# Unit 13: Credit Woes

**Personal Financial Literacy** 

## Objectives

- Discuss the consequences of not repaying loans on time.
- List the credit warning signals.
- Choose alternatives when debts cannot be paid.
- Identify the advantages and disadvantages of credit consolidation.
- Discuss the consequences of bankruptcy.

### Consumer Debt

- Consumers: \$2 trillion+ in credit card and auto loan debt
- Average household: \$\$\$ in non-mortgage related debt



## Defaulting on a Loan



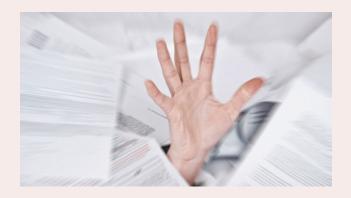
- Garnishment
- Repossession
- Collection agencies
- Credit card hold

## **Credit Warning Signals**

- Past due notices from creditors
- Paying only minimum payments on credit cards
- Reaching upper limit of credit
- Stalling one creditor to pay another
- Charging more than total of monthly payments each month

## Credit Warning Signals - Continued

- Running out of money before payday
- Behind a month or more with bills
- Failing to save monthly
- Worried about being able to pay bills
- Using credit card advances for living expenses or to pay other creditors



## When You Can't Pay

#### Deferment

- Payment on principal is postponed
- Often associated with college loans
- If unsubsidized, unpaid interest will be added to balance of principal

#### Forbearance

- Temporary postponement of payments on principal
- Borrower can pay interest during forbearance, or add it to balance

- Home equity loan
  - Low-interest loan can be used to pay off creditors
  - Amount still owed on home subtracted from the value = equity
  - Financial institutions may loan up to 75-80 percent of equity

- Contact creditors
  - Creditor may lower
    monthly payments
    through repayment
    plan; extends length of
    time to repay debt
  - Loan providers may defer loan for a period of time



- Credit counseling
  - Helps restructure
  - Debtor pays agency; they pay creditors
  - Agency educates and counsels to prevent later problems
  - Negative information may still end up on credit reports
  - Beware of for-profit businesses and scams



- Bankruptcy
  - May have to sell house, car
  - Long-term negative report on your credit report
  - Some debt can't be erased

## Debt Consolidation - Advantages

- Relieves stress of finding money to pay multiple creditors
- Can decrease monthly payments
- Less negative impact on credit record than bankruptcy

# Debt Consolidation - \_\_\_\_ Disadvantages



- 85% of those who consolidate accumulate more debt.
- May still have temptation of credit cards
- May pay significantly more than for individual bills

Overspending needs to be addressed.

#### **Unit Review**

- 1. Discuss factors that can put a person into debt.
- Distinguish between financial and personal consequences of being in debt and not making payments on the amount owed on time.
- 3. How does the Fair Debt Collection Practices Act protect consumers? It is a federal law that limits the behavior and actions of third-party debt collectors who are attempting to collect debts on behalf of another person or entity.

### **Unit Review - Continued**

- 4. At what point is a person in debt, and when should they seek help?
- 5. What is the difference between default and deferment?
- 6. Discuss alternatives a person can take when debts cannot be repaid.
- 7. Discuss the difference between deferment and forbearance.
- 8. Explain how the amount of a home equity loan is decided.

### **Unit Review - Continued**

- 9. Why should consumers beware of credit counseling organizations?
- 10. How does a legitimate credit counseling organization help someone who is in debt?
- 11. What are the advantages and disadvantages of home equity loans?
- 12. Compare and contrast the benefits and drawbacks of credit consolidation.

### **Unit Review - Continued**

- 13. When should a person consider filing for bankruptcy?
- 14. Describe the two most common types of personal bankruptcy.
- 15. Discuss the disadvantages of filing for bankruptcy.
- 16. What happens to co-signed loans in the event of bankruptcy?

# career tech

#### **Curriculum and Instructional Materials Center**

1500 West 7th Ave. Stillwater, OK 74074 www.okcimc.com 1-800-654-4502