Financial Wellness · Session 3

# MANAGING DEBT

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CONTENTS

# What we'll cover in Module 3

### 1 Good Debt vs Bad Debt

Telling assets from “flossets” before you borrow.

### 2 Understanding Credit

Credit bureaus, credit history, and your credit score.

### 3 The Real Cost of Debt

Principal, interest, APR, effective rate, amortization.

### 4 Loans, Security & Guarantees

Secured vs unsecured debt, and what guaranteeing really means.

### 5 Building a Repayment Plan

Prioritizing, snowballing, and restructuring debt.

### 6 Breaking the Debt Cycle

Letting go of debt shame and taking back control.

BEFORE WE START

# Homework Review

?

How has the experience been so far — budgeting & tracking?

?

What is standing out about your financial habits from your tracking and budgeting?

?

On emergency funds - what are doing to build your Financial cushions?

**Progress beats perfection.**

Every week you track spending, you get a clearer picture of where your money actually goes.

# DEBT MANAGEMENT


*Understanding it, using it well, and getting out of it.*

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# Assets vs “Flossets”


## ASSETS

*Puts money in your pockets*

- A ride-hailing car earning fares
- Rental property generating income
- Equipment used to produce and sell eg camera, laptop, etc.
- Anything bought that pays you back over time

VS

## FLOSSETS

*Takes money out of your pockets — consumption*

- A luxury car bought to impress
- Gadgets and fashion on credit
- Loans for parties and vacations
- Anything that only costs you, monthly, after the purchase

# Where Can I Get Debt?

## 3 Fs - Friends, Family, Fools

### “Fools” — Institutions

Saccos, banks, table banking, digital lending. Formal capital — priced, contractual, and unforgiving of missed payments.

### Friends & Family

Relationships and patient capital. More flexible, but still real money — protect the relationship: pay your friends back!

**Every source of debt is still debt.**

**Choose the source that matches your urgency, your relationship, and your ability to repay.**

# Digital Lenders: The Market at a Glance

*Kenya's digital-credit sector, 2025–2026*

| 252 | KSh 150.56B | 8M+ | KSh 15B |
|---|---|---|---|
| licensed Digital Credit Providers (CBK, July 2026) | loans disbursed by licensed DCPs (as of May 2026) | Kenyans borrow digitally in a typical month | borrowed collectively, every month |

- Look at the effective rate paid — not just the headline rate.
- Watch the dependency and psychology: YouTube ads, TV, radio, word of mouth.
- This is not free money — it is priced credit like any other.
- The debt cycle reinforces negative financial habits over time.

# Why We Get Into Bad Consumer Debt

## Keeping up with the Joneses

Doing things, buying things, partying — to be like someone else. The disease of “other people's opinions.”

## The need for instant gratification

Lack of patience leads people to borrow for a car, a bigger house, eating out — when delaying could still work. It must not happen NOW.

## Living beyond our means

Spending that consistently outpaces income, financed by debt instead of adjusted lifestyle.

# UNDERSTANDING CREDIT

*Your credit history is your financial reputation on paper.*

# Credit Reference Bureaus


**A credit report** is a detailed record of your credit history maintained by a licensed Credit Reference Bureau (CRB). It shows your borrowing history, repayment patterns, current obligations, and public records such as defaults, bankruptcies, and judgments.

## 3 CRBs in Kenya, regulated by the CBK:

- CreditInfo CRB
- Metropol CRB
- TransUnion Kenya CRB
  (You can Use **Transunion Nipashe App** to get your credit report/score for free)

## Know the ground rules:

- It's a database, not a blacklist.
- You're entitled to one free credit report every year.
- Check it every quarter to make sure the information is correct.

