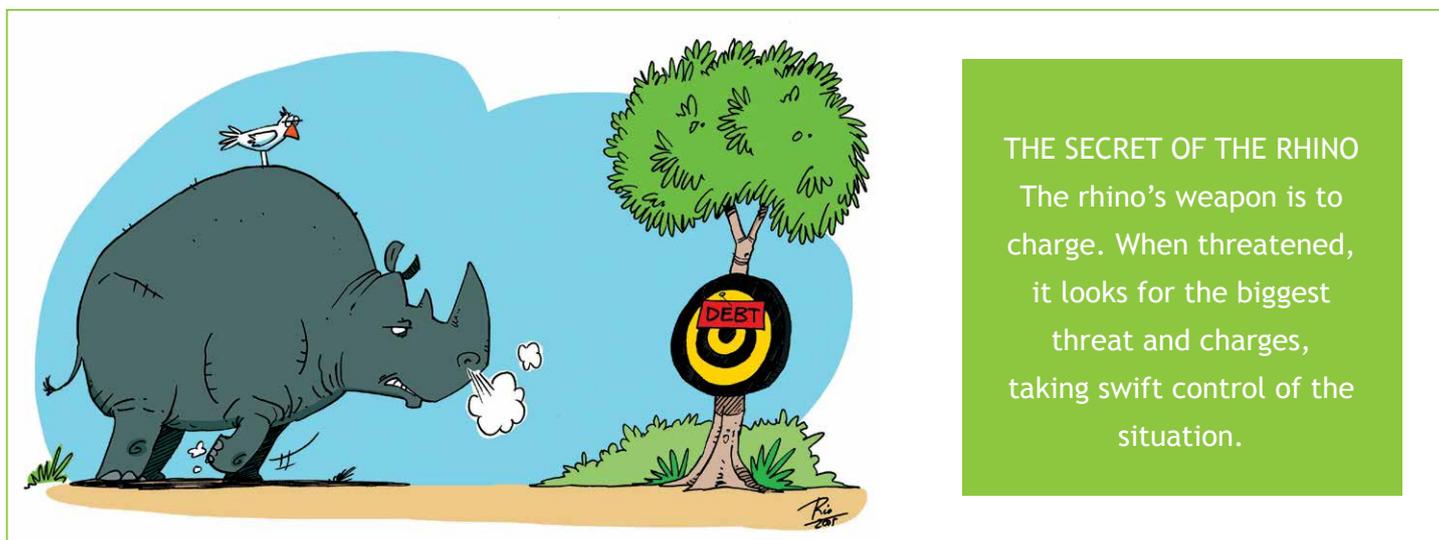


The Secret of the Rhino

“Charge down your debt”



THE SECRET OF THE RHINO

The rhino's weapon is to charge. When threatened, it looks for the biggest threat and charges, taking swift control of the situation.

What can I learn from the Rhino?

- Rhinos are fairly peaceful and don't have many enemies, yet the mother rhino often has to defend her calves from multiple predators or dangers. She often has to weigh up her options. The only option she does not have is not to deal with the threats.
- So what does the Rhino usually do when it is threatened? It charges down the predator to protect itself.
- It is the same with your money; you need to manage the level of debt you take on to ensure it does not threaten your financial security. The debt you use should be part of your plan, as it may help you create wealth. But if you don't manage it carefully, you can wind up paying back large amounts of your income to debt throughout your life, thereby destroying your wealth.
- Because debt is so expensive, and eats away at so much of your wealth, we all have to find ways to reduce it rapidly, and always manage it carefully. Debt only becomes unmanageable if it eats away too big a portion of your income each month, and if you pay it off too slowly.

Learner Outcomes

At the end of the module “The Secret of the Rhino” you will be able to:

1. Plan and manage your debt.
2. Identify the risk, pitfalls, limitations and unforeseen events that affect a budget and explain the consequences of poor financial planning.
3. Understand how to charge down your debt.
4. Explain the consequences of not having a good credit rating in the context of credit-related purchases.

The trick is to keep your debt down to a manageable proportion of your income, and to learn from the rhino and charge it down in a logical, orderly way.

Understanding debt

Getting out of debt can be one of life's most difficult challenges. But it is also one of the most important things you can ever do.

