



EAP Educates: The True Cost of Debt

The average South African spends more than 60% of their income on debt. That is a frightening statistic, particularly when we take into account how tough times are at present. It is really difficult to say no to things we think we need, or to things that we have been pressurized into buying, but it is critical that you realize that debt is very expensive, and you need to look at just how much money you will really be spending on that TV or sofa if you buy it now instead of saving to buy it later.

Many of us are living one or two pay cheques away from bankruptcy, and the biggest obstacle to getting out of debt is refusing to face it.

REASONS FOR FINANCIAL INDEBTEDNESS:

- Few people understand the true cost of debt.
- We tend to look at a flat interest rate when we borrow money (e.g. 19% = effective 31.96% over 3 years, 55.56% over five years and 288.96% over 20 years).
- Society reveres the pursuit of things that money can buy.

UNDERSTANDING CREDIT:

CREDIT IS GOOD WHEN:

- It is appreciated as a privilege
- Credit expenditure is carefully planned
- Credit purchases are kept within your means
- You can meet the responsibilities of credit
- You can still appreciate the article one you have paid off the debt

CREDIT IS BAD WHEN:

- It is misused for unnecessary purchases
- It is used haphazardly
- The dangers are ignored
- You allow yourself to be enticed or tricked
- You use it to buy consumables e.g. food, alcohol, cigarettes that you use up quickly

TYPES OF CREDIT:

- Loans i.e. bank, micro lender
- Accounts with commercial business, i.e. shops, doctors
- Hire purchase
- Credit Cards
- Store Cards



THE REAL COST OF HIRE PURCHASE:

- Most stores advertise “12, 24 or 36 easy payments”. You then have to look hard to find the cash price!
- A new TV at R2000 looks like a lot of money but 21 payments of R129 seems more affordable.
- Stores then still make you take out insurance (as much as R60 extra per month).
- They can also charge you for a guarantee and delivery etc.
- EASY payment of R129 is now R191 per month.
- The TV that started out at R2000 now costs R4011. You could buy 2!!

BEFORE YOU BUY ON CREDIT – ASK YOURSELF:

- Do I really need the article? Credit is expensive
- Am I being rushed into buying the article?
- What is the cash price?
- How long will it take me to pay off the article?
- What would someone else charge me for the same article?
- What are the financing costs?
- Can I afford it?
- Is there no other way of financing the purchase?
- Was my previous account settled without any problems?
- Will the article still be in good condition when I make my final payment?

YOUR RESPONSIBILITIES:

- Be sure you can afford the debt
- Give honest and correct information when applying for credit
- Pay regularly
- Look after articles you have bought on credit
- Advise your creditor of any changes in address
- Your possessions should be insured
- If you have a complaint, speak to the manager and not the sales person.

CONTACT THE EAP FOR MORE INFORMATION, AN APPLICATION FOR PROTECTION ORDER FORM

OR CONFIDENTIAL ASSISTANCE