Credit Counseling: Where, When, and Why

LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about red flags of excessive debt that may indicate a need for credit counseling. An example is the consumer debt-to-income ratio, which students will learn how to calculate with case study problems. Students will also learn about resources available to select a reputable non-profit credit counseling agency and the services that these agencies provide to help people repay outstanding debt.

The lesson includes five activities that instructors can select from. In these activities, students will:

- Complete a *Web Quest* to identify "red flag" indicators of households experiencing financial distress
- Calculate consumer debt-to-income ratios and debt repayment strategies for case study scenarios
- Analyze a case study of a person in debt and make a 10-slide *Albatross Analysis* slide presentation
- Collect information about three different credit counseling organizations that serve New Jerseyans
- View and analyze videos that describe how credit counseling agency clients got in and out of debt

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

INTRODUCTION (Background for the Instructor)

Debt can be defined as "a state of owing money" (i.e., "I am deeply in debt") or the actual amount of money that someone owes (e.g., "my $5,000 credit card debt). Unfortunately, many Americans find themselves in a situation where the amount that they owe is substantial and they need an intervention strategy to help address the problem. Options include negotiating with creditors, debt consolidation loans, debt acceleration programs such as PowerPay (see https://powerpay.org/), filing for Chapter 7 or Chapter 13 bankruptcy, and credit counseling. This lesson plan focuses exclusively on the latter option.

Sometimes debt problems happen suddenly such as when people are ill or injured, unable to work, and fall behind on their household bills and debt repayments. Often, however, debt builds up gradually over time until people reach a point where they find it difficult to repay what they owe. Following are some "red flag" warning signals that indicate that someone is experiencing a state of financial distress:

- Putting off paying bills because you're worried that you won't have enough money to cover your debts
- "Juggling" bills each month just to get by
- Using credit cards to buy necessities, such as food, gas, or rent
- Getting a cash advance from a credit card, a loan, or a payday loan to make a debt payments
- Avoiding answering the phone because of frequent calls by bill collectors
- Charging more each month than payments made
- Having chronically overdrawn bank accounts
- Depending on overtime or side jobs to make ends meet
- Being at or near maximum credit limits
- Receiving calls and letters about overdue bills
- Not knowing how much you owe in total to all of your creditors

Credit problems often happen in stages as existing debt becomes increasingly difficult to pay:

- **Early Stage**- Paying only the minimum amount due, begin paying late penalties, a month or 2 behind
- **Later Stage-** Bills are months overdue, difficulty making minimum payments, contact from creditors
- **Final Stage-** Court proceedings, wages subject to garnishment, secured items (e.g., car) are repossessed

In addition to the "red flags" noted above, another way to determine if people have more debt than they can manage is to calculate their consumer debt-to-income ratio. To do this, add up the total of their monthly consumer credit payments. Don't include a mortgage or rent, utilities, or taxes in this calculation but, rather, consumer debts like credit card payments, car loans, and student loans. Then determine their monthly after-tax (net or take-home) income. Don't include overtime or bonus pay unless it is guaranteed.

Divide monthly consumer debt payments by total net monthly income. The result is a person's consumer debt-to-income ratio. For example, if total monthly credit payments are $300 and total monthly after-tax income is $1,800, the ratio would be calculated as 300 divided by 1,800 = .1666 or 16.7%.

With a consumer debt-to-income ratio of 15% or less, people are usually in good shape credit-wise. If the ratio reaches 20%, they are at the "danger zone" and are probably starting to experience financial difficulty, especially if they have other large expenses such as a mortgage or child care. With a debt-to-income ratio higher than 20%, people have way too much debt, need to drastically curtail spending, and should consider credit counseling for assistance with budgeting and, perhaps, participation in a debt management program.

