

Overview: The cost of being in debt



This section is designed to raise awareness about debt – the reasons why people might fall into problems with debt and how they might deal with debt problems. It will introduce you to the concept of your personal credit record and give an understanding of how defaulting on repayments can impact your own credit record and the ability to get a loan.

You can see a glossary of commonly used terms on our jargon buster www.ccpc.ie/consumers/money/jargon-buster

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Student Worksheet 4.1: Dealing with financial troubles

In the previous section we looked at getting a loan for your case study. Here we look at what happens if you cannot repay a loan. First we are going to examine how someone may fall into problems with debt and the warning signs and then look at how to get out of debt problems.

Exercise A

Insert eight common reasons why someone might fall into problems with debt:

	Common reasons why someone might fall into problems with debt	



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Student Worksheet 4.1: Dealing with financial troubles

Exercise B

List eight warning signs that would make you think that someone might be in financial trouble:

	Warning signs of financial trouble	

Exercise C

Draw up the first steps you should take if you are having trouble paying your bills:

Step 1	Step 2	Step 3	Step 4

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Student Worksheet 4.2: Priority and secondary debts

Exercise A

Read through the types of debt scenarios below and consider whether each item is a priority or secondary debt and complete the table provided on the next page.

Priority debt: A debt that is more important than others. Because of the type of contract you have with them certain creditors can take serious actions if the debt is not paid on time (for example, taking over the property or cutting off the service).

Secondary debt: Those debts where non-payment will not result in the loss of your home or essential goods and services. The people you owe the money to can take you to court to recover the debts, but you cannot be sent to prison for non-payment.

You can use the Money Advice and Budgeting Service's (MABS) website www.mabs.ie to get more information.

Types of debt

- 1 Credit card bill
- 2 Personal loan from bank/credit union
- 3 Mortgage
- 4 Store card/credit
- 5 Hire purchase – car finance
- 6 Electricity or other utility arrears
- 7 Child maintenance
- 8 Loan from family/friends
- 9 Rent arrears (private or local authority)



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Student Worksheet 4.2: Priority and secondary debts

Priority	Secondary *

*Secondary debts are less serious debts but they still need to be repaid so don't ignore them.

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Student Worksheet 4.3: Your personal credit record

In this section you'll learn about your credit history. Your credit record gives a full picture of your credit history, good and/or bad. A bad credit rating may mean that you will be refused a loan, even if you have the income to repay it.

Exercise A

True or False Quiz

For each of the following questions write whether the statement is **true** or **false** in the space provided.

	Statement	True or False
1	A credit repair company can erase a bad credit history.	
2	If you miss even one single repayment on a loan, you are in 'arrears'.	
3	All banks have access to your personal credit record.	
4	Your personal credit report records how many loans you may have at any one time.	
5	If you switch financial institution your personal debt doesn't travel with you.	
6	After two years, a poor credit rating is erased from your credit record.	



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Student Worksheet 4.3: Your personal credit record

Exercise B

The Central Credit Register (CCR) builds your credit history using information it gets from your lenders about your loans, mortgage, credit cards and other loan agreements. You can use www.centralcreditregister.ie and www.ccpc.ie/consumers/money/loans/applying-for-a-loan to see what a CCR report looks like and to help you answer the following questions:

1 List five types of loans included on the Central Credit Register?

2 Detail the three elements of how the Central Credit Register works.

3 What type of people would look at your credit history?

4 What do you do if you notice a mistake on your credit record?

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Student Worksheet 4.4: Defaulting – the impact on your credit record

Exercise A

Pretend you are John, the “agony uncle” in a local paper. Consider the letter on the next page, that you have received from a reader, and draft up a reply. Your reply should cover:

- Explanation of what it means to be in arrears on a loan repayment.
- Explanation of what defaulting on her loan would mean for her credit record.
- Instructions on how can she find out if her credit record is affected.
- Advice about her proposed course of action to leave the country.



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Student Worksheet 4.4: Defaulting – the impact on your credit record

Dear John,

I have been working in a salon for the last two years and last year I took out a loan to go on a girly holiday to New York and Las Vegas. I ended up spending more than I thought and had to top up the loan when I got back. I now owe €1,200.

Four months ago the salon had to let some staff go and I lost my job. I'm getting the dole but I've been really struggling and haven't been able to pay my loan repayments for the last three months.

The bank keeps contacting me and I don't know what to do! As I'm out of work at the moment I'm thinking of going to Canada for a year to work and travel. I reckon by the time I come back, I'll have money saved and I'll be able to pay off the rest of the loan.

Can you give me some advice please?

Thanks
Rachel

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Student Worksheet 4.4: Defaulting – the impact on your credit record

Your reply...

Dear Rachel,