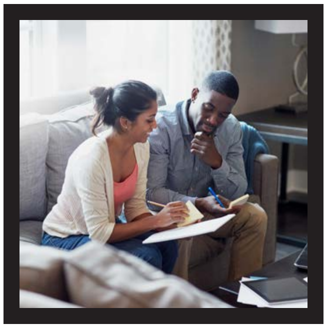


MODULE 8:

Managing Debt

INSTRUCTOR GUIDE

MONEY SMART

MONEY SMART for Adults

SEPTEMBER 2018

FDIC

The Federal Deposit Insurance Corporation is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, non-biased financial education materials, including this Instructor Guide. For more information about our family of Money Smart products, visit **www.fdic.gov/moneysmart**.

Contents

Background Information for Instructors

Welcome to the FDIC's Money Smart for Adults!

This is the Instructor Guide for **Module 8: Managing Debt**. This module consists of three tools:

- **This Instructor Guide**
- **The Participant Guide**—for participants to use during training and refer to after training
- **The PowerPoint slides**—for you to use during the training

The curriculum also includes a *Guide to Presenting Money Smart for Adults*. This resource offers practical tips for marketing your training, setting up your training space, supporting participants with disabilities, and delivering the training. It also offers learning pathways to help you choose modules and perhaps sections within modules to include in the training. If you don't already have the *Guide to Presenting Money Smart for Adults*, download it at **www.fdic.gov/moneysmart**.

Training Preparation Checklist

Use this checklist to prepare for training.

> Activities make the training more engaging and help participants retain the material. It's generally better to cut content rather than activities if you are short on time.

☐ **Review the Instructor Guide, Participant Guide, and PowerPoint slides** to learn how they work together.

☐ **Familiarize yourself with the topics.** The Instructor Guide includes scripting to help you explain core content. You can read the scripting as-is to participants. Or, you can present the information in your own style.

☐ **Review the *Try It* and *Apply It* activities in the Participant Guide.** Every module includes both types of activities. Many are designed to be included during the training session. Others are flagged with a Note to Instructor that gives you the option of reviewing, starting, or completing them during the training, or encouraging participants to complete them after training.

☐ **Review the *Guide to Presenting Money Smart for Adults*** for tools and information that can help you plan and deliver training. This resource includes information on making your training accessible and welcoming to all participants, including participants with disabilities.

☐ **Select the materials that you plan to use**. Ideally, do so by considering the needs or goals of the participants. The *Module at a Glance Table* near the front of each Instructor Guide can help you decide whether to cover modules in their entirety or only certain sections of the modules.

☐ **Plan to make your training culturally appropriate.** This means communicating respectfully, and also presenting the material in a way that is relevant to the lives of participants.

- For example, when you discuss ways to cut expenses, participants may not relate to cutting out a daily coffee purchase if they don't normally buy coffee every day. Use examples participants can relate to, which may be different from examples from your own experience.

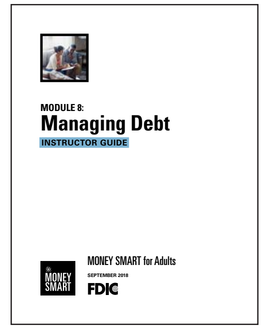
☐ **Consider having each of your training sessions include:**

- **An overview:** Welcome participants and explain the training purpose and objectives. Provide a quick orientation to materials.
- **An introductory activity:** Energize participants with a fun activity to introduce them to one another and get them ready to learn. This can be an effective way to start training, especially if it is the first time the group has been together. See the *Guide to Presenting Money Smart for Adults* for optional introductory activity ideas.
- **Pre- and post-training surveys:** Administer the pre-training survey before training starts and the post-training survey at the end of training. Using the surveys can help you evaluate training effectiveness and tailor your training approach for future sessions.

☐ **Give each participant a Participant Guide.** Consider making it available electronically if you cannot provide paper copies. Also, some participants may need it electronically as a reasonable accommodation. If you deliver only part of a module, you might want to provide only those sections of the Participant Guide. Hide the slides you won't be using. The *Guide to Presenting Money Smart for Adults* has more information on hiding slides.

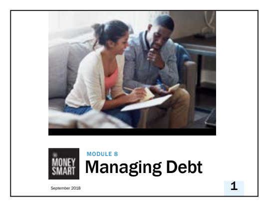
Materials You May Need

- ☐ This Instructor Guide
- ☐ Copies of the Participant Guide
- ☐ The PowerPoint slides, and either:
  - Computer, projector, and screen for projecting the slides, or
  - Printed or electronic copies of the slides for participants
- ☐ Flip chart(s) and/or whiteboard(s)
- ☐ Markers for writing on flip chart(s) and/or whiteboard(s)
- ☐ Large self-adhesive notes (5” x 8”), card stock, or paper for making signs
- ☐ Tape that can be easily removed from the wall, such as painter’s tape
- ☐ Pens or pencils for participants



Instructor Guide

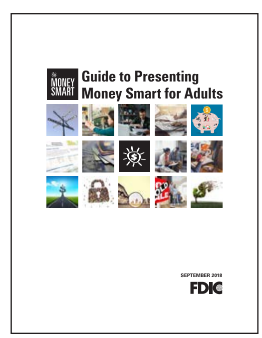
Participant Guide



PowerPoint slides

Optional Materials:

- ☐ Parking Lot for questions—Create one by writing “Parking Lot” on the top of a flip chart or whiteboard
- ☐ Supplies for the Optional Introductory Activity—Choose an activity from the *Guide to Presenting Money Smart for Adults* or use your own



Guide to Presenting Money Smart for Adults

Understanding the Icons

This Instructor Guide uses several icons to help you quickly navigate the training.

Do	Actions you take as the instructor
Say	Information you share verbally with participants
Ask	Questions you pose to participants
Share Key Takeaway	When you convey the primary message of a section
Lead Discussion	When you facilitate discussions
Lead Activity	When you facilitate activities
Present Information	When you present information
Take Action and Closing	When you help participants plan action steps to apply what they learned
Scenario	When you use a short story to start a discussion or activity about a financial topic

Module Purpose

This module helps participants understand what debt is and how to manage it.

This module also:

- Defines debt and credit and explains how they differ
- Defines phrases and terms commonly used to discuss debt
- Provides strategies for reducing debt
- Explains the consequences of not paying debts
- Provides an overview of student loan debt, medical debt, and high cost debt

Module at a Glance Table

You can cover all or only part of this module.

We estimate you need **3 hours and 50 minutes** to cover the entire module, not including breaks or an optional introductory activity.

However, we estimate you only need 2 hours and 25 minutes to cover the first four sections in this module, not including breaks or an optional introductory activity. Those first four sections provide general training about managing debt. The last three sections in this module discuss managing special kinds of debt (student loan, medical, and high cost debt). You may wish to include one or more of them if participants have those kinds of debt.

You can use this table to select sections based on the time you have available and the needs of participants.

The *Guide to Presenting Money Smart for Adults* includes additional information on selecting sections for specific audiences.

Module at a Glance Table

Section	Key Takeaway	Purpose / Objectives	Time
Module Opening	N/A	■ Welcome participants ■ Administer the pre-training survey ■ Lead an Optional Introductory Activity (extra 5 to 20 minutes)	10 minutes
Section 1: What is Debt?	Understanding your debt is the first step to managing it.	Participants will be able to: ■ Define and contrast debt and credit ■ List their debts along with key details about them ■ Explain how debt can affect a person's financial situation	15 minutes
Section 2: How Debt Works	Consider how debt works so you can make informed decisions about it.	Participants will be able to: ■ Define key terms related to debt ■ Explain how different types of debt work, particularly installment loans and revolving credit	45 minutes
Section 3: Reducing Debt	Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.	Participants will be able to: ■ Explain two methods of reducing debt: the high cost debt first method and the snowball method ■ List where people can get help on managing debt ■ Identify issues to be aware of related to getting help managing debt	40 minutes

continued on next page

Module at a Glance Table *continued*

Section	Key Takeaway	Purpose / Objectives	Time
Section 4: Nonpayment of Debts and Debts in Collection	Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.	Participants will be able to: ■ Explain the consequences of not paying debts ■ Explain how to deal with debt in collections	25 minutes
Section 5: Dealing with Student Loan Debt	When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.	Participants will be able to: ■ Explain what makes student loan debt unique ■ List some repayment options for federal student loans	35 minutes
Section 6: Managing Medical Debt	If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.	Participants will be able to: ■ Explain what makes medical debt unique ■ Explain how to deal with medical debt in collections	25 minutes
Section 7: Understanding High Cost Debt	Understand how high cost debt works. Identify lower cost options for the future.	Participants will be able to: ■ Explain what makes high cost debt unique ■ Identify alternatives to high cost debt	25 minutes
Module Closing	N/A	■ Review the key takeaways ■ Help participants think about how they will apply what they learned ■ Administer the post-training survey	10 minutes

Module Opening

Welcome Participants as They Arrive

Time Estimate for This Section: 10 minutes

SHOW SLIDE 1

DO

As participants arrive for the training, use this time to:

- Welcome them and introduce yourself
- Ask them to sign in for the training if you are using a sign-in sheet
- Ensure any requested reasonable accommodations are in place and make any necessary adjustments

LEAD ACTIVITY

Pre-Training Survey

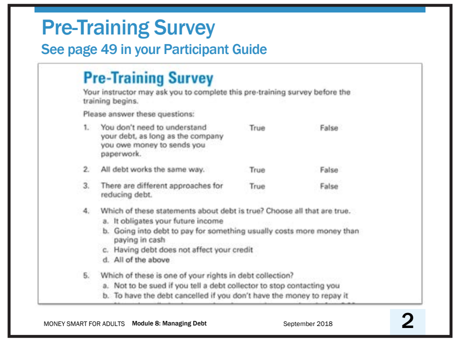
See page 49 in the Participant Guide.

Note to Instructor: Before training starts, you can ask participants to complete the pre-training survey in the back of their Participant Guide. You may want to give them "loose" copies so they don't have to tear them out. The knowledge questions are the same as those in the post-training survey.

The answer key is at the end of this Instructor Guide, but don't share the answers now.

You may decide to compare pre-training surveys to post-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.

SHOW SLIDE 2



SAY

- Thank you for coming to this Money Smart Training called "**Managing Debt.**"
- Please complete the pre-training survey on page 49 of your Participant Guide to give me an idea of what you may already know about this topic.
  - It should take less than five minutes to complete.

DO

- Collect the completed surveys if you plan to review them or compare them to post-training surveys.

PRESENT INFORMATION

Parking Lot and Participant Guide

SAY

- I've created a Parking Lot to capture questions, concerns, ideas, and resources. You and I can add items anytime during the training, and I'll address them during breaks or at the end of training.
- You have a Participant Guide to use during and after this session. It's yours to keep, so you can take notes and write in it.

LEAD ACTIVITY

Optional Introductory Activity

Adds an additional 5 to 20 minutes, depending on the activity you select and the number of participants

DO

- Lead participants through an introductory activity.
- Time permitting, you may also want to show a short video related to the subject of this module or start with an "energizer" of your choice.

Note to Instructor:
If time permits, start the training with a fun activity from the *Guide to Presenting Money Smart for Adults* or use your own.

This is a great way to get participants energized and ready to learn!

Section 1: What is Debt?

Training Time Estimate for This Section: 15 minutes

Objectives

Participants will be able to:

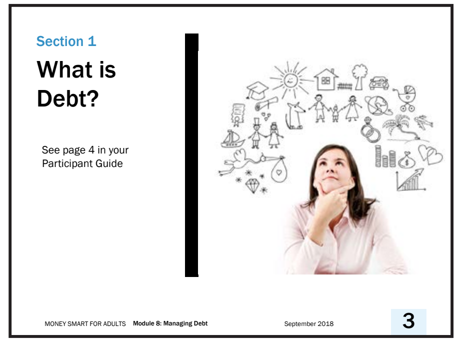
- Define and contrast debt and credit
- List their debts along with key details about them
- Explain how debt can affect a person's financial situation

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 4 in the Participant Guide.

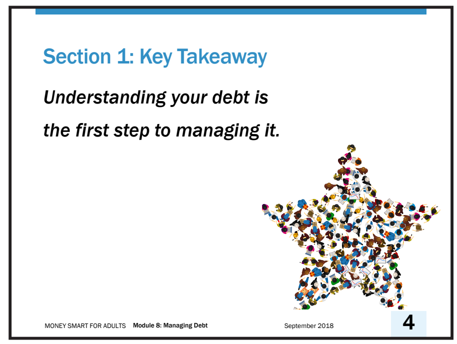
SHOW SLIDE 3



SAY

- We will discuss what debt is, how to understand debts you may have, and how debt relates to your financial situation.

SHOW SLIDE 4



SAY

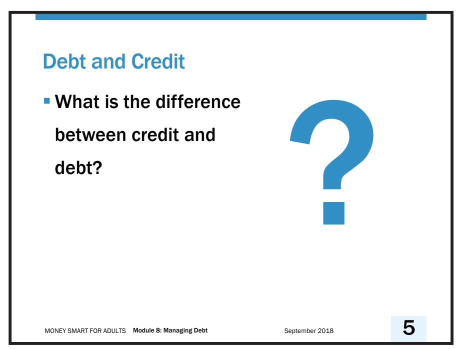
- The key takeaway from this section is: **Understanding your debt is the first step to managing it.**

LEAD DISCUSSION (5 MINUTES)

Debt and Credit

See page 4 in the Participant Guide.

SHOW SLIDE 5



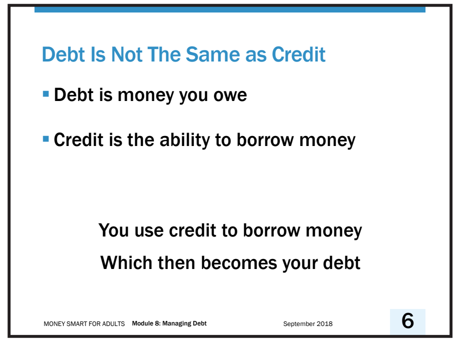
ASK

- What is the difference between credit and debt?

DO

- Write participant responses on a flip chart or whiteboard.

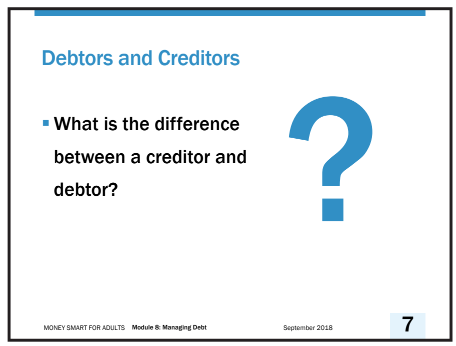
SHOW SLIDE 6



SAY

- **Debt** is money you owe. You've already borrowed it.
- **Credit** is the ability to borrow money. You haven't borrowed it yet.
- You can use credit to borrow money which then becomes your debt.
  - You can have credit without having debt. For example, opening a credit card account gives you credit. You have not incurred a debt until you use the credit card.
  - You can also have debt without having credit. If you borrow money to buy a car, you have debt. You likely cannot borrow more money using that loan, so you don't have any credit through that loan.

SHOW SLIDE 7



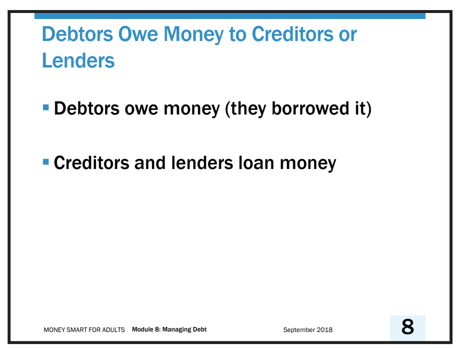
ASK

- What is the difference between a creditor and a debtor?

DO

- Write participant responses on a flip chart or whiteboard.

SHOW SLIDE 8



SAY

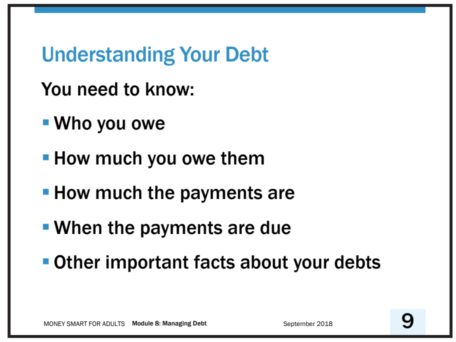
- These are key terms to understanding debt.
- Someone who owes money is called a **debtor.**
- The person, business, or organization that loans money to the debtor is called a **creditor** or **lender.**

PRESENT INFORMATION (5 MINUTES)

Understanding Your Debt

See page 4 in the Participant Guide.

