TAMING THE DEBT DRAGON

by

Hendrik Crafford

MAY 2022

CRAFFIESCOACHING
THE ART OF FINANCIAL PROSPERITY
Personal Financial Coaching
Financial Coaching Certification and Coaching for Financial Planners

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PART 1: WHAT STORIES LURE CLIENTS INTO THE DEBT DRAGONS DEN

Debt is interwoven in most South Africans' lives. The 2022 FSCA Financial Sector Outlook Study indicated that 67% of the South-African Adult population uses debt in some form. The same study revealed that the most significant portion of credit comprises 41% Home Loans, 31% Secured credit, and 15% Unsecured credit. On average, South Africans are using three different types of loans. However, the scary fact is that the study indicated that between 38% and 48% of credit-active consumers have an impaired credit record. Currently, Household debt to disposable income is at 77% (Financial Sector Conduct Authority, 2022, pp. 71-77).

How do so many ordinary South Africans end up in this position?

1. THE STORIES THAT GET OUR CLIENTS IN THE DRAGON'S DEN

"The core problem is simple: Repeated* debt results from dysfunctional (or distorted) attitudes and perceptions about money and self." *(Mundis, 2012)

Debt has a way of sneaking in like a thief in the night, and before you know it, it forms an integral part of your life. The reality is that we allow certain narratives to be developed to rationalise the reasons we take up debt through our language and moods. As financial coaches, it is vital to understand these narratives that drive indebtedness.

Let's explore some of these narratives:

I DON'T UNDERSTAND MONEY!

The question is, what about money are you unsure about? Fundamentally, we can assess that money firstly is a medium of exchange. You create value through your labour; somebody exchanges money for the value you create and then uses the money you got to exchange goods and services. Secondly, one needs to do a basic arithmetic calculation of the earned income and the maximum amount that can be spent.

RETAIL THERAPY

Some people spend money, not for any rational reasons for somebody looking in from the outside. However, as financial coaches, we need to create awareness for our clients and help them understand the logic behind them going on a shopping spree or being the next gadget. The psychological need can range from: I want to buy a pair of shoes as it will show the world that I have status or purchasing the toys for my kids as I feel guilty because I have spent limited time with them for some time.

I DESERVE IT

I often find this narrative when in conversation with clients or observing conversations. The narrative is that the world owes you something as you earned it or something that happened to you, either good or bad. The stories can range; from "I worked really hard the past week or month", "I had a deprived childhood", "I got a bonus", or "I achieved my goals". There is nothing wrong with this narrative if the spending does not get you into debt.

“ONS SKULD TOT ONS VREK”

While researching debt in South Africa, one of the respondents said, "Ons Skuld tot ons vrek", translated as we own till we die (James, 2021). These clients have a money story that is deeply ingrained over generations and believe they will always be indebted. Driving this money story is a mood of resignation or resentment and a constant mood of money anxiety. The language used will be around scarcity and no possibility. As financial coaches, we can support them in embodying moods and language that can open up new possibilities.

MONEY IS BAD

Clients with the money narrative that Money is bad believes that having money leads to being greedy, corrupt, and insensitive. There is also another spin on this narrative, from a scarcity mindset to thinking that there is not enough money in the world and that if I earn money, I am taking it from somebody else. Money itself is neutral, and it is neither good nor bad. How it is used is up to us as humans.

BELONGING

Jerold Mundis summarises it as follows, *"You don't believe that people will love or appreciate you unless you buy them things or pay their way. Or you feel that you have to prove your own love by spending money on them"* (Mundis, 2012, p. 39) As financial coaches, we can support our clients to understand that the psychological need they want to satisfy is belonging and explore what alternative possibilities are available to them that could cost them less or even no money.

MY SHIP WILL COME IN

Banking on their plan will pay off soon, or the universe will provide an alternative narrative. This ungrounded assessment causes people to overextend themselves in debt on future income they are not sure will realise. Furthermore, in most cases, if the payment is realised, it pays off the debt; however, on a month-to-month basis, the clients are still overextended, and soon the debt will be accumulating again.

