

# Debt \$orted



## Tackling debt

### Seminar facilitator's guide

Brought to you by the Commission for Financial Capability

# Facilitator's guide

**It's good to be able to borrow money. It can help us buy things like a house or a business, or to get an education. But sometimes it can turn into a real drag on our finances. This Sorted seminar will introduce your participants to managing debt well.**

This facilitator's guide has all the information you need to successfully deliver the seminar. The seminar will take about one hour, during which participants will start to set their own goals. At the end of the seminar participants will know how to make a budget and how a budget can help them to achieve their goals.

This seminar is designed to be as facilitative as possible. If you have time, allow longer than an hour so that you can encourage discussion and make it possible for participants to ask questions.

## Remember

Order Sorted's booklets from [sorted.org.nz/#/order](https://sorted.org.nz/#/order) at least five working days before the seminar. All of Sorted's booklets and resources are free.



## Disclaimer

Facilitators must agree not to give personal financial advice nor to promote or recommend any financial product or organisation when delivering this seminar. The information in this guide is generalised and current as at August 2016. Laws or policies may change at any time. This seminar should not be the only source of information when making financial decisions. It should be treated as a starting point before seeking professional advice

# Preparing for the seminar

## Inviting participants

Encourage participants to attend by explaining that they will explore what to consider before going into debt and how to get out of debt. They'll also receive tips about how to manage different types of debt such as credit cards, HP, car loans and mortgages. Participants will leave the seminar having started to make their own debt repayment plan, and with a copy of the Sorted booklet Tackling debt.

You may wish to keep the number of participants to between 12 and 20. As money matters are often shared, you may want to consider giving participants the opportunity to bring a family member or friend to the seminar.

## Seminar materials

### You'll need:

- The presentation
- A computer or mobile device with Adobe Reader connected to a projector or television
- Internet access if you wish to demonstrate the calculators and tools on **sorted.org.nz** during the seminar. They can also be demonstrated on participants' own phones.
- Pencils and erasers for participants to write their goals in their goals booklet
- A whiteboard and marker or something similar

### Know your participants

This seminar is generalised so it's important that you think about the ways you can make it more relevant to participants:

- Are participants young, middle-aged, older?
- Do they have families, young children, or have their children left home?
- What sort of incomes do they earn?
- What cultural values do they bring?
- Do they have whānau and family obligations that need to be considered?

People may be uncomfortable sharing information about their personal financial situation with others. You can help overcome this by using the examples in this guide or talking about your own experiences. Encourage participants by getting them to think about other people they know rather than just thinking about their own situation.

Read this facilitator's guide and accompanying materials carefully and use the resources and tools on **sorted.org.nz** before facilitating this seminar. Being familiar with the material and Sorted resources will help you to deliver it well.



# Preparing for the seminar continued

## Sorted booklets

Sorted booklets for participants – order now.

You'll be providing participants with this Sorted booklet:

- **Debt:** *tackling it before it becomes a real drag!*

This Sorted booklet is used during the seminar. Copies are free and can be ordered from the Sorted website at [sorted.org.nz/#/order](https://sorted.org.nz/#/order). Allow five working days for delivery.



# Presentation guide

**This section guides you through the seminar. It has extra information to clarify details or make the seminar more interesting.**

## Key points

These bullet points are a summary of the key objectives to cover for each slide.

## Activities

These are the key things to do during each slide, including suggested activities you may wish to use, to help discussion and get participants involved in the seminar. These activities are shown in blue text.

## To say

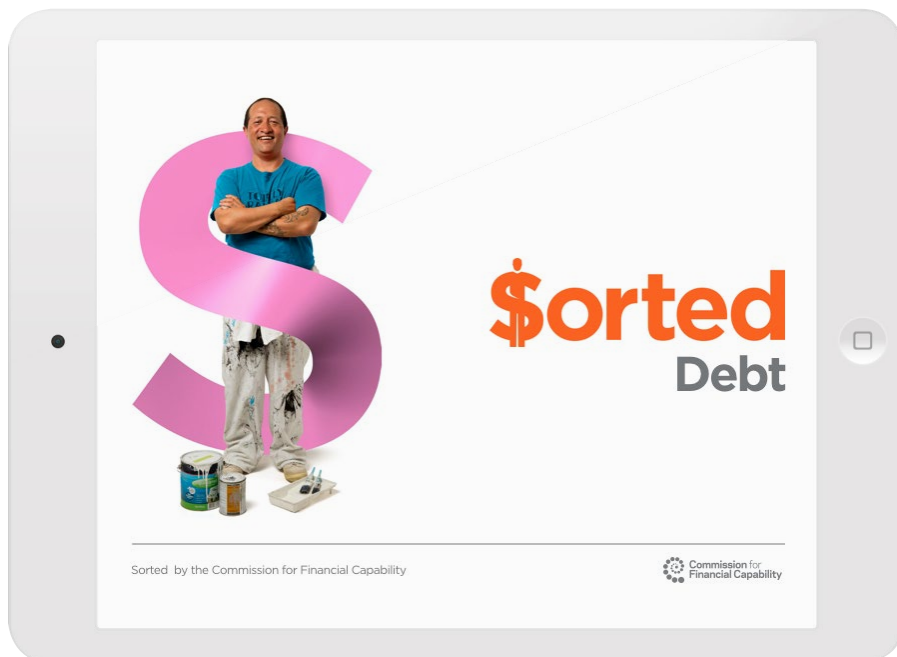
Background information to use as a rough script for each slide. These words are shown in regular grey text.

