



SLAYING THE DEBT DRAGON

TEACHER NOTES

SLAYING THE DEBT DRAGON – how to get out of debt

OVERVIEW

This resource introduces students to the basic concepts of debt, with a focus on the consequences of failure to adequately service debt.

TEACHER NOTES

When discussing debt with students, it's important at the outset to establish the difference between "good debt" and "bad debt". The smart approach is to borrow (i.e. establish debt) to buy assets which appreciate, and to pay cash for assets which depreciate.

Some strategies to solve debt problems before it's too late are addressed in this activity. Students will:

- Read and analyse a complex case study.
- Problem solve by creating an action plan.
- Use an online assessment tool to create and evaluate a report.

Considering the complexity, literacy level and time needed to complete all tasks in this FLIP activity it is best suited for a project, assignment or investigation. Alternatively, it is not necessary to use all task components if there are restrictions with time available, student capability, etc. The flexibility of this resource means that task components can be completed in small groups or individually.

Note that a substantial amount of READING and COMPREHENSION is required to complete the tasks. As students will most likely be unfamiliar with the industry vocabulary used in this activity, teachers are advised to introduce the power words before commencing work on the individual tasks.

FLIP POWER WORDS

Appreciate	When used in relationship to an asset, to INCREASE in value
Arrears	At least one payment has been missed on a debt.
Asset	Something of value which is owned
Credit	Deferring payment, or buying now and paying later (for the context of this activity)
Credit file	A record showing your credit history, kept by a credit reporting agency
Credit report	A report of your credit history, taken from your credit file
Debt Consolidator	Independent company which charges a fee for services to provide advice to people experiencing financial difficulty (usually with the aim to provide a new loan to pay off the combined total of other debts (ie. 'consolidate' a debt)
Debtor	Someone who owes money to someone else
Credit default Default Payment default	A legal term indicating that a debtor has failed to make the required payments on a loan (where the overdue amount is equal to or over \$150, and is at least 60 days overdue) A credit default against a debtor is listed by the lender and it is recorded on the debtor's credit file.
Default notice	A warning letter that is sent to a debtor by the lender saying there has been a failure to make a payment on the loan and that the debtor is at risk of being defaulted
Depreciate	To decline in value
Entity	A person, partnership, organisation or business that has a legal and separately identifiable existence
Financial Counsellor	Financial counsellors are trained professionals who provide information, support and advocacy to people in financial difficulty. Based in community organisations, financial counselling services are free, independent and confidential.
Hardship variation	This formal arrangement changes the term of your loan if you're having trouble meeting the repayments.
Lease	A legal contract by which one party conveys land, property, services, etc., to another for a specified time, usually in return for a periodic payment
Liability	A debt owed by a debtor to a lender/creditor
Liquidity	The ability to pay short term financial obligations
Loan arrears	The \$ amount the debtor has missed paying on a loan
Loan default	Information provided in writing to the debtor about the missed payments on a loan
Net wages	Gross wages less deductions, especially PAYE tax
Part IX Debt Agreement	An act of bankruptcy which is a binding agreement (under Part IX of the Bankruptcy Act 1966) between a debtor and their creditors where creditors agree to accept a sum of money which the debtor can afford
Retrospective	Applying to the past
Summary position	A positive summary position (greater than zero) means that you have more in total assets than in total debt. A negative value for your summary position means that you have more debt than total assets.
Utilities	Refers to service costs for electricity, gas, water, rates, etc

1. Introduce the concept of debt to students with a worst case scenario.

“BAD LUCK OR BAD CHOICES?” is a case study based on true events. It demonstrates how easily the mismanagement of finances can escalate into serious debt problems.

It's designed to be used as an anticipatory set to engage students and draw on existing knowledge. Use it as a whole class, small group or individual activity. The case study can be used to encourage discussion and to guide concept development and further research.

This case study is supplied as a separate pdf file to facilitate flexible classroom use.

Suggested topics for discussion

- What were the bad choices made by Mitch?
- What was his biggest mistake?
- Are there other circumstances (such as domestic discord, gambling, etc) which might also contribute to a situation like this?
- What does the future look like for Mitch (considering the impact of the debt, loss of job, failure to finish apprenticeship, effect on personal relationships, etc)?

Suggestions for related content and research topics

- Types of insurance and the consequences of not having it
- How interest free finance operates and the [traps](#) associated with it

2. Getting into debt is easy, getting out of debt can be difficult.

Expand on the concepts introduced in the case study with a class reflection on how problems with debt might evolve, and strategies to solve the problem before it's too late.

In addition to debt problems arising from poor financial behaviours, other circumstances out of our control (such as illness, loss of job, relationship changes, etc) can also result in financial difficulties. Debt costs (which will include the original amount owing, interest charges and, potentially, collection costs) escalate when you do nothing about the problem. It's important to ask for help. Don't be embarrassed, or hope that the problem will go away by ignoring it. Be proactive as soon as a problem becomes evident. The underlying message is to take ACTION and seize CONTROL! How do you do this?

