

**HOW TO STOP
JUGGLING DEBTS &
MASTER YOUR
MONEY**

CONTENTS

- **CHAPTER 1** – *How the Downward Spiral Gets Triggered*
- **CHAPTER 2** – *Credit – Your Friend or Foe?*
- **CHAPTER 3** – *Stop the Bleeding and Take Action*
- **CHAPTER 4** – *Digging Your Way Out – What’s Best for You?*
 - . *Budgeting & Saving – The Old Favourites*
 - . *Payday Loans – Just a Quick Fix*
 - . *Ease the Pressure by Negotiating With Creditors*
 - . *Unsecured Debt Consolidation Loans*
 - . *Secured Debt Consolidation Loans*
 - . *Debt Agreements*
 - . *Bankruptcy*
- **CHAPTER 5** – *Turning it Around Today*

Disclaimer

This article and its contents are designed and intended to be used for informational purposes only. Persons are advised to seek professional financial advice and all authors and publishers of this article do not make any claim as to the legality of information within this document. Cash Doctors Pty Ltd ACN 166 322 980, its directors and other persons associated with this publication will not be liable to any person whatsoever for any statement or omission contained in this article and any person that relies on the information contained herein does so entirely at their own risk.

HOW THE DOWNWARD SPIRAL GETS TRIGGERED

Remember high school? You worked a few hours a week and rarely saw more than a couple of hundred bucks at a time. It didn't matter because you did what you wanted most the time anyway. Money was your parents' problem.

At age 15 or 16, you fantasize about the freedom of moving out... doing what you want, when you want without parental nagging.

Years later, you get your first job and bigger chunks of money. It seems like heaps... more than you've had before. You're inclined to go nuts and think you're rich when you're not.

You move out, start dating, paying rent and keeping your car on the road. Filling out forms, tax returns, car insurance, bills. What happened to the freedom you dreamt of years ago?

Throw in a holiday to Bali that you couldn't afford but slapped on your credit card and suddenly that feeling of being 'rich' is replaced with scarcity and loss of control.

It happens to the best of us.

I resisted facing up to this stuff more than most. I had a credit card company chasing me around and my Mum still did my tax return when I was 25...pretty embarrassing hey.

Finally I knuckled down, worked harder and sacrificed a few things and turned it around. It meant diarising due payments, filling in forms and keeping a closer eye on living within my pay... things I'd been told before.

It only took a few months to turn it around. It's not like I had to live like a monk either.

Luckily most people identify when it's time to get the hang of the real world. It's not easy and I've seen good mates fall victim to innocent financial mismanagement.....

Scroll forward another few years. You're on double the pay, but have two cars, a spouse, kids and an interest rate rise for your mortgage, meaning an extra \$120 a month on top of the \$3000 you already pay.

Sobering stuff isn't it? But it is real. And you do need to find your way through it.

You need to reach a point, regardless of how old you are, where you have spare cash around and it stacks up so you can start to explore wealth creation options.

But first you need to get out of debt and back on terms.... take responsibility, understand credit and get on with things. It's about getting balance and getting control ... enjoying yourself, your partner, your friends and using your talents in a satisfying, rewarding way.

CHAPTER 2

CREDIT – YOUR FRIEND OR FOE?

Before we get into bailing you out of trouble, let's explore the difference between money and credit. When either will buy those wicked sunnies or cute earrings, the difference can be blurry.

Often when people use credit, they know they're paying with money they don't have, but they fail to appreciate the interest and how long they might be nursing itmonths on end, maybe years.

Say you buy those earrings and you only pay the interest payable on your credit card, rather than paying the balance back by the due date... Then you might end up buying those earrings a couple of times over depending on how long you carry your balance without attending to it.

If you didn't buy it on credit, you could have bought something else with that interest... or you could have paid another debt off or maybe even kept some money aside so you were prepared for contingencies.

Can you see what we're getting at here?

Cash Doctors is no different. We provide credit, just like credit card companies or banks. At the end of the day, it's not your money, and you have to pay it back... with interest.

Interest is the price of the money used over the given period of time depending on the risk profile of the person receiving the credit, any security involved and the use of the credit.

