Millions of South Africans are drowning in debt and have no plan to break the debt spiral

JOHANNESBURG, GAUTENG, SOUTH AFRICA, April 18, 2022 /EINPresswire.com/ -- In an environment of rising interest rates, declining monthly household incomes, growing inflation and the highest fuel prices we have ever faced in our history, South Africans are facing extraordinary financial headwinds and struggling to service their debt on credit cards, store/retail cards, overdrafts and personal loans. Indebted South Africans have reached a point where the overall debt to annual net income ratio across all income bands has reached its highest level ever.

> "The best way to take control of your debt is to have a clear understanding of your financial commitments, how much you pay to service debt and renegotiating credit arrangements where possible."
>
> *Daniel Shapiro - Alefbet Recoveries*

"In real terms, average take-home pay in the private sector has also dropped, exacerbated by the economic challenges brought about the pandemic, and the painstakingly slow economic recovery. At the same time, consumers are still clamouring for unsecured credit which indicates that they are using credit simply to roll through from one month to the next. This kind of credit only serves to increase consumption and gets you further into debt – think buying groceries on your credit card, entertainment and eating out, clothing, apparel on store cards and so on. As interest rates climb after the pandemic hiatus, the increased cost of servicing that debt now leaves millions of South African families trapped in a debt spiral of consumption debt," explains Daniel Shapiro, of Alefbet Recoveries, a group of collections call centres which includes Shapiro Shaik Defries and Associations, Metropolitan Revenue Collections and ITC Business Administrators.

The best way to take control of your debt is to have a clear understanding of what your financial commitments are, how much you pay to service debt, cutting all non-essential spending and renegotiating your credit arrangements where possible," he adds.

Shapiro offers the following advice for consumers struggling to service their debt:

• If you are facing payment difficulties, engage proactively with your creditors!

Don’t ignore your creditors – the debt will not go away without action. A lack of any response from you will see your outstanding debt role into the legal stage and this becomes imminently more challenging and negatively impacts your credit rating and future personal financial health – something that is very challenging to rectify once impaired and impacts your ability to get any form of credit in future, and the cost that you get it at, for years.

Daniel Shapiro - Alefbet Collections & Recoveries

The best approach is to proactively approach and negotiate with creditors and lenders upfront. If contacted by a collection’s agent, explain your situation so they can work with you to find a solution. Different types of debt have different options - you might be able to temporarily suspend payments with a loan modification or lower the monthly repayments or interest rates by reaching an agreement with the lender. Creditors would much rather come to a workable agreement than pursue legal action and many debtors are surprised to find that they are open to making alternative arrangements where appropriate and fair. By working with your creditors and sticking to the arrangements, you avoid the implications of having your assets attached, the stress of being legally pursued for your outstanding debt and having your credit record damaged, typically for years. Bottom line – get out there and negotiate and engage proactively with your creditors.

• Think very carefully about debt review

While debt review can be an option for a heavily indebted consumer, it is not a process that should be entered into lightly. It’s important to know that once you in in debt review, you cannot obtain any new credit and you cannot exit the process until you have settled all your debts. That means that even if your circumstances change in a few months’ time and you are once again able to resume your regular payments each month, you cannot exit the debt review process until all the debt is paid off. During the time – which can be up to 5 years - you cannot get any credit, such as loan for a car, a mortgage, a student loan and so on. Your only option would be to pay off the debt faster to shorten the period you spend in debt review. If you see no other way clear, engage with a reputable and professional debt review agency that will clearly and transparently explain all the implications of this process to you beforehand. Be aware that there are also costs attached to the debt review process which you will need to pay upfront.

• Retrenched?
You may not even realise that you have credit insurance on some of your loans, retail accounts and credit cards which are there to protect you if you are retrenched and unable to service your debt. Check all your loan agreements and see whether a credit insurance policy is active – these usually are in place for the full term of the loan or credit arrangement. This insurance may cover you for up to 12 months of your debt repayments if you are retrenched, subject to the terms of the policy.

“Finally, as you make headway on paying down your debts, remember that debt and credit typically come with interest, which means you will pay more, the longer you take to pay your debt down. As you pay off one debt or credit arrangement, divert the money you were already used to paying to top up your next repayment, which means you’ll be significantly reducing your term and interest charged. The most important aspect once you are done, is to put the money you were spending on debt repayments into a savings account or investment to provide you with a much-needed emergency fund,” concludes Daniel.

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