



# PesaPlan Learning Hub – Debt Management Guide

## Understanding Debt

Debt can be a tool or a trap.

- **Good debt:** Borrowing for education, a business, or a home.
- **Bad debt:** Borrowing for consumption, e.g., buying a new phone on credit.

**Interest rates** are the cost of borrowing. At 14% annual interest, Ksh 100,000 debt grows by Ksh 14,000 a year if unpaid.

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## Common Types of Debt

- **Personal loans:** Offered by banks, interest ~13–15%.
  - **Credit cards:** Expensive if unpaid; up to 36% APR.
  - **Mobile loans:** Quick but with high interest and penalties.
  - **Business loans:** Often collateralized, but can fuel growth.
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## Step-by-Step Guide: Paying Off Debt

1. **List debts** with balances, rates, and minimum payments.
  2. **Choose a strategy:**
    - Avalanche: Pay highest interest first (saves money).
    - Snowball: Pay smallest debt first (motivational).
  3. **Negotiate rates** with banks or switch to cheaper products.
  4. **Consolidate:** Merge small loans into one manageable loan.
  5. **Boost income:** Side hustles or bonuses can accelerate payoff.
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## Avoiding Debt Traps

- Don't borrow to fund luxury consumption.
- Always read the fine print on loans.
- Avoid payday and shylock loans — interest is predatory.
- Build an emergency fund to avoid future borrowing.