



## SLAYING THE DEBT DRAGON

STUDENT WORKSHEET

### SLAYING THE DEBT DRAGON – how to get out of debt

#### TAHLIA – DROWNING IN DEBT

Tahlia enjoys an independent life after moving out of home. Now, with two of her friends she rents a large house in an inner city suburb. All three tenants have their name on the lease. Tahlia had to borrow \$750 from her parents to pay the bond when she first moved in. So far she's paid back \$200.



All household utility expenses (\$810 every 3 months), groceries (\$450 per week) and the house rental (\$1500 per fortnight) are shared equally between the three friends.

Tahlia works in the city 5 days a week, and earns \$1100 net per fortnight. This is automatically paid into her FBF Everyday Transaction Account which currently has a balance of \$25. She has no other savings or investments. She doesn't own a car, but as she now lives close to the city she's able to walk to work. Besides her personal and basic household effects Tahlia's only asset of any value is a pair of diamond earrings valued at \$2500.



Recently Tahlia had to have some emergency dental treatment which cost over \$1500. She put some of the amount on her credit card, and borrowed \$1000 from her grandmother (who is a pensioner) to cover the rest of the cost. She hasn't repaid any of this money to her grandmother.

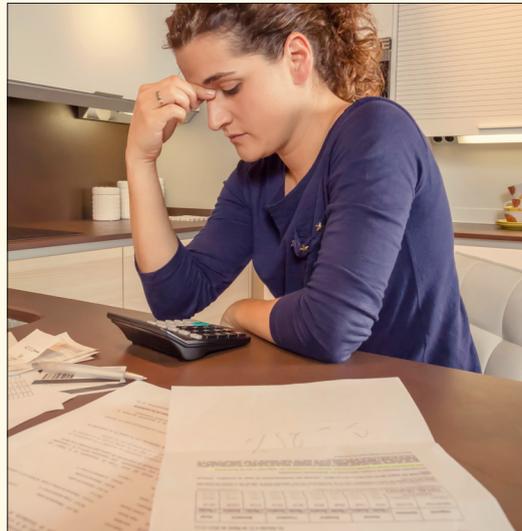
Tahlia has an FBF MasterCard, and has mainly used this in the past for clothes, holidays and entertainment. She has a credit limit of \$3000, and her current balance is now \$3250. Since she had the dental treatment, she has only just managed the minimum monthly repayment of \$50. She was unable to make a payment last month and is now in arrears. Today she has received a notification from her bank requesting the amount owing to be paid within 10 working days (due August 14).



She had been trying hard this year to be smarter about managing her money by limiting her social outings to once a week (spending around \$50 per outing), cutting back on clothing costs, and only using the credit card for emergencies. However, with the amount of interest charged each month, problems with "resisting temptation", and the dental emergency, the balance owing keeps increasing. She has no other credit cards or personal loans.

Tahlia has never had trouble with or defaulted on debt in the past, but is now starting to find it difficult to make her credit card payments and meet her share of the rental, utility, grocery and personal expenses. She spends \$5 a day on a very basic lunch at work. She has several direct debit arrangements on her credit card which are increasing the amount owing:

- *gym membership* (\$80 per month)  
Tahlia does not have a contract with the gym, and is free to cancel her membership at any time.
- *home internet usage* (\$40 per month)
- *mobile phone plan* (\$70 per month)  
She has had the phone for over 2 years and is now out of the contract period. She is looking at updating her phone and going onto a \$100 monthly plan.



With all of this financial stress, Tahlia feels that she still deserves her weekly social outing.

## ACTIVITY 1

1. Create a spreadsheet to show how Tahlia's fortnightly income is allocated. (Hint: So that you don't omit anything, go back through the case study and highlight the relevant information.)