I'M A SPECIAL CASE

Jerold Mundis summarises it as follows, "This all well and good for other people, but you're different. You can't avoid debt or get out of it because of a unique situation or set of circumstances" (Mundis, 2012). These narratives include: "I am a freelancer, and I do not have a recurring income, so it is fine to accumulate debt and pay it off when my deals come in." It could be more personal, like "I am unloved".

GOOD PEOPLE HELP OTHERS

With this one, the intention is noble; however, the impact can be devastating on the clients' finances in the long term. A family member just lost their job, and the client takes up debt to support them—elderly parents supporting children or family members – a friend between jobs. The client feels and thinks it is morally the right thing to do, and they want to help. This is a noble token. However, if the client is tight on money themselves, this can be self-destructive.

VOICE IN THE HEAD

Usually, the following voices in the head are keeping clients from unlocking new alternatives and possibilities.

The voice of the fear of success will whisper in their ear that they are not good enough, nobody in your family to date has done something like this, you will lose your friends, and if you are not hundred per cent sure that it will work, you don't want to take up the responsibility. These are some examples that will keep our clients seeking new opportunities.

The counter-voice is the one of fair of failure. The voice loves to highlight all the negatives of an opportunity.

The last voice is the fear of independence. The voice tells the client that they cannot be autonomous and self-reliant.

We cannot support clients in dealing with their debts if we do not first support them in dealing with the beliefs and moods that got them and keeping them in the dragon's den of debt.

In part 2, we will explore the red flags indicating that clients are captured by the debt dragon and how we can support awareness and acceptance that the debt dragon caught them.

PART 2: AWARENESS OF BEING CAPTURED BY THE DEBT DRAGON

Let's explore the red flags that indicate over-indebtedness, which we can explore in a Financial Coaching Conversation to create awareness and further open it up with the client's permission. We will also analyse some of the first steps, new moods and narratives we can explore with our clients to help them escape the Debt Dragon's Den. In part three, we will explore the frameworks and tools we can use to support our clients on their journey to financial freedom to enjoy their best lives now and in the future.

2. AWARENESS

As financial coaches, our clients need to be aware that their current narrative (mood, body and language) results in them being over-indebted or could lead them into the Dragon's Den of Debt.

Here are some of these red flags we can be on the lookout for:

- Clients spent their income within the first few days of the month.
- Clients do not pay their bills every month.
- Clients only pay the minimum amount on their credit and store cards, and the balance is slowly creeping up.
- Clients do not know how they spend their income and rarely balance their accounts.
- In the past, clients paid cash for clothing and other goods, and now they are charging it to store cards.
- Clients are unaware of their debt's terms, durations, interest rates, and balances.
- Clients take up credit in different forms, for example, personal loans, credit cards, store credit and microloans.
- Clients consolidate credit at regular intervals.

We, as financial coaches, must be curious about what we observe. Our function is to explore, with our client's permission, which of the behaviours mentioned above are grounded and how are they currently serving our clients or not, and the impact on their personal and financial well-being over the long run.