## To explain

You may need to define some key terms or concepts. Where necessary, definitions are included to help you do this.



# Slide 1



## Key points

- Welcome participants to the seminar and introduce Sorted.
- Explain the purpose of the seminar.
- Invite participants to share what they know about debt.

## Activity – Whole group

Ask each person to introduce themselves to the group and say what they want to get from being at the seminar. Start with yourself.

## Welcome

Welcome to Sorted's seminar on tackling debt. It's good to be able to borrow money. It can help us get things of value like a house, a business or an education. But it can also tempt us to buy things that we can't really afford and become a real drag on our finances.

This seminar will take about an hour and by the end of it we will have looked at debt and how to manage it.

# Slide 1 continued

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## Activity – Whole group

Ask the participants what they know about debt. Write their answers on the board.

If appropriate ask one or two participants to share their stories about debt – their own experiences or those of someone they know.

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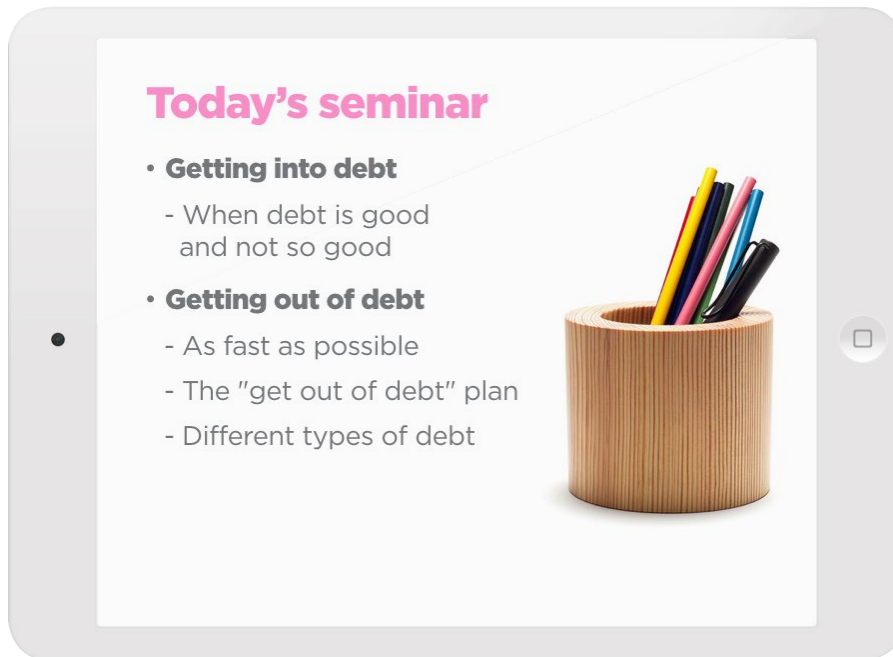
### Impartial information, not advice

But before we start, who's heard of Sorted before? Sorted is brought to you by the Commission for Financial Capability. It provides free, independent and impartial information about money matters.

Because it's impartial, we won't be giving out personalised advice in this seminar – but you will get information you can use to make more informed decisions about debt.

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# Slide 2



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## Key points

- Introduce the key topics.
  - Explain that the seminar will look at each topic in detail.
  - Hand out Sorted's debt booklet.
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## What's covered in this session

**What are some examples of types of debt?**

**Credit cards, mortgages, personal loans, hire purchase, car loans, store cards, student loans...**

Today we'll look at getting into debt – borrowing money to pay for something. We'll look at when debt is good and not so good, and what we need to do to find out the full cost before we get into debt.

Then we'll talk about getting out of debt as fast as we can and how to go about it. And finally, we'll look at some tips on dealing with different types of debt like mortgages and credit cards.

