debt and how to get out of it

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tl;dr

- Never, ever consolidate debt. I'll tell you soon why this is a very bad idea.
- There's good debt, bad debt and 'life debt'.
- I'm not a fan of car loans. The car yards have signs that read 'Cash for cars'—this should be your life motto too!
- Keep making only minimum repayments on your mortgage until you are out of consumer debt.
- Consumer debt is money that's borrowed to pay for products which are then consumed (e.g. personal loans, credit cards, buy-now-pay-later programs, store cards, car loans and holiday loans).
- Don't worry about HECS/HELP debt ... for now.
- The truth about credit scores: should you be concerned about them?
- In my view, BNPL (buy now pay later) products are the payday lenders of this generation and can cause you to think you are good at managing money—but honestly, they are financial cancer.
- I would only consider loans from family and friends if you have absolutely no other option—and make sure everything is in writing.
- Debt and mental health: overspending can put you in a dark place, but it's okay to seek help.
- If you want to skip the summary about types of debt and all that, page 16 has my 5 steps to get out of debt.

My view on debt? I don't like it. I don't buy into 'good debt' or 'bad debt'. While many financial commentators talk about these two types of debt, for me it's all one category: the category of 'I'd rather not have it or need it'.

According to the *Financial Review*, in May 2021

> *31 per cent of Australians reported being under financial stress, meaning they had difficulty paying for essential goods and services. This was higher than the 26 per cent who say they are just making ends meet.*

In March 2021, the *Financial Review* also reported that '[b]orrowers with high levels of debt-to-income experience high levels of mortgage stress and are more likely to default'.

Being debt free is a major goal for so many people. It's important for two reasons. The first is a hard and fast reason: if you have consumer debt you're overspending and to make things worse, you're paying interest for overspending. It's like you're playing poker and are about to double down, but you're on the *Titanic* so things are about to get much worse. It's a lose-lose situation. It also makes no financial sense to be in consumer debt, borrowing for items that are going down in value. We all know this but many of us have been caught in the trap. This is because it's more about behaviour than 'sense', which leads me to the second reason that it's important to be free of consumer debt. You will become a different person; you will likely cease to be just a consumer and be more focused with your life. Your spending plan will be in order, you will have more money to put to things that matter (future you!) and you will honestly feel like you're making progress in your financial life.

Now you may be asking yourself, 'What about investing? What about shares? What about buying a property?' No. No. No. Everything else is on pause. Because nothing else matters if we can't get your debt and spending habits under control first.

Debt consolidation: a cautionary tale

David came to see me in my financial advice practice when he was 63 years old. David was married and his wife was not in the workforce and was not present at the meeting that day. David was clearly a hard worker and I would assume he had been his whole working life. He had come to see me for some pre-retirement advice. Depending on the circumstances, age 60 can be a magical time for financial planning due to superannuation rules. However, the most magical age to start planning your future is now, if not yesterday. Not at age 63.

Most of the time as a financial adviser, I did not really care in a 'clinical sense' about the backstory which had led to a client's financial situation. Sometimes if there was a big, juicy lump of money involved I might ask to satisfy my own curiosity, or it might naturally be raised as a talking point. If a client had a significant amount of debt, I might also enquire to learn what had been the cause of it so it could be addressed and hopefully avoided in future. I tend not to ask too many unnecessary questions because you learn early on in financial advising that if you ask too many questions and give people an inch, they take a mile and tell you their entire life story, which tended not to be relevant either to me as a person or to providing financial advice. My approach with clients was mostly, 'we are both here now—let's deal with what needs help'.

I assumed that David's financial backstory would have been pretty boring, fairly common and typical, so I didn't ask.

The current financial situation for David and his wife was as follows:

- Annual household income: $70000
- House value: $550000

- Mortgage remaining: $100000
- Superannuation: $130000
- Personal consumer debt: $32000
- Savings: less than $5000
- Car value: $30000
- Car loan remaining: $16000.

You don't need to be an economist or personal finance expert to look at David and his wife's personal financial situation and know they were not in great financial shape to retire comfortably. There were many potential reasons and common reasons why this was the case. For example, a 63-year-old may have been self-employed for most of their working life without making superannuation contributions and only recently changed to salaried employment, which would explain the low superannuation balance. They (or their now adult children) may have suffered a significant medical event earlier in their life that had derailed their savings. Maybe they had been sued and had to declare bankruptcy and start over at some stage. Who knows?

Usually, people will tell a financial adviser about a big event that had greatly affected their finances as a way of explanation. But David didn't offer any explanations, stories or even excuses. Unfortunately, the most common backstory of people in situations such as David's is that they have spent more than what they earn, lived payday to payday and been in a debt cycle since their 20s or 30s. At the risk of sounding like I have no empathy or emotion to get the point across, some people like David have just been a frog in a pot boiling over the past 30 years and it is only at age 63 that he has actually realised that he is boiling and it is probably too late to do anything significantly helpful.

The issue with David's situation is not the debt itself. We often assume that the debt was the problem and I imagine David may have thought this too throughout his life. But David was planning to retire in only a couple of years at age 65. He asked me, 'Should I refinance the mortgage to clear the personal loan and car loan?' In other words, should he consolidate the debt into his mortgage because the debt is the problem.

The problem was that from a very young age David and his wife had done three things:

- they had never managed their money responsibly—which led to
- living on more than what they earned—and
- they continued to refinance their debt into their home mortgage and then restarted the cycle of accumulating further debt.

I reached over to the phone to call 000 because I was concerned that David was about to have a heart attack in my office when I told him there wasn't much I could do for him. You see, people think coming to see a financial adviser gives them a ticket to this magical world of rainbows, sunflowers, unicorns and a wand that removes their debt. This is far from the truth. I have no magical tickets or wands.

I am being a little dramatic here. I did tell David this:

- At that time, earning $70 000 per year basically gave David and his wife an after-tax income of approximately $1056 per week. Due to their debt, they had been spending more than $1056 on a weekly basis.
- I had to explain to David that he didn't have a lot of options. At the time that David was planning to stop working full time, his superannuation ($130 000) would need to be withdrawn to clear

> the mortgage debt ($100 000) and repay most of the personal consumer debt ($32 000) because he would have no other additional income source to repay those loans. This means David would be retiring at age 65 (his intention) with a paid-for house (great!) and the age pension, but no other assets to produce any extra income. Also, David would not be able to apply for more debt to fund any lifestyle luxuries, fun or other stuff because you need a job to get a loan (to show the lender that you have the capacity to repay it).

This is why it's important to get rid of credit cards if you have a problem with them well before you retire. In my opinion, any loan given to a person solely receiving the pension should be illegal!

In the usual circumstances, a couple retiring in Australia today would normally receive around $718 per fortnight each in government support, aka the Age Pension (this is the maximum and how much they receive depends on their assets other than their home). We would plan to top up the pension payment with a small additional amount each week from their own retirement savings so their standard of living in retirement remains largely unchanged. Since the retirement savings would be depleted due to clearing the mortgage and personal consumer debt, if David wanted to keep his current car (worth $30 000 with a loan of $16 000), his only remaining task before hanging up the tools in a couple of years would be to repay the car loan and then try to learn how to manage money while slowly adjusting to a much lower income.

