

SESSION 5: DEBT AND CREDIT

*Managing Debt Incurred in an Abusive
Relationship
and Taking on New Debts*

Previous Session

- Discussed budgeting and saving
- Introduced useful money-saving strategies and budgeting tools
- Discussed how to reflect on survivor relationship with saving and budgeting and how the abuse may have affected this
- Discussed how to present budgeting and saving as paths to financial autonomy
- Introduced banking services for victims
- Increased understanding of how saving can be in preparation for necessary life expenditures, as well as unforeseen/unexpected events

Objectives

- How to discuss debt with survivors and what to do about it, especially if jointly held with the perpetrator
- Understand different types of debt, how to compare loans, and how debt grows
- Gain knowledge and awareness concerning “personal debt”, including basic financial terms such as “interest” and “APR”
- Gain knowledge of costs involved with different ways of borrowing money
- Gain practical knowledge of how debt grows and impacts other household expenses
- Discuss how addressing debt can lead to financial autonomy and recovery

What is credit?

“Credit is generally defined as a contract agreement in which a borrower receives a sum of money or something of value and repays the lender at a later date, generally with interest.

Credit also may refer to the creditworthiness or [credit history](#) of an individual or a company.”

[Credit Definition](#)



Types of Personal Debt

- “Debt is an amount owed for funds borrowed. The lender agrees to lend funds to the borrower upon a promise by the borrower to pay interest on the debt, usually with the interest to be paid at regular intervals. A person or business acquires debt in order to use the funds for operating needs or capital purchases.
 - Debt may be secured by an entity's other assets, which will become the lender's property if the entity cannot pay back the debt. Alternatively, the debt may be unsecured . . . If the borrower breaches a covenant, the lender is permitted to call the loan, thereby forcing its immediate repayment by the borrower.” [Debt definition — AccountingTools](#)
- “Priority debts are debts such as mortgage arrears, rent arrears, fines and maintenance payments. With these debts creditors have extra powers to: repossess property, evict you, disconnect utilities or fine you.”
 - [What are priority debts and secondary debts? - MABS](#)
- “Secondary debts are other types of debts where the creditor does not have extra powers, for example they can’t take your home. The consequences of not paying these debts are less serious but don’t ignore these debts – you can still be taken to court if you don’t keep up the agreed payments.” [What are priority debts and secondary debts? - MABS](#)

Case Study

‘A client of yours attends your service with a debt that she had forgotten about. The debt was for a credit card that she recalls was €3,600 when the account was terminated. She never used the card herself, she got it for her ex-partner who maxed out the €3,000 limit and then refused to pay. A debt collection agency has now written to your client seeking €4,200 immediate payment or they will bring the matter to court. Your client is certain that the last payment on this account would have been over 10 years ago, and she is sure that the debt has never been to court. Your client has lived in the same house now for 20 years.

How can you help your client in this situation?

What about the statute of limitations on this debt?

Statute Barred Debts

From Citizens Information:

“There are time limits (limitation periods) for taking most types of court action. These time limits are set either in the Statute of Limitations 1957, as amended, or in specific legislation dealing with the court issue involved.

- The law is complex but, in general, the time limit for taking actions for breach of contract (for example, failure to pay for goods or services provided), for debt judgments, and for non-payment of charges such as rent is 6 years.
- If your **creditor** does not start the court action within 6 years of the debt being due, the action can be held to be *statute-barred* by the court.
- This effectively means that you cannot be forced by the court to pay the debt even though the debt still exists.

If your **creditor** gets a judgment, then, in general, they have 12 years in which to enforce that judgment.”