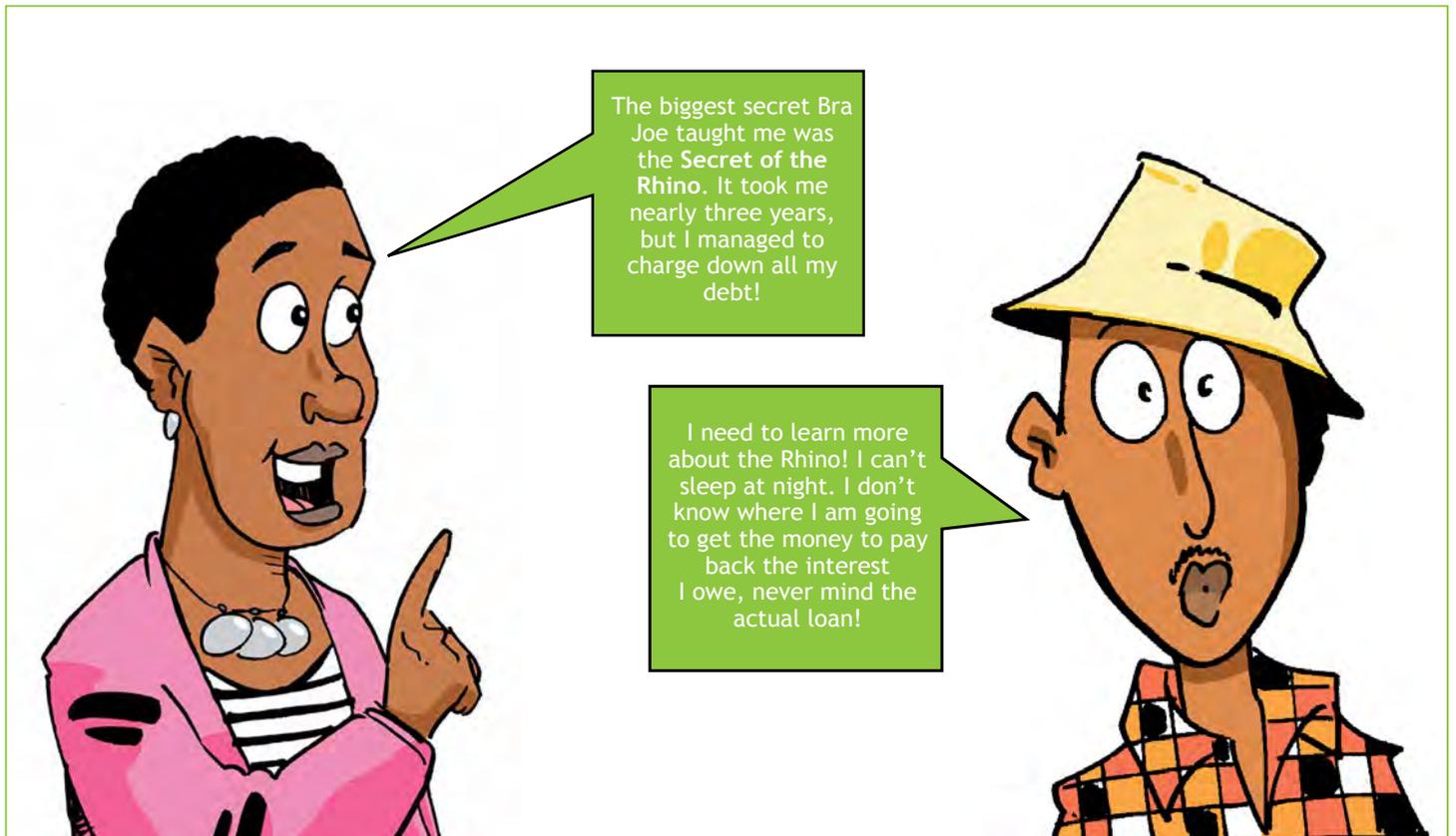
Why do we borrow money and get into debt? Sometimes it is because of an emergency that we did not expect. So we borrow, because we are short of cash. Sometimes we need to buy something big and expensive – such as a car or a house. These days, it is often impossible to buy a house or a car for cash. But, for most of us, we get into debt because we hope that there will be better days tomorrow, and we want something now. This is usually something we cannot afford!

Debt itself is not a bad thing, if you can borrow **carefully** as part of a bigger plan. But many people tend to get into debt without thinking about its dangers and pitfalls. Credit is easily available; very quickly we are overwhelmed by our debt and

end up in a cycle of buying on credit and using most of our salaries just to repay interest and debt.

The **Secret of the Rhino** teaches you to **face** your debt head-on. It tells you to charge down your biggest threat to financial stability – debt. Learn from the rhino – charge down your debt as fast as you can! If you feel overwhelmed because you have a lot of debt, charge down the biggest threat first – usually the one with the highest interest.

You can reduce your debt over time, but it takes discipline. The benefits are great – not only will you sleep better, but you will have taken constructive steps to creating wealth and protecting what you have.



Brezhnev is caught in a typical debt trap, but he has taken the first step by acknowledging his problem. Learn about the hidden costs of debt and how it threatens your wealth creation plans. Take a tip from the rhino and commit yourself to charging down your debt fast!