Credit counseling agencies provide a variety of services from advice and assistance with budgeting to assisting with mediating mortgage modifications to avoid foreclosure. The key to success is finding a credible and honest credit counseling service provider. Both non-profit and for-profit credit counseling organizations are available. The New Jersey Department of Banking and Insurance maintains a list of state licensed financial counseling organizations (name, address, telephone number, and web site address) on their website at http://www.state.nj.us/dobi/division_consumers/finance/counselors.html.

Debt management plans (DMPs) help those having difficulty making monthly debt payments. The agency and the consumer agree to an amount and a payment schedule. The consumer deposits money with the counseling organization and the agency then uses the money to pay the consumer's unsecured debts. Credit counseling agencies are often able to negotiate concessions from creditors, to lower interest rates or waive fees, because consumers are committed to making regular payments with the assistance of the agency.

Debt management plans often work but it may take several years of strict budgeting to get large debts repaid. Repayment plans lasting three to five years are not uncommon. Because participating consumers are facing severe debt problems, there is usually a commitment required to not use nor seek additional credit during this time. DMP clients' existing credit cards may, therefore, need to be cut up or surrendered.

On its website (see http://www.experian.com/blogs/ask-experian/the-impact-of-credit-counseling-on-credit-scores/), the national credit reporting agency, Experian, notes that participating in credit counseling, per se, does not affect credit scores directly. Rather, the payment status of credit accounts affects credit scores. With this in mind, Experian provides the following advice to avoid having any late payments recorded:

It is very important to make sure the account payments are kept current during the transition to the debt management plan. Make sure that you understand when the credit counseling agency will begin to make payments on your behalf. You need to be sure that no payments are missed between the time you enter the plan and the time the credit counseling agency starts making the payments. You may need to make a payment or two before payments begin to be made by the credit counseling agency.

OBJECTIVES

Students will be able to:

- Describe at least five indicators of financial distress.
- Describe causes of financial distress (e.g., health problems, disability, unemployment, over-spending).
- Calculate consumer debt-to-income ratios for hypothetical case studies.
- Analyze a case study of an indebted individual and make a presentation of recommended action steps.
- Find information about available credit counseling organizations.
- List at least five actions that successful credit counseling clients have taken to get out of debt.

NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- Standard 9.1.12.E.9: Determine when credit counseling is necessary and evaluate the resources available to assist consumers who wish to use it.
  See http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit and http://www.state.nj.us/education/cccs/2014/career/91.pdf for information about Standard 9.1

TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

MATERIALS

- For Background Information: *The Emotional Effects of Debt* (The Simple Dollar): http://www.thesimpledollar.com/the-emotional-effects-of-debt/, *3 Emotional Effects of Having Too Much Debt and How to Cope* (Money Crashers): http://www.moneycrashers.com/emotional-effects-debt-cope/, and *6 Ways Debt Can Wreak Havoc With Your Emotions* (KOAM Television video): http://www.koamtv.com/story/34555906/6-ways-debt-can-wreak-havoc-with-your-emotions
- YouTube Video (2:21): *Debt Free Song Dance Video* (Flash Mafia Music): https://www.youtube.com/watch?v=7MHJpc93Seo
- *Web Quest: "Red Flag" Indicators of Financial Distress*
- *Consumer Debt-to-Income Ratios Activity* handout
- *Credit Counseling Case Study: Jennifer Barry* and *Albatross Analysis* activity handout
- *Credit Counseling Agency Comparison Activity* handout
- YouTube Video: *Inspiring Client Stories* (National Foundation for Credit Counseling): https://www.youtube.com/playlist?list=PLfbs3P6feyGD9vDBNAaNCskCFev5wzaIq
- *Credit Counseling Quiz* (ASSESSMENT)

Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of credit counseling. The activities can also be used for extra credit assignments, homework, or after-school activities.

