

FOR PSA MEMBERS: GENERAL 10/2019

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## Five common debt traps and how to avoid them



### Credit card debt

Before you sign up for a credit card, look at what you can afford and limit your monthly spending to less than that amount. Pay back your debt in full each and every month and your credit card will become a very useful financial tool for building a positive credit rating. If you have already fallen into this pitfall, lock up your credit card somewhere safe and pay off as much as you can afford until the debt is wiped out.

### Store accounts

Stores offer massive discounts, special offers and vouchers to get people to sign up for and keep using their accounts. You need to ask yourself if the store card is necessary. If it is, make sure you use it wisely and buy only essentials with it. Otherwise, cut it up and use cash or other instruments to stay within your budget and avoid the trap.

### Payday loans

Cash-strapped South Africans are increasingly turning to payday loans as a quick solution for making ends meet if they run out of money before the end of the month, but unfortunately this noose starts tightening rapidly once the first deadline is missed. If you have already gone down this road, pay the debt back as quickly as possible.

### New car loans

The shiny chrome and new-leather smell of a new car appeals to many motorists to the extent that they forget about their budgets and commit themselves to extensive debt.

Relatively recently, loan periods were extended so that consumers could repay a new car loan in up to 72 months. To ease the monthly burden on motorists even further, balloon payments were introduced. This allows for lower monthly payments, but the final monthly payment could be as much as a third of the total loan. This puts ownership out of reach for most people. Second-hand vehicles offer good value for money with good warranties.

### Hire purchase

Previously prevalent in the furniture and appliance industry, hire purchase (HP) is now a popular means for financing car purchases. The downside is that the interest rates on these contracts tend to be higher than the prime overdraft rate of interest.

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