

Unemployment adds to debt burden

Commenting on the release of Stats SA's latest Quarterly Labour Force Survey, which shows an unemployment rate of 24.9% in the fourth quarter of 2012, Credit Ombud, Manie van Schalkwyk says the high rate of unemployment in South Africa continues to exacerbate already high levels of over-indebtedness in South Africa.

Although this is a minor improvement compared to the unemployment rate of 25.5% in the third quarter, it remains worryingly high. The expanded definition of unemployment, which includes people who have stopped looking for work, was at 35.9% in the fourth quarter, from 36.3% previously.

"Many people simply can't find work and this is affecting households' ability to pay back their debts," he says. "We're seeing high levels of over-indebtedness across the country."

The ratio of household debt to disposable income amounted to 76.3% in the second quarter of 2012 and in September 2012, the National Credit Regulator (NCR) reported that of the 19.69 million credit-active consumers, more than 9.25 million (47%) had impaired records.

He cautions consumers who have lost their jobs and who are unable to find work to contact their credit providers as soon as possible and tell them about their change in circumstances, to improve their chances of renegotiating their repayment terms.

"Credit providers are more likely to be willing to negotiate lower repayment terms the sooner they are told about your loss of income. Once you are three or more months in arrears, it may be too late and you could be negatively listed at a credit bureau."

He says many consumers apply for credit, assuming their income is secure, but do not plan for a loss of income.

"If you do lose your job, ensuring that you pay off your debts on time should remain a priority, even if this means selling some of your assets to do so. The longer you have outstanding debts, the more you will pay in interest charges and eventually debt collection and legal fees too."

Dealing with job loss and debt:

- Check if you have cover - You may not realise that you have income protection cover. It is very important to ask all your credit providers whether your agreement is covered by insurance. Some credit insurance policies pay the monthly instalment for a few months and others may even settle the entire outstanding debt. Make sure that you report the claim before you fall into arrears with the monthly instalments as some policies will not pay for retrenchment or the

like once the account is in arrears. Also, ensure that you furnish the credit provider with all the documents they require to process your claim.

- Prioritise your debts - Your home loan, rent, vehicle repayments and utility bills are classed as priority debts. Fail to pay these debts and you could lose your home or be evicted, have your electricity cut off, or have essential items (such as your car) repossessed. But also list which debts have the highest interest rates, such as credit cards, unsecured loans and bank overdrafts and figure out how to pay these off as soon as possible as the interest rates are usually higher and will soon mount up, tipping you into a debt spiral.
- Redo your budget - Get a clear idea of what is coming in and what is going out. The amount that is left after paying for your household bills, your living expenses, plus repayments and interest on anything you owe, is what is available to start paying off your debts more quickly. Cut back on all luxuries and unnecessary spending.
- Use your redundancy package wisely - You can also use redundancy pay or savings to pay off some of your debt. Start with priority debts first. You will need to try to stretch this out for as long as possible, so avoid spending it as soon as you get it.

For more information, go to www.creditombud.org.za.

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