

Debt

Top tips for managing debt

Most people have some kind of debt during their lives – to pay for a house, car, a new outfit, a college course etc. Debt only becomes a problem when you can't afford the repayments. The lower and more uncertain someone's income is, the greater the risk that they might get into problems with debt.

Here are 19 top tips on managing debt that you may want to use in your workshops.

- 1. Before you borrow money, make sure you can pay it back** – not just now, but for the whole repayment period.
- 2. Borrow as cheaply as possible.** Roughly speaking, the higher the interest rate the more it will cost. But this isn't always the case, so read the small print and do the maths. Check out the APR (the Annual Percentage Rate) to compare the actual cost of a loan or credit card.
- 3. Don't buy something on HP (hire purchase).** It is almost always better to borrow the money separately. If you buy something on HP, you only hire (rent) it until you've made all the repayments. If you can't pay, the owner can take the item back and you would lose all the 'rent' you have already paid.
- 4. Be careful about zero per cent credit cards and 'free interest for the first two years' offers** unless you are absolutely certain you will be able to pay it back in that time period. If you are still repaying after the free period, the rates increase significantly.
- 5. Personal loans from doorstep lenders usually have the very highest interest rates.** Ask around at a few banks instead, or try checking personal loan comparison websites. (But remember, these don't guarantee to give information about the very cheapest deals, although they can give you an idea about general costs.)
- 6. Check out your local credit union** – these are a kind of community lender that can offer small loans at fairly low interest rates.
- 7. Don't let credit get out of control.** Never spend on a credit card right up to the credit limit. Don't get one credit deal and then apply for another card or loan straight away to pay the first one off. You will still have to pay all the debt back at some point.
- 8. Use cash if you find it hard to keep track of your spending,** instead of using credit or debit cards. Take out your budgeted amount of cash for the week at the start of the week and just use that.
- 9. Don't be tempted to buy from catalogues just because they offer easy credit.** Items in catalogues can be expensive. If you really need something, it's better to get a well-priced loan and see if you can buy it cheaper somewhere else.
- 10. Know the size of the problem.** Don't ignore bank statements and bills – open them up and add up all your debts. Tell your family or people you trust, because they can help. Make a plan together and work out a date to repay the debts.

- 11. Prioritise your debts.** First, pay off debts that keep a roof over your head, or where non-payment could lead to prison. These are ‘priority creditors’. Offer these creditors the current payment plus a little bit towards arrears, even if it’s only £1 a week.
- 12. Do a budget plan and cut your spending if you can.** At the very least, work out how to live within your income, even if that leaves very little over to pay debts.
- 13. Don’t borrow more money to pay off debts.** It is okay to borrow more cheaply – for example, you could get a cheaper personal loan to pay off a store card with a high interest rate. Be careful with consolidation loans – companies sell these loans to people who want to pay off different debts. Always check the interest rate is the best deal you can get before you sign.
- 14. Pay back as much as you can, as quickly as you can.** By doing this, you will save on interest payments. For example, if you borrowed £1,000 you could end up paying £260 in interest over three years and £430 over five years.
- 15. If you have gas, electric or water debts, contact your supplier** to see if they have any special funds or deals you can apply for. Some companies have charitable funds to help people pay off debts.
- 16. Talk to the bank/lender if you are having trouble paying,** particularly if there are heavy penalties for late repayments. You may be able to get them to agree not to charge you for these.
- 17. Maximise your income.** Most people are not claiming all the benefits they could. Talk to a welfare benefits advice worker. If you are on Income Support or Jobseeker’s Allowance, check if you can claim a ‘Social Fund’ loan to help pay your debts.
- 18. Individual Voluntary Arrangements (IVAs)** are a special arrangement for people in debt, but they’re not usually recommended unless someone is facing bankruptcy and wants to stop their home being repossessed. There is a lot of hard selling on IVAs at the moment, but they are not an easy solution. Anyone who is thinking about an IVA should see an independent debt counsellor.
- 19. Get debt counselling.** Organisations like the Consumer Credit Counselling Service, Citizens Advice Bureau and National Debtline can help you make a budget and a debt management plan that prioritises your debts. They can also help you talk to creditors about how much you can afford to repay. Be careful about loan and debt companies who promise ‘free’ advice – they just want to sell you some of their products.

Useful contacts

The Consumer Credit Counselling Service

www.cccs.co.uk

National Debtline

www.nationaldebtline.co.uk

Citizens Advice Bureau

www.adviceguide.org.uk