To be honest, there was not much I could do for David and his wife other than offer some practical help with budgeting and cash flow and try to help them change their habits and behaviours during the last couple of years that David would be working. Further, I suggested to David that if he did like his job and felt he had the energy and health to keep working, he should consider only a transitional semi-retirement at age 65.

What does David's story mean to you reading this? If you are in debt and you are not imminently close to retirement, you have one thing that David and his wife did not have: time. Time to change your behaviour and stop overspending. Time to attack your debt and decide that you are breaking the cycle and you are not using consumer debt ever again. Time to learn how to manage your own money. Time to live on less than you earn. Time to systematically invest money, even smaller amounts, over the long term, to assist in retirement.

If you don't have debt, life will reward you. You not only get to leapfrog people in debt to start investing, you also get to live life on your terms, not tied down by repayments. You are also entitled to this shortcut in reading my book: skip the rest of this chapter and move on!

I want to also acknowledge that there are some members of our community who are older and who did not have retirement savings available to them during some of their working life. If that is you, it's okay. We're here now—let's get on with it.

You'll hear many people suggest that consolidating your debt helps solve your debt problem. I'm sorry (not sorry) to say: it doesn't. You've just moved the debt from here to there. By combining a car loan, credit cards, personal loans, financed cars or furniture and rolling them into your mortgage, for example, it feels like you have made things simpler. But you haven't—the debts are still there. The best thing to focus on is paying the debts off completely, one by one (using the Debt Snowball method explained later in this chapter). It is also important that you look at your spending plan and change your habits. You must stop the potential for any future debt creation by nailing your habits now. Don't let any further consumer debts accrue. The best kind of consumer debt is ... none.

Good debt, bad debt and 'life debt'

I hate debt. The thought of something or someone hanging over me that can cause me to change my situation or strategy without my control just irks me. I do have a mortgage on my home; and the mortgages on my investment properties are principal and interest loans (I talk about this in chapter 7) because I want the debt paid as soon as possible.

Now I am not a debt junkie. I don't believe in consumer debt or 'bad' debt. I don't even like using a credit card, like the 'financially savvy' people out there who use cards to get points and pay them off immediately so no interest accrues, blah blah ... I just don't want crap hanging over my head.

When I read books about people who have purchased a million properties in 10 minutes and so on, I always think, 'Why wouldn't they de-risk and de-stress and only have half the properties without any debt?' Anyway, this isn't about my property debt philosophy—I am just using this opportunity to drive home the fact that I don't love debt however 'good' it is claimed to be.

When you hear other 'money people' talk about 'good debt' and 'bad debt', it can be summarised as follows.

- *Good debt:* Debt where the interest is tax deductible as the debt is secured against an appreciating asset. Likely to be used for wealth creation and has a low interest rate. Sounds good!

  Examples: investment property mortgages, a loan to buy shares, business loans

- *Bad debt:* Debt that has interest (usually quite high) that is not tax deductible and the debt is not secured against an appreciating asset or any asset at all. Sounds bad!

  Examples: car loans, personal loans, buy-now-pay-later products, credit cards, interest-free store cards

I believe there is a third category of debt, which I like to call 'life debt'. This debt is sometimes just part of a functioning life in our society. This type of debt is not tax deductible, but it doesn't fit into the two traditional good/bad categories of debt.

The two main life debts I am talking about are your home mortgage and your HECS/HELP debt. Some might even categorise HECS/HELP debt as 'good debt' as this debt is secured against an appreciating asset (you, the income earner), but it is not tax deductible. Ideally, your home mortgage should be linked to an asset that is increasing in value over time, but this is also not tax deductible.

While I don't know everyone's situation, it is safe to say that your initial focus should be on clearing all consumer debt, or 'bad debt', and resolving not to enter into debt again in your life. I honestly believe that if you are consumer-debt free, you have your financial foundations in place (more on this in chapter 3) and you have leftover money in your spending plan, then you should get personal financial advice from a licensed adviser about whether paying down your home mortgage or investment debt is beneficial to your personal circumstances compared with investing elsewhere or making extra contributions to superannuation. I won't (and can't) give a one-size-fits-all answer to this type of 'life debt' because it will depend on each person's individual circumstances. As I mentioned, my own home mortgage and investment property mortgages are all principal and interest loans. I don't pay any more than the minimum, but I am investing elsewhere and I maximise my superannuation contributions each year. This works for me and my personal circumstances right now, but it might not work for you.

If you no longer have any consumer debt and you'd like to be connected with a licensed financial adviser, check out the resources at the end of this chapter. If you already have a financial adviser in your life, once you're free of all that bad debt it might be a good time to go back to them and talk about the goals for your financial life.

Car loans

I'm not a fan of taking on car loans. Here's why.

The problem with a car is that as soon as you drive it out of the dealer's car yard, click the seatbelt on and put it in 'D for drag', the car is likely to be worth less than the amount you borrowed for it—and that's not even taking into account the interest you'll pay over the loan term. In addition to that, the vehicle will decrease in value every single day. I can hear the big D (Trump), who wrote a book called *The Art of the Deal* (which I haven't read), saying, 'It's a bad deal'.

Not only are you getting screwed from day one in terms of the amount you owe versus the car's depreciating value, but you've also given yourself no psychological pressure or resistance for borrowing to purchase it, which can amplify the negative financial effect.

For example, paying $18 000 upfront for a car might be a lot of money for you, but $92 per week sounds very doable. If we lived in a world that didn't have car loans, you probably couldn't stomach saving up that much money and transferring it in one transaction to an item that will immediately decrease in value, and possibly be dinged and treated like crap (I've seen how some of you look after your cars!).

I used to be pretty hardline with my view on car loans. When it comes to getting your habits and behaviours sorted, I would prefer that you try and change your other major money habits first rather than me insulting you and turning you off by saying you can't have a near-new or brand-new car that stinks of plastic and toxins curing (I mean, that 'new car' smell). I'd rather win the war with your total financial picture as opposed to losing a battle on cars.

You're likely to end up paying less for a car that you pay cash for due to the psychological hurt from the process of coughing up $18000 of savings. You might decide that $10000 is more reasonable and that you can invest the rest and make it grow.

While it might be beyond the scope of getting out of debt completely, if you 'must' have a 'good, safe car', I would use these rules of thumb.

- A car that is approximately three years old with fewer than 60000 kilometres on the clock is usually a good deal. This is because the car's value has already had a huge hit in terms of depreciation.

- Ensure the car is worth no more than 50 per cent of your annual after-tax income. This is a good guide to stop you having 'too much car'. If you have a spouse or partner, the total motor vehicle capital value combined (i.e. the total worth of the car/s owned by both of you) should be less than 50 per cent of your combined after-tax household income. To be frank, this should also include boats, motorbikes and any other toys with motors.

  For example, if you earn $60000 per year, you would pay approximately $10000 in tax, leaving you with a $50000 annual after-tax salary. You certainly wouldn't want your car to be worth more than $25000. This is the maximum limit and will keep you from tying up too much money in assets that are decreasing in value. You may choose to be more conservative and set a limit of spending only 25 per cent of your gross annual income. On an annual income of $60000, 25 per cent would be $15000.

