

TAKE CONTROL

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# Credit Wise

A practical guide to getting & managing credit



## What does 'mutual' mean to me?

Mutual financial institutions are credit unions and building societies that are focused on providing benefits for our members, not shareholders. Profits are returned to members through fairer fees, better rates and better service.

Members are both customers and owners, so you have a real say in how your financial institution is run. Each member gets an equal say – one member, one vote.

Here are some other important facts about mutual financial institutions:

- We are run for the benefit of members with the aim of returning profits to members through fairer fees and better service.
- We are complete financial services providers, offering a full range of products and services.
- Deposits with credit unions and mutual building societies are guaranteed by the Federal Government.
- Our members choose us because they receive excellent, personal service and our customer satisfaction is the highest in the market.
- We are built on community involvement; it is what makes us different. We committed to supporting our communities long before it became fashionable.
- We are committed to educating consumers and improving financial literacy through practical actions.
- Despite our different approach, we are regulated to the same high prudential standards as the banks.

Over 4.5 million Australians across metropolitan and regional Australia are already members, so come and join us now.



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## Introduction

Few of us get through our entire life without borrowing money. We borrow for various reasons – whether short-term or long-term – and if credit is used wisely, it can improve our lifestyle and financial situation.

We can use credit to finance a valuable asset, such as our dream home, or we can simply have a credit card that helps us to manage our day-to-day bills. If we didn't use credit in these circumstances, our larger goals would probably be unattainable and we wouldn't benefit from the convenience of cash-free transactions.

We should not forget that using credit, whether it is a credit card, getting a personal loan or a home loan, means borrowing money. So the challenge with credit is managing it – it can seem easy to get, but can be difficult to repay.

For this reason, it's important to understand how credit works, if you can afford to borrow and what type of credit is right for your situation. If you have decided to borrow, you'll need to know what a lender looks for when approving a loan and the role your credit rating plays in the process.

You should also be aware of how changing circumstances can land you into financial trouble and what to do if that does happen to you.

This booklet has been written to explain the basics of getting and managing credit so you can take control of your finances and make credit work for you.



## Credit Basics

The first step to borrowing is to decide why you need a loan – credit after all is a loan that must eventually be repaid.

If borrowing money will help you achieve a well-planned goal and you've done your homework, it's likely you'll manage your repayments without any trouble or surprises. On the other hand, if getting credit means you're spending money that you don't have now and are unlikely to have in the future, you could be setting yourself up for financial problems and stress.

Borrowing can help you achieve goals more quickly, but it's important to define those goals and keep focused and in control.

Also remember, it is worth considering other products and services before deciding that you need to borrow money from someone else.

### Can I afford to borrow?

Before you rush out and apply for a loan or a credit card, spend some time reviewing your financial position and make sure that you can actually afford that debt.

You could be inviting trouble if you take out a loan or a credit card only to discover later that you spend more than you earn and you can't really afford the repayments.

The best way to work out if you can afford a loan or whether a credit card limit is manageable for you is to first prepare a budget. It's a fact of life that most of us don't know where our money goes and live slightly beyond our means, regardless of the size of our weekly wage. A budget will help you to work out how you spend your money so that you can afford more of the things you like.

You'll find a Budget Planner on the following page. The Planner will help you to list all your income and expenses, and once it's completed, you can work out whether or not you can afford to borrow.

A few helpful tips for completing the budget:

- Choose a time period for your budget (e.g. fortnightly or monthly) and remember to use the same time period for both your income and your expenses.
- Round all amounts to the nearest dollar.
- For items that fluctuate on a monthly basis, such as credit card repayments, take a look at a few recent statements and try to work out an average figure.

If the Budget Planner seems too difficult for you to work through on your own, drop in to your local credit union or building society branch. A staff member will be happy to help.

## BUDGET PLANNER

### INCOME

Salary / wage (after tax) .....	\$
Overtime / Second job .....	\$
Pension or Government allowance .....	\$
Child support or other payments .....	\$
Regular income from investments (e.g. interest, dividends, rent) .....	\$
Other .....	\$
<b>TOTAL INCOME</b> .....	<b>\$</b>

### EXPENSES – Household

Rent .....	\$
Gas .....	\$
Electricity .....	\$
Water .....	\$
Rates .....	\$
Body corporate fees .....	\$
Telephone & mobile .....	\$
Internet .....	\$
Pay TV .....	\$
Household repairs .....	\$
Furniture replacement .....	\$
Appliance replacement .....	\$
Garden & fences .....	\$
Groceries .....	\$
Fruit & vegetables .....	\$
Meat, chicken & fish .....	\$
Lunches .....	\$
<b>SUB-TOTAL</b> .....	<b>\$</b>

### EXPENSES – Repayments

Mortgage .....	\$
Car loan .....	\$
Personal loan .....	\$
Credit cards .....	\$
Store card .....	\$
Lay-bys .....	\$
HECS / HELP payments .....	\$
<b>SUB-TOTAL</b> .....	<b>\$</b>

### EXPENSES – Insurance

Home .....	\$
Contents .....	\$
Car / motorbike .....	\$
Boat / caravan .....	\$
Health .....	\$
Income protection .....	\$
Life .....	\$
<b>SUB-TOTAL</b> .....	<b>\$</b>

"Dollars & Cents – a practical guide to budgeting and saving" is also available at your credit union or building society if you want a more detailed guide to preparing your budget.

