REPAYMENT PLAN

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

GOOD AND BAD DEBT

Good debt or secured debt is where an asset is attached to the debt. Examples of a secured loan are the bond on your house or 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, overdrafts, credit cards, store credit and borrowing money from family and friends.

WHAT ABOUT CONSOLIDATING DEBT?

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

If, for example, you can secure credit or have a current facility where you are not using an entire loan, while the interest rate is lower and the term of the loan is equal or shorter, it will make sense to consolidate the credit in this lower interest rate environment.

Nevertheless, consolidating credit becomes grey when the loan term is longer than the current debt and 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, they mustn't take 20 years to pay it back; because then the benefit of the lower interest rate will be consumed by spreading the credit out over an extended period.

WHICH DEBT DO I PAY OFF FIRST?

Interestingly, from a pure numbers game, it is better to start with the highest- interest rate loans. However, from a small win perspective, it will make more sense to pay smaller loans off first, as it can psychologically motivate you to continue tackling the more considerable debt sums.

Another factor must be considered when some creditors' payments are so long overdue that they want to sue you. In such a situation, you need to negotiate with the creditors on the best possible terms and, based on this agreement, determine the priority.

HOW MUCH DO I NEED TO PAY?

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

Also, you need to keep a reduction and repayment record to celebrate your progress in reducing debt and, ultimately, repaying some of the loans in full.

Download the repayment calculator – and strategically model how you would repay your debt.

WHAT ABOUT REPAYMENT SURPLUSES?

What a nice problem to have! So, the logic is to take the monthly instalment you made towards the debt just paid off and add it as an additional payment to the remainder of your debt.

This is the start of the journey to long-term financial prosperity, but you need to ponder the following:

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