

# Debt

## Factsheet

### What is a debt?

A debt is created when you borrow money or have bills you have not paid.

### How do I get into debt?

When you borrow money from a lender (credit provider) you have a debt. This is money you must pay back with extra costs such as interest.

Debts can also be for services you have not yet paid. This could be an electricity bill, a mobile phone bill, or an Internet bill.

There are things you can do if you are having problems paying your debt:

- ▶ keep paying whatever you can
- ▶ contact who you owe money to and let them know you are having problems paying
- ▶ get help from a free Financial Counsellor who will help you manage your debt.

### Remember

- ▶ Debt is money you owe and need to pay back.
- ▶ You may have legal problems if you do not pay back your debt.
- ▶ If you do not pay your debt, you may pay more money.

### Where to get help and more information

If you have money problems, contact a free Financial Counsellor on 1800 007 007.

For more information about Financial Counsellors and managing your debt, visit ASIC's MoneySmart website, [moneysmart.gov.au](http://moneysmart.gov.au), or call 1300 300 630. You can also call a Financial Information Service Officer on 13 23 00 who will help you better manage your debt.



### Lewis pays all his credit card debt

Lewis has set up a small business selling his paintings at the local market. To get started he needs to buy paint, paint brushes and other things.

Lewis has no savings and uses his credit card to buy everything. He borrows \$1200 on his credit card. He thinks that if he sells all his paintings he will be able to pay back what he owes on his credit card and make extra money.

At the market Lewis sold only some paintings. He made only \$720. Lewis knew this was not enough money to pay back all of his credit card debt. He also needed some of the money he made at the local market to buy some more paint. Lewis did not know what to do.

Later that night Lewis's friend Reon came round. Reon asked Lewis how the market was. Lewis explained he did not make enough money to pay all the money he owed on his credit card.

Reon told Lewis that the best way to manage debt is to do a budget. Reon said this would help Lewis know how much debt he had and how much he could pay off. Then Lewis would know how long it would take to pay off his debt.

Reon wrote down Lewis's income from the market. Then Reon wrote down all the things that Lewis had to pay for including paint, paint brushes, his rent at the market and also his monthly repayments to his credit card debt.

Now Lewis feels in control. He knows how much he will pay each month to pay off his credit card debt. Lewis worked out that in 3 months he would have no debt.

