

# Let's yarn about debt.

Smart choices keep the spirit strong.

**We've all seen mob get in trouble taking on too much debt. Yet, used wisely, debt can be very helpful. Let's find out the difference between good debt and bad debt.**

## Firstly, what is debt?

Debt is anything you owe to someone else. So, if you borrow money, you have debt.

A home loan is borrowing money to purchase a property. To be eligible for a home loan, it really helps if your financial history is strong and healthy.



**When you get things now, but pay for them later, you have a debt.**

**To prepare for a home loan application, it's important to be in control of debt. For starters, it's essential to know the total amount of debt you currently have.**

Let's look at Murray. He bought a second hand car last year and owes \$5,000 on his car loan. Over the years he has also picked up two credit cards and at the moment he owes \$6,350 over the two cards. That means Murray's total debt is \$11,350.

If Murray wants to apply for a home loan, his debts will affect how much he can borrow. Most likely, if he paid off his debts he could borrow more.



# Good debt vs bad debt.



*Debt can be used for good*

Most people have some level of debt - but not all debt would be considered bad.



*Bad debts can weaken spirit*

When people rely too heavily on borrowed money to pay for things they simply want, bad debt can quickly spiral into shame.

## Good debt

**Good debt** is a debt that can add to your overall financial position. This is when you take out a loan for something that can build wealth or increase your income over time.



### Home loan

Having a home of your own can give you security, stability and can be passed down to your children. Your home may also increase in value over time.

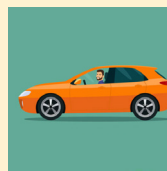


### Education

Training and education often leads to a steady career with a regular pay packet.

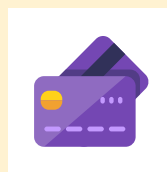
## Bad debt

**Bad debt** is borrowing money to buy something that will quickly drop in value. Or bad debt is borrowing money to buy something when you could've saved up for it instead.



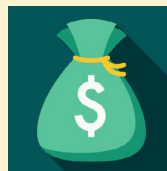
### Car loan

A new car could be considered bad debt as it usually loses value quickly.



### Credit & store cards

Using a credit card or store card to pay for items can be seen as bad debt. These cards often charge high interest which can make repaying them difficult.



### Payday loans

Short term loans with high interest are typically used to pay for goods that won't increase in value.

*Please be very careful though. Any form of debt, even a home loan, includes uncertainty. To avoid financial pain, do your research, ask questions, and stay on top of your repayments.*



# Stop and think about debt.

Unless the thing you are buying is likely to go up in value - or helps to generate more income for you - it's rarely worth putting yourself in debt for. Flash cars and custom sneakers feel deadly, but too much debt makes the spirit weak.

**Ask yourself - will that car generate more income for you, or is it simply to look flash?**



## Be mindful of quick and easy ways to borrow money, for example payday lenders.

The air con in Thomas' car has broken, it costs \$500 to fix. Thomas uses a payday lender to borrow the money to fix his car. This loan is for \$500, but it's going to cost \$800 to repay over 12 months because of its high interest rate. Is this loan worth it?

A way to avoid needing payday loans is by creating an emergency fund for when unexpected costs arise. Thomas aims to have a \$2,000 emergency fund so he can avoid using payday lenders in a pinch.



## Borrowing money you can't afford to repay is also bad debt.

Vanessa goes furniture shopping and spots a couch that's just her style. The store offers a 12 month interest free payment plan, but Vanessa needs to think about whether she can afford to pay this couch off in 12 months or not.

If she can afford to pay the couch off in the next 12 months, this is a good decision as she won't have to pay any interest and making the repayments on time will positively impact her credit score. However, if this couch is not within her budget and she's not able to pay it off during the interest free period, she'll pay high interest on her repayments after 12 months and it could put her under financial pressure.

Vanessa decides the couch is not within her budget, and chooses a more affordable couch that'll still look great in her living room.



## Ask for help if you need it.

If you feel like you're hitting a financial iceberg, what's important is that it doesn't make you sink. Put your hand up early and ask for help.

If you're sinking, reach out



## What next?

- Need support to manage your debt? Call the Mob Strong Debt Helpline 1800 808 488. Mob Strong Debt Helpline is a free legal advice service about money matters for ATSI peoples in Australia.
- Connect with a financial counsellor by visiting [Moneysmart.gov.au](https://www.moneySMART.gov.au)
- Visit [keystart.com.au](https://www.keystart.com.au) for more information
- When you're ready, get in touch with us to see if you qualify for a Keystart home loan

*This document was made in collaboration with Keystart's Aboriginal Home Ownership team, Aboriginal-owned business Norlap Creative and Aboriginal customers.*



**Aboriginal Home  
Ownership Scheme**

**Keystart.**