

Section 6.7 Notes

§6-7 Regaining Financial Stability

- 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

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

Collection Agencies

- a firm hired by creditors to collect overdue debts or repossesses items not paid for

- this can include collection letters, late-night phone calls, even threats of having consumer fired from their jobs because of nonpayment of debt

Fair Debt Collection Practices Act

to stop those practices, Congress passed this act to declare that the following is illegal

- threatening violence, obscene language, etc
- calling a debtor at work or contacting employer
- claiming to be from government agency
- revealing bad debt to a third party

garnishment

- to hold part of a debtor's earnings in order to pay a debt

- this is the legal procedure for creditors to get their money

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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

- 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

- **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

typically cash loan for 40% of the value of the item

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 an 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

- **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

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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
- Utilities	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

Total: 1125

$$\frac{1125}{6000} = 18.8\%$$

TYS

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

And EYS pg 307 # 5,7,8