

DEBT, STRESS AND YOU

The emotional and
personal impact of
Australia's love affair
with debt

April 2010



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The emotional impact of debt

Debt is not just about assets, financial commitments, money management, risk mitigation and planning. Debt is also inextricably linked to our own self image, our relationships with others and the quality of our “commerce with the world”.

Three major recent developments have highlighted the frightening extent of personal debt in Australia.

1. In January 2010, Fujitsu Consulting released their mortgage stress update which estimated that by December 2010, 637,000 Australian households would be in some degree of debt discomfort with as many as 269,000 in “severe stress”. It estimated there could be as many as 35,000 mortgage defaults annually.
2. In February 2010, the Reserve Bank of Australia released figures showing that the total value of credit and card transactions, including cash advances, rose by 10% in December 2009. It meant that Australians spent over \$22 billion on credit and charge cards in the month and that the growth in credit card account balances over the year was 3.37%.
3. On the 2nd March 2010, the Reserve Bank of Australia announced a rise in the cash rates by 25 basis points to 4%. This increased the cost of repayments on a \$400,000 mortgage by around \$63 per month.



Craig Francis
Director – Debt Rescue

The terrible implications of these developments are self-evident. But there is something real and very personal that gets missed among these numbers. And that is the emotional and psychological impact of debt that gets experienced by those who are affected.

What then is the emotional and personal impact of unmanageable debt levels among those who get themselves into catastrophic trouble? We wanted to look at this question not so much in terms of lost assets and financial insecurity. But in terms of psychological health, self esteem, anxiety and isolation.

At Debt Rescue we’ve been providing services for many years to people who find themselves under siege from creditors and with nowhere else to turn.

This has given us a unique insight into the impact of these circumstances.

It has also created a unique opportunity for us to access a group of people who have one thing in common: they found themselves in such dire straights with debt that they sought out professional help.

So this report focuses on them. It asks about the services they’ve turned to, the emotional impact it’s had on them, the relationship breakdowns it’s triggered and what kinds of support they think are most useful.

Amidst all the numbers and percentages that document the spread and prevalence of the problem, we think a focus on the emotional impact of debt is well overdue.

Hopefully this report will not only encourage Australians to look at the impact of debt in a different light, but also provide some positive messages and advice to those who are seeking a way out of their stressful, isolated, debt laden situation.



Craig Francis

Personal perspectives: Debt and me

John, 56 years old, is one of the many Australians that has experienced the negative emotional and psychological effects of crippling debt.

Attempting to balance a number of credit cards led John to the depths of despair and the thought of ending it all by taking his own life.

“My troubles stemmed from a business venture I undertook. Although the business was going well, my clients were not paying their invoices which meant that I was racking up their expenses on my credit card without any of it being returned.

Any hope of retrieving the money disappeared when I discovered that my so-called clients had gone ‘bust’.



As a husband and father I was determined not to let the loss of income, or the debt that I had accrued, affect my wife and kids or to stop them having a respectable lifestyle. Nothing flash, just making sure they had food, clothing and a home.

The problem was that without any income I had to apply for more and more credit. Without a job or a profit from a business to pay it off I began to spiral deeper and deeper into debt.

I couldn't keep the balancing act up and hit rock bottom when I had credit card companies beating my door down to collect the \$20,000 I owed them.

The stress of the situation, as well as the emotions involved in feeling as though I could not provide for my family, or help them when they needed it most, weighed heavily. But the darkest hour came when I thought the solution would be to “prepare a tree”, so to speak. I never thought I'd be a person that would contemplate taking my own life, but there I was.

Thankfully I came across a professional service that not only helped me to manage the financial side of my debt situation, but also gave me the emotional support and guidance to get myself back to being the man I used to be.

Without this service I wouldn't be here telling you this story right now.

Debt isn't just about owing other people money. It's about what you owe to your family, your friends, your partner and yourself. I don't think people understand this – and why would they unless they too hit the lowest of the lows?

I hope this report brings to light the emotional and psychological side of debt, because I'm just one of thousands of Australians out there with a similar story to tell.”

Methodology and Questionnaire: Debt Stress and you

70 people were identified via Debt Rescue consultants who were prepared to fill out a survey. The survey was posted online, but due to their circumstances, not all respondents had internet access.

In the majority of cases, Debt Rescue consultants contacted clients and collected the responses over the telephone. These responses were then entered into the online survey.

McCindle Research helped design the questionnaire and analyse the results.

