

# UNDERSTANDING DEBT

May 10th, 2022

**Categories:** Finance,

This series is provided in partnership with **Financial Counselling Victoria** and is around debt. We start off each of these blogposts with a scenario from either James or Julie from our Dreamers Diaries.



## DREAMERS DIARIES

*Julie first became aware of debt when she was about eight. Every night after dinner, her parents would spend hours in the kitchen speaking in low, strained voices. Julie and her brothers were supposed to be watching TV, but it was hard to ignore the tension coming from the next room. Every so often a word would pierce through the noise of the television – ‘repayments’, Mum would hiss, ‘bills’, and, worst of all, ‘debt’. The words were whispered, as if to say them out loud would bring them to life. As an eight-year-old, Julie didn’t know what debt meant – but whatever it was it seemed to terrify her parents. So, to Julie, ‘debt’ was a large, furred, black creature – a creature baring pointed teeth and narrowed green eyes. She*

*imagined it crouched, as if about to pounce, with its eyes fixed on Julie's parents as they paced about the kitchen.*



*Later, Julie's parents stopped having these conversations, and she learnt what 'debt' really meant. But over the years, she could never shake the image that would come to her whenever she heard the word – the yellowing teeth, hot breath, dirty claws like crescents, reaching for her parents' throats.*

*Still – Julie hadn't given much thought to the possibility of debt occurring in her own life. The summer she turned eighteen, she saved money by working at a local café. The work was exhausting, as Julie would be on her feet all day, but the regulars were friendly, and the other waiters often let Julie choose the music because they all agreed she had the best taste.*

*Having money over that summer had been, quite frankly, thrilling. Julie had bought a new pair of football boots – her first in two years – and, on her eighteenth birthday, decided to treat herself with a DSLR camera. It was the most expensive thing that Julie had ever owned, and it was almost unfathomable that she'd been able to buy it herself.*

*Aside from these purchases, Julie had done her best to save as much money as she could over the summer. As the first day of school approached, she knew that she'd soon have to cut back her hours at the café to make room for classes and studying. The soccer season would also start, which would mean two evenings of training and one morning of matches. Her goals for the year were to captain her soccer team to the finals, to make a short film in her media class that she could use in her portfolio when applying for uni, and to do her best in her other subjects. Things started to go awry when, in the first week of class, she dropped her new camera – the lens cracked, and it no longer turned on.*

## WHAT WE TALK ABOUT WHEN WE TALK ABOUT DEBT

The way that adults talk about debt, it can often seem like it's the scariest thing they can encounter! But what is it really? **'Debt' refers to money that is owed and must be paid back.** When we have our finances under control, debt can be manageable – we can work the repayments into our weekly or monthly budget. In this situation, it's definitely not the scary monster that Julie imagined at eight years old. Debt becomes scary when it becomes too big and we owe too much, or when something in our financial situation changes and we find we're struggling to pay back our debt in the time we've been given to do so.

## WHY DO PEOPLE GET INTO DEBT?



Debt occurs when we borrow money. We borrow money when we want to buy something, but can't afford to pay for it upfront – for example, you might choose to purchase a laptop on a credit card, and then pay off the debt you owe to the credit card company over the course of a year. It is reasonable to borrow money for large items we can't afford with our savings. In fact, there are some purchases that are so large that borrowing money is expected. For example, when someone buys a house, it is quite typical that they will borrow money to do so – we all accept that it is very unlikely that someone will have the entire cost of a house sitting in their bank account. Borrowing money for a house is called 'taking out a mortgage' – a term that you may have heard before.

For young people, there are a few common purchases that may lead to debt. For some of these, you might not even realise that what you are doing *is* ‘borrowing money’, because such purchases are so normal that the word debt, with all its negative connotations, is not even used.

These purchases include:

- Signing up to a mobile phone plan
- Making Buy Now Pay Later purchases, including with services like Afterpay, Zip Pay, Humm and Klarna
- Purchasing products with a credit card
- Taking out a HELP loan to pay for your university or TAFE course

## WHEN DOES DEBT BECOME A PROBLEM?

Borrowing and debt are normal parts of our financial system – however, this doesn’t mean that borrowing money is without risk. Debt can still pose a risk to many because it may become a problem to repay – and, when it is not repaid in a timely manner, it can grow larger and more unmanageable.

*The National Debt Helpline* has some helpful information on the risks of borrowing, which can be accessed [here](#).

Where possible, saving is usually a better alternative to borrowing because it avoids the fees and interest charges. The Academy has some helpful modules to learn about how to earn money, set money goals, and save for dreams. You can access the Money Matters series by clicking [here](#).

**If you are over 18 and experiencing a financial problem, it may help to talk to a financial counsellor. Their assistance is free, confidential and**

independent. If you would like to talk to a financial counsellor, click [here](#) to access the Carer Pathway to financial counselling.