

# The A to Z for a debt-free 2009

**T**raditionally, the beginning of each year brings with it resolutions to improve various aspects of your personal life or work environment. It is amazing how often finance

features in these resolutions. For example,

- "This year I want to take the whole family away on a two-week holiday",
- "Next year I don't want to borrow money to pay for school fees",
- "This year I want to put a deposit down on a car",
- "Next year I want to start off the year with no credit card debt".

Whatever your plans are for 2009, you may find that finance plays a part in achieving your goal. To help you achieve whatever financial goal you have set yourself, here is an A-Z list of financial tips and suggestions you may find useful.

## A = Affordability

Make sure you can afford the debt repayments before entering into a credit agreement. Try not to spend more than 40% of your monthly income after tax on debt and rent.

## B = Bad Debt

Know the difference between good debt and bad debt. Bad debt is any debt you incur for things you don't need. Bad debt is also debt that you will still be paying off after you have consumed what you bought, such as groceries. For example, credit card debt that you can't pay in full each month can normally be classified as "bad debt".

## C = Credit Record

If you don't know what your credit record looks like, make a point of getting hold of your free credit record from a credit bureau. Make sure you know exactly what is on your credit profile and that there is nothing recorded that is inaccurate and potentially damaging to your financial health!

Contact either:

- Transunion on [www.transunion.co.za](http://www.transunion.co.za), tel 0861 482 482, or
- Experian on [www.experian.co.za](http://www.experian.co.za), tel 0861 105 665

## D = Debt Counselling

If you are struggling to meet your debt obligations, then consider debt counselling. As soon as you are placed under debt review by a debt counsellor, your creditors can not take any legal action against you. Contact the National Credit Regulator on [www.ncr.org.za](http://www.ncr.org.za) or tel 0860 627 627 to learn more and to find a debt counsellor in your area.

## E = Early Settlement

Make it priority this year to pay a little bit extra than the required monthly repayments and watch how quickly your debt reduces!

## F = Fundisa

Fundisa will pay you a bonus of 25% of your savings (maximum bonus R600) if you are saving to pay for university of technicon education. Apply at your bank or nearest post office, or visit [www.fundisa.org.za](http://www.fundisa.org.za).

## G = Goal Setting

Set yourself one or two REALISTIC financial goals this year. Share the goal with a friend

## How to save on service fees

Fatima received a pre-agreement quote for a TV she wanted to buy over three years on credit from a furniture store. She took the quote to another store and they sold her the same TV at the same price but only charged R11,40 per month in account service fee instead of R57 per month. Over three years, Fatima saved R1 642 in fees!



**It's never too late to start managing your finances properly. Being largely debt-free, making sensible choices, and understanding the difference between 'want' and 'need' can improve your life in ways you never thought possible!**

## How to save on a car

Barry wanted a R120 000 new car, but instead bought a good second-hand car for R70 000. He could afford monthly repayments of R2 600, and paid off the second-hand car over three years at R2 484 p.m. instead of paying off the expensive car over six years at R2 594 p.m.

He saved R50 000 on the purchase price and R47 388 in interest and fees! His total saving was R97 388 and he paid off the car in three years instead of six.

and discuss progress on a monthly basis. Your goal could be to save 1% of your salary each month or always to pay more than the minimum monthly instalment on your credit card.

## H = Health

Look after your financial health because financial stress can be damaging not only to you, but also to those people closest to you.

## I = Interest Rate

It is expected that interest rates will gradually come down this year. If you have a bond that is linked to the prime interest rate, don't reduce your monthly instalments when the interest rate drops! (See E = Early Settlement)

## J = Judgements

Avoid having legal judgements taken against you for unpaid debt. A judgement stays on your credit record for a very long time and will make it very difficult to get credit in the future. If you are struggling to meet your monthly debt obligations, speak to your creditors before they contact you or apply for debt counselling (see D = Debt Counselling).

## K = Knee-jerk Reactions

Don't buy anything on the spur of the moment that you haven't budgeted for ... especially if you are going to put it on your credit card.

