

## Reducing Debt

Many people experience financial hardship throughout their life, and it can be a very stressful problem to manage. There can be lots of reasons for your debt getting out of control, including unemployment, ill health, or a relationship breakdown. Perhaps this is the first time you are experiencing financial difficulties. It is important to know that there **is** help available; you are not alone. Here are some tips to help you start tackling your debt.



### Avoid doing nothing

#### Make arrangements:

- If you are finding it difficult to pay bills, or make payments on credit cards or loans, speak with the provider to arrange a payment plan or extension
- If you cannot come to an agreement, you can apply for a **hardship variation**
- A hardship variation is a formal process whereby you ask your credit provider to make change to your loan contract to give you more flexibility in payment. You can request that the period of your loan be extended, reducing your regular repayments; you can request that your payments be postponed for a certain amount of time; or you can request both

#### Prioritise your debt:

- The importance of your debt depends on a number of things, including what it is for, who it is owed to, what the interest rate is, and how much is owing
- **Secured debts** such as home and car loans are most important, as they have the greatest stakes. Prioritise these repayments first
- **Unsecured debts** such as credit cards are next on your priority and there are two options you can take paying off multiple credit card debt:



**Smallest debt first:** Continue making minimum payments on all credit cards, while aiming to clear the card with the smallest debt first, then move to the next smallest and so on. This will reduce your risk of late fees, reduce annual fees, and provide you with a sense of accomplishment each time you clear a card.

**Highest interest first:** Continue making minimum payments on all credit cards, while aiming to clear the card with the highest interest rate first, then move to the next highest and so on. This may save you money in the long term by reducing the amount of money you spend on interest.



Don't borrow to pay debt:

If you are having difficulty paying your regular bills such as electricity or phone bills, contact the company to organize a payment plan, rather than increasing your debts to pay these bills. Most companies are happy to help you work out a plan that will suit your needs.

Consider consolidation:

- It might be a good idea to roll all your debt into one manageable payment. *However*, there are many things to consider before making this change.
  1. This option can work if you will be paying less in fees and interest in the long term, however you need to ensure that the new repayment amount is affordable, so that you don't end up in hardship again
  2. Consolidation or refinancing often incurs new fees and charges, and sometimes people end up paying more in interest on the new consolidated loan than they would have if they kept things as they were. Even if the interest rate on the new loan is lower, paying a short-term debt such as a credit card over a long time means you will pay more interest in the long run
  3. Consolidating and refinancing often allows you the opportunity to borrow more money. This can be tempting, but is not recommended, as you are putting yourself at risk of making your financial problems worse



Be wary:

- Be careful when speaking to brokers about your finances. Unfortunately, some credit providers do not have your best interest at heart and will take advantage of your situation to further their own gain

Avoid equity stripping:

- **Equity** refers to the proportion of your property that you have paid for. So, if your home is valued at \$300,000, and you have paid \$150,000, then you have \$150,000 of equity.
- **Equity stripping** is when someone takes advantage of someone in trouble by exploiting their desire to keep their home by:
  - Charging very high fees – sometimes 20% of the equity!
  - Refinancing at an amount you cannot realistically afford
- Be realistic about whether using the equity in your home to retain it is a good option for you going into the future. You may be better off selling and downsizing.

Experiencing financial hardship is difficult and can be incredibly stressful. Remember, you are not alone, and there is help available.

For further assistance, please call Working Life, TOLL FREE 1300 369 072 or email [mail@working-life.net](mailto:mail@working-life.net)