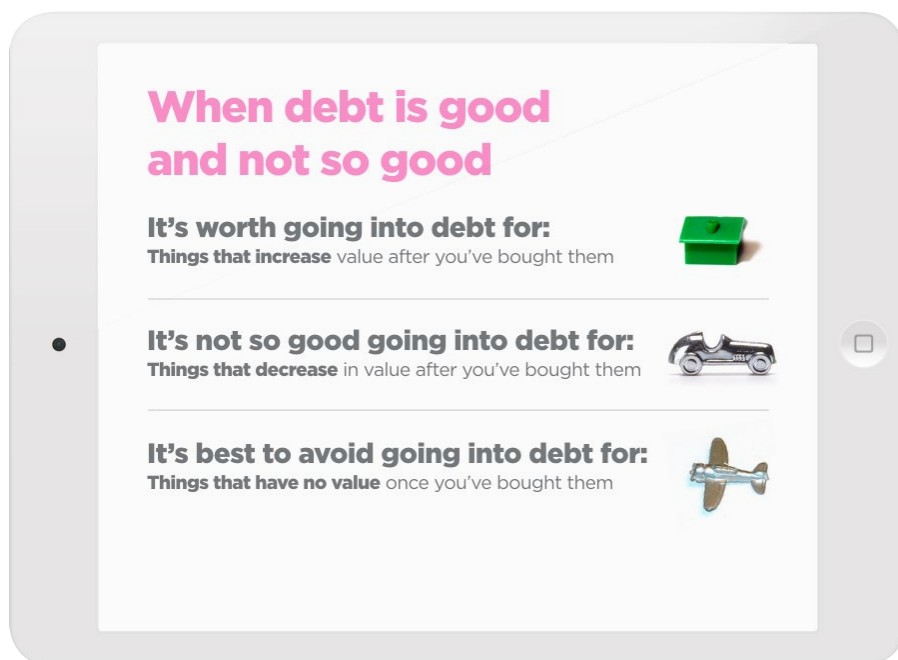
**Hand out the debt booklet to all participants.**

Everything we cover in this seminar is in this debt booklet – it's free to take home. During the seminar, we'll start to complete the debt repayment plan in it.

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# Slide 3



## Key points

- Some things are worth going into debt for because they increase in value.
- Others fall in value or leave us with nothing.

## Activity – In pairs

**Write a list of items that, after we've paid for them generally:**

- go up in value (e.g. property)
- lose their value (e.g. car)
- have no remaining financial value (e.g. holidays).

Then report back to the group – write their ideas on the whiteboard.

Talk about what items people have put in the categories – are they the same or different?

# Slide 3 continued

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## What's worth getting into debt for?

Which list of items do we think it is most worth getting into debt for? Why?

Things that usually increase in value (like a house) or help us earn more money (like an education).

Which list do we think is the least worth getting into debt for? Why?

We get less out of things that decrease in value once we've bought them. These include appliances and cars. As soon as we've bought them they are no longer worth as much.

What kinds of things have no financial value once we've paid for them?

Holidays, concert tickets or a night out...

How else can we pay for things rather than by borrowing for them?

It's a good idea to try and save up for these things rather than borrow for them. If we can, it will cost us a lot less over time.

Whenever we are considering borrowing, it helps to ask ourselves if we really need to borrow the money. Could we cut something from our spending and save instead? The savings calculator on [sorted.org.nz](https://sorted.org.nz) lets us see how long it would take to save up.

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# Slide 4

## Know the full cost

- **How much?**
- **Interest rate**
- **Fees**
- **How long for?**
- **Repayments**

Borrowing? Make sure it costs as little as possible.



## Key points

- The costs of borrowing can spiral up.
- It pays to know the total cost of borrowing, including fees and interest.
- Aim to keep borrowing costs as low as possible.

## Counting the costs

When we do decide to borrow, we need to make sure it costs us as little as possible. So we need to find out the full cost before we take on a debt.

When we borrow money, we usually pay the lender interest. So the longer we take to pay back our debt, the more interest we pay.

### What is interest?

**Interest: Interest is money paid in return for the use of money. For example, if we borrow money from the bank (through a loan), we pay the bank interest for the use of that money.**

It helps to always find out the interest rate and how much interest in total we will pay.

### How can we find this out?

**It will be in the small print of the loan agreement or we can ask the lender.**

We can also ask other lenders what they charge. We may be able to negotiate a lower interest rate. This can make a big difference to the total cost of the loan.

Where do we think we can get cheaper loans from? What is generally a more expensive way of borrowing? Does anyone have any experiences of borrowing that they want to share?

# Slide 4 continued

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## Fees

We need to make sure we understand all the fees we have to pay so we don't get a surprise. It helps to ask the lender: What fees do you charge? How much are they?

