cards, overdrafts and other credit facilities showed a decline.

The more we borrow, the more interest we pay and the less disposable income we have. Debt brings worry, stress, marital problems and a sense of hopelessness about the future. **Debt can also enslave us** – especially if we do not honestly face the problem and make a plan to **get out of it and stay out of it**.

### A. How do we get into debt?

Bad reasons for getting into debt	Good reasons for getting into debt
<ul style="list-style-type: none"> <li>We want to impress people</li> <li>We want to compete with our rich friends</li> <li>We want to buy something because everybody else has it</li> <li>We are convinced by a clever salesperson to buy something</li> <li>We cannot control our bad spending habits</li> <li>We need money to maintain a too high standard of Living, according to our income</li> <li>We want to be in fashion</li> </ul>	<ul style="list-style-type: none"> <li>To pay for education/studies, an affordable vehicle and a place to stay</li> <li>We need something and will be able to repay the debt</li> <li>It will enable us to get out of a temporary situation where your monthly debt repayments are too high</li> <li>The price of the item is rising every month</li> <li>When the repair cost of the asset is too high – it will be cheaper to replace it</li> </ul>

### B. Getting out of debt

#### Where do you start?

#### 1. Face the problem

Make a list of all your creditors and write down how much you owe each one.

#### 2. Draw up a budget

Paying off your creditors has to be your first priority. Put fixed expenses (e.g. water, electricity, school fees and rent or bond repayments) and a limited grocery expense at the top of your list. Work out how much you can afford to pay each creditor from what you have left.

### 3. Discuss this situation with your family

If you have adult family members depending on your income, you need to discuss it with them. All the members must cooperate, if your family wants to get out of debt. Everyone must agree on the budget you have drawn up and stick to it. It takes discipline, but it can be done.

### C. Managing your debt

First try to reduce the amount of debt that you are in. An acceptable level of debt is if you can pay the full installment each month, without defaulting on other obligations.

If you pay less than the full monthly installment, you incur **interest**. This makes the following month's installment higher – making it even less likely that you can afford the full installment.

**Tips:** Remember, always pay off the debt with the **highest interest!**

**Prioritise** your payments. **Prioritising** means **paying for essentials first**. Bond repayments, rent, school fees, car repayments and food are essentials. If these are not paid, the consequences are serious!



#### Ways to reduce your debt

##### 1. Know your debt

Know each debt, and its terms of repayment. Most importantly, know the **interest** you are paying each month on each debt. Then you will know which debts are priorities to pay off as soon as possible and which you can afford to carry a little longer.

##### 2. Consolidate your debt

You borrow enough money from your bank to pay off all the many smaller debts at once. You then have only one creditor – your bank. Just make sure that your repayment of the consolidated debt does not stretch over a too long term.

**Do your homework carefully.** Check that the overall interest you will be paying is **less** than the total of your individual accounts!

Be careful when consolidating all your debt so that you do not end up paying an item over a long term, e.g. buying a motorcar on your housing bond and paying it over 20 years.

**Try by all means not to overload your housing bond!**

##### 3. Rationalise your insurance

If you feel you are paying too much for insurance, you can possibly reduce the total amount of your premiums. If you cancel (lapse or surrender) a **risk policy**, you lose your cover. But if it is an **investment policy**, you

could lose what you have already paid into it. Find out the best way to get your **life or endowment policy** to fully paid-up status, or whether you can reduce the premiums.

**Get advice from your insurance intermediary/broker. Don't lapse or surrender a policy without checking what the implications are!**

#### **4. Pay off your home loan**

##### **Plan A**

If you pay just **10% more** on your monthly installment, you will pay off your home loan in a much shorter time.

##### **Plan B**

Take any **extra income** and pay it on your home loan.

**Example:** An extra once-off payment of R5 000 will eventually save you thousands more over the term of your bond, because you will not pay the **compound interest** on it.

##### **Plan C**

Unless you have a **fixed interest rate**, your installments will change with the current rate of interest. When it drops, **keep up the higher payment**. You will be surprised how much interest it will save you in the long run.

**Talk to your bank and negotiate a lower rate on your home loan!** E.g. graduates enjoy special rates with the banks.

#### **5. Spend less**

We are subjected to an almost constant bombardment of TV, radio and magazine advertisements urging us to spend, spend ... spend. We need to become more aware of how we are tempted by advertisers to **want** things that we do not really **need**. We simply cannot buy everything our hearts desire.

Below is a suggested list that you can consider cutting out of your budget in order to survive the debt trap:

- Alcohol
- Tobacco / Cigarettes
- Entertainment
- Pay TV / Satellite TV
- Holidays clubs
- Gambling
- Eating out / Takeaways

#### **What if your problem is serious?**

If you are afraid to open letters from the bank, and regularly throw away bills, you are running from a serious problem. The problem will eventually find you. If you fail to pay your creditors they can take legal steps against you. Summons will be issued against you, and then a judgment. Then your name will automatically be handed over to a **Credit Bureau** and you will be **negatively listed** (blacklisted).

Credit bureaux are companies that keep a record of all consumers who use credit as well as details of their credit history. All credit bureaux must be registered with the National Credit Regulator. You can get a copy of your credit information from any registered credit bureau free of charge every twelve months.

## **Tips on what to do if finding yourself in serious financial trouble**

- *If you own a home, your first priority is always to **protect your home**.*
- *Face up to the problem and **contact your credit provider, e.g. bank**.*
- *Ask them to work out the lowest **possible repayment plan** for your home loan that is acceptable to them.*
- *Then stick to the new agreement.*
- *If you cannot reach an agreement with the credit provider, you may contact a registered **debt counselor** in your area.*

### **Your Right to Know**

Consumers need to know that before a credit provider can approach a court for a judgment as a way to enforce a payment, the credit provider is required in terms of the **National Credit Act** to give you prior written notice. The credit provider must also inform you of the options available to you, namely:

- Seeking help from a debt counselor;
- Seeking help from a alternative dispute mechanism; or
- Bringing your payments up to date.

### **Contacts details of institutions that deal with complaints or provide information relating to Credit:**

#### **The National Credit Regulator (NCR)**

No 127, 15 Road  
Randjies Park  
MIDRAND  
Toll share: 0860 627 627 or (011) 554 2600  
Fax: (011) 554 2871  
E-mail: [info@ncr.org.za](mailto:info@ncr.org.za) or [complaints@ncr.org.za](mailto:complaints@ncr.org.za)

#### **Credit Information Ombud**

Post Net Suite 444  
Private Bag X1  
Jukskei Park 2153  
Tel: 0861 66 28 37  
E-mail: [ombud@creditombud.org.za](mailto:ombud@creditombud.org.za)

#### **The Ombudsman for Banking Services**

PO Box 5728, Johannesburg, 2000  
Tel: 0860 800 900  
Fax: (011) 838 0043  
Financial Ombudsman Call Centre: 0860 662 837  
E-mail: [info@obssa.co.za](mailto:info@obssa.co.za)