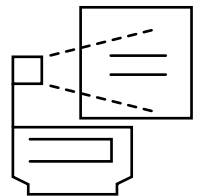


lesson nine

in trouble



overheads



why consumers don't pay

loss of income (48%)

- Unemployment (24%)
- Illness (16%)
- Other (divorce, death) (8%)

overextension (25%)

- Poor money management
- Emergencies
- Materialism
- Need for instant gratification

defective goods and services (20%)

fraudulent use of credit (4%)

other (3%)



warning signs of trouble

- You don't know how much you owe.
- You often pay bills late.
- You get a new loan to pay old loans.
- You pay only the minimum balance due each month.
- You spend more than 20% of your net income (after paying rent or mortgage) on debt maintenance.
- You would have an immediate financial problem if you lost your job.
- You're spending more than you earn, using your savings to pay for day-to-day expenses.



first steps to take if you can't pay your bills

take another (close) look at your budget

- Trim your expenses.
- Be realistic about what you can afford.

contact your creditors

- Tell them why you can't pay, that you intend to pay, and when/how much you will be able to pay.
- You may be able to work out a new payment schedule.
- If possible, continue to make the minimum payments.



a close look at your budget

income	planned	actual	difference
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$
fixed expenses			
Rent	\$	\$	\$
Car insurance	\$	\$	\$
Car payment	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
flexible expenses			
Savings	\$	\$	\$
Eating out	\$	\$	\$
Transportation			
Bus fare	\$	\$	\$
Gas and oil	\$	\$	\$
Parking and tolls	\$	\$	\$
Repairs	\$	\$	\$
Clothing	\$	\$	\$
Entertainment	\$	\$	\$
Personal items	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
total expenses	\$	\$	\$
total income	\$	\$	\$



national foundation for consumer credit (NFCC)

- Program that offers information on financial and consumer topics. All cities with populations of 50,000, and 1,500 locations nationwide.
- Reviews your income.
- Helps you set up a realistic personal budget.
- May contact your creditors and make arrangements for reduced payments on your bills.
- Helps you plan for future expenses.
- Services, depending on location, may be available for no charge or reasonable fee.
- Listed in yellow pages under “credit counseling” or call (800) 388-2227 for a location nearest you.



consolidating your debts

loan consolidation

- You make only one payment, usually lower than the total amount of your monthly debt payments.
- Best to use only when combined with credit counseling.
- If you own a home, consider your spending habits carefully before you take out a home equity loan. You could end up with a loan and large credit card bills if you don't change your spending habits.

watch out for “credit repair” companies!

- Offer for-profit counseling.
- Offer debt consolidation loans.
- Offer debt counseling.
- Some advertise they can erase a poor credit history (no one can do this!).



fair debt-collection practices

a debt collector must

- Inform you, in writing, of the amount of your debt, the name of the creditor, and an explanation of your right to dispute the debt.
- If you dispute the debt, the debt collector must give you written proof of the debt.

a debt collector may not

- Contact you at unusual times or places.
- Disclose what you owe to anyone but your attorney.
- Harass or threaten you.
- Use false statements.
- Give false information about you to anyone.
- Misrepresent the legal status of the debt.
- Engage in any kind of unfair practice, such as trying to collect an amount greater than you owe.



wage garnishment

what is garnishment?

- A legal procedure that withholds a portion of your earnings for the payment of debt.

the limits of garnishment

- The lesser of 25% of your disposable income or 30 times the federal hourly minimum wage.
- You may be able to get a “Claim of Exemption.”

claim of exemption

(only if you meet all of the following conditions)

- Your family is living in the state.
- All the money you earn is needed to provide necessities.
- Debt was for a necessity (food, housing, medical care).
- Garnishment has already been started.

what protection you have

- You cannot be fired for any one garnishment.

how the law is enforced

- Enforced by the Secretary of Labor through the Wage and Hour Division of the U.S. Department of Labor.



wage assignment and wage attachment

assignment

- Does not have legal force from a court, as does wage garnishment.
- It is a legal agreement between a lender and a debtor.
- Permits lender to collect part of debtor's wages from an employer if debtor fails to make regular payments.
- Employer is not legally compelled to honor a wage assignment arrangement.