The survey was conducted Wednesday 3 – Friday 5 March, 2010.

The report was commissioned and developed by Debt Rescue.

QUESTIONNAIRE: DEBT, STRESS AND YOU

1. Which of these professional services have you turned to for help in dealing with your debt? (Please select as many as apply)

- Debt Rescue Consultant
- Lawyer
- Healthcare professional eg, GP, psychiatrist
- Accountant
- LifeLine
- Other, please explain

2. Has debt had any of the following emotional or psychological effects on you? (Please select as many as apply)

- Anxiety
- Depression
- Stress
- Isolation
- Relationship issues
- Self esteem
- None of the above
- Other, please explain

3. Apart from financial advice, would you appreciate support from other professionals or from other services on dealing with the psychological and emotional impact of debt?

- Yes
- No

4. Has debt caused a breakdown in your relationship with any of the following? (Please select as many as apply)

- Partner
- Wife / Husband
- Friends
- Family
- Work colleagues
- Business associates
- Investors
- None of the above
- Other, please explain

5. How important do you think it is that the services offered to people with debt problems help cover off a broad range of personal and emotional issues? (Please select one option below)

- Very important
- Fairly important
- Not so important
- Not at all important
- Not sure

6. How difficult was it to find a service that would help you with your debt issues? (Please select one option below)

- Extremely difficult
- Fairly difficult
- Not very difficult
- Not difficult at all
- Not sure

Survey results: Commentary and tables

Emotional and psychological impact

As is shown in Table 1, the vast majority of respondents (83%) said their debt levels had caused them stress. Two in three said it had caused them to be depressed (64%) and the same proportion said they had experienced anxiety from their debt levels.

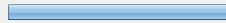
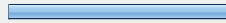
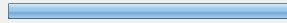

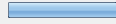
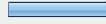

| Has debt had any of the following <i>emotional or psychological</i> effects on you? (Please select as many as apply) | | | Response Percent | Response Count |
|--|---|-------|------------------|----------------|
| Anxiety |  | 64.3% | 45 | |
| Depression |  | 64.3% | 45 | |
| Stress |  | 82.9% | 58 | |
| Isolation |  | 11.4% | 8 | |
| Relationship issues |  | 31.4% | 22 | |
| Self esteem |  | 28.6% | 20 | |
| None of the above | | 0.0% | 0 | |
| Other (please specify) |  | 15.7% | 11 | |
| answered question | | | 70 | |
| skipped question | | | 0 | |

Table 1: The emotional and psychological impact.

Non-financial support

The vast majority of respondents (86%) said it was important that services addressed the psychological and emotional impact of debt, rather than just the financial implications.

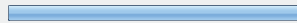

| Apart from financial advice, do you think you would benefit from support provided by other professionals or services on dealing with the psychological and emotional impact of debt? | | | Response Percent | Response Count |
|--|---|-------|------------------|----------------|
| Yes |  | 85.7% | 60 | |
| No |  | 14.3% | 10 | |
| answered question | | | 70 | |
| skipped question | | | 0 | |

Table 2: Benefiting from services that deal with the psychological and emotional impact.

Relationship breakdowns

The majority of respondents (59%) indicated that debt had caused some kind of relationship issue for them.

One in four respondents (26%) indicated that their debt problems had caused a relationship problem with their spouse or with their partner (18%). One in 7 (15%) said it had caused relationship problems within their family.







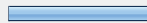

| Has debt caused a <i>relationship issue</i> with any of the following? (Please select as many as apply) | | | Response Percent | Response Count |
|---|---|-------|------------------|----------------|
| Partner |  | 18.2% | 12 | |
| Wife / Husband |  | 25.8% | 17 | |
| Friends |  | 10.6% | 7 | |
| Family |  | 15.2% | 10 | |
| Work colleagues |  | 7.6% | 5 | |
| Business associates |  | 7.6% | 5 | |
| Investors | | 0.0% | 0 | |
| None of the above |  | 40.9% | 27 | |
| Other (please specify) |  | 4.5% | 3 | |
| answered question | | | 66 | |
| skipped question | | | 4 | |

Table 3: Debt and relationships.

Services covering broad range of issues

All except one respondent indicated that it was either very important or fairly important that services offered to people with debt problems helped deal with personal and emotional issues, as well as financial problems.