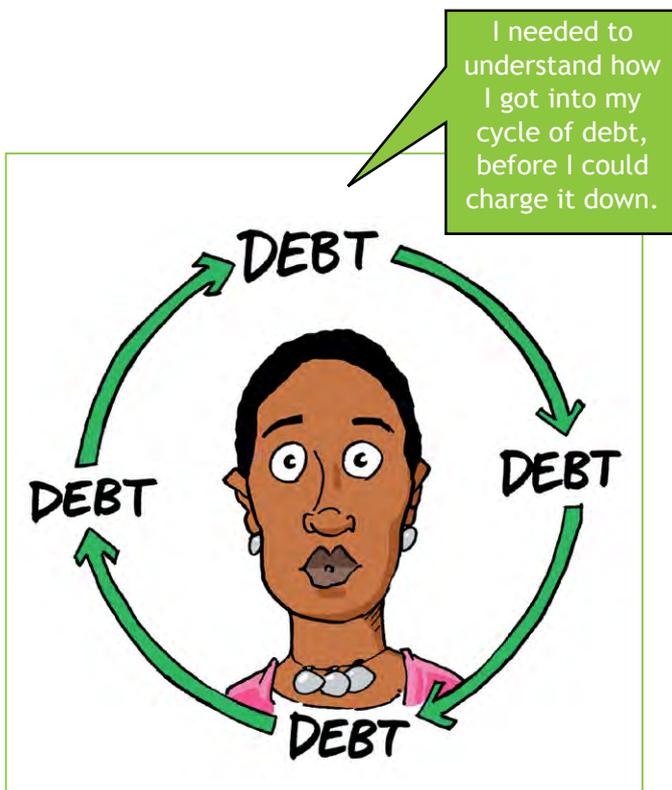
Understanding debt

Debt is here to stay! It is a feature of the modern consumer society - we are bombarded with messages to buy more every day.

Credit is easily available and we are continually encouraged to buy unnecessary items. When we can't repay our debts, we often take out bigger, more expensive loans, and the cycle of debt continues.

Using debt as part of a bigger wealth creation plan can be useful. For example, you might take out a bond in order to buy your house, so that in the long run you will save on rent, and have a good asset that increases its value over time. But most of us find ourselves caught in too much debt on items we don't even need and that decrease in value over time. Debt is a serious threat to any long-term wealth creation plan.

Dealing with debt isn't only a financial problem, but an emotional one as well. It can raise feelings of helplessness, guilt and even fear. It can make us uncomfortable. But like the rhino, we must charge down our fear – and our debt!



Are you a debt ostrich?

Do you

- always feel guilty about your debts?
- not allow yourself to think about your debts?
- struggle to sleep at night because your debts worry you?
- feel overwhelmed by your debts?
- ever borrow from Peter to pay Paul?
- ever receive letters from your creditors threatening you?
- know the interest rates you are paying on your different debts?

Get your head out of the sand! Confront your debt and charge it down.



How do I manage debt to my advantage?

Whenever you want to use debt, go through the following 5 steps to help you manage your money:

Step 1

Know how much the cost of debt ADDS to the cost of the item

The longer you take to pay off a purchase made on credit, the more you end up paying for the item as a result of interest.

Cash cost	Interest paid	Total cost	Monthly payment
5 000	Year 1 1 250.00	6 250.00	US\$520
5 000	Year 2 2 812.00	7 812.50	US\$325
5 000	Year 3 4 765.00	9 765.00	US\$271

- Paying for this item for three years, at 20% interest, has resulted in a total purchase price that is almost double what was initially quoted.
- The interest payment alone on the US\$5 000 purchase is US\$4 765.

Things to note:

- If you pay for household goods over more than 3 years, you will pay double or more of the purchase price.
- If you pay for your house over more than 10 years, you will pay double or more of the purchase price. Over 20 years you will pay about 2.5 times the purchase price.

US\$500 000 bond paid off over 20 years, at 11% interest, attracts US\$738 626.04 interest over the term. So the final cost of the house after 20 years is US\$1 238 626.

Year	Loan Balance	Interest Paid	Principal Paid	Total Interest
2007	493 979.73	45 589.15	6 020.27	45 589.15
2008	485 991.41	53 942.98	7 988.32	99 532.13
2009	477 078.70	53 018.59	8 912.72	152 550.72
2010	467 134.61	51 987.22	9 944.08	204 537.94
2011	456 039.81	50 836.50	11 094.80	255 374.44
2012	443 661.13	49 552.62	12 378.68	304 927.06
2013	429 850.01	48 120.18	13 811.13	353 047.23
2014	414 440.67	46 521.97	15 409.33	399 569.20
2015	397 248.19	44 738.82	17 192.48	444 308.02
2016	378 066.21	42 749.32	19 181.98	487 057.34
2017	356 664.52	40 529.61	21 401.69	527 586.95
2018	332 786.24	38 053.03	23 878.27	565 639.98
2019	306 144.80	35 289.86	26 641.44	600 929.84
2020	276 420.45	32 206.95	29 724.36	633 136.79
2021	243 256.42	28 767.28	33 164.02	661 904.07
2022	206 254.70	24 929.58	37 001.72	686 833.64
2023	164 971.18	20 647.78	41 283.52	707 481.43
2024	118 910.38	15 870.50	46 060.80	723 351.93
2025	67 519.47	10 540.40	51 390.90	733 892.32
2026	10 181.67	4 593.50	57 337.80	738 485.82
2027	0.0	10.21	10 181.67	738 626.04

How interest works

If you rent a house, you have to pay rent for using the house. Interest is the same. If you borrow money, you need to pay for the use of the money. This amount is called interest. Interest is always given as a percentage. Similarly, if you have savings at a bank, the bank pays you interest for the use of your money.

