



Wrestling With Debt? Five Signs You're On The Ropes

UK personal debt has more than doubled since 2000 and now stands at a staggering £1.4 trillion. It is one of the biggest issues affecting UK households.

After five interest rate rises in 12 months, home repossessions are up 30% year on year in 2007, with personal bankruptcy up 24%. The 'credit crunch' caused by the sub-prime lending crisis affecting Northern Rock means that many traditional avenues of consolidating debts, or remortgaging to release equity, are no longer open to many.

Of course, debt levels vary widely across the UK, with some households owing tens of thousands of pounds and others owing nothing. Most of us, however, have got very used to living with a certain amount of debt.

So how do you spot whether you're on top of it or it's on top of you? Here are the five alarm bells that signal a bout of debt trouble may be on the way:

Round 1 More month than money

When our wage runs out days or weeks before the next pay packet arrives. If this describes you, then it's time to put yourself on a financial diet by learning to budget. Otherwise, you'll continue to pile up financial misery for your future self.

Round 2 Planning to put Christmas on cards

10% of those who did this last Christmas are still paying for it! Given that a typical household will spend nearly 800 celebrating this year, the festive season can place a huge burden on overstretched adults.

Round 3 Paying your mortgage using credit

Over a million of us have used a credit card to pay their mortgage or rent at least once in the past year. This is classic "robbing Peter to pay Paul" behaviour and so often leads to the point where Peter has nothing left to steal.

What's more, paying your mortgage using a credit card is the most expensive way of doing it. A good mortgage will charge an annual interest rate of around 6%, whereas a typical credit card charges over 16% a year. Even worse, some people resort to withdrawing cash on credit cards in order to make ends meet, which means paying interest rates of 20% to 30% APR. Avoid doing this at all costs!

Round 4 Making low repayments on your plastic

How much you repay each month on your credit card makes a huge difference to how long it takes to repay an outstanding balance.

Take a credit card balance of 1,500. If you're charged 1.5% a month and only ever pay the minimum monthly requirement of 2% of your outstanding balance, this bill will take an astounding 37 years to clear, and at the cost of thousands of pounds of interest!

If you can only afford to pay the minimum monthly payments, then you're facing financial pain for decades to come.

Round 5 Having little or no savings

When people come to [Payplan](#) for help, we usually find that there has been a specific, single event in their lives that tipped the scales and turned a manageable level of debt into an unmanageable burden.

The loss of a job, or the break-up of a relationship, or the birth of another child are just such events.

Who was it that said "The only thing in life that is predictable is unpredictability"? Without a cash safety net, what will catch you if you fall? Financial experts reckon you should have between three and twelve months' living expenses in an easy-access, high-interest savings account to cover these eventualities.

This article was written by Payplan, a free debt management service. For further information about their services, visit [their website](#).

However, we recommend that if you need help and assistance with a problem, that you contact us at the Fund in the first instance.

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