PAYING OFF DEBT

Understanding Debt and Taking Control

Introduction: Understanding Debt and Taking Control
Debt isn't just numbers on a statement, it's a weight that sits in the back of your mind, shaping decisions, limiting options, and sometimes keeping you up at night. Yet millions of us end up in it, often without fully realizing how we got here.

The Psychology of Debt

Debt plays on human psychology. It offers instant gratification - get what you want now, deal with the cost later. Our brains are wired to prioritize immediate rewards over long-term consequences, a bias that lenders understand and exploit. Debt also comes with a powerful emotional cocktail: the initial thrill of purchase, the quiet stress of repayment, and sometimes the shame of falling behind.

Instant gratification: we want it now, and lenders know how to make it happen.

Optimism bias: we think "future me" will have more money to pay it back.
Emotional spending: retail therapy, social pressure, or rewarding ourselves when life is hard.

People fall into debt for different reasons. Why do we get into debt?

Life events: job loss, medical emergencies, or unexpected expenses.
Lack of Financial education: Not receiving the knowledge, skills, and information about personal finance
Lack of financial literacy: Lacking the ability to apply that financial knowledge and understanding to make sound financial decisions in one's life, not fully understanding interest rates, repayment terms, or compounding costs, etc.
Cost of living vs. salaries: Wages often don't keep up with inflation and rising prices for fuel, electricity, and food.
Emergencies: Unexpected medical bills or car repairs when there's no emergency fund.
Lifestyle pressure: Trying to match the spending habits of friends, family, or social media influencers.
Instant gratification is a universal lure: Credit taps into that… and we often pay for it later.
Optimism bias: We believe the future will be better equipped to handle repayments.
Emotional spending: During hard times, we lean on retail therapy, social pressure, or self-reward justifications.

How Debt Is Marketed

Credit card companies, payday lenders, and "buy now, pay later" services design their offers to sound helpful, even empowering. They use terms like flexible payments or low introductory rates to make borrowing feel harmless. The focus is on what you can get today, not what it will cost you tomorrow.

- Store cards and accounts are pushed with "instant approval" and "six months interest-free" offers.
- Car dealerships advertise "affordable" monthly repayments without mentioning balloon payments at the end.
- Credit providers focus on your instalment affordability, not the total cost you'll pay back.
- Retailers push "instant approval" and "six months interest-free" deals.
- Banks quote low monthly repayments, omitting long-term costs or balloon payments.

What They Don’t Tell You

Store and credit cards often hide compounding interest and punitive fees (late, over-limit charges). When you borrow on a store or credit card and don’t pay the full balance by the due date, interest is charged. But here’s the catch:
The next month, interest is calculated not just on the original amount you owed, but also on the previous month’s interest portion that wasn’t paid off. This is called compounding interest - you’re paying interest on top of interest.

Over time, this makes your debt grow much faster than most people expect.

- Fees stack up quietly. Late fees, over-limit charges, and balance transfer fees - they add weight to your balance without improving your situation.
- “Minimum payment” traps you. The interest is not lowered, just the amount you pay in addition to the interest. It’s designed to keep you paying interest for years.
- Freedom isn’t free. Debt limits your future choices, even if it feels like it’s giving you more freedom now.

Before the numbers change, your mindset has to change. What we need to realize to start paying off debt:

- **It’s not normal to live on debt,** but it’s common, so don’t let shame stop you from acting.
- **No one’s coming to save you.** Banks profit from your debt; they won’t help you get out of it.
- **Every rand counts** - R200 extra a month toward debt can save you thousands in interest.
- **Mindset shift comes first.** Until you see debt as an emergency, you’ll keep prioritising wants over needs. You can’t spend your way out. More borrowing won’t solve the problem, it makes it bigger.
- **Institutions profit from your debt**, banks set terms, fees, and interest to stay in business, not to provide relief.

Despite the high level of access to formal financial services, over-indebtedness and financial vulnerability are rising. Food security has declined since 2014, with 43% of adults using credit to buy food in 2024, up three percentage points from 2023. An estimated 10 million South Africans are over-indebted, with 37% of formal credit borrowers facing repayment issues. Including those borrowing solely from informal sources, the figure rises to approximately 12 million adults facing financial distress. finmark.org.za.