<b>EXPENSES – Education &amp; Professional</b>		<b>EXPENSES – Hobbies &amp; Entertainment</b>	
School fees .....	\$	Movies, concerts etc. ....	\$
Special tuition (e.g. sport) ....	\$	Eating out & take-away .....	\$
School books & uniforms .....	\$	DVD / music hire & purchase ...	\$
Excursions .....	\$	Magazines & newspapers .....	\$
TAFE / University fees .....	\$	Hobbies .....	\$
Professional subscriptions .....	\$	<b>SUB-TOTAL</b> .....	<b>\$</b>
Union fees .....	\$		
Tools / equipment .....	\$		
<b>SUB-TOTAL</b> .....	<b>\$</b>		
<b>EXPENSES – Transport</b>		<b>EXPENSES – Other</b>	
Fuel .....	\$	Child care .....	\$
Car registration .....	\$	Child support payments .....	\$
Parking .....	\$	Pocket money .....	\$
Licence .....	\$	Gifts – Birthdays .....	\$
Motoring association .....	\$	Gifts – Christmas .....	\$
Maintenance / repairs .....	\$	Gifts – Other .....	\$
Public transport .....	\$	Donations .....	\$
<b>SUB-TOTAL</b> .....	<b>\$</b>	Pet food & expenses .....	\$
		Alcohol & cigarettes .....	\$
		<b>SUB-TOTAL</b> .....	<b>\$</b>
<b>EXPENSES – Medical</b>		<b>SAVINGS</b>	
Doctor .....	\$	General savings .....	\$
Chemist .....	\$	Emergency savings .....	\$
Dentist .....	\$	Special purpose savings .....	\$
Physio, chiro etc. ....	\$	<b>SUB-TOTAL</b> .....	<b>\$</b>
Optometrist .....	\$		
<b>SUB-TOTAL</b> .....	<b>\$</b>		
		<b>TOTAL INCOME</b>	—
		<b>TOTAL EXPENSES</b>	
		<b>= NET RESULT</b>	

**TIP:** Learning how to save can teach you how to be a responsible borrower. Set yourself a 3 month savings plan, aiming to save as much each pay day as you would have to repay on the loan you are planning for. If you meet your savings goal during this time, chances are you'll be able to manage a loan too. As a bonus, you'll have a sizeable lump sum to put towards your financial goal.

What does your budget tell you? If your net result is a positive amount, you can probably afford to repay a loan. If you are left with a negative figure, your budget shows that your expenses are already greater than your income.

A budget can also highlight how you pay your bills and expenses. If you are paying most of your bills and expenses by credit card and you find that you don't have enough at the end of the month to pay off the credit card bill, then you need to reassess your expenses.

This is not sustainable in the long-term, so you'll need to cut back on your expenses before you can take on any more debt.

## How much should I borrow?

The loan amount will come down to the amount required for your goal and how much you can afford to repay. Responsible lenders will want to ensure that you can meet the loan repayments without too much difficulty.

As a guide, your monthly repayments should not exceed 25% - 30% of your monthly income before tax. If your monthly loan repayments are higher than this, your loan could be unaffordable.

## What credit card limit is right for me?

When deciding on the right credit card limit for you, responsible lenders will normally take a careful approach. While you may not intend to spend the entire credit limit available on the card, the lender must consider that you could potentially do so if the credit is made available to you. So, the lender will set a suitable credit limit that reflects your ability to repay the full amount available on the card.

As a guide, it is in your advantage to repay credit card debt in full each month to avoid incurring interest charges. You should never see a credit card (or a limit increase) as a way to get out of other debts.

**TIP:** Before you seek credit, you should consider whether you need it. You might be able to access other products and services without needing to seek a credit facility.



# The Right Loan for You

With so many different loan types on the market, it's important to find one to meet your needs. The right type of loan will depend mostly on the reason you are borrowing. Researching how different loans work will help you to make a decision that is right for you.

A good loan should help you take control and reach a well-considered goal, be within your financial means and be flexible. Use these points to help you choose the right loan for your circumstances.

## Overdrafts

An overdraft is a credit facility attached to an existing account. It can also be suitable for short term access to credit and once set up the funds can be accessed immediately.

Accessing overdraft funds is normally the same as accessing other money in your account. Interest rates on overdrafts are usually lower than credit cards. However, there is no interest free period so interest is charged as soon as funds are accessed.

## Personal loans

A personal loan is a basic type of loan with regular, set repayments and a fixed term (typically up to 5-7 years). Personal loans are usually taken out with a particular purpose in mind, such as buying a car, financing a holiday or consolidating other debts.

The loan can either be secured or unsecured.

'Secured' simply means that an asset (such as a car) is mortgaged as security for repayment of the loan. If you fall behind in the repayments, the lender is entitled to foreclose the asset and sell it to recover their money.

Many people find it easier to keep control of this kind of debt because the repayment amount is fixed. A personal loan is suitable for medium-term borrowing goals and, when used wisely, can help to build your standard of living.

**TIP:** Using a personal loan to consolidate debts can save you money if you pay out debts with higher interest rates and bundle them into one lower interest rate personal loan. However, it's important to make sure that you aren't just borrowing from one lender to pay another. So, if you are planning on consolidating your debts, get help from your credit union, building society or other finance professional.

