African Bank Ltd press release

January 2020

Start this year with a clean slate by consolidating your debt

A debt consolidation loan could be the perfect way to clean up your finances to pave the way to financial peace of mind in 2020.

Neil Thompson, Head of Product and Customer Value Proposition at African Bank, says thousands of consumers will be feeling the January pinch due to overspending in December – or throughout 2019 – and this is where consolidations loans offer a good lifeline.

"Many South Africans are drowning in debt. In fact, over a quarter of the population is in debt to credit providers and banks, according to the SA Reserve Bank, and at least 70% of household income goes to repaying debt."

In Thompson's experience, people who have many debts can become overwhelmed and find it difficult to keep on top of repayments. "Sometimes they don't intend to default, but there are simply too many bills to pay in a month and some may get neglected. Obviously, the repercussions of this are not good, so it is often at this point we hear the question 'what is debt consolidation?'"

Before tackling the question, Thompson clarifies that while taking on debt is one thing, consumers often forget about the cost of servicing that debt (the interest payable on the debt).

"This is actually what makes debt such a big problem for most. Eventually, the amount of money paid on the interest, without reducing the actual debt at all, starts to eat away at your disposable income. The more debt you have, the more of your disposable income will go into the interest money pit, which seems never ending."

The result? Falling behind on repayments and ending up with a bad credit history.

"Consolidation loans for bad credit are a definite option for those overwhelmed by too many demands from too many creditors and too little disposable income to make the rounds," Thompson says.

So, how does debt consolidation work?

A debt consolidation loan is taken out to pay several smaller loans.

Thompson explains the main benefit of such a loan is that the consumer now only has one creditor to pay (the bank which granted the loan).

"You use the consolidation loan amount to pay off all your other creditors, ending up with only one loan amount to repay. As each individual creditor would have had their own terms and conditions, fees and repayment rates, you may benefit from a reduced overall cost of credit, over a more manageable period."

He adds that consumers must meet the financial institution's loan requirements to assure them you can afford to repay the consolidation loan.

"Once the loan is approved, you can use the money to settle your small debts yourself. Some financial institutions have a different approach, whereby you provide them with settlement letters from your creditors and they pay the debt on your behalf as part of the loan agreement."

For consumers struggling to keep up with several credit arrangements, bundling smaller debts into one loan repayment makes sense.

Thompson concludes, "While consolidation loans don't immediately get rid of your debt, as you are taking on new debt, it is an easier way to manage debt and offers the benefit of only paying interest on one loan, instead of several."

ENDS

Visit the African Bank website or like them on Facebook

PREPARED ON BEHALF OF AFRICAN BANK BY CATHY FINDLEY PR. CONTACT JACQUI RORKE ON JACQUI@FINDLEYPR.CO.ZA OR (011) 463-6372 WITH ANY CONSUMER PR QUERIES.