# Building Your Credit History

## Credit History

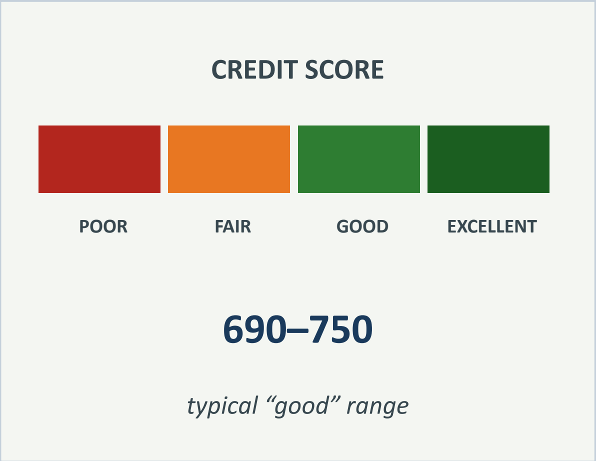
An official record of the loans and credit you have repaid over time.

## Credit Score

A number assigned to individuals to measure their creditworthiness.

## Certificate of Clearance

Formal proof from a CRB that a previously listed debt has been settled.



# What to Look Out for When Guaranteeing a Sacco Loan

?

A colleague asks you to guarantee them for a KES 2M loan — would you? Why?

?

Your favourite cousin now needs the same KES 2M guarantee — would you?

**The relationship shouldn't change the math.**

If the risk isn't right for a colleague, it isn't automatically right for family either.

# Gather Information About the Borrower

- Why are they taking the loan, what is the repayment plan, and what is their repayment history (CRB report, friends, family)?
- What is their backup plan if the repayment plan fails — one that doesn't involve you?
- Do they have another loan elsewhere? Can they afford to pay both at the same time?
- Can you afford to repay the loan yourself, in case of default?
- Do they have another form of collateral they could use instead?
- Learn to say “NO.”
- Keep a list of every loan you've guaranteed and track the payments.

# DEBT CONCEPTS


*The vocabulary and math behind every loan you'll ever take.*

# Understanding Debt

*Money is an asset whose price is interest. The lender needs to be compensated for the opportunity cost of that money.*

## Principal

The original amount of money borrowed — before any interest is added.

## Interest

The cost of the money, levied by the financier and expressed as a percentage.

# APR vs. Effective Rate

**Annual Percentage Rate (APR):** what it costs to borrow money for one year.

**Effective Rate:** what it actually costs to borrow money for more than one year.

| | 1 Year | 3 Years |
|---|---|---|
| **Principal** | KES 1,000,000 ($10,000) | KES 1,000,000 ($10,000) |
| **Rate (simple interest)** | 14% | 14% per year |
| **Total interest paid** | KES 140,000 ($1,400) | KES 420,000 ($4,200) |
| **Effective rate** | **14%** | **42%** |

# Amortization, Reducing Balance & Flat Rate

1

## Amortization Schedule

Shows how principal and interest are repaid through the loan term. Payments are equal, but the ratio of principal to interest shifts as the loan matures.

2

## Reducing Balance

Each payment offsets a portion of the principal, so the interest charged shrinks over time.

3

## Simple Interest / Flat Rate

Repayment is calculated on the original amount borrowed, at all times — interest never reduces.

# Reducing Balance vs. Flat Rate — Worked Example

*KES 300,000 borrowed for 3 years at 14% p.a.*

| Method | Interest / Year | Total Interest (3 yrs) | Effective Rate |
|---|---|---|---|
| Simple Interest / Flat Rate | KES 42,000 | KES 126,000 | 42% |
| Reducing Balance | — (declines yearly) | KES 69,118 | 23% |

**On a reducing balance loan, the effective rate is lower.**

With simple interest / flat rate, you keep paying interest on money you've already repaid — the effective rate is higher.

# LOANS, SECURITY & GUARANTEES

*Know exactly what you're signing up for — and for whom.*

# Secured, Unsecured & Guaranteed

## Secured Loan

A loan backed by collateral. A loan not backed by collateral is called an unsecured loan.

## Guarantees

Some loans are backed by a personal guarantee instead of (or alongside) collateral — making the guarantor liable for someone else's debt.

**A personal guarantee is a signed blank check without a date.**

**The lender can claim the guarantor's own assets if the borrower defaults.**

# Debt Consolidation

**The act of combining two or more loans under one facility.**

Usually done to give people some reprieve on payments, since the combined loan can be stretched over a longer period of time — lowering the monthly outlay, though often at the cost of more total interest.