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## Activity – Whole group

Tell participants about the debt calculator on [sorted.org.nz](https://sorted.org.nz). If you have Internet access, demonstrate how the calculator works or help them try it on their phones.

Get participants involved by asking them to suggest the values to include in the calculator. Use different interest rates so they can see the effect of higher and lower interest rates.

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## The term of the loan

It's good to find out how long it will take to pay back the loan. We can ask the lender or use the debt calculator on [sorted.org.nz](https://sorted.org.nz) to find out. We just need to enter the amount borrowed, the interest rate and repayments – it'll also show the total interest we'll end up paying.

## Repayments

We always need to find out what the repayments will be so we know how much we have to pay and how often. The debt calculator on [sorted.org.nz](https://sorted.org.nz) helps do this. We simply enter the amount we plan to borrow, the interest rate and the length of time it will take to pay off the loan. It'll show the interest we'll be charged and our repayments.

## Being a guarantor

Finally, we need to think carefully about being the guarantor for other people's loans. Does anyone know what a guarantor is?

When we are a guarantor for a loan, we make a legal promise to pay the debt if the person who borrowed the money doesn't make the repayments. The bank requires this when they think there's a good chance that the borrower may not repay.

This means if they don't pay their debt, we will have to – the loan becomes our debt, and we must repay it along with any interest charges and fees. Some people have lost their homes or retirement savings through loan guarantees that went wrong. Has anyone got any stories to share about being a guarantor?

# Slide 5



**Example: the true cost**

Jane buys a TV worth \$1,500 on hire purchase.

Hire purchase amount	\$1,500	
Fortnightly repayments for 24 months	\$39	<b>These are made up of:</b> + Repayments at 24% interest + Set up fees \$50 + Other fees \$1/fortnight
Total cost	\$2,012	Jane pays \$512 more than if she'd purchased the TV. outright

## Key point

- Use the example to demonstrate the value in knowing the full cost of debt before agreeing to it.
- If you have time, tell participants about the tips relating to hire purchase.

## The true cost of borrowing

Let's take a look at what it means to know the full cost of debt before borrowing. In this example, we look at hire purchase (HP) – when we get to take the appliance home and pay it off in instalments.

Jane wants to buy a flat screen TV worth \$1500. And she plans to buy it on HP because she hasn't got the money she needs to pay for it.

Jane signs up for a 24-month HP agreement to pay for the TV at 24% interest. She doesn't pay a deposit.

As well as the interest, there are other costs. There's a \$50 set-up cost and \$1 a fortnight in other fees. Altogether she's paying \$39 a fortnight in fees and repayments.

According to the debt calculator on [sorted.org.nz](https://sorted.org.nz), her total payments over the two years of the agreement will come to over \$2,012 – that's \$512 more than the price for the TV.

## Activity – Whole group

Show participants the debt calculator on [sorted.org.nz](https://sorted.org.nz).

Ask participants to suggest an item they'd like to buy and its value, and enter these. Then discuss.

# Slide 5 continued

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## **It's cheaper to save**

The important thing with hire purchase – and with any debt that we enter into – is to make sure we know the full cost before agreeing to it.

It's often cheaper to save the money up for the purchase rather than borrowing to buy. If Jane had saved up \$39 a fortnight instead, she would have been able to buy the TV after saving for a bit under 18 months – less time than she had the debt for.

We can find out the full cost of hire purchase by using the debt calculator on [sorted.org.nz](https://sorted.org.nz).

What tips would we give someone if they were thinking about using HP?

Here are some tips on dealing with HP from Sorted. Did we cover them all?

### **1. Know the full cost.**

It helps to ask the salesperson to tell us all the fees and charges we must pay (set-up costs, insurance, total interest over the full repayment period) as if we were paying them all today. The law says that this information must be given to us in writing. We can ask for a total of all the money we will have to pay.

### **2. Check the different choices available.**

Add up the charges and fees. How much is the item going to cost when we add these to it? The charges may be more than the interest we would pay on a different sort of loan. We may be able to ask the salesperson for a cheaper cash price for the item and borrow the money from our bank or another lender at a cheaper price.

### **3. Be careful with interest-free deals.**

It's good to sign up only for an interest-free hire purchase or credit sales agreement if we are sure we can repay the debt in the interest-free period. That way we won't pay high interest rates on any money we have not paid off when the interest-free period finishes.

### **4. Read documents carefully before signing them.**

The law says we must be given a disclosure statement before we sign an HP agreement or within five working days of signing it. A disclosure statement shows all the costs, charges, fees and terms of the HP. It helps to ask for a copy of this statement and read it carefully before we sign it. If we don't understand it, we can ask someone we trust to explain it to us or talk to a budget adviser or someone at the Citizens Advice Bureau.