But credit isn't all bad either. Even consumer credit. Obviously I'll say that because I run a consumer credit providing business...but that aside, access to credit will smooth out your well being and lifestyle. If you didn't have access to credit and something came up or you budgeted poorly, you'd have to grind it out eating rice and tomato sauce and not paying your bills and accommodation for a few weeks until the situation improved. You wouldn't be able to buy great things when they came up or take a holiday for a few days even if you hadn't quite saved up for it. You probably couldn't get a car or even dream of buying a house by writing out one big cheque for a few hundred grand.

Essentially in these cases you weigh up the cost of paying the price of the item, plus the much larger associated finance cost and having the item now, against not having and perhaps never having it...and you generally do the transaction.

Credit facilitates wealth building. We can borrow to enjoy the leverage of appreciating assets with greater returns than the interest paid. These returns can create more options and equity, which can be secured by credit providers to borrow even more funds and acquire more assets. In the meanwhile, our own funds, not credit, should be used for the purchase of depreciating consumer items or we'll never have the chance to build wealth.

STOP THE BLEEDING & TAKE ACTION

You might feel you've taken remedial steps reading this. But it means nothing without follow up. The world is filled with people who talk big and don't deliver. So deliver the goods. Theory's not enough.

Consider the opposite scenario. Doing nothing. Things are only going to slide even more.

Sure it's hard to know whom to pay first when you have several creditors chasing you. But how much better will you feel if you face up to it and communicate and take positive action? Replace the fear and uncertainty with proactivity and problem solving.

Exactly what action is required will depend on the severity of your situation.

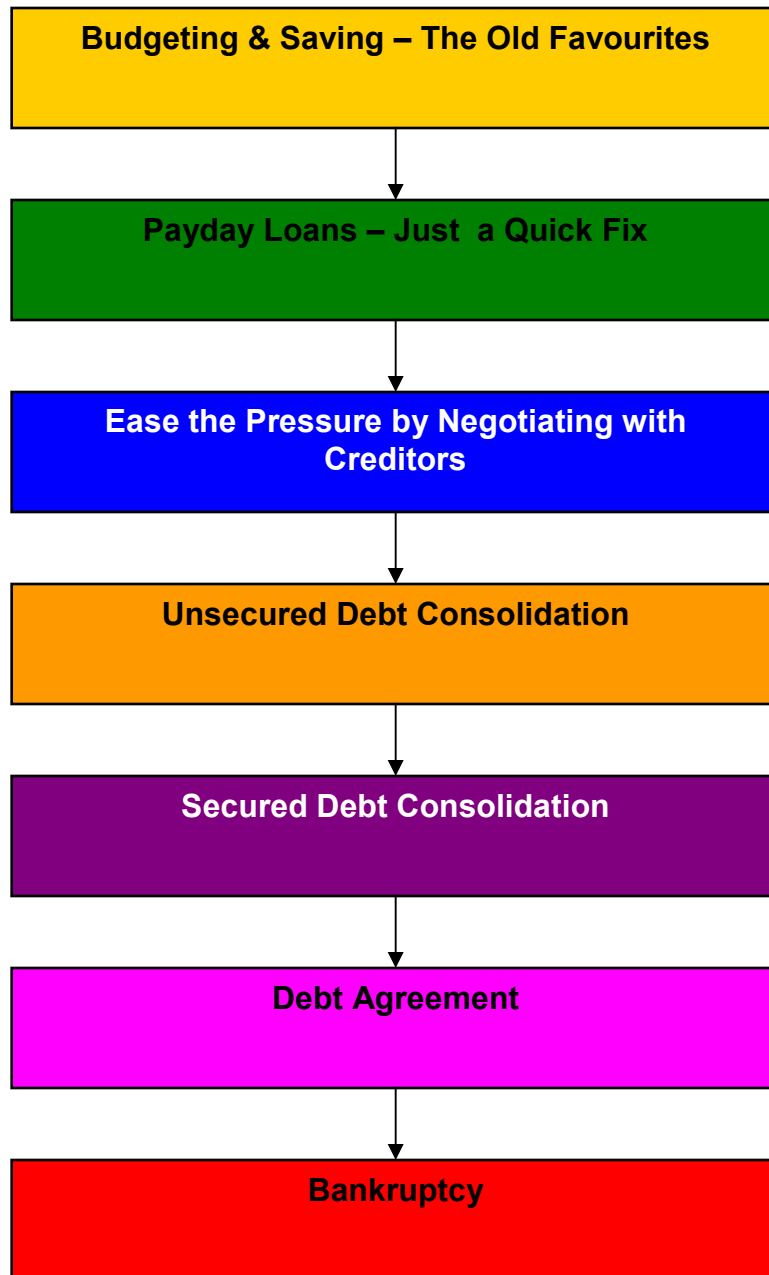
- *You have good habits, but you just slipped up once or twice.**
- *You just need to recognize when you pull your head in a little?**
- *You need to make arrangements before your credit rating gets hammered?**
- *Are you heading for a blowout in a year or two?**
- *Are you in way over your head and must take serious action right now?**
- *You're a lost cause and bankruptcy is the only option**