attachment

- If you don't have a job, a lender can get a court order to "attach" or seize some of your property to pay off the debt.



rights of creditor

- Can seize car as soon as you default.
- Can't commit a breach of the peace, i.e., use physical force or threats of force.
- Can keep car or resell it.
- May not keep or sell any personal property in car (not including improvements such as a stereo or luggage rack).

your rights

- Can buy back car by paying the full amount owed on it plus repossession expenses.

your responsibilities

- Must still pay the “deficiency balance”—the amount of debt remaining even after your creditor has sold your car.



wage-earner bankruptcy

how it works

- You petition bankruptcy court to approve a plan to pay off your debts.
- Court accepts plan if you can pay off, in three years, at least as much as your creditors would receive if you filed straight bankruptcy.
- Interest on all your loans stops.
- Creditors must contact the court, instead of you.
- If paid as agreed, at the end of three years your debts are considered paid in full.
- Your costs range between 15% and 25% of amount owed.

benefits

- Can sometimes salvage your credit.
- You can avoid being harassed by your creditors.
- By being required to draw up a budget and determine exactly how much you can actually afford to pay, you are forced into being realistic about your budget.

disadvantages

- Some lenders don't react favorably when they see wage-earner bankruptcy on a credit report because some people use it to protect their property and pay less of their debt.



straight bankruptcy

duration on your credit record

- Up to 10 years

what you may still owe

- Taxes
- Child support
- Alimony
- College loans
- Fines
- Illegal debts
- Co-signer obligations

what you no longer owe

- Retail store charges
- Bank credit card charges
- Unsecured loans
- Unpaid hospital or physician bills

lesson nine

in trouble



student activities

test your knowledge of trouble (continued)

In the space provided, write the letter of the type of payment collection the statement represents.

- a) Wage Garnishment
- b) Wage Assignment
- c) Wage Attachment

- 10. _____ A legal agreement between a lender and a debtor.
- 11. _____ A legal procedure that withholds a portion of earnings for the payment of a debt.
- 12. _____ A court order that allows a lender to seize property to pay off the debt.
- 13. _____ An employer is not legally compelled to honor this arrangement.
- 14. _____ Dollar limit is the lesser amount of 25% of your disposable income or the amount over 30 times the federal hourly wage.
- 15. _____ You cannot be fired for one of these.

For each of the following questions, write a **T** in the space provided if the statement is true. Write an **F** in the space provided if the statement is false.

- 16. _____ If you default on even one car loan payment, the creditor has the legal right to repossess your car.
- 17. _____ Once a creditor has repossessed a car, he or she can either keep the car or resell it for the debt owed on it.
- 18. _____ If your car is repossessed, you no longer have any financial obligation to repay your car loan.
- 19. _____ If you want to buy back your car after it has been repossessed, the creditor can set the price at any amount over what you owe.

In the space provided, write the answers to the following questions.

- 20. How many years does a bankruptcy stay on a credit report?
- 21. Explain the difference between wage-earner bankruptcy and straight bankruptcy.



test your knowledge of trouble answer key

The following questions are designed to test what you've just learned about dealing with financial woes.



directions

In the space provided, write the answers to the following questions.

1. List four of the most common reasons why consumers don't pay their bills.

*Loss of income (48%)
Overextension (25%)
Defective goods and services (20%)
Fraudulent use of credit (4%)*

2. List five warning signs of financial trouble.

*Don't know how much you owe.
Late paying bills.
Take out a new loan to pay an old loan or to pay debts.
Pay only the minimum balance due each month.
Spend more than 20% of net income (after rent or mortgage payment) on credit use.*

3. List the first steps you should take if you find you can't pay your bills.

*Take a close look at your budget (trim expenses, be realistic about what you can afford, remember the 20-10 rule).
Contact your creditors. Tell them why you can't pay, that you intend to pay, and when and how much you can pay.
If possible, continue to make small but regular payments.*

For each of the following questions, write a **T** in the space provided if the statement is true. Write an **F** in the space provided if the statement is false.