### **5. Keep it simple.**

It's best to avoid having several hire purchase or finance deals at once. It can be difficult to keep track of when each deal has to be paid off. And it can be hard to find the money to pay many debts at the same time.

# Slide 6

## Get out of debt fast

- **Pay it off as quickly as possible.**
- **Make repayments as high as we can.**
- **Pay off high-interest debts first.**
- **Get help if we're in trouble.**

Always try to pay more than the minimum.

## Key points

- To get out of debt, we need to pay it off as fast as possible.
- Make repayments as high as we can afford.
- Pay off high-interest debts first.
- Make sure we get help if we're in trouble.

## Easy to get into...

Getting into debt is generally easier than getting out of debt – paying the money back is much harder.

The longer we take to pay off debt that we are paying interest on, the more we pay. So it's a good idea to pay off our debts as fast as we can.

### How can we pay off debt as quickly as possible?

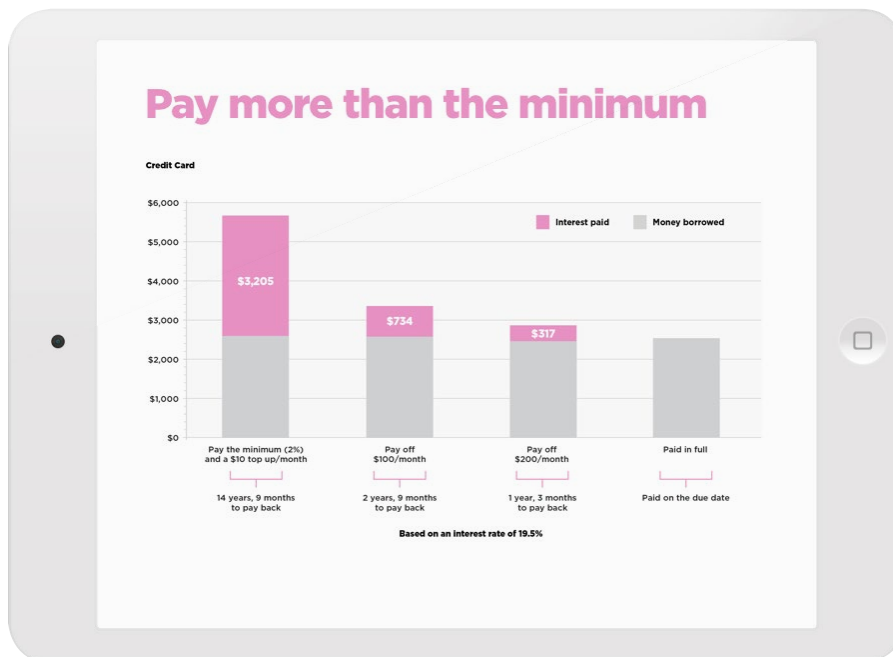
Make our repayments as high as we can afford and pay off our high-interest debts first. We need to check our budget – if we've got extra money that could go on debt repayments, it pays to put the extra on the debt that has the highest interest rate.

If we need help to set a budget or we're having trouble making repayments, we can get advice from a trained budget adviser from the New Zealand Federation of Family Budgeting Services. Anyone can call them free on 0508 BUDGET (0508 283 438).

If we get into trouble paying back our debts, it's best to tell the lender as soon as possible. They may help to sort out a new repayment plan.

It's always worth trying to pay more than the minimum amount. Let's take a look at this.

# Slide 7



## Key points

- Use the graph to show why it's worth paying more than the minimum on a credit card debt each month.

## Make it more than the minimum

This graph shows the effect of only paying the minimum amount on a credit card, compared to paying more and paying in full. It's based on an average credit card interest rate of 19.5%.

The first bar shows that if the credit card holder pays the minimum (2% of the total owed) plus a \$10 top-up each month, they will take 14 years and 9 months to clear the debt! And the interest they pay (\$3,205) will be more than the original amount (\$2,500) they had borrowed.

The next two bars show the effect of paying more than the minimum amount. The first shows that by paying \$100 each month, it will take 2 years and 9 months to clear the debt. And the credit card holder will end up paying an extra \$734 in interest.

The next bar shows that by paying \$200 each month, it will still take 1 year and 3 months to pay back. And the credit card holder will pay an extra \$317 in interest.

The fourth bar shows that by paying the credit card in full each month the debt is cleared immediately without any interest being charged.

What does this graph show us about paying off debts?

It's worth making repayments as high as we can afford – so that the debt costs as little as possible.