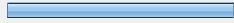
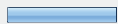

| How important do you think it is that the services offered to people with debt problems help cover off a broad range of personal and emotional issues? (Please select one option below) | | | Response Percent | Response Count |
|---|---|--|------------------|----------------|
| Very important |  | | 66.7% | 44 |
| Fairly important |  | | 31.8% | 21 |
| Not so important |  | | 1.5% | 1 |
| Not at all important | | | 0.0% | 0 |
| Not sure | | | 0.0% | 0 |
| answered question | | | | 66 |
| skipped question | | | | 4 |

Table 4: Need for services covering broader issues than just finance.

Difficulties in accessing help

The vast majority of respondents indicated that it was either extremely difficult (32%) or fairly difficult (52%) to find a service that would assist with debt issues.

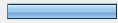
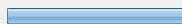


| How difficult was it to find a service that would help you with your debt issues? (Please select one option below) | | | Response Percent | Response Count |
|--|---|--|------------------|----------------|
| Extremely difficult |  | | 31.8% | 21 |
| Fairly difficult |  | | 51.5% | 34 |
| Not very difficult |  | | 13.6% | 9 |
| Not difficult at all |  | | 3.0% | 2 |
| Not sure | | | 0.0% | 0 |
| answered question | | | | 66 |
| skipped question | | | | 4 |

Table 5: Issues in accessing help.

Turning to professional services

As is shown in Table 1, the sample was defined largely by the fact that they had turned to a professional “debt rescue” organisation to help resolve their debt problems.

Some had also turned to accountants (7%), lawyers (6%) or a healthcare professional (6%).

| Which of these professional services have you turned to for help in dealing with your debt? (Please select as many as apply) | | | Response Percent | Response Count |
|--|---|--|------------------|----------------|
| Debt Rescue Consultant |  | | 85.7% | 60 |
| Lawyer |  | | 5.7% | 4 |
| Healthcare professional eg, GP, psychiatrist |  | | 5.7% | 4 |
| Accountant |  | | 7.1% | 5 |
| LifeLine |  | | 2.9% | 2 |
| Other (please specify) |  | | 22.9% | 16 |
| answered question | | | | 70 |
| skipped question | | | | 0 |

Table 6: Services consulted on debt issues.

Key steps to dealing better with debt

People sometimes feel that heavy debt burdens and aggressive creditors render them helpless in dealing with the situation. There are some important tips to keep in mind and some ways of managing the process that can deliver real, tangible solutions to what might otherwise seem impossible circumstances.

Take a Positive Step

There are a number of positive solutions that can be developed to suit individual circumstances. Some are listed below.

> Debt refinancing and consolidation

In some circumstances there may be an advantage to seek a refinance or consolidation of your existing debts. This can potentially reduce your overall repayment commitments, interest and repayment time.

> Informal debt agreements

There are rights you probably didn't know you had and the right advisor can help you step by step to negotiate with your creditors, even writing the letters for you, to get you out of this situation and back on your feet again.

In the majority of cases, lawyers, accountants and even financial advisors do not focus enough on your debts, they tend to pick over the problem and how you got there without looking at a positive solution. They just assume there isn't one and they advise you to go quietly, roll over and give up.

> Formal debt agreements

After completing an initial enquiry form which details your income and all of your debts, a budget is prepared to identify any surplus. This surplus is the amount you can afford to repay to your creditors.

A proposal is then prepared and forwarded to your creditors for consideration and they vote on your proposal. If your proposal is accepted by a majority of creditors, you will now be able to commence payments to your creditors for the agreed term at a reduced rate.

> Personal insolvency agreements

A Personal Insolvency Agreement is a legal and binding agreement between you and your creditors. It is also referred to as a Part X Agreement of the Bankruptcy Act.

It is generally for individuals who do not meet the threshold requirements for a Debt Agreement.

This is an alternative for you and your creditors to bankruptcy. The agreement includes your proposal to the creditors of terms you can afford to deal with on your unsecured debts. Should the creditors agree it is then processed through a Government agency known as the Insolvency Trustee Service of Australia (ITSA).



> Bankruptcy

For those people where the debts are simply too large and they have no available income to meet the obligations of a Debt Agreement or any other type of arrangement, bankruptcy is a viable option worthy of consideration and not simply a place of last resort. In some instances it will be the most appropriate course of action in light of your circumstances. If a knowledgeable consultant is providing you with an understanding of the Bankruptcy process and the implications for you personally, you will feel more at ease with this difficult decision.



Contact Us

If you are experiencing problems with debt, including any emotional or psychological effects caused by it, then you can contact Debt Rescue on:

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