  Choose whatever formula you like for your vehicle spending limit, but either way, have a rule for your life and stick to it. What if you averaged both of the above rules out? Now the car shouldn't be worth more than $20000. I may have created a new formula for myself just now!

- If you 'must' (!) have a car loan, I recommend not having one for more than four years (48 months) to ensure you're not paying off your car forever.

  Most car yards and car finance providers generally quote the weekly or monthly repayments over a five- or seven-year term. They do this because a longer loan term lowers the weekly repayment amount, making the car sound more affordable and getting you emotionally invested into buying it.

- If you're thinking 'Screw you Glen, I still want a loan for my next car', put down a 20 per cent deposit (i.e. only borrow 80 per cent). This will generally ensure your car isn't worth less than what you owe on it because your deposit should cover the depreciation. This approach will also slow you down a little bit and ensure you don't spend too much on your car.

A final word on car loans

Unless you have salary packaged a car, you live in your car (long commuter or sales rep) and/or it has been calculated by your accountant to show that you're able to save tax by paying for car costs pre-tax, you need to decide whether you should try to pay cash for your future cars. This will generally slow the purchasing process down while you save the amount needed and tends to result in more careful decision making and not spending as much on a car as you would if you used debt to purchase one. Psychologically, it 'hurts' much more to spend your own saved money than to get a loan.

If you have a mortgage and equity in your property, it's sometimes tempting to refinance the mortgage to buy a car. I still believe using your own cash will stop you overspending on a car. If you do, however, think, 'It's all good, Glen, I got this' … please make sure the broker sets up a separate loan for the value of the car, and pay this down over four years. You don't want to be paying the car off for the next 20+ years.

Your home mortgage

If you have a mortgage and you are also in consumer debt, I would recommend that you don't make extra repayments on your mortgage at this time—just make minimum payments until you have no consumer debt. Speak with your mortgage broker to make sure your mortgage has a competitive interest rate so that you are not blatantly getting screwed by paying additional interest. If your mortgage has not been reviewed by a professional recently, it could be a good opportunity to do this—go to the resources at the end of this chapter for information on how to contact a mortgage broker.

Here's a tip: If you're refinancing your mortgage, make sure you ask your broker to refinance it to the current term left on the loan—don't refinance it to a fresh 30-year mortgage. Refinancing to a new 30-year mortgage will mean that you end up paying more interest over the longer term. Additionally, remember my comments about debt consolidation? Refinancing your mortgage to a fresh 30-year loan follows the same concepts as debt consolidation.

Try to limit your mortgage repayments to no more than 30 per cent of your take-home household income. Repayments that are 25 per cent are great; 20 per cent or less is amazing. This recommended limit also applies to your weekly rent, for those who don't yet own a home. The more your rent or mortgage repayment is over 25 per cent, the higher the chance of you ending up in consumer debt again because you won't have as much money available for living or unexpected expenses!

Hit rock bottom and decide no more debt

↓

Get a money system in place and focus on this only

↓

Build a starter emergency fund of $2000

↓

Commence the debt snowball

↓

Know your financial reason for living — smash that debt

My 5 steps to get out of debt

If you're still with me, you will most likely by now have assessed your debt situation, even if only in your head. If it's not looking good, it ain't no thing because I'm going to help you. I'm a bit basic and love steps, so here are my five steps for getting out of that consumer debt hole. Some of the steps might seem counterintuitive but sometimes we have to try different things to make positive changes to our lives. Remember, if you don't like my philosophy on consumer debt, you can always stay in debt 😉.

Let's look at the steps one by one.

Step 1: you must hit rock bottom

You must, must, musssttt decide and agree with yourself (and maybe your partner, if you have one) that from here on in there will be no more consumer debt in your life. You need to be resolute. Starting to get out of debt will be close to impossible if the debt is continuing to grow or if you go for a couple of weeks or months and then you're back at the checkout with your plastic or buy-now-pay-later app, ready to throw it around like in a terrible 1990s comedy movie.

The reason you must first decide that enough is enough is because it's honestly a waste of time and energy if you start trying to get out of debt and when the next flashy item appears you're straight back to using debt to make a purchase. That's because you're not disgusted enough with yourself yet (hehehe, I'm remembering myself before I was done with consumer debt!).

I like to think about mindset and philosophical things when it comes to consumerism. In Australia, we have it pretty good—it's not as crazy as the USA, which has a hyperconsumerism-motivated society (though I think this is slowly changing). I once saw an average house in mid-west suburbia (Columbus, Ohio) where a guy was riding his ride-on mower in the front yard—most likely purchased on finance. It's probably rare to see someone in Australia riding a lawnmower in suburbia—although my dad purchased one because he got it 'cheap'. Okay, Dad. At least he paid cash (and went halves with a neighbour—ha)!

Many people in the world (approximately 9.6 per cent of the world's population) live on under US$2 per day. I sourced this figure from a book by Peter Singer called *The Life You Can Save*. Now, compared to the poverty and limited means that the majority of the world's population relies on daily, looking at the consumerism machine that our privileged, Western society celebrates makes me think that enough is enough. I want out. I need out. I think about how the rest of the world lives and compare the fact that I have borrowed money, paid for the pleasure to borrow it (interest) and then consumed an item of luxury—and I feel ashamed of myself and our society.

You need to reach a point where you decide that debt is negative, self-limiting and that it should have no place in your life from now on. There is no point starting to get out of debt unless you are aware of the fact that debt is a terrible thing that has not really brought you any blessings this far.

It is perhaps more important now than ever before to be resolute in your philosophy around consumer debt because technology has advanced to the point where we can enter into debt more quickly and easily than ever—just one click on 'install app' and the cycle restarts. Conversely, it has never been so easy to invest for the future and manage your money with the use of technology.

If you are truly not at a point where you are serious about stopping your debt cycle, I suggest you stop reading now and get on with your day. Don't waste your time reading this book (hehehe).

Everything we do in personal finance and building wealth is based on the fundamental principles of spending less than we earn, having a good cashflow system and investing for the future.

The reason I harp on about the importance of making a personal resolution to no longer have debt is because I have seen too many people put so much energy into paying off their debt, then enjoying a couple of months without debt and loving life, and then running back into debt with 'all the extra money they have'. It's just not worth the huge effort in trying to clean up your act if you are only going to relapse.

I hope that by the end of this chapter you'll be ready to cut up the credit cards, close the loan accounts and delete the buy-now-pay-later apps.

If and when you reach the point in your life where you are ready to say goodbye to debt, keep yourself accountable and share the resolution by filming yourself cutting up the cards (or do a screen record of yourself deleting those apps) and tag me on Instagram! @mymillennialmoney

Step 2: get your money system in place

For as long as I can remember (probably since I was 16 years old) I have read and listened to personal finance resources and motivational speakers from all around the world. Personal finance speakers often use the analogy of 'You Incorporated' as a way to get people to step back and see themselves as a company or corporate entity with 'you' being the boss. If this is a new concept to you, effectively you are the CEO of 'You Inc.'. Would you expect a company that has a good, stable income and expenses to have zero systems in place to manage its cash flow? Of course not, so that's why you must have a cashflow system in place for yourself.