# Slide 8

## Pay back debt fast

- **List each debt.**
- **Rank them from highest to lowest interest rates.**
- **Can we increase our repayments?**
- **Paid off one debt? Add that amount to the next priority debt.**
- **Then pay off the next one.**

## Key points

- Guide participants through the debt repayment plan in the debt booklet.
- Remind them to make a budget first – so they can see how much they can afford.
- As soon as they pay off one debt, add the repayments they were making on that debt to the repayments for their next highest interest debt.



## Activity – Whole group

The story in the debt booklet helps to show debt repayment in action.

Ask participants to read the story. Then discuss.

## Make a plan

So now we can see why it's good to get rid of debt as quickly as possible, let's talk about how to make a plan to get out of debt. We can start to do this by using the debt repayment plan in the debt booklet.



## Activity – Individually

If you have time, get participants to start writing down their debts in their debt repayment plan in their booklet.

# Slide 8 continued

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## The get-out-of-debt plan

The debt repayment plan has four steps.

### 1. List all our debts.

Think about everything we owe – mortgage, credit cards, HP, personal loans. Next to each one write down the amount owed and the interest rate we're paying. If we're not sure about the interest rate, we can complete this at home – this information will be in the loan agreement or credit card bill.

### 2. Put the debts in order.

The next step is to put our debts in order from the highest interest rate to the lowest. The aim is to pay off the debts with the highest interest rates first, because these cost more the longer we take to pay them off. These debts are often credit card and hire purchase debts.

**If participants don't have a budget, tell them about the budgeting tool on [sorted.org.nz](https://sorted.org.nz). They can also order the budgeting booklet from [sorted.org.nz](https://sorted.org.nz) for free. It has a worksheet they can use to create a weekly budget.**

### 3. Check the budget.

Next, we can check our budget and see if we can find some extra money each month to put towards paying off our debts. How much is it? We can write it down in our debt repayment plan.

### 4. Focus on paying off a debt.

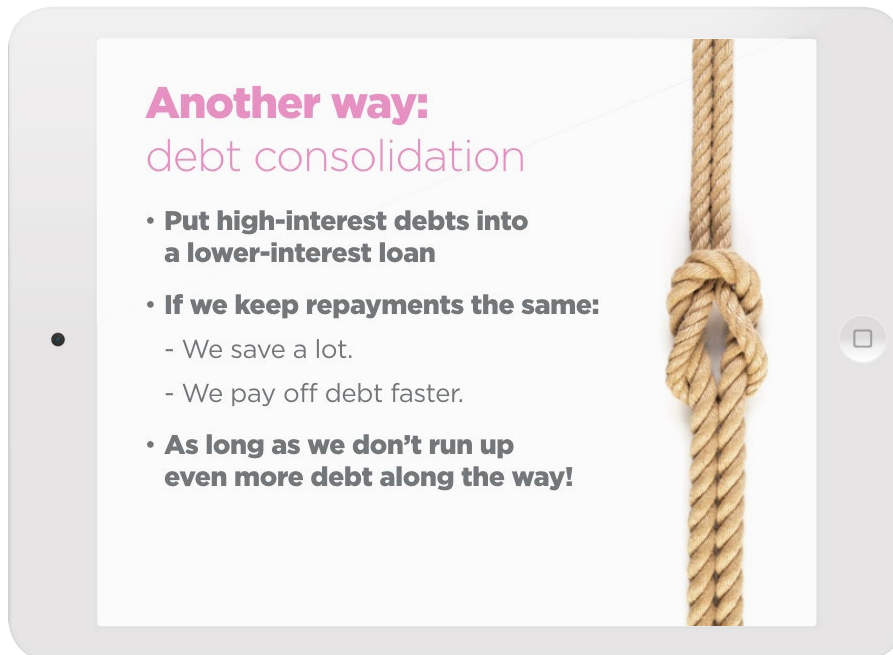
We add that amount to our top priority debt (the one with the highest interest rate). When we talk to our lender, we need to ask if there is any other cost (like fees or charges) we might have to pay for repaying our debt faster. These are called penalty fees. How much are they?

If a lender won't accept higher repayments, we can just increase the repayment for the next highest interest debt. If we haven't got extra money, we can wait until we pay off one debt. Then we can add the repayment amount for that debt to the highest interest rate. Again, if we're increasing our debt repayments, we'll need to find out if there are any penalty fees.

Once we've paid off one debt, we focus on the next one in the priority list.

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# Slide 9



## Key points

- Another option is debt consolidation – where we put high interest debts into a lower interest loan.
- If we make our new repayments the same amount we were paying before, we will pay our debt off faster and save on interest.
- Demonstrate the debt calculator if you have Internet access and haven't done so already.

## Consolidating our debt

Another option is to ask our bank if we can put our high-interest debts into a lower-interest loan.