4. f A credit repair company can erase a poor credit history.
5. t If you pay a bill late, your creditor can report this information to a credit bureau.
6. f A debt collector can contact you any time of day or night, except Sunday.
7. t If you don't pay a debt, a debt collector cannot legally harass and threaten you.
8. t A debt collector must inform you, in writing, of the amount of your debt, the name of the creditor, and an explanation of your right to dispute the debt.
9. t The Credit Consumer Counseling Service will help you set up a realistic budget, contact your creditors, and plan future expenses.

test your knowledge of trouble answer key

In the space provided, write the letter of the type of payment collection the statement represents.

- a) Wage Garnishment
- b) Wage Assignment
- c) Wage Attachment

10. b A legal agreement between a lender and a debtor.
11. a A legal procedure that withholds a portion of earnings for the payment of a debt.
12. c A court order that allows a lender to seize property to pay off the debt.
13. b An employer is not legally compelled to honor this arrangement.
14. a Dollar limit is the lesser amount of 25% of your disposable income or the amount over 30 times the federal hourly wage.
15. a You cannot be fired for one of these.

For each of the following questions, write a **T** in the space provided if the statement is true. Write an **F** in the space provided if the statement is false.

16. t If you default on even one car loan payment, the creditor has the legal right to repossess your car.
17. t Once a creditor has repossessed a car, he or she can either keep the car or resell it for the debt owed on it.
18. f If your car is repossessed, you no longer have any financial obligation to repay your car loan.
19. f If you want to buy back your car after it has been repossessed, the creditor can set the price at any amount over what you owe.

In the space provided, write the answers to the following questions.

20. How many years does a bankruptcy stay on a credit report?

Up to 10 years

21. Explain the difference between wage-earner bankruptcy and straight bankruptcy.

With wage-earner bankruptcy, you petition the bankruptcy court to approve a plan to pay off your debts. The court will accept the plan if you can pay off, within three years, at least as much as your creditors would receive if you filed straight bankruptcy. Interest on all your loans stops. Creditors must contact the court instead of you. If paid as agreed, at the end of three years your debts are considered paid in full.

With straight bankruptcy, you no longer owe retail store charges, bank credit-card charges, unsecured loans, and hospital or doctor bills. However, you may still owe taxes, child support, alimony, college loans, fines, illegal debts, and co-signer obligations.

name: _____

date: _____



are they in trouble?



directions

After reading through each of the following scenarios, list the steps you would take if you found yourself in the same situation. Then, using the attached budget sheets, rework the troubled budget. After reworking the budget, in the space provided, explain what you changed and why you changed it.

1. Todd's monthly net income is \$1,642.

His monthly fixed expenses include:

- \$550 for rent
- A school loan payment of \$232
- A car payment of \$152
- An insurance premium payment of \$112

His flexible monthly expenses include:

- Utilities and telephone bills, which average \$125
- \$120 for food
- \$50 for personal and household items
- \$50 for gas and oil
- \$100 for entertainment

His current credit obligations are:

- \$850 on a major department store credit card
- The minimum monthly payment is \$42
- \$1,200 on his major credit card, which he accrued from taking out a cash advance
- The minimum monthly payment is \$65

Todd keeps meaning to open a savings account and deposit a small portion of each paycheck, just in case he has an emergency and needs extra cash. But he just hasn't gotten around to it yet.

Todd's car breaks down on the way home from work. His mechanic tells him that it will cost about \$1,200 to get the car running again. Todd needs his car to get to and from work. He just got paid so he uses most of the money from his paycheck to get his car fixed.

If you were Todd, in the short term, what would you do about your present financial situation?

are they in trouble? (continued)

Using one of the attached budget sheets, rework Todd's budget. When you're finished, use the space below to explain what changes you made and why you made them.

2. Carmen has a monthly net income of \$810.

Her fixed expenses include:

- \$150 for rent (she shares an apartment with two friends)

Her flexible monthly expenses include:

- \$45 for her portion of the utility bills and the telephone bills
- \$95 for food
- \$50 for personal and household items
- \$50 for bus fare
- \$40 for entertainment

Her current credit obligations include:

- \$232 to the local department store, with a minimum monthly payment of \$25

One of Carmen's roommates decides to move out, two days before the next month's rent is due. Carmen and her other roommate are able to come up with enough money to pay the rent, but this leaves Carmen without enough money to pay her portion of the telephone bill, the utility bills, and her credit card payment.