Since you have decided that you are done with debt and never looking back, your focus should now shift to setting up a good cashflow management system. Your cashflow system should be automated and remove you from the process as much as possible.

While you are doing this, I would suggest that you place all your consumer debts on minimum monthly repayments only and forget about them for the next few pay cycles as we need to get some good habits and behaviours flowing around spending and managing your money.

I want you to not worry about doing a million things at once. I want you to trust me and try my way—with respect, your way of handling money has not worked so far if you are currently stuck in consumer debt.

So you are paying only minimum payments on your consumer debt and focusing only on setting up your cashflow system (see 'Setting up your spending plan' in chapter 4). I want you to not only see the light at the end of the tunnel, but also to feel it! You see, if you conducted a financial autopsy on the average person's consumer debt, you would probably find that there is a car loan, a credit card that they can't shake or a buy-now-pay-later (BNPL) program that goes round and round and maybe even a personal loan from something another life ago. Generally, personal loans and credit card debt mean that there is no financial asset linked to them and the debt/money has been spent at the discretion of the purchaser. Lending money which is not secured against an asset is risky business because there is no guarantee that the lender can recoup the loan amount should the borrower fail to repay it (also known as 'defaulting'). In turn, this is why credit cards generally have higher interest rates: the bank can't rock up and sell the nice holiday that you enjoyed or the shopping trips you went on to recoup their money and pay off the debt. Most consumer debt (such as credit cards, cars, personal loans and BNPL) is not usually from one big item purchase (with the exception of a car purchase, which decreases in value anyway) but rather lots of different things here and there without any real system in place to manage money.

In short, you may have suffered a death by a thousand cuts and you have been systematically overspending. Don't you just love consumerism?

If you are in this situation, I want you to pretend that the new CEO of You Inc. has a mess on their hands. The business needs to run as usual, which is why you can't simply stop paying rent, mortgage or grocery bills to throw 100 per cent of the available money onto the debt—if you do, the business will stop functioning. The first thing the new CEO must do is put a working system in place, even if this means that the balance sheet (the financial statement of a company—in this case, You Inc.) has some debt that needs to be cleared. It takes time to fix a mess. It's understandable that it will take at least a few pay cycles for the new strategy to be installed and to take effect.

Think about this: you're on a boat and there's a slow leak. What's more important? To start bailing water out because you're worried that your feet might get wet or to stop the leak? If you spend time stopping the leak and fixing what caused it, it's okay to have a bit of water on your feet. I understand that some of you might be up to your neck in water, but it's still more important to stop the leak and put a system in place to ensure the cause of the leak can never happen again.

My point is that there's no sense simply paying down debt until you first decide that you're not going into any more debt (as we saw in step 1) and now you are going to work on yourself and the systems in place. I'll show you how to get a money system in place in chapter 4, but I want you to know that dealing with habits and behaviours takes time and that's totally fine because this time you are now serious about getting out of debt.

Step 3: focus on building an emergency fund

You've come a long way. Yes, it's been small steps—purchasing this book, being keen to change and hopefully being challenged by steps 1 and 2—but you've decided that enough is enough, and it's time to do things differently.

That's if you have totally agreed with changing your mindset around debt. Remember, there is no rush here and I will celebrate with you on any movement you make. It can take time. It's okay.

You don't want to fall back into debt once the debt repayment campaign has started. The reason why steps 1 and 2 have to be completed before step 3 is because we're about to get drastic.

You are now going to move all your debt repayments (including your mortgage, car loan, personal loans—everything!) to minimum payments only and focus on getting $2000 saved as an emergency fund in a dedicated online savings account.

Once your money system is in place and your debt is on minimal repayments, the leftover money will be going to building your emergency fund of $2000.

> It's okay if you're paying a bit of interest while you build your emergency fund as the first step to getting out of debt (step 1) is to not take on any more debt. This emergency fund, or cash buffer (or whatever cute puppy name you want to call it), will be the first line of defence to stop any more debt should unforeseen events arise while you're on the way to setting up your financial plan.

It may seem counterintuitive to slow down the debt repayments and pay a little bit more interest while you build your emergency fund, but believe it or not, interest is not your problem. The fact you have systematically overspent without any systems in place and without self-control is the actual cause of the problem. If you don't believe me, take a look at some of the inaccuracies people believe.

☑ **I need a credit card for emergencies.**

This is the worst excuse that someone might need to emotionally hang their little debt hat on. The worst time to go into debt is in an emergency. The people who use this excuse literally have no comeback when I say, 'All you need is your own cash fund for emergencies'. Credit cards aren't the answer—they're a middle-class fallacy.

☑ **What if I need access to money quickly?**

This one comes soon after I shoot down the 'credit card for emergencies' logic. I proceed to ask people, 'When was the last time you needed, say, $1000 *the same day* for an *emergency*?' It just doesn't happen. 'But it can take a day to transfer money from my savings!' Nope, I won't buy that excuse either because the new payment platform that allows instant transfers between banking institutions killed it. If there was an emergency and you did need serious money over your usual daily spend, find some internet access and make a transfer. Call your parents or a good friend. There are many practical solutions to the fictitious emotional crutch of your credit card.

I am picking on credit cards here in particular as they are the usual suspect people hang onto when I talk about emergency funds.

If you're like me and you've reached a point where you find you either can't control yourself with your credit card (*hello!*) or you have debt that you can't shake, you know that credit cards are not a blessing and you don't give a crap about the 'points'. Also, most people who play the points game aren't frequent flyers. If you go overseas once every two years, I've got news for you: you're not a frequent flyer.

Practical steps for your emergency fund

I don't want you to have to use your credit card for emergencies that could disrupt your debt repayment strategy, such as car insurance excess or emergency dental work. If you use money in your emergency account for an emergency once your debt repayments have started (next step), press pause on paying down your debt (except for the minimum repayments) and work to top it back up to $2000. The cool thing here is getting an emergency fund in a separate account may be the first time ever that you have had some decent money saved.

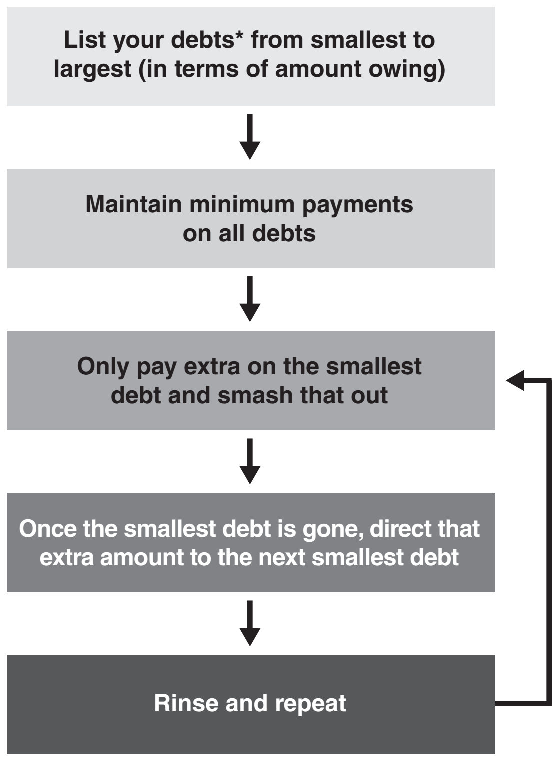
You can find out more about the emergency fund, what counts as an emergency and all the other logistical questions about emergency funds in chapter 3.