SHOW SLIDE 9



SAY

- Many of us make mistakes when it comes to handling debt. Understanding your debt is the first step to managing it.
- To understand your debt, you need to know:
  - Who you owe
  - How much you owe them – what's the remaining balance?
  - How much the payments are
  - When the payments are due
  - Other important facts, such as:
    - » Interest rate
    - » Fees, including any penalty fees for not following the rules of the loan or credit (such as late fees)
    - » Prepayment penalties, which are fees lenders sometimes charge if you pay off your loan early
    - » Balloon payments, which are larger-than-usual one-time payments at the end of the loan term
      - – If you have a loan with a balloon payment, your payments may be lower in the years before the balloon payment, but you could owe a big amount at the end of the loan.
- You can gather this information on your debts from:
  - Your credit reports (visit **Annualcreditreport.com**)
  - Monthly bills and statements you receive
  - Loan agreements or credit documents
  - Personal agreements for loans you may have with family, friends or others who may not issue statements about your debt
    - » Try to gather or determine whatever details you can about the debt

SHOW SLIDE 10

SAY

- After you gather information about your debts, it might help to think about why you incurred debt.
- People get into debt for many reasons, such as to:
  - **Purchase assets**. Cars, homes, and schooling are common assets people use debt to purchase.
  - **Pay bills** (or because of not paying them). When people cannot afford to pay bills in cash, they sometimes incur debt to pay them.
    - » For example, if you pay your utility bill using a credit card, you create credit card debt.
    - » Debt can also result from not paying bills. If you do not pay your bills from a medical visit, for example, they become medical debt.
  - **Cover unexpected expenses or emergencies**. If you don't have cash set aside for emergencies, you may get into debt for reasons such as replacing a broken refrigerator, paying for a car repair, or dealing with the effects of a disaster.
  - **Buy things you wanted or needed.** People incur debt to do things like eat out, buy holiday gifts, or purchase clothing.

PRESENT INFORMATION (2 MINUTES)

How Debt Can Affect Your Financial Situation

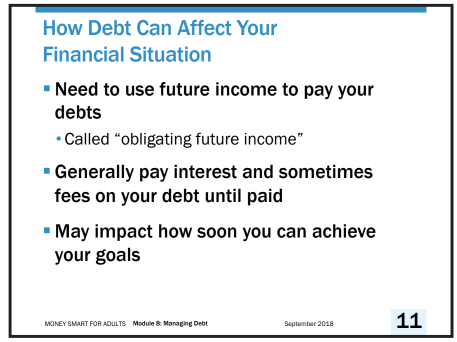
See page 5 in the Participant Guide.

Note to Instructor: Time permitting, consider making this section a discussion by asking these questions before showing the slide:

- How does debt affect you?
- How does debt affect your financial situation?

Write participant responses on a flip chart or a whiteboard. Then summarize the discussion using the SAY section and slide on the next page.

SHOW SLIDE 11



SAY

- Debt can affect your financial situation because:
  - You will need to use income you receive in the future to make payments on your debts. This is sometimes called **obligating future income.**
    - In other words, you'll have fewer choices about how to use your future income because you'll need to use it to repay some or all of your debts.
  - You will generally pay interest and sometimes fees on your debt until you pay it in full. That means you are paying more money than if you paid for the item in cash.
  - You may not be able to reach your goals. Or you may reach your goals later than you planned or hoped to reach them. For example, if you have too much debt, you may not qualify for a mortgage or be approved to rent the apartment you want.

LEAD ACTIVITY (1 MINUTE)

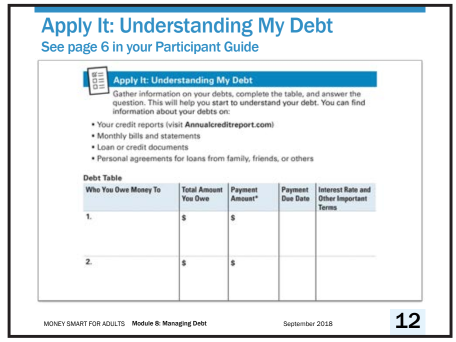
Apply It: Understanding My Debt

See page 6 in the Participant Guide.

Note to Instructor: Time permitting, consider reviewing this activity with participants during training. If possible, give them time now to start completing it. This can be very empowering. Consider asking participants to share what they are learning from it and provide time for questions.

Participants will likely need to leave some of the details blank, because they won't have all the information about their debts with them during training. They can fill in those blanks after the training, using information in their credit reports, bills, loan or credit documents, and other sources of information about their debts. It can still be worthwhile for them to start this activity now.

SHOW SLIDE 12



SAY

- Turn to *Apply It: Understanding My Debt* on page 6 in your Participant Guide.
- You can use this exercise after today's training to better understand the debt you may have.

Apply It: Understanding My Debt

Gather information on your debts, complete the table, and answer the question. This will help you start to understand your debt. You can find information about your debts on:

- Your credit reports (visit **www.Annualcreditreport.com**)
- Monthly bills and statements
- Loan or credit documents
- Personal agreements for loans from family, friends, or others

Debt Table

Who You Owe Money To	Total Amount You Owe	Payment Amount*	Payment Due Date	Interest Rate and Other Important Terms
1.	$	$		
2.	$	$		
3.	$	$		
4.	$	$		
5.	$	$		
6.	$	$		

* For revolving debt, like credit cards, enter the minimum payment due.

Apply It: Understanding My Debt *continued*

How did you get most of your debt?

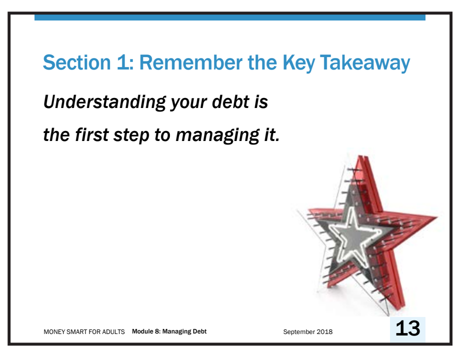
- ☐ Purchased assets
  - For example, taking out a loan to buy a car or home
- ☐ Paid bills
  - For example, using a credit card to pay a utility bill
- ☐ Did not pay bills
  - For example, not paying bills from a hospital visit, resulting in medical debt
- ☐ Covered unexpected expenses or emergencies
  - For example, borrowing money to pay for a car repair
- ☐ Bought things I wanted
- ☐ Bought things I needed

PRESENT INFORMATION (1 MINUTE)

Section Closing

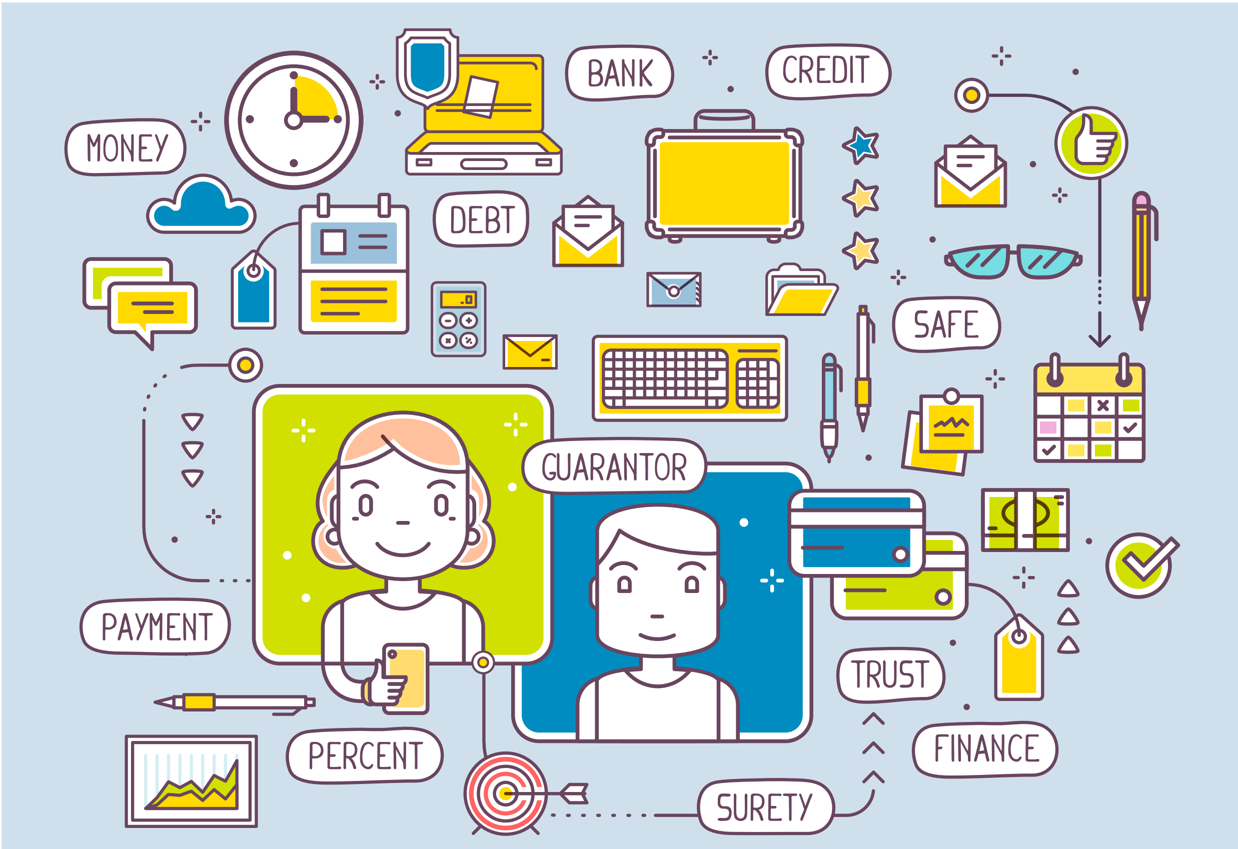
See page 7 in the Participant Guide.

SHOW SLIDE 13



SAY

- Remember the key takeaway from this section: **Understanding your debt is the first step to managing it.**



Section 2: How Debt Works

Training Time Estimate for This Section: 45 minutes

Objectives

Participants will be able to:

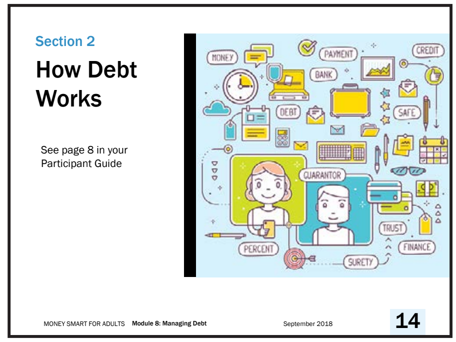
- Define key terms related to debt
- Explain how different types of debt work, particularly installment loans and revolving credit

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 8 in the Participant Guide.

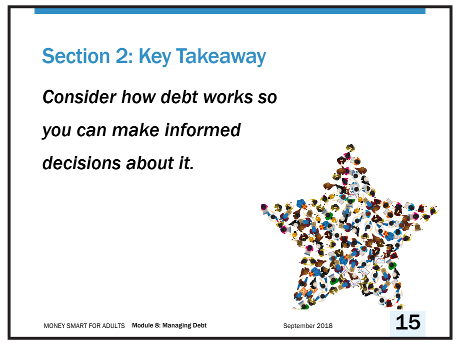
SHOW SLIDE 14



SAY

- We will discuss common debt terminology and how different types of loans work.

SHOW SLIDE 15



SAY

- The key takeaway from this section is: **Consider how debt works so you can make informed decisions about it.**

LEAD ACTIVITY (10 MINUTES)

Debt Lingo

See page 8 in the Participant Guide.

Note to Instructor: If you want to add a little more fun to this activity, give each team a piece of card stock and ask them to come up with a team name that has something to do with debt. Have them write their team name on the card stock folded in half and put it in the center of their group. Refer to them by team name for the rest of the session. For example, "Debt Busters" or "Distinguished Debt Decreasers."

Also, much of this is a repeat of material covered in *Module 7: Borrowing Basics*. It may serve as a good review of the material or you may want to skip this activity if participants have already attended a session on *Module 7*. If you will use it as a review, acknowledge that with participants.

SAY

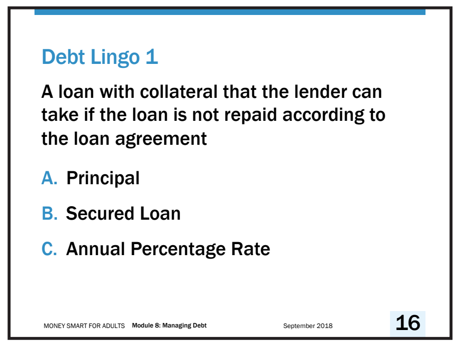
- You will work in teams to answer questions about terms used in talking about debt. The idea is to have some fun and get introduced to some terms you may not be familiar with. Don't worry if you don't know the answers – you're here to learn.

- I'll show you a series of slides. Each one will have a definition with three choices. As a team, you will have 10 seconds to decide which answer is the best answer.
- We will then go over the answers and you can fill in the table on page 8 in your Participant Guide.

DO

- Show the slides for this activity, giving teams 10 seconds to discuss and choose an answer.
- After 10 seconds ask one team for its answer, then share the correct answer, if different, and add the additional information. Then move on to the next slide.

SHOW SLIDE 16



SAY

- **Debt Lingo 1**: A loan with collateral that the lender can take if the loan is not repaid according to the loan agreement

  A. Principal

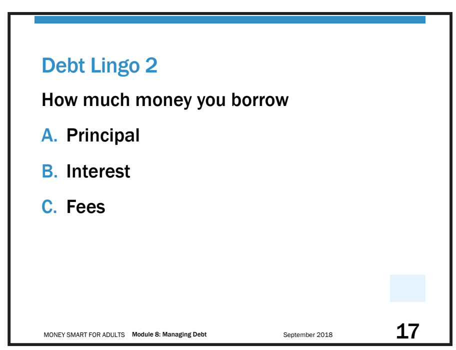
  B. ***Secured Loan***

  C. Annual Percentage Rate

  Answer: B. Secured loan

  For example, a home mortgage is a secured loan because the loan is secured by the home. The home is the collateral or security for the mortgage. If you don't make the payments, the lender can take the home.

SHOW SLIDE 17



SAY

- **Debt Lingo 2**: How much money you borrow

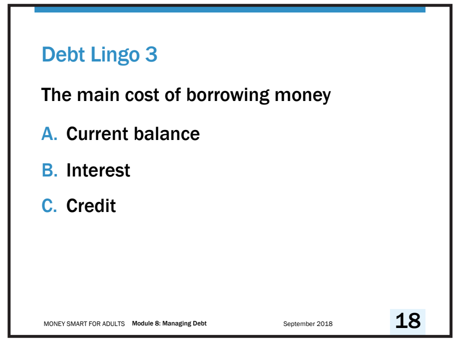
  A. ***Principal***

  B. Interest

  C. Fees

  Answer: A. Principal

SHOW SLIDE 18



SAY

- **Debt Lingo 3**: The main cost of borrowing money

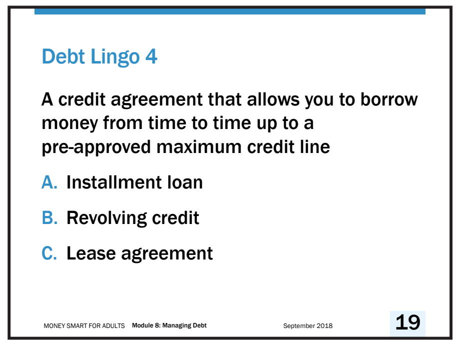
  A. Current balance

  B. ***Interest***

  C. Credit

  Answer: B. Interest

SHOW SLIDE 19



SAY

- **Debt Lingo 4**: A credit agreement that allows you to borrow money from time to time up to a pre-approved maximum credit line

  A. Installment loan

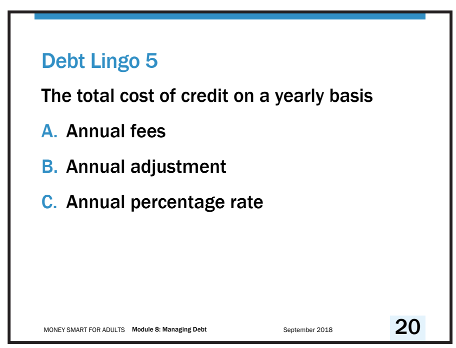
  B. ***Revolving credit***

  C. Lease agreement

  Answer: B. Revolving credit

  Examples include credit cards and lines of credit.

SHOW SLIDE 20



SAY

- **Debt Lingo 5**: The total cost of credit on a yearly basis

  A. Annual fees

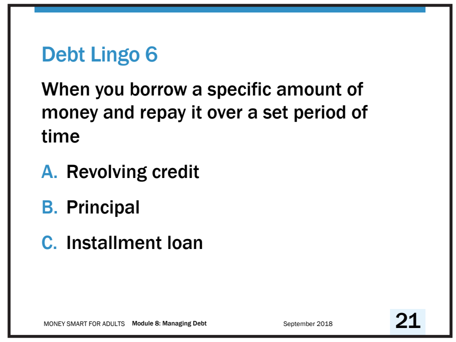
  B. Annual adjustment

  C. ***Annual percentage rate***

  Answer: C. Annual percentage rate

  The annual percentage rate is commonly called the APR and is usually higher than the interest rate.

SHOW SLIDE 21



SAY

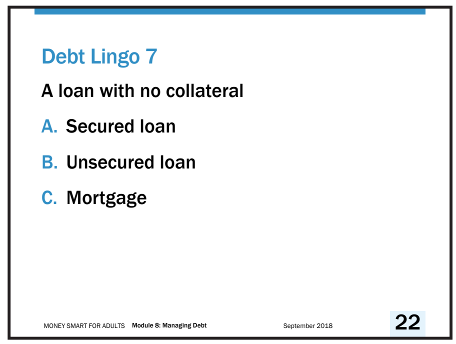
- **Debt Lingo 6**: When you borrow a specific amount of money and repay it over a set period of time

  A. Revolving credit
  B. Principal
  C. ***Installment loan***

  Answer: C. Installment loan

  Examples may include car loans, student loans, or mortgages.

