

# Overview: The cost of being in debt



This section is designed to raise students' awareness about debt – the reasons why people might fall into problems with debt and how they might deal with debt problems. It will introduce them to the concept of their personal credit record and give them an understanding of how defaulting on repayments can impact their own credit record and ability to get loans in the future.

You can see a glossary of commonly used terms on our jargon buster at [www.ccpc.ie/consumers/money/jargon-buster](http://www.ccpc.ie/consumers/money/jargon-buster)

## Section 4

### The cost of being in debt

Student activities	Description	Lesson plan	Support Material/References	Learning Outcomes
<b>WS 4.1</b> Dealing with financial troubles	This section will test the students knowledge of warning signs of financial trouble.	<ol style="list-style-type: none"><li>1 Can be done in groups/pairs/individually.</li><li>2 Ask students to brainstorm and come up with 8 common reasons why someone might fall into debt.</li><li>3 Your students should fill in the table in the worksheet.</li><li>4 Ask students to brainstorm and come up with 8 warning signs of financial trouble.</li><li>5 Students should fill in the diagram in the worksheet.</li><li>6 Students are to think up the steps to take if you are having trouble paying your debts.</li><li>7. Students should fill in their plan in the table provided.</li><li>8. Use responses to facilitate class discussion.</li></ol>	<b>Debt</b>  <a href="#">Debt action plan</a>  <a href="#">Getting out of credit card debt</a>	Unit 4, LO 4
<b>WS 4.2</b> Priority and secondary debts	This will enable students to differentiate between priority and non priority debts.	<ol style="list-style-type: none"><li>1 Your students should read through debt scenarios and consider whether each item is a priority or secondary debt.</li><li>2 Complete the table provided.</li><li>3 Use responses to facilitate class discussion.</li></ol>	<a href="#">MABS self help guide</a> <a href="#">Debt checklist</a> <a href="#">How to complain</a>	Unit 4, LO 4

## Section 4

### The cost of being in debt (continued)

Student activities	Description	Lesson plan	Support Material/References	Learning Outcomes
<b>WS 4.3</b> Your personal credit record	This will familiarise students with what a credit record looks like and help them understand how it works.	<ol style="list-style-type: none"><li>1 Ask students to determine if the statements provided are true or false.</li><li>2 Lead a class discussion about questions 5 and 6 and discuss their implications for getting loans in the future.</li><li>3 Your students should complete a series of questions on credit history.</li><li>4 This can be done as homework or class exercise.</li></ol>	Your credit history	Unit 4, LO 4
<b>WS 4.4</b> Defaulting and the impact on your credit record	This will make students aware of the consequences of defaulting on your credit record.	<ol style="list-style-type: none"><li>1 Can be done as homework or class exercise.</li><li>2 Ask students to pretend they are John, the agony aunt in a local paper. Consider the letter received from reader and draft a reply.</li><li>3 Ensure their reply covers off the list of questions outlined in the exercise.</li></ol>	Your credit history	Unit 4, LO 4

## Teachers notes – worksheet solutions

### The cost of being in debt

#### Dealing with financial troubles – worksheet 4.1

##### Exercise A

Ask your students to insert eight common reasons why someone might fall into problems with debt and fill in the table in the worksheet. Then have a class discussion, using the prompts (reasons why) to help you.

Student responses can include the following:

- Made redundant/unemployed
- Illness
- Relationship break down
- Drop in wages
- Increased spending
- Overspending (not budgeting)
- Over using credit cards/multiple credit cards and only paying off the minimum payment every month
- Using credit to meet day-to-day living costs
- Budget cuts, e.g. reduction in allowances/entitlements, pay cuts, etc.
- Mortgage interest rate increases
- Increased taxes

##### Exercise B

Your students should think up eight warning signs of financial trouble and fill in the table in the worksheet. Then have a class discussion, using the prompts (reasons why) below to help you.

Student responses can include the following:

- Trouble making ends meet day-to-day
- Falling behind on bills
- Using credit to pay for day-to-day expenses
- Only being able to pay minimum payment amount on credit cards

- Borrowing more to pay loans/credit cards
- Problems paying mortgage/rent
- Re-mortgaging
- Ignoring or not being able to keep up with loan repayments
- Having no savings at all for emergencies/unexpected expenses
- Being constantly worried about money/troubled sleeping

##### Exercise C

Ask your students to draw up the first steps they think you should take if you are having trouble paying your bills and fill in their plan in the table provided.

Start a class discussion after this, prompted by the approach below. The main message to get across here is to tackle debt problems immediately by contacting your provider and never ignore letters from your lender. It is also IMPORTANT to stress that help is out there from [www.mabs.ie](http://www.mabs.ie) /local MABS office and [www.ccpc.ie](http://www.ccpc.ie) has lots of useful tools to help you manage your money better.

Student responses can include the following steps:

- Make a list of all current debts
- Make a new budget and see where you can make cutbacks (check you are getting all entitlements and claiming all tax credits)
- Work out how much you can afford to pay each month to each of the companies you owe money to
- Contact lenders to discuss your options
- When back on track manage your ongoing payments – the use of budget account (see section 2), reviewing your budget regularly, etc.

## Teachers notes – worksheet solutions

### The cost of being in debt

#### Priority and secondary debts – worksheet 4.2

Your students should read through debt scenarios and consider whether each item is a priority or secondary debt and complete the table provided.

You can use the Money Advice and Budgeting Service’s (MABS) website [www.mabs.ie](http://www.mabs.ie) to find out more information on priority debts.