Step 4: commence the debt snowball

Did you know it's not your intelligence or logic that got you into debt to start with? It was your habits and behaviours. It's not smart or logical to have debt for stuff that you consume and then have the pleasure of paying interest on it while tying up your cash flow and adding extra financial stress to your life. I am aware that people can end up with debt due to a situation outside of their control. But I am about to have a go at the former category of people (intelligent and logical). I feel I need to be a bit brash when talking about the debt snowball strategy because it may feel like it conflicts with your own intelligence, logic and reason. So I need to get your attention.

I am about to ask you to pay off your smallest debt first, regardless of the interest rate.

Now, you might be thinking that it doesn't make sense to pay off the smallest debt first if it has a lower interest rate than another debt. Truth is, it makes no sense to have debt and be paying interest on debt in the first place. Look at it this way: your way of managing money clearly hasn't worked so why not try my way ... insert smiley face here, and so on ... If you're offended, please film yourself burning this book and tag me. If you're not offended, I'll try harder next time. I need you to be encouraged so that you don't give up. That means getting some emotional wins along the way. Your (not-so-good) habits and behaviours likely got you into debt, so we need some (good) habits and behaviours to get you out of debt. Intelligence and/or logic clearly didn't get you into debt.



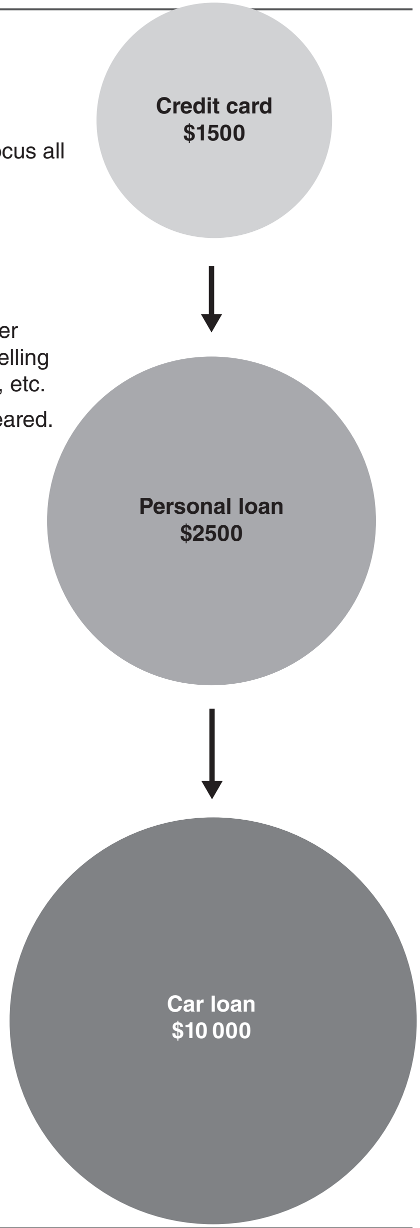
*Regardless of the interest rate or payment terms and excluding your home, investment property or HECS/HELP debt

I know that other finance books and money people may tell you to arrange a credit card balance transfer to save interest, or to use a script to call companies and negotiate interest rates on loans. While that's cute and you're free to do this, I'm more interested in changing your underlying spending habits and behaviours. The danger with the balance transfer or negotiation approach is that you use energy and effort to make these changes thinking you've done something awesome when in fact all you've done is moved the debt. But you haven't addressed the underlying problem. You've either just moved the debt or tweaked an interest rate, but the debt is still there. It's not the interest rates and interest payments that are the problem. The problem is that you didn't have a good spending plan. Or, to put it simply, your overspending is the problem here. I know this sounds harsh because often our money habits and behaviours have been handed down to us during childhood. But while our financial past certainly doesn't define us or our future, we need to own our mistakes and take responsibility for learning and improving.

Now let's take a look at how to get out of debt using the debt snowball plan.

Here's a practical example.

Debt snowball



smallest debt

**Credit card: $1500 owing, 0 per cent interest rate,
$50 minimum monthly payment**

- Add 'what's left' from your spending plan to the first debt and focus all additional resources on this debt only until it's cleared.
- Monthly payment is:
  $50 (min payment)
  + $200 ('what's left')
  = $250
- All additional resources should be: extra cash above your starter emergency fund of $2000, any over-time/side-hustle income, selling next door's cat or unused items including non-dominant kidney, etc.
- All other debts remain on minimum payments until smallest cleared.

next size debt

**Personal loan: $7,500 owing, 14 per cent interest rate,
$100 minimum monthly payment**

- Minimum payment only ($100) until the previous debt is cleared.
- Monthly payment is then:
  $100 (min payment)
  + $50 (credit card min)
  + $200 ('what's left')
  = $350
- All extra resources to focus on this debt.

largest debt

**Car loan: $10,000 owing, 6.5 per cent interest rate,
$150 minimum monthly payment**

- minimum payment only ($150) until the previous debt is cleared.
- Monthly payment is then:
  $150 (min payment)
  + $50 (credit card min.)
  + $100 (personal loan min.)
  + $200 ('what's left')
  = $500
- All extra resources to focus on this debt.

example assumptions:
$200 per month left over from spending plan or 'what's left' (refer to chapter 4)
$300 per month in minimum payments across the three debts
$500 per month in total to allocate to debt reduction (excluding additional resources)

Use this space to write your debts down from smallest to largest along with the minimum monthly repayment for each. If you have an 'interest free, no-money-down' debt, find out what the minimum payment is if you were to start paying it down now or what it will be when the payments are due to start. Remember, don't cheat and add this last because of the 0 per cent interest. Your way of managing money hasn't been great so far, so don't get cute with me now!

Step 5: know your financial reason for living—smash that debt

You have decided no more debt.

You have put a spending plan in place.

You have built your emergency fund of $2000.

You have got your debt snowball plan set up and ready to go.

Happy days!

I am not a morning person by any means. In fact, when I was growing up the hard-core kids who attended swimming practice at 5 am each day before school blew my mind. These are the types of kids who would end up joining the Australian swim squad. Swimming was their reason for living during that season of their life—sometimes a very long season. They worked hard, were intentional and achieved results. You need to have the same focus and intensity regarding your consumer debts.

Once you have your emergency fund at $2000, your financial reason for living is to clear debt. This is why the mindset part is so important. You need to be strategic and only focus on paying down debt.

This could take many months, so it is important to be ready for this long journey. The harder you work and the more you sacrifice, the sooner you will be out of debt.

Want to go on a holiday with friends? No—your reason for living is to pay down debt.

Keen for that new lounge? No—your reason for living is to pay down debt.

'Let's continue to eat out four times a week?' No—your reason for living is to pay down debt.

'I am saving for a house!' No—your reason for living is to pay down debt.

'I invest into ETFs monthly!' No—your reason for living is to pay down debt.

Need I go on?

You know exactly what your sacrifice will be—and there will need to be some sacrifice. Not only do you first need to be living on less than you earn, you also need to have a surplus to pay down debt. It isn't going to be easy and you know it.