## Home loans

A home loan is the way most people manage to buy their own home. Home loans are a long-term form of borrowing and the rate of interest charged is usually the lowest of all loans.

**TIP:** If you are thinking of buying property, take control and talk to your credit union or building society about a home loan. They will ensure that you get a loan that meets your needs and ensure that you can manage the repayments.

*“Bricks & Mortar – a practical guide to buying property”* is also a useful starting point if you are planning on buying a home. Ask your credit union or building society for a copy.

There are many different home loan options available and the interest rate and fees vary according to the features of the loan. The interest rate can be fixed, variable or a combination of the two. Therefore, your repayments are either fixed or variable depending on the type of interest rate you choose.

Most loans require you to provide full documentation but some can be low or no documentation loans. Whatever home loan you chose, you must provide accurate details of your financial situation so the lender can properly assess your ability to service the loan.



# The Right Credit Card for You

Credit cards are a common and popular loan choice. They are convenient, flexible and relatively easy to get. Once approved, they allow you immediate access to funds, making them ideal to pay for frequent, short-term purchases. They are also handy for making purchases or paying bills over the phone or the Internet.

Used wisely, credit cards have many benefits in terms of convenience, speed and comfort. The problem is that it's just as easy to let them get out of control. It can be tempting to make impulse buys that you don't really need or can't really afford.

## Interest free period

One of the great benefits of a credit card is that most offer an 'interest free' period, which normally ranges from 44-55 days. During this time, you can repay the amount borrowed (which is the amount of all your purchases) without paying any interest charges.

If you are disciplined with your money, the interest free period can really work for you. You can leave your money in your savings account earning interest until your credit card bill is due and then use the money to pay off your credit card.

However, if you don't repay the amount borrowed in full by the due date, you will incur interest charges. The interest rate charged on credit cards is normally higher than any other type of loan.

As with all loans, you have a commitment to pay back the money you have borrowed. With credit cards, you must make a minimum payment each month, which is normally a small percentage of the outstanding balance. Any amount that you don't repay will be carried over to the next month's bill and you will incur interest charges on that amount. This is called revolving credit, because it can be carried over month after month if you don't repay it.

**TIP:** When you make a purchase, parting with cash is visible but the impact of putting it on credit is not always as obvious. To stay on top of things, keep a running tally of all your credit card purchases and you won't be surprised when the statement arrives.

**TIP:** Some credit cards advertise interest free days, but the interest free benefit on future purchases may be forfeited if you carry forward any outstanding balance. Make sure you confirm the details with your provider so you can take full advantage of any interest free periods.

## Choosing the right card

With countless cards on the market, it can be difficult to know what card is right for your circumstances. Despite all the choices, if you ask yourself a couple of basic questions about your spending and repayment habits, you should be able to select the most suitable card.

- Do you use your credit card frequently?
- Do you usually pay off the full balance by the due date each month?

If you answered 'yes' to both of these questions, then a credit card with a rewards scheme could offer you significant bonuses for your loyalty. These cards are mostly priced at the high end of the market, which means the interest rate is high, but as you usually pay off the entire balance each month, the interest rate doesn't apply.

The rewards scheme allows you to earn points for each dollar you spend on the card. When you have collected a certain number of points, you can exchange them for a range of rewards such as gift vouchers, magazine subscriptions, flights and accommodation, and a range of other goods. In some cases, you can redeem your points for credit on your card too.

If you answered 'no' to the first question and your credit card is only used now and again, then look around for a card with no or a low annual fee. You don't want to be paying a high annual fee for the card to sit in your wallet.

If you answered 'no' to the second question, a card with a low interest rate is probably best for your circumstances. You don't need to be paying for all the bells and whistles, when you should be focused on paying the lowest rate of interest possible so that you can pay off your outstanding balance faster.

**TIP:** Your monthly credit card statement will outline the 'outstanding balance' and the 'minimum payment'. The outstanding balance is the total amount owing on your credit card, including any outstanding debt from last month, any interest charges and any new transactions from this month. The minimum repayment is usually a small percentage of the outstanding balance, or a set figure, such as \$20, whichever is higher.

You should aim to repay the outstanding balance by the due date whenever possible because you won't be charged any interest. If not, at least try to repay more than the minimum required because this will reduce the interest you have to pay.

## Be credit card smart

The key to getting the most from your credit card is to use it smartly.

If you've chosen a card to meet your needs, you're on the right track. Keep these extra tips in mind and you'll find your credit card is a useful financial tool:

- Credit card fees vary greatly between different card issuers. In addition to the annual fee, which is charged each year just to keep the account open, there are a range of other fees payable. These can include fees for late payments, going over your credit limit, cash advances, over-the-counter payments and overseas transactions. Ask your credit card issuer what extra fees they charge and then decide if you need these extra facilities.
- Credit card issuers commonly use a low 'balance transfer' interest rate as an incentive for you to sign up to their credit card. The balance transfer interest rate applies to an outstanding amount that you transfer from your existing credit card to a new credit card. It's normally a good deal lower than the interest you are being charged by your existing issuer, so you can make significant savings on your interest bill. But, the lower rate usually only applies for a few months, so it's important to pay off your balance before the interest rate reverts back to the higher rate. Ideally, once the balance is transferred, you should close the old credit card account. Don't be tempted to spend more money on the old credit card otherwise you'll be left with a debt on two credit cards.