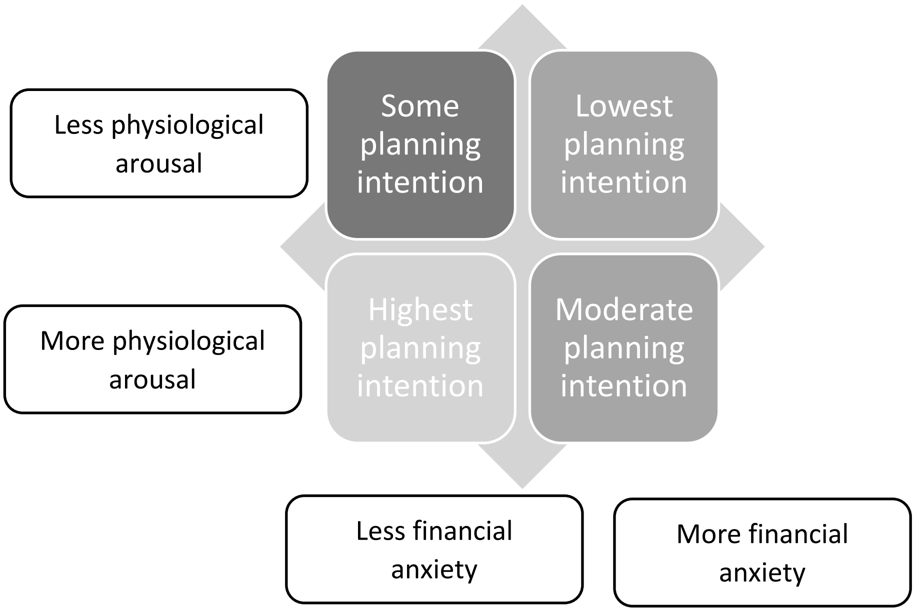
3. CONQUER THE FEAR OF THE DEBT DRAGON

We can see that a story the client told themselves led them to accumulate debt, creating significant anxiety.

Before we can start coaching our clients, we need to determine their emotional state. Depending on their level of anxiety, they can be experiencing a flight, fight or freeze state. This can lead to a form of self-imposed helplessness. Financial coaches can simultaneously reduce financial anxiety and stimulate the physiological arousal of clients so that they can move clients to more helpful states.

Physiological arousal is the person's precursor for action. Phases of arousal include being relaxed and being excited (Grable, et al., 2015, pp. 1 -7). In ontology, we can ask what mood will be the most resourceful for the client to take action?

Planning intention, taking into account clients' anxiety levels and physiological arousal, can be mapped across these four quadrants:



Firstly, it is important to note our own arousal levels to create a calm and non-threatening environment for our clients. Research shows that you can create a calming atmosphere in physical office space by removing items like screens showing news and economic newsletters. Instead, replace them with educational literature, plants, and lifestyle magazines that can stimulate wonder and novelty. Furthermore, client interview offices designed like a sitting-room with low tables and soft chairs create the least threatening and most conducive environments to encourage planning intention (Grable, et al., 2015, p. 4).

Points to take into account when engaging with clients with financial anxiety:

- The longer the client has experienced financial anxiety, the lower the client will intend to engage in a financial planning discussion and make changes.
- Physiological arousal can further be stimulated through conversations depending on the particular client's underlying reasons for experiencing financial anxiety:
    - Exploring what assertions, beliefs, and assessments are not serving them so they can explore new possibilities.
    - Exploring and grounding their feelings, as feelings and assumptions are not grounded assessments. Also, explore what alternative mood other than anxiety will serve them better as the mood is a predisposition for action.
    - Addressing a client's concerns through expanding their knowledge and building their experience.
    - Exploring a client's legacy, values and what creates meaning in their life.
    - From personal experience, despite mounting debt, most clients have a roof over their heads, food to eat, and clothes to wear. Things are not as bad as perceived by them.
    - It is vital to get them to detach their debt from their identity. They are not their bank balance or the sum of their debt.
    - It is further essential for them to change their narrative, where they realise that "Their creditors do not own them; they only owe the creditors money, not their life (Mundis, 2012, p. 56)."
- Continually adapt your approach based on your client's anxiety and physiological arousal levels, as they need to take accountability for their debt and take action. (Grable, et al., 2015, pp. 15-16) Their current debt is temporary, and by responsibly taking action, they can live in prosperity and abundance and be free of debt for the rest of their lives.

My Dad had a quote against the wall above his favourite reading chair that read, *"Today is the first day of the rest of my life".* As a kid, I did not comprehend this quote. However, as I grew older, I understood the wisdom in these words. In this context, our clients have today to make a difference to their financial position, and what is the next step they can take?