PROCEDURE

1. To begin the class discussion about credit counseling, ask students to describe what debt is and the feelings that people can experience when they can't repay the money that they borrowed. Then play the YouTube *Debt Free Song Dance Video* (https://www.youtube.com/watch?v=7MHJpc93Seo) and ask students to describe the words and emotions that are described by the subjects in the video

   Answers will likely vary. Students will probably describe debt as an amount of money that is owed for previous purchases of goods and services. Emotions that people feel when they are having difficulty repaying what they owe include anxiety, depression, resentment, denial, stress, frustration, anger, regret, shame, embarrassment, fear, and powerlessness. Emotions, as shown in the video, that people feel when they have repaid their debts include euphoria, happiness, relief, control, and freedom.

2. **Activity 1:** Distribute the *"Red Flag" Indicators of Financial Distress* activity handout and ask students to use an online search engine (e.g., Google, Bing) and search for the terms "debt warning signs," "debt symptoms," and "too much debt" to find information from reputable sources such as government agencies and non-profit credit counseling agencies. Explain that debt is an obligation to repay previously borrowed money and that some people get in over their heads (e.g., over-spending). Before people reach out for help from a credit counseling agency, they have to realize that a problem exists. This activity will help students determine when credit counseling may be a useful strategy.

   The information that students will find will vary. Among the signs of debt that they will probably find are a high (20%+) consumer debt-to-income ratio, getting loans and/or credit card cash advances to pay creditors, lawsuits by creditors, paying only minimum required payments, juggling bills, needing a co-signer due to a poor credit history, hiding purchases from and arguing with family members, late bill payments, having utilities cut off, having collateral for loans (e.g., a car) repossessed, and worries related to finances (see http://www.handsonbanking.org/library/en/Debt%20Warning%20Signs.pdf).

3. **Activity 2:** Distribute the *Consumer Debt-to-Income Ratios* Activity handout. Ask students to read the brief case study description of the twins Jane and Zane and answer the questions below.

   Jane and Zane are 23-year old twins. They each live with roommates, started work with the same employer on the same day, and earn an identical gross monthly income of $2,500 ($30,000/year) and net monthly income of $1,900 ($22,800/year) after payroll deductions. Both pay $170 monthly for student loan payments and $150 monthly for loan payments on used cars. That is where the similarities end. Jane likes to shop and owes $6,000 on a credit card. She makes a $180 monthly minimum payment. Zane like to get bargains at thrift shops and pays his credit card bills in full.

   What is Jane's consumer debt-to-income ratio?

   $170 + $150 + $180 = $500 ÷ $1,900 = 26.3%

   What is Zane's consumer debt-to-income ratio?

   $170 + $150 = $320 ÷ $1,900 = 16.8%

   What do Jane and Zane's consumer debt-to-income ratios mean?

Jane's 26.3% consumer debt-to-income ratio of 26.3% is well above the widely accepted 20% "danger zone." It means that over a quarter of her net pay is already "spoken for" by having to make payments for her student loan, car loan, and credit card minimum payments and she is probably experiencing financial distress. Zane's 16.8% ratio for his two debts is better but it is approaching the 20% mark. He needs to be careful not to take on more debt that would tip him over the 20% benchmark ratio.

What can Jane and Zane do to improve their consumer debt-to-income ratios?

Pay off existing debts as quickly as possible and not take on any more debt that would make their debt-to-income ratios any worse. They could also look for new jobs that pay a higher salary and/or "side gigs" that provide additional income. If Jane earned more money, she could make higher-than-minimum payments on her credit card and get out of debt much faster than she is currently able to do.

What other advice do you have for Jane and Zane?

One or both of them could consider moving back home with their parents for a year or two to increase their financial stability. The money that they save on rent and utilities could be spent on larger debt repayments. They should also consider various expense reduction strategies such as those listed here: http://www.extension.umn.edu/family/live-healthy-live-well/healthy-minds/getting-through-tough-times/strategies-for-spending-less/.