### Does anyone know what we call this?

This is called debt consolidation. If we choose to do this, we'll need to try and make our new repayments the same amount we were paying before – it can save us thousands of dollars because the interest rate is lower.

### And we'll get out of debt faster.

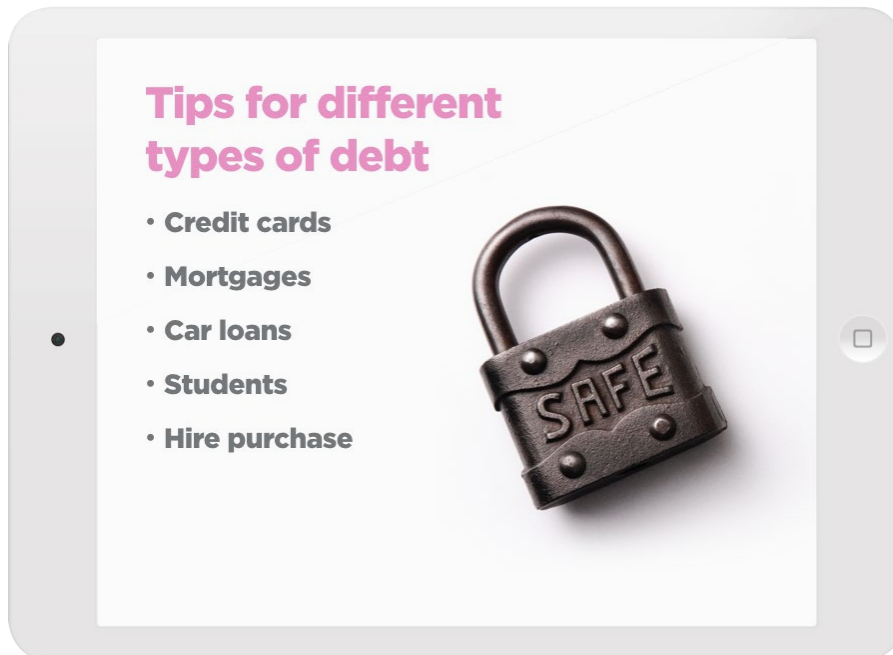
**Tell participants about the debt calculator on [sorted.org.nz](https://sorted.org.nz). If you have Internet access, show them how the calculator works, or have participants access it on their phones.**

**Get participants involved by asking them to suggest the values to include.**

The debt calculator on **[sorted.org.nz](https://sorted.org.nz)** shows how long it will take to pay off each of our debts, and the total interest we'll pay.

It's easy to see what happens when we increase our repayments, or consolidate our debts into a single amount at a lower interest rate.

# Slide 10



## Key points

- Explain the different tips for different types of debt. Focus on the ones that are relevant to the participants.

## Activity – Whole group

Ask the group which types of debt they want to know about – then focus on those.

### Specific tips

At the start of the seminar, we mentioned there were many different types of debt such as credit cards, HP, car loans and so on. The principles we've discussed apply to all of these (such as making sure we get a loan with the lowest interest rate and making our repayments as high as we can afford). In addition, there are also some tips that are specific to each debt. We've already talked about HP. Let's take a look at some of the others.

### Credit cards

- The graph we looked at earlier showed why it's worth trying to pay more than the minimum monthly payment. When we don't, we pay interest on all the purchases we make.
- It's important to try not to borrow more than we can afford to repay each month. Does anyone find it hard to resist the temptation to use credit cards? What can we do to help us resist those temptations?
- We need to think carefully before accepting our bank's offer of a higher credit limit or another credit card. We could end up paying lots more interest and more fees.

# Slide 10 continued

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## Mortgages

- If we're getting or renewing a mortgage, we can look for the lowest interest rate.
- It makes a huge difference to make our repayments as high as we can afford.
- If we pay monthly, we can change our payments to fortnightly amounts of at least half the amount we were paying each month. Since there are 26 fortnights a year, doing this will pay off our mortgage faster and save on interest.

## Car loans

How much we spend on a car and how much we borrow to pay for that car are decisions that make a big difference to our finances.

- It pays to check out the deals offered by different lenders (including our bank) before looking for a car to buy.
- We can look for a loan or finance deal that has a good interest rate and charges low fees. We can also ask if we can get a cheaper rate.
- The law says we must be given a disclosure statement setting out the credit deal. We must be given this before we sign or within five working days of signing. Let's ask for a copy of this statement and read it carefully, so we know exactly what we're signing up for before we agree to any deal.

**Make sure participants with student loans understand the cost of their student loan debt won't increase if they only repay the minimum.**

## Student loans

Does anyone have a student loan, or someone in their family who has one?

What is different about student loans compared to other debts?