Wherever you fit in this book will help you. More importantly, it will give you options, so you can do what needs to be done.

DIGGING YOUR WAY OUT – WHAT’S BEST FOR YOU?

Hard up, skint, pov nitted, broke – call it what you like, it comes in many forms and many degrees of seriousness. It depends whether you have a mild case and you’re maybe \$150 short this fortnight or you owe several creditors \$150,000. This is more severe. Let’s take a look at the range of alternatives and you might start to see where you fit in and what action to take.

ALTERNATIVES TO MEET YOUR FINANCIAL CHALLENGE



BUDGETING AND SAVING – THE OLD FAVOURITES

Budgeting isn't that hard really – it's more a matter of actually doing it.

Are you really going to do it though? People who smoke know they'll die sooner and they smoke anyway. They can't claim to be ignorant when there's a black lung staring at them every time they reach for a packet of cigarettes.

It's the same for fat people. They know the difference between good and bad food, that they should eat less and actually exercise to lose weight. But they don't do it do they? Little by little they'll get fatter and fatter until they have diabetes or a heart attack one day. It just creeps up.

Basically in the short term, it's easier to do nothing than to take action. But when you add up lots of 'short terms' you get a long term and you get consequences. You have to think like this.

We all know what budgeting is. It's not that hard. You're on a fixed wage. You pay your fixed expenses then allocate some for debts and live off the rest and maybe even save some. That's it.

You might even save some and have enough to go on a holiday without borrowing or pay your car rego...that's great. The reality is that no matter how much we budget, things will pop up and throw the budget out which can easily trigger the debt cycle again if you have no savings.

Consider this....

You take a holiday or pay your car rego. You haven't saved enough so you pay on credit card. You intend to pay your credit card off to repay the holiday or rego, but at the end of the month there's always something more fun and exciting to spend the money on rather than repaying the credit card, so instead of paying the whole balance, you pay the minimum... or maybe even miss the payment. Sound familiar?

There's no fancy way of saying it. You have to do it, and the earlier you do it the better off you'll be financially. And you'll get a good feeling out of being well organized and managing your resources properly.

So how do you get started?

Firstly, set aside an hour or two. Turn on your PC and go into MS Excel or get some paper, and put down what you earn and what your fixed expenses are.

I'd work it out over a month, as bills are monthly and you might be paid monthly or fortnightly.

Then track what you spend for a month and determine whether you can pay your fixed expenses given what else you're spending your money on.

Generally you can say that 2/3 of your money should be on living expenses like food, housing, transport, clothing, while the other 1/3 should be split between entertainment and longer term saving or repaying debts.

2/3 = food, housing, transport, clothing

1/3 = entertainment and longer term saving or repaying debts

In the early days, you might have to pull your head in on the entertainment front and allocate most of that extra 1/3 to repaying debt. It's not sustainable to consider repaying debt by taking from the other 2/3 (living expenses). I'll eat baked beans for a year and ride a bicycle 30km to and from work and dress in curtains. Too many people make the mistake of cutting themselves too tight on living expenses, so the budget quickly gets too hard and gets canned. Don't kid yourself.