4. **Activity 3:** Distribute the *Credit Counseling Case Study: Jennifer Barry and Albatross Analysis* activity handouts. Explain that the word "albatross" in this situation does not refer to a type of bird but, rather, to a psychological burden that feels like a curse (see http://www.yourdictionary.com/albatross). Being in debt feels like an albatross to many people. This activity requires students to make a 10-slide PowerPoint or Prezi presentation about their advice for a young woman who is deep in debt.

   The information that students will include in their slide presentations will vary. Below are some sample answers for the Albatross Analysis questions that are the basis for students' presentations:

What are some strengths of Jennifer's financial situation?

Participation in a 403(b) retirement savings plan, adequate health insurance, some disability insurance, and financial knowledge about compound interest gained at an employee benefits seminar.

What are some weaknesses of Jennifer's financial situation?

Negative net worth, over-spending tendencies, lack of an emergency fund, high monthly housing expense, spent entire income tax refund frivolously, and lack of renter's insurance and an IRA.

What can Jennifer do to get out of debt?

- Accelerate debt repayment. Double current debt payments and/or use a resource such as *PowerPay*: https://powerpay.org/. This free program creates a debt repayment calendar that systematically adds the monthly payment from repaid debts to remaining creditors, thereby saving repayment time and interest.

- Allocate at least half of future income tax refunds to debt repayment instead of spending this money.

- Track spending for a month or two, down to the last penny, to determine exactly how her current income is spent. Using this information, Barry can then prepare an accurate spending plan (budget). Ideally, her income should equal expenses plus money set aside for savings.

- Consider moving back with her parents for a year or two while she stabilizes her finances. The $750 that she currently pays for rent and utilities would go a long way toward reducing her debt quickly.

- If Jennifer wants to continue to live independently, she should consider landing a new job that pays a higher salary and/or side jobs that bring in additional income with which to repay debt.

What other financial advice do you have for Jennifer?

- Build up an emergency reserve of at least three months expenses.

- Adopt frugal shopping habits such as buying clothing and home furnishings at thrift shops.

- If Jennifer decides to continue living on her own, she should purchase renter's insurance.

- Reposition the money spent on debt repayments to savings once she is out of debt.

5. **Activity 4:** Distribute the *Credit Counseling Agency Comparison Activity* handout. Direct students to the New Jersey Department of Banking and Insurance (DOBI) *Financial Counseling Organizations* website: http://www.state.nj.us/dobi/division_consumers/finance/counselors.html. Ask students to review the websites of three agencies listed under the "DOBI Licensed Debt Adjusters" section and to write down five pieces of information down about each credit counseling organization. Allow about 30 minutes for students to complete the task and debrief with a large group discussion.

   Students' answers will likely vary. Information that students might find includes: 1. a description of services offered (e.g., budget counseling, debt management, debt settlement, student loan counseling, foreclosure prevention, bankruptcy counseling, and educational programs). 2. financial education resources, 3. information about agency location(s), leadership, and staff, 4. annual reports, 5. testimonials from clients, 6. frequently asked questions (FAQs), 7. agency mission and vision statements, 8. client success stories, 9. press releases about the agency, and 10. agency accreditation and credit counselor certification status. One piece of information that is NOT readily available on credit counseling agency websites is a description of the fees that are charged for various services.

6. **Activity 5:** Ask students to watch three videos about successful credit counseling clients on the National Foundation for Credit Counseling (NFCC) *Inspiring Client Stories* YouTube playlist: https://www.youtube.com/playlist?list=PLfbs3P6feyGD9vDBNAaNCskCFev5wzaIq. Ask the students to jot down specific strategies that video subjects used to successfully get out of debt with the assistance of a credit counseling organization. Debrief the activity with a large group discussion.

Students' answers will likely vary. Strategies that students might mention include: setting up a budget, selling a large house and downsizing, selling a car, claiming Social Security benefits, enrolling in a credit counseling debt management plan, getting second jobs, working overtime, and concessions from creditors.

