The Australian Finance Podcast Episode Transcript

Episode: ☁️ debt - how to take back control | starter pack
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Hey there, here's a quick note. This podcast contains general financial advice only. That means it's not specific to you, your needs goals or objectives so don't act on the information until you've spoken with your financial advisor. You'll find our full disclosure, disclaimer and link to our financial services guide in the show notes. How can four letters bring you so much stress? Today, we're talking about debt.

Kate:
Yes.

Owen:
D-E-B-T, Kate. These are the four letters ...

Kate:
You got it right, Owen.

Owen:
I know, got it right.

Kate:
Wow.

Owen:
I would've passed grade two spelling. These four letters can bring a lot of financial pain and misery to a lot of people for a very long period of time.

Kate:
And they can hold you back from moving forwards.

Owen:
Yeah. And so in this startup pack episode, we're taking you through the common forms of debt, strategies to reduce the debt ASAP, and some of the things that you can lean into if you need help. Being under financial pressure is one of the most excruciating things. It can affect you physically, mentally. It will take its toll on relationships. It will affect the way you live your life. And so we're trying today as a community together, to help you get the most from your money, to pay back these debts, to feel good about yourself, to feel good about your financial situation and most importantly, remind you that you can live debt free.

Kate:
Yeah and you're not doing it alone. And I think that's really important, a lot of people going through this feel quite a sense of shame. And I think it doesn't really help you. And so in our community, people share examples of getting out of debt. We've had listener stories on our podcast. Just try to find as many resources possible to remind you that you're not doing this alone, there are millions of Australians that are in debt. And if we can just help a few people get out with some strategies, some tips and tricks and even help a few people not get into debt in the first place, I think we'll have done our job.

Owen:
Yes. And so you are one of those people today. We are speaking directly to you if you have any form of debt. I have a mortgage and there are even things that we can do with a mortgage, basically a lot of debt ... And we're going to talk about the types of debt, will be debilitating but some debt is actually okay. We're not here to say that all debt should be outlawed. I think people that do try to tell you that, maybe are a little bit misguided in sofar as they maybe are trying to apply a general rule to everything. I think that's how I used to be. I used to say all debt is bad but now, I've realised that some debt is okay and some debt can actually help you. But it's important to know which debt is ugly, which debt is good and which debt is okay to have.

Kate:
Yeah. And money debt is a tool and it can be used for good and it can be used for bad. I think that's important and as we go through, we'll differentiate between different types of debt, because you can't really bunch it all into one basket. Your HECS debt, what you've got from doing a uni degree is completely different to paying 20% interest per year on a credit card. I think it's just important not to group them all into one basket as we go through as well. And

sometimes there's situations where you do have to enter into debt that you might not want to. And so how can you make sure you get into as small of a debt as possible?

Owen:
Yeah and you can manage that. Kate's already hit a nail on the head there that there are different forms of debt. Just to clear up some jargon that we have in the industry, typically when we talk about the amount of a loan, we're talking about the total outstanding balance. When you log into your bank, you might see that there's a debt against your name. That's typically what you have to pay off but then you'll pay interest on top of that. The interest is usually expressed in a percentage. If it's a home loan, they might have a comparison rate, although that's not always a hundred percent accurate because it typically uses a small balance, like $150,000 to do that calculation. There are fees that come on top of the interest rate.

Owen:
Let's say you have a credit card and it's charging you 20%, it may also be charging you $1,000 or $500 a year just for the right to have it, which is a double whammy. You're getting smacked twice with that one. And then there is this a thing called the term. The term is basically how long you have before the debt should be repaid. The longer the term, the lower the repayments. And repayments are those things that you have every month or every week or every fortnight or even every quarter, depending on how you pay. And your credit card for example, is typically monthly. It has monthly repayments but the term might be open ended. It might be ongoing, whereas a mortgage might have quarterly or even fortnightly repayments and the term might be 30 years. If the term was longer than that, the repayments would be smaller but you'd pay more interest. You want to minimise the amount of interest you pay.

Kate:
Yeah. And knowing if you're paying interest or being paid interest. And I think it can be used in different ways. In your bank account, if you've listened to our savings episode, it might say you're getting 1% per year interest rate. If you have $100 in your savings account for example, you might be getting $1 but if you're paying interest, say you had $100 credit card debt and you were paying the full amount of interest, 20%, you might be paying $20 to the bank each year just to keep this debt running.

