



ICPAK

DEBT MANAGEMENT SEMINAR

DATE: 17th -19th August 2016

VENUE: ACACIA CREST – KISUMU,
KENYA

Topic: **Managing Personal Debt finance**

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Presenter: **CCP. Wasilwa Miriongi**

OBJECTIVES

- To expose participants to the real Cost of Credit
- To show that some of the reasons why you incur debts are really bad
- To re-examine the good reasons to be in debt
- To Emphasize that whenever you borrow there are basic rules to adhere to
- To achieve the ultimate goal of Debt Management in the long-term



INTRODUCTION

- The last ten years have witnessed tremendous growth in consumer loans and subsequently the growth in demand for consumer products
- This has had an effect of increase in the financial burdens to individuals and households in terms of repayment



TYPES OF CONSUMER CREDIT AND LOANS

- **Mortgages** – House financing Loans
- **Car loans** – Financing Purchase of a Car
- **Furniture loans** – Furnishing your House
- **Advanced Salary Loan** – Pay once you get your salary
- **Credit Cards** – Plastic Money it ensures there is money in your wallet all the time
- **Mobile Money Loans** i.e M-Shwari
- **Co-operative** – Various products (BOSA and FOSA)
- **Microfinance Loans** – Groups Model
- **Chama Loans** – Member Based Loans
- **Shylocks** – Need Based Lending

REASONS FOR GETTING IN DEBT!

Exercise #1 Participants to list all the debts you have incurred with reasons privately without showing your neighbor



SCENARIO INDICATING POOR DEBT MANAGEMENT

This appeared in the “Small Medium Enterprises Today” Dec/Jan 2015 Journal on pages 44 and 45 title “Think Retirement” by Bernard Chege.

Research on 100 people 5 years after retirement Revealed:-

- Only 1 person becomes RICH
- Only 4 People become financially independent
- 5 people go back to formal employment
- 12 people become broke
- 29 people die
- 49 people are financially dependent on children, family, and charity



OUR TYPICAL PAY-SLIPS

Pay-slip of Juanita Mwikali (Not Real Name)	
Net Pay Minus Taxes	33,750
Deduction – Co-operative	-6,730
Deduction – Bank Loan	-14,120
Deduction – Argosee Furniture loan	-3,500
Advance Salary deduction	-3,000
Total Take home	6,400



PROFILE OF BORROWERS

- **Wishers** - The big spenders during Christmas are good examples of wishers they see themselves having big jobs and earning big money and do not focus on the cost of credit.
- **Wanters** – Self aggrandizement is the key word -Some borrowers if they had waited a little bit they could have saved the expense of using credit and would still have acquired the asset.
- **Wasters** they spend money as an escape they have low-esteem and use what they purchase to feel better and relieve stress
- **Winners** they know or have learned it through their own education, perhaps their parents imparted the knowledge. They use the debt to their advantage



EFFECTS OF DEBT

○ Emotional Cost

When consumer debts exceed 20% of your income, its emotional toll makes it one of the topmost stress factors in life along with death of your spouse!

The emotional factors

- stress,
- anxiety,
- depression,
- feelings of guilt,
- shame

and failure leading to low self-esteem.

○ Real Cost of Debt

It is obvious that the **lowest interest you will pay on a loan is 30%**. Even the Mortgages are not cheaper either, more so considering the period taken. It is also clear that the longer the time it takes you to repay the loan the more the interest you pay, even though your monthly repayment is lower. It is therefore in the interest of the creditor to set the lowest possible minimum repayment rate for you. Cheap to service loans are usually the most expensive in the long run. In short, the financial cost of credit is often not worth it and that can be said of most credit

CRITERIA FOR INCURRING DEBTS

- Can I pay for it with Cash
- Will the residual value of what I am buying after a day, a week, a month, a year exceed the debt outstanding
- Am I able to repay it
- Is it Economical (what is the “Opportunity Cost”)



STEPS ON HOW IMPROVE YOUR MONEY ON CREDIT CARDS

- Examine how you currently use your money
- Identify step action steps that will help stop the leaks and improve how you use your money
- Review your income and spending plan in accordance to your action steps and goals
- Identify holes through which your money leaks or wastes away
- Convert your action steps into money goals
- Track your spending to ensure you stay within plan and review and adjust your plan as needed



IN DEBT TROUBLE WITH MORTGAGE- OPTIONS

- Catch up on payments
- Sell – It is an asset like a car or house
- Let someone take over your payment
- Give it Back
- Refinance it
- Short sale
- Work it out – The lender agrees to modify your loan
- File Bankruptcy



IN DEBT TROUBLE WITH OTHER LOANS- OPTIONS

- Graduated repayment plan
- Extended repayment plan
- Income contingent plan
- Consolidation – I.e Bridging loans
- Deferment plan
- Forbearance



TAKE CONTROL OF YOUR DEBT - CHECKLIST

- Accept responsibility for your own financial challenges
- Honestly communicate to the lender your financial troubles and agree on how to continue repaying the loan in view of the circumstances
- Make a list of all loans, repayment amounts and repayment dates
- Start with loans that have the Smallest installments and that are the most expensive. Use extra cash to pay off such loans first



TAKE CONTROL OF YOUR DEBT - CHECKLIST

- When you pay off these loans, continue applying the same payment amount to the next loan
- Pay minimum amount for each loan
- Explore the possibility of consolidating all your loans into one
- Set aside money for loan repayments regularly
- Look for ways to cut down to free to free up a little money for debt service
- Look for ways to create more income
- Consult a Debt Counselor



A SAMPLE PERSONAL BUDGET

Framework for Preparing Your Monthly Budget

Income per month

	Kshs	
1.Salary	-----	
	Rent/Mortgage	-----
	Others	-----
2.Interest	-----	
3. Dividends	-----	
	2. Food	-----
4.Other Income	-----	
Sub total		=====
5. Less taxes		-----
6. Less tithe/Charity		-----
7. Saving & Investment		-----
*Disposable Income		

Disposable income is income available to spend on oneself

Expenses

	Kshs
1.Housing	
Utilities	-----
3. Car	-----
4. Insurance/Medical	-----
5. Debt Repayment	-----
6. Children Education	-----
7. Clothing	-----
8. Entertainment	-----
9. Others	-----
10. Surplus/Deficit	-----
11.Total	

“A wise man Makes his own decisions, a foolish man follows public opinion” Make a budget

CONCLUSION

One important lessons of this presentation is that it is important to be financially responsible and to use the power of these types of finance and debts to your advantage

Can one get out of Debt, The answer is resounding YES! Many have done it

Henry Ford says “If you think can and if you think you cant both ways you are right”

