



# **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

# When You Can't Pay - Continued

- 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



# When You Can't Pay - Continued

- 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



# When You Can't Pay - Continued

- 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

# When You Can't Pay - Continued



- 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.
2. 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?

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