DCASA ~ Consumer Newsletter

A guide for Consumers about Debt Counselling and Finance

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Why is my PDA balance different from Credit Provider balance?

Consumers under Debt Review do not always receive statements from Credit Providers but they receive a PDA statement on a regular basis and this is used to monitor their progress in Debt Review. When debt is repaid in terms of the PDA repayment plan and/or Court Order Consumers are normally shocked to find out that sometimes the debt in the books of a Credit Provider is not repaid in full. When this happens Consumers are incorrectly angry at the Debt Counsellor.

PDA's play a very important and critical role to ensure payments are made in line with the Court Order and/or repayment Agreement on a monthly basis. In terms of the National Credit Act the starting balance in the Debt Review Court Order is based on the Certificate of Balance (COB) supplied by the Credit Provider and this balance cannot be amended during the Debt Review. Due to the fact that the COB reflected the balance at a point in time the balance on the books of Credit Providers will always be different.

One of the reasons why Debt Review in South Africa is recognized and admired internationally is the creation of PDA's who ensure that repayments are aligned with the agreed repayment plan. PDA's are required to make payments as per the Court Order or as agreed with Credit Providers if no Court Order is in place yet. Compliance to the payments as per the Court Order or Agreement is critical to protect the Consumer. If payments are less than the Court Order or Agreement the Credit Providers may terminate their Credit Agreement from Debt Review in terms of the National Credit Act.

The purpose of this newsletter is to explain the differences between the PDA and Credit Provider's balances.

What is reflected on statements?

- Statements received from Hyphen or NPDA will reflect the total of all repayments still to be made. For instance if 12 payments of R1000 is due the balance will be R12 000 and this balance will reduce by payments made.
- Statements received from DC Partner will reflect the capital outstanding based on the COB received from the Credit Provider. The balance outstanding is calculated on receipt of payments from Consumers.
- The Credit Provider balances will reflect the capital outstanding (settlement amount) on the date of the statement. The Credit Provider statement normally excludes future interest and fees. Some vehicle finance Credit Providers show the total of all payments still to be made.

Why are there differences?

- The PDA repayment plan will change every time that your pay plan is amended. This is very normal in any Debt Review. It is part of the negotiation process. For instance your Debt Counsellor may offer a 10% interest rate and the Credit Provider could counter this offer with 15%. Your Debt Counsellor may accept the 15% and will amend your PDA repayment plan accordingly. The effect, in this example, is an increase on the balance reflected on your PDA statement.

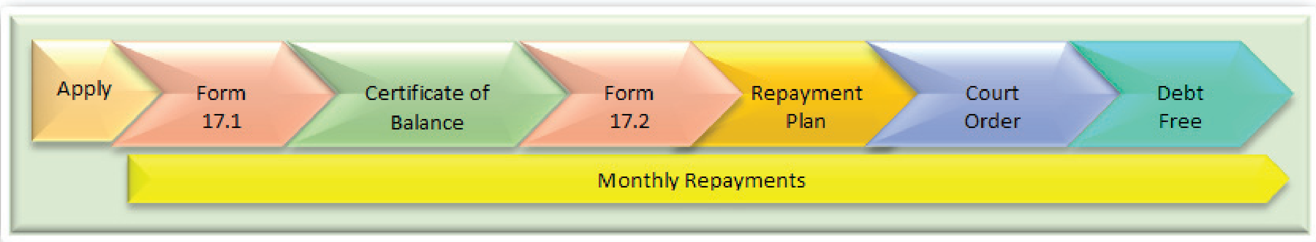
- The PDA repayment plan will change if you miss a payment or if payments made are not correctly receipted in your repayment plan.
- The Court Order will show capital (based on the COB provided by the Credit Provider), interest rate and monthly repayments.
- The balance in the books of the Credit Provider will never be the same as the PDA balance. Some of the reasons are as follows:
    - ✓ Credit Providers will continue to add interest after the COB was supplied up to the first repayment. This can be a period of 90 days and is determined by the repayment plan.
    - ✓ Repayment may not be on the date that payment is expected by the Credit Provider. For instance payment is expected at month end but only received on the 5^{th} of the next month. In this case interest for 5 days is added by the Credit Provider.
    - ✓ If payments are missed or made late additional interest will be added by the Credit Provider.
    - ✓ Credit Provider may add additional fees and charges that are allowed in terms of the NCA. This could include insurance (if not included in COB), legal fees and debit order fees.

Your Debt Counsellor will have no knowledge of additional interest, fees or charges added by Credit Providers during the Debt Review process. This is due to the fact that statements are not supplied by most Credit Providers during the Debt Review process and only Credit Providers have access to this information.