SHOW SLIDE 22



SAY

- **Debt Lingo 7**: A loan with no collateral

  A. Secured loan
  B. ***Unsecured loan***
  C. Mortgage

  Answer: B. Unsecured loan

  Credit card debt and student loans are usually unsecured loans.

LEAD ACTIVITY (5 MINUTES)

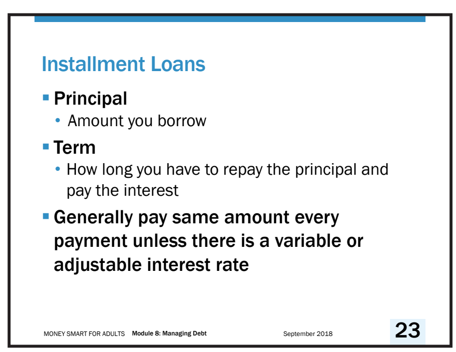
Installment Loans and Revolving Credit

See page 9 in the Participant Guide.

SAY

- Now let's talk more about how debt works. It can work differently depending on the lender and whether the debt is an installment loan or revolving credit.

SHOW SLIDE 23

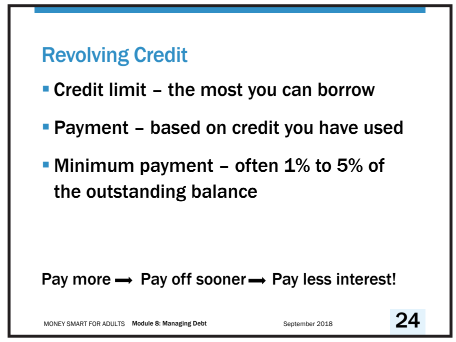


SAY

- With an **installment loan**, you borrow a set amount of money—the **principal**.
- You repay the principal plus interest over a set period —the **term of the loan**.

- You generally pay the same amount of money every payment unless you have a variable or adjustable interest rate.
  - With a **variable or adjustable rate**, the monthly payment will be recalculated based on the new interest rate.
  - You will then pay the new monthly payment until the interest rate adjusts again.
- A lender will use factors that include your credit scores and how much of your income is used to pay debts, to determine whether to offer you a loan. They will also use these factors to decide what terms to offer, such as the interest rate.

SHOW SLIDE 24



SAY

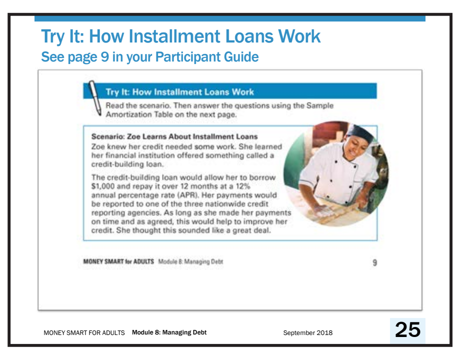
- With **revolving credit**, you borrow up to a maximum credit limit.
- The most you can borrow – the **credit limit** – is generally set based on credit-related information that includes your credit scores and how much other debt you have.
- The amount you must pay is based on how much of the credit you have used.
- You must pay at least the minimum amount due with every payment. That's usually 1% to 5% of the outstanding balance. You can pay more than the minimum.
- The more you pay, the sooner you pay down the debt, and the less money you pay in interest.

LEAD ACTIVITY (14 MINUTES)

Try It: How Installment Loans Work

See page 9 in the Participant Guide.

SHOW SLIDE 25



DO

- Ask participants to turn to *Try It: How Installment Loans Work* on page 9 in their Participant Guide.

- Read the scenario to participants or ask for a volunteer to do so. The Amortization Table is also in the Participant Guide.

SCENARIO: Zoe Learns About Installment Loans

Zoe knew her credit needed some work. She learned her bank offered something called a credit-building loan. The credit-building loan would allow her to borrow $1,000 and repay it over 12 months at a 12% Annual Percentage Rate (APR). Her payments would be reported to one of the three nationwide credit reporting agencies. As long as she made her payments on time and as agreed, this would help to improve her credit. She thought this sounded like a great deal.

Installment Loan: Amortization Table*

No.	Payment Date	Beginning Balance	Scheduled Payment	Principal	Interest	Ending Balance
1	1/1/20	$1,000.00	$88.85	$78.85	$10.00	$921.15
2	2/1/20	$921.15	$88.85	$79.64	$9.21	$841.51
3	3/1/20	$841.51	$88.85	$80.43	$8.42	$761.08
4	4/1/20	$761.08	$88.85	$81.24	$7.61	$679.84
5	5/1/20	$679.84	$88.85	$82.05	$6.80	$597.79
6	6/1/20	$597.79	$88.85	$82.87	$5.98	$514.92
7	7/1/20	$514.92	$88.85	$83.70	$5.15	$431.22
8	8/1/20	$431.22	$88.85	$84.54	$4.31	$346.68
9	9/1/20	$346.68	$88.85	$85.38	$3.47	$261.30
10	10/1/20	$261.30	$88.85	$86.24	$2.61	$175.06
11	11/1/20	$175.06	$88.85	$87.10	$1.75	$87.96
12	12/1/20	$87.96	$88.85	$87.96	$0.89	$0.00
TOTALS			**$1,066.20**	**$1,000.00**	**$66.20**	**Paid Off!**

* Numbers may be rounded for illustration purposes.

DO

- Give participants six minutes to use the scenario and table to answer the questions below the table.
- After six minutes, provide the answers as shown in the Answer Key. Time permitting, first ask participants to share their answers before providing the correct answers.

Try It: How Installment Loans Work – Answer Key

What is the scheduled monthly payment?
$88.85 for 12 payments

How much goes to interest from the first payment?
$10.00

How much goes to interest from the final payment?
$0.89

Why does the amount of interest in each payment decrease? Why does the amount of principal in each payment increase?

The amount of interest in each payment decreases because it is calculated based on the outstanding balance, which goes down over time.

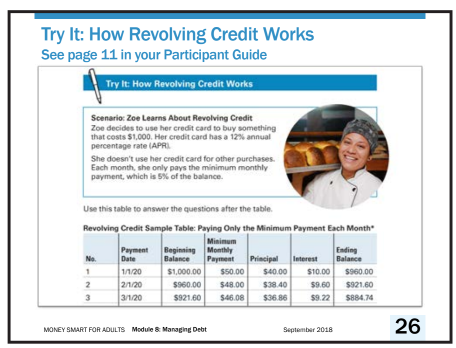
Here's why the amount of principal in each payment **increases**. The amount Zoe pays each month is the same. Those equal payments are made up of interest plus principal. Because the amount of interest decreases each month, the amount of principal has to increase.

LEAD ACTIVITY (14 MINUTES)

Try It: How Revolving Credit Works

See page 11 in the Participant Guide.

SHOW SLIDE 26



SAY

- Turn to *Try It: How Revolving Credit Works* on page 11 in your Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so. The Revolving Credit Sample table is also in the Participant Guide.

SCENARIO: Zoe Learns About Revolving Credit

Zoe decides to use her credit card to buy something that costs $1,000. Her credit card has a 12% annual percentage rate (APR).

She doesn't use her credit card for other purchases. Each month, she only pays the minimum monthly payment, which is 5% of the balance.

Revolving Credit Sample Table: Paying Only the Minimum Payment Each Month*

No.	Payment Date	Beginning Balance	Minimum Monthly Payment	Principal	Interest	Ending Balance
1	1/1/20	$1,000.00	$50.00	$40.00	$10.00	$960.00
2	2/1/20	$960.00	$48.00	$38.40	$9.60	$921.60
3	3/1/20	$921.60	$46.08	$36.86	$9.22	$884.74
4	4/1/20	$884.74	$44.24	$35.39	$8.85	$849.35
5	5/1/20	$849.35	$42.47	$33.97	$8.49	$815.37
6	6/1/20	$815.37	$40.77	$32.61	$8.15	$782.76
7	7/1/20	$782.76	$39.14	$31.31	$7.83	$751.45
8	8/1/20	$751.45	$37.57	$30.06	$7.51	$721.39
9	9/1/20	$721.39	$36.07	$28.86	$7.21	$692.53
10	10/1/20	$692.53	$34.63	$27.70	$6.93	$664.83
11	11/1/20	$664.83	$33.24	$26.59	$6.65	$638.24
12	12/1/20	$638.24	$31.91	$25.53	$6.38	$612.71
TOTALS			**$484.12**	**$387.28**	**$96.82**	**Not Paid Off!**

*Numbers may be rounded for illustration purposes.

DO

- Give participants six minutes to use the scenario and table to answer the questions.
- After six minutes, provide the answers as shown in the Answer Key. Time permitting, first ask participants to share their answers before providing the correct answers.

Try It: How Revolving Credit Works – Answer Key

Why does the monthly payment change each month?
The outstanding balance changes, so the interest owed changes.

After 12 monthly payments, how much money does Zoe still owe?
$612.71

How much interest has Zoe paid in total, after making the 12th payment?
$96.82

What is the difference between the total interest Zoe has paid so far on the revolving credit and the total interest she paid on the installment loan? Why is there a difference?

Answer: **$30.62**

Here's why:

Interest on the revolving credit = **$96.82**

Interest on the installment loan = **$66.20**

$96.82 minus $66.20 = **$30.62**

Zoe has paid $30.62 more so far on the revolving credit. She will likely pay even more interest because she still owes some of the debt.

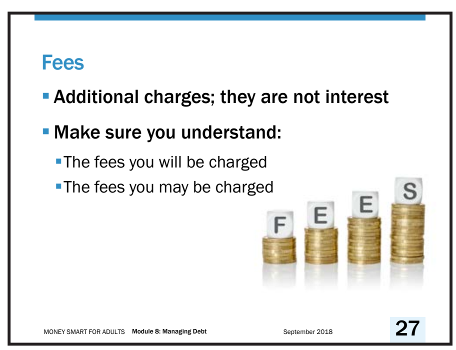
Paying only the minimum monthly payment means it takes Zoe longer to reduce the principal than if she paid more each month.

PRESENT INFORMATION (3 MINUTES)

Fees

See page 13 in the Participant Guide.

SHOW SLIDE 27



SAY

- Loan and credit agreements may also have fees.
- Fees are additional charges. They are not interest.
- For example:
  - Credit cards may have an annual fee, fee for late payments, fee for going over the credit limit, and perhaps other fees.
  - Car loans may have a documentation fee, closing fee, and perhaps other fees.

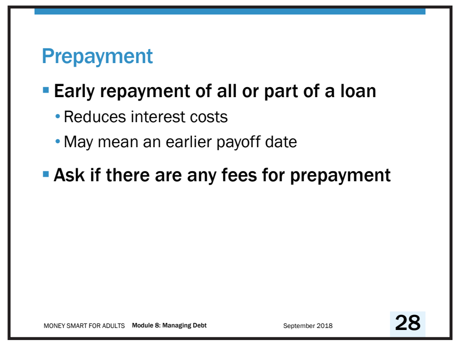
- Make sure you understand:
  - The fees you **will be charged** to get and continue to have the loan or revolving credit.
  - The fees you **may be charged** if you do not repay the loan or credit agreement as agreed.

PRESENT INFORMATION (2 MINUTES)

Prepayment

See page 13 in the Participant Guide.

SHOW SLIDE 28



SAY

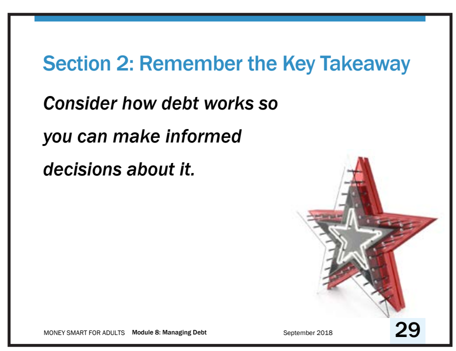
- Prepayment is the early repayment of all or part of a loan. When you prepay, you pay the lender more than your monthly payment and have them apply the “extra” amount to your outstanding balance.
  - Prepayment is one strategy for reducing the costs of borrowing money.
    - If you prepay your loan in full, you will not pay any more interest because you no longer owe any money.
    - If you prepay part of your loan, you generally pay less money in interest. And, you may finish paying off your loan earlier.
  - Lenders sometimes charge a prepayment penalty. Find out whether your loan terms include prepayment penalties before using this strategy to pay down your debt.

PRESENT INFORMATION (1 MINUTE)

Section Closing

See page 13 in the Participant Guide.

SHOW SLIDE 29



SAY

- Remember the key takeaway from this section: **Consider how debt works so you can make informed decisions about it.**

Section 3: Reducing Debt

Training Time Estimate for This Section: 30 minutes

Objectives

Participants will be able to:

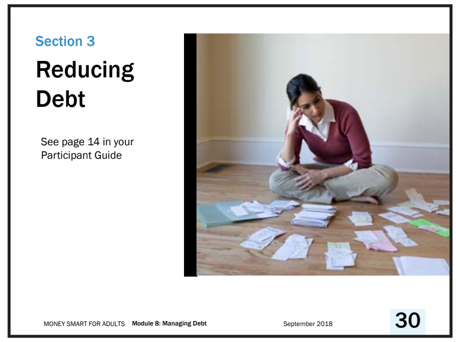
- Explain two methods of reducing debt: the high cost debt first method and the snowball method
- List where people can get help on managing debt
- Identify issues to be aware of related to getting help managing debt

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 14 in the Participant Guide.

SHOW SLIDE 30



SAY

- We will discuss strategies for reducing debt and where to get help managing debt.

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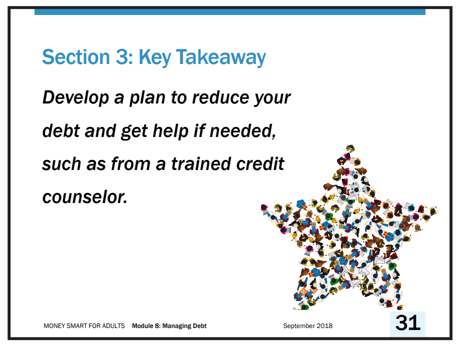


SAY

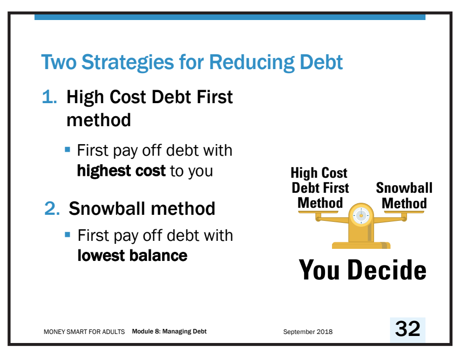
- The key takeaway from this section is: **Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.**

PRESENT INFORMATION (1 MINUTE)

Two Strategies for Reducing Debt

See page 14 in the Participant Guide.

SHOW SLIDE 32



SAY

- Many of us want to reduce debt. It's not always easy, but it can be an important financial goal that is worth the effort.
- There are two general strategies for reducing debt:
  - The **High Cost Debt First method**, in which you first pay off the debt that has the highest cost to you. That is usually the debt with the highest interest rate.
  - The **Snowball method**, in which you can pay off the debt with the lowest balance first.

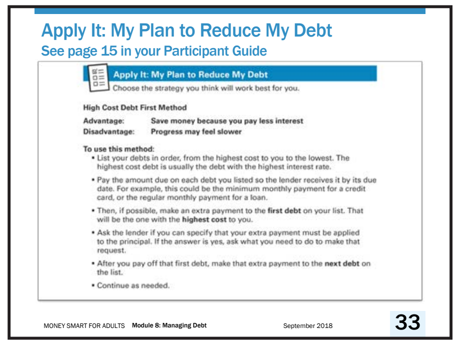
- Note that both strategies work best if you avoid incurring more debt while you work to pay down the debt you have.
- Neither strategy is better for everyone. It depends on your situation and preferences. We'll talk more about the advantages and disadvantages of these strategies and how they work.

PRESENT INFORMATION (10 MINUTES)

Apply It: My Plan to Reduce My Debt

See page 15 in the Participant Guide.

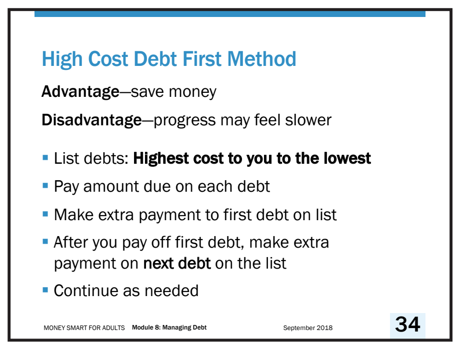
SHOW SLIDE 33



SAY

- Turn to *Apply It: My Plan to Reduce My Debt* on page 15 in your Participant Guide.
- We will go through both of these methods and you can follow along in your Participant Guide. Then we will practice using these methods.

