Moribo

FINANCIAL WELLNESS SOLUTIONS

Understanding & Managing Debts

Solutions to Managing Debt

"Bringing rhythm to your financial wellness"

What sets us apart?

- **Independent & Unbiased** – We don't own financial products, so our advice is driven by **your needs, not sales.**
- **No Targets, No Pressure** – We focus on finding the **right solution**, not meeting quotas.
- **Personalised Approach** – **Every client is unique** and deserves a solution tailored to their circumstances.
- **Objective Advice** – We put **facts, affordability and your best interests first.**
- **We Deliver on Our Promise** – No empty promises. Just honest advice and solutions we can stand behind.

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DEBT AND RELIGION

Most, if not all religions in their teachings have something to say about money management and most importantly debt

Examples:

<u>Christian faith:</u>

2 Kings 4:7 Pay your debts!

Romans4:4 Wages, like debts owed must be paid

Psalm 37:21 The wicked borrows but does not pay back. But the righteous is generous and gives.

<u>Muslim faith:</u>

Prophet Muhammad – Peace be upon Him: The prophet said the soul of the believer is held hostage by his debt in his grave until its paid off (Narrated by Al-Tirmidhi 1078). The Prophet Muhammad used to seek refuge with Allah from being overburdened by debt and He warned against lying and breaking promises when dealing with debt.

<u>Jewish faith:</u>

Similar to the Christian faith, the Jewish faith warns against withholding that which is due to the other (Leviticus 19:13)

GOOD DEBT vs BAD DEBT

GOOD DEBT	BAD DEBT
Loan used to finance something that is of **good value** and which in most cases will offer a **good return** on investment be it directly or indirectly. • Mortgage loan • Vehicle Finance (tool of trade) • Education Loan • Can be paid off over a longer term. • Used to acquire investments.	Things you do not need and / or cannot afford. In most cases, this is the **most expensive** form of debt and **charges much higher interest rates**. •Credit card •Store cards •Retail credit •Cash advances / Pay-day Loans •Vehicle Finance Needs to be eliminated as quickly as possible Used to make lifestyle acquisitions

DEBT-to-INCOME RATIO

- This is all your monthly debt repayments divided by your gross monthly income....

- It is made up of two parts, **debt** and **income** (the percentage of your take-home pay that is tied up in debt payments vs the income that)

- Changing one of these two parts, preferrable positively, is the only way to improve your debt-to-income ratio.
  - Reduce your monthly recurring debt.
  - Increase your gross monthly income.

What is your debt-to-income ratio ☺

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HOW MUCH IS TOO MUCH DEBT

28/36 Rule

- No more than 28% of a household's income should be spent on housing
- No more than 36% on housing + debt services.

e.g. if you earn R500 000,00 per year, your housing expenses should not exceed R140 000,00 annually or about R11 670,00 per month. Your other personal debt servicing payments should not exceed R40 000,00 annually or R3330, 00 per month.

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OVER-INDEBTEDNESS

- A consumer is over-indebted when he/she does not have the ability to meet all his/her financial commitments as per budget or agreement with their lenders at the agreed period
- Over indebtedness is where a person (or business) accumulates debt that exceeds their current income.

CAUSES OF OVER INDEBTEDNESS

- Easy access to credit,
- Increase in the cost of living and credit
- Limited knowledge of financial products.
- Reckless lending
- Change in circumstances like job loss, divorce etc.
- Rollercoaster of emergencies
- Lack of planning, failure to budget and lack of financial discipline,
- Social Pressures

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WARNING SIGNS…

- Making late payments and getting late fees or bounced cheques.
- Being maxed-out or over the credit limits.
- Paying only the minimum due or needing to time the payment to mail at the last minute.
- Paying one creditor by taking out more debt with another…
- Etc.

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DEBT

THE PAW-PAW HAS HIT THE DEBT FAN

- Seek help IMMEDIATELY
- Various solutions:
  - Debt Mediation
  - Debt Administration (R50 000,00 or less)
  - Debt Counselling
  - Sequestration

DIFFERENCE BETWEEN VARIOUS DEBT SOLUTIONS

DEBT ADMINISTRATION	SEQUESTRATION
• Total amount of debts should not exceed R50 000,00 • An administrator is appointed to enforce the administration order • Creditors receive payments up to every three months unless otherwise instructed by the court • Although regulated, administration costs can spiral out of control trapping the debtor into debt for many years despite the initial total debt	• Legal process whereby you can apply for voluntary surrendering of your estate – this is voluntary sequestration • creditors can also apply to court to have you declared bankrupt – this is referred to as compulsory sequestration • It can take up to 4 years from the date of sequestration before you can apply for rehabilitation • It take five years after being rehabilitated to be able to start building your credit score and be credit active again

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DIFFERENCE BETWEEN VARIOUS DEBT SOLUTIONS

DEBT MEDIATION	DEBT REVIEW
• This process involves negotiating reviewed debt terms with your creditors to lower your monthly repayments • Does not involve a court process therefore it means that creditors can still take legal steps against you to recover money owed to them • It does not combine all repayments, but deals with each singularly • Only a few instalments may be reduced • Costs not regulated by law.	• No maximum cap on total debts • Choose own debt counsellor • Creditors are paid monthly but due to lower instalments paid it takes longer to settle and interest keeps accumulating • Costs are regulated by the NCA • Once debts are paid off, a clearance certificate is issued enabling a creditor to rebuild their credit score immediately

Remember that reducing your debt can prove to be challenging, but do not stop trying. It is one of the most important things you can do for a better financial future.

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