- Cash advances are costly. Interest is charged from the day you withdraw the money and the interest rate on cash advances is often higher than the rate you pay on purchases. It's a very expensive way to obtain cash, so avoid using your credit card for cash advances if possible.
- When using a credit card with rewards, don't be tempted to increase your spending just to get the points. The extra cost of what you buy and any interest you may be charged if you don't repay your bill in full will almost always outweigh the benefit you get from the rewards points.
- An increasing number of issuers include other value-added features with their credit cards. These added features include short-term insurance against loss or damage for your purchases, overseas travel insurance and free or discounted travel. Normally only available on gold or platinum cards, which often have higher annual fees and interest rates, these extra features can be costly if you don't need or use them.
- New credit card products are introduced regularly, so periodically shop around to make sure that your card is still offering you the best deal. Also review your spending and repayment habits to ensure that your card is still the right type for you.

## CASE STUDY

Emily had a couple of credit cards, which she usually kept to a reasonable level most of the time. But over time, the credit card balances got higher and no matter what Emily did, she could never seem to pay them off entirely. After reading her credit card statement carefully, Emily realised she was being charged interest at a rate of 17.5% per annum so she decided to shop around for a better deal.

Emily found a credit card issuer that would charge her only 8% per annum for the balances she transferred over from her existing credit cards. So, Emily made the switch and saved hundreds of dollars on interest charges. Emily was also careful with purchases on her new credit card because she was aware that the lower interest rate was only offered for a few months.

## Credit card security

Compared to cash, credit cards are a relatively safe way to purchase goods and pay bills in person, over the phone or over the Internet. However, it's smart to take basic steps to protect yourself against incidents of credit card fraud.

- Memorise your PIN, don't keep a hard copy and never tell your PIN to anyone. It's also a good habit to change your PIN from time to time. It's a basic rule but very important.
- Sign your new credit card as soon as you receive it and destroy old cards by cutting them into small pieces.
- Report a lost or stolen card immediately. The card issuer can cancel the card and stop any further transactions being made. This will help ensure you are not held liable for any unauthorised transactions on your card.
- Check your monthly statement carefully. Thieves can make a living by skimming small amounts from lots of people, hoping that it won't be noticed. If you discover charges on your bill that aren't yours, notify the card issuer quickly.
- When you hand over your credit card for payment, don't let it out of your sight. It only takes a moment for your personal details to be 'skimmed' from your credit card by a dishonest person. Your details can then be used to pay for goods fraudulently. Be alert to this practice, even in reputable stores.
- When using your card for online purchases, ensure the Internet site you are dealing with has high-level security and data encryption to keep your card details safe.

Consumers ultimately pay for credit card fraud through higher fees and charges, so everyone benefits if we all make an effort to minimise fraud.



## Credit cards and overseas travel

Credit cards are particularly useful when you are travelling overseas. They are widely accepted in most countries around the world, are generally safer than cash and can be replaced quickly if lost or stolen. They can also be used to access cash in local currencies, which can be very convenient.

Credit card transactions made overseas are subject to currency fluctuations and many providers charge an overseas conversion fee, so it's a good idea to keep an eye on exchange rates and review the terms and conditions to be sure what fee you are charged. Normally, the exchange rate that applies is the one current at the time the transaction is made.

One of the downfalls of using your credit card overseas is that your credit card issuer might charge higher fees. For example, there may be extra transaction costs or higher cash advance fees, so check with your credit card issuer before you leave.

Whatever credit you choose (personal loan, credit card, home loan) it is important to provide complete and accurate details so the lender can properly assess your ability to service the credit limit or loan. If you don't, the agreement can be cancelled and the amount owing would need to be repaid, as well as losing some of the protections that might be available under the law.

**TIP:** There are a number of other foreign currency options available for travellers, including cash passports, travellers cheques and debit cards. See your Credit Union or Building Society for more information on these products.





## The Lender's Perspective

From the lender's point of view, they want to feel comfortable that you are capable of repaying the loan within the specified time period without financial hardship. Similarly, your lender will want to ensure that your credit limit is manageable, you won't get yourself into financial stress and that you'll repay your debt.

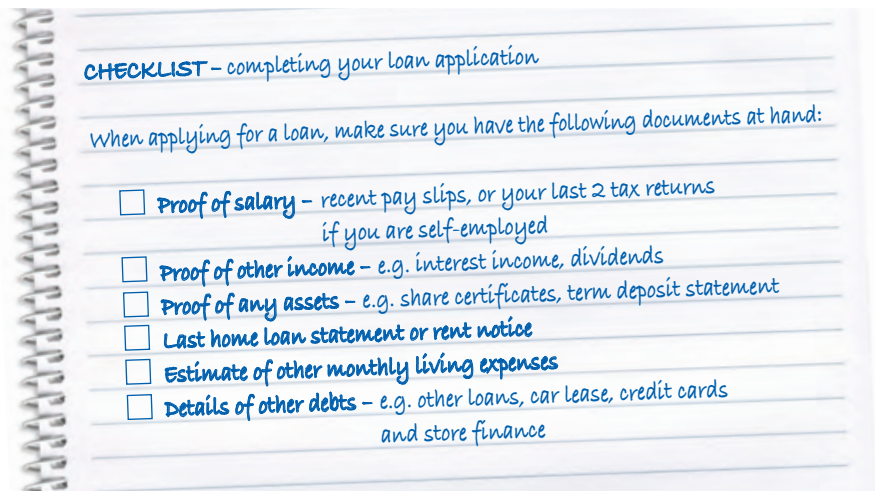
To assess your level of risk, and therefore whether or not you will be approved for a loan, lenders will look at three main factors:

**Capacity** – Can you afford to repay the loan?

**Collateral** – Do you own more than you owe? Your existing assets (such as savings, investments, car and jewellery) and liabilities (money you already owe to others) will also be taken into account.

**Credit** – Are you a good financial risk? Lenders will be interested in your history of repaying other loans and debts and will use this to determine whether you are likely to repay this loan. Other factors such as your occupation and a history of stable employment and residence will be used to build a credit profile.

Lenders collect this information on the loan application, so it's important to provide detailed, thorough and accurate responses.



## Your Credit Rating

Before approving a loan, responsible lenders will check your credit rating, which has been built up over time. If you have ever borrowed or applied to borrow money, you will have a credit file. Your credit file includes:

- Your personal details - name, date of birth, current and past residential addresses.
- Records of applications you've made for credit and current credit sources.
- Reports by credit providers regarding seriously overdue accounts (more than 60 days late) and those that have been brought up to date.
- Items on public record such as bankruptcies and some court judgments.
- Details of company directorships.

If you have a history of being late with repayments, your credit rating might be affected. Information stays on your credit file for at least 5 years, so it's important to tidy up your credit file before you apply for credit.

There are some steps you can take with regard your credit file that may assist with loan approval:

- Step 1:** Check that your credit file is accurate. Sometimes records are not updated and you are entitled to correct them.
- Step 2:** Repair your record by paying any outstanding debts. You may be able to negotiate a longer repayment period or part-payment arrangement.
- Step 3:** If you think your credit rating is borderline, raise this issue with your potential lender. Honesty about the situation shows you are responsible, and ensures that you stress the problems have been resolved.
- Step 4:** If your credit rating is very poor, consider delaying your application and focusing on repairing your credit file and increasing your savings.

## Choose a Lender

While there are many different loan options available, there are even more lenders to choose from. Much of your research can be done online and you'll find detailed information on each lender's website.

With so many options, how do you find the right lender for you? Do you go to a traditional lender, such as a credit union or building society, or do you use a non-traditional lender, such as a finance company or unregulated lender?

No matter where you go, it's important to compare the features of the loan and know what it's going to cost in terms of interest rates and other fees and charges.

Ask some basic questions of your lender:

- What loan options are available?
- What are the fees and charges?
- What are the loan conditions and penalties?
- How much can I afford to borrow and what will my repayments be?



### **FACT:** The Case for Credit Unions & Building Societies

Your local credit union or building society is a good place to start when looking for a loan. Credit unions and building societies offer a full range of loans and have a reputation for offering highly personalised service. This can be particularly useful for people who have no prior borrowing experience.

Credit unions and building societies deliver other important benefits too. With no external shareholders demanding dividends, credit unions and building societies can lend money on very reasonable terms with competitive rates and low or no account-keeping fees.

### **Beware of fringe credit providers**

For short term loans, it can be tempting to go to a fringe credit provider, such as a pay-day lender. They are known as fringe credit providers because they operate on the fringe of the finance industry and don't always have the same set of standards and regulation as other lenders, like credit unions and building societies.

Loans from a pay-day lender are usually short-term with very high fees and very high interest. It's not unknown for them to charge an interest rate of 30% or 40% or even more. Under these circumstances, your interest bill will rise quickly if you can't keep up your repayments.

### **Comparison Rate**

In the past, calculating the real cost of a loan has been complicated and difficult. The interest rate is only one factor in the overall cost of the loan – fees and charges must also be taken into account.

Comparison rates were introduced so that consumers could easily compare loans from different financial institutions. The comparison rate includes the interest rate, any establishment fees and other upfront or ongoing fees for a particular loan, and reduces it to a single percentage figure. All loan advertising must now show the comparison rate. For example, a loan may be advertised with an interest rate of 7.55% p.a. but the comparison rate is 7.9% p.a. when all the other fees and charges are considered.

A word of warning when using comparison rates – they do not take into account the various additional features offered by some loan types. For example, the benefits of making additional repayments are not calculated in the comparison rate. You may have to pay a little more for these benefits, but it may be worth it in the long run if these features better suit your needs.

## What a Lender must tell you

Whether you are getting a credit card, overdraft, personal loan or home loan, if the loan is regulated under the Uniform Consumer Credit Code, lenders must comply with the Code. This Code governs credit transactions and requires that lenders present information in a clear and simple format, making it easy for you to understand. It was introduced to protect borrowers when entering into a loan contract.

The Code requires lenders to tell you all the relevant information about your loan arrangement upfront and in writing before you sign any contracts. Responsible lenders will always follow the rules of the Code, so be wary of other lenders who aren't willing to give you the following relevant information:

- The amount of money to be lent.
- The interest rate and how it is charged.
- All fees and charges to be paid.
- How often statements will be sent out.
- Details of any commissions payable.

