

JUST MONEY

Your guide to debt counselling

Many South Africans are falling deeper into debt especially with the economic decline, interest rate hikes and increases in petrol, electricity and food costs. Such increases have outpaced salary increases and are increasing the pressure.

Individuals should be paying no more than 35% of their monthly income on debt repayments. However on average, the figure for repayments is sitting at 48% of one's monthly income. If you spend more than 50% per month you are in serious trouble.

If you find yourself with too much debt, you might think about applying for debt counselling. But what is debt counselling and how is that going to help you get your finances back in order?

What is debt review?

Debt counselling, also known as debt review, offers over indebted consumers an alternative way of getting out of debt rather than using more traditional methods such as administration and sequestration.

Debt counselling was first introduced by the National Credit Regulator (NCR) in 2007, and according to the NCR has helped hundreds of thousands of people.

The purpose of debt review is to lower your monthly debt instalments, thereby making it more affordable for you to pay every month.

How does debt review work?

During the debt review process, the following will occur:

- Your debt repayments will be reduced to an amount that you can comfortably afford.
- You will make one combined monthly debt repayment that is affordable to you.
- Your debt counsellor will negotiate with your credit providers to reduce interest rates and fees on your accounts.
- Your debt counsellor will apply to get a court/consent order on your behalf, which will provide you with legal protection from your credit providers.
- When your debt is paid off, your debt counsellor will update the credit bureau and your credit record will be restored.

There are a number of steps in the debt counselling process.

Step 1: You will have to send all your financial details to your debt counsellor. This includes your monthly income, monthly budget, and debt commitments. In addition, you will also need a copy of your ID, payslip, and latest debt statement on all your debt.

Step 2: Once the debt counsellor has gone over all your information, and has found that you are over indebted, they will set up a consultation with you. Each debt counselling company has different methods on consulting: either over the phone, or in a face-to-face meeting.

Step 3: During the consultation the debt counsellor will verify your budget and your existing debt commitments. A new budget will be agreed upon and the amount available for debt repayment will

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be determined. The debt counsellor will also provide you with details of all the costs, as well as an interim repayment plan.

This is the step where you have officially applied for debt counselling.

Step 4: The debt counsellor will then contact all your credit providers, as well as the credit bureau to verify your debt. Your debt counsellor will also tell the credit bureau that you are under debt review. This will then be flagged on your credit record, and should you try to apply for further credit, credit providers will see that you are under debt review and therefore unable to take on additional credit. This will be removed once all your debt has been paid off.

Where possible, your debt counsellor will try to make payment arrangements with your credit providers. This includes trying to reduce the amount that you need to pay towards your debt each month. However, if you cancel the debt review process for any reason, your debt repayment amounts will revert back to the original amounts prior to entering debt review.

Step 5: If all of your credit providers accept the proposals from your debt counsellor, a consent order can be obtained from the National Credit Tribunal (NCR). However, if one or more of your credit providers does not accept the repayment plan, then the debt counsellor will go to the magistrate's court for a court order.

Step 6: This is where you will get your final repayment plan. Once the plan has been accepted, and run through the payment distribution agency, you are on your way to paying off your loans. The point of this plan is to have you make one payment towards your debt every month (to your debt counsellor), rather than having to pay all your creditors separately. Your debt counsellor will then in turn pay your creditors.

Once all your debt has been paid off, the process ends.

It is important to note that a home loan or mortgage is not included in the debt review process. If you still have money owing on your mortgage, but the remainder of your debt is paid off, the debt review process can be terminated.

How long will debt review take?

Debt review is not a quick fix to your debt problems. It is a long term solution that can take up to five years, depending on how much money you are owing to your creditors, as well as how much you can afford to pay towards servicing your debt each month.

However, if you are committed to the process, and pay any additional funds you may receive towards your debt, you can be out of debt within three years.

How much does debt review cost?

There are a number of fees associated with debt counselling, however, the actual amount charged will depend on your debt restructure fee and your debt counsellor. The fees include:

- An application fee of R 57 (incl. VAT) is payable with your application,
- A once-off restructuring fee equal to your debt rehabilitation amount, to a maximum of R6840 (incl. VAT) is payable in your first month,
- A credit check fee of R 57 (incl. VAT) is payable with your restructuring fee,

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- A rejection fee of R 342 (incl. VAT) should the debt counsellor not consider your application,
- A monthly after-care fee equal to 5.7 percent (incl. VAT) of the monthly rehabilitation amount on your payment plan, to the maximum of R 456 (incl. VAT) for the first 24 months.
- Thereafter, a monthly after-care fee for the remaining period equal to 3.42% (incl. VAT) percent of your monthly rehabilitation amount.
- A sundry fee/legal fee is due in your second month of rehabilitation, this is a once off fee and the amount varies depending on the complexity of your legal process and your debt counsellor.
- A Payment Distribution Agency (PDA) fee, which is three percent of your monthly rehab payment (to the maximum of R 570 incl. VAT) each month.
- These fees are prescribed by the National Credit Act and may be subject to change.

Once you have paid off all of your debts and are out of the debt review process, you are free to borrow money again as long as you meet the requirements of the credit provider. However, when taking on debt in the future, you should be careful that you don't end up in the same situation that saw you entering the debt review process.