Owen:
Yeah. And this is why it can be such a vicious thing for people because as we said when we talked about compound interest, it's everything working against you. Actually, if you don't pay it back, you've got more to pay back next year.

Kate:
Yeah.

Owen:

And this is where the cycle begins. And it becomes very, very scary for a lot of people, particularly when you start talking about multiple credit cards, multiple debts, as in personal loans, mortgages. You can see why people end up in a pretty tough situation.

Kate:
Yeah. And if you do bury your head in the sand for a few years or hide the envelopes that are coming from the bank, it can quickly snowball out of control, which is one of the worst things about debt, that it just keeps growing if you don't pay back. And sometimes it grows at a faster rate than even you could possibly pay it back, which is why there's fantastic people in Australia that are free to use, called financial counsellors, who can actually go to the bank on your behalf and help you get a better deal and help you deal with this in a more manageable way, and actually help you see the light at the end of the tunnel.

Owen:
Most people end up in this situation not because of their own choice. They typically end up in it out of habit and out of poor money hygiene. This was one for me too. I ended up with a massive personal loan straight out of school because I wanted some of the materialistic things in life. I thought having a nice car would bring me happiness. It didn't, it actually just brought me misery because I was paying $450 a month or something like that, which at the time was a lot of money to me when I was going through uni. I was paying that off and I didn't really have any money left over to spend on things. And so even though I had this car, what could I do with it? Well, not that much. And so looking back on it now, I would've much rather just keep that money to myself. And that hung around for a few years, until I sold the car at a loss.

Owen:
I actually did a study quite a few years ago, that if you bought a $25,000 Holden Commodore and you paid 17% interest on a personal loan, which is a little bit higher than what they typically are now, over the ... I think it was five to seven years, that would end up costing you $75,000 or thereabouts in maintenance, in interest, in loan repayments, in all of those things that you've got to pay. These things, we think are just little things but they actually have a massive potential to work against you and they do it in ways you don't even notice. That's even before ... In this example, we talked about the value you of the car falling. You've probably heard this before. There is good debt, bad debt. And obviously, we would love to all say that we're debt free but that's not always the case. And so Kate, what would be an example of something that we call consumer debt? It seems very financy but there's a difference between consumer debts and other types of debt, right.

Kate:
Yeah. A consumer debt I would say, would be a credit card debt that you're not paying off each month. It is growing and maybe they're starting to charge you 20% interest on that each year. It does keep going up and compounding but not in the best direction.

Owen:

Yeah. And these are really nasty right, because they have high fees, high interest and they're hard to close.

Kate:
Yeah. And sometimes people get incentivized to opening up a credit card because of the points or the rewards or they're offered a $500 gift card. And then they end up getting hooked on this cycle of debt that they just can't catch up with because it's very easy to ... If you have a transaction account that's only got $500 in it, that's all you can spend.

Owen:
Yeah.

Kate:
Otherwise, you have to take some money from your savings account or something like that. But with a credit card, they'll often give you $10,000 credit limit. You can spend up to $10,000 before anyone actually asks any questions. And no one's supervising this. You can keep spending and spending and spending and you get up to $10,000, and there's no way you can pay that back in a month or two months. It's going to take you years of your salary to pay down that $10,000, all while it's growing in the same process.

Owen:
Yeah. And the banks know when you turn 18, they know when income is in your account, they know if you're a good saver because they can see it, right. They can target you with these schemes. And advertisers know this as well. If you're on a website for debt help, you'll probably see advertising on that website because you're tracked through the internet. It'll probably show advertisements for debt consolidation strategies, which as we'll get to, probably aren't necessarily the ideal thing either. We've got credit cards Kate, they're the thing that we all jump to and we know they're pretty nasty, we want to get rid of those ASAP.

Kate:
Yeah.

Owen:
What about this thing called buy now, pay later?

Kate:
Yeah. As listeners will probably be aware of things like Afterpay, Klarna, Zip pay, there is so many, if you just look around the trams in Melbourne or the bus shelters, there's ads everywhere for companies where you cannot pay for the thing upfront but pay it off in interest free instalments. Or sometimes there are fees and interests applied, depending on what it is. Sometimes you can even borrow ... You could even pay things in instalments over a two year period and it might be a $5,000 holiday. It's just an expanding industry. And I think that gets people ... The marketing plays on that materialistic side. When you see the marketing, it's always to do with, "Get that pair of jeans right now. Or get that holiday right now."

