

§6-7

Regaining  
Financial  
Stability

1 2  
4 5

## In this lesson you will:

- Discover what happens to debtors who do not repay their loans
- Recognize the signs of carrying too much credit
- Learn methods to safely get out of debt
- Calculate the percentage of take home pay that is used for credit payments

# Debt Collection Practices

0011

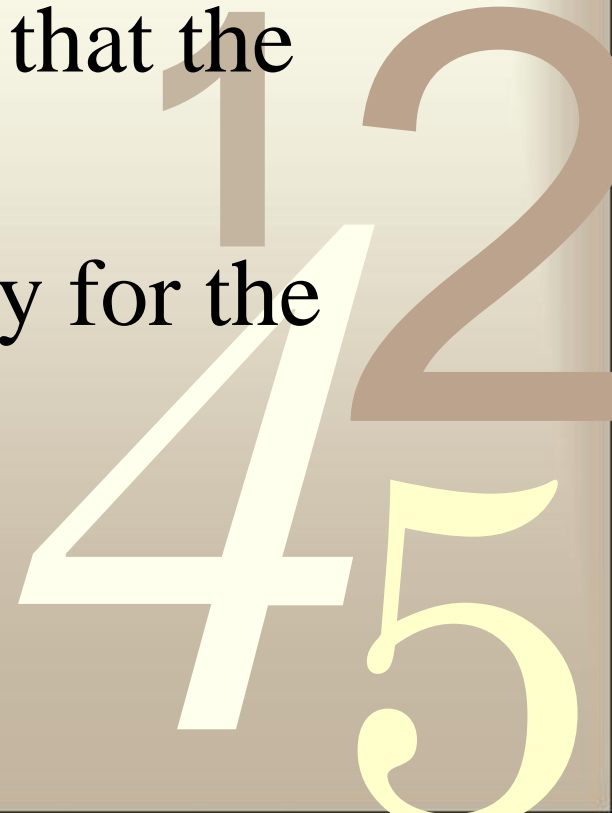
- Collection Agencies-
- Fair Debt Collection Practices Act-
- Garnishment-



# Debt Problems

- Typically the following family type is subject to debt problems:
  - Young family with more than the average # of children on only an average income
  - Carefree parents that are impulsive shoppers
  - Family that does not read much, get a daily newspaper, watches TV for their main source of information/entertainment

- 0011
- Parents blame unavoidable circumstances (pregnancy, unemployment, purchase of a new car)
  - Family moves more often than the average
  - No one takes responsibility for the finances
  - Single parent family



# Signs of too much debt

- You lengthen the repayment periods of installment loans
- You make smaller and smaller down payments
- Balances on your charge accounts continue to go up
- Bills for next month pile up before you have paid bills for this month
- You use a larger part of your income to pay debts each month
- You are taking cash advances on your credit card to pay for regular bills (gas, electric, rent, food, etc.)

# Solutions to debt problems

0011

- **Loan sharks**-illegal credit lenders who charge very high rates where collection practice involve threats of harm and violence
- **Pawnbrokers**-getting a loan from a pawn shop by giving them an item of value with a promise to repay the money in a short time plus interest. If you do not repay, the item becomes the pawn shops property

# Better solutions

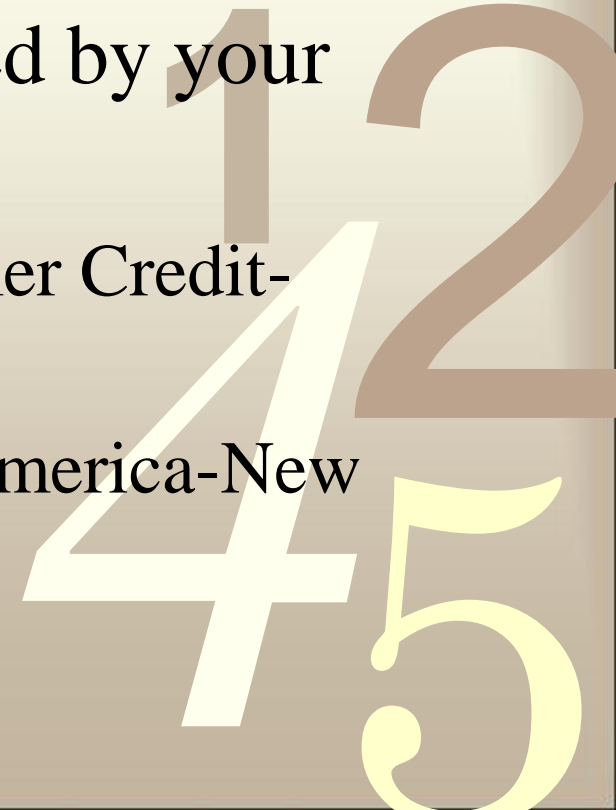
- **Bankruptcy**- aka “liquidation bankruptcy” requires you to sell most of your assets thru public sale. This may wipe out all of your debt for a new start.
- **Wage Earner Plan**-Chapter XIII-allows the debtor, creditors and a judge to set a monthly payment plan over a extended period of time. The court takes a portion of each paycheck and distributes it to the creditors. The debtor cannot make additional credit purchase until the original debt is paid.



# More ideas

0011

- Credit Counseling-they help you thru your credit problems. Usually nonprofit organizations and can be offered by your bank
  - National Foundation for Consumer Credit-Washington DC
  - Family Service Association of America-New York



# What is too much

- 0% outstanding
- 1-5% great
- 6-15% manageable
- 16-20% maximum
- 20% + credit overload



If a family has a monthly Take-home pay of \$6000, what % of their take home pay goes to credit

• Expenses

– Mortgage	800
– Utitities	205
– Telephone	65
– Cable/Net	119
– Gas/repairs	250
– Food	600
– Savings	1000

* Car payment	500
* CU loan	125
* Mastercard	100
* Visa	75
* Sears	128
* Am Ex	197
other items	1500



0011

# TYS

0011

- Do # 1-2 with a partner
- P 306



# homework

0011

- Page 307
- 1-3,4-10 even