SHOW SLIDE 34

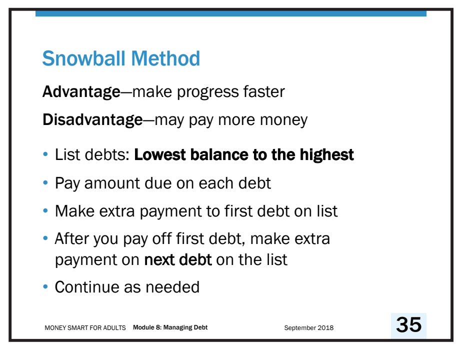


SAY

- The **High Cost Debt First** method has the advantage of saving you money because you pay less interest.
- The disadvantage is progress may feel slower.
- Here's how it works:
  - List your debts in order, from the highest cost to you to the lowest. The highest cost debt is usually the debt with the highest interest rate.
    - » For credit cards, you can find the interest rate on your monthly statements.
    - » For other loans, you can find it in the documents you received when you first took out the loan. It may also be on your account statement if you get one. If you are still unable to find the rate, contact the lender and ask.
  - Pay the amount due on each debt you listed so the lender receives it by its due date.
    - » For example, this could be the minimum monthly payment for a credit card, or the regular monthly payment for a loan.

  - » You can often set up automatic payments so that the you can be confident the lender will always be receiving the amount due by the due date.
- Then, if possible, make an extra payment to the first debt on your list. That will be the one with the highest cost to you.
  - » Ask the lender if you can specify that your extra payment must be applied to the principal. If the answer is yes, ask what you need to do to make that request.
- After you pay off that first debt, make that extra payment to the next debt on the list.
- Continue as needed.
- You can use the *High Cost Debt First Method Worksheet* in your Participant Guide to help organize your debts if you like this approach.

SHOW SLIDE 35



SAY

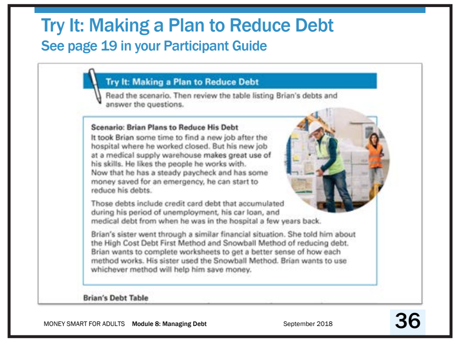
- The **Snowball** method has the advantage of making progress faster by eliminating small debts first. This can be motivating.
- The disadvantage is you may pay more money because you're likely not paying off the costliest debts first.
- Here's how it works:
  - List your debts in order, from the lowest remaining balance to the highest.
  - Pay the amount due on each debt you listed so the lender receives it by its due date.
    - » You can often set up automatic payments so you can be confident the lender will always be receiving the amount due by the due date.
  - Then, make an extra payment to the first debt on your list. That will be the one with the lowest balance.
    - » Ask the lender if you can specify that your extra payment must be applied to the principal. If the answer is yes, ask what you need to do to make that request.
  - After you pay off that first debt, make that extra payment to the next debt on the list.
  - Continue as needed.
  - You can use the *Snowball Method Worksheet* in your Participant Guide to help organize your debts if you like this approach.
- Now let's practice using these methods.

LEAD ACTIVITY (15 MINUTES) – SCENARIO

Try It: Making a Plan to Reduce Debt

See page 19 in the Participant Guide.

SHOW SLIDE 36



DO

- Ask participants to turn to *Try It: Making a Plan to Reduce Debt* on page 19 in their Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

SCENARIO: Brian Plans to Reduce His Debt

It took Brian some time to find a new job after the hospital where he worked closed. But his new job at a medical supply warehouse makes great use of his skills. He likes the people he works with. Now that he has a steady paycheck and has some money saved for an emergency, he can start to reduce his debts.

Those debts include credit card debt that accumulated during his period of unemployment, his car loan, and medical debt from when he was in the hospital a few years back.

Brian's sister went through a similar financial situation. She told him about the High Cost Debt First Method and Snowball Method of reducing debt. Brian wants to complete worksheets to get a better sense of how each method works. His sister used the Snowball Method. Brian wants to use whichever method will help him save money.

Brian's Debt Table

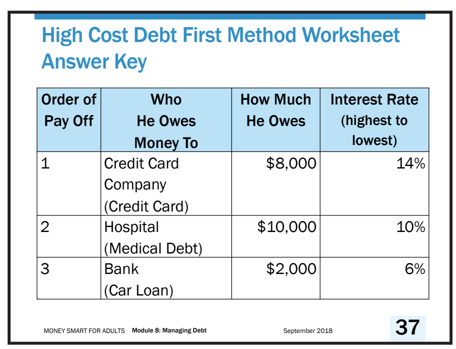
Who You Owe Money To	Total Amount Owed	Payment Amount	Payment Due Date	Interest Rate and Other Important Terms
Credit Card Company (Credit Card)	$8,000	$120 (minimum required payment)	March 20	14%
Bank (Car Loan)	$2,000	$290	March 22	6%
Hospital (Medical Debt)	$10,000	$350	March 25	10%

DO

- Give participants eight minutes to use the scenario and table to fill in the two worksheets and answer the questions.
- After eight minutes, provide the answers as shown in the Answer Keys. Time permitting, first ask participants to share their answers before providing the correct answers.

SHOW SLIDE 37

High Cost Debt First Method Worksheet – Answer Key


High Cost Debt First Method Worksheet Answer Key

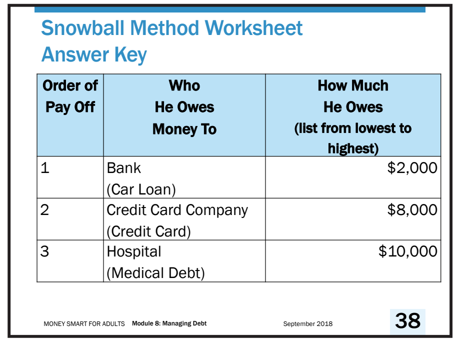
Order of Pay Off	Who He Owes Money To	How Much He Owes	Interest Rate (highest to lowest)
1	Credit Card Company (Credit Card)	$8,000	14%
2	Hospital (Medical Debt)	$10,000	10%
3	Bank (Car Loan)	$2,000	6%

High Cost Debt First Method Worksheet

Order of Pay Off	Who He Owes Money To	How Much He Owes	Interest Rate or Cost (list from highest to lowest)
1	Credit Card Company (Credit Card)	$8,000	14%
2	Hospital (Medical Debt)	$10,000	10%
3	Bank (Car Loan)	$2,000	6%

SHOW SLIDE 38

Snowball Method Worksheet – Answer Key



Snowball Method Worksheet

Order of Pay Off	Who He Owes Money To	How Much He Owes (list from lowest to highest)
1	Bank (Car Loan)	$2,000
2	Credit Card Company (Credit Card)	$8,000
3	Hospital (Medical Debt)	$10,000

ASK

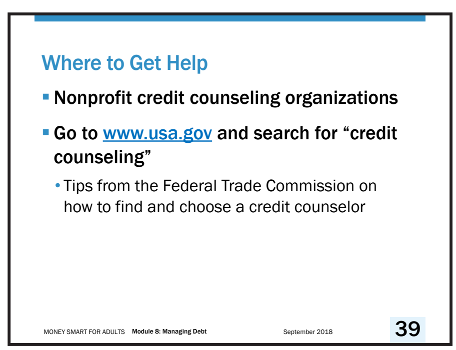
- **Which method do you think Brian will want to use? Why?**
  - Answer: The high cost debt first method, because it best matches Brian's top priority: minimizing the amount of money he pays in interest.

PRESENT INFORMATION (6 MINUTES)

Where to Get Help

See page 21 in the Participant Guide.

SHOW SLIDE 39



SAY

- If you need help managing debt, consider seeking help from a nonprofit credit counseling organization.
  - They can help you develop a plan to manage your debt.

- Search using the term "credit counseling" at **www.usa.gov** for resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.

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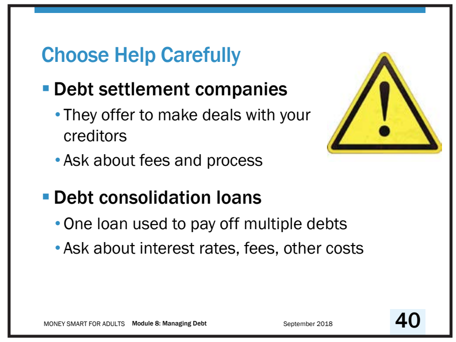


SAY

- Choose where you get help carefully.
- Debt settlement companies and debt consolidation loans offer help and relief with debt. Before using these services, be sure you understand them, because some services you may be offered can be costly.
- **Debt settlement companies** offer to make deals with your creditors to reduce the debt you owe.
  - Ask questions about their fees and process
    - » What fees would you pay, especially up-front fees? Charging a fee before settling at least one of your debts is illegal for most debt settlement companies.
    - » What will they do for you? If they tell you to stop paying your creditors and you do so, you may end up in more debt than when you started. This may lower your credit scores, add late fees and interest to your accounts, or cause creditors or debt collectors to sue you.
  - Find more information by visiting **www.consumerfinance.gov** and searching for "debt settlement."
- **Debt consolidation** means taking out one loan and using it to pay off multiple debts. You may be able to get a debt consolidation loan from a bank, a credit union, a nonprofit organization, or a private finance company.
  - Debt consolidation loans may cost you more than the loans they replace.
  - Ask questions about interest rates, fees and other costs.
    - » The low interest rates for debt consolidation loans may be "teaser rates" that only last for a certain time. After that, your lender may increase the rate you must pay.
    - » The loan may also include fees or costs you would not have to pay if you continued making your other payments.
    - » Although your monthly payment might be lower, it may be because you're paying over a longer time. This could mean you will pay more money overall.

PRESENT INFORMATION (1 MINUTE)

Apply It: What to Watch Out For When Getting Help with My Debt

See page 22 in the Participant Guide.

SHOW SLIDE 41

SAY

- Review the *Apply It* with participants.
- Ask if they think any warning signs are missing from the list.
- Ask if they think any sources of help are missing from the list.
- Write participant responses on a flip chart or whiteboard.

Apply It: What to Watch Out For When Getting Help with My Debt

You can use this checklist to identify some items to watch out for when you get help managing your debt. They can be a good reminder to ask more questions. Check the items you need to ask about.

Ask Questions if a Company…

- ☐ Charges fees before it will settle your debts
- ☐ Guarantees it can make your debt go away
- ☐ Guarantees that your debt can be paid off for pennies on the dollar
- ☐ Tells you it can stop all debt collection calls and lawsuits
- ☐ Tells you to not communicate with your creditors while they negotiate a better deal
- ☐ Tells you to stop making payments on your debts while they negotiate a better deal
- ☐ Encourages you to take advantage of a "new government program" to bail out debt
- ☐ Makes promises that seem too good to be true

Apply It: What to Watch Out For When Getting Help with My Debt *continued*

You can take these actions to learn more about companies **before** you commit to getting help from them on your debt.

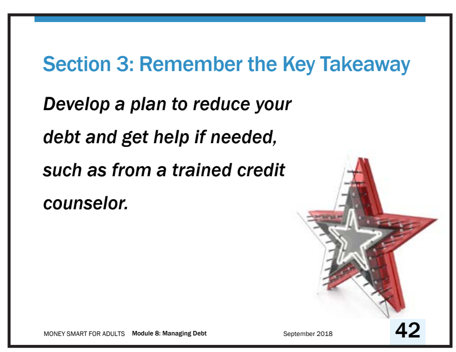
☐ **Get help from a nonprofit credit counseling organization.**	Counselors discuss your entire financial situation with you. They can help you develop a personalized plan to solve your money problems. That planning process will help you figure out what kind of additional help you need or do not need. Visit **www.usa.gov** and search for "credit counseling" for resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.
☐ **Get help from a financial counselor or coach.**	Check with local nonprofit organizations or your financial institution for a referral to a counselor or coach. They can help you figure out what kind of additional help you need or do not need.
☐ **Check with your state attorney general's office.**	Find out if the company that offers to help you with your debts is legitimate and if any complaints have been filed against it. Find your state's attorney general on the National Association of Attorneys General website at **http://naag.org.**
☐ **Read about others' experiences with the company.**	You can use online rating and review sites and third parties that rate businesses.
☐ **Get details in writing.**	Ask the company to write down what they will do on your behalf and what it will cost. That includes explaining its fees and any conditions on its services.

PRESENT INFORMATION (1 MINUTE)

Section Closing

See page 23 in the Participant Guide.

SHOW SLIDE 42



SAY

- Remember the key takeaway from this section: **Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.**

Section 4: Nonpayment of Debts and Debts in Collection

Training Time Estimate for This Section: 25 minutes

Objectives

Participants will be able to:

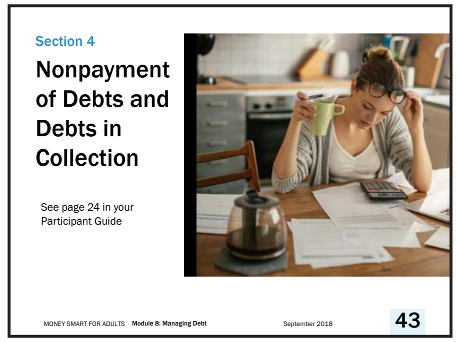
- Explain the consequences of not paying debts
- Explain how to deal with debt in collections

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 24 in the Participant Guide.

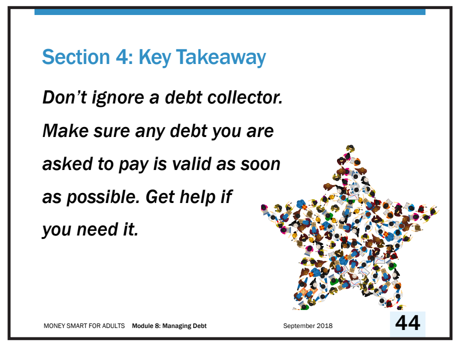
SHOW SLIDE 43



SAY

- We will discuss what can happen if debts are not paid and how to deal with debts in collection.

SHOW SLIDE 44



SAY

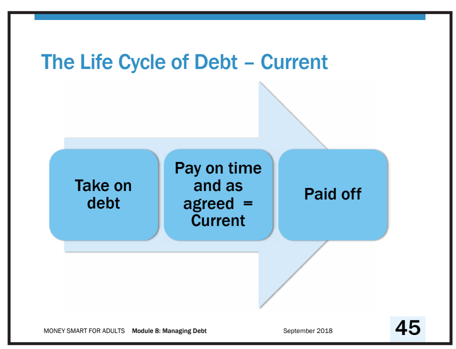
- The key takeaway from this section is: **Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.**

PRESENT INFORMATION (5 MINUTES)

The Life Cycle of Debt

See page 24 in the Participant Guide.

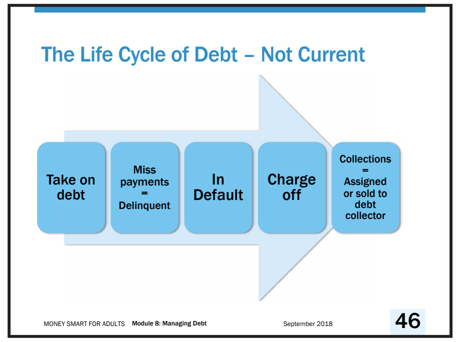
SHOW SLIDE 45



SAY

- As long as you pay your debts on time and as agreed, your debts are considered to be current and you will eventually pay off what you owe.

SHOW SLIDE 46



SAY

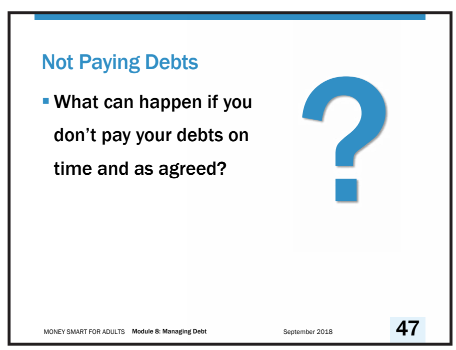
- The life cycle of debt is different if you are not current on payments.
- If you fall behind on payments, your debts are considered to be **delinquent**.
  - Your account may be described as being 30-days delinquent, 60-days delinquent, or more.
- If you continue to fall behind on payments, your debts are considered to be in **default**.
  - For some loans, you may be in default as soon as you miss one payment. For others, it may take many days, weeks, or months of nonpayment before you are considered in default.
- After a debt is in default, some creditors will then **charge off your account**.
  - They give up trying to collect the debt from you directly and they likely will assign or sell your account to a debt collector. This means your debt is in collections. A debt collector will likely then be primarily responsible for trying to collect the debt.

PRESENT INFORMATION (48 MINUTES)

Not Paying Debts

See page 25 in the Participant Guide.

SHOW SLIDE 47



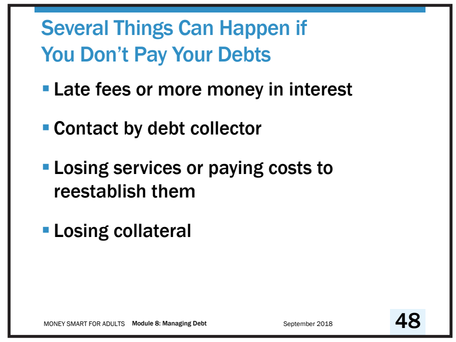
ASK

- What can happen if you don't pay your debts?

DO

- Write participant responses on a flip chart or whiteboard.
- Add to participant responses using the slides and talking points that follow.