YOU SLAY THE DRAGON!!!!

- Create a budget.
- Prioritise your debts.
- Modify the budget.
- Don't borrow to pay bills.
- Contact the creditor.
- Keep the creditor updated.
- Find help, but be careful who you approach.*
- Apply for a hardship variation.

* Be clear about the differences between financial counsellors (who generally work for not for profit organisations and advise clients free of charge) and debt consolidators (generally independent persons or companies charging for services). Debt consolidators may encourage clients to enter into an informal debt agreement with their creditors. As these debt agreement are not formerly regulated like a Part IX or Part X debt arrangement under the Bankruptcy Act, the debt consolidator will generally receive payment for services before any of the client's creditors are paid.

ACTIVITY 1:

This case study looks at the onset of a low level, but escalating debt issue. Students are encouraged to identify the issues and suggest strategies to solve the problem.

TAHLIA'S FORTNIGHTLY INCOME ALLOCATION – SOLUTION

RECEIPTS	AMOUNT	PAYMENTS	AMOUNT
Wages (net)	1100	Rent	500
		Groceries	300
		Social	100
		Lunch	50
		Utilities	45
		Gym membership	40
		Mobile Phone plan	35
		Credit card repayment	25
		Internet	20
TOTAL RECEIPTS	\$1100	TOTAL PAYMENTS	\$1115

ASSETS	AMOUNT	LIABILITIES	AMOUNT
Diamond earrings	2500	Credit card	3250
Everyday Bank A/c	25	Loan from grandmother	1000
		Loan from parents	550
TOTAL ASSETS	\$2525	TOTAL LIABILITIES	\$4800

These issues are clear:

- Tahlia spends more than she earns.
- Tahlia owes more than she owns.
- Tahlia's spending priorities are questionable. (proportionately high amounts for social, lunch, etc)
- With the way she is currently managing her financial affairs, she has no hope of repaying her liabilities.

Other observations

- She has no health insurance. If she did (having budgeted for it), the dental problem may not have had such a significant impact on her financial troubles.
- She has no household contents insurance. What are the implications if her house was broken into?
- The good news is that she doesn't own a car, which would add even more costs to her commitments.

There is also scope here for discussion around tenancy issues and responsibilities, including legal implications of entering into leases.

ACTIVITY 1: (Cont)

Some strategies which may help Tahlia to better manage her finances before it's too late:

- Talk to her parents and grandmother and explain the situation. They helped her out in the first place. To avoid damaging the relationships, the appropriate and moral thing to do is to let them know that she can't pay them back at the moment.
- Ask for help. Contact her bank IMMEDIATELY and inform them. Maybe she can borrow money from her family to cover the outstanding credit card payment. *
- Apply for a hardship variation.
- Sell the diamond earrings (even though she would be unlikely to realise the full value) to make the payment.
- If she can remove her name from the lease, she could move back home with her parents. Even if her parents require her to pay board, this would still be a lot less than what she currently pays for rent, utilities, groceries and internet usage. She would also have a new expense for public transport, but would still be better off.
- If she can't do anything about the lease, she could speak to her housemates about finding a fourth person to help share the rent.
- She is not in a position to upgrade her phone.
- As she's out of the contract period on her phone she could change from the post-paid plan to a prepaid plan.
- Take her lunch to work.
- Cancel her internet plan and use her phone instead.
- Cancel her gym membership.
- Prepare a budget.
- Take on a second job.

* If the arrears AND the usual repayment is made within the time given in the default notice, then the loan returns to normal and the lender cannot take any further action. This is the best option if possible.

If the debtor fails to pay the arrears in the Default Notice the lender can take further legal action. The lender may:

- Accelerate the debt – which means the debtor would owe the whole debt not just the arrears.
- Commence court proceedings and get a court order to take money from the debtor's wage.
- Seize assets such as car, boat or house.
- List a default on the debtor's credit report.

ACTIVITY 2

To complete ACTIVITY 2, students will need to visit [Financial Counselling Australia's National Debt Helpline homepage](#) and use the 'DEBT PROBLEMS' and 'DEBT SOLUTIONS' links, as well as the information from Tahlia's case study to answer the questions. When using the NDH website, students will need to look for the (+) icon to expand sections of the website to find the information they require.

ACTIVITY 3

Students download word templates and use Tahlia's case study information to create letters to request a hardship variation and cancel a direct debt arrangement.

Extension Activity

Use the three assumptions to demonstrate the benefits of repaying the outstanding balance as quickly as possible. Students could also explore the opportunity cost of the interest payable, that is, how Tahlia could have otherwise used the money she had to pay in interest.

Consider the chances of Tahlia not finding herself back in financial difficulty if she stays in the house with her friends and continues to make only the minimum repayments on the credit card.

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.