#### Exercise A

Use the responses to facilitate class discussion.

Types of debt

- 1 Credit card bill
- 2 Personal loan from bank/credit union
- 3 Mortgage
- 4 Store card/credit
- 5 Hire purchase – car finance
- 6 Electricity or other utility arrears
- 7 Child maintenance
- 8 Loan from family/friends
- 9 Rent arrears (private or local authority)

High Priority	Secondary
Mortgage/rent arrears	Store card/credit
Personal loan from bank/credit union	Loan from family/friends
Electricity or other utility arrears	Credit card bill
Child maintenance	
Hire purchase – car finance	

## Your personal credit record – worksheet 4.3

#### Exercise A

#### True or False Quiz

Students should complete the blanks as to whether each of the statements provided are **true** or **false**.

For each of the following questions write whether the statement is true or false in the space provided.

	Statement	True or False
1	A credit repair debt management company can erase a bad credit history.	False
2	If you miss even one single repayment on a loan, you are in ‘arrears’.	True
3	All banks have access to your personal credit record (not utility debt or child maintenance).	True
4	Your personal credit report records how many loans you may have at any one time.	True
5	If you switch financial institution your personal debt doesn’t travel with you.	False
6	After two years, a poor credit rating is erased from your credit record.	False

Lead a class discussion about questions 5 and 6 above and discuss their implications for getting loans in the future.

- If you switch financial institution your personal debt does follow you. It may affect your ability to get a loan in the future and/or force you to borrow from lenders who charge higher interest rates (called sub-prime lenders).
- If you miss a repayment, fail to clear a loan or credit card or settle a loan for less than you owe, it will show up on your credit record for **five years after the loan is closed**.

## Exercise B:

Students can look up [www.icb.ie](http://www.icb.ie) and [www.ccpc.ie](http://www.ccpc.ie) to see what an ICB report looks like and to help answer the following questions:

### 1 What do the following credit score abbreviations and symbols on a credit report stand for?

<b>ICB</b>	Irish Credit Bureau
<b>CBS</b>	Credit Bureau Score
✓	Payments on the loan are up to date

### 2 List five items found on the ICB report?

It typically shows:

- your name, date of birth and address
- names of lenders and account numbers of any loans you currently have or that have been closed within the the last five years
- a history of all repayments made or missed for each month on each loan, including any loans or credit cards you did not pay off completely
- a score based on your credit history called your Credit Bureau History
- a record of any legal action your lender took against you.

### 3 What is the CBS?

Your Credit Bureau Score summarises the information in your credit report. When lenders ask for information from the Irish Credit Bureau, they can ask for this score as part of your report.

The score is calculated based on your credit history, for example, the number of late payments you made, the number of accounts you hold and the numbers of applications of credit you have made in the last 12 months. As this information changes over time, your score will go up or down.

### 4 What type of people would look at your credit history?

The ICB builds your credit history using information it gets from your lenders about your loans, mortgage, credit cards and other loan agreements.

If you've ever filled out a loan application form, the chances are the lender has checked your credit history or credit score.

### 5 What do you do if you notice a mistake on your credit record?

If there is a mistake, you are entitled to have it corrected. For example, you could complete a direct debit form incorrectly and miss a repayment, or your lender could agree to let you postpone repayments, but forget to note this on the report it sends to the credit bureau.

If you find a mistake in your record, ask your lender to write to the credit bureau to correct your record and ask for a copy of their letter

## Teachers notes – worksheet solutions

### The cost of being in debt

#### Defaulting – the impact on your credit record: ask John – worksheet 4.4

This can be done as homework or class exercise.

- Ask students to pretend they are John, the agony uncle in a local paper. Consider the letter received from reader and draft up a reply.
- Ensure their reply covers off on the list of questions outlined in the exercise.

For example, students' letter of reply should cover the following:

- Explanation of what it means to be in arrears on a loan repayment.  
*Arrears are when you miss even one single repayment on your loan or miss one minimum payment on your credit card.*
- Explanation of what defaulting on her loan would mean for her credit record.  
*If she missed repayments, it will show up on her credit history (for five years after the loan is closed.) This might cause problems if she wants to get a loan, a credit card, a mortgage or even open a current account in the future and may result in her being refused.*
- Instructions on how she can find out if her credit record is affected.  
*She can request a report of her credit history by contacting the ICB and paying a small fee. The ICB will send her copy of her report in the post. She can also apply for a copy of her credit report online.*

#### Contact details are:

Irish Credit Bureau  
ICB House  
Newstead  
Clonskeagh Road  
Dublin 14

**Phone** 01 260 0388

**Website** [www.icb.ie](http://www.icb.ie)

- Advise about her proposed course of action to leave the country.
  - The worst thing she can do is to ignore the problem in the hope it might go away.
  - If she continues to miss repayments these will all show up on her credit record.
  - The record of missed loan repayments stays on her record for five years after the loan is closed, so the problem will only be worse in 1 year when she returns.
  - The bank is likely to think she doesn't want to repay her debt if she doesn't get in touch with them (may think she is 'unwilling' rather than 'unable' to pay).
  - If she contacts the lender they may be willing to assist her by:
    - » accepting reduced or minimum payments;
    - » suspending or reducing interest and other charges being applied to her account; or
    - » allowing her a payment break until her circumstances improve.
  - If she doesn't talk to the bank they are not going to know what her situation is and won't be able to help her.