

Consequences of poor financial management (1)

Managing your personal finances and staying within a budget takes a great deal of self-discipline, especially if you see friends 'spending up big'. Credit can be very easy to arrange, but paying it back is the hard part.

Getting into debt can lead to many problems. People may end up losing goods, being sued or even being declared bankrupt.



Hooked on credit! Make sure you control the credit and the credit does not control you.

Financial consequences

It is sometimes necessary when taking out a loan to mortgage the goods being purchased because the lender wants some security. You sign a mortgage over the good being purchased, such as a car. As part of the contract you, the mortgagor, give the mortgagee, usually the lender, the right to repossess the car if you fail to keep up the repayments.

Repossession means the lender will take the goods away from you. In addition to losing the goods, you may have to pay what it costs the lender to repossess them. If the goods are resold for less than the amount of the debt, you are still responsible for the difference.

Comfact

Each year more than 800 000 motor vehicles in Australia are purchased on credit; more than 12 000 of these vehicles are subsequently repossessed.

Sometimes people who owe money have their wages **garnished**. This means that a lender has applied to get a legal order so that a certain amount of money can be taken out of the borrower's wages. This money is deducted until the debt is paid. This is a serious situation and a responsible consumer should always try to repay debts on time.



Credit cards are often blamed for putting people into debt, especially swipe-happy young Australians. They are often susceptible to persuasive marketing campaigns and too readily sign up for a card on impulse. The temptation then becomes too great: they see the credit limit as a target to reach rather than something to keep to a minimum.

With around 240 different cards on the market, you should select a credit card that best matches the type of user you are: a revolver or transactor (see page 55). At all times you should control your card and not let it control you. Remember, debt at an early age can affect your financial independence later in life.

TAKE CONTROL OF YOUR CREDIT CARD

What should you know about your credit card?

1. What is the interest rate?
2. Do you have interest-free days?
3. Do you pay an annual fee? How much is it?
4. When are the repayments due?
5. What happens if you miss the repayment? Are there charges?
6. What is your limit? Do you need a limit this high?
7. Shop around. Are there other cards that offer cheaper rates?

THE TRAPS OF SPENDING ON A CREDIT CARD

1. Impulse buying rather than planning your purchase. You may buy more than you intended, or purchase a more expensive item.
2. An inability to pay back the debt by the due date. Some credit cards allow you 15–55 days interest free. If you cannot pay within that time, you will be charged interest.
3. Having to pay interest on a credit card, plus any other transaction fees.
4. Thinking that you are wealthier than you actually are.

HOW DO YOU REPAY DEBT?



Revolver

- makes repayment on their credit card each month, on time
- repays only the minimum amount each month
- needs a card with a low interest rate.



Transactor

- pays the full balance off their card each month
- needs a card with a long interest-free period (e.g. 55 days) — this means they can avoid incurring any interest.

CONSOLIDATE

Do you have many different types of loans? You may have a credit card, a store card, a personal loan and a mortgage. For some people, debt consolidation is the best way to get out of the mess of trying to repay many different types of credit at high interest rates.

Debt consolidation means to use a single form of debt to pay for the credit cards, store cards and personal loan. The form of debt is normally a mortgage, because it has the lowest interest rate. Then, all repayments can go into paying one form of debt.

LIVE YOUR LIFE, USING CREDIT SENSIBLY

Credit cards are a handy way of paying for goods and services, but we must be able to afford them before we begin to use them. Plan your purchases and budget your money so that you can keep track of your finances.

Activities

Understand

- 1 Why do people sometimes find it difficult to manage their finances?
- 2 Use the following words in a sentence to explain their meaning:
 - mortgage
 - mortgagee
 - mortgagor.
- 3 Under what circumstances will the lender have the right to repossess goods bought on credit?
- 4 What happens when a person has his or her wages garnished?
- 5 What type of credit card is best suited to the following type of users:
 - (a) revolver
 - (b) transactor?
- 6 A friend has many different loans and is in financial difficulty. Why would you advise her to consolidate her loans?