SHOW SLIDE 48



SAY

- Several things can happen if you don't pay your debts when they are due. They can include:
  - **Having to pay late fees** or paying more money in interest
  - **Being contacted by a debt collector** who asks you to make payment
    - » While you have rights when a debt collector is trying to seek payment from you, getting calls and letters from debt collectors can still be stressful
  - **Losing services and having to pay costs to re-establish them**, including higher deposits
    - » Utilities and other services will likely be suspended if you don't pay the bills or make other arrangements to handle the balance.
  - **Losing collateral**, including assets that you took out the loans to purchase, such as cars or homes
    - » If you have a secured loan and you don't make the loan payments on time and as agreed, you could lose the collateral. For example, nonpayment of an auto loan may result in your car being repossessed. Nonpayment of a mortgage may result in losing your home.

SHOW SLIDE 49

SAY

- Other things can happen if you don't pay your debts when they are due, such as:
  - **Negative entries on your credit reports**
    - » If someone co-signed the loan, their credit reports may be affected as well.
  - **Drop in credit scores**
  - **Lawsuits from creditors**
    - » Never ignore these. Get legal help. If you don't show up to defend yourself, the courts will likely find for the creditor.
  - **Wage garnishment**
    - » Part of your paycheck can be withheld for repayment of some debts. Most garnishments are made by court order.

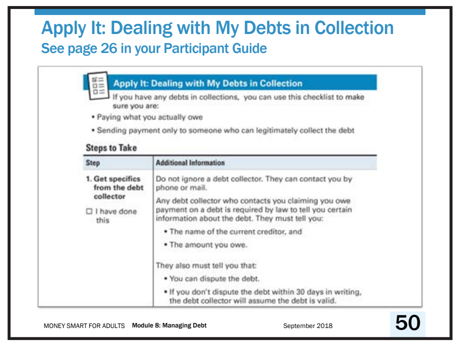
- **Account garnishment**
  - » Money in your account at a financial institution can be collected for repayment of some debts.
- **Treasury offset**
  - » All or part of your tax refunds or other government payments can be taken for any debt you owe to the federal government, debts related to federal student loans, and court-ordered child support.

PRESENT INFORMATION (10 MINUTES)

Apply It: Dealing with My Debts in Collection

See page 26 in the Participant Guide.

SHOW SLIDE 50



SAY

- Turn to *Apply It: Dealing with My Debts in Collection* on page 26 in your Participant Guide.
- If one of your debts has gone to collections, you can use this checklist to make sure you are:
  - Paying what you actually owe, and
  - Sending payment only to someone who can legitimately collect the debt.

Note to Instructor: Depending on time available, present some or all of the content in the table from the *Apply It,* shown on the next two pages. Participants can follow along in their Participant Guide.

Apply It: Dealing with My Debts in Collection

If you have any debts in collections, you can use this checklist to make sure you are:

- Paying what you actually owe
- Sending payment only to someone who can legitimately collect the debt

Steps to Take

<table>
<tr><th>Step</th><th>Additional Information</th></tr>
<tr><td>1. Get specifics from the debt collector

☐ I have done this</td><td>Do not ignore a debt collector. They can contact you by phone or mail.

Any debt collector who contacts you claiming you owe payment on a debt is required by law to tell you certain information about the debt. They must tell you:

■ The name of the current creditor, and
■ The amount you owe.

They also must tell you that:

■ You can dispute the debt.
■ If you don’t dispute the debt within 30 days in writing, the debt collector will assume the debt is valid.
■ If you dispute the debt within 30 days in writing, the debt collector will provide verification of the debt.
■ If you request the name and address of the original creditor within 30 days (if different from the current creditor), the debt collector will provide you that information.
If a debt collector doesn’t provide all of the above information in the first contact with you, it must send you a written notice including that information within five days of contacting you.</td></tr>
</table>

Apply It: Dealing with My Debts in Collection *continued*

Steps to Take

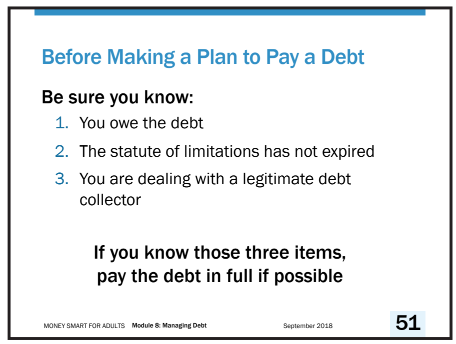
Step	Additional Information
2. Verify the debt using a debt verification letter ☐ I have done this	Do this if you do not recognize the debt, if you question the amount of the debt, or if you question the right of the debt collector to collect the debt from you. A debt verification letter may also be called a debt validation letter. Send the letter to the debt collector within 30 days of when you were first contacted by the debt collector. Once the debt collector receives your letter, they must stop all debt collection efforts. They cannot restart until they send verification of the debt to you. You can use one of the example letters at **www.consumerfinance.gov**. Search for "debt collector letters." Send the letter via certified mail, return receipt requested.
3. Get legal help, if the debt collector notifies you that they intend to sue you ☐ I have done this	Immediately contact a legal aid organization or an attorney. There may be legal aid offices or legal clinics in your area that will offer their services for free if you meet their criteria. Some attorneys may also offer free services, or charge a reduced fee. Learn more by checking the American Bar Association's **findlegalhelp.org** website or contacting your state or local bar association. And if you were already sued, immediately seek legal help. Carefully read the lawsuit, and ensure that you (or your attorney) respond by any deadline. If you don't respond, the court will likely issue a judgment against you.
4. Understand the statute of limitations ☐ I have done this	The statute of limitations is a state law that limits the length of time a creditor can sue you to collect a debt. The statute of limitations varies from state to state. Be aware that debt collection efforts may intensify as you get close to the end of the time provided in the statute of limitations. Learn more from your state's consumer protection office. Go to **usa.gov** and search for "consumer protection offices."

Apply It: Dealing with My Debts in Collection *continued*

Steps to Take

Step	Additional Information
5. Understand how long negative information can be reported on your credit reports ☐ I have done this	Under the Fair Credit Reporting Act, a debt in collections can generally only be reported on your credit reports for seven and one-half years, starting from the month before you stopped paying the original debt regularly. This time limit applies no matter who owns the debt, including a third-party debt collector. Note that this time limit on reporting negative information differs from the statute of limitations, which determines how long a debt collector can sue you to collect a debt.

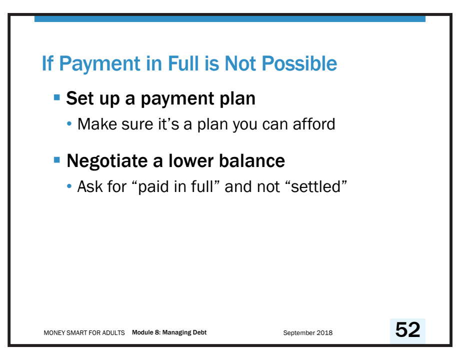
SHOW SLIDE 51



SAY

- Before making a plan to pay a debt, be sure you know:
  - **You owe the debt.**
  - **The statute of limitations has not expired.**
    - » The statute of limitations is a state law that limits the length of time a creditor can sue you to collect a debt.
  - **You are dealing with a legitimate debt collector.**
    - » If the debt is legitimate – but you think the collector may not be – contact your creditor about the calls. Share the information you have about the suspicious calls and find out who, if anyone, the creditor has authorized to collect the debt.
- If you know those three things, then pay the debt in full if possible.

SHOW SLIDE 52

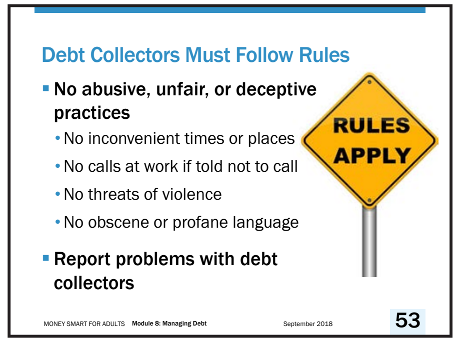


SAY

- If payment in full is not possible, you may be able to:
  - **Set up a payment plan** with the debt collector to pay the amount due in installments over time. Make sure it's a plan you can afford.

- **Negotiate a lower balance** that will be considered payment in full. Ask that the account be noted as "paid in full" on your credit report, not "settled."

SHOW SLIDE 53



SAY

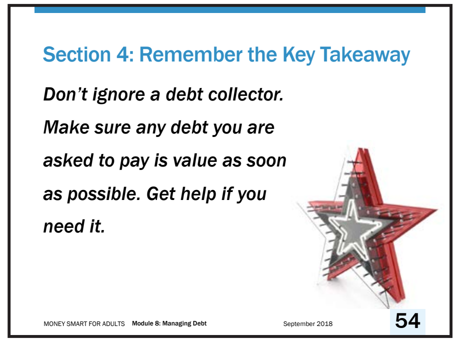
- Debt collectors must follow rules.
- The Fair Debt Collection Practices Act governs the federal standards debt collectors must follow.
- Debt collectors cannot use abusive, unfair, or deceptive practices to collect money from you.
- For example, they can't:
  - Contact you at inconvenient times or places, such as before eight o'clock in the morning or after nine o'clock at night, unless you agree to it
  - Contact you at work if they're told (orally or in writing) that you're not allowed to get calls there
  - Use threats of violence
  - Use obscene or profane language
- Go to the Federal Trade Commission's website at **www.ftc.gov** and search for "consumer information debt collection" to learn more about the rules debt collectors must follow.
- Report problems with a debt collector to your state attorney general's office. Find your state's attorney general on the National Association of Attorneys General website at **http://naag.org**.
  - Many states also have their own debt collection laws. Your state attorney general's office can also help you learn about the rights you may have under state law.
- You can also report problems to the Federal Trade Commission at **www.ftc.gov** and the Bureau of Consumer Financial Protection at **www.consumerfinance.gov**.

PRESENT INFORMATION (1 MINUTE)

Section Closing

See page 29 in the Participant Guide.

SHOW SLIDE 54



SAY

- Remember the key takeaway from this section: **Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.**

Section 5: Dealing with Student Loan Debt

Training Time Estimate for This Section: 35 minutes

Objectives

Participants will be able to:

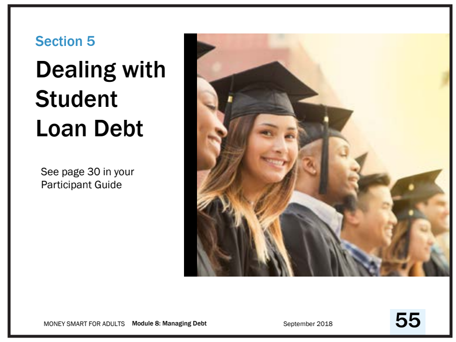
- Explain what makes student loan debt unique
- List some repayment options for federal student loans

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 30 in the Participant Guide.

SHOW SLIDE 55

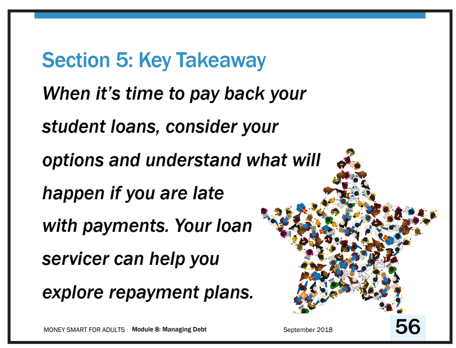


SAY

- We will discuss how to manage student loan debt.
- This section is about student loan debt you already have and does not cover applying for student loans. If you are considering applying for a new student loan, you can start by visiting **www.studentaid.gov** for more information.

Note to Instructor: *Module 10: Building Your Financial Future* discusses how training and education can be productive assets. That module also explores some key considerations for getting and paying for training and education. Consider including portions of that module in your training based on the needs and interests of participants.

SHOW SLIDE 56



SAY

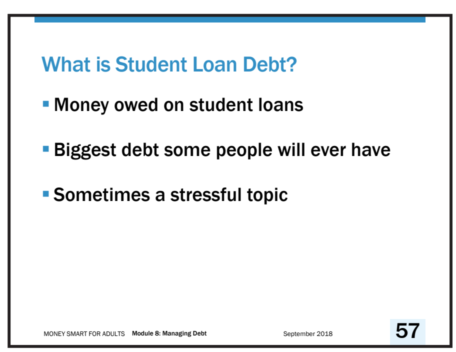
- The key takeaway from this section is: **When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.**

PRESENT INFORMATION (1 MINUTE)

What is Student Loan Debt?

See page 30 in the Participant Guide.

SHOW SLIDE 57



SAY

- Some people take out loans to pay for training or education. They have to pay back those loans and usually do so over time.

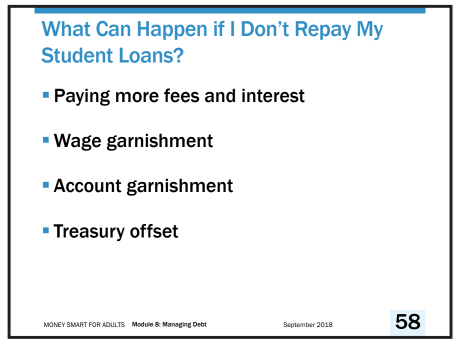
- The money they owe on the student loans is called student loan debt.
- For some people, student loan debt will be the biggest debt they ever have.
- Dealing with student loan debt can sometimes be stressful. Know that there are repayment options and that you can reach out for help.

PRESENT INFORMATION (3 MINUTES)

What Can Happen if I Don’t Repay Student Loans?

See page 30 in the Participant Guide.

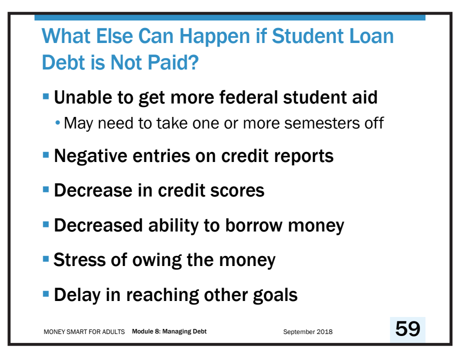
SHOW SLIDE 58



SAY

- It’s important to deal with student loan debt and not ignore it.
- You can take notes on page 53 in your Participant Guide.
- Just as with other types of debt, problems caused by falling behind on student loan payments can include:
  - Paying more money in fees or interest than you would otherwise.
  - Having part of your paycheck taken for repayment of your student loan. This is often referred to as “wage garnishment.”
  - Having money taken from your account at a financial institution for repayment of your student loan. This is often referred to as “account garnishment.”
  - Having some or all of your tax refunds or other government payments taken for repayment of your student loan. This is another type of garnishment called a “Treasury offset.”

SHOW SLIDE 59



SAY

- Other things can happen if you fall behind on student loan payments, such as:
  - Not being able to obtain more student aid, at least until you resolve the debt.
    - » That could mean that you need to take one or more semesters off or otherwise change your educational plans.

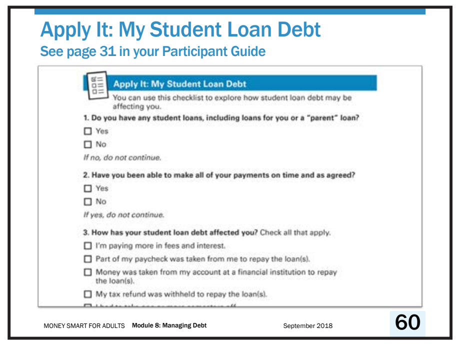
- Having negative information on your credit report.
- Having your credit scores go down as a result of the negative information on your credit report.
- Having a harder time borrowing money in the future because of the negative information on your credit report and the decrease in your credit scores.
- Experiencing the stress of owing the money.
- Being delayed in reaching your other goals.

LEAD ACTIVITY (5 MINUTES)

Apply It: My Student Loan Debt

See page 31 in the Participant Guide.

SHOW SLIDE 60



SAY

- Turn to *Apply It: My Student Loan Debt* on page 31 in your Participant Guide.
- Take three minutes to use the checklist to explore how student loan debt may be affecting you.
- This training is a safe nonjudgmental place, but it is okay if you decide not to participate in this short exercise.

Note to Instructor: Choose a voting method that works for all of your participants, including participants with disabilities. You can also give participants multiple options for how to vote. This voting can show that people experience real consequences of not paying student loan debt. There will be some participants who do not vote because they do not have student loans, don't want their peers to know they are having trouble paying their student loans or they are current on paying student loans.

DO

- After three minutes, use a show of hands, voice vote, or other method and ask how many participants:
  - Checked off one or two effects of not paying their student loan debt
  - Checked off more than three effects of not paying their student loan debt

ASK

- What did you learn or take away from this voting activity?

DO

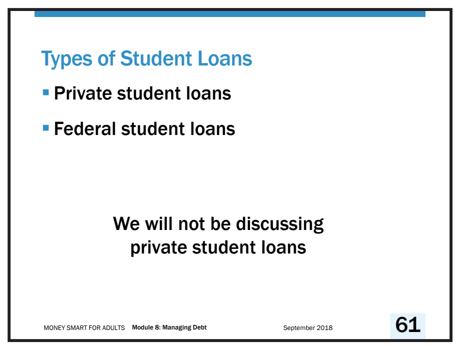
- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - More awareness of the ways student loan debt can affect you
  - Additional motivation to get information to deal with student loan debt and hopefully make it more manageable
  - Comfort in knowing others struggle with student loan debt

PRESENT INFORMATION (1 MINUTE)

Types of Student Loans

See page 32 in the Participant Guide.