For example: 20% interest per annum (per year) means that if you borrowed US\$100 for one year, you would have to pay interest of US\$20 at the end of the year, as well as the US\$100 that you borrowed. If you repaid the loan after 6 months, your interest would be US\$10 as you only had the loan for half the year. The longer you take to pay, the more interest you will pay.

Banks lend money all the time, including to big companies. The rate at which they lend to their biggest and best clients

is called the prime interest rate. Usually, banks will lend you money at higher interest rates than the prime interest rate. Credit card companies, furniture and clothing stores will let you buy now and pay later at a much higher interest rate. Micro lenders can charge whatever interest they like (provided they disclose it to you), and this can often be as high as 30% interest per month, making the amount you pay back four or five times the amount of the original loan.

Don't get caught!

Interest rates do change. Interest rates of 10% - 12% on loans are common now, but we shouldn't forget the mid-1990s when interest rates peaked at 25%. Many people who could afford to repay 12% on loans, were forced to pay double the interest, causing many to lose their cars and houses. Interest rates can rise at any time. Make sure that you can afford higher repayments if interest rates go up!



Step 2

Always pay CASH when you can and request a discount

Cash is king

- Do you know you can ask for cash discount of up to 20% by paying using coin or paper money? This is because the merchant does not have to pay any fees related to transactions made on credit or debit cards.
- Using the example of the US\$5 000 item, paying cash could have resulted in a savings of US\$500 on the purchase price (if you are given a 10% discount). That saving could be used to pay off other debt faster or be set aside towards a savings plan.
- But in addition to the cheaper purchase price, you also save yourself US\$4 765 extra in interest that you would have had to pay if you bought the item on credit.
- What could you do with an extra US\$5 265? (US\$500+ US\$4 765)

Step 3

Pay off your debt as fast as you can and pay off your most expensive debt fastest

- If you have extra cash and you put it towards paying off your debt faster, you will be able to reduce the interest you will pay over the entire duration of the credit payment. This can save you hundreds of dollars or more.
- But how do you know which debt to pay off fastest when you owe many people?
 - Should you pay off the largest debt?
 - Should you pay off the debt that attracts the highest interest?
- Most of your money should go towards paying off the debt with the highest interest, as it will save you having to pay a significantly higher total purchase price at the end of the term.
- Number the debt below in the order of highest to lowest priority debt.

Creditor	Capital Payments	Monthly Rate	Interest Charged	Payments Owed	Total
King's Clothing	2 200	270	17%	9	2 430
Bond	500 000	6 000	11.5%	240	1 238 640
Credit Card	6 000	600	16.5%	11	6 660
Flip's Furniture	12 000	870	22.5%	24	20 880
Car loan	180 000	4 300	12.5%	54	231 444

Things to note:

- If you pay one-third more monthly into your US\$500 000 bond, you will pay it off within 10 years and save US\$300 000.
- If you pay double your monthly repayments into your US\$500 000 bond, you will pay it off within 5 years and save US\$800 000.
- If you pay your US\$500 000 bond off over 20 years, you will pay in total US\$1.3 million.

Step 4

Pay off all debt long before you have to stop using the item you bought on credit

- Is it appropriate to purchase your monthly groceries on credit, if you repay them over a term that is longer than one month?
- What about buying shoes over three years? How would you feel about having to continue paying for these shoes for six more months?
- A house, on the other hand, is an appreciating asset; its value goes up even after purchase, whereas most other purchases depreciate immediately upon purchase and/or use.
- Also, a house is a structure that remains standing for years, and even generations. And, if built and maintained properly, will remain in a good condition for years. Therefore, as you pay it off, it not only stores its value, but also increases as the debt on it goes down. This is why property is considered a sound way to store and create wealth.

Step 5

Plan your debt-free day

- The sooner you pay off all your debt, and live debt free, the more money you can put into savings and investments. This can, of course, be for your retirement, for when you don't work any more.
- If you start early enough, you can do even more than that: you can then create real wealth.
- Try to reach your debt-free day as early as possible in your life.



How do I get out of debt?

Use the following 5-step plan to help you get out of debt.

Step 1: Face the problem

Know and research all your debt

- What types of debt do you have?
- How much do you owe?
- How much are you repaying each month?
- What interest rates are you paying?
- When will you finish repaying each of your loans?
- Which debts have the highest interest rates?