Think

- 7 Do you think it is fair for the lender to have the right to repossess goods or garnish wages? Why? Share your answer with the rest of the class.
- 8 What advice would you give to someone who is thinking of applying for a credit card?
- 9 'Unwise consumers, and not the easy access to credit, are to blame for debt problems.' Give reasons why you agree or disagree with this statement.

Communicate

- 10 Draw a cartoon of one humorous situation explaining how consumers could better manage their finances.

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- 11 Use the **Coles Group Card** weblink in your eBookPLUS and find the following information:
 - (a) the interest rates on the card and how they vary
 - (b) card benefits
 - (c) how repayments are made and the minimum repayment.

Glossary

garnisheed a certain amount of money can be taken out of the borrower's wages

repossession to take back goods bought on credit if repayments have not been made

Consequences of poor financial management (2)

Legal consequences

Any money you owe is a debt. The person who owes the money is called a **debtor** or borrower and the **creditor** is the person who is owed the money. As a debtor, you have certain liabilities or obligations to the creditor. These obligations must be fulfilled. Failure to do so will result in the creditor taking legal action against you to recover the money owed.

Nick's car loan

Nick left the bank feeling pleased that his loan had finally been approved and he could buy that new car. Nick was sure he was doing the right thing.

However, Nick lost his job and this forced him further into debt. Eventually, Nick was unable to pay any of his debts. He decided the only way out was to apply to the courts to be declared **bankrupt**. This meant that some of his goods, including his much-loved car, could be sold off so the creditors could receive some of their money back. The court also took control of Nick's future spending.



Comfact

Approximately 24 000 people declare themselves bankrupt each year. Unemployment is the main contributing factor and male bankrupts outnumber female ones.

Social consequences

The financial pressures created by being overcommitted may have a number of social consequences. The pressure of debt may cause stress at home and work. As the debts mount up, a person can feel as if they are caught in a spiral with no way out. This can seriously affect their wellbeing. Pressures of debt are seen as an important cause of domestic violence, physical and emotional illness, family breakdown and even suicide.

What if I cannot repay my loan?

Ignoring the problem will only make it worse. Therefore you should contact the lender as soon as possible to explain your situation. If you receive a **default notice**, a document from the lender stating that you have failed to carry out the terms of your contract, or legal proceedings have started, you need to seek legal advice.

You can get legal advice from a solicitor, a financial counsellor or an organisation such as the Consumer Credit Legal Centre.

There are a number of options available to you if you are in this position. These are:

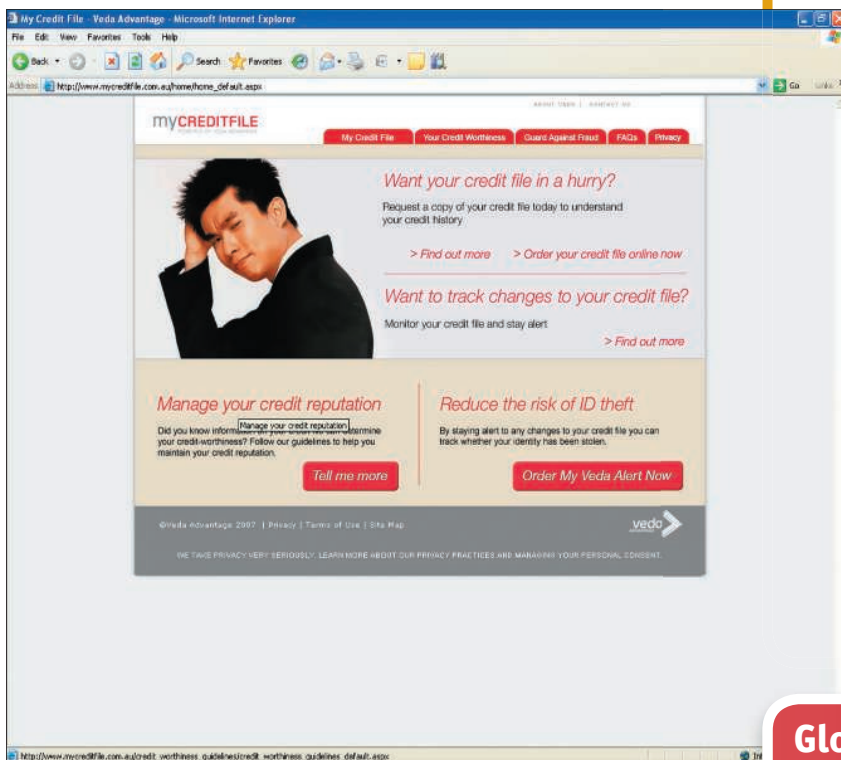
- 1 **Pay the amount owing.** Clear the debt by the due date listed on the default notice.
- 2 **Negotiate a change in your repayments.** Seek the assistance of a financial counsellor to help you with this.
- 3 **Apply for a hardship variation.** You may be eligible for this even if the lender does not want to negotiate.
- 4 **Negotiate a postponement of repossession.** You may be able to stop the repossession and sale of your goods. You must plan to still meet your commitments.
- 5 **Refinance the loan.** Try to get a better deal on a new loan.
- 6 **Sell your goods and repay the loan.** You do need the lender's approval for this.
- 7 **Voluntary surrender.** Give the goods to the lender and ask them to sell them. The price will normally be lower than if you sell them yourself.
- 8 **Apply for bankruptcy.** Use this option only as a last resort as it has serious consequences.