Take this example...

If Susan earns a net monthly pay of \$2600, she might spend \$600 on rent, \$320 on fuel, \$480 on food, \$320 on bills, \$320 on entertainment and clothes = \$2040. That leaves \$560 every month to repaying her credit card and the default she has to a mobile phone company so she can clean up her credit rating.

Net Monthly Pay = \$2600

Budget

\$600 Rent

\$320 Fuel

\$480 Food

\$320 Bills

\$320 Entertainment and clothes

\$2040

leaves \$560 to help pay credit card and baycorp default

If I were Susan, I'd take the amounts budgeted for fuel (\$320), food (\$480) and entertainment and clothes (\$320) and transfer them into a separate bank account. The rest is strictly off limits for these purposes, and is only for rent (\$600), bills (\$320) and repaying debts (\$560). If Susan spends less than she's allocated on fuel, food and entertainment and clothes, then it's up to her what she wants to do with it. Have a night out or transfer it back and use it to repay debts. A reward doesn't hurt sometimes. There's a plan.

Bank Account A

\$320 Fuel
\$480 Food
\$320 Entertainment and clothes
\$1120

Bank Account B

\$600 Rent
\$320 Bills
\$560 debt repayment (credit card and baycorp default)
\$1480

**\$1120 (Bank Account A) + \$1480 (Bank Account B)
= \$2600 (Total Net Pay)**

But she has to commit to it and do it. Or she's just wasting her time and waiting for someone else to come along and sort it out. And you know what? They won't. **It's up to you.**

PAYDAY LOANS – JUST A QUICK FIX

Payday loans are financial band-aids. You wouldn't put a band-aid on a broken leg. The whole idea of payday loans is to help people out who overshoot the odd time.

Maybe they've missed a mobile bill sometime and had a glitch on their credit rating, which stops them getting a credit card? Plenty of people have credit cards, but they're maxed out and they just need that little bit extra.

Most of our clients just pop up a handful of times each year, because they generally keep enough money around to live week in week out, but when a contingency pops up or there's something they must have or maybe an event... that spare few hundred bucks just isn't lying around.

The good thing is that it's paid off when you get paid and then it's all over. You can't say the same for a \$5000 personal loan or a credit card.

It's convenient, fast and unsecured and small amounts for short periods. It's an expensive source of credit much in the same way that you can buy a 45gram Kit Kat for \$1.80, but you can buy a 500gram block of chocolate for \$4.00. Things are dearer in small quantities and we pay for convenience. My article at <http://www.cashdoctors.com.au/payday-loans-news-articles/When-the-Going-Gets-Tough/94> goes into more detail about this.

So that's the option for the mild overshooters only.

EASE THE PRESSURE BY NEGOTIATING WITH CREDITORS

If pulling your head in a bit, developing a budget or a quick payday loan doesn't help then you might need the creditors to take some pressure off. We might be talking a few grand of unsecured debt in total, perhaps shared among a few creditors.

If you can negotiate with 3-4 creditors yourself, you can work out who needs to be paid first, or whether they might all agree to a small regular payment. Then you just need to determine exactly what you can afford and then budget for it strictly. Once again, the two bank accounts are useful this way.

When you get paid, you will know how much you will pay x,y and z creditors, according to the discussions you've had with them. Pay them straight away before you do anything, then pay your fixed expenses, keep some aside for bills and then live on the rest. It's not rocket science but it does require some degree of discipline and desire to turn things around.

Generally creditors will be willing to agree to payment arrangements as long as you honour them. If you have the courage and skills to negotiate, you might be

surprised what deals you can strike or what interest and penalties you can avoid. Best of all you might save your credit rating.

Look at the alternative. Doing nothing.

You keep your head in the sand and interest and penalties mount up and up. The debt is still unpaid and creditors have no choice to consider taking legal action and listing the debt on your credit rating file. This makes it very difficult to access credit for up to 7 years and no one likes getting sued or having a bailiff turn up at work to serve a minor debt claim in front of their colleagues. It's just not worth it.

