



SLAYING THE DEBT DRAGON

CASESTUDY

BAD LUCK OR BAD CHOICES?

Mitch was a final year apprentice carpenter and worked for a company that built residential houses. Two years ago, he got finance to buy a brand new ute. It was necessary for him to have his own transport as his worksite locations changed regularly. He also needed to take his tools to work.



He was renting a house with his mates, and with the usual household and personal expenses, as well as the high repayments on the ute, he had just enough income to meet these expenses, with no cash left for savings. He often had to use his credit card to meet some of the expenses, and was only able to make the minimum repayment each month.

One evening when he was watching TV, he saw an ad for a newly released smart tablet. Mitch realised that with this new tablet, not only would he be able to play games, but could also upload all of his music, movies and photos. Amazingly, the ad said that the tablet was available from ITech Electronics on 12 month interest free terms!

**12 MONTHS
INTEREST FREE**

So the next day after work, he stopped in at *ITech Electronics* to buy the tablet. He had to sign up with *Future Proof Finance* to access the 12 month interest free deal. To complete the application, he only needed proof of identity, so he didn't disclose his true financial situation. He knew that he

was currently overextended with his financial commitments, but felt confident that things would pick up in the next few months. By then he'd easily be able to start repaying the cost of the tablet. After all, he had 12 months before any interest would be charged.

A few months went by, and Mitch found it difficult to say no to an interstate music festival and a couple of weekends away with his mates. Then he had several mobile phone bills which were higher than he expected. He really hadn't made any adjustments to his financial management practices, and so, by the end of 12 months, he still hadn't made any payments on the tablet.

A statement from *Future Proof Finance* arrived and gave Mitch quite a shock. Not only did he still owe the original cost price of the tablet, but the total amount owing had blown out and increased by nearly 50%. The reason for this was that a very high rate of interest had been charged (retrospectively) on the cost price over the previous 12 months of the outstanding debt.

No interest DID NOT mean no repayments were necessary!

Mitch wanted to pay this debt off as soon as possible, before it became even higher. He started looking for ways to find the money to do this. He couldn't use his credit card as it was already maxed out so he decided to stop making the insurance payments on his ute for the next couple of months. He'd never had an accident, and was willing to take the risk for a short time.

Within a few days of cancelling his policy, Mitch had an accident on the way to work, and the police found that he was at fault. Luckily no one was hurt, but Mitch's car was a write off, and so was the one he hit. The other driver had insurance but Mitch received notice that the other driver's insurance company was intending to sue him for the amount of the claim.

Mitch was now making payments on a car he no longer had. And, to make matters worse, a few days later he lost his job because he was unable to get to work in the outer suburbs using public transport.



The information contained in this documentation is NOT financial advice. It is meant to augment the reader's general financial literacy with the primary objective of increasing the reader's awareness and general understanding of debt.