Financial counselling

If you find yourself in difficulty with credit, contact the Financial Counsellors' Association of NSW (FCAN). This association is a voluntary organisation of financial counsellors and advocates, which aims to assist people in managing their finances. The FCAN offers advice on dealing with a range of issues, including bankruptcy, credit card debt, uninsured car accidents and rental problems.

Credit bureaux

A **credit bureau** is an organisation that keeps on file the credit records of consumers. The records are supplied by businesses that provide credit. Instead of each business having to conduct its own credit checks, the bureau provides the details to its members for a fee. The bureau therefore assists members in deciding whether to accept or reject credit applications. The consumer who fails to pay her or his accounts at one business usually finds credit will be refused at other businesses.



The following information is usually recorded on a consumer's credit file:

- previously overdue accounts which have been brought up to date or settled
- court judgements or bankruptcy orders
- records of some current credit accounts
- records of any previous application for credit
- any previous defaults with members of the credit bureau.

Under federal government privacy laws:

- a consumer can generally gain access to their own credit record free of charge if they have been refused credit
- credit records cannot be accessed by anyone other than providers of consumer credit
- a consumer can amend their record if information recorded is incorrect, incomplete, out of date or misleading.

Activities

Understand

- 1 What is the difference between a *debtor* and a *creditor*?
- 2 Define the term 'bankrupt'.
- 3 (a) What is a default notice?
(b) What should you do if you receive a default notice?
- 4 What is the first thing a person should do if she or he is unable to make a repayment on time?
- 5 Which one of the eight options (on page 56) would you select if you were unable to repay your loan? Give reasons for your selection.
- 6 Outline the role of a credit bureau.

Communicate

- 7 You have been employed as a finance reporter with the local newspaper. You are asked to prepare an article about the problems consumers can find themselves in because of poor financial management. The headline of your article is 'Caught in the debt trap'. Share your article with other class members.
- 8 In small groups, roleplay a situation where you approach a lender for help with your inability to meet the repayments on your personal loan. You may wish to video the roleplays and view and discuss them as a class.

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- 9 Prepare a flow chart on 'Dealing with debt'. Be sure to refer to repossession and financial counselling. To help you, use the **Redfern Legal Centre** or the **Consumer Credit Legal Centre** weblinks in your eBookPLUS.

Glossary

bankrupt when a business, or person, is unable to pay her or his debts

credit bureau an organisation that keeps on file the credit records of consumers

creditor a person who is owed money

debtor a person who owes money

default notice a document from a lender stating that a person has failed to carry out the terms of the contract