### CASE STUDY

A few years ago, Natalie bought a great apartment. She had a good job that paid a reasonable wage and her home loan repayments were manageable. Although Natalie didn't have much in the way of savings, she thought she had her finances under control.

Unfortunately, Natalie had a car accident and because of her injuries, she couldn't work for a few months. After a couple of weeks, Natalie's sick pay and holiday pay ran out and it didn't take long to drain her savings. Natalie soon found that she could no longer meet her home loan repayments.

Thankfully, Natalie spoke to her credit union and explained her circumstances. They were able to work out a 'payment holiday' because Natalie spoke to her lender early, which meant that Natalie didn't have to make any repayments while she was off work.

Natalie could concentrate on getting better without having to worry about the repayments. When Natalie was well enough to go back to work, the repayments returned to normal.

Protection under the Code continues after you sign the credit contract. Lenders are required to give you regular account statements that include the most up-to-date information about your loan. The account statement must clearly state the following information:

- The opening and closing date of the statement period.
- The opening and closing balances of the statement period.
- Fees and interest charged.
- The minimum payment required and the due date for payment.

The Code also requires your lender to follow certain procedures if they need to take collections or other action against you.

**FACT:** Another important part of the Code is to protect borrowers who have difficulty meeting their loan repayments. If you become sick, lose your job or are genuinely struggling to meet repayments, you can ask your lender to change your contract. Depending on the circumstances, your lender may agree to reduce or postpone some or all of your repayments for an agreed period of time so you can better manage your obligations. The Code also requires that you provide accurate information to your lender, failure to do so can result in a loss of your protections under the Code.



## Financial Stress

When financial problems strike, you can feel very alone. The truth is that many people across the community deal with difficult financial situations too.

The cause of the problem varies from person to person – it may be caused by borrowing too much money, a number of large, unexpected bills arriving at once or health problems that mean you can no longer work for a period of time. When you list all these potential causes, plus others that you may not have thought of, you can see that financial pressure could happen to anyone.

Some people experience financial difficulty because a series of small emergencies happen soon after each other, putting pressure on your finances. If they happened individually, you'd normally be able to cope with each emergency. However, when they all happen on top of each other, it's easy for the situation to get out of control.

Different people handle financial pressure in different ways, and, as a result, the consequences vary too. Some of us don't have the skills to handle a difficult financial situation or simply ignore the warning signs, which can result in a serious financial crisis.

The answer is to prepare yourself with the information you need to manage financial problems, so that you can handle the situation if needed.

The best protection against financial crisis is a solid budget and reasonable savings, which you can rely on when needed.

It is also important to be alert to early warning signs.

The following list can be a signal that you are at risk of suffering financial hardship:

- Are you spending more than you earn?
- Are you borrowing from family and friends just to manage?
- Do you need to use your credit card to pay for food?
- Are you only managing to repay the minimum balance on your credit cards?
- Are you paying off one credit card with another?

**TIP:** Aim to have the equivalent of 3 months take-home salary set aside for emergencies, unexpected expenses or in the case of retrenchment or illness. You never know when financial stress can happen.

- Do you often pay interest and charges on your debts because of late payments?
- Are poor health, unemployment or other personal problems causing you financial stress?
- Are you behind in your house payments or rent?
- Are you often being contacted by your creditors asking you to pay overdue bills?

If you answer 'yes' to any of these questions, you should seek financial help from your credit union or building society or consult a financial counsellor. A list of financial counselling services is included at the end of this booklet.

**TIP:** Remember that credit is not money to be spent, but rather money to be repaid. Don't get caught in the 'buy now, pay later' way of thinking.

## Solving your debt problems

If you are experiencing financial stress, the best thing you can do is take action. If you do nothing, the problems are not going to go away and, in fact, they will probably get worse. So, the first thing to do is to acknowledge that you are having difficulties and decide to take control.

Next, write out a list of your debts, including how much and to whom you owe money (your creditors). Then work out what amount you can offer each creditor to repay them.

The easiest way to work out how much you can repay each creditor is to prepare a budget. See the Budget Planner on page 6 – it details your income and all your expenses. Include regular, manageable repayments to your creditors, bearing in mind that the creditor who is owed the most should probably get the largest repayment.

If your budget shows that your expenses are higher than your income, don't panic! This just means you'll need to take a closer look at your budget and look for areas where you can save money. It's easy to do – you just need to know how.

Now that you've worked out a realistic budget, it's time to talk to your creditors. This should happen as soon as you start experiencing problems, so it's best not to put off the discussion.



You may feel anxious or embarrassed talking about financial stress, but it's important to let your creditors know what is happening. You could possibly save yourself stress and money by taking control and acting on your situation sooner rather than later.

Most creditors will be pleased that you've made an effort to keep them up to date. If you don't return their phone calls or acknowledge their letters, they will assume the worst and it will put them offside. However, if you are honest about your situation of hardship and explain logically how you can realistically repay your debt, you may find your creditors are sympathetic to your circumstances and willing to help. From their point of view, they are more likely to get the loan repaid in full if they help you through a hard patch.