Kate:
And so they're playing on our consumer psychology that we want everything right now. And so you're getting stuck in this cycle where instead of saving up for something that you really want, you just get it now and then you're paying it off in multiple instalments. And then there may be interest involved or you may be paying late fees that are quite significant, if you miss a payment.

Owen:
And so this is just another thing that is up against us as consumers, the advertisers know what makes our monkey brains tick. And one of those things is instant gratification. They know that impulse are a thing that most people succumb to. And they know that most people don't like delayed gratification, which is the other side of things. Even though it works for some people, it doesn't work for a lot of us. And so we are targeted with these gimmicks and these debt structures that end up just soaking right into our psyche. And then we think to ourselves, "Oh, just do it now. That seems about right. The marketing looks good."

Owen:
There are some other loans that people should know about, the credit cards and buy now pay later are pretty nasty but the others that are pretty nasty too, are payday loans, which typically ... And I hope no one listening to this has fallen into this but this is a loan structure that you can get from places like Cash Converters. And there's another organisation called Money3, there's Nimble. There are a few others that offer these quick money loans with in my opinion, extortionate interest rates, not necessarily from those providers but just in general. I think they're outrageous. And the funny thing about finance is, we charge the most to the people that can afford it the least. And so that's because they're the riskiest people to lend to. The people that already have five credit cards are more risky than the one that doesn't have a credit card but yet they're the people that are most vulnerable. These organisations charge that interest rate so they can cover their losses.

Owen:
But the other two that I want to touch on are personal loans, personal loans come in the form of unsecured, meaning that they could be like, "I want to go on a holiday. Here's a $10,000 personal loan."

Kate:
And that's how they're often advertised.

Owen:
Yeah, that's it. And the other ways they can be secured so you can have a car loan, which doubles as a personal loan, which is basically the bank saying, "We'll give you a loan. Maybe you get a slightly better interest rate but we'll apply that against the car. If anything should happen, we get the car and then you make up the difference."

Owen:

Neither of these two things are that cool. We hear a lot about things like no valid leasing. We hear about things that come through, like fleet financing and those types of things, which come through your employer or something like that. And they are billed as schemes that help you save on tax. The news flash is, you have to pay for it. No matter where it comes from, you have to pay for it. You might pay a little bit less in tax but honestly, in my research, they can all be avoided if you can ... You can get very low interest rates from car dealers and those types of things. If you are thinking that way, I would say shop around before you go and do it because chances are a bank can provide a better loan. And what I mean by that, is low fees that really works with your situation. Those are the typical types of consumer debts.

Owen:
There are other forms of debt, which we'll get to in a moment. But I guess, one of the big ones is mortgages, which we can tackle in a minute but Kate, why should paying off debt be a priority for people?

Kate:
Well, paying off debt should really be a priority because it's something that pulls you backwards. If you're trying to set up your finances for the future and move forwards and you're thinking about investing eventually, having this debt that keeps pulling you ... It's like that ball and chain image that people use but you're trying to move forwards and this debt keeps pulling you backwards. And it keeps growing at a much faster rate than you can move forwards. Because when it comes to investing, if your credit card is charging 20% interest a year, so the $100 becomes 120, becomes 150, it keeps growing. You cannot invest at that rate very rarely. And so it's something that stops you moving forwards and to us, it's usually the priority.

Owen:
Yeah.

Kate:
Maybe you want to put a little bit of money as the float. We mentioned our emergency fund episode, just so you've got that in case but consolidating and paying off that debt, talking to a financial counsellor, is really your first point of call to move forward with your financial future.

Owen:
Yeah. You mentioned financial counsellor there, are they free?

Kate:
Yes. Just Googling the national debt helpline, we'll include a link in the show notes, this is a free service, completely independent. They're well trained people that can really go into bat with you and help you develop a strategy for paying off your debt. They can negotiate with the banks. Most banks have a financial hardship team now, especially post-COVID. They've had to develop all of these new systems, so they can really find a system and a payment plan that works for you because you might find out there's a better way to do it. And they are the experts in this area.

Owen:
Just to confirm, it doesn't cost you anything and you can get these people on your side to do it for you.

Kate:
Yes.

Owen:
If you're the type of person like me who gets the trembles under a bit of pressure, you can actually just go to them and say, "Hey, this is my situation. This is what I'm feeling. This is how bad it's got, can you help me?"