Credit Card

Car Loan → One Consolidated Loan

Personal Loan

# UNDERSTANDING THE COST OF FINANCING

*Why we borrow, and how to tell if it's worth it.*

# How Do You Know It Makes Sense to Borrow?

**We always get the question, can I take a loan and invest in say, bonds, land?**

**Look at how much money you have spent in total — and how much you will be getting back.**

***Do the math!***

# What the Amortization Schedule Tells You

1. What your monthly repayments will be.
2. How much of each repayment goes toward principal, and how much goes toward interest.
3. The effect of paying down debt faster.
4. How to make sound investment decisions using debt.

# Application on Personal Loans

## 1 Personal loans are loss-making

They finance consumption, not income.

## 2 Need vs. want

Are you buying what you need, or what you want?

## 3 Save up instead

Setting aside your would-be monthly repayment often gets you there faster than paying off a loan.

## 4 If you must borrow

Pay it down faster than the schedule requires.

# CREATING A DEBT REPAYMENT PLAN

*A repeatable system for paying off every loan you owe.*

# How to Tackle Debt

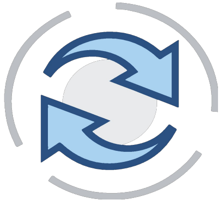
Come up with extra money by evaluating your current spending habits


STOP accumulating bad debt

List all debt

Prioritize & rank debt according to the time it will take to pay off (debt snowball); or higher interest 1st(debt avalanche)

Use extra money plus your current payment to complete shortest debt first. Keep making minimum payments on all



Repeat cycle till debt is fully paid off

# Exercise: Work Out Philip's Scenario

**Open the shared worksheet and build out Philip's snowball month by month.**

*[ Link to shared workbook — provided by facilitator ]*

# Case Study: Philip's Debt Snowball

| Priority | Loan | Loan Amount | New Balance | Min. Payment | Extra Payment | New Payment | Months |
|---|---|---|---|---|---|---|---|
| 1 | Credit Card | 100,000 | 100,000 | 5,000 | 15,000 | 20,000 | 5 |
| 2 | Credit Card | 100,000 | 75,000 | 5,000 | 20,000 | 25,000 | 3 |
| 3 | Car Loan | 700,000 | 500,000 | 25,000 | 25,000 | 50,000 | 10 |
| 4 | Personal Loan | 300,000 | 120,000 | 10,000 | 50,000 | 60,000 | 2 |

**Philip freed up KES 45,000 a month.**

**Over 10 months that's KES 450,000 redirected from debt to his own goals.**

# Debt Restructuring

**Common forms:**

- Lowering the interest rate to reduce monthly payments
- Extending the repayment period to spread payments over more time
- Consolidating multiple debts into a single loan with manageable terms
- Reducing the principal (debt forgiveness) — rare, requires creditor agreement
- Temporarily suspending or reducing payments for short-term relief

## Advantages

- Improves cash flow
- Helps avoid default or bankruptcy
- Preserves financial stability

## Disadvantages

- May hurt your credit score
- Total interest can increase over a longer term
- Creditors aren't obligated to agree

# Get Rid of Debt Shame

## Why shame backfires

To take control of your finances, you need to get rid of the shame.

Debt shame is counterproductive — it pushes people to take on more debt to sustain appearances, instead of paying down what they already owe.

## Take control

STOP DIGGING. When you want to get out of a hole, the first thing you do is stop digging it deeper.

Opt out of overdraft products like Fuliza, delete the money-lending apps, and from now on only spend money you actually have — no new debt.

# YOUR DEBT REPAYMENT PLAN

# Let’s keep building.

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|---|---|
| PHONE / EMAIL | 0700 036 433 / talkcents@centonomy.com |
| FACEBOOK | /Centonomy |
| X (TWITTER) \| IG | @centonomy |
| WEB | WWW.CENTONOMY.COM |
| ADDRESS | Dale House, Rhapta Road, Westlands |