If you owe R20,000 on a credit card at 20% interest and only pay the minimum of about R600 per month, it could take just over 2 years to settle and cost you thousands in interest. But by adding only R500 extra each month, you could clear that same debt in just over a year and save a huge chunk in interest. Imagine what you could do with the money you free up! Try our **Debt Calculator** on the **Dream Builder Tools** page to see exactly how much faster you could be debt-free.

IDENTIFYING DEBT

AND THE NEXT STEPS

Step 1: Identify All Your Debt

- Write down every single debt: credit cards, personal loans, store accounts, overdrafts, car finance, home loans.
- Include: total balance, interest rate, minimum repayment, and monthly due date.
- Add it all up so you see the full picture.
- Sort by priority: highest interest rate first (avalanche method) or smallest balance first (snowball method). These methods will be explained later.

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Step 2: Find additional money to pay off debt by cutting recurring costs

- Print your bank statement for a minimum of 3 months. List all expenses that are not part of your debt, and take note of the additional transaction charges associated with these (bank transaction costs, etc)
- Identify items that are not necessary or are luxury items. Examples of these are streaming services, dining out, clubbing, and quick trips to convenience stores.
- Cancel or downgrade unused DSTV, streaming services, or music subscriptions. There is no need to have more than one streaming service during this time. You can add additional services when you have your new financial stability.
- Review cell phone and fibre contracts - downgrade if possible.
- Compare insurance (car, life, household) and switch to lower premiums. It’s suggested to review insurance policies annually, especially with depreciating items like cars.

Reduce Everyday Spending

- Cook at home instead of frequent takeaways.
- Small purchases like takeaway coffee and takeaway lunches add up quickly! Saving as little as R100 a week by not having two takeaway coffees adds up to R400 additional each month. This R400, when added to an instalment, will remove months of repayments from your loan/credit repayment, saving you money you would have wasted on interest.
- Use public transport or carpool to cut fuel costs.
- Stop emotional shopping and disable shopping platforms. This is not forever; you need to avoid these financial traps during your transition to financial wellness.
- If your family enjoys takeaways on the weekends, try replacing these options with store-bought specials e.g. Frozen pizzas. These specials are often half of the takeaway cost.

Emotional purchases affect all of us. To still get a bit of the kick but approach this in a financially mature way, keep a list or spreadsheet of all the items you wish to purchase, along with the cost. This is like a financial wish list. You can revisit this list as often as you want, but you can only consider purchases when you are debt-free. Keeping this list gives you time to reflect on whether the items are really required, whether there are better or more cost-effective comparisons, as well as better ways to purchase these in the future, such as saving or investing for them.

Step 3: Choose Your Repayment Strategy

Avalanche: Pay off highest interest rate first (saves money).
Snowball: Pay off smallest balance first (quick wins for motivation).

3.1. The Snowball Method

Pay off the smallest debt first (regardless of interest rate) while making minimum payments on the rest. Once a debt is cleared, roll its payment amount into the next-smallest debt, creating momentum, like a snowball rolling downhill and getting bigger.
Why it works:

- Quick wins keep you motivated.
- Emotionally satisfying to see debts disappear fast.
- Ideal if you need the psychological boost to stay on track.

Example of Snowball Method - sorted according to debt owed (balance)

Debt Type	Balance	Interest Rate	Min Monthly Payment
Store Account	R2 500	19%	R250
Personal Loan	R8 000	24%	R450
Credit Card	R15 000	21%	R750

**Monthly budget for repayment: R2 000

Snowball steps:

1. List debts smallest to largest (ignore interest rate for now).
2. Pay minimums on everything except the smallest debt.
3. Throw all extra money at the smallest debt until it's gone.
4. Roll the freed-up payment into the next debt, repeat until debt-free.

Month-by-month breakdown:

- Month 1–3: Pay R250 + all extra (R1 300) toward store account → debt gone in 3 months.
- Month 4: Now you have R1 550 (old store account payment + extra cash) to add to the personal loan's R450 minimum = R2 000/month → done in 4 months.
- Month 8+: Put the full R2 000 toward the credit card → gone in 8 months.

3.2 The Avalanche Method

Pay off the highest interest rate debt first while making minimum payments on the rest. This minimises the total interest paid, saving you money over time.

Why it works:

- Mathematically the cheapest method.
- Best if you're disciplined and don't need early "quick win" motivation.