SHOW SLIDE 61



SAY

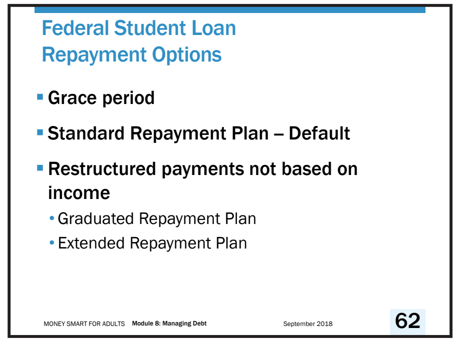
- **There are two major types of student loans: private student loans and federal student loans.**
- Private student loans are nonfederal loans made by a lender, such as a bank, credit union, state agency, school, or other lender.
  - We will not be discussing private student loans.
  - They can vary considerably from lender to lender.
  - If you have any private student loans, talk to the lender and explore your options for repayment.
- Federal student loans are offered by the federal government.
  - The government may contract with a company to service the loans. Servicing includes receiving your payments and being your point of contact when you have questions about the loan during the repayment period.
- The U.S. Department of Education manages the federal student loan program. Visit **studentaid.gov** and search for "federal-vs-private" to view a useful table that compares federal and private student loans, side-by-side.

PRESENT INFORMATION (12 MINUTES)

Federal Student Loan Repayment Options

See page 32 in the Participant Guide.

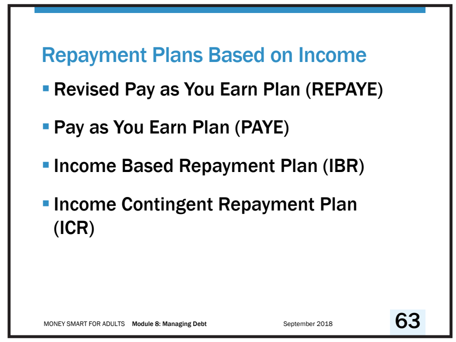
SHOW SLIDE 62



SAY

- You may be used to dealing with your school or college about your loans while you were in school. That's because federal student loan money is paid directly to the school you attend. While in school, you might not interact with the actual lender much if at all.
- When it's time to start paying back your loans, you will deal with the lender or its servicer.
- **You must begin repaying federal student loans after a grace period**, which is usually about six months after you complete school, drop out, or take fewer credits than required by the loan.
- Let's assume that the grace period has ended and you must begin repaying one or more federal student loans.
- There are several repayment options with federal student loans.
  - The options we will discuss apply only to federal student loans. If you consolidate your federal student loans into a private loan, these federal options are not available to you.
- **If you do not choose something else, you will be on the Standard Repayment Plan:**
  - Your payments stay the same. They're calculated so that you would pay off the loan in ten years.
  - You will generally pay less interest using this plan than under any other plan.
- Two repayment plans restructure the payments, but not based on your income.
  - **Graduated Repayment Plan**
    - » Payments are calculated over a ten-year term and do not remain the same. They start out lower and usually increase every two years.
  - **Extended Repayment Plan**
    - » Payments are calculated over a 25-year term and may be fixed payments or gradually increase.
    - » You must have more than $30,000 in outstanding federal student loans to qualify for this plan.

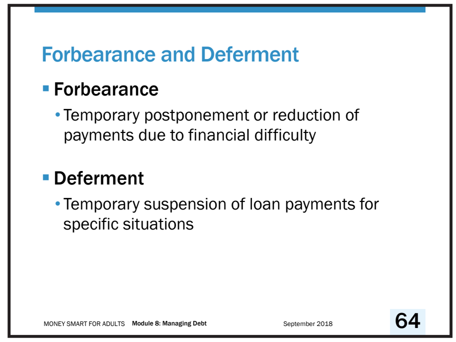
SHOW SLIDE 63



SAY

- There are also several repayment plans that restructure the payments based on your income.
- These plans may reduce your monthly payment and the overall amount you repay.
  - **Revised Pay as You Earn Plan (REPAYE)**
    - Payments are ten percent of your discretionary income which is the difference between your annual income and 150 percent of the poverty guideline for your family size. (See **https://aspe.hhs.gov/poverty-guidelines**.)
    - Payments are recalculated every year based on updated information.
    - The outstanding balance is forgiven after 20 years if all your loans are for undergraduate study or 25 years if any of your loans are for graduate study.
    - You may have to pay income tax on any amount forgiven.
  - **Pay as You Earn Plan (PAYE)**
    - Similar to REPAYE with a few exceptions.
    - You must have been a new borrower on or after October 1, 2007, and you must have received a disbursement of a Direct Loan on or after October 1, 2011.
    - The repayment period is 20 years
  - **Income Based Repayment (IBR) Plan**
    - Payments are 10 to 15 percent of your discretionary income.
    - Payments are recalculated every year.
    - The outstanding balance is forgiven after 20 or 25 years, depending on when you are considered a new borrower.
    - You may have to pay income tax on any amount forgiven.
  - **Income Contingent Repayment (ICR) Plan**
    - The monthly payment will be the lesser of 20 percent of your discretionary income or the amount you would pay with a fixed payment over 12 years.
- There are many more rules and eligibility requirements than what I've just mentioned. If you are interested in exploring any of these options, you can read about them at **www.studentaid.gov**.
- That website also has a loan simulator that can help you compare these plans.

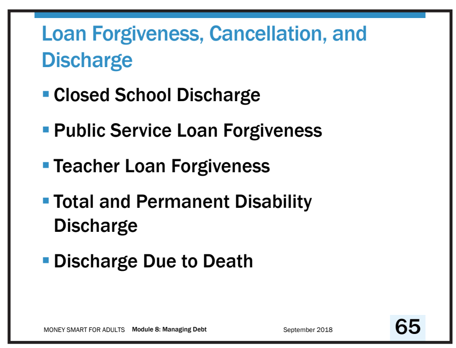
SHOW SLIDE 64



SAY

- You may need to consider forbearance or deferment if you are struggling to pay federal student loans.
- Forbearance and deferment temporarily stop or reduce the monthly payment.
  - They do not cancel your student loans or forgive your debt. In fact, you may still have to pay interest during the time your loans are in forbearance or deferment status.
- **Forbearance** is a temporary postponement or reduction of payments.
  - People can qualify for forbearance because of financial difficulties, high medical expenses, or changes in employment.
  - People who owe more than 20 percent of their monthly gross income in federal student loan payments may also quality for forbearance.
- **Deferment** is a temporary suspension of loan payments.
  - People can qualify for deferment based on active duty military service, some graduate fellowships, unemployment, economic hardship, and disability.

SHOW SLIDE 65



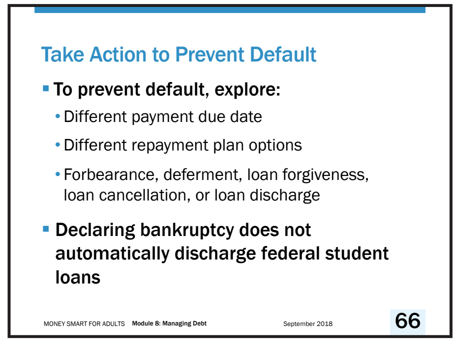
SAY

- You must repay your student loans even if you do not complete your education, cannot find a job related to your area of study, or are unhappy with the education you paid for with your loan.
- However, under certain circumstances, your loans may be forgiven, canceled, or discharged.
  - A **Closed School Discharge** may be available if your school closes while you're enrolled or soon after you withdraw.
  - **Public Service Loan Forgiveness** forgives the remaining balance of your Direct Loans after you make 120 monthly payments under one of the payment plans while working full-time for a qualifying employer, such as certain nonprofit organizations or government agencies.
  - **Teacher Loan Forgiveness** forgives up to $17,500 if you teach full time for five consecutive years in schools that serve families with low income and meet other qualifications.

- **Total and Permanent Disability Discharge** relieves you from repaying your loans.
  - » The U.S. Department of Education will determine if you meet the qualifications.
- **Discharge due to death** may apply if the borrower dies or if the student for whom parents took out a PLUS loan dies.

- Each of these options has specific rules and eligibility requirements. Visit **www.studentaid.gov** for more information.

SHOW SLIDE 66

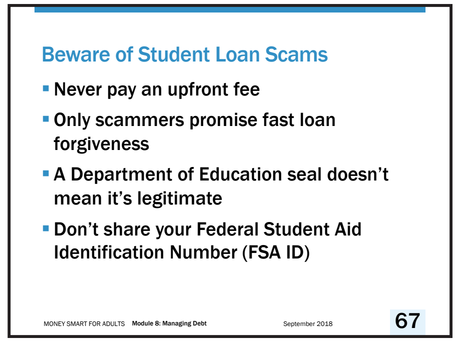


SAY

- Take action to prevent default.
- If you have missed one or more payments, you are delinquent, but may not yet be in default. For many federal student loans, you're considered to be in default if you don't make your scheduled student loan payments for a period of at least 270 days.
- Check your promissory note or loan agreement to see how it defines default.
- To prevent default, consider:
  - Contacting your loan servicer to find out if you can change your payment due date. If your payment due date is falling between paychecks, you may find you are struggling to make the payment.
  - Reviewing the different repayment plan options and applying for a repayment plan you can afford.
  - Exploring eligibility for forbearance, deferment, loan forgiveness, loan cancellation, or loan discharge.
- **Continue making payments, if possible, until you receive official notification of your new repayment plan.**
- Note that federal student loans are somewhat unique – they are not automatically discharged if you declare bankruptcy.
  - Consult an attorney if you are considering filing for bankruptcy as a way to resolve default on student loan debt.

SHOW SLIDE 67

SAY



- Some companies may advertise that they can help student loan borrowers repay their loans quicker, cheaper, or get them forgiven altogether.
- Be cautious – some of these companies are running scams.
- Here are some tips to avoid student loan repayment scams:
  - Never pay an upfront fee
  - Only scammers promise fast loan forgiveness
  - Use of a Department of Education seal doesn't mean the company is legitimate
  - Consider unsolicited calls or texts asking you for your personal information to be scams.

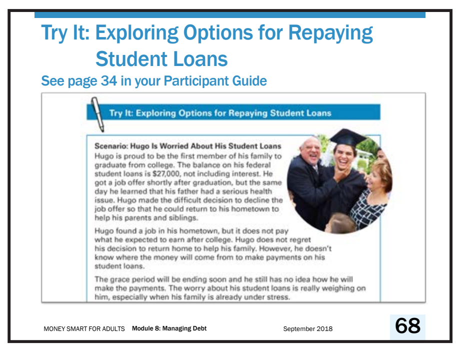
LEAD ACTIVITY (10 MINUTES)

Try It: Exploring Options for Repaying Student Loans

See page 34 in the Participant Guide.

SHOW SLIDE 68

SAY



- Turn to *Try It: Exploring Options for Repaying Student Loans* on page 34 in your Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

SCENARIO: Hugo Is Worried About His Student Loans

Hugo is proud to be the first member of his family to graduate from college. The balance on his federal student loans is $27,000, not including interest. He got a job offer shortly after graduation, but the same day he learned that his father had a serious health issue. Hugo made the difficult decision to decline the job offer so that he could return to his hometown to help his parents and siblings.

Hugo found a job in his hometown, but it does not pay what he expected to earn after college. Hugo does not regret his decision to return home to help his family. However, he doesn't know where the money will come from to make payments on his student loans.

The grace period will be ending soon and he still has no idea how he will make the payments. The worry about his student loans is really weighing on him, especially when his family is already under stress.

SAY

- We don't have enough information to resolve Hugo's worry, but we can help give him some ideas for where to start.

DO

- Give participants four minutes to answer the questions.
- After four minutes, provide the answers as shown in the Answer Key. Time permitting, first ask participants to share their answers before providing the correct answers.

Try It: Exploring Options for Repaying Student Loans– Answer Key

What repayment options could Hugo explore?

Answer: Federal student loans have a number of repayment options. Hugo could explore whether he qualifies for:

- Graduated Repayment Plan
- Revised Pay as You Earn Plan (REPAYE)
- Pay as You Earn Plan (PAYE)
- Income Based Repayment (IBR) Plan
- Income Contingent Repayment (ICR) Plan

All of these options have the potential to relieve some of Hugo's financial challenges. He would not be eligible for the Extended Repayment Plan because he does not have at least $30,000 in federal student loans.

Hugo can also explore whether he qualifies for forbearance or deferment related to his current economic hardship.

Where can Hugo learn more about repaying federal student loans?

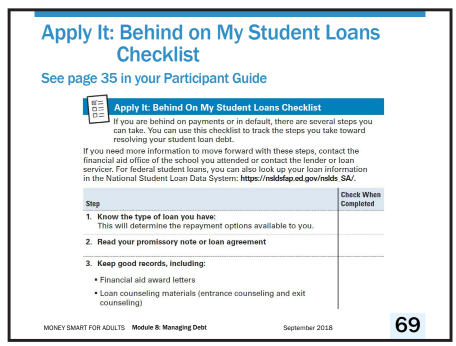
Answer: A good starting place for Hugo to get information about his options is the Department of Education's website at **www.studentaid.gov.**

LEAD ACTIVITY (1 MINUTE)

Apply It: Behind on My Student Loans Checklist

See page 35 in the Participant Guide.

SHOW SLIDE 69



SAY

- Turn to *Apply It: Behind on My Student Loans Checklist* on page 35 in your Participant Guide.
- You can use this checklist after today's training to review information that may help you with your student loan situation.

Note to Instructor: Time permitting, consider reviewing this activity with participants during training. If possible, give them time now to start completing it. This can be very empowering. Consider asking participants to share what they are learning from it and provide time for questions.

Apply It: Behind On My Student Loans Checklist

If you are behind on payments or in default, there are several steps you can take. You can use this checklist to track the steps you take toward resolving your student loan debt.

If you need more information to move forward with these steps, contact the financial aid office of the school you attended or contact the lender or loan servicer. For federal student loans, you can also look up your loan information in the National Student Loan Data System: **https://nsldsfap.ed.gov/nslds_SA/**.

Step	Check When Completed
1. **Know the type of loan you have:** This will determine the repayment options available to you.	
2. **Read your promissory note or loan agreement**	
3. **Keep good records, including:** ■ Financial aid award letters ■ Loan counseling materials (entrance counseling and exit counseling) ■ Your promissory note(s) ■ Amount(s) of all student loans you have ■ Account number for each student loan you receive ■ Loan servicer contact information ■ Loan disclosure(s) ■ Payment schedules ■ Record of your monthly payments ■ Notes about any questions you ask about your student loan, the answers you received, and the name of the person you spoke to ■ Copies of paperwork and written communications exchanged with your loan servicer	

Apply It: Behind On My Student Loans Checklist *continued*

Step	Check When Completed
4. Take action to prevent default: If you have missed one or more payments, you are delinquent, but may not yet be in default. For many federal student loans, you are considered to be in default if you don't make your scheduled student loan payments for a period of at least 270 days. Check your promissory note or loan agreement to see how it defines default. Contact your loan servicer to find out if you can change your payment due date. If your payment due date is falling between paychecks, you may find you are struggling to make the payment.	
5. Consider repayment plan options: Review the different repayment plan options. Consider applying for one you are eligible for and can afford. If you apply for a repayment plan, continue making payments on your loans, if possible, until you receive official notification of your new repayment plan.	
6. Find out about other options: If you have a federal student loan, find out if you qualify for deferment, forbearance, loan forgiveness, loan cancellation, or loan discharge. Visit **www.studentaid.gov** to learn more.	
7. If your loan is in default, decide what you will do: ▪ Do nothing and accept the consequences of being in default ▪ Repay the loan in full ▪ Apply for a Direct Consolidation Loan, if your loan is a federal student loan ▪ Work with your loan servicer on a new repayment plan, which may be called "rehabilitating" your federal student loan	

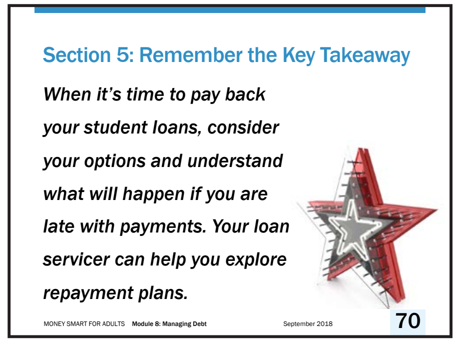
NOTE: Federal student loan debt is not automatically discharged if you file bankruptcy. Consult an attorney if you are considering filing for bankruptcy as a way to resolve default on student loan debt.

PRESENT INFORMATION (1 MINUTE)

Section Closing

See page 36 in the Participant Guide.

SHOW SLIDE 70



SAY

- Remember the key takeaway from this section: **When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.**

Section 6: Managing Medical Debt

Training Time Estimate for This Section: 25 minutes

Objectives

Participants will be able to:

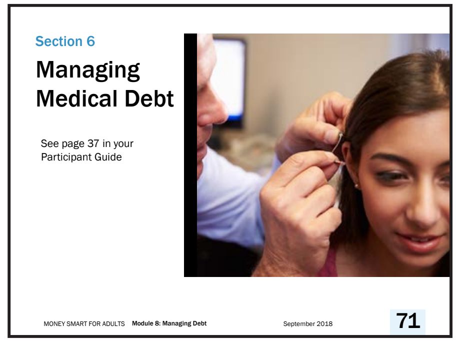
- Explain what makes medical debt unique
- Explain how to deal with medical debt in collections

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 37 in the Participant Guide.