Kate:
Yeah and they deal with it every day.

Owen:
They deal with it every day, so they know the strategies. They know that the banks have certain rules in place for hardship and they can go to bat for you, which is fantastic. There's another type of debt here, which we didn't really mention, which is about loans from family and friends. If you're in that situation, you can talk to them about it as well. They don't tend to work out too well but there's a fantastic book in this, called The Richest Man in Babylon. It seems weird, the first chapter is bizarre. I found it really weird. It was written over a hundred years ago, based on stones, the story of paying down debts written on a stone that was over I think, 3000 years old or something, from Babylon. And so they've illustrated through this book, the timeless principles of paying back loans and why it can be hard but so rewarding. There are two other forms of debt, which we should talk about. The first is mortgages.

Kate:
Yes. And the second is HECS debt, or HECS or HELP debt that many Australians who have been through uni or TAFE will be aware of.

Owen:
Yeah. I've got HECS debt.

Kate:
Yes.

Owen:
Do you have HECS debt?

Kate:
Yes. It's still growing because I went back to study more.

Owen:
Yeah. Some things to know about mortgages. Mortgages are applied against a house. If you don't pay your mortgage, the bank takes your house. And that's why the interest rate on a mortgage is lower than it is on say, a personal loan or a credit card because the bank's always got something that they can get their money back from, which is your house. A HECS is what you accumulate from studying at uni or from any type of adult based education basically. And the idea of the HECS is that you pay it when you earn a certain amount of money.

Owen:
Over time, the brackets have changed. Meaning that if you get to say 50 ... I don't know what exactly the number is right now when you're listening to this, but if you get to say $50,000, you might pay an extra 4% in tax every year. Your employer automatically takes that out for you. If you're a contractor, you'll have to be aware and take that out for yourself. If you are billing and have your own ABN, take that extra bit of tax out. And if you earn say $70,000, then you might pay a bit more as well. It's just about making sure that you repay the student loans that you have.

Kate:
Yeah. And my biggest tip is that when you're filling ... When you start a new job and they give you that tax file number declaration form that you have to fill in, there's a box in there that you can tick to declare that you have a student loan and your employer will take extra tax. Because I had a friend who didn't tick that box and then got to the end of the financial year and then found out she had to pay quite a bit extra to the tax office because she hadn't been paying her HECS off during the year.

Owen:
Yeah.

Kate:
And it's much easier to have it on a monthly basis as part of your salary taken out.

Owen:
For sure, because it's a meaningful amount.

Kate:
Yeah. And once you start earning a ... It changes every year, so just Google HECS repayment rates or something like that.

Owen:
Yeah.

Kate:
It's all on the ATO's website, which is our tax office. And they'll have all the details there as well.

Owen:
And speaking of which, that's where you go to find out how much HECS you have, right.

Kate:
Yeah. For your myGov account, it'll give you a full breakdown of how much you have accrued and whether it's growing.

Owen:
And you can see how much you ... Yeah, it's growing, how much you're repaying. The myGov account is a great thing for any type of management of money, because you can manage your tax affairs in there, you manage your super and you can manage your HECS in there as well. Go and check that out. The other one is a mortgage, which we mentioned just quickly there. You wouldn't have a mortgage unless you own a house. The mortgage typically comes in a few different varieties. You get a variable rate, which is where the interest rate changes, depending on what the interest rate is from the bank that month, or you have a fixed rate or you have a combination of the two. You can for example ... Let's say you had a $650,000 mortgage, you might say, "I want $150,000 as variable and I want the rest fixed."

Owen:
Then that would give me some security of knowing exactly how much I'm going to repay at what time. Unfortunately, if you go and fix your loan, it's great for you but if you ever want to get out of it before the term ... If it's a three year fixed, if you try and get out of that fixed rate, say two years in, the bank might charge you what's called a break fee and a break fee can be pretty nasty.

Kate:
Yeah.

Owen:
You just want to make sure you're fixing the right amount for the right duration.

Kate:
And you can talk to a mortgage broker about that and we'll share more about them in our expert episode.

Owen:
Yeah. We've got two episodes in the starter pack coming up, one on property and one on finding the right experts for your situation. In both of those, we'll talk about mortgages but broadly, we don't ... Well, I don't think that you should pay back your HECS in a hurry.