CLOSURE

Ask students if they have any remaining questions about credit counseling. Remind them that, just like it generally takes people a while to become indebted, it will also take time to get out of debt. Debt management plans (DMPs) can last several years. Having assistance from a credit counselor can be motivating and empowering. This short video from InCharge Debt Solutions explains the benefits of a DMP: https://www.youtube.com/watch?v=GZaXMzN6i_c (stop it before the commercial at the end).

GLOSSARY

Cash Advance- The use of a credit card to obtain cash, up to a certain limit, rather than to make purchases.

Consumer Debt-to-Income Ratio- A barometer of a person's financial distress, this ratio is calculated by dividing monthly consumer debt payments (excluding a home mortgage) by monthly net (take-home) income. A ratio of 20% or higher is considered a "danger zone" indicator of financial stress.

Credit- Having the present use of money that will be repaid, generally with interest, at a future date.

Credit Counseling- Professional services provided by non-profit and for-profit organizations that help people manage their finances and repay outstanding debt. Credit counselors are often able to negotiate concessions from the creditors that a client owes money to (e.g., waived late fees and lower interest rates).

Debt- There are two different uses of the word "debt": a state of owing money (i.e., "I am deeply in debt") or the actual amount of money that someone owes (e.g., "my $5,000 credit card debt). Debt occurs when people borrow money with an arrangement that it will be repaid later, usually with interest.

Debt Acceleration- The process of saving repayment time and interest on a debt. One way to do this is to use a program such as *PowerPay* (see https://powerpay.org/) to create an accelerated debt repayment calendar. Another is to make additional payments toward the principal balance on a loan.

Debt Consolidation- Taking out a new loan to pay off a number of existing debts. This is typically done to simplify bill-paying and to obtain more favorable debt repayment terms such as a lower interest rate.

Debt Management Plan (DMP) - A formal agreement between a debtor and a credit counseling agency where the debtor makes payments to the agency on a regular basis and the agency disburses payments to the client's creditors. Clients must typically refrain from applying for new credit and counseling agencies are often able to obtain concessions from creditors to help clients successfully complete the DMP.

Garnishment- A legal process where a portion of a debtor's wages is seized to satisfy an outstanding debt. Garnishments are usually the result of a judgment or court order and each state has specific wage garnishment laws that dictate how much of a worker's paycheck can be taken.

Minimum Payment- The smallest amount of money that a debtor must pay to a credit card issuer by their billing statement due date to remain in good standing. The minimum payment is typically calculated as a flat dollar amount or a percentage (e.g., 3%) of the outstanding balance.

Repossession- The process of taking back and regaining possession of property that was used as collateral to secure a loan (e.g., a car). Repossession often occurs following nonpayment of the amount owed.

LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

- Invite a credit counselor as a guest speaker to discuss the ways that clients get into debt and the strategies that they use to pay back what they owe.

- Another speaker idea is to invite someone (e.g., a former student) who once had a high amount of debt and successfully paid it off.

- Have students view additional videos about credit, credit counseling, and debt:
  Spent (Documentary Film About Debt): http://www.spentmovie.com/index.html
  In Debt We Trust (Documentary Film About Debt): https://www.youtube.com/watch?v=Cltc4Og6HKo
  How to Rebuild Your Credit (MoneyCoach): https://www.youtube.com/watch?v=Wh44hyYLnS4
  How to Get Out of Credit Card Debt: The Basics (MoneyCoach): https://www.youtube.com/watch?v=AjXeKROo1oI
  How Debt Consolidation Works (Debt Consolidation): https://www.youtube.com/watch?v=7e_eXFxhc74
  Steps to Help You Get Out of Debt (Bank of America): https://www.youtube.com/watch?v=v3vMbvMq-mU

- Create additional debt-to-income ratio scenarios and have students hand-calculate the ratios or use this online calculator: https://www.clearpoint.org/tools/debt-income-ratio-calculator/

- Have students write a summary of what they learned about credit counseling for the school newspaper.

