InTouch newsletter

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HOW TO MANAGE your debt effectively

by Tango Gatya

Debt. The dreaded four-letter word that no one wants, but the majority of people have. All too often, the need for possessions and enhanced lifestyles is coupled with the need to have it all instantly – resulting in many of us being in debt. According to a recent report by the South African Reserve Bank, over R1.71 trillion accounts for the total of consumer debt.

But can I get on top of debt?

Maintaining and managing your debt is an important part of financial health and it is important for people to know that the power to manage their credit lies in their own hands.

At the end of June 2018, the National Credit Regulator (NCR) revealed that there were nearly 25 million "credit-active" consumers and more than 60% of these were in good standing and up to date with their repayments. However, 40% of them were behind with their loan repayments. A lack of financial expertise has contributed largely to the debt that most professionals find themselves in. However, debt doesn't have to be all doom and gloom. It can be effectively managed, no matter how much of it there is.

Where does my home loan fit in?

Not all debt is considered bad.

A home loan is the initial step towards owning a property and growing personal wealth; taking out a student loan or incurring debt for further studies is an investment into future opportunities; and securing a loan to establish a new business – albeit undertaken after that key discussion with your financial adviser – can all be considered as debt worth incurring, with the onus being on the individual to ensure the success of that venture which has been financed through debt.

Do you suggest a lifestyle change?

Maintaining the momentum to reduce and consolidate debt requires consistent reminders about the underlying reasons for wanting to escape the debt cycle.

In order to make a lifestyle change, it's important to review your credit records to understand where you are spending, how much you are spending and where you can possibly make a change.

What are you recommending?

Consider the following:

1. When last did you review your bank statements? These tell the story of your spending habits. They capture in a single document your values and attitudes towards money. Examine your last two monthly bank statements for a quick debt review.
2. Sufficient capital in an access bond can finance a car at your prevailing home loan interest rate provided you diligently repay the debt over the 60 months applicable to motor vehicle loans and not the life of the bond.
3. Using the access bond linked to an investment property means you can take advantage of the associated tax breaks.

What would this mean?

It will include:

- cutting back on your lifestyle to a level of affordability
- paying off the debts with the highest interest rates first
- being realistic and learning to differentiate between your needs and your wants
- paying yourself first (a savings plan, or a retirement annuity or even your medical scheme contributions)

In some cases, debt consolidation can also cement the right structures to reduce debt and generate investments for other life luxuries such as travel, purchasing a new home or acquiring wealth through investment property.

It's the tool for moving forward and creating savings but most professionals have not yet injected financial planning and training into their skills set.

Professionals should consider using debt to their advantage by using it to generate wealth.

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