Remember the PDA balance is not a settlement balance (capital outstanding).

How is repayment determined in the Debt Review process?

When a Consumer applies for Debt Review a Debt Counsellor will review the Consumer's budget to determine how much money is available to repay all debt.



The next step for the Debt Counsellor is to request a (COB) from Credit Providers and on receipt of the COB repayment negotiations with Credit Providers will commence.

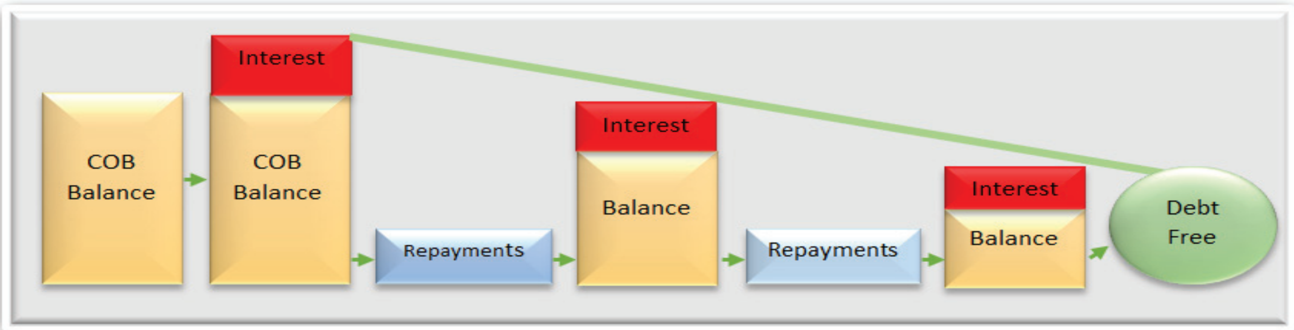
It is important to note that the repayment plan and Court Order is always based on the COB amount and the date thereof.

When the first repayment plan is done Debt Counsellors will load the repayment plan on the PDA and Consumers will receive a statement based on the plan that was loaded. This can be called an interim repayment plan to ensure that payments commence without a payment holiday.

Debt Counsellors will submit the repayment plan to Credit Providers who may or may not accept the proposed repayment plan. On receipt of the Credit Provider responses the Debt Counsellor has to amend the repayment plan and reload this with the PDA. In some cases the Debt Counsellor will submit six repayment plans to a Credit Provider before the payment plan is finalised. If the Credit Provider does not respond or declines the repayment proposal the Debt Counsellor has to, in terms of the NCA, use contractual interest rates.

Every time a repayment plan is reloaded on the PDA the statement received by the Consumer will change. For instance if a Credit Provider accepts a lower interest rate the PDA balance will reduce or if a Credit Provider does not accept the proposed lower interest rate then the Debt Counsellor has to use the contractual rate. The effect of this is that the PDA balance will increase. With every change the PDA plan will change. This is part of a normal Debt Review process.

During the time that the Debt Counsellor is negotiating with the Credit Provider, the Credit Provider may continue to add interest and fees. Credit Providers do not stop the interest clock when Consumers apply for Debt Review. In many cases the Debt Counsellors will negotiate a reduction in interest and fees for future repayments.



The main difference between a PDA repayment plan (based on the Court Order and/or Agreement) and the books of a Credit Provider is that the PDA repayment plan will repay the debt based on the COB but due to additional interest and fees there may be a balance due in the books of the Credit Provider. A Debt Review Court Order will never settle all the debt in the books of the Credit Provider. In fact it is impossible to reconcile the balance in the books of the Credit Provider with the PDA balance during the Debt Review. This can only be done at the end of the repayment plan. This is normal in any Debt Review.

How should Consumers read their PDA statements?

Consumers are advised to use their PDA statements as follows:

- Check if monthly payments are recorded.
- Check that the PDA balance reduces on a monthly basis.
- In cases where your payment plan has been updated by your Debt Counsellor this will have an impact on your PDA balance.

- If one debt has been repaid that money is normally used to increase payment on remaining debt. This should result in a faster reduction of your PDA balance.
- Where the PDA balance increases this can be as a result of skipped payments or payments not correctly allocated in your payment plan.

What happens when the debt has been repaid according to the PDA and Court Order?

Your Debt Counsellor will request the outstanding balance from Credit Providers when the debt is almost repaid in terms of the PDA repayment plan and in most cases there will be an end balance difference for the reasons explained above. This balance difference is due to the Credit Provider and has to be paid by the Consumer. This balance can be repaid by extending the repayment period. Once this end balance difference has been paid the Credit Provider will be able to provide a paid up letter.