Tell them you are having difficulties and ask if they can help. Some creditors have hardship provisions, which can give you temporary respite. Before you talk to creditors do a budget and figure out how much you can realistically afford to pay. Establish how much they will accept and over what time period. If you think it will help and your employer is agreeable, you might be able to get your employer to pay the creditors a certain amount directly when you get paid.

With some planning and budgeting and just a few phone calls over just a few hours, you can turn it all around.

UNSECURED DEBT CONSOLIDATION

Debt consolidation loans are an increasingly popular alternative for managing debt, particularly when monthly payments are beginning to get unwieldy and unmanageable. If these monthly repayments are on credit cards and you're just paying the minimum, then you're going nowhere except the treadmill you're on.

A debt consolidation loan lumps all your debts into one debt. The provider of the debt consolidation loan, which is very much like a personal loan, will pay your creditors the amounts outstanding. It's worth noting that these credit facilities should be cancelled when paid out if they happen to be still available to you, to prevent history repeating. You will then owe the provider of the debt consolidation loan that amount over a longer period.

The goal here is to reduce the monthly repayments so you can manage your finances more effectively and limit the amount you pay on high interest bearing loans. For example, if you paid a few credit card companies \$800/month with debts of \$15,000, you might take a debt consolidation loan of \$15,000, pay it over a few years and reduce your payments to \$500 per month, which frees things up significantly.

As these loans are obviously for people in moderate financial difficulty, they are only available if you are employed. Though it depends on the nature of the debts being consolidated and repaid, debt consolidation loans generally result in a larger repayment over a longer period. Ideally, you should try to maintain the high monthly repayments when repaying your debt consolidation loan to truly benefit from interest savings intended by the product.

SECURED DEBT CONSOLIDATION

If you have unencumbered equity in your property, you have more options as far as a debt consolidation loan goes. Providers of an unsecured debt consolidation loan have nothing to fall back on in the event of default, whereas your property acts as security in the event of default. This obviously makes a lender more comfortable and allows lower interest rates and larger sums to be borrowed.

The existence of security via property means that you can access mortgage refinance debt consolidation loans even if you are unemployed, have damaged credit history, have been previously bankrupt, are on a pension or are self employed. Providers of unsecured debt consolidation loans would generally not be able to provide finance to people in these situations

So how does it work?

The lender will help you to refinance your home, allowing the extra equity (where applicable) to be released to repay your debts with the result being that you will have a higher monthly mortgage repayment.

For example, James used to struggle to pay \$2500 per month to his mortgage provider, along with \$1200 per month to three creditors; a total of \$3700. After arranging a secured debt consolidation loan, James now pays a total of \$3200 per month in one payment and his other three creditors are now fully repaid.

DEBT AGREEMENT

A debt agreement is an alternative to bankruptcy whereby creditors accept a proposal made by you or on your behalf to agree to repay them over time. The agreement is legally binding on you and your creditors. A proposal is deemed to be accepted when the majority of creditors with at least 75% of the value of your debts agree to the proposal.

Though it is similar to an informal arrangement you may make yourself between you and your creditors, there are some advantages to pursuing this route. Firstly, as the government regulates these agreements, only licensed professionals can participate and keep you as a client.

These professionals can take a lot of stress out of the process by negotiating with creditors on your behalf, then passing on payments accordingly. They simplify the repayments by accepting one amount each pay period and then distributing this to your creditors as agreed. Once negotiated and agreed the amount does not attract further interest and you know exactly what date it will be paid.

It's also nice to have an independent party to lean on or to gently lean on your if you miss a payment. But what's in it for these guys? If you have no money, how do they make any money considering that interest stops and you don't pay them?

Administrators of debt agreements are paid by you over the period of the agreement. For example, if you have unsecured debts totaling \$25,000 they might negotiate them down to \$20,000 (at 80c in the dollar). They then add say, \$2000, so your total debt is \$22,000 repaid over 2 years for example. Their business makes money by having lots of people in a debt agreements, so perhaps 1000 people are paying the administrator a few hundred dollars per month, which all adds up.

As they work hard negotiating the agreements and lodging paperwork to the government as well and overseeing the repayments and distributions to creditors, these guys are good value. When you consider how much they save you, and the fact that, unlike a debt consolidation loan, you won't be repaying more than you owe in total due to the interest halting, it can be a great option if you're under pressure.