The person in the mirror is the only one who can change your situation.

It's easy to walk into debt, but so much harder to get out of it. You are about to enter a period of cleaning up your mess. In fact, you can tell people your job is now a 'debt cleaner'. You see, you must own this and know that your financial reason for living is to pay down debt. Apathy and debt reduction don't go hand in hand.

Karina, 34
Geelong

For some reason I always thought someone else would come along and save me from my debt and that debt was just a normal part of adult life, but it had become apparent that I had to take responsibility for my own situation. Though I had accumulated some savings, I had a scarcity mindset and was fearful of paying off debt in case I needed those savings. Dumb.

I decided to give the debt snowball a go, starting with my smallest credit card debt. I had held this for a whopping 15 years without ever paying the $2000 balance off fully. The success feeling worked ... and I booked a 15-minute call with a financial adviser to keep working through my debts (embarrassingly, $25000 worth of credit card debt over five cards, thanks to multiple balance transfers and just getting stuck; and a car loan with about $7000 left).

I kept using the snowball method on my debts and it felt bloody good. I was working weekends and nights to continue being able to get on top of it all. One after the other I paid off my car loan and credit cards, while still being able to save a lot of money. I paused the repayments during COVID as a 'just in case', but it soon became apparent that I wasn't going to be affected and was actually saving an extra $900 per month by not going into the office and buying lunches, transport costs and dinners/brunches out. So I paid off my last $10000 limit credit card.

Fast forward and I just got approved for my construction loan to build a house on land I bought. So while paying off my debts I had also managed to save around $60000 as a deposit.

Focus and determination

One way of focusing on paying down debt is to have a goal that's greater than the debt itself. A useful goal is to add up all your debt and the total monthly repayments, plus the amount that is 'left over' from your spending plan (which I am going to show you in chapter 4). Then, do a basic calculation to work out how many months it will take to clear your debt.

As a challenge, let's try to halve that time period.

An example might be:

- $2000 credit card with a $50 minimum monthly payment
- $7000 personal loan with a $100 minimum monthly payment
- $100 per month left over from your cash flow to go towards debt repayment, goals or investing.

In this example, there is $9000 in total debt with $250 a month to allocate to debt reduction (minimum repayments plus left over cash flow). The $9000 total is divided by $250, which equals 36 months. This doesn't take into account the accruing interest, but it gives you a guide. Your goal is to pay the debt off in half that time—18 months. The question is, for the next 18 months, can you get intentional and determined about trying to smash that debt out of your life? You will need to consider whether you can cut expenses, get more work and/or sell something (everything, lol) because your financial reason for living is to get out of debt.

Reward yourself

As we want to throw everything at your debt-clearing campaign, you should think of some things you'd like to do—either financial or non-financial—after you pay off each debt and you should also celebrate once you're completely out of debt.

Use the space below to write down a few reward goals. Anecdotally, in my career as a financial adviser the people I have worked with who had goals have generally been more motivated to complete various financial steps—such as paying off debt or saving a lump sum faster—than those who didn't have a goal.

Pull a budget lever, temporarily

There are four levers you can pull on a budget or spending plan to make changes so that you have more money to throw at your debt.

- *Increase income*. How can you increase your income either temporarily or permanently? Maybe it's time for a pay rise, or you could ask for some overtime or get a second job while your financial reason for living is to smash your debt.
- *Decrease savings*. You really should not be saving while you're trying to get out of debt. Anything above your $2000 emergency fund would be like borrowing on a personal loan just to have money in your account. Make sure you're focusing all your money and energy on paying off your debt. Remember, this is not forever—it's just for a season.
- *Reduce costs*. We all have categories in our budget that we need to review regularly. But when you have a hard-core goal (like getting out of debt) you need to be ruthless because you have to make some sacrifices with your time (like taking on extra work) or with some budget items. For example, if you pay for a gym membership and also a personal trainer you may need to make the call on dropping one or the other—or swap them both out for a less expensive group training session in a local park. I still want you to have line items in your budget that are of benefit, but you may need to review what can be reduced in your life.
- *Cut something out completely*. Using the examples of health and fitness, you may choose to cut this category out completely while you attack your debt. This could be ditching the gym and PT and deciding to just go for a jog to keep fit or buy some weights for the back deck. Remember, this is not forever. The deeper you sacrifice now, the sooner you will be debt free and able to get on with life!

There is no magical way to make money appear in our life—that's why I believe there are really only four budget levers you can pull to 'redirect' extra money from your cash flow and pay down your debt faster.

Gumtree and Marketplace

What crap (I mean, 'valuable items to others') have you got lying around that you could move out of your life? I have a rule of thumb regarding stuff lying around the house:

- if it hasn't been used in 18 months, sell it and put the money towards paying down debt
- if it isn't a family heirloom, sell it and put the money towards paying down debt.

You can always buy more crap later when you're out of debt. And think about how great you'll feel after de-cluttering and getting your house and garage in order to reflect the fact you're getting your financial life in order.

Existing savings

If you're in consumer debt on one hand and on the other hand have cash savings, it's probably because you don't have a solid money system in place and/or you're conflicted and have a mash-up of logic and emotions in your mind. That's okay: you're in the right place.

To be absolutely clear, once you have resolved that you are ready in step 1, you need to put all cash savings above $2000 to your smallest debt in the debt snowball to smash it out ASAP. If this is scary for you, don't do it all at once.

Some steps to assist in emotionally moving money from savings to debt could be:

- deciding that you are no longer saving any more money and each pay allocate your savings money towards your debt
- breaking your savings up: if you have $4000 in savings on top of your $2000 emergency fund, you could move, say, $500 per week onto the debt (if it hurts too much moving it all in one go): now you're wading into the water

- jumping into the water once you're in waist deep! Check your emotions after the first couple of payments towards your debt, and if you're feeling good, bite the bullet and transfer the rest of your additional savings (but not the emergency fund). I am being cheeky here, but remember: you wouldn't borrow money on your credit card or a personal loan to have that money sitting in a savings account earning virtually zero interest, would you? (Don't answer that!) If you are not feeling satisfied with paying down your debt, you could always get back into debt—but how's that been working for you? 😉

Side hustles

This is a bit of a buzz phrase which has increased in popularity in recent years. Side hustling is when you work on the side to your regular or main job and 'hustle' to make additional money or to advance your career. I am not a fan of pursuing a side hustle for the sake of it. I value your time and you should too. I believe there are only four reasons you should do a side hustle and they are:

- to earn extra money to get out of debt (that's you!)

- to earn extra money to save for a short-term goal (e.g. you wish to save up $2000 for a new mountain bike, stand-up paddleboard or something that you really want but don't have money for in your day-to-day life)

- to organically start to build a business on the side: you can do this after hours or on weekends and as time passes, the goal would be to grow the business so much that you need to quit your main job to pursue your own business 100 per cent of the time

- to allocate the income to investments only. This might be the only reason to side hustle long term (so it's not in vain). You will then ensure that your human capital (I'll talk about this in the next chapter) will be committed to growth assets so your sacrifice of time and effort spent working now will be worth much more in the future as your investments grow and compound over the longer term.

