

True Stories: My Debt Crisis

Read the following article and consider the following questions for the individual involved:

1. What were the threats and poor decisions?
2. What were the positive actions and good decisions?
3. What would have helped? What advice would you give?

When I turned 18, like others around me I was excited to be able to open my very first credit card. This would have been more than controllable, however at the same time I started working for a company whose offices connected with a shopping centre in Croydon. This meant that the temptation to 'wander around' during my lunch breaks with my colleagues was very high, and as a result I started buying things and putting them all on my credit card.

I did make monthly payments religiously, however as I was not getting paid much at the time they were never very substantial amounts, usually only the minimum. That didn't really matter to me though, as I had been clever and opened a credit card that was 0% interest on purchases for the first 12 months!

12 months soon enough came around, and I was still not done with my new favourite hobby; buying things – clothes, shoes, gadgets - without really feeling like I was spending any 'real' money, as I was putting everything on my credit card. So I had my next great idea – to open another credit card, with a 0% balance transfer offer, and just transfer

my existing balance to the new one, and then close the old one.

So I did this, but thought I should probably keep the old card, just in case I ever needed it, you know, in



case of an emergency. The 0% balance transfer offer lasted another 12 months and then, you guessed it, I did the same again with another new card.

This went on for about 4 years, by which time I ended up with around 5 credit cards, and I didn't really know how it happened but at least a couple of them had balances owing. I continued to only make minimum monthly payments because, as I saw it, why bother paying more than they're asking me for?

It's only now that I realise I buried my head in the sand, and hindsight can be a

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powerful thing, but at the time I was in total denial about my spending habit – I would go so far as to say I probably had a full blown shopping addiction that I should have got some help for but like with any addiction unless you realise you have the problem, then in your eyes everything is hunky dory.



Unfortunately around the same time that my spending was slowly getting more and more out of control, my boyfriend and I also decided to move in together. I was only 21 at the time but it seemed like the adult thing to do and hey, we had my credit cards so we could put stuff on there, couldn't we? We brought lots of new shiny expensive things, gadgets, a huge TV, furniture, and put them all on my wonderful credit cards. We'd worry about paying them off later, we said, we had moving to worry about right now. My boyfriend had very bad credit due to an unpaid store card from when he was younger, so everything had to be in my name, right down to the credit check by the estate agent who was handling the move. Again, with hindsight I should have realised that if anything went wrong it would be me who would have to pick up the pieces. But

everything was wonderful, my boyfriend would be by my side forever, he told me.

Within a few months of moving in, we realised that the stuff you can't 'just put on a credit card' i.e. the rent, the utility bills, all the stuff you have to pay with actual cash from a bank account, started to mount up. Also the lifestyle we had become accustomed to living - the food shopping from Waitrose, pub with friends every other evening, expensive daytrips – we never thought twice about cutting down, and so our bank accounts started to suffer. We started living in our overdrafts, until one day my boyfriend had a genius idea – why don't we use these 'credit card cheques' we've been sent by one of my credit cards, to pay our overdrafts off, then we could start afresh, and we promised we would curb our spending.

Well of course, we didn't. This carried on until eventually we had to use credit card cheques again, and again, to clear our overdrafts. The debt on my credit cards was mounting up and at this point I had 5 credit cards ALL with big balances on. It would be fine though, we had each other and we would get through this together.

Unfortunately this kind of story never has a happy ending. One day out of the blue, my boyfriend got up and told me he was leaving. He walked out of the flat we shared, and moved home. I wasn't able to contact him. My world fell apart. In the first instance I was heartbroken, but after a while I started to realise the sheer devastation that his actions had caused: he had left me all alone to pay off almost £13,000 worth of debt, and

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maintain a flat which cost £1000 a month in rent and maintenance, all by myself. I was stuffed. Everything was in my name. I had no way out. But still the denial continued. My mum sat down with me to find out how I was coping financially. I couldn't even bring myself to come clean about how bad the situation was. I couldn't even check my own bank account I had buried my head so far under.