### TAHLIA'S FORTNIGHTLY INCOME ALLOCATION

| RECEIPTS       | AMOUNT | PAYMENTS       | AMOUNT |
|----------------|--------|----------------|--------|
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
|                |        |                |        |
| TOTAL RECEIPTS |        | TOTAL PAYMENTS |        |

2. Make a list of Tahlia's assets and liabilities.

| ASSETS       | AMOUNT | LIABILITIES       | AMOUNT |
|--------------|--------|-------------------|--------|
|              |        |                   |        |
|              |        |                   |        |
|              |        |                   |        |
| TOTAL ASSETS |        | TOTAL LIABILITIES |        |

3. What are your observations on Tahlia's current state of financial affairs?

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**ACTIVITY 1 (Cont)**

4. What does the future look like for Tahlia? (After paying rent, her share of utilities, buying food, internet and phone costs, does she have anything left for clothing, emergencies, and more importantly, savings?)

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5. What's your advice for Tahlia? Recommend some strategies so that she doesn't end up in the situation in which Mitch found himself.

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## ACTIVITY 2

Now, let's see what the experts say. Go to [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.

### YOUR DEBT ASSESSMENT

Go to the [National Debt Helpline](#) and find contact information for two counselling services close to where you live.

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2. \_\_\_\_\_

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**ACTIVITY 2 (Cont)**

## CUSTOM DEBT INFORMATION

1. What are the possible consequences Tahlia might initially face as a result of not paying the arrears on her credit card?

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2. If all attempts to come to a payment plan eventually fail, what are the legal consequences of not paying the credit card debt at all?

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## ACTIVITY 2 (Cont)

### GENERAL ADVICE ABOUT DEALING WITH DEBT

1. Do you think Tahlia would be entitled to access her superannuation to solve these problems?

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2. You may have heard that some people bankrupt themselves to release them from the debt. This may give Tahlia a fresh start, but what are the consequences of bankruptcy?

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3. Why should you be wary of a *Part IX Debt Agreement*?

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### ACTIVITY 3

Go to the [Financial Rights Legal Centre homepage](#) and locate the letter templates. Download and complete the following letters on behalf of Tahlia.

1. The credit hardship variation request to the FBF Bank (525 Flinders Street, Melbourne VIC 3000) asking for a postponement for the repayment due on August 14 until September 14.
2. Cancel the direct debit from Tahlia's credit card to Fit First Gym (67 Robertson Drive, Melbourne VIC 3000). Her payments are debited on the first of the month.

### EXTENSION ACTIVITY

Assume that Tahlia has cut up her credit card, and organised to move back home at the end of August. Her parents and grandmother have agreed that Tahlia should focus on repaying the amount owing on the credit card. They still expect her to make a small fortnightly repayment on the money she owes to them in the meantime.

She has budgeted for these fortnightly expenses:

|   |     |
|---|-----|
| Board   | 350 |
| Public transport                                | 150 |
| Social, clothing, prepaid phone plan, lunch etc | 250 |
| Credit card repayment                           | 150 |
| Repayment to parents                            | 25  |
| Repayment to grandmother                        | 75  |
| Savings for emergencies                         | 100 |

1. For each of the following assumptions use an [online calculator](#) to determine:

- How long it would take Tahlia to repay her credit card debt (The FBF MasterCard interest rate is 14%. The annual fee is \$29)
- The total amount of interest payable on the outstanding balance

#### ASSUMPTIONS

- a) Tahlia reduces her personal expenses fortnightly allocation from \$250 to \$200 and puts the money towards repaying the credit card debt.
- b) Tahlia gets approval to transfer the balance to a new bank with an annual fee of \$55, and a 0% transfer rate for 6 months, followed by an annual rate of 12%.

2. How long will it take Tahlia to repay the loans to her parents and grandmother?

3. What if Tahlia decided to continue living in the rental home but made some improvements to her budget? What if her parents helped her out by giving her the money to pay the arrears owing on the credit card? How long would it take her to pay it off if she continued to make only the minimum payment of 2.5% of the outstanding balance on the credit card? How much interest would she end up paying?



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.