4. THE MOST CRITICAL DECLARATION YOUR CLIENT WILL MAKE

Jerrold Mundis, as well as Debtors Anonymous, have the following declaration that forms the basis of conquering the debt dragon:

"JUST FOR TODAY, ONE DAY, DO NOT INCUR ANY NEW DEBT"

And this becomes your lifelong declaration.

- You are only committed to today. Tomorrow is a new day.
- No But's

Jerrold Mundis makes the following powerful statement:

"You cannot Get Out of Debt by Borrowing More Money."

"No more than an alcoholic can become sober by having another drink" (Mundis, 2012, p. 80)

5. TAKING CONTROL

We assume that our clients and we have achieved the following by this point:

- Awareness – Our client has admitted that they have a debt problem, and they explored what narratives lured them into the debt dragons den.
- Mood – They conquered the anxiety mood and replaced it with a mood that is curious about what new possibilities can unfold as they pay off their debt and create a new debt-free life of opportunity and peace of mind.
- Mood – They moved from a space of fear (flight, fight and freeze) to taking deliberate action, focusing on what is possible now with the resources they have.
- Future Action – They declared: "Just for today, one day, I will not incur new debt."

Our client has changed their attitude or structure of interpretation of how they view debt and their financial future. Our client lives in a mood of acceptance, possibility, and courage. Let's be honest; we know that our clients will experience moods of resignation and anxiety as they conquer the debt dragon. However, as they gain traction, these moments will decrease.

Our client is ready to take action and will be open to suggestions from us on what tools and processes they can follow to support them on the journey to being debt-free and enjoying financial freedom. We will explore the tools and frameworks in Part 3.

PART 3: CONQUER THE DEBT DRAGON

6. EXPENSE TRACKER

When looking where clients can cut expenditures, they usually start looking at the most significant expenses and then end up with a narrative that they cannot cut out any expenses from the budget. However, in most cases, if they start looking at the small expenses and create mindfulness around their spending, the shift in cutting expenses will be more natural and less daunting.

The expense tracker also helps to keep track of cash withdrawals from ATMs and card spending. Hopefully, by now, the client only has debit cards; if they still have a credit card, it is locked away.

Here is an example of how such a daily expense tracker could look (your client needs to adapt it to work for them):

MR DEBT-FREE - SPENDING TRACKER WEEK 1 – June 2022										
ITEM	**MON**	**TUES**	**WED**	**THURS**	**FRI**	**SAT**	**SUN**	**ACTUAL**	**PLAN**	**+/-**
Groceries										
Take-Aways										
Petrol										
Entertainment										
Magazines										
Kids Pocket Money										
Data										
Personal Care										
Total										

I know somebody that is very successful that carries such a spending tracker in his wallet, and all expenses are immediately recorded and tracked to enable him to know precisely what he has available or not to spend on anything specific. At the end of each week, he celebrates his saving by treating himself to something small, and the rest of the surplus is banked for future growth.

The weekly tracker is then consolidated into a monthly tracker, which becomes the base of the client's Spending-Plan.

ITEM	**WEEK 1**	**WEEK 2**	**WEEK 3**	**WEEK 4**	**WEEK 5**	**ACTUAL**	**PLAN**	**+/-**
Groceries								
Take-Aways								
Petrol								
Entertainment								
Magazines								
Kids Pocket Money								
Data								
Personal Care								
Total								

Clients can also use an app on their phones to track the above, and the critical part is that the process creates awareness and trigger mindfulness around the spending. Having an app doing all the work in the background and then reviewing the spending once a week or month usually does not add any value, as increasing the feeling of guilt.

Was the spending essential and part of my planned spending?

What triggered the spending?

What mood did I have before and after buying the item(s)?

Who influenced me to make the purchase?

What did I learn from the incident?

How will it feel if I spend more intentionally?