- Have students discuss take-away messages from these infographics:
  Are American Consumers Taking On Too Much Debt? Infographic (ValueWalk): http://www.valuewalk.com/2016/12/are-americans-taking-on-too-much-consumer-debt-infographic/
  5 Ways to Dig Yourself Out of Credit Card Debt Infographic (Bankrate): http://www.bankrate.com/finance/debt/credit-card-debt-infographic.aspx
  How to Pay Down Debt: Snowball vs. Avalanche Method Infographic (Consumer Credit.com): http://www.consumercredit.com/financial-education/infographics/how-to-pay-down-debt-infographic

- Have students test out different debt repayment calculators:
  Debt Repayment Calculator (Credit Karma): https://www.creditkarma.com/calculators/debtrepayment
  Debt Repayment Calculator (You Can Deal With It): http://www.youcandealwithit.com/borrowers/calculators-and-resources/calculators/debt-repayment-calculator.shtml
  Debt Payoff Calculator (Financial Mentor): https://financialmentor.com/calculator/debt-payoff-calculator
  Debt Elimination Calculator (Time Value Software): http://tcalc.timevalue.com/all-financial-calculators/personal-finance-calculators/debt-elimination-calculator.aspx
  Credit Card Debt Calculator (Bankrate): http://www.bankrate.com/calculators/credit-cards/debt-calculator.aspx
  Debt Paydown Calculator (Bankrate): http://www.bankrate.com/calculators/managing-debt/debt-pay-down-calculator.aspx
  How Soon Could I Pay Off All My Debts? (CalcXML): http://www.calcxml.com/calculators/restructuring-debt?skn=38
  PowerPay 5.0 [Accelerated Debt Reduction Calendar] Calculator (Utah State University Cooperative Extension): https://powerpay.org/

ASSESSMENT: *Credit Counseling Quiz*

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about credit counseling after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

Multiple Choice Questions

1. Credit counseling organizations are
   a. For-profit companies
   b. Non-profit agencies
   c. Federal government departments
   d. A and B

2. A state of owing money to others is called
   a. Debt
   b. Credit
   c. Cash advancing
   d. Leveraged buying

3. Which consumer debt-to-income ratio is considered a "red flag" indicator of financial distress?
   a. 10%
   b. 15%
   c. 20%
   d. 25%

4. The consumer debt-to-income ratio for someone with $350 in monthly consumer debt payments, a $2,700 monthly gross income, and a $2,100 monthly net income is approximately
   a. 9%
   b. 13%
   c. 17%
   d. 20%

5. Which of the following debts is *not* included in the calculation of a consumer debt-to-income ratio?
   a. Credit card payment
   b. Mortgage payment
   c. Student loan payment
   d. Car loan payment

True-False Questions

1. Credit counseling agencies can often gain interest rate and fee concessions on behalf of their clients **(TRUE: Creditors are often willing to grant concessions, such as reduced interest rates and waived late fees, because they are more likely to be repaid when debtors are receiving credit counseling assistance and participating in a counseling agency's debt management program or DMP)**

2. Credit counseling agencies must be non-profit organizations **(FALSE: Credit counseling agencies can be for-profit and non-profit organizations. For-profit organizations charge consumers for their services while many non-profits receive funding from creditors to offset the cost of their services. Most reputable credit counselors are non-profit and provide services online, by telephone, and/or at local offices. Non-profit status does not guarantee that services are affordable or legitimate, however. Consumers should ask questions and double-check with a consumer protection agency)**

3. Credit counseling clients can continue to use their credit cards if they charge less than $200 per month **(FALSE: Most credit counseling agencies require that their clients in a debt management program surrender or destroy their credit cards so that no additional debt is incurred)**