It is important to realize however that a Part 9 Agreement will display on your credit file. Once you are at this stage, you will probably have other defaults on your credit file, making it difficult to access credit.

Not just anyone can enter a part 9 debt agreement though.

- *be insolvent
- *discharged from bankruptcy for at least 10 years
- *not have netered into a debt agreement in the last 10 years
- *not have been subject to a personal insolvency agreement for the last 10 years

If you meet these criteria and your unsecured debt is over \$8000. Then this avenue might be worth exploring. We've research the administrators extensively and have selected the best partner to help people. Email debtcontrol@cashdoctors.com.au or call 1800 327 828 for more information.

BANKRUPTCY

If budgeting, negotiations, debt consolidation, or a debt agreement still fall short, then the last and least desirable option is bankruptcy.

To file for bankruptcy you must complete a debtor's petition, statement of affairs and acknowledge having read the Prescribed Information Booklet before lodging documents with the Insolvency and Trustee Service Australia (ITSA). There is no filing fee and ITSA will generally accept the documents and deem you bankrupt on the same day.

The bankruptcy period lasts three years, but the trustee may lodge an objection and insist the period be extended to five years. From the date of bankruptcy, creditors cannot take further action to recover amounts owing but must instead lodge a claim in the bankrupt estate. If you incur further debts from the date of bankruptcy, you must repay them.

Secured creditors' rights are maintained if you go bankrupt, so they can still repossess your assets if you are in default. From the date of bankruptcy, the trustee manages all of your assets so you are not allowed to sell any assets of value.

The trustee will investigate the bankruptcy and sell any assets of real value for the benefit of the creditors. This includes furniture, trade tools, means of transport. The trustee will also assess a bankrupt's income annually to determine if income is sufficient to make income contributions.

Going bankrupt has serious consequences. Once you have been bankrupt you cannot manage a corporation, require written permission to travel overseas and will have great difficulty accessing credit. It may also exclude you from working in certain occupations and otherwise hamper your earning potential and prospects.

Bankrupts cannot borrow more than \$4083 without disclosing that they are bankrupt. The trustee must be advised of any name changes, address changes and must give permission prior to any overseas travel. Bankruptcy is recorded on credit files for 7 years, even if it has been discharged.

The stigma is not easily overcome, which is why bankruptcy should be treated as a last resort. All other measures should be exhausted first, so if you have tried budgeting and negotiation yourself, have a look at the debt agreement option by emailing debtcontrol@cashdoctors.com.au. If you still don't have a way out, then voluntary bankruptcy is the option for you.

CHAPTER **5**

TURNING IT AROUND TODAY

Good solid people run into trouble. They might have a few expenses and they already have a credit card debt, they're a couple of months in arrears with their car payments and have a couple of outstanding bills with red on them. They think a payday loan might just defer the problem, but it actually makes it worse, because they couldn't really afford it. Sometimes people get desperate and they get another one and it's the beginning of the end.

This e book might give you an idea of where you fit in. Remember that wherever you are, there are people who have been plenty worse off and have come through it. But they've done so by taking action, not doing nothing. There are stories of people having been many millions in debt. They've taken action and worked and persisted and found their way through it. They've come out much stronger and gone on to build successful lives or even massive wealth.

I've seen it happen to some great people...some of our clients included. They're not dishonest or bad people, they just didn't know what options they had, couldn't see a way out and maybe kept their head in the sand a bit too long.

They could've taken action earlier and skillfully navigated their way out. Hopefully, it's not too late for you!

Think of the times you put something off thinking it was pretty hard. Then you just did it, only to think later on “Gee that was way easier than I thought, should have done it sooner.”

This article and its contents are designed and intended to be used for informational purposes only. Persons are advised to seek professional financial advice and all authors and publishers of this article do not make any claim as to the legality of information within this document. Cash Doctors Pty Ltd ACN 166 322 980, its directors and other persons associated with this publication will not be liable to any person whatsoever for any statement or omission contained in this article and any person that relies on the information contained herein does so entirely at their own risk.