



Lesson Nine

In Trouble



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	budget	actual	difference
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$

fixed expenses

Rent	\$	\$	\$
Car insurance	\$	\$	\$
Car payment	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$

flexible expenses

Savings	\$	\$	\$
Eating out	\$	\$	\$
Utilities	\$	\$	\$
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. Or you can visit NFCC online at nfcc.org.



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.



car repossession

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.



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