

Beware the pitfalls of the debt relief law

While there is a real need to help low-income consumers who are overburdened by debt, there are still many unanswered questions about how the new Debt Relief Bill will work practically.



Image source: Getty/Gallo

"It will take some time, possibly up to 24 months, for regulations to be finalised so the law can be implemented. Taking out more credit than you can afford in the meanwhile isn't a good idea and could have long-term implications for your credit record," says Benay Sager, DebtBusters' chief operating officer.

He says consumers should also be aware that the new law only applies to people in a particular income group, meeting specific criteria and that the debt relief is not automatic.

Consumers will need to qualify and then submit to a process before some or all of their debt can be written off.

"There is a genuine need to help low income consumers who are over-indebted and who cannot pay back their debt, but good counselling needs to be part of the process so over-indebted people don't find themselves back in the same position again."

How it works

When implemented, the Debt Relief Bill will allow people who earn less than R7,500 per month and have R50,000 in total unsecured debt – not including car finance and home loans – and who are over-indebted to apply to the National Credit Regulator (NCR). The regulator will then assess each case.

Should the NCR find the consumer is not able to repay what they owe without its intervention it will freeze some or all of the repayments for a year.

At the end of this period, the NCR will re-assess the situation. If the consumer is in a better position and able to repay their debts in five years it may re-negotiate the period of the debt and interest rates.

Should the consumer still be unable to repay it may again freeze repayments for a year.

At the end of this period, if the consumer is still unable to settle their debts, some or part of it will be written off.

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