

Loans and debt

Understanding and managing loans and debts.

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While it makes sense to avoid going into debt, this isn't always possible. People often talk about [good debt and bad debt](#). Good debt might be borrowing money to buy an asset, like your home. Whereas bad debt might be relying on your credit card to meet living costs. Of course, unexpected expenses can come at any time, and without enough set aside in savings, a loan or credit might seem like your only choice to pay for unexpected or large expenses.

It is worth noting that banking and debt products vary across the world as do cultural attitudes to debt.

On this page, we explore the basics of loans and debt and step through some of the things to be aware of.

Financial risks

There are risks involved with borrowing money and taking on credit.

For example:

- your interest rate may go up, which could increase repayments at any time
- if you can't make repayments, your credit rating could be affected, you could risk repossession of items (like cars) or bankruptcy.

So it's important to know your rights. You are protected by the law and there is [help when things go wrong](#).

Introducing the basics

A 'loan' is an amount of money that is borrowed to pay for something with the understanding that it will be paid back after a certain amount of time (a 'term'), usually with added 'interest'.

Any amount of money owed to someone else is called a 'debt'.

Interest

'Interest' is an amount of money that is periodically added to a loaned amount of money, which is intended to pay the person or company that loaned the money (the 'creditor').

Good to know:

- interest is set as a percentage of the first loaned amount (the 'principal'), plus any interest already added
- interest on a debt increases the amount you owe, while interest on your savings increases your bank balance.

What is debt?

Debt, in the broadest sense of the term, is any amount of money that is owed to someone else. Different types of debt come with varying rates of interest, fees, or other periodic charges that could increase the amount of money you owe.

Examples of debt:

- a bank loan
- money owed on a credit card
- 'buy now, pay later' products
- bills of any kind

- a HECS–HELP debt, which is a government loan for studying
- debt from unpaid taxes
- a fine.

 **See our [banking products, paying bills and negotiating, and getting a fine](#) pages**

Being a guarantor on a loan

It's possible for one person to 'guarantee' a loan for a family member or friend. If you do this, you are known as the 'guarantor', which means you are responsible for paying back the entire loan if the borrower isn't able to.

Lenders sometimes ask for a guarantor if they don't want to lend money to the borrower alone.

Before you commit to 'going guarantor'

It's important to understand the loan contract and the risks. For example, becoming a guarantor means taking on the potential responsibility for paying back all or part of the debt – it would be like you have taken out the loan.

Where to get advice?

Speak to a financial counsellor if you're feeling unsure or pressured about a financial decision. It's a free and confidential service.

To speak to a financial counsellor, contact the [National Debt Helpline](#)

- 1800 007 007
- [Online chat](#)

See more about going guarantor on the [Moneysmart website](#).

 **See our [free legal services](#) page**

Debt assistance agencies and debt consolidation

There are some paid debt assistance agencies that advertise themselves as a way to get out of debt. They do this by planning your debt recovery for you, by managing your finances on your behalf.

There are also companies that will give you 'debt consolidation loans'. It is important to remember that these are paid services. You will still owe the debt and you might end up paying more in the long run.

Debt collection

If you have been unable to pay a debt, the company you owe the debt to might sell it to a debt collection agency. Or a debt collection agency might act on behalf of the company you owe money to. Debt collection agencies will contact you asking for payment and may threaten legal action.

It's important to know that debt collectors are not lawfully able to harass you. You might want to seek free legal advice if this happens to you.

Where to find more information

- See more about dealing with debt collectors at the [Moneysmart website](#)
- Read the Financial Rights Legal Centre's [fact sheet](#) on dealing with debt collectors

 **See our [free legal services page](#)**

Credit reports

Your credit report or credit score is used by lenders to access your credit history. It has your personal details and how you've dealt with debts in the past. This is how they decide if they should give you credit or a new loan. A poor credit history, regardless of the reason, makes it difficult to borrow money.

Where to find more information

- To learn more about how credit reports work, see the [CreditSmart website](#).
- You can also visit the [Moneysmart website](#) for more on credit reports.

No Interest Loans

No Interest Loans (NILs) allow you to borrow money to help you get back on your feet without having any of the crippling interest or high fees that come with other forms of loans.

There are certain rules around who can apply for NILs. Generally you must:

- have a Health Care Card, a Pensioner Concession Card or earn below a certain amount
- have lived at your current address for more than three months
- show that you can repay the loan.

Who provides NILs?

The No Interest Loan Scheme is one of the financial services provided by Good Shepherd Microfinance. You can find providers over at the [Good Shepherd website](#).

Who can help you with debt?

If you are feeling overwhelmed by debt problems, you can speak to a Financial counsellor. Financial counselors are professionals who can guide you through your situation, help you find solutions for debt and advocate on your behalf. Their services are always free, confidential, and non-judgemental.

To find a financial counsellor, head to the [National Debt Helpline website](#), give them a call on 1800 007 007 or [chat with them online](#).

Useful links about debt

- Moneysmart website
 - [Get debt under control](#)
 - [Debt collectors](#)
 - [Bankruptcy and debt agreements](#)
- National Debt Helpline
 - [Debt problems explained](#)
 - [Know your rights](#)
- Financial Rights Legal Centre
 - [See an index of factsheets for help with money matters](#)

 **See our [financial crisis](#) page**

Negotiating with creditors

Creditors must offer you a fair chance to pay back debts. If they can talk things through with you and agree, most creditors would rather make things easier for you than chase you for a debt you can't afford to pay back.

There are options available to you that could help you reduce, postpone, or spread out bill payments. You can ask your provider for help with:

- payment extensions
- payment plans

- concession information
- financial counselling service referrals.

Where to find information

- [Financial hardship](#) – what it is, your rights, and what you can do
- [Negotiating payment terms](#) – tips from the National Debt Helpline
- [Template letters](#) – pre-written letters from the Consumer Action Law Centre

When contacting providers, it's wise to keep a record of when you called, who you spoke with, and what you discussed.

Making a complaint

If you feel you haven't been treated fairly – especially as it relates to your rights under the law – go direct before approaching an external authority. The course of action recommended by the Australian Financial Complaints Authority (AFCA) is to make a complaint [directly with your bank](#) in the first instance.

If your complaint hasn't led to a satisfactory outcome and you feel like you haven't been treated fairly, you can contact the ombudsman. Ombudsmen are independent agencies that help to resolve disputes between people and companies or government agencies. It's a free and independent service, and while the process can be lengthy, your complaint will be resolved.

For financial complaints contact the [Australian Financial Complaints Authority](#) (AFCA).

Illegal activity and misconduct

If you believe a lender has engaged in illegal activity or misconduct, contact the [Australian Securities and Investments Commission](#) (ASIC) or call them on 1300 300 630.

This information was last updated on 15 June 2023.

The links and resources in this article have been compiled and reviewed by the Brotherhood of St. Laurence. We aren't responsible for what you'll find at

the links, though we do hope you find the information useful. See our [disclaimer](#) if you'd like to know more.

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