

## **Borrowing – Fair Go, 28 June 2006**

Matt Standing and Jenna Clark are both 20, and their baby Sean - is three months and counting. This couple have big money worries which they can trace back to four years ago, when getting a loan seemed so simple. Their road to ruin starts with Matt's love of cars. He took a mechanic's course, with the help of a \$4500 student loan. And Jenna had a student loan too: \$2000 for a flight attendant's course, which she was unable to use because she got pregnant.

Then Matt got a loan for a car - a Mazda 323: \$9000, plus all sorts of flash extras - mag wheels, a new front bumper and lights, bonnet vents, bucket seats, upmarket steering wheel, alarm, and a few other things. All up, another loan for \$6500. It wasn't hard getting the loans: Matt had a good job in a quarry.

The couple then moved from Whangarei to Auckland, and shared a flat. They borrowed again - for the bond - and then got department store credit cards to buy whiteware, furniture, kitchen appliances.

Paying it back? Easy, they thought, it's only an extra \$15 here, \$26 there - the price of a takeaway meal. They didn't think that, altogether, they were repaying a large lump sum.

Matt and Jenna got a boarder in to help share costs, but the flat was too small. So, they got a bigger place and a second boarder. But they had to borrow for that bond, and one of the boarders fell behind with rent. Matt got a better paying job. Even so, things got worse.

Jenna needed a car. They borrowed \$5000 for a Mini. Then - disaster. Matt lost his job.

Then one of their boarders owed rent. They lost the bond on the flat, and moved in with parents. Matt now got a credit card. It was supposed to be for an engagement ring, but Matt actually used the card to upgrade his Mazda again.

Matt and Jenna now had total debts of \$47,000. Something had to give. And the repo men were the ones to take it. They lost the Mazda extras, then the Mazda, and the Mini. Matt says he wanted to go bankrupt. But when their baby arrived, Matt and Jenna realised if they got a bad credit rating, they would have problems getting a mortgage."

Finally, they came to a budget adviser. He spent a year with them, working out a budget, negotiating with creditors, and trying to change their thinking on money. Matt and Jenna still have another 16 months of hard core budgeting, saving, and repayments, before they are debt free.

CEO of the NZ Family Budgeting Service, Raewyn Fox, says Matt and Jenna's case is not unusual. She says she's concerned about the acceptability of debt in society, and how much more comfortable people are with a high level of debt than they would have been even 10 years ago. Raewyn's other concern is the ease of getting loans. In some cases, Matt and Jenna were offered more than they asked for.

Raewyn says just because money is easy to borrow, it is not necessarily easy to pay back. She says the budget service starts by getting a full picture of all the incomings and outgoings - the level of debt. This is when people have to face the music, she says:

"There are only two ways out of debt: earn more or spend less. This is the time when people can lose their nerve. They want us to wave a magic wand. We have to say, there is none. You have to do the hard yards and stay committed like Matt and Jenna."

One advantage of working with an advisor is that when you have big debts, creditors are sick of your excuses. An independent third party will sometimes be able to negotiate repayment terms on your behalf. That is a real strength of the budget service.

These days Matt is working full-time, Jenna looks after baby Sean, and works part-time in the weekends. They say they have savings for the first time in their life and have even have money allocated for treats.

Matt and Jenna's tips

Pay for anything you want with saved money

You don't need to have everything right now

If you do put anything on HP, make it one thing at a time

Shop around for bargains, and get expert advice about loans

Any interest over 20% is bad

Raewyn Fox's key points

Don't fall into the trap of thinking - that's only another \$10 or \$15 a week.

Think about the total amount owed, and what you can afford.

Factor a risk element into your budget - losing your job for a few weeks for instance. Can you cover a loan if this happens?

Don't wait until you're in a crisis. Do a proper budget before then

Seek expert help as early as possible.