4. Getting a cash advance to make debt payments is a sign of financial distress **(TRUE: Cash advances are the use of credit cards to receive cash instead of paying for purchases. They are typically made with "convenience checks" that are included with credit card billing statements. It is not possible, at least for very long, to pay off existing debts with new debt. Eventually, this strategy catches with people and makes their debt situation worse)**

5. Debt management programs with credit counseling agencies must be completed within a year **(FALSE: Credit counseling debt management programs (DMPs) often take years for clients to complete. Repayment plans lasting three to five years are not uncommon. It generally takes a while for people to experience financial distress due to debt and it also takes time to improve the situation)**

REFERENCES AND RESOURCES

Agency Locator (National Foundation for Credit Counseling): https://www.nfcc.org/locator/

Consumer Credit Counseling Services (CCCS): https://www.credit.org/cccs/

Choosing a Credit Counselor (Federal Trade Commission):
https://www.consumer.ftc.gov/articles/0153-choosing-credit-counselor

Bucci, S.R. & Abernathy, D.S. (2015). *Credit Management Kit for Dummies*. Hoboken, NJ: Wiley.

Detweiler, G. (2011). *Does Credit Counseling Work? Here Are the Facts:*
http://blog.credit.com/2011/04/does-credit-counseling-work-initiative-reveals-cold-hard-facts-21018/.

Financial Counseling Organizations (New Jersey Department of Banking and Insurance):
http://www.state.nj.us/dobi/division_consumers/finance/counselors.html

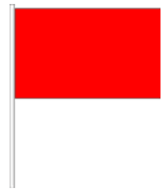
Listing of Non-Profit Credit Counseling Agencies (Need Help Paying Bills):
http://www.needhelppayingbills.com/html/credit_counseling_agencies.html

National Foundation for Credit Counseling Website: https://www.nfcc.org/

9 Things You Need to Know About Credit Counseling (2015, SelfLender.com):
http://www.greenpath.com/about/media-room/in-the-news/9-thnkgs-you-need-know-about-credit-counseling-selflender

PowerPay [Debt Repayment Acceleration] (Utah State University Extension): https://powerpay.org/

Red Flag Indicators of Financial Distress Activity



In this activity, you will conduct an online search to identify indicators of financial distress due to debt.

Instructions:

1. Go to an online search engine (e.g., Google, Bing) and search for the terms “debt warning signs,” “debt symptoms,” and “too much debt.”
2. Read three articles (not paid advertisements) that describe indicators that people have too much debt.
3. Complete the table below by listing key pieces of information that you found.
4. Be prepared to discuss the information that you found with the entire class.

Information Source	**Financial Distress Indicators**

Consumer Debt-to-Income Ratios Activity

Jane and Zane are 23-year old twins. They each live with roommates, started work with the same employer on the same day, and earn an identical gross monthly income of $2,500 ($30,000/year) and net monthly income of $1,900 ($22,800/year) after payroll deductions. Both pay $170 monthly for student loan payments and $150 monthly for loan payments on used cars. That is where the similarities end. Jane likes to shop and owes $6,000 on a credit card. She makes a $180 monthly minimum payment. Zane like to get bargains at thrift shops and pays his credit card bills in full.

What is Jane's consumer debt-to-income ratio?

What is Zane's consumer debt-to-income ratio?

What do Jane and Zane's consumer debt-to-income ratios mean?

What can Jane and Zane do to improve their consumer debt-to-income ratios?

What other advice do you have for Jane and Zane?

Credit Counseling Case Study: Jennifer Barry

Jennifer Barry, 25, is $27,300 in debt. Of this amount, $19,000 is owed on student loans and $8,300 is owed on two credit cards. "I kind of went overboard on credit in college," Barry explains. "Now I want to get this debt paid off as soon as possible so I can increase my savings."

Barry isn't waiting to repay the debt, however, before she starts saving. She participates in a 403(b) retirement savings plan at work and is currently saving $50 bi-weekly. Automatic saving appeals to Barry, who confesses a weakness for shopping.