If you were Carmen, what would you do?



are they in trouble? (continued)

3. John's monthly net income is \$1550.

His fixed monthly expenses include:

- \$600 for rent
- \$262 for his car payment
- \$210 for his car insurance premium

His flexible monthly expenses include:

- \$20 for the telephone bill
- \$120 for food
- \$75 for personal and household items
- \$50 for gas and oil
- \$100 for entertainment

His current credit obligations include:

- \$2,000 on one of his major credit cards
- The minimum monthly payment is \$120.
- \$1,500 on another credit card, which he recently accrued from taking out a cash advance. (He needed it because he didn't have enough to pay rent last month, and he wanted to buy a new piece of stereo equipment for his car.)
- The minimum monthly payment on this credit card is \$110.

John doesn't have any savings.

What do you recommend John do in the short term regarding his financial affairs?

Using one of the attached budget sheets, rework John's budget. When you're finished, use the space below to explain what changes you made and why you made them.

budget worksheet

Name _____ Month _____

income	start of month	end of month	difference
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$
total income	\$	\$	\$
fixed expenses			
Rent	\$	\$	\$
Car insurance	\$	\$	\$
Car payment	\$	\$	\$
installment payments			
Car loan payment	\$	\$	\$
Credit card 1	\$	\$	\$
Credit card 2	\$	\$	\$
total installment debt	\$	\$	\$
percentage of net income	\$	\$	\$
flexible expenses			
Savings	\$	\$	\$
Food	\$	\$	\$
Utilities (gas, electricity, water)	\$	\$	\$
At home	\$	\$	\$
Away from home	\$	\$	\$
Transportation:			
Bus fare	\$	\$	\$
Gas and oil	\$	\$	\$
Parking and tolls	\$	\$	\$
Repairs	\$	\$	\$
Tuition	\$	\$	\$
School expenses	\$	\$	\$
Clothing	\$	\$	\$
Entertainment	\$	\$	\$
Household items	\$	\$	\$
Personal items (toothpaste, etc.)	\$	\$	\$
total monthly expenses	\$	\$	\$



budget worksheet (continued)

Name _____ Month _____

income	start of month	end of month	difference
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$
total income	\$	\$	\$
fixed expenses			
Rent	\$	\$	\$
Car insurance	\$	\$	\$
Car payment	\$	\$	\$
installment payments			
Car loan payment	\$	\$	\$
Credit card 1	\$	\$	\$
Credit card 2	\$	\$	\$
total installment debt	\$	\$	\$
percentage of net income	\$	\$	\$
flexible expenses			
Savings	\$	\$	\$
Food	\$	\$	\$
Utilities (gas, electricity, water)	\$	\$	\$
At home	\$	\$	\$
Away from home	\$	\$	\$
Transportation:			
Bus fare	\$	\$	\$
Gas and oil	\$	\$	\$
Parking and tolls	\$	\$	\$
Repairs	\$	\$	\$
Tuition	\$	\$	\$
School expenses	\$	\$	\$
Clothing	\$	\$	\$
Entertainment	\$	\$	\$
Household items	\$	\$	\$
Personal items (toothpaste, etc.)	\$	\$	\$
total monthly expenses	\$	\$	\$

budget worksheet (continued)

Name _____ Month _____

income	start of month	end of month	difference
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$
total income	\$	\$	\$
fixed expenses			
Rent	\$	\$	\$
Car insurance	\$	\$	\$
Car payment	\$	\$	\$
installment payments			
Car loan payment	\$	\$	\$
Credit card 1	\$	\$	\$
Credit card 2	\$	\$	\$
total installment debt	\$	\$	\$
percentage of net income	\$	\$	\$
flexible expenses			
Savings	\$	\$	\$
Food	\$	\$	\$
Utilities (gas, electricity, water)	\$	\$	\$
At home	\$	\$	\$
Away from home	\$	\$	\$
Transportation:			
Bus fare	\$	\$	\$
Gas and oil	\$	\$	\$
Parking and tolls	\$	\$	\$
Repairs	\$	\$	\$
Tuition	\$	\$	\$
School expenses	\$	\$	\$
Clothing	\$	\$	\$
Entertainment	\$	\$	\$
Household items	\$	\$	\$
Personal items (toothpaste, etc.)	\$	\$	\$
total monthly expenses	\$	\$	\$