Once I accepted that I couldn't get wealthy with all my debts, I sat down and made a list. I found out exactly what I owed and what interest I was charged. Then I started planning!



Part of facing your debt is knowing **exactly** how much debt you have. Make sure you understand the different kinds of debt that you have, and their legal implications. Check the interest rate of each debt and how much it is costing you each month. Find out how many payments you still have to make. This knowledge will make it easier to establish which debts pose the biggest threat to your financial wellbeing.

Collect the statements of the last three to six months for all your debts. Analyse them closely. Here is Brezhnev's list as an example.

Debt	Amount Outstanding (without interest)	Interest Rate	Monthly Repayments (with interest)	When will it be Repaid in Full?
ABC Appliances – Fridge	US\$1 053.00	18% per annum	US\$140.00	13 months
Micro Loan (US\$600)	US\$ 300.00	20% per month	US\$220.00	3 months

Clearly Brezhnev's loan of US\$600 at 20% per month is very expensive. If he repays the whole loan over 6 months, he will have paid US\$720.00 in interest, more than the actual outstanding loan. Micro lenders make their money legally, by charging extremely high rates of interest like this.

Now, make a list of all your debts. Include bonds, overdraft, HP contracts, credit cards, bank loans, store cards, micro loans, family loans, etc. Add it up!



Step 2: Share your problem

Develop a support system to keep you focused on your goal

- Who can support you while you charge down your debt?
- Where can you get advice?



Step 3: Adjust your budget

Revise your budget

- How much extra debt repayment can you afford?
- What can you change to increase your debt repayments?
- How long will it take for you to charge down your debts?



Step 4: Create strategies to deal with your debt

Find practical ways to deal with your debt

- Which debts pose the biggest threat?
- How do you deal with your creditors?
- What are your options?
- What will you do if you are blacklisted?
- Is there a sensible level of debt?
- If so, what is a sensible level of debt for you?

Find and identify your biggest threat

Just like the rhino, you must charge down your biggest threat first. Debts with the highest interest rates are usually the biggest threats, as they are the most expensive. If, however, you are behind on payments for home loans, vehicles or furniture, you stand a real chance of having them repossessed, with nothing to show for all your months of payments. In this case, your home loan could be your biggest threat even if the interest rate is the lowest. Look at all your debts and prioritise them. Be logical and systematic.

Contact your bank and creditors

If you are in trouble and you cannot make your monthly debt repayments, let your bank and creditors know. If you have a home loan, it is very important to explain your situation to the bank. Ask if there is a lower possible repayment for a couple of months, until you get back on your feet. Creditors are more open to arranging longer terms if you contact them before you miss a few payments. They would rather collect your money slowly than not at all. But remember that these are only temporary measures and that you will still have the original loan to repay, now with added interest. Get back on your full repayment schedule as quickly as possible.

Debt consolidation

If you earn a regular income, you might qualify to consolidate your debt. Some companies specialise in debt consolidation and will agree to settle all your accounts and debts elsewhere. You then owe them only one large amount, which covers all your debts. This makes repaying your debt much easier as you only have one creditor to repay, and you can often negotiate more favourable interest rates and repayment terms.

This might sound like the answer to your debt nightmare, but it has its risks. You still have the same amount of debt to repay, and now one creditor holds a lot more power over you than all your individual creditors had. Some people then reopen their accounts again, and before they know it they are in the same situation, and now also have their big consolidated debt to repay.

Consider selling your assets...

If your assets are in danger of being repossessed, then consider selling them first and using the money to settle the debt. If you have been paying the items off for a while, the balance outstanding might be quite low, and you might even come out with some cash to spare. If it is repossessed, it is unlikely you will get anything out other than a bad credit record rating.

What if you are blacklisted?

If you don't manage your accounts properly and repay your debts on time, your bank and creditors can give you a poor credit rating. This makes it difficult to get further credit, as companies contact your bank and past creditors when you apply for an account or loan.

If you can't keep up your repayments and haven't made arrangements with your creditors, they can take legal action against you. This involves issuing you with a summons to pay and getting a judgment against you. Your name is then registered with TransUnion and you are blacklisted. This means that you will not be able to open an account anywhere, nor will you qualify for a home loan. Your creditors can also have your assets attached and sell them to cover costs.

A blacklisting usually lasts for 5 years, although you can approach the credit bureau and try and negotiate to have your name removed from the list earlier, but this is difficult.

If you are blacklisted, you can get a copy of your credit profile from TransUnion for a fee. Check that the facts are correct. If there is an error, they will investigate and you can have it rectified.

Calculating the ideal debt-to-income ratio

How much of your take-home salary is being used to pay off debt repayments?

- Total monthly debt repayments (bond, your credit cards, your store cards and your loans)
- Monthly take-home salary
- Ratio: debt/income = __%
- E.g. Debt repayments of US\$5 000, monthly take-home pay of US\$10 000. Debt/income ratio = 50% or half of your monthly salary goes towards repaying debt monthly.