[Glossary of debt terms](#)

Types of Debts

Priority Debts

- Rent or Mortgage
- Utility Arrears
- Food & Heating
- Childcare or Child Maintenance
- Revenue Commissioners
- Healthcare or Medical Costs for self or family
- Local Property Tax Local Property Tax (LPT)
- TV Licence
- Court Fines or Court Order (e.g. for TV licence, Toll Debt or other debts)
- Unpaid tax
- Hire purchase goods or Personal Contract Plan (PCP)
- Car Insurance
- Telephone or Broadband

Secondary Debts

- Credit card debt
- Bank overdrafts
- Credit union loans
- Personal loans (Bank)
- Moneylender (licenced) Debts
- Finance Company Loan
- Mail Order/Catalogue
- Finance Company Loan
- Service Supplier (e.g. TV)

Trends upwards - [BPI Personal Loans Report - Q2 2022 - Banking & Payments Federation Ireland](#)

None of the Above (for Both Types of Debts)

Types of Personal Debt

- Mortgage
- Credit card
- Personal loan - unsecured versus secured [complete-guide-to-loans](#)
- High Cost Loan e.g., high interest rate
- Buy now, pay later loan
- Door-to-Door moneylender
- Hire Purchase Plan - Hire purchase agreements
- Personal Contract Plan (PCP) - Personal Contract Plans (PCPs)
- Family or friend (the perpetrator's or the victim's?)
- Business loans? Name on business debt from perpetrator's borrowings

High Cost Credit

- Catalogue Debts
- Door to Door Credit
- Overdrafts - Money provided by the bank when there are no funds in your account

Bank overdrafts

Checking your Credit History

- When banks are deciding whether to lend to you and what interest rate to give you, they will look at your credit history.
 - This shows any amount you have borrowed over €500 and if you've missed any payments
- You can request a free credit history report online at:
<https://www.centralcreditregister.ie/borrower-area/apply-for-your-credit-report-and-other-rights/>
- You can also email myrequest@centralcreditregister.ie to get forms by post, or call 1890 100050

Why your credit history is so important....

- The information on your credit report can be used to decide:
 - Whether to lend to you
 - How much to allow you to borrow
 - How much interest to charge you

Checking Your Credit History

- How CCR works - not a "black mark" system - statement of actual status. Also possible for borrower to add a note
- Credit information is recorded for five years, though lenders only see the past two years of repayment history for a current loan - [retention-of-information](#)
- Sample credit report - <https://www.centralcreditregister.ie/media/1608/sample-credit-report-individual-050622.pdf>

Credit Cards

Central Bank statistics July 2022: [2022_july_ie_credit_debit_cards.pdf](#)

- July 2022: total card spending, including ATM transactions, equated to €8 billion, or an increase of 11 per cent, or €808 million, from July 2021.
- Debit card spending represents 87 per cent of total card spending at €7 billion, while credit card spending stands at €1 billion.
- Point of sale (PoS) spending was 13 per cent higher in July when compared to July 2021, at €6.9 billion (Chart 2), while ATM transactions increased by 1 per cent, to €1.16 billion. ATM transactions continue to remain subdued compared to pre-pandemic levels, and remain 14 per cent below February 2020 figures.

Comparing interest rates:

[Credit Card Comparison - Bank of Ireland](#)

[Easily compare credit card providers in Ireland | bonkers.ie](#)

Comparing Credit Cards

- Credit cards can have high interest rates, but many accounts offer low introductory rates, or freezes on interest for set periods. The Competition and Consumer Protection Commission (CCPC) have a useful tool for comparing credit card accounts here: [Compare credit cards - Consumer Help](#)
- How many credit cards should you have?
- [Managing credit card debt](#)

High Cost Loans

- Over 350,000 people in Ireland had a loan with a legal moneylender in 2017 (or about 7% of the population)
- Dropped to just over 280,000 by 2020
Provident left the market in 2021.
- Very expensive line of credit
- These lenders provide short-term high interest loans (APR rates in Ireland can range from 152% to 287.72%) that are easily obtained and require little to no collateral.