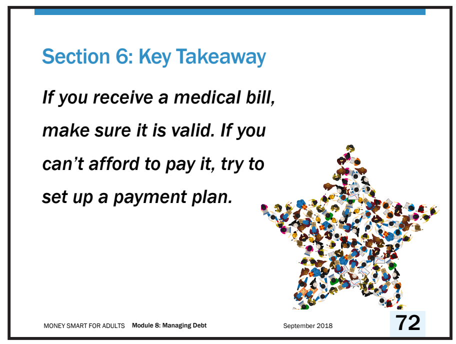
SHOW SLIDE 71



SAY

- We will discuss why medical debt is unique, and how you can manage it.

SHOW SLIDE 72



SAY

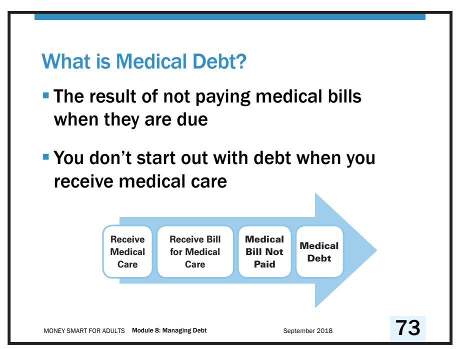
- The key takeaway from this section is: **If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.**

FACILITATE DISCUSSION (5 MINUTES)

What is Medical Debt?

See page 37 in the Participant Guide.

SHOW SLIDE 73



SAY

- Medical debt is the result of not paying medical bills when they are due. You don't start out with debt when you receive medical care.
- You receive the care and receive the bill. If you don't pay the bill when it is due, then you have medical debt.
- For some people, the worry about medical debt adds to their stress about the medical issue they are facing.

ASK

- Why do medical bills often turn into medical debt? You can take notes on page 37 in your Participant Guide.

DO

- Write participant responses on a flip chart or whiteboard.

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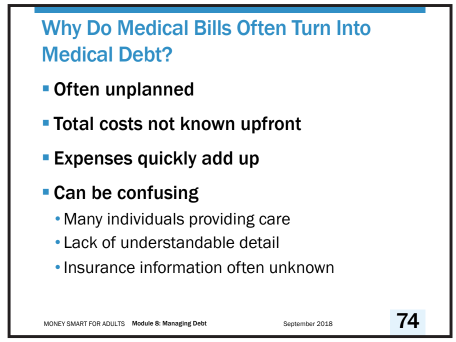


DO

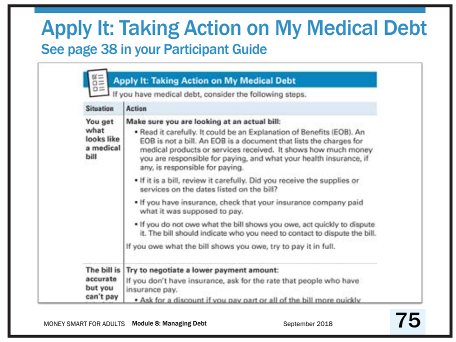
- Add the following if not contributed:
  - Medical care is often unplanned.
  - Therefore, medical bills are often unplanned. For that reason, people may not have saved money to pay the bills.
  - The total cost of medical care is usually not known upfront.
  - Further, the nature of medical care is not well-suited to comparison shopping.
  - Medical expenses can quickly add up.
  - Even with insurance, you are likely responsible for some portion of the bill. Being uninsured or being underinsured often means you are asked to pay more of the costs of medical care.
  - Medical bills can be confusing.
    - » There are usually many individuals providing the medical services and they may work for different companies or be independent providers. One episode of care may result in multiple bills sent at different times.
    - » Bills may lack the level of understandable detail that you need to verify the accuracy of the bill.
    - » The health care provider(s) may not know from the start if you have insurance. Even if they know you have insurance, the health care provider(s) may not know what your required payment will be.
    - » You may receive a bill for more than you owe, and it may go to collections before the insurance details have been finalized.

PRESENT INFORMATION (10 MINUTES)

Apply It: Taking Action on My Medical Debt

See page 38 in the Participant Guide.

SHOW SLIDE 75

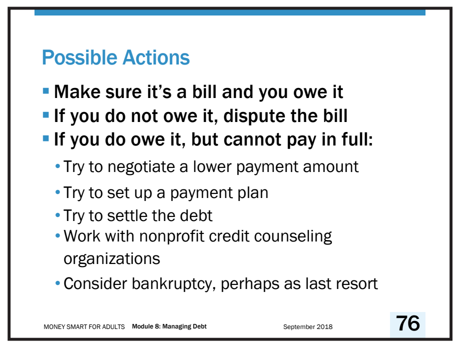


SAY

- Turn to *Apply It: Taking Action on My Medical Debt* on page 38 in your Participant Guide.
- Let's look at this tool together.

Note to Instructor: The following script follows the organization of the *Apply It.* For your reference, the *Apply It* from the Participant Guide is also provided, starting on page 71.

SHOW SLIDE 76



SAY

- **If you get what looks like a medical bill, first make sure it actually is a bill.**
  - It may be an Explanation of Benefits, called an EOB, which is not a bill but is often sent before you receive a bill.
  - An EOB is a document that lists the charges for medical products or services received. It shows how much money you are responsible for paying, and what your health insurance, if any, is responsible for paying.
  - If it is a bill, review it carefully. Did you receive the supplies or services on the dates listed on the bill?
  - If you have insurance, check that your insurance company paid what it was supposed to pay. You may have received a bill that the insurance company has not yet received. You may need to review your insurance policy.
- **If you do not owe what the bill shows you owe, act quickly to dispute it.**
  - » The bill will likely include a phone number, address, or email address you can contact with questions about the bill.
  - » If you delay and the bill goes into collections, it can have negative consequences, such as additional fees. Eventually the collections account may appear as negative information on your credit reports.

- If the bill is accurate, but you can't pay it in full, you may be able to **negotiate a lower payment amount.** It doesn't hurt to ask. Some ideas include:
  - If you don't have insurance, ask for the rate that people who have insurance pay.
  - Ask for a discount if you pay part or all of the bill more quickly than required.
  - Ask if they have a program to forgive part of the bill (it may be called a charity program or uninsured patient program).
  - These ideas can be used together. You may be able to get a a lower rate and a discount.
  - Do not neglect basic needs to pay for your medical debt.
- If the bill is accurate, but you can't pay it in full, try to **set up a payment plan**.
  - You might be able to pay a lower, set amount each month until the debt is paid off.
  - Think about what you can reasonably afford to pay. Reviewing your spending and saving plan may be helpful.
  - Do not neglect basic needs to pay for your medical debt.
  - You can try to negotiate the terms of a payment plan—the amount you have to pay each month, the interest rate, and any fees. You may need to demonstrate your inability to pay the bill in full by sharing details of your income and expenses.
  - Be sure to get your agreement in writing.
  - A payment plan may cost you less money than you would pay in interest if you financed the medical bill on a credit card.
- **You may be able to settle the debt**.
  - This means negotiating for a reduced overall balance that is considered full payment.
  - Any unpaid balance that you don't have to pay could be counted as income. You may owe income taxes on the amount forgiven.
  - The unpaid balance may be marked as "settled" on your credit reports, and this may negatively affect your credit scores. Even so, that is a better outcome than not paying anything.
  - To explore this option, talk directly with the billing office at the entity that sent you the bill. Ask if they can mark the bill as "paid in full" instead of "settled."
- **You may want to work with a nonprofit credit counseling organization** to help you manage medical bills.

- A credit counselor can help you choose the right steps to take to resolve your medical debt situation. For example, they may be able to help you understand the impact on your credit report for any repayment option you are considering.
- The Federal Trade Commission (FTC) offers tips on how to find and choose a **credit counselor**. Go to **USA.gov** and search for "credit counseling."

▪ **You may need to consider bankruptcy, perhaps as a last resort**

- Bankruptcy is a legal process that helps people who can't pay their debts.
  - » Your credit scores will likely go down. Bankruptcy will be reported on your credit reports for up to ten years. And you would not be able to file for bankruptcy again for several years.
  - » If bankruptcy is something you want to consider, get legal help. Visit **https://lsc.gov** to find a legal aid program to contact for help.
  - » Working with a nonprofit credit counseling organization is generally a good first step before you proceed with bankruptcy. A credit counselor may have other resources to help you resolve your debts that may be less costly and less harmful for your credit.

Apply It: Taking Action on My Medical Debt

If you have medical debt, consider the following steps.

Situation	Action
You get what looks like a medical bill	**Make sure you are looking at an actual bill:** ▪ Read it carefully. It could be an Explanation of Benefits (EOB). An EOB is not a bill. An EOB is a document that lists the charges for medical products or services received. It shows how much money you are responsible for paying, and what your health insurance, if any, is responsible for paying. ▪ If it is a bill, review it carefully. Did you receive the supplies or services on the dates listed on the bill? ▪ If you have insurance, check that your insurance company paid what it was supposed to pay. ▪ If you do not owe what the bill shows you owe, act quickly to dispute it. The bill should indicate who you need to contact to dispute the bill. If you owe what the bill shows you owe, try to pay it in full.

Apply It: Taking Action on My Medical Debt *continued*

Situation	Action
The bill is accurate but you can't pay it in full **Option 1**	**Try to negotiate a lower payment amount:** If you don't have insurance, ask for the rate that people who have insurance pay. ▪ Ask for a discount if you pay part or all of the bill more quickly than required. ▪ Ask if they have a program to forgive part of the bill. ▪ Think about what you can reasonably afford to pay. Reviewing your spending and saving plan may be helpful. Do not neglect basic needs to pay for your medical debt.
The bill is accurate but you can't pay it in full **Option 2**	**Try to set up a payment plan:** ▪ You might be able to pay a lower, set amount each month until the debt is paid off. ▪ Think about what you can reasonably afford to pay. Reviewing your spending and saving plan may be helpful. Do not neglect basic needs to pay for your medical debt. ▪ You can try to negotiate the terms of a payment plan—the amount you have to pay each month, the interest rate, and any fees. You may need to demonstrate your inability to pay the bill in full by sharing details of your income and expenses. ▪ Be sure to get your agreement in writing. A payment plan may be less expensive than using a credit card to pay the bill. Compare your options.
The bill is accurate but you can't pay it in full **Option 3**	**Try to settle the debt:** ▪ This means negotiating for a reduced overall balance that is considered full payment. ▪ Any unpaid balance that you don't have to pay could be counted as income. You may owe income taxes on the amount forgiven. ▪ The unpaid balance may be marked as "settled" on your credit reports, and this may negatively affect your credit scores. Even so, that is a better outcome than not paying anything. To explore this option, talk directly with the billing office at the entity that sent you the bill. Ask if they can mark the bill as "paid in full" instead of "settled."

Apply It: Taking Action on My Medical Debt *continued*

Situation	Action
The bill is accurate but you can't pay it in full **Option 4**	**Work with a nonprofit credit counseling organization:** ▪ A credit counselor can help you work through your medical debt situation. ▪ Visit **www.usa.gov** and search for "credit counseling" for resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.
The bill is accurate but you can't pay it in full **Option 5**	**Consider bankruptcy, perhaps as a last resort:** Bankruptcy is a legal process that helps people who can't pay their debts. ▪ Explore all of your options before turning to bankruptcy. ▪ Your credit scores will likely go down. ▪ Bankruptcy will be reported on your credit reports for up to ten years. And, you would not be able to file for bankruptcy again for several years. ▪ If you want to consider bankruptcy, get legal help. Visit **https://lsc.gov** to find a legal aid program to contact for help.

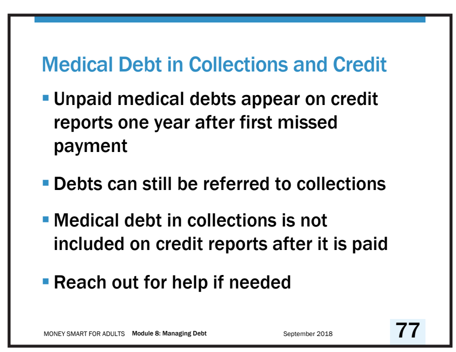
This *Apply It* is based on a tool in *Navigating Medical Bills and Debt: A practical guide for current and former foster youth and their adult allies in Maine. University of Southern Maine's Muskie School and Cutler Institute. Written by Becca Matusovich, Inger Giuffrida, and Mary Schneckenburger, October 2016.* **https://www.maine-ytc.org/navigating-medical-bills-debt/**.

PRESENT INFORMATION (3 MINUTES)

Medical Debt in Collections and Credit

See page 40 in the Participant Guide.

SHOW SLIDE 77



SAY

- The three nationwide credit reporting agencies do not place medical debt on credit reports until one year after the first missed payment. This gives you time to try to find a resolution for the balance due before your credit is affected.
- This change was effective July 1, 2022. The grace period used to be 180 days.

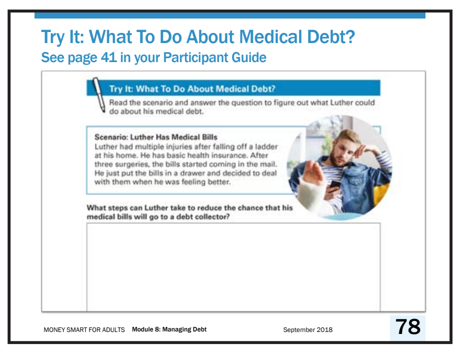
- However, even if your credit is not affected, your health care provider or insurance company can still send the bill to collections if you do not pay it by the due date on the bill.
    - "Collections" could be an internal department or a separate business specializing in debt collection called a third party debt collector.
- Medical debt that went to collections but *has since been paid* no longer appears on consumer credit reports issued by the three nationwide credit reporting agencies. That was also effective on July 1, 2022.
- Despite these positive changes from the three nationwide credit reporting agencies, medical debt can still eventually affect your credit scores. Credit scores are developed based on information in your credit reports.
- You are responsible for paying all of your debts, including medical debts.
- Reach out for help if you need it.

PRESENT INFORMATION (5 MINUTES)

Try It: What To Do About Medical Debt?

See page 41 in the Participant Guide.

SHOW SLIDE 78



DO

- Ask participants to turn to *Try it: What To Do About Medical Debt?* on page 41 in the Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

SCENARIO: Luther Has Medical Bills

Luther had multiple injuries after falling off a ladder at his home. He has basic health insurance. After three surgeries, the bills started coming in the mail. He just put the bills in a drawer and decided to deal with them when he was feeling better.

ASK

- What steps can Luther take to reduce the chance that his medical bills will go to a debt collector?

DO

- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - Stop ignoring his bills.
  - Review all of his bills and make sure he received the services on the bills.
  - Contact his insurance company to find out what portion of the bills, if any, he is responsible for paying.
  - See if a payment plan is possible.
  - Get help from a credit counseling organization.
  - See whether there are any programs available in his community that could help him. The hospital where his surgeries were performed may have a program to help individuals who are unable to pay their hospital bills.

PRESENT INFORMATION (1 MINUTE)

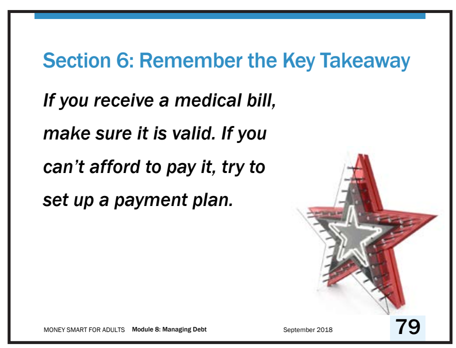
Section Closing

See page 41 in the Participant Guide.

SHOW SLIDE 79

SAY

- Remember the key takeaway from this section: **If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.**



Section 7: Understanding High Cost Debt

Training Time Estimate for This Section: 25 minutes

Objectives

Participants will be able to:

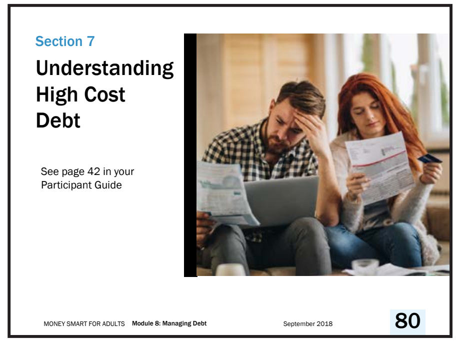
- Explain what makes high cost debt unique
- Identify alternatives to high cost debt

PRESENT INFORMATION (1 MINUTE)

Introduction to Section and Key Takeaway

See page 42 in the Participant Guide.

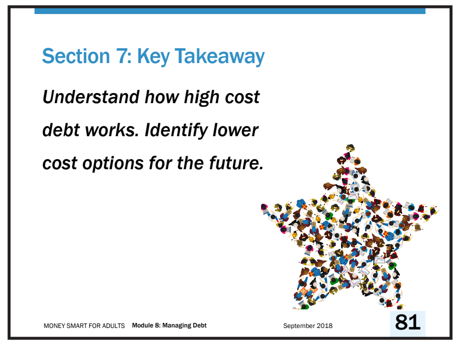
SHOW SLIDE 80



SAY

- We will discuss what high cost debt is, where it comes from, and alternatives to high cost debt.