What is an acceptable level?

It is accepted that this amount should not exceed 30% if you want to achieve financial security for yourself.

Step 5: No new debt

Stop yourself from incurring any new debt

- How will you live within your means?
- How will you stop creating new debt?

Stop and Think...

Before you take on any new debt, ask yourself:

- Do I really need it?
- How will buying it affect my savings plan?
- Have I budgeted for it?

- Can I afford the instalments now and in the future?
- How long will it take to repay it? What if I need something else while I am repaying it?
- How much interest will I pay? Is this per month or per year?
- What if the interest rates increase? Will I be able to afford the higher repayments?
- What would it cost if I bought it for cash? How much cheaper would it be?
- If I really need it, can I buy it cheaper somewhere else?
- If I really need it, how much interest will I save if I pay it off over less time?
- How does the purchase help my long-term vision of wealth creation?

No new debt!

Undoubtedly, the hardest part in charging down your debt is going to be to resist taking out new debt.

This is going to require sacrifice, commitment and strength of character. Cut up those credit cards if it helps! You need to challenge your old habits, and develop new ones.



Understanding different types of credit facilities: my rights and legal responsibilities

Bank Loans

Bank loans are usually determined by your salary and your bank history. Loans from banks usually have standard terms in their contracts, but look out for “the small print”. Check the admin charges, whether interest rates can be changed at any time, and any other conditions. You might be forced to take out life insurance to get the loan – an added expense! Some typical bank loans are:

Bank Overdraft

You can arrange a bank overdraft on your cheque account – usually the account your salary is paid into. This means they will let your cheque account be overdrawn. The interest rate is a lot higher than the prime interest rate. You do not have to repay the overdraft within a fixed time, but the bank will review it at least once a year, and can withdraw it at any time.

Revolving Credit

This will be a fixed amount of money that the bank agrees to loan you. You don't have to take it all at once, and as soon as you pay some back, you can re-borrow that amount. This kind of loan is flexible, but has a high interest rate.

Bank Loans

Depending on your circumstances, you might qualify for a longer-term loan, where you have to make fixed repayments every month. The bank might ask you to provide something as security for this loan, such as a piece of land. If you cannot repay the loan, the bank then has the right to keep your asset that you offered for security.

Credit Cards

If you have a good credit history and a regular income, you might qualify for a credit card at the bank. The banks set a limit based on your circumstances. You can use your credit card to buy goods in most places. If you don't settle the amount in full at the end of the month, you will be charged interest at fairly high rates. There are annual card charges and optional lost card insurance charges.

Specialist Loan Companies

There are many loan companies around, encouraging you to buy your dream holiday, add on a patio to your house, or fulfil other dreams now and pay later. But beware, they are expensive and have hidden costs.

Hire-purchase Agreements

Some people buy cars, furniture or appliances, using an HP contract. The seller arranges finance for you from banks that specialise in this type of loan. You are usually required to pay a deposit and sign an agreement where the loan is registered over the items that you buy.

HP is expensive, and you usually end up paying more than double for the item. If you cannot pay for a month or two, you run the risk of having the item repossessed. You will then have nothing to show for all your months of repayments.

Vehicle Finance

Some banks have special divisions that only provide loans for motor vehicles. The interest rates are more favourable than ordinary loans. If you have an accident or your car is stolen, you would still need to repay the loan, unless you had insurance cover. If you stop paying your loan, your car will be repossessed.

Home Loan or Bond

Most people take out a home loan or mortgage bond to buy or build a house. This is a long-term agreement between you and the bank, where the loan plus interest is repaid over 20 or 30 years. The bond is legally registered over your property and if you can't repay the loan, it acts as the bank's security. Usually the interest is one of the lowest rates that you will get, but it is linked to the bank's prime interest rates. If interest rates go up, you could find yourself not able to pay the higher repayment amount. In the late 1990s, home loan rates rose to 25%, making many people unable to repay their home loan repayments. This meant that they lost their houses. You are also usually expected to take out life insurance for the value of the bond.

Paying extra into your home loan each month, or paying it off sooner, dramatically saves you interest. It is a good idea to put any extra bonuses or money into your bond. Usually you can arrange with the bank to withdraw any extra payments if you need it. In this way you can use your bond to keep your savings in.



Micro Loans

A micro loan is any loan under US\$10 000 that must be paid back within 36 months. Micro lenders can charge as much interest as they like, provided they tell you what the rate is. Micro lenders often charge as much as 30% or 40% per month, making the interest rate 400% to 500% per year. Compare this to the banks' 10% to 20% per year, and you can see how expensive it is. A loan of US\$1 000 for one year could mean that you end up paying back five times the amount in interest, plus the original loan – a total of US\$6 000!