She'd like to save more, both for retirement in her 403(b) plan and for emergencies. "I don't have much to fall back on if my car breaks down or I have some other emergency," she worries. After repaying her debts and increasing her savings, Barry wants to purchase a home and a new car within ten years.

Like many young college graduates, Barry has a negative net worth. In other words, at this stage of her life, her debts ($27,300) exceed her assets ($11,600) for a net worth of minus $15,700. Her assets consist of $800 in a checking account, $3,800 of savings in the 403(b) plan, a $5,000 car and $2,000 of personal property (e.g., clothing and a computer).

Barry shares an apartment with a friend and pays $750 per month for rent and utilities, plus $280 toward her four debts, $170 for insurance premiums (health, auto, disability), and $500 for food eaten at and away from home. She earns $31,500 annually ($2,625 per month) of gross income. Last year, Barry received an income tax refund of $885 and spent it all on clothing and home furnishings.

Barry's employer provides health insurance. She participates in an HMO and is satisfied with the coverage. Barry also has employer-provided disability insurance to provide income if she was unable to work and contributes $25 per month toward the premium. The policy provides benefits for two years. She lacks a renter's insurance policy, however, to cover the loss or theft of her possessions.

Barry is not currently funding an IRA and could only guess at a retirement date 42 years in the future at age 67. She attended an employee benefits seminar two years ago and began her 403(b) plan as a result. "I learned about the awesome effect of compound interest," she notes. "As soon as I repay my debts, I intend to save more."

Albatross Analysis Activity

An albatross is a large white seabird. The word “albatross” is also used to indicate that something that is a big obstacle to someone or a source of worry and distress. Debt has been described as an albatross (e.g., “student loan debt is an albatross around the necks of young adults”).

Form a small group. Your tasks are to:

1. Read the case study and develop recommendations for Jennifer Barry to deal with her debt.
2. Develop and deliver a 10-slide presentation that addresses the questions below. Every person on the team must speak to at least one slide.

What are some strengths of Jennifer’s financial situation?

What are some weaknesses of Jennifer’s financial situation?

What can Jennifer do to get out of debt?

What other financial advice do you have for Jennifer?

Credit Counseling Agency Comparison Activity

Go to the New Jersey Department of Banking and Insurance (DOBI) *Financial Counseling Organizations* website: http://www.state.nj.us/dobi/division_consumers/finance/counselors.html.

Review the websites of three agencies listed under the "DOBI Licensed Debt Adjusters" section and write down five pieces of information about each credit counseling organization.

Name of Credit Counseling Agency	Web Site Information

Credit Counseling Quiz

Multiple Choice Questions:

Circle the correct answer from among the four answers provided.

1. Credit counseling organizations are
   a. For-profit companies b. Non-profit agencies
   c. Federal government departments d. A and B

2. A state of owing money to others is called
   a. Debt b. Credit
   c. Cash advancing d. Leveraged buying

3. Which consumer debt-to-income ratio is considered a "red flag" indicator of financial distress?
   a. 10% b. 15%
   c. 20% d. 25%

4. The consumer debt-to-income ratio for someone with $350 in monthly consumer debt payments, a $2,700 monthly gross income, and a $2,100 monthly net income is approximately
   a. 9% b. 13%
   c. 17% d. 20%

5. Which of the following debts is not included in the calculation of a consumer debt-to-income ratio?
   a. Credit card payment b. Mortgage payment
   c. Student loan payment d. Car loan payment

True-False Questions:

Mark "T" for True or "F' for False in the space before each question.

____1. Credit counseling agencies can often gain interest rate and fee concessions on behalf of their clients.

____2. Credit counseling agencies must be non-profit organizations.

____3. Credit counseling clients can continue to use their credit cards if they charge less than $200 per month.

____4. Getting a cash advance to make debt payments is a sign of financial stress.

____5. Debt management programs with credit counseling agencies must be completed within a year.

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