Kate:
No.

Owen:

It does impact your ability to get a mortgage when you go for a home, keep that in mind.

Kate:
Yeah.

Owen:
But because the interest, 'is so low from the government', it's almost not worth paying it back in a hurry, unless they give you some two for one deal. It's not really ...

Kate:
There used to be some really nice incentives to pay it off.

Owen:
You used to be able to pay back your HECS ahead of time and get a 20% discount.

Kate:
Yeah.

Owen:
You don't get that anymore.

Kate:
No.

Owen:
If they ever bring that back, let us know. And so the other thing is with your mortgage, you probably don't need to pay it back right away. There's just probably no need to go and do that right now. You can probably get ahead on it by using what's called a redraw or a offset account but we'll talk about that soon. Kate, there are two approaches to paying off debt, which we want to talk about, which is probably why you're listening to this episode. What are they and how do they work?

Kate:
Absolutely. If you just have one single debt, so it's just one credit card, well, that would be your first point of call. Just work out the most strategic way to pay that off. Maybe you're going to talk to a financial counsellor to see if they can get you onto a better rate when you're paying it off or something like that. But if you have multiple debts, so maybe you've used a few different buy now, pay later services and you have a credit card, maybe you've got a payday loan as well. Actually, just going through being super honest with yourself and writing out all of those debts, what are the repayments each month? What are the interest rates? Is it interest free? Are you paying 20%? Are you just paying a late fee each month? Just putting it all down on paper, doing all that research so you know what the priorities are.

Kate:

And then one of the approaches you can use is the debt snowball, and that's more playing on your psychology where you just want to feel like you're making progress. Once you've got them all written down on paper, instead of paying the most logical one off first, you pay the smallest one off first. And so you go, "Okay, I managed to do that one. I've had a win today. Now, I'll attack the second."

Owen:
You feel good about it.

Kate:
Yeah.

Owen:
Yeah.

Kate:
The second biggest one. And then slowly, you work your way up to the nasty, hairy one at the very end. Then you feel like you're actually making progress along the way.

Owen:
Yeah. And personally, I love the idea of the snowball because as it rolls downhill, you build momentum, it gets bigger and bigger. And I love the psychological hacks we can play on ourselves to get more out of life. And so being able to pay back a $2,000 credit card versus a 10,000 credit card, sure you might in theory be better off paying back the $10,000. You might have a big interest bill on that, which works too. But a lot of people don't run marathons. They're good at sprinting and that's about it. And so the way you do that is you sprint to the first one, you get it done, then you recharge and you go for the second one. And that's basically the snowball analogy.

Owen:
Those are the two best ones. If you're seriously in a world of pain with your money, the best thing to do is to speak to the national debt helpline. They are truly experts, world class experts in helping you pay back your debt. And you know you're not the only one, because it's free and the government does it for you. Get a hold of them. There is one final thing, where we talk about debt consolidation.

Kate:
I should talk about the other strategy first.

Owen:
Oh, yeah. Sorry, go [inaudible 00:24:20].

Kate:

The debt snowball was the hacks on your psychology but the other one's the debt avalanche method. And so once you've written down all the debts you have on the piece of paper, you might have your buy now, pay laters, your credit cards, your personal loans, then order them in the worst one with the highest interest rate.

Owen:
Yeah, the ugliest one.

Kate:
The ugliest looking one first. Maybe you want to talk to the financial counsellor for help with this or a friend or family just to sort through it. But maybe you might have just a low interest credit card at the very end. You might go, "I'm going to tackle the personal loan first."

Kate:
Or whatever it is for your situation. You tackle the worst one first, the worst one that's causing you the most financial pain, and then work back to the easiest one.

Owen:
Yeah.

Kate:
That might save you more money in interest payments over time. But it could also be very scary to start with the biggest one.

Owen:
Yeah. And so this is where the debt consolidation comes into it. If you have a really nasty loan up the top of your credit card, and that's the one that's doing a lot of grief, and then down the bottom, you still have a balance available to you in the one that's not as bad, some people think, "Well, we'll take the money from the not as bad one. And we'll use that to pay off the really bad one and close that straight away."

Owen:
In theory, that works. Unfortunately, for a lot of people, they then end up with two balances that are huge and they forget to repay for whatever reason, because life gets in the way. If you are going to consolidate, you really need to make it count. And so write it down, tell someone else what you're planning to do and make sure they're your guardian angel here to make sure you actually pay it back.

