



In Financial Trouble

WHY CONSUMERS DON'T PAY

loss of income (48%)

- Unemployment (24%)
- Illness (16%)
- Other (divorce, death) (8%)

Over-extension (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

	planned	actual	difference
income			
Job #1	\$	\$	\$
Job #2	\$	\$	\$
Other	\$	\$	\$
fixed expenses			
Rent	\$	\$	\$
Car Insurance	\$	\$	\$
Car payment	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
flexible expenses			
Savings	\$	\$	\$
Eating out	\$	\$	\$

A CLOSE LOOK AT YOUR BUDGET (CONTINUED)

	planned	actual	difference
income			
Transportation	\$	\$	\$
Bus fare	\$	\$	\$
Gas & oil	\$	\$	\$
Parking & tolls	\$	\$	\$
Repairs	\$	\$	\$
Clothing	\$	\$	\$
Entertainment	\$	\$	\$
Personal items	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Other	\$	\$	\$
Total expenses	\$	\$	\$
Total income	\$	\$	\$

CREDIT COUNSELING

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 & 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.

STRAIGHT BANKRUPTCY

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