**TIP:** If you find yourself in financial stress, it helps to talk to someone about your situation. You don't have to work it all out on your own. Your Credit Union or Building Society can help you with your budget or give you some advice on how to trim your spending.



## Consolidate your debts

Another way of managing the repayment of your debts is to consolidate them into one loan. You can use a personal loan to consolidate debts, which can save you money by reducing the interest rate you are paying and lower your overall repayments to a manageable level.

**TIP:** If you are planning on consolidating your debts, see your credit union or building society about a personal loan. They can also set up regular payments from your salary to repay your loan.

If you do consolidate, it's important that you don't rack up new debts with your creditors. Stick to your budget, try to pay with cash and consider leaving your credit card at home, so you're not tempted to use it unnecessarily.

### Getting back on track

To get back on track, focus on repaying your debts as planned. This may take some time but it will be rewarding to get back in control of your financial situation.

Once your debts are repaid, you can start to think about rebuilding your savings. As you know, emergencies and unexpected expenses can happen to us at any time, so aim to have about 3 months take-home salary set aside to cover difficult times in future.

You may also like to consider reducing your level of credit, such as reducing the credit limit on your credit card, so that you are not tempted to let your debt get out of control.



## Debt Agreements

You can negotiate a compromise arrangement with your creditors called a Debt Agreement. This is a low cost and flexible alternative to bankruptcy. A Debt Agreement is a proposal put to your creditors who then vote on it and are bound by the result. The Insolvency and Trustee Service Australia (ITSA) handles the voting process.

As a negotiated arrangement, a Debt Agreement could cover:

- Payment of less than the full amount of the debt.
- A moratorium on payment of debts.
- A transfer of property from the debtor to one or more creditors in full or part payment.
- Periodic payments of amount from the debtor's income to creditors.

**TIP:** For more information on debt agreements, contact your credit union, building society or ITSA.

Debt Agreements are designed for people with some ability to repay their debts and must be able to offer creditors some return on the debts.

## Court instalment orders

In some cases, particularly if you are hard to contact, your creditors may refer your debt to the courts and you will receive a court Statement of Claim.

Even if you've already received a Statement of Claim, it's not too late to talk to your creditors. Although you must still follow the timetable set out in the Statement of Claim to lodge a formal defence, or your creditor can seek a default judgment against you. If you make contact with them, they may still be willing to make arrangements for you to repay your debt.

If your creditors are not willing to make a repayment arrangement, you can go to the court, talk to the registrar and apply to pay the debt by instalments through the court. It's important to have prepared your budget, so that you can make a realistic offer to the court. If it's too low, the court will not approve it. If it's too high, it may be too difficult to maintain. If you don't make your repayments, the court may garnishee your wages or have your goods repossessed.

When your debts reach a level of seriousness that the courts get involved, you have little say in what happens next. That's why it's so important to take control of your situation as soon as you start experiencing financial stress. Talk to your creditors and together you can implement a repayment plan that works for both parties.

## Bankruptcy is the last resort

Imagine you are experiencing financial pressure and unable to pay your debts. Your creditors are in regular contact, urging you for payment, and your situation is getting more stressful. At this point, bankruptcy can seem like an attractive option.

If you declare bankruptcy you are recorded in a public record as a person who is unable to meet their financial obligations. Once bankruptcy is registered this clears all debts and claims against you.

Bankruptcy may get your creditors off your back and solve your financial problems in the short term. However, there are some long term disadvantages to bankruptcy that need to be considered. Once bankrupt, there is no going back, so it's important to understand how bankruptcy will affect your life.

Consider how these consequences of bankruptcy would affect your life:

- You lose control of your assets and items of value. If you own a house or are paying one off, the bankruptcy trustee can sell your property to repay your creditors.
- If you don't own your own home, it will be very difficult for you to rent while bankrupt. Landlords are unlikely to agree to a lease with a person who is bankrupt. Even after discharge, it is likely to be hard. You may even find it difficult to get electricity, water or a telephone line connected without paying a sizeable bond.
- If you earn an income, you are obliged to make regular repayments to your bankruptcy trustee for the benefit of your creditors. The amount you are required to pay varies according to the number of dependents you have.
- Bankruptcy may affect your employment. Certain trades and professional occupations are subject to restrictions imposed by licensing authorities or professional associations. If you file for bankruptcy, you may lose your job, or it may affect your future prospects in your chosen field.
- Any money or assets you inherit from a deceased relative or friend also goes to your bankruptcy trustee, to be sold for the benefit of creditors.
- Borrowing money will be very difficult. The bankruptcy listing will stay on your credit file for 7 years, making it almost impossible for you to borrow money.
- If you want to travel overseas, you must get written approval from your bankruptcy trustee or permission from the court, depending on the circumstances of your bankruptcy.

## Avoiding bankruptcy

Bankruptcy should be avoided because the consequences are long term and extensive. While you can voluntarily go into bankruptcy for any amount, your creditors can only make you go bankrupt if you owe them \$2000 or more.

Always seek advice from a finance professional before taking the bankruptcy path. There are many experts who can help you, including financial counsellors, accountants or community advice centres.

If you are prepared to work through your financial difficulties, most people who seek the help of a financial counsellor can avoid bankruptcy.