Kate:
Yeah. And I'd definitely talk to the free financial counsellors that are independent before doing that.

Owen:

Yeah because there could be things about it where you end up in a bit of a bind and you find yourself in a situation where you have two debts rather than one. There might be costly fees or whatever. The reality is, just talking to the credit card companies and the banks, they're forced to offer hardship plans. The counsellors can argue for you and maybe get you paying back fewer fees. If they say a $500 fee to exit or something like that, what you might find is that they can go into bat and get that down to 200 bucks or get it wiped or something like this.

Kate:
Yeah. And just call up your loan provider and ask to talk to the hardship team.

Owen:
Yeah.

Kate:
And sometimes you can even negotiate. If it's been many years that you haven't paid this debt off, you might be able to come to some agreement that, "I pay half the amount and we close it there."

Owen:
Yeah, yeah.

Kate:
Depends if there's debt collectors involved and things like that.

Owen:
Yeah. And you can use some other strategies to pay this back, other than just debt consolidation. You can sell things. It sounds very simple but it is. You can sell the items that you maybe once bought with the debt and start to reduce the headache that way. And what you'll find, is that it's actually pretty rewarding to sell the stuff on Facebook Marketplace, on Gumtree, et cetera. And people do want your stuff. This is a way that you can reduce your emergency fund, if you go back to that episode, where you just get that immediate $2,000 balance or you get a thousand bucks, you get 500 bucks, just sell the stuff that you don't need. And it actually is refreshing to just clean out. Whether it's clothes, whether it's a TV, whether it's a bike, whatever, just chuck it online, see if someone wants it.

Owen:
These are some great strategies. If you must consolidate, find some things you can sell to reduce that balance. You can use the debt avalanche strategy, which is the nasty one first. Or you can use the snowball one, which is where you hack yourself and you pay off the little one first. There are plenty of other ways that you can pay back debt. And one of the ways is a big consolidation into your mortgage. If you have a mortgage, you might be able to leverage that. And of course, people tend to think that you can go for bankruptcy, although that is incredibly painful from what I know about the process. And it can affect you for a long period of time. Kate, we've talked a lot about being in debt. How do you stay out of debt?

Kate:
Yes. I think the first thing is go back, listen to our prior episode about getting an emergency fund sorted. That has saved many people in our community from actually getting into debt in the first place, and putting that money aside. And then also, if you are in debt and you've gotten out, having a look at how you actually got into debt in the first place, and how can you put some steps into place to avoid getting into that situation again. Some people, I know it's because they're just way too generous in helping everybody and anybody and then they don't get any of that money back. And so they personally get into a lot of financial difficulty just because they want to help everybody.

Owen:
It's very prevalent with big families too because you want to help out your siblings.

Kate:
And you need to put on your own emergency mask first in this situation. Are there strategies you can put into place to stop yourself getting back into this debt situation? And then also closing the accounts. Once you've paid it off properly, close all of these personal loans. Close the buy now, pay later accounts. You can email them and just say, "Please close my account now that it's paid off."

Kate:
Close the credit cards, don't just chop them up. Actually call them and say, "Could I please close this account?"

Owen:
And they'll make it hard, they'll make it hard.

Kate:
Yeah. It's actually quite ... Some of the credit cards I've closed in the past, you actually have to call up and have a half an hour conversation about why you're closing, blah, blah, blah, blah, blah. It's not that easy on the app, so just be careful there. A lot of people get very excited, chop them all up and don't close them. And then they get stung with annual fees and things like that.

Owen:
And sometimes they're just deactivated and not closed.

Kate:
Yeah.

Owen:
Do not be seduced by them, they are very skilled in their work. And oftentimes, the people that you call are not based in Australia. And so they don't necessarily upholding the rules that you would think or the standards that you would associate with a reputable company.

Kate:
And getting into the habit of saving up for things, I think that's really important for everything thing you do with your finances, just being used to ... Yes, going on holiday is an amazing thing. Maybe all your friends are doing it right now but if you don't have the money aside, if you haven't saved up, maybe you just have to do a few day trips this year and you save up for next year and make that part of your budget.

Owen:
Yeah.

Kate:
We can do many things with our money but we can't always have everything at once. I think society seems to say, "You're entitled to buy all of this right now."