If we're living in New Zealand we don't pay any interest – in which case paying it should be our lowest priority if we have other debts. That's because unlike other loans, our student loan debt won't increase if we only repay the minimum amount.

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# Slide 11

## To recap

- **Know the full costs.**
- **Pay off debt as quickly as possible.**
  - Make payments as high as affordable.
  - Pay off high-interest debts first.
  - Get help when we're in trouble.
- **Call 0508 BUDGET (0508 283 438) for budget advice.**

## Key points

- Recap the key points of the seminar.
- We need to always find out the full cost before borrowing.
- Once in debt, we need to pay it off as quickly as possible.
- If we're having trouble, we can get help.

## Key tips for debt

We've discussed the different types of debt including credit card debt, hire purchase debt, car loans, personal loans and mortgages.

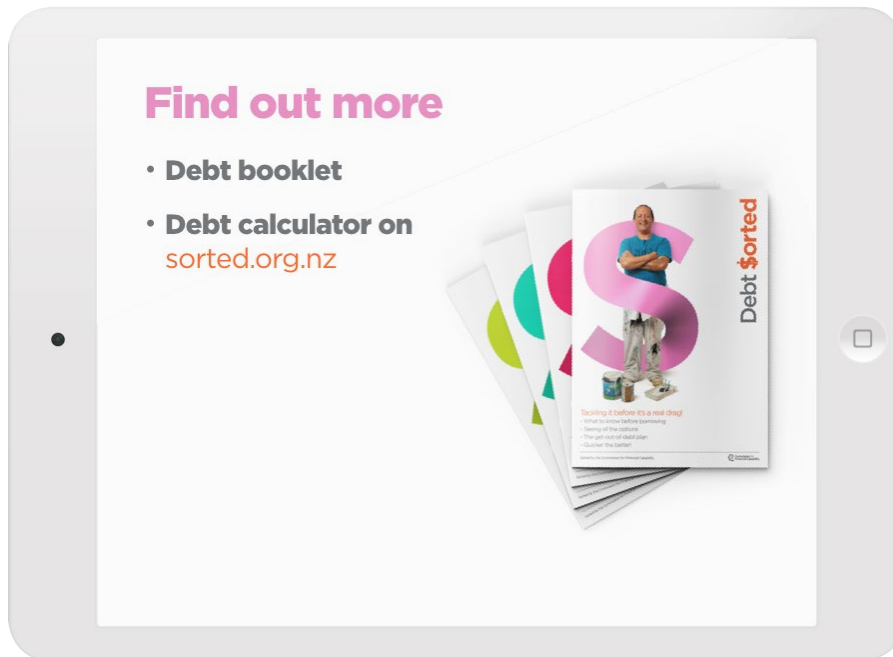
Remember there are some key tips that are the same for all these different types of debt.

**What as a group do we think they are?**

**Write participants' ideas on the board.**

- We need to always find out all the costs of debt before we borrow. We need to make sure we know all the fees and the total interest we'll pay. It's best to get the cheapest interest rate – a small reduction can make a big difference.
- Once we get into debt, the goal is to pay it off as quickly as possible. We need to make our repayments as high as we can afford. And if we've got lots of debts, we need to focus on paying off the ones with high interest first.
- If we're having trouble making repayments, we can talk to our lender or talk to a trained budget adviser for free by calling 0508 BUDGET (0508 283 438). If we're borrowing money to pay for everyday items such as groceries, we should definitely get advice from 0508 BUDGET.

# Slide 12



## Key points

- Encourage participants to complete their debt management plan at home.
- Ask participants to write down three key points that they've found valuable, then share them.



## Activity – Whole group

Ask participants to write down three key points that they've found valuable from the seminar.

Then go around the room and ask each participant to share their key points with the others. Once everyone has contributed, thank them for attending the seminar.

## Looking forward

The debt booklet has all the information we covered today, including where we can go to get more help. We've also talked about many of the calculators and tools on **sorted.org.nz** – all available for free.

Let's try to complete our get-out-of-debt plan within the next couple of days. If we work out that we can afford to pay a bit more, we can talk to our lenders about increasing our repayments. Remember: the more we pay, the quicker we'll be out of debt.

Once we've paid one debt off, we can put that extra money towards other debt repayments.



The Commission helps New Zealanders prepare financially for retirement, through education, information and promotion. Our Sorted information programme helps Kiwis of all ages to understand money matters and manage their personal finances throughout life. The Sorted programme is made up of the website [sorted.org.nz](http://sorted.org.nz), a range of Sorted booklets and Sorted seminars.

If you have any feedback on this seminar material we would like to hear from you. Please email the Sorted team at [office@sorted.org.nz](mailto:office@sorted.org.nz).

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