



## MONEY MATTERS BVI

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## Managing Debt

Owing money is often an unavoidable necessity of life. When you cannot afford to pay back what you owe; the bills will pile up, you'll miss payments on your mortgage, and your checks will bounce. At that point, your debt is a problem. Burying your head in the sand or throwing the collection letters in the garbage will not solve your debt problems. **Ignoring your bills will only cause them to increase and create more troubles for you.** You have to get organized and make a plan about what you're going to do.

## How much do you owe?

First, you have to figure out how much you owe; list all your debts and list all those in **arrears** - the payments you've missed that are overdue. Prioritize your debts: those that are most urgent and which might lead to dire consequences like losing your home or going to jail are the most important, but those which might be forgiven, such as debts to family members should receive a lower priority.



Now you know all about your financial situation, it's time to create a plan for reducing your debts. Tackle your priority debts first.

## Increase your Income

Can you get an extra part-time job for a while? Is there anything you can sell to bring in extra money to pay your debts? (Do not sell anything on which you still owe money.) Ask for a raise in your salary – just make sure you actually deserve it and that you can justify your request.

## Got some extra money, pay your debt first



The BVI is a small place, so be discreet. If you've asked your debtors to forgive or be lenient with your debt repayment, be grateful and try to repay as soon as you can, even if they don't require you to. If you happen to come into a windfall, pay your debts first before you go on a spending spree. Don't go on your dream vacation to Hawaii when you know you owe people money; word gets around quickly and once your reputation is lost, it's almost impossible to get it back.

## How to Pay your Debts

Look closely at your budget and compare your income and expenses. Put yourself on a strict spending diet and cut out all unnecessary items. Take the money you've saved and put it toward paying down your outstanding debt.

The longer you take to pay off your debts, the more you will end up paying in the long run as interest accumulates rapidly on loans. If you can afford to pay more than the minimum required, you should do so. If you make an extra mortgage payment every year for the first couple of years, you can make a significant reduction in the number of years that you end up paying off your loan.

Let's say you owe \$1,000 on your credit card. The interest rate on your card is 16% per annum, which kicks in from the date of purchase. Your minimum monthly repayment is 2.5% of the amount you owe (i.e. \$25). There are no fees on your account.

You decide to stop using your credit card until you pay off your debt. You work out that if you only make the minimum repayment of \$25 a month, \$13 goes toward paying the interest and \$12 towards the actual debt. This means it will take you more than 11 years to pay off your debt. During that time, you will pay \$862 in interest, on top of the \$1,000 you owe – a total of \$1,862.



Say you decide to pay an extra \$50 a month towards your debt. This will allow you to pay off your debt in 1.4 years and you only pay \$109 interest. That's a saving of \$753.

Try to consistently put as much as possible toward your debts. When you reach a major milestone, be sure to celebrate it. Before you know it, you'll be debt free!



### Last Resort

You should never borrow money to pay off a debt, but if it becomes absolutely necessary, it may be better to get a loan from your friends and family than to approach a bank and risk losing your home or having to go to jail. Do all you can in your power to repay them once you are in a position to do so.

### Priority Debts

- Mortgage/rent – you could lose your home or be evicted with no place to live.
- Electricity – your power will be turned off and you will have to live in the dark.
- Child support – you could go to jail for not paying child support.
- Tax – The Commissioner of Inland Revenue may sue you in the Magistrate’s Court and you may be fined for non-payment (thus increasing your debt), or even imprisoned.

Make appointments to meet with your creditors and try to negotiate a repayment schedule. You might feel ashamed or intimidated, but ignoring them will make them more inflexible about recovering their money from you. You may be able to lower your interest rates or negotiate a reduced settlement on some debts by speaking with someone in the customer service department. Your bank’s **loan officer** may be understanding and try to assist you if he or she feels you are making a genuine effort. Your landlord may also be more sympathetic if you sit down and explain your situation, rather than if you play hide and seek every time you see them coming. Remember he/she probably has his/her mortgage to pay and is trying to stay out of arrears.

### Other Debts

Every debt is important and you should try to repay them all, but not paying some debts may not have dire consequences. These may include credit cards, medical bills, and money borrowed from friends and family. Again, you should explain to your creditors why you are having problems paying and ask for leniency. Try to negotiate a more favorable repayment schedule. Any money you have left over after paying your expenses and priority creditors should go to these other debts. Be responsible, don’t take advantage of your friends and family as they are unlikely to offer you more loans in the future.