Eventually, when I started getting red letters and up to 20 blocked number phone calls (I assume they were debt collection agencies...I never picked up) a day, I knew something had to be done. I told my mum I would have to move home. I knew I couldn't afford to keep my much loved flat all by myself. I hated my boyfriend for what he had done but at the same time I was furious at myself for making so many stupid mistakes. By this time the debt had got so bad that even the minimum monthly payments on each card weren't making any difference because the companies were charging me so much interest. The credit card cheques were the worst – when we used them we hadn't realised that not only are they the last thing you're able to pay off of the card balance, but also they come with the highest interest level. The biggest credit card I had a balance on was charging me over £300 a month.



My mum helped me out with some of the smaller debts, and we agreed an action plan of repayment together, whilst I agreed I would concentrate on getting the big balances down every month. We cut up the major cards I had, leaving just some smaller ones which I held onto in case of emergencies.

Now at this point you would have thought I'd learn my lesson. And I could bang my head against a brick wall for not cutting every single card up, and putting myself on an extremely tight budget monthly and focussing every available penny I had to getting my debt paid off, and my credit rating, which by now was shot to pieces, slowly back together again. But even with the trauma of losing my flat and at 23 years old having my mum have to bail me out by taking me back home and paying some of my debts off for me, I was still in denial. I continued to go out, to spend money on drinks, meals, cigarettes, and because I was spending so much some months I couldn't afford to pay the credit card that I had the biggest balance owing on, at this point about £9,000. This meant that some months I had even more interest whacked on top, along with late fees.

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I don't know when the point came that I finally started to realise what a mess I had created of my life. It may have been when I went to pay money into my ISA one day, trying to get myself back on track, and my debit card was declined in front of the whole post office. It may have been when my mum realised what was happening and for a second time had to bail me out. It may have been when I realised one day that it had been over a year since I'd actually checked my bank balance because I was so afraid of managing my money. It was probably a combination of all of the above and more.

I was 25 years old, living back at home, having held a steady job for almost 6 years, and I had nothing whatsoever to show for it apart from a few material possessions and a credit rating so bad that I couldn't even open a store card if I'd wanted to. I realised that I had to do something about this. I didn't want to be this way for the next 5 years, and be 30 years old still living at home with no financial prospects whatsoever and the

same amount of crippling debt, at this point about £8,000.

I would say even now after all of this I'm still not back on the straight and narrow. I struggle on a daily basis with the shops, so much so that I have to go out of my way to avoid them, sometimes walking more than 10 minutes out of my way so that I don't pass a clothes shop, or a shoe shop. But every time I get that urge I now have a clear motivation in my head – the day when I have paid everything off, and I'm able to live on a daily basis knowing I don't have to rely on credit, I don't have to worry about checking my bank balance (which by the way, I still can't do but it will happen in time), I don't have to jump every time the phone rings for fear of it being someone I've not paid. I've got a bottle of champagne waiting to be opened. Because believe me it'll be the best day of my life.



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My Debt Crisis : Responses to questions

The following are some key points that are raised. You may have others.

1. *What were the threats and poor decisions?*

Getting a credit card and not using it responsibly (linked to age / naivety / lack of maturity) - being tempted by shops (shopping addiction); buying more than income should allow – living beyond their means; not paying off full amount on credit card – making minimum monthly payments

The dangers in using multiple credit cards

Being in denial about the debt problem / not tackling the problem / continuing to live beyond means / living in overdraft

Relationship – with person with bad credit / poor joint decisions / end of relationship

Using credit card cheques

Not learning from financial mistakes

2. *What were the positive actions and good decisions?*

Choosing a credit card with 0% interest on purchases for first 12 months?

Transferring balances using 0% balance transfer (although remember that there is usually a transfer fee for moving debt)

Help from mother

Action plan of repayments / trying to keep to a tight budget

3. *What would have helped? What advice would you give?*

Free Advice (debt counselling) from experts

E.g. Citizen's Advice Bureau <http://www.citizensadvice.org.uk/index/getadvice.htm>
Consumer Credit Counselling Service <http://www.cccs.co.uk/>

Preventative measures – financial education on sensible credit card use, budgeting, understanding interest rates