It is important to understand that if you're doing a side hustle to pay for food, rent and other day-to-day expenses, it's really just a second job. This could be a sign that your expenses are higher than your income, which means you may need to consider reducing your expenses or that you're being underpaid.

Don't waste your time working extra hours to then just consume that money. Put it to use! And if you aren't planning to do something longer term with your hustle money, only commit to the hustle for as long as you're paying off your debt to ensure you're not overcooking yourself.

You might say, 'Glen, I love doing photography/graphic design/catering on the side and I'm happy to have it as my side hustle long term'. Awesome. Do that. It sounds like a great hobby that you'll get paid for. I just want you to have your own wellbeing in mind. Because if you are on the grind for a long period of time, your finances might be looking pretty, but it might be costing you in other areas of your life (mental health, relationships).

I don't want to treat you, my dear reader, like you can't think for yourself. This is why I will give examples to prompt you and to point you in the right direction. You know how the four examples above will best fit into your personal situation. I want you to be the best version of you. If this means you will be hitting the pub—to pour beer, that is, after hours for a short stint to clean up your debt—awesome.

If you're going to side hustle and are contracting through an ABN, it might be worth setting aside a modest amount of what you earn, say 25 per cent, in a separate online bank account for tax. You can review this as time goes by, but I would rather you have the money sitting in an account ready to pay the Australian Tax Office (ATO) than not having any money to pay a bill come tax time!

Just on side hustles, please remember that you don't need to start a side hustle out of guilt—because 'everyone is doing it'—or boredom. People often waste time and money on pursuing side hustles when these finite resources could be used towards other effective goals or investments, such as further study or professional development in order to increase income at your main source of employment.

HECS/HELP debt

Many people under 35 carry HECS/HELP debt—and that's okay. Even if you are over this age, it is still okay. Investing in education is fantastic because it can improve your opportunities in the employment market. If you're working in the area of your study, you've probably found it was a great investment. If not, don't worry—HECS/HELP debt is a very inexpensive loan from the government.

I don't believe you should rush to pay your HECS/HELP debt off because it currently isn't charged interest. However, every year on 1 June the ATO does apply 'indexation' to HECS and HELP debt. This means that your HECS/HELP debt is adjusted each year so the debt maintains its real value to keep up with changes in the cost of living in Australia. The government has loaned you money for your studies and annual indexation ensures that the government doesn't lose money to inflation over time. In 2021 the indexation rate was 0.6 per cent and there were different repayment rates (ranging from 1 to 10 per cent) depending on your annual income.

For example, if your debt was $25 000 on 1 June 2021 the ATO would apply the indexation rate of 0.6 per cent and increase your HECS debt by $150 ($25 000 multiplied by 0.6 per cent). An annual income of $60 000 attracts a compulsory repayment rate of 2.5 per cent, which means that your employer would withhold $1500 to give to the ATO. This would have been applied against your HECS/HELP debt when you filed your tax return for 2021.

You may think it will take 20 years to pay off the HECS/HELP debt at that rate, but if your salary doesn't increase at all over 20 years, you may have bigger problems to worry about!

Two other reasons for not paying off this 'indexed loan' with voluntary payments are as follows:

- *Any debt dies with you* (*RIP*). Any extra payments made towards your HECS/HELP debt will not flow through to family or dependants following your premature death. You could have paid that extra money down on your mortgage, super contributions or other investments—and that money would then flow through to your estate beneficiaries (as either cash or assets, which may have possibly grown over time).

- *Voluntary HECS/HELP repayments are not tax deductible to you*. You can't claim them on your tax return and benefit from paying less tax.

It is my prediction that at some stage in the future a new government will move to change the current policy so that a deceased person's estate must clear the remaining debt. But even if this does occur, I would not change my view on not paying it down early.

To be clear: you can't inherit HECS/HELP debt!

> In terms of your HECS/HELP debt, the repayment amount is only based on your income, not the total amount of outstanding debt. This means, regardless of whether your HECS/HELP debt is $150 000 or $5000, the compulsory repayment amount would be the same.

When you might pay off your HECS/HELP debt early

The amazing thing about personal finance is that it is exactly that—personal. There is never a one-size-fits-all approach, although that would make it easier to write this book or host a personal finance podcast.

In my somewhat 'professional' opinion from my past life as a financial adviser, I believe you could consider paying off your HECS/HELP debt early with voluntary payments under the following circumstances.

- You have a small amount of HECS/HELP debt left relative to your overall situation, and the repayments are affecting your borrowing capacity for a mortgage.

Banks and lenders don't assess the 'amount of debt' left to be paid. Rather, they assess the amount of your income that is compulsorily withheld by your employer and given to the ATO to service the debt based on your income. For example, if you had $5000 of HECS/HELP debt remaining, paying the HECS/HELP debt down could free up that extra bit of servicing income (once you report to your employer that you no longer have any HECS/HELP debt so that they stop withholding that extra repayment amount). A quality mortgage broker would help you assess the impact on your borrowing capacity and whether early payment of a HECS/HELP debt is beneficial in your circumstances.

- You have an employment relationship that allows pre-tax salary sacrifice of HECS/HELP voluntary repayments. This effectively means you can pay this debt down with 'pre-tax' dollars. The wash up of this is akin to being able to claim post-tax voluntary repayments on your tax return. But I would consider ensuring that your other short- and medium-term financial goals are taken care of before doing this.
- You have met all your other short- and medium-term financial and lifestyle goals and you just want to swing back around and clear the debt for 'housekeeping' sake and to free up withheld amounts being taken from your pay.

But remember: the payments are not tax-deductible and additional payments would be 'wasted' (see explanation above) if you die prematurely.

For the last two points, I certainly would not be considering paying HECS/HELP debt back voluntarily if you have other consumer debt. Run your debt snowball first.

The truth about credit scores in Australia

'Will paying off my debt affect my credit score?'

'My credit score is important!'

'How do I increase my credit score?'

'I need to get a loan to get a credit score!'

These are common statements that I have heard or that may have slipped out of your own mouth. Australia is heavily influenced by the USA in its culture, and their society and financial system is built on the back of the credit score system. In the USA, you need a credit check for house rentals, car insurance, home insurance, health insurance and even some online dating profiles! It's everywhere! And the concern about credit scores has crept into Australia. Let's break this down.

Here's why you shouldn't worry too much about credit scores.

There is no national credit score system in Australia that is magically linked to your tax file number (or anything like that). There are three main credit record agencies (or credit bureaus) in Australia: Equifax, Illion and Experian. Each bureau may have a record of you and their own profile from which they assess and produce a score for you. Generally, your record with these bureaus has your current or most recent home address (as well as previous addresses), date of birth, full name, and so on.

Credit providers such as banks, electricity companies, phone companies, other utility providers (or anywhere that you borrow money or are on a use-now-pay-later account, such as an internet plan) may choose one, two or all bureaus to work with. For example, if you didn't pay your phone bill on time, it's possible only Illion got a notification, placing a negative mark on your 'credit' file.

When applying for a loan or mortgage (remember that you won't be applying for any consumer debt going forward!) the credit provider may sweep one or all of the bureaus to gather data about your history of repaying money. At this point they will make their own judgement and assess how creditworthy you are.