Kate:
And a lot of that's from the marketing and the money because these credit card companies make a fortune by getting you to pay for holidays you can't afford. Just getting used to that delayed gratification. You can save up for it and it feels really rewarding when you save up for something.

Owen:
Oh, absolutely. Yeah, you can do it. And this is just the thing. A lot of this episode, we've talked about the tools and the strategies but the reality is, it comes back to you and understanding who you are as a person in order to pay these back. You can do it, just focus on resetting your expectations in some regards. And use the budgeting episode we've just done. You can find that in the starter pack. Use the one on the emergency fund because both of those things will be your ticket out of this longer term. It's going to be painful in the short term.

Owen:
Some episode takeaways is that most consumer debts, that's the credit card, buy now, pay later, personal loans are a bit naughty. We should try and avoid them if we can. Pay them back ASAP but it's okay to have some types of debt. Maybe you're comfortable with a mortgage. Maybe your HECS is under control too, that's okay. They're good debts because typically, the value of those ... Well, what we get for them goes up. When you buy something and it goes down in value, like a car, a TV, all these things, typically if you have debt against that, that's a bad debt. If the value of that thing is an asset and it goes up ... In this case, education is still considered an asset because we benefit from it, these are typically good debts. You can manage them still. Be mindful of that. There are two key strategies you can use from a repayment perspective, the snowball, which is that small amount at first, hack yourself. Avalanche, which is where you go for the nasty one first, you just confront it and you go, "That's it, you're done."

Kate:
Yeah.

Owen:
Take that one first. Consolidation can be a bit prickly, so make sure you are thinking carefully about who you are and who you're talking to and getting advice before you consolidate. And of course, our silver bullet for all debt is speak to your financial counsellor. It is totally free to call the helpline as well.

Kate:
And they even have an online chat function if you Google the national debt helpline now, and there is a national small business helpline as well that's been started recently. We'll put all of the links in the show notes. We've also interviewed a financial counsellor in the past. That might be a less scary way to hear from one, in person.

Owen:
Yeah.

Kate:
And then I guess, if you're looking to take something away from this episode, you are currently in debt, for our newer listeners, thinking about if you can use the debt snowball or the debt avalanche method, actually just going through, writing them all down ...

Owen:
Just writing them down, all your debts.

Kate:
Yeah. It could be a bit scary but you just need to know what's going on so you can work out a plan to deal with it. And of course, talking to a financial counsellor.

Owen:
Yeah. And for more advanced listeners, maybe those who have paid down those consumer debts and maybe you're thinking, "Oh, I've got a mortgage. What can I do? I seem in control of my debts."

Owen:
The easiest thing you can do right now is get a better rate on your mortgage. This is something that I need to do, I was prompted by my mortgage broker not too long ago. The reality is, if you pay even just half a percent less, so you go from say 3.5% down to 3%, that could be a few hundred dollars off your mortgage every month. However, if you reduce your interest rate but you keep your repayments high, say you go from three 3.5% interest on your mortgage to 3% but you keep paying as if it was three and a half percent, you can actually wipe 2, 3, 4, 5 years off your mortgage, for no other thing than just giving them a call. It's not a tiny thing, it's a massive thing. It might seem small today but it's super valuable. Just getting a better rate on your mortgage is a tip there.

Owen:
There is one more thing we should say, which is just enrol in the money and budgeting course if you haven't already. If you're doing the starter pack episodes, all 12 episodes to help you ride the ship and build those foundations around money and investing. Go and enrol in the money and budgeting course on Rask Education, it is completely free. What I would say, is that we're about to get to the fun stuff.

Kate:
Yes.

Owen:
If you've listen this far, we're starting to get to property. We're starting to get to how you can set yourself up with investing and all those types of things. Debt is a very anxious part of people's lives. If you do need help, there is beyond blue many fantastic communities like the Rask Australia community. They can help walk you through things. It's a pretty tough thing to do to pay down debt but you'll feel a heck of a lot better for doing it. Kate, as always, thanks for joining me for this conversation about paying down debt.

Kate:
Absolutely. A very important one Owen, and thank you everyone for listening. Thanks for tuning in to this episode of the Australian Finance Podcast, where our mission to improve the financial futures of all Australians. If you'd like to learn more, create a free account at Rask.com.au/account, to download free episode workbooks, bonus resources and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snappy review on iTunes. And you can follow us on Twitter and Instagram, @RaskAustralia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcasts@ Rask.com.au.