Hire Purchase Agreements

- “Hire purchase” is an agreement whereby a person hires goods for a period of time by paying instalments
 - Usually last between 2 and 5 years, the most common last 3 years
- Under a hire purchase agreement, the consumer ***does not actually own the goods*** until the last instalment is paid, although they have full use of the goods throughout the repayment period
 - Very common for purchasing a car
- PCP has benefits (flexibility, capacity to walk away) and risks - particularly with regard to the bullet repayment at the end

[PCP FAQ](#)

[What Are The Benefits Of PCP Finance? | Moneyshake](#)

Personal Micro-Finance Loans

- Also called “It Makes Sense” or PMC Loans
- Credit Union Scheme for low interest loans for persons on social welfare

Participating Credit Unions - 'It Makes Sense' Loan

- ❖ Rates around 12.5%, designed for smaller loan amounts (500 – 1,000 EUR)
- Different credit unions offer different loan amounts and rates

**THE
"IT MAKES SENSE"
LOAN**

Secure vs Unsecured Debt

Secure Debt

- Debt 'secured' by an asset – like a mortgage is 'secured' by the house. If the debt isn't paid, the asset might be taken.
- Lower interest and harder to get.

Unsecured Debt

- Debt that isn't attached to an asset - This includes debt from credit cards, student loans, personal loans, moneylender loans
- Higher interest and easier to get.

Understanding Interest

- *Getting into debt is easy. The higher the interest rate, the easier it is to get a loan.*
- To borrow money, you'll need to repay what you borrow.
- You are also charged an extra amount due to interest, so you need to repay *more than you borrowed*.



Comparing Interest Rates

- To borrow money, you'll need to repay what you borrow, in addition to an extra amount known as 'interest': *a yearly percentage of the debt added on*
- It's cheaper to borrow smaller amounts, as even low percentages of large amounts can be expensive
- When comparing loans, always look at the 'APR' for the real cost – this includes interest along with any other fees and charges.
- The CCPC has loan comparison tools to check interest rates:
 - Personal loan comparison tool: <https://www.ccpc.ie/consumers/money-tools/loan-comparison/>
 - Mortgage comparison tool:
[Compare mortgages - ccpc.ie consumers](https://www.ccpc.ie/consumers/mortgage-comparison/)

Indicative Cost of Credit

Personal Loan

	Loan	Interest rate/APR	Term	Monthly repayments	Total Repaid	Cost of credit
Bank	€5000	8.65%	3 years	€158.19	€5694.68	€694.68
Credit Union	€5000	10.59%	3 years	€162.72	€5858.08	€858.08
Moneylender	€5000	23%	3 years	€193.55	€6967.75	€1967.75

When Normal Debt Becomes a Problem

- Problem debt: when people can not make their debt repayments consistently as they fall due
- Problem debt becomes a bigger problem, especially when it is for living costs, such as rent or mortgage arrears, and utilities arrears
- Problem debt can lead to **debt trap** or **debt treadmill**



What to do about (non-mortgage) debt

1. Issues to consider – jointly held with perpetrator, coerced into incurring debt, impact on credit rating, ability to pay
2. Contact the lender directly and if that does not work, go to the other options
3. Seeking help to reschedule payments, negotiate with lenders - MABS offers this service
4. Consumer Credit Bill 2022

https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2022/2022-03-22_bill-digest-consumer-credit-amendment-bill-2022_en.pdf

Mortgage Options

- Bank or non-bank lender
Non-bank lending to mortgage borrowers has grown in importance in recent years
- Interest rates subject to decisions by the European Central Bank
- Must have mortgage protection insurance unless
 - you are over 50
 - the home is not your principal residence
 - you already have enough life insurance to pay off the mortgage
 - or you cannot get life insurance because of illness
- Using Collateral to Purchase a Home - Can a site be used as a deposit for a mortgage?
- Comparing rates - Compare Mortgage Rates in Ireland | bonkers.ie
- Local Authority Home Loan Scheme
gov.ie - Local Authority Home Loan Scheme



Mortgage Arrears Help

- Abhaile Scheme MABS:
<https://www.mabs.ie/en/abhaile/>
- Irish Mortgage Holders Association (IMHO): non-profit, funded on charitable basis by three major banks
<https://www.mortgageholders.ie/>
- Insolvency Service of Ireland
Our objective is to restore insolvent persons to solvency.



What to Expect When You Open an Account

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Member Bank Representative

Next Session

- Critically discuss online shopping, the pros and cons, and how it can impact overall spending
- Look at the impact of buying online from other countries vs using local shops
- Look at the pros and cons of using online resources and available technologies, like mobile banking, including the risks involved and how to protect your information
- Presentation on fraud from bank representative