

Money | Matters



DEBT CONSOLIDATION

In tough financial times people often turn to debt consolidation to find a solution to their monthly cash-flow shortage.

Debt consolidation is defined as taking out a new loan to pay off a number of liabilities and consumer debts, generally unsecured ones.

However, there is a myth that debt consolidation will be the answer to your problems and, then there is the truth:

Myth: Debt consolidation saves interest, and you have one smaller payment.

Truth: Debt consolidation is an indication of over-indebtedness and treats only the symptom.

With debt consolidation you are only extending the problem, because you think you solve the debt problem, but in reality the debt remains, as do the habits and behaviour that caused it. You cannot borrow your way out of debt. You cannot get out of a hole by digging out the bottom.

Having debt is not the problem; it is the symptom that is at issue. Debt is the symptom of overspending and under saving. More often than not, debt consolidation does not work and neither does it address the root problem.

In most cases it has been proven that, after someone consolidates his credit card debt, the debt grows back. That is as a result of not having a plan to either pay cash, or not buy at all. The game plan also does not include saving for unexpected expenses, which will also become debt.

Debt consolidation seems appealing because there is a lower monthly payment and a better rate can be negotiated. However, in almost every case the repayment is lower, not because the rate is actually lower, but because the term is extended. If you consolidate short term debt, you get a lower payment, but if you stay longer indebted, the lender receives more interest, which is why some lenders are in the debt consolidation business.

It is normally a bad idea to pay a short term acquisition, like clothing, over a long period. The clothes might already have been thrown out, but you are still paying it off.

The answer is not the interest rate; the answer is a total money makeover. The way to get out of debt is by changing bad financial habits. You need to commit to getting a written plan, sticking to it and start paying off the debt. Live on less than you make and don't spend what you can't afford. Dealing with financial problems can be stressful, which is why most people need help getting through it.

Speak to Bank Windhoek before your cash flow is in dire straits and think twice before you consider debt consolidation.



Anton Smit
Executive Officer
- Credit

Win N\$1000 in our Opinion Poll!

Debt consolidation is an indication of over-indebtedness and treats only the symptom.

SMS the number "1" followed by "yes" or "no" to 987 or
email: poll@bankwindhoek.com.na or
vote online at www.bankwindhoek.com.na

*SMSs charged at normal rate

Money Matters Issue 388 Opinion Poll Results:

Linea Jason

is the lucky winner of N\$1000.00 in the Money Matters Issue 388 poll draw.

**Bank Windhoek's electronic banking channels gives you
24/7 self-service and access to your bank accounts?**

Yes |  | 100%
No |  | 0%



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