

# April fools

Emmet Pullan outlines how people can fool themselves into debt complacency.

It's human nature to ignore financial difficulties in the hope that they go away. Unfortunately this strategy never works and oftentimes, will only serve to compound the problem. Burying your head in the sand and avoiding contact with those to whom you owe money can seem like the only option but in fact, it's the main cause of court appearance and debt related custodial sentences in Ireland. Those who deal with their debt in some way will always have a stronger hand in the eyes of the law.

Dealing with the phone calls and written demands is not easy, particularly if you have multiple debts. However, ignoring them only makes them come more frequently and with more aggression. A good tactic is to bombard your creditors with calls and letters of your own. Phone them up as often as you can to update them on your circumstances and the possibility of payment. If you are initiating the contact with your creditors, it lessens the need for them to contact you. Send letters and supporting information confirming your circumstances and always keep a log of your discussions.

Many people that we encounter have made the very serious mistake of trying to borrow their way out of trouble. When there is a loss of income from redundancy, pay reductions and so forth, access to credit may still be available. It is very easy to use this credit to fund unaffordable expenses and debt in the hope that things will turn around soon. Unfortunately, more often than not, circumstances only get worse. The credit limits are reached, the over-drafts are exhausted and now you owe more money than you did in the first place with even less disposable income to maintain the minimum repayments.

Credit cards are a major player in these incidents. Credit limits are increased with no verification of repayment capability. Pre-approved cards were commonplace when income levels were higher and as a result, most wallets are now filled with multiple cards and consequently, easy access to spending power.

### The cost of consolidation

Debt consolidation is another way in which additional borrowings can cause problems. In certain circumstances, restructuring multiple debts into one affordable loan can be a suitable solution but you must exercise caution. It is common for people to gain a false sense of security after only a few months of paying the revised loan repayment. What happens then? You guessed it. The flexible friends start to call out once more and before you know it, history is repeating itself but this time, the borrowed levels are much higher and more difficult to resolve. At best, the consolidated loan may cost a lot more in the long run if the term has been extended to reduce the repayments. Thankfully easy access to debt consolidation has been reduced due to lack of funding within the financial institutions but some credit unions and other more flexible lenders are more than happy to take over other debts. Be careful if you consolidate. You may actually be compounding the problem.

### First things first

Prioritising your expenses is a must for anyone experiencing a financial slump. Mortgage repayment has to be number one. Don't make the huge mistake of prioritising unsecured debt over your home loan. This is the largest debt that you will most likely have and not paying it will eventually result in repossession. Next on the list

**Q** I have heard that there is a formal debt repayment option in Ireland where you get a legally binding agreement. I have about seven personal loans and credit cards totalling about €40,000 which I cannot afford to repay. Would this court protection be an option for me?

*Dan, Wicklow*

**A** Dan, what you are referring to is known as a Formal Scheme of Arrangement where 60 per cent of your creditors agree to a reduced repayment structure. The scheme is then imposed on 100 per cent of your creditors by the Court. It is generally used for extreme cases of debt where the amounts are considerably higher than the debt that you owe. The main reason for this is the costs of administering such a scheme are immense with fees and costs up to €30,000 in some cases. The good news is that the Law Reform Commission have detailed in their recent report that the entire debt enforcement laws need to be amended and this would include a formal protected repayment system for people such as yourself. Until this is made possible, you should explore making an informal agreement with all your creditors.

is any other secured finance agreements. Car hire purchase must be dealt with swiftly to avoid termination and again, repossession. Priority should also be given to certain household expenses also. Paying your electricity and home heating bills is more important than the cable TV subscription or gym membership. Make cutbacks where you can to free up vital cash for priority debts and expenses.

Complacency can also creep in when you have dealt with your debt and are on the road to financial recovery. Whether you have engaged a debt management repayment plan for multiple debts or just restructured your mortgage to an interest-only payment, accessing further credit is a pitfall which must be avoided. Any repayment plan that you initiate

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should be based on reasonable affordability, so repayment on further debt will not work. You will end up back where you started and this time, your creditors or bank may not be as willing to assist. Don't look back until you have become completely debt free.

### Warning signs

A vital rule in dealing with unaffordable debt is to spot the danger signs early before they become a major problem. Reaching credit limits earlier in the month than usual and unpaid direct debits on your bank account are always a sign that there is an issue. If you can try to remedy the situation early, you will have a far greater chance of success. Preparing a regular income and expenditure sheet will assist you. Carry this out at least every quarter and any over-expenditure or a deficit in income will be clearly spotted.

Dealing with over-indebtedness can be tricky, particularly when you have multiple creditors to engage and several debts to resolve. A holistic approach needs to be taken on all your debt, from mortgage to car finance, personal loan and credit card and utility bill arrears. Remember the golden rules – act early, prioritise, and avoid further borrowing. If you stick to these guidelines, you will always give yourself a fighting chance.

### did you know?

The total amount of buy-to-let mortgage lending in Ireland currently stands at in excess of €30 billion. This equates to 27 per cent of all residential mortgage finance (source: Central Bank, September 2009). This compares to €12 billion exactly five years earlier. With current rents on the decline and the threat of mortgage interest rate increases on the horizon, the outlook for this type of debt is grim. Landlords would be well advised to plan ahead for the day when paying these mortgages will become a major financial issue.

