

## *Dear Students of Social Work,*

Social workers in the course of their work will come across individuals and families who face debt payment problems. Debt payment problems can be attributed to various causes such as mental health problems and gambling. These problems often make it difficult to deal with money on a day-to-day basis and affect motivation, judgement and income. The downward spiral is fast and is often compounded by being unable to work long-term and to make ends meet.

Debt isn't just a financial problem. It can cause relationships to break up, people to lose their homes and families to break down. No matter who the individual is, it can be hell. While debt isn't bad in itself and most people do have some form of "debt", debt is bad when it is unplanned and severe, leading to crisis debt situations. A rational decision to borrow cheaply is fine. Mortgages, student loans and more are an integral part of the modern financial world. But debts that result from gambling, ill fortune or business failures can be extremely stressful.



### **Debt, stress and anxiety**

Debt and mental health problems, whether they are caused by redundancy, bereavement, relationship breakdown, abuse or just naturally occurring, are rarely talked about and are not uncommon. What's also rarely discussed is the link between mental health issues and debt. When debt mounts up, so does stress and anxiety. When a person is in serious debt, it can be hard to imagine an end to the financial stress. It is important to support the person and to give them hope.

It's easy to feel isolated when a person or a family member is in serious debt. Some people may feel embarrassed or worried about what their friends and family will say, and so they keep the debt problem bottled up. So when a person has stepped forward to disclose and get help, it is important for him to know that he will not be judged and that people have successfully gotten out of debt with a 'get out of debt' action plan.



### **How to help those with unplanned debts**

What counts as a debt crisis depends on who we talk to, but one useful definition is when a person can't afford to make even the minimum repayments on all their debts. Therefore even if the person's debts are big, if he can service them - even at the minimum level - the person is not in a debt crisis and different solutions are available.

So how can we help? First, the person should want to take charge and get help for the debt payment. Second, the person needs to be in touch with how he is coping with the problem. If the person feels that things are getting out of hand and feels that he can't cope, he should see a GP or call SOS. Third, the person should commit to a plan which, as a start, will stop the debt from growing.



### Stop borrowing

It sounds obvious, but there's no point in the person trying to sort out his existing debts if he keeps adding to them. The most important thing therefore is to ensure that the person is not borrowing more.

The way to start doing this is by having the person look at the bank statements and draw up a budget which adds up whether the person spends more than he earns, so that he can see where his salary and savings, if any is left, are going. The next thing is to see where he can cut the bills and where he can cut back.



### Cut interest rates

With debts that incur interest rates, this is the first target to stop further bleeding. The less interest the person pays, the more his repayments can go towards clearing the actual debt and not just servicing the interest. Some debt counselling will advise using a balance transfer which is when the person gets a new credit card that pays off the debts on old cards, so that the person owes the new card the money at a cheaper interest rate. There are two main routes. The first is a 0% deal, where the card is interest free for a set period (even though the person may have to pay a fee to do it), but after that the rate shoots up. Alternatively, the person can be better off asking for help to renegotiate payment on a longer term plan without further charge of interest rate.

### Pay off the highest debt rates first



To begin to tackle the debt, it is useful to list all the debts in order of interest rates, so that the priority is on clearing the debt with the highest interest rate first, for the simple reason that it is costing the person most. That means that the person will pay just the minimum repayments on all other lower interest rate debts. Once the most expensive debt is repaid, the focus is on the next highest rate card and this continues until the person is debt free. Adding the total debt and planning to pay across the creditors is usually not a good strategy.



### Negotiating payment

The person should contact his creditor and express his wish to pay and request the creditor to offer to lower the minimum for a certain amount of time and preferably not charge interest rate. It is also possible that creditors are willing to offer a settlement amount that is usually around 60-70%.

There are also debt consolidation loans that allow a person to pay off the debt and make one low monthly payment that is less than what the person is currently paying. A debt management plan in essence consolidates debts into a lower, more affordable monthly repayment.

The person can also get help from a credit counsellor who may not try to reduce the overall debt, but will work with the credit companies to lower the interest each month and lower the minimum so that the person can work on the principal balance a little more.

In the case of HDB housing loans, it is always possible to appeal and re-negotiate a loan repayment plan.

Any of these choices will help the person on his way to being out of debt. Whichever route the person chooses, he needs to be vigilant about not returning to this financial state.

### **The money issue is often hidden**



Money issues may be hidden in cases that we work with and debt management is only one aspect of these issues. Although this is an area where social workers at the foundational level may not all be sufficiently trained in, it is part of wholistic assessment.

Crisis debt situations may lead to devastating effects on our clients at both a personal and relational level. It is therefore important for us as social workers to help them with a non-judgmental attitude and to have some basic knowledge to explore how to get out of bad debt situations and how to help our clients through the process.

Ang Bee Lian  
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