Micro lenders are flourishing because, for some people without regular salaries, it is the only way to borrow money. Often, because the interest rates are so high, the only way to repay a micro lender is to take out another loan. Soon a vicious cycle spirals out of control. Some micro lenders employ debt collectors who use threats and violence to collect their money. Make sure you only borrow from registered micro lenders.

Know your rights

Registered micro lenders:

- Must register with the Reserve Bank of Zimbabwe and abide by their rules
- Can charge you any interest rate they like, as long as they disclose it to you.
- Must give you a copy of your contract.
- Cannot keep your ID book or ATM card (never give them your PIN number).
- Cannot ask you to sign any blank forms.
- Can ask you to sign a consent form to deduct money from your salary.
- Must allow you to pay off the loan earlier, and reduce your interest paid accordingly. Check whether any penalties would apply to early settlement.
- Must allow you to cancel the contract within 3 working days.

Clothing and Store Accounts

This kind of credit is easily available as stores are always looking for ways to increase their sales. The more you buy, the more credit they make available to you, often without you even asking for it. These accounts operate like credit cards, but allow you only to use the credit in their own store.

Look at the example of Takura Trading store below. Notice how expensive it is: most people only pay the minimum each month, causing high interest charges. Many stores also have hidden costs that also incur interest if not paid on time, such as admin fees, club membership and insurance policies. Make sure you are not paying for something you do not want.

TAKURA TRADING Takura Trading (Pvt) Ltd R			
To: Mrs Nkosi PO Box CY 555 Causeway Harare	Payments To: Takura Trading PO Box CY 563 Causeway Harare	Date	15 May 2011
		Min Payment	US\$312.00
		Balance	US\$3 120.00
		Due Date	5 June 2011
ACCOUNT NO: 52189			
Date	Store	Transaction	Amount R
15 April 2011		Balance Brought Forward	2 870.00
23 April 2011	Bulawayo	Purchases	420.00
24 April 2011	Bulawayo	Payment CR	(500.00)
30 April 2011	Harare	Admin Fee	5.70
30 April 2011	Harare	Funeral Cover Policy 34588	35.00
30 April 2011	Harare	Club Membership	52.00
11 May 2011	Bulawayo	Purchases	159.00
15 May 2011	Harare	Interest	78.30
15 May 2011		Balance Carried forward	3 120.00
REMEMBER FATHER'S DAY 19 JUNE 2011!			
Balance	US\$3 120.00	Minimum Payment	US\$312.00
		Credit Limit	US\$3 500.00
Overdue	US\$ 890.00	Available to Buy	US\$ 380.00
No interest will be charged on the purchases on this statement if the total balance is paid in full by the "Payment Due Date"			



Credit is easily available from a whole range of sources. Banks, credit card companies, vehicle finance companies, micro loan companies, clothing stores, department stores, pharmacies and family members are all possibilities for borrowing money. Most people lend money with one thing in mind - to make money.

This can be through charging you interest and administrative charges, like the banks, or by encouraging you to spend more money with them, like clothing stores. In all cases, the credit facilities that you have will cost you money. How much it will cost you, depends on the type of loan. **Look at the typical loan below. Do you think it is expensive?**

Fair Deal Loans
 Choose the loan instalment that will suit you. Choose the period that you want to pay it back. Minimum loan US\$4 000. We are flexible so that you can borrow what you can afford.

Monthly repayments include a compulsory US\$12.00 admin fee and US\$6.20 protection cover.

All loans are subject to credit approval. The table is quoted at July 2011, and is subject to change.

Rates quoted are a guide and could vary, depending on your personal circumstances.

Amounts	24 months	36 months	60 months
US\$ 4 000	265	203	153
US\$ 6 000	393	298	224
US\$ 8 000	519	393	296
US\$10 000	647	490	367
US\$12 000	754	560	415
US\$14 000	778	656	483
US\$20 000	1 250	934	685
US\$25 000	1 560	1 252	853

How much does a loan from Fair Deal Loans actually cost you?

Let's look at a US\$4 000 loan

Total repayment over **2 years** = US\$265 per month x 24 months = US\$6 360 Total interest paid over 2 years = **US\$2 360**

Total repayment over **3 years** = US\$203 per month x 36 months = US\$7 308 Total interest paid over 3 years = **US\$3 308**

Total repayment over **5 years** = US\$153 per month x 60 months = US\$9 180 Total interest paid over 5 years = **US\$5 180**

Let's look at a US\$10 000 loan

Total repayment over **2 years** = US\$647 per month x 24 months = US\$15 528 Total interest paid over 2 years = **US\$5 528**

Total repayment over **3 years** = US\$490 per month x 36 months = US\$17 640 Total interest paid over 3 years = **US\$7 640**

Total repayment over **5 years** = US\$367 per month x 60 months = US\$22 020 Total interest paid over 5 years = **US\$12 020**

What do you notice?

When you calculate the total interest you get a clear picture of how bad debt is for you.