lesson nine quiz: in trouble

true-false

1. _____ Financial difficulties are commonly caused by overspending.
2. _____ People with financial difficulties may obtain assistance from the Consumer Credit Counseling Service.
3. _____ Consolidation loans are mainly used to finance the starting of a new business.
4. _____ Debt collectors are usually allowed to call you at home before 8 p.m.
5. _____ Bankruptcy is suggested for people who are a few weeks behind in their credit payments.

multiple choice

6. _____ A common cause of financial difficulties is:
 - A. poor money management habits.
 - B. a need for additional career training.
 - C. preparing your tax return late.
 - D. not having enough life insurance.
7. _____ A nonprofit organization that provides financial counseling is:
 - A. the Federal Deposit Insurance Corporation.
 - B. the Consumer Credit Counseling Service.
 - C. the Better Business Bureau.
 - D. the National Credit Union Administration.
8. _____ The purpose of a consolidation loan is to:
 - A. deduct amounts owed from a person's paycheck.
 - B. pay off one credit card amount before others are paid.
 - C. combine several debts into one payment.
 - D. reduce the amount owed for federal income taxes.
9. _____ A example of a fair debt-collection practice would be to:
 - A. pretend to be a salesperson to attempt to collect a debt.
 - B. threaten to take legal action to collect the money owed.
 - C. call a debtor at work even if personal calls are not allowed.
 - D. call a debtor at home before 8 p.m.
10. _____ Bankruptcy refers to the process of:
 - A. obtaining permission to be late with credit payments.
 - B. obtaining assistance from a credit counseling service.
 - C. using court action to reduce or eliminate your debts.
 - D. using court action to have payments owed deducted from your paycheck.

case application

Matt recently missed a few weeks of work due to illness. This resulted in lost pay and he has fallen behind in paying his bills and credit accounts. What actions would you recommend for Matt?

lesson nine quiz: in trouble answer key



true-false

1. t Financial difficulties are commonly caused by overspending.
2. t People with financial difficulties may obtain assistance from the Consumer Credit Counseling Service.
3. f Consolidation loans are mainly used to finance the starting of a new business.
4. t Debt collectors are usually allowed to call you at home before 8 p.m.
5. f Bankruptcy is suggested for people who are a few weeks behind in their credit payments.

multiple choice

6. A A common cause of financial difficulties is:
 - A. poor money management habits.
 - B. a need for additional career training.
 - C. preparing your tax return late.
 - D. not having enough life insurance.
7. B A nonprofit organization that provides financial counseling is:
 - A. the Federal Deposit Insurance Corporation.
 - B. the Consumer Credit Counseling Service.
 - C. the Better Business Bureau.
 - D. the National Credit Union Administration.
8. C The purpose of a consolidation loan is to:
 - A. deduct amounts owed from a person's paycheck.
 - B. pay off one credit card amount before others are paid.
 - C. combine several debts into one payment.
 - D. reduce the amount owed for federal income taxes.
9. D A example of a fair debt-collection practice would be to:
 - A. pretend to be a salesperson to attempt to collect a debt.
 - B. threaten to take legal action to collect the money owed.
 - C. call a debtor at work even if personal calls are not allowed.
 - D. call a debtor at home before 8 p.m.
10. C Bankruptcy refers to the process of:
 - A. obtaining permission to be late with credit payments.
 - B. obtaining assistance from a credit counseling service.
 - C. using court action to reduce or eliminate your debts.
 - D. using court action to have payments owed deducted from your paycheck.

case application

Matt recently missed a few weeks of work due to illness. This resulted in lost pay and he has fallen behind in paying his bills and credit accounts. What actions would you recommend for Matt?

Matt should start by contacting his creditors to explain his situation. If this doesn't work, he should contact a credit counseling service to help him plan his spending over the next few months. This would help him catch up on bills and pay off his debts.