7. SPENDING PLAN

Language is powerful, and I prefer the naming convention of a spending -or prosperity plan above that of a budget. I usually position a spending plan for clients that tend to lean towards being spenders and need some guardrails to protect themselves against overs- or impulsive spending. The spending plan will automatically allow them to allocate funds to ensure they live the best possible life now and in the future. Conversely, a prosperity plan describes how money can flow through clients' lives and will be allocated to grow wealth and prosperity. Prosperity plans typically work well for clients who are natural savers.

Dr Sarah Newcomb, who wrote, Loaded, Money, Psychology and how to get ahead without leaving your values behind, influenced my view of budgeting to a large extent.

When drafting a spending plan, we will explore income, expenses and then, in the context of conquering the debt dragon, we will expand on how we include a repayment plan as part of the exercise.

INCOME

It would help to stand back and think about the source of income and that income flow through our client's life, and they get the most value from the money they can spend on themselves now and in the future to live the best possible life. All funds paid away to creditors are to the benefit of creditors.

In most cases, then thinking of income, it will be from a source where the client gets paid for their labour or intellectual capital that adds value to somebody else and for the value, they get paid money.

At this stage of stabilisation and starting to escape the debt dragons den for a life of financial freedom, the following questions can be asked:

- What are all sources of income that can be taken into consideration for the spending plan?
- How can alternative sources of income be created?
- What assets can be liquidated wisely that are no longer of use?

Important to note that try never to liquidate assets that are a source of income.

Lastly, a higher income usually is not the answer to escaping the debt dragon, and a more disciplined and frugal life is a much better way to ensure long-term financial freedom.

EXPENSES

Before drafting a baseline spending plan, it is essential to reflect on where money flowed over the past three months. However, if the client can analyse all expenses for twelve months, it is ideal as annual expenses can derail the whole spending plan if not considered. Here a budget app from the client's bank or one of the apps that aggregate accounts can be used to get a single view of the client's detailed expenses.

All the expenses can now be mapped, including the detailed information from the spending tracker to get an overall view of where money was flowing.

The client is now in a position to have trade-off discussions. Dr Sarah Newcomb argues that all expenses are needs and address a specific psychological need we have at a point and time. This could be helpful for clients to evaluate their spending through this lens and to say what different needs I/We satisfy through this spending line and how can we put alternative strategies in place to fulfil the requirement. For example, a client could be spending R 2 000 per month on take-aways, evaluating they could argue that it is to create engagement for them as a family. An alternative could be buying ingredients and starting a family food evening exploring different world food cultures. In the process, cut on this expense line and probably create deeper engagement as a family.

Our clients have now empowered themselves to face the debt dragon and say, how will we pay our way out of the debt dragon's den?

8. REPAYMENT PLAN

Before drawing up the repayment plan, we need to explore a few principal questions as general guidelines. There is usually a correct answer to the questions from a cognitive and pure financial planning perspective. However, it is essential to note that based on a client's specific circumstances, there can be an answer that is right for the client that differs from the solution of the pure numbers.

GOOD AND BAD DEBT

Good debt or secured debt is where an asset is attached to the debt. Examples of such a secured loan are the bond on your house. Another example could be a loan on a second property you are letting out. The general distinction between an asset and a liability is that an asset brings in more money than you pay in expenses.

Bad debt is unsecured debt, like personal loans, an overdraft, credit cards, store credit, family and friends.

WHAT ABOUT CONSOLIDATING DEBT?

Rule number 1: "JUST FOR TODAY, ONE DAY, DO NOT INCUR ANY NEW DEBT"

Suppose you can secure credit or have a current facility where you are not using the entire loan, and the interest rate is lower, as well as the term of the loan being equal or shorter. In that case, it makes total sense to consolidate the credit in the lower interest rate environment.

Where the consolidating credit becomes, grey is where the loan term is longer than the current debt. However, the interest rate is lower. For example, the client has credit card debt at prime +4% and a Home Loan at prime -1%. The lower interest rate will reduce what the client needs to pay back. However crucial that the client does not take 20 years to pay it back; else, the benefit of the lower interest rate will be consumed by spreading the credit over a longer period.