Let me repeat that: banks and lenders don't have access to a central credit score government-owned database ... these bureaus are non-government (i.e. private companies).

So what does this mean? It means that the proposed credit provider (e.g. for a phone plan or home loan) will gather credit information from one or all of these companies and build their own credit profile on you. This means there is no huge issue with your specific 'credit score'. I live and breathe personal finance daily for a living and I honestly don't know what my 'made-up score' is with any of the bureaus. I don't let this myth run my life.

Bottom line: the best thing to do regarding your personal credit history is to pay your bills on time and have cash in the bank!

BNPL: Afterpay, Zip Pay, etc.

Make no mistake: if you possess or use a product or service before you have paid for it, you have a debt. No matter how cute the marketing is, no matter how good the app is, no matter how nice the technicalities of the product are.

At the time of print, the buy-now-pay-later (BNPL) industry isn't regulated. What does that mean? It means the Afterpays and Zip Pays of the world are not governed under any consumer credit laws in Australia. This is because technically there is 'no cost' to the consumer to use this service, nor is there unlimited interest charged to the consumer (as there is for credit cards) if the consumer does not pay back the money.

After you read this book and implement a spending plan, build your financial foundations, and develop a great mindset, my hope is that you will look at BNPLs like I do. I look at them as a distraction, a joke, a modern-day 'payday lender' (google that one)—a company that is mainly profiting by making it attractive and easy for you to make purchases which can be paid over 'four easy instalments'.

If it sounds like I am being critical towards these companies, it's because I am. I like how we live in a country that does allow freedom to innovate and I am excited to see what the future of money looks like and all that. However, these BNPLs are used for consumer spending so they use language that is inviting and fun: 'four easy instalments—sign me up, baby!' Note the sarcasm. Without regulation and with more competition from new players, these instalments will go out to 52 easy instalments, 100 easy instalments, and so on. Don't get me wrong, I understand that up to 75 per cent of these companies' profits come from the fees they charge the retail stores to use them. If you want to support your local small business, don't use BNPL in their stores because they make less money when you use BNPL payment methods.

Let me get to it. Here are the reasons you should not use these services.

- By using BNPL you are not learning how to manage your money. You should not outsource your diet to a shake, nor should you outsource your budgeting to a 'credit provider'. Afterpay says the average purchase is $150. They are not clear on whether or not this is an individual item or a cart full of items online with the one retailer. If you honestly need to spread out $150 over four $37.50 instalments, I am sorry to say that you have bigger problems in your budget. Particularly if you are working full time. This will offend people as I have had people tell me that Afterpay has helped low-income people and people in a pinch. My comments are that the worst time to get into debt is when you are in a pinch.

- Having payments in your life—even if they are interest free—ties up your cashflow budget and if your circumstances change a week after the purchase, you might not have the money to pay the remaining instalments and therefore have a penalty fee levied against you. This instantly means you have paid too much for the item.

- *'It is not a debt.'* Tell that to a bank. If someone knows what is debt and what is not debt it's the bank. Please take note: if you are applying for a mortgage, banks and lenders will see these payments coming from your statement and use this towards any 'credit profile' they make of you, as I mentioned previously around credit scores.

While there are always the 1 percenters who have used Afterpay and Zip Pay to their benefit … blah blah blah … don't use this as an excuse to do the same. Stop using credit for crap and move on!

It is worth noting that innovation is truly a wonderful thing and we are in the early stages of digital money and payments. There could be some cool payment feature or system that comes out of all of this stuff (but probably not) — so I'll give the innovators some grace here. I will not give grace to the innovators who pitch to me to try and come as a guest on my podcast to advertise an app that allows people to get their salary paid in advance daily. Commonwealth Bank of Australia (CBA) recently launched a product like this called 'AdvancePay'. I thought it was a legitimate joke at first. Are you kidding me? Yikes!

My point here is that when the motor vehicle was first invented it did not have seat belts. Regulators and society soon went out on a limb to say 'seat belts are probably a good idea'. There was a lot of resistance and pushback from the motor vehicle industry at the time. And, well, the rest is history (and safer).

In a submission to Treasury on the regulation of BNPLs, Afterpay stated the following:

> *In summary, Afterpay is strongly of the view that the ASIC powers are not appropriate for the simple, no cost, short-term product offered by Afterpay which enables consumers to purchase retail goods or services.*

Lol!

Loans from family and friends

I don't generally love this idea as it can lead to relationship breakdown. But if you do go down this road, ensure you write down the terms on paper and sign it in front of witnesses with your family/friends. When drafting the terms, consider factors such as the time frame for loan repayment, the exact dollar amount owed (total amount and the agreed repayment amounts) and other accountability/terms (e.g. if the loan is not paid back within six months, the borrower must re-finance with a personal loan). Make sure both the lender and the borrower have a copy of the written terms.

Debt and mental health

It can be tough out there and while we need to take ownership for our actions, I understand you might have been in a dark place for a season or you may still be going through a rough time. You may have racked up consumer debt because buying things is one way that you feel in control, settled or simply not depressed.

For the 'overspenders', and particularly those overspending with debt, I ask you to pause and reflect. Why do you think you are overspending? Is it just sloppy mismanagement of your money and life or are you doing this almost on purpose because 'it just helps' or 'it makes me feel better'? Only you can answer this. If you think your overspending (with or without debt) has been going on for too long and there might be an underlying mental health issue, I would encourage you to speak to your GP. It took me too long in my life to realise I had a problem with my mental health (depression and anxiety). Once I had sought treatment, I became a new person who was surprised to learn that 'not everyone feels this way'. It is okay to not be okay. And it is okay to reach out for help.

A final word
on consumer debt

Often, consumer debt is not the problem; it is just a symptom of something else. You have been the problem, most likely. Not the debt itself. I hope by reading this chapter that you are encouraged to make some movements to stop spending and to clean up your debt.

If anything, just decide that there will be no more consumer debt. Try and go for a day, then a week, then a month without overspending on credit. Then get your spending plan in place and then let's get onto the task of cleaning it up!

And if you don't read on and you just want to focus on slaying your debt for now, I would be okay with that too.

I need you to be hyper-vigilant when it comes to buy-now-pay-later products. At the time of print Apple have now entered the race with a rumoured 'Apple Pay Later', Pay Pal has also put their hand up and Square, an international payments platform, has announced their intention to take over Afterpay. The problem we have with this payday lending of today is that you don't have to make a conscious effort to walk into a cash loans office – it's already in your pocket. Be strong.

resources

Scan the QR code for these resources and more.

- If you're in debt over your head and need help you can speak with financial counsellors at the National Debt Helpline on 1800 007 007 or visit www.ndh.org.au.
- If your debt is causing you emotional or mental distress, please speak to your GP about getting help. If you feel there is no way out and need help right away please contact Lifeline on 13 11 14 or visit www.lifeline.org.au.
- There is a great Facebook group for people who are getting their money on track, just search 'The Glen James Spending Plan (GJSP)'. Ask the group how they have had wins with getting out of debt.
- Head over to my dedicated book website to download a debt snowball worksheet, some extra resources and if you think you want to speak with a financial adviser or money coach for extra accountability to help keep you focused!