Notice that:

- It is better to repay loans over a shorter period. Although the monthly repayments are cheaper for a longer period, the total amount paid rises dramatically.
- The company doesn't actually specify the interest rate. If they told you the interest rate was 25% to 30% per annum you might be put off. They are hoping that you won't do the calculations above.
- The small print says that your actual rates could be different, depending on your circumstances. Once you are there, they can convince you that you are not a good credit risk, and then offer you a loan at even higher rates.
- The rates are subject to change. You could suddenly find yourself with higher monthly repayments if interest rates increase.
- There are extra costs – personal cover of US\$6.20 per month and an admin fee of US\$12.00. These might not sound a lot, but over 5 years they amount to over US\$1 000.



Tips for managing my debt

For most of us, taking out a bond is the only way we will ever own a home. The Secret of the Rhino tells us to charge down our debt and keep it at sensible and well managed levels. This means that if you are going to have debt, you should stick to some rules.

Rules for manageable debt

Have a plan

Only borrow if it is part of your bigger wealth creation plan. Is it a valuable investment that will help increase your overall wealth?

Don't miss payments

Make debt repayments part of your budget. Decide what you will sacrifice to make your repayments.

Stay within your means

If you have to buy a car on Hire Purchase (HP), make sure you can afford it, and pay the biggest deposit that you can. Cars lose value quite quickly – you can lose US\$20 000 in value in the first minute you drive it out of the showroom.

Don't use Hire Purchase (HP) for smaller purchases!

Never buy furniture and appliances on HP. If you don't have the money, save up until you can afford it. It won't take as long as you think, and you can save many thousands of dollars.

The dangers of credit!

- Hidden costs like admin, protection cover and club fees add up over the period of a loan.
- If you cannot repay a loan, even if you have paid for many months and even years, you will probably have your goods repossessed.
- If you can't repay your loans on time, you could be given a bad credit rating and blacklisted or even liquidated. This makes future loans very difficult.
- Family loans might have lower or no interest, but they can cause guilt and shame and put strain on your relationships.
- Unscrupulous micro lenders may physically threaten you or your family. It's illegal, but it happens.

Compare rates

Shop around for the best deal. You can often negotiate better terms and interest rates.

Don't fall for ads

Resist clever advertising. Adverts are designed to encourage you to spend money that you don't have.

Understand what you sign

Read your debt contract carefully. Look for the hidden extra costs, and check what penalties will apply if you pay it off sooner. Never take a loan that doesn't allow you to pay extra or pay it off sooner.

The information below is provided purely on an informational basis since the National Credit Act (NCA) is a South African Act:

Know the National Credit Act (NCA)

The National Credit Act came into operation on 1 June 2007.

What does it mean and how does it affect you?

NCA was created in order to regulate the credit industry in South Africa in order to protect you, the consumer, from poor credit practices.

The Act created a new regulatory body called the National Credit Regulator, which is responsible for monitoring compliance with the act and for educating consumers about their rights.

The legislation is designed to:

- Improve transparency
- Prohibit unfair contractual terms and practices
- Prohibit anti-competitive practices

It is meant to protect you against unfair and unlawful credit provision. That means stamping out reckless credit behaviour – by both credit providers and consumers.

You are now able to take your disputes with credit providers to the National Consumer Tribunal, which will hear your complaints about your credit agreement and credit providers.



The Act ensures that you are provided with all relevant information to make an informed decision before entering into a credit agreement.

A credit provider must provide you with a quotation, showing all relevant costs and repayment values before you sign the agreement.

The quote is valid for five days, during which you can shop around and explore other options.

The act places a greater responsibility on credit providers to ensure that you can afford the credit before you commit to it.

Beware of seductive tactics...

Stores and banks want you to spend as much money as possible with them. They offer credit and encourage you to spend money you don't have. This increases their profits and keeps them in business. They use sophisticated techniques to lure you in, hoping that once they catch you, you will spend more with them.

Ask yourself: do I really need what they are advertising? Here are a few seductive phrases to be critical of:

Buy Now, Pay Later!

This encourages you to spend money you don't have and makes buying on impulse much easier. If you don't settle the debt in full by the agreed date you will usually be charged very high interest.

6 Months Interest Free!

This catches many people who plan to repay their debt before it starts earning interest. In reality most people don't manage to stick to their plan and they end up paying high interest charges every month.

Free Vouchers!

Often stores offer you a couple of US\$100 vouchers off your first purchase, if you open an account. Your first purchase might be cheaper, but the interest you pay on future purchases and the compulsory extras like "club membership" make your account very expensive.

Club Membership and Competitions!

Some stores add extra benefits if you open an account – benefits such as clubs, competitions, discounts, funeral benefits, invitations to special events, etc. These are all designed to encourage you to spend more money with the store. But be careful, you often have to pay extra each month for all these benefits. These costs are often automatically added to your account every month, and also incur interest if not paid on time.