## L = Late Payments

Always pay your required instalment on time. Use a debit order to make sure payments are not missed. You don't want to waste money on paying late payment fees and interest on overdue amounts!

## M = Minimum Payments

Try to pay a bit more than the minimum payment asked by the credit provider. On your credit card, for example, don't pay the minimum payment, which is often as low as 5% of the outstanding balance. Try to pay at least 10% of the outstanding balance. If possible, increase your monthly payments until you can pay off the full balance owing each month.

## How to save on home loans

James had a home loan of R300 000 at 15% over 20 years and his monthly instalments were R3 950. His total interest cost over 20 years would have been R648 000.

James increased his instalment to R4 500 and paid off his home loan in 12 years and saved R299 000 in interest!

“  
The only way  
to save, no  
matter what  
your income,  
is to pay  
yourself first!

The first  
deduction  
from your  
salary each  
month should  
be into your  
savings  
account.”

## N = National Credit Act

This is a great piece of legislation that protects the consumer from reckless lending. To find out more contact the National Credit Regulator on [www.ncr.org.za](http://www.ncr.org.za) or phone 0860 627 627.

## O = Ombudsman

If you have any complaint regarding a credit grantor, contact the credit services ombudsman at [www.creditombud.org.za](http://www.creditombud.org.za) or phone 0861 662 837

## P = Pay Yourself First

The only way to save is to Pay Yourself First. Don't wait until the end of the month and save what is left over. The first deduction from your salary is into your savings account. Then you budget to spend what is left over.

## Q = Quote (pre-agreement quote)

Whenever you enter into a credit agreement, you are legally entitled to receive a 'pre-agreement quote' which contains all the costs, terms, and conditions of the agreement. You have five days to study this quote before you decide to sign. Use the five days wisely and don't sign something you don't fully understand. Use the quote to negotiate a better deal for yourself!

## R = Reduction of Debt

Make 2009 the year of debt reduction. Pay a bit more than required on the debt with the highest interest rate first and when that is paid off, use the extra cash to pay more than required on debt with the next-highest rate of interest. You might not be debt free in 2009, but at least you will be on the right path.

## S = Spoil yourself

With proper planning and budgeting, you

should have money set aside to spoil yourself occasionally. After all, you worked hard and you've earned that special purchase. Just don't spoil yourself with money you don't have.

## T = Three Months' Salary

Ideally, you should have three months' salary in savings to cope with any emergency cash requirements you may have. These savings take time to build up and it will not happen overnight. If you don't have any savings right now, start by putting aside just 1% of your salary each month.

Once this has become a habit, increase it to 2%, then 5%, until you are saving 10% of your salary and are well on your way to building up that nest egg. Of course, if you have any 'bad debt' you should settle this first before building up your savings (see B = Bad Debt).

## U = Understand before you sign

Never rush into any contract and sign something you don't fully understand. Remember, you have a five-day cooling off period to review the terms and conditions of any credit agreement (see Q = Pre-agreement Quote)

## V = Vanity vs Sanity

'Vanity' is keeping up with neighbours even if it means buying things on credit because you can't really afford them. 'Sanity' is living within your means and having the self-esteem to be measured by who you are, not by your material possessions.

## W = Wants vs Needs

Be honest with yourself and don't convince yourself that a 'want' is 'need'.

## X = Xmas 2009

Start saving now for Xmas 2009, so that you don't have nasty credit card bills in 2010.

## Y = You

Make 2009 the year when you take control of your finances. If you intend borrowing money this year, don't let the credit grantor lend you more than you need and more than you can comfortably afford!

## Z = Zeal

Zeal is defined in the dictionary as "great energy or enthusiasm". If you apply zeal to your personal finances in 2009, you will see the rewards in your personal life, family life and your career!

• *Written by Paul Barnard CA (SA) of North Star Solutions, which provides training in personal money management skills, financial coaching and debt counselling. Contact 021 686 3540 or 083 260 2970 or e-mail [paul@northstarsolutions.co.za](mailto:paul@northstarsolutions.co.za).*