Example of Avalanche Method - sorted according to highest interest rate

Debt Type	Balance	Interest Rate	Min Monthly Payment
Personal Loan	R8 000	24%	R450
Credit Card	R15 000	21%	R750
Store Account	R2 500	19%	R250

**Monthly budget for repayment: R2 000

Avalanche steps:

1. List debts by interest rate (highest to lowest).
2. Pay minimums on all but the highest interest debt.
3. Throw all extra money at that highest interest debt until gone.
4. Move to the next highest interest debt.

Month-by-month breakdown:

- Month 1–4: Pay R450 + extra (R1 300) toward the personal loan → gone in 4 months.
- Month 5–11: Now R1 750/month toward credit card (R750 min + R1 000 extra) → gone in 7 months.
- Month 12: Pay R2 000 toward store account → done in 2 months.

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Key Differences	Snowball Method	Avalanche Method
Focus	Smallest balance first	Highest interest rate first
Motivation	High (early wins)	Moderate (wins take longer)
Interest Saved	Less than Avalanche	More than Snowball
Time to Debt-Free	Often slightly longer	Often slightly shorter
Best For	People who need visible, quick progress	People focused purely on cost

Once debt-free, redirect your old repayment amounts into savings and investments, and always focus on retirement planning as your top investment priority. You can learn more about retirement on our **Retirement Planning** page. Start Crisis Management Planning – this is imperative, and with this plan in place, you won't need to use credit for emergencies. Visit our **Crisis Management Planning** page for more guidance.

Debt Consolidation: A Strategic Approach

Debt consolidation can simplify your financial obligations by combining multiple debts into a single loan with one monthly payment. However, it's crucial to approach debt consolidation thoughtfully. To make the most of it, consider the key conditions for effective debt consolidation:

- Lower Interest Rate: Ensure the consolidation loan has a lower interest rate than the average rate you're currently paying.
- Don't Extend Loan Terms: Avoid extending the loan terms, as this can lead to paying more interest over time.
- Use the Loan Wisely: Use the consolidation loan to pay off existing debts, not for additional spending.
- Avoid New Credit: Refrain from accessing new credit, such as credit cards or overdraft facilities, until you've settled the consolidation loan.

Debt consolidation can be a helpful strategy if:

- You're struggling with debt, but have a clear plan to pay off the consolidation loan.
- Your credit record is good. A good credit record can help you qualify for a lower-interest consolidation loan.

Debt consolidation is not a solution for underlying financial issues. It's essential to address the root causes of your debt and develop a plan to manage your finances effectively.

Debt Review/Debt Rescue – not a quick fix!

Debt review (also called debt counselling) is a legal process under the National Credit Act (NCA) where a registered debt counsellor assesses your finances, declares you over-indebted, and negotiates lower monthly payments with your creditors.
Debt rescue is a marketing term some companies use for the same process or similar restructuring services -it's not a separate legal category, but it's often advertised to sound faster and easier than it really is.

How it Works

- You stop paying creditors directly.
- Your counsellor combines your debts into one restructured payment plan.
- Payments are distributed to creditors via a Payment Distribution Agency (PDA).
- Interest rates and fees may be reduced, and legal action can be halted while you're under review.

Pitfalls & Risks

Long commitment – Can take 3–5 years or more to complete, not a quick escape. Your debt owed does not become less, the term to pay becomes longer even though the amount each month is less.
Credit record impact – You cannot take on new credit until you're fully cleared; "under debt review" is flagged at the credit bureaus. This will affect your future applications once your review period has been completed.
Fees – Counsellor and PDA fees come out of your payments, meaning less money goes directly to the debt at first.
Dependency risk – Some people see lower instalments as extra spending money instead of an opportunity to pay off debt faster.
Unscrupulous providers – Some "debt rescue" companies' overcharge, give poor advice, or fail to pay creditors on time—leading to legal trouble.
Not all debts are included – Certain obligations (like unpaid rent, municipal bills, or garnishee orders) might not be covered, leaving you with extra payments outside the plan.

The initial weeks/months it takes for the debt review to officially kick in, you will not be paying the credit institutions. These non-payments will affect your credit score negatively, which will take years to clear. Learn more about Credit Scores **here.**

Bottom line:

Debt review can save you from legal action and make repayments manageable, but it's a structured, years-long rehabilitation process - not a magic reset button. You must work with a registered, reputable debt counsellor and commit to strict budgeting for it to work.