WHICH DEBT DO I PAY OFF FIRST?

Interesting from a pure numbers game, start with the loans with the highest interest rate. However, from a small wen perspective, it could make sense to pay off small loans first, as this could motivate the clients psychologically.

Here is another factor that also needs to be considered if some creditors are long overdue and want to sue the client. Firstly the client can negotiate with the creditors on the best terms possible, and based on the agreement, and priority will be determined.

HOW MUCH DO I NEED TO PAY?

A general rule is for clients to at least pay the interest part on all debt so that clients do not end up paying interest on interest and effectively incur taking on more credit.

Here it is also essential for the client to keep a reduction and repayment record to celebrate how they progress in reducing debt and ultimately repaying some of the loans in full.

WHAT ABOUT REPAYMENT SURPLUSES?

What a nice problem to have? So the logic is to take the full payment the client made towards the debt just paid off and add it as an additional payment to the remainder of the debt.

Starting the journey to long-term financial prosperity, however, to support our clients to ponder on the following:

- How and when will they start accumulating a freedom fund of three to six months of their monthly expenses?
- How do they celebrate the small wins of paying back debt and sticking to the plan?

9. SUPPORT AND COMMUNICATION

Debt did not accumulate in insulation.

So who are all the stakeholders our clients need to enrol as part of their financial journey?

- Family
- Friends
- Creditors
- Financial Planner
- Bankers as examples.

What request will our client make to the people they want to enrol for support?

What offers will our client make?

What and how regular will the client engage with the stakeholders?

What feedback is expected from who?

How will feedback be logged?

10. MESSY MIDDLE

Let's not be lei ourselves. The process requires our clients to build a new relationship with money, enrol multiple stakeholders and venture into unchartered waters to escape from the dragon's den of debt to the world of financial freedom. There will be days that our clients will want to abandon the process and revert to old known ways. In these circumstances, we can guide our clients to learn from the process, their moods and the journey to allow them to build a new way of being to help them live a life of freedom.

11. FINANCIAL FREEDOM

CREDIT RECORD AND CREDIT SCORE (283)

An article on debt would not be complete, not at least to refer to credit records and credit scores.

A credit score is like a two-edged sword. On the one side, our clients need a good credit score to enable them to obtain good credit, financing a house, for example. To allow them to do this, the primary drivers that drive a good credit score are:

- Do the client pay credit on time?
- How much and how often is credit used?
- The utilisation of credit across all products.
- Any judgements against the client.
- How often did the client apply for credit?
- How long does the client have a specific credit facility in place?

All of the above accumulate into a combined credit score that can be anything between 300 and 850:

- A Low score considered between 300 and 579
- A fair score between 580 and 669
- A good score above 669.

Several service providers provide a free service to clients and give a monthly update on their credit scores and how to improve their credit scores. The services also show all judgements, and clients can ensure that the record is correct or address any incorrect information.

Some of these free services do a great job of empowering clients with the information. However, the cautionary is that some of these services offer users loans and credits. So clients using these services could be constantly confronted with the temptation to take up new credit.

FINANCIAL FREEDOM

Your client has now achieved the following:

- Build a healthy relationship with money
- Learned the skills of:
    - Being mindful of their spending and building the awareness of only spending on what is essential for them,
    - Being social indifferent to what others think and want and what the world and its consumerism want, and instead focusing on what serves them best,
    - Building confidence that they can be custodians of their own life and manage their money with prudence,
    - Having a plan and executing the plan with discipline,
    - Staying focused on what is essential for them.

They can continue to build wealth aligned to their values, ensuring that they enjoy life to its fullest now and in the future with their resources. They are enjoying financial freedom free of the debt dragons' voice in their head. Staying with the slogan "JUST FOR TODAY, ONE DAY, DO NOT INCUR ANY NEW BAD DEBT" and paying any good debt as fast as possible.

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