



**Lesson Nine**

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In Trouble

## overview

The material in this lesson will help students become aware of the warning signs of financial difficulties.

When difficulties arise, students should first contact their creditors. Next, efforts should be made to revise spending patterns. In addition, assistance from a member of the National Foundation for Consumer Credit service agencies might be considered.

What if these actions do not help? In the next sections of the lesson, students will examine other actions that might be considered, such as debt consolidation loans and bankruptcy. Students should also be aware of fair debt collection practices and wage garnishment.

## goals

Analyze the behaviors and circumstances that can lead to financial trouble and identify some of the options and actions available to a person in financial trouble.

## lesson objectives

- Describe some of the ways you can get in trouble using credit
- Explain the first steps to take if you can't pay your bills on time
- Describe the debt management services provided by nonprofit credit-counseling centers
- List some of the promises made by "credit repair" companies
- Understand how to evaluate a "credit repair" company before deciding whether or not to use its services
- Understand the protections provided by the Fair Debt Collection Practices Act
- List and understand the wage garnishment and repossession rights of creditors
- Understand the difference between straight bankruptcy and the wage-earner plan
- Understand the disadvantages of using bankruptcy as a solution to debt
- List the ten types of debt that are not affected by bankruptcy



## presentation slides

- 9-A** why consumers don't pay
- 9-B** warning signs of trouble
- 9-C** first steps to take if you can't pay your bills
- 9-D** a close look at your budget
- 9-E** credit counseling
- 9-F** consolidating your debts

- 9-G** fair debt collection practices
- 9-H** wage garnishment
- 9-I** wage assignment and wage attachment
- 9-J** car repossession
- 9-K** wage-earner bankruptcy
- 9-L** straight bankruptcy

### **student activities**

- 9-1** Test Your Knowledge of Trouble
  - Have students complete this exercise.
  - Discuss their answers.
- 9-2** Are They in Trouble?
  - Give each student a copy of the scenarios, which contain a budget, an income, and a list of unpaid bills and/or an unexpected crisis for each character.
  - Have students rework the budget and decide what other actions (if any) they should take to get the character out of financial trouble.
- 9-3** Lesson Nine Quiz

**For more information, please refer to the Appendix.**

# in trouble target audiences

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Learning activities appropriate to varied target audiences for Lesson Nine

			
activity	teenagers (14-18)	young adults (19-25)	adults (26+)
Web Activity		●	●
Web Activity	●	●	●
Oral Presentation	●	●	
Survey/Interview	●	●	●
Activity 9-1	●	●	
Activity 9-2	●	●	●
Lesson Nine Quiz 9-3	●	●	●

# in trouble teaching notes

## how you can get in trouble using credit

1. Why consumers don't pay
2. Warning signs of trouble
3. Scenarios of trouble
  - Overspending
  - Raising interest rates
  - Mismanaged budget
  - Increased cost of living
  - Unemployment
  - Illness or disability
  - Family emergencies



discussion



slides 9-A & 9-B

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

1. Contact your creditors immediately
  - Call before you get behind
  - Ask for a voluntary plan for paying debts
  - Special problems of car loans
2. Cut living expenses
  - Personal budgets developed in class
3. How much credit can you handle
  - Review the 20-10 rule



discussion



slides 9-C & 9-D

## credit counseling

1. National Foundation for Consumer Credit (NFCC)
  - Nonprofit financial counseling service
  - Arranges repayment plans that work for both debtor and creditor
  - Helps you set a realistic budget
  - Finding the office nearest to you
2. Cooperative Extension Service
  - County-based source of education and information on financial and consumer topics
  - Offers educational programs and/or direct guidance on budgeting and other financial management matters
  - Finding a local office



discussion



web activity:

Have students go to [nfcc.org](http://nfcc.org) for credit counseling information.



slide 9-E

# in trouble teaching notes

## consolidating your debts

1. Loan consolidation
2. Credit repair companies
  - For-profit financial counseling service
  - Offers debt consolidation loans, debt counseling, debt reorganization plans
  - Can't erase a poor credit history
  - Investigate reputation and performance history before using



discussion



web activity:

Have students research news articles on “credit repair” services, using the internet.



slide 9-F

## about fair debt collection practices

1. What debts are covered
2. What a debt collector does
3. How debt collectors can contact you
4. How you can stop a debt collector from contacting you
5. Who else a debt collector may contact
6. What a debt collector must tell you
7. Practices that are prohibited
  - Harassment
  - False statements
  - Unfair practices
8. What to do if you think a debt collector broke the law



discussion



oral presentation:

Have students present in class or on video examples of legitimate and illegal debt collection practices.



slide 9-G

# in trouble teaching notes

## about wage garnishment

1. Wage garnishment
  - What it is
  - Under what circumstances it can be done
2. Wage assignment
  - What it is
  - Under what circumstances it can be done
3. Wage attachment
  - What it is
  - Under what circumstances it can be done
4. Car repossession
  - What it is
  - Under what circumstances it can be done
  - Creditor's rights
  - What you can still owe



discussion



slides 9-H, 9-I & 9-J

## bankruptcy

1. Wage-earner bankruptcy
  - What it is
  - Who qualifies
  - How it works
  - Advantages
  - Disadvantages
2. Straight bankruptcy
  - What it is
  - Who qualifies
  - How it works
  - Advantages
  - Disadvantages



discussion



survey/interview:

Have students obtain opinions from several people regarding current bankruptcy laws.



slides 9-K & 9-L

## in trouble teaching notes

### test your knowledge

1. Questions
2. Reworking troubled budgets



student activity 9-1



student activity 9-2

### lesson nine quiz



quiz 9-3



# 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 of the seven 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.*

*Would have a financial problem if you lost your job.*

*You're spending more than you earn and are using savings to pay for day-to-day expenses.*

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 Consumer Credit Counseling Service will help you set up a realistic budget, contact your creditors, and plan future expenses.



# test your knowledge of trouble

## answer key

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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.



# 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 National Federation of Credit Counselors
  - 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 An 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.*