There are alternatives available:

- Your financial counsellor can help you to set up a manageable and affordable repayment arrangement with your creditors.
- Talk to your creditors about refinancing. In the vast majority of cases, your creditors will prefer to work out an arrangement for you to repay your debts.
- Sell some of your non-essential assets and use the proceeds to repay your creditors. Try not to sell essential items (such as your car) or items that may be hard to replace later.

If you have sought help and still can't see any way of being able to pay your debts, you can apply to the Insolvency Trustee Service Australia to be declared bankrupt. A trustee will be appointed to manage your affairs for the benefit of your creditors.

You will remain bankrupt for 3 years and then be automatically discharged. Your bankruptcy will go on public record and it will also be listed on your credit file, where it will stay for 7 years.

Being declared bankrupt does not clear all debts. You are still responsible for child support payments, fines, HECS and other student loans and some social security overpayments.



## Help is available

Financial counsellors are available throughout Australia and exist to help people in financial difficulty. They are trained professionals, used to dealing with people suffering financial stress. Financial counsellors are supportive and sympathetic to your situation, so there is no need to feel worried or embarrassed about seeking their help.

Financial counselling services are free and confidential. They will help you to keep your independence in times of financial difficulty and remain in control of your own financial affairs. They can:

- Assist you with preparing your budget and make suggestions on how you can make changes for the better.
- Help you negotiate with your creditors.
- Help you to access relevant government assistance.
- Explain details of debt recovery procedures such as court instalment orders and bankruptcy.

The contact details for financial counsellors around Australia are included in the 'More Information' section at the back of this booklet. Talk to the staff at your credit union or building society, they can refer to you a local financial counsellor.



## CASE STUDY

Brad recently bought the car of his dreams, financing it with a car loan from his local building society. At first Brad had no trouble with the repayments but his spending got out of control. The registration and insurance costs for the car were much more than expected, so Brad paid for them with his credit card. Brad also spent up big on accessories for the car and soon his card was at its limit.

Most of Brad's wage was taken up with rent and repayments, so Brad got another credit card just to pay for living expenses, like food and his mobile phone.

Brad realised that his debts were growing quickly and he didn't know how he was going to repay everything. One of his mates suggested going bankrupt because he'd heard that all your debts are wiped out and you get a fresh start. That sounded like an appealing option to Brad.

Thankfully, one of Brad's work friends suggested that he see a financial counsellor instead. He said a financial counsellor could help him sort out his financial problems and that it was a free service. The counsellor explained all the downfalls of bankruptcy and Brad realised bankruptcy wasn't a quick-fix after all.

The counsellor helped Brad to work out a budget and encouraged Brad to talk to his creditors. By reducing the repayment amount to a more manageable level, Brad could repay each creditor a little each month and still have enough left over to pay cash for his living expenses. After about a year, Brad had repaid all his credit card debts and had only his car loan left to repay.

Brad was back on track.

## Practical guidance

Your local credit union or building society can give you practical guidance on applying for and managing credit.

If you're having trouble managing your finances, they'll help you take control and prepare a budget and get you back on track. If your problems are more serious, your credit union or building society can still help or put you in touch with a financial counsellor in your local area.

Credit unions and building societies also offer a range of credit products, including credit cards, overdrafts and a variety of other loans. They will match the right loan to your needs and ensure that your repayments are manageable. Your credit union or building society is your financial partner for the long-term.

Your credit union or building society also has a range of booklets that can help you to take control of other aspects of your financial situation. Drop into your local branch and ask for a copy of the ones that are relevant to you.



## More information

More information is available on a number of the topics discussed in this booklet. Here are contact details for the relevant organisations.

**Credit file** – contact Veda Advantage at [www.mycreditfile.com.au](http://www.mycreditfile.com.au)

**Consumer Credit Code** – visit [www.creditcode.gov.au](http://www.creditcode.gov.au)

**Credit cards** – to research different card types, visit:  
[www.cannex.com.au](http://www.cannex.com.au) or [www.infochoice.com.au](http://www.infochoice.com.au)

**Financial counselling** – contact the organisation in your State or Territory and they will refer you to the closest service.

**ACT** Care Financial Counselling Service  
(02) 6257 1788

**NSW** CreditLine Helpline or NSW Financial Counsellors Association  
1800 808 488  
[www.financialcounsellors.asn.au](http://www.financialcounsellors.asn.au)

**NT** Anglicare Northern Territory Financial Counselling Service  
(08) 8985 0000

**QLD** Financial Counselling Association of Queensland  
(07) 3321 3192  
[www.fcqn.asn.au](http://www.fcqn.asn.au)

**SA** Uniting Care Wesley  
(08) 8202 5111

**TAS** Anglicare Financial Counselling Service  
1800 243 232

**VIC** Financial & Consumer Rights Council  
(03) 9663 2000

**WA** Financial Counsellors Resource Project  
(08) 9221 9411 or 1800 134 139

**Insolvency and Trustee Service Australia (ITSA)**  
1300 364 785  
[www.itsa.gov.au](http://www.itsa.gov.au)



## NOTE

This booklet has been written to assist Australians to improve their financial literacy. Information within the booklet is generic in nature, not intended as advice and was compiled without taking into account any individual circumstances of the reader. It is recommended that you consult with appropriately qualified professionals, such as accountants, solicitors and financial planners, before making major financial decisions.

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