SHOW SLIDE 81



SAY

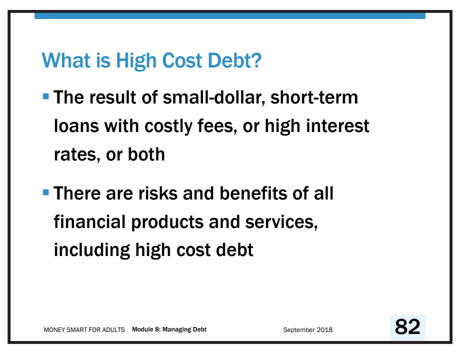
- The key takeaway from this section is: **Understand how high cost debt works. Identify lower cost options for the future.**

PRESENT INFORMATION (12 MINUTES)

What is High Cost Debt?

See page 42 in the Participant Guide.

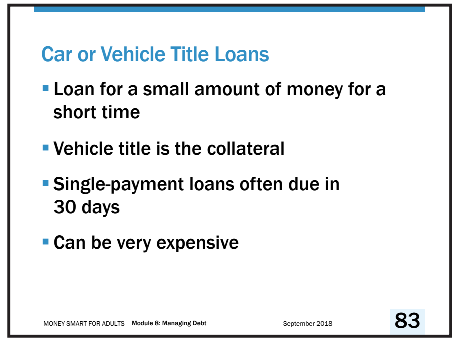
SHOW SLIDE 82



SAY

- Loans with high interest rates may be referred to as high cost debt.
- High cost debt is usually the result of small-dollar short-term loans that have either costly fees or high interest rates, or both.
- There are risks as well as benefits associated with all financial products and services, including high cost debt.
- Understanding how different financial products work, as well as the risks and benefits associated with them, can help you make informed choices.
- There are several types of high cost debt. We'll talk about payday loans, vehicle title loans, and pawn shop loans.

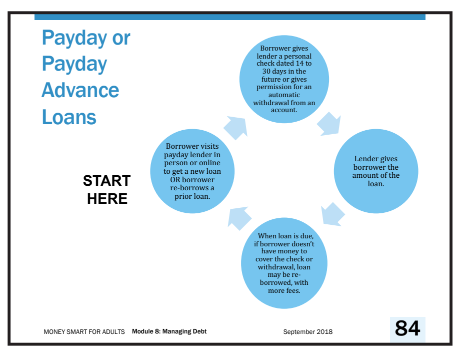
SHOW SLIDE 83



SAY

- A **car or vehicle title loan** is generally a loan for a small amount of money and for a short time.
- To get one, you give the lender the title to your vehicle – for example, your car, truck, or motorcycle.
- Our discussion will focus on car title loans that are due within about 30 days.
  - These loans can also be called single-payment car title loans because they are designed to be repaid in a single payment.
  - If you have another type of car title loan, such as one that you repay in installments over time, the information in this section may still be useful.
- Single-payment title loans are often due in 30 days, but can be shorter or longer.
- These loans can be very expensive. Lenders charge a monthly fee. This fee can be 25% or more of the amount you borrow each month.
- If you cannot repay the money you owe, the lender can take your vehicle.
  - If you can't pay off the loan in full when due, the lender may offer to "roll over" the loan into a new loan. That process adds fees and interest to the amount you originally borrowed.
- One in five single-payment vehicle title loan borrowers has their vehicle taken by the lender when they cannot repay their loans, according to the Bureau of Consumer Financial Protection.

SHOW SLIDE 84

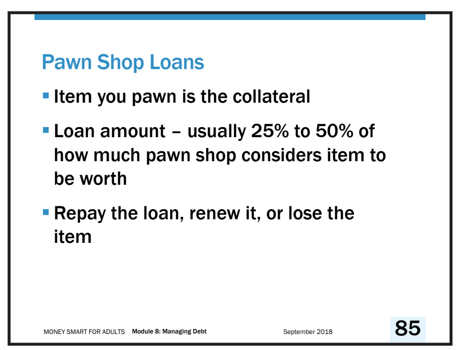


SAY

- A **payday or payday advance loan** is a short-term, small-dollar loan. You borrow money now, based on the expectation that you'll pay off the loan when you get your next paycheck.
- While payday loans were traditionally distributed through storefront retail outlets, they are now also widely available on the Internet.

- A typical payday loan works like this:
  - First, you visit a payday lender in person or online to get a new loan. Or you might be re-borrowing a prior loan from the payday lender. I will explain re-borrowing in a moment.
  - Next, you generally write a check dated 14 to 30 days in the future (which is usually the date you expect to receive your paycheck) for the amount of money you are borrowing plus fees.
    - » Or, you agree to allow the lender to electronically debit your checking or savings account for that amount on a specific date, usually your pay day.
  - After that, the lender gives you the amount of the loan.
  - If you don’t have the money to repay the loan when it is due, you may be able to reborrow the money usually with additional fees added.
    - » Reborrowing can also be called renewing, rolling over or extending the loan.
    - » Sometimes, the loan may automatically renew unless you tell the lender that you do not want it to renew.
  - Generally, the longer it takes you to repay the loan, the more costly it will be.
- Many state laws set a maximum amount for payday loan fees ranging from $10 to $30 for every $100 borrowed.
- A typical two-week payday loan with a fee of $15 per $100 borrowed equates to an annual percentage rate (APR) of almost 400 percent.
  - By comparison, the annual percentage rate for credit cards often ranges from about 12 percent or lower to about 30 percent.

SHOW SLIDE 85



SAY

- When you borrow money using a **pawn shop loan,** the debt is secured with the item you have pawned. That item is the collateral for the loan.
- The pawn shop physically holds the item during the loan. If you don’t repay or renew the loan, expect the pawn shop to keep your item and sell it.
- The amount of money you can borrow from a pawn shop is based on the resale value of the item you put up for collateral.
    - » A typical pawn shop will let you borrow 25% to 50% of how much they consider the item to be worth.

» For example, the pawn shop values the item you want to pawn at $300, you may be able to get a loan of $75 to $150 in cash.

- At the end of the loan term (usually 30 days), you must repay the loan, renew it, or lose the item. Renewing the loan will likely cost you additional money.
- A pawn shop loan is different than selling an item to a pawn shop.

LEAD ACTIVITY (10 MINUTES)

Try It: Exploring Alternatives to High Cost Debt

See page 44 in the Participant Guide.

SHOW SLIDE 86

DO

- Ask participants to turn to *Try It: Exploring Alternatives to High Cost Debt* on page 44 in their Participant Guide.
- Read the scenario to participants or ask for a volunteer to do so.

Scenario: Jamila's Alternatives to High Cost Debt

Jamila needs to pay her electricity bill, but she is out of money. Her only credit card is nearly maxed out. With her low credit scores, she doesn't think she'll get a loan from a financial institution. But, she knows not paying her bill will mean her electricity will be shut off. And getting service restarted will require a big deposit in addition to paying what she owes.

She feels like a payday loan or vehicle title loan may be her only option.

DO

- Give participants five minutes to work in small groups to answer the questions.
- After five minutes, ask groups to share their answers to both questions.

ASK

- What are Jamila's alternatives for covering the electricity bill?

DO

- Write participant responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - Explore if her community has a program offering emergency utility bill assistance
  - Negotiate for more time to pay from the utility
  - Borrow money from family or friends
  - Ask a financial institution about loan options (she assumes she will not qualify but the lender may have a loan program that is a good fit for her)
  - Sell some items she owns for cash

ASK

- How can Jamila avoid this situation in the future?

DO

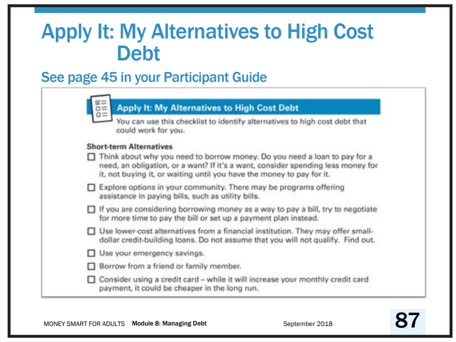
- Write responses on a flip chart or whiteboard.
- Add the following if not contributed:
  - See if she can conserve energy and use less electricity which will result in a lower bill she may be able to afford
  - Build an emergency fund that she can use when she is short of cash
  - Make a spending and saving plan and stick to it. She may be able to reduce her expenses elsewhere so she can afford to pay her electricity bill.
  - Take steps to repair her credit, such as by asking a financial institution about a credit builder loan.
  - Try to increase her hours at work or get another job to increase her income.

PRESENT INFORMATION (1 MINUTE)

Apply It: My Alternatives to High Cost Debt

See page 45 in the Participant Guide.

SHOW SLIDE 87



SAY

- Turn to *Apply It: My Alternatives to High Cost Debt* on page 45 in your Participant Guide.
- You can use this checklist after today's training to identify short-term and long-term alternatives to high cost debt that could work for you.

Note to Instructor: Time permitting, consider reviewing this activity with participants during training. If possible, give them time now to start completing it. This can be very empowering. Consider asking participants to share what they are learning from it and provide time for questions.

Apply It: My Alternatives to High Cost Debt

You can use this checklist to identify alternatives to high cost debt that could work for you.

Short-term Alternatives

☐ Think about why you need to borrow money. Do you need a loan to pay for a need, an obligation, or a want? If it's a want, consider spending less money for it, not buying it, or waiting until you have the money to pay for it.

☐ Explore options in your community. There may be programs offering assistance in paying bills, such as utility bills.

☐ If you are considering borrowing money as a way to pay a bill, try to negotiate for more time to pay the bill or set up a payment plan instead.

☐ Use lower-cost alternatives from a financial institution. They may offer small-dollar credit-building loans. Do not assume that you will not qualify. Find out.

☐ Use your emergency savings.

☐ Borrow from a friend or family member.

☐ Consider using a credit card – while it will increase your monthly credit card payment, it could be cheaper in the long run.

☐ Other: ____

Apply It: My Alternatives to High Cost Debt *continued*

Long-term Alternatives

☐ Build an emergency fund. You can be your own payday lender when there are unexpected expenses.

☐ Make a spending and saving plan. Use it to identify why you need to borrow money. Find ways to reduce expenses or increase your income.

☐ Ask lenders, landlords, utilities, and others to move monthly due dates closer to when you receive income.

☐ Take steps to repair your credit. Apply for a credit-building loan.

☐ Apply for a credit card and only use it to cover emergencies.

☐ Get another job or increase your hours at your current job.

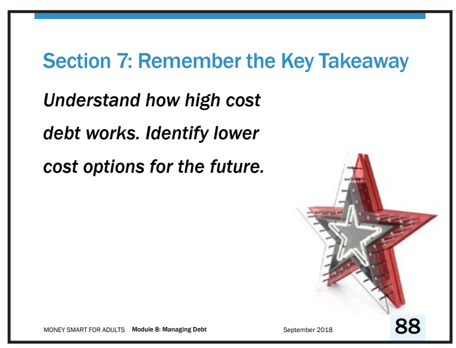
☐ Other: ____

PRESENT INFORMATION (1 MINUTE)

Section Closing

See page 45 in the Participant Guide.

SHOW SLIDE 88



SAY

- Remember the key takeaway from this section: **Understand how high cost debt works. Identify lower cost options for the future.**

Module Closing

Training Time Estimate: 10 minutes

LEAD ACTIVITY (5 MINUTES)

Remember the Key Takeaways

See page 46 in the Participant Guide.

Note to Instructor: Only mention key takeaways for sections you included in the training.

SAY

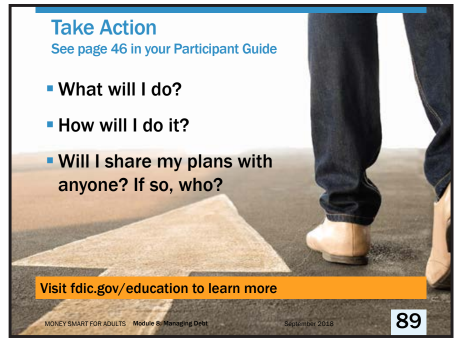
- Remember the key takeaways. These are also listed on page 46 in your Participant Guide. Let me know if you have questions about any of them.

Section	Key Takeaway
1: What is Debt?	Understanding your debt is the first step to managing it.
2: How Debt Works	Consider how debt works so you can make informed decisions about it.
3: Reducing Debt	Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.
4: Nonpayment of Debts and Debts in Collection	Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.
5: Dealing with Student Loan Debt	When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.
6: Managing Medical Debt	If you receive a medical bill, try to make sure it is valid. If you can't afford to pay it, try to set up a payment plan.
7: Understanding High Cost Debt	Understand how high cost debt works. Identify lower cost options for the future

Take Action

See page 46 in the Participant Guide.

SHOW SLIDE 89



SAY

- You are more likely to take action if you commit to taking action now.
- Consider writing down what you intend to do because of what was covered during this training session.
- Take a few minutes now to answer the questions under *Take Action* on page 46 in your Participant Guide:
  - What will I do?
  - How will I do it?
  - Will I share my plans with anyone? If so, who?

DO

- Time permitting, ask participants if they want to share what they are going to do or how they are going to do it.
- Remind participants about the activities in their Participant Guide they can complete after today's training.
- Refer participants to *Where to Get More Information or Help* on page 47 in their Participant Guide for a list of online resources.
- If this is the end of your training, thank participants for attending and administer the post-training survey.

LEAD ACTIVITY (5 MINUTES)

Post-Training Survey

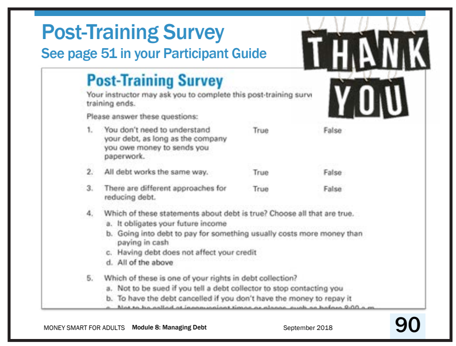
See page 51 in the Participant Guide.

Note to Instructor: After training ends, you can ask participants to complete the post-training survey in the back of their Participant Guide. You may want to give them "loose" copies so they don't have to tear them out. The knowledge questions are the same as those in the pre-training survey.

The answer key is at the end of this Instructor Guide.

You may decide to compare post-training surveys to pre-training surveys to estimate knowledge gains of the entire group or for each participant. If you want to estimate by participant, ask them to write their last name or some other unique identifier on both their pre- and their post-training surveys so you can compare them for a given participant.

SHOW SLIDE 90



SAY

- Thank you for attending this Money Smart Training called "**Managing Debt.**"
- Before you leave, please take a few minutes to complete the Post-Training Survey on page 51 of your Participant Guide.
- I can look at the surveys to tell if I helped you add to your knowledge and to make changes and improvements to future trainings.
    - It should take less than five minutes to complete.
    - Let me know if you have any questions.

DO

- Collect the completed surveys if you plan to review them or compare them to pre-training surveys.
- Review the answers to the knowledge questions using the Answer Key on the next page.

Answer Key for Both the Pre- and Post-Training Surveys

1. You don't need to understand your debt, as long as the company you owe money to sends you the paperwork.
   The answer is **false.**
2. All debt works the same way.
   The answer is **false.**
3. There are different approaches for reducing debt.
   The answer is **true.**
4. Which of these statements about debt is true? Choose all that are true.
   The answer is **a** and **b.**
   a. **It obligates your future income**
   b. **Going into debt to pay for something usually costs more money than paying in cash**
   c. Having debt does not affect your credit
   d. All of the above
5. Which of these is one of your rights in debt collection?
   The answer is **c.**
   a. Not to be sued if you tell a debt collector to stop contacting you
   b. To have the debt cancelled if you don't have the money to repay it
   c. **Not to be called at inconvenient times or places, such as before 8:00 am or after 9:00 pm, unless you agree to it**
   d. All of the above

Note to Instructor: There are no "right" or "wrong" answers to the remaining questions, which appear in the post-training survey and not in the pre-training survey.

About the Training
Check the box that best describes your agreement or disagreement with each of these statements.

	Completely agree	Somewhat agree	Somewhat disagree	Completely disagree
6. I would recommend this training to others.				
7. I plan to apply what was discussed in this training to my life.				
8. The instructor used engaging training activities that kept me interested.				
9. The instructor was knowledgeable and well prepared.				
10. The Participant Guide is clear and helpful.				

Money Smart for Adults Modules

Thank you for presenting this module. Consider providing training on other Money Smart for Adults modules, as shown below. Visit **www.FDIC.gov/moneysmart.**

Module Number	Module Name	Module Focus
1	**Your Money Values and Influences**	Internal values and goals, external influences, and their relationships to financial decisions
2	**You Can Bank On It**	Financial products, services, and providers
3	**Your Income and Expenses**	How to track income and expenses
4	**Your Spending and Saving Plan**	How to develop a spending and saving plan, and how to prioritize spending when money is short
5	**Your Savings**	Saving money for expenses, goals, and emergencies
6	**Credit Reports and Scores**	Credit reports and scores, building productive credit histories, and repairing and improving credit
7	**Borrowing Basics**	Options for borrowing money and the costs
8	**Managing Debt**	Different kinds of debt and ways to manage it
9	**Using Credit Cards**	How credit cards work and how to manage them
10	**Building Your Financial Future**	Ways to build assets, including buying a car and getting training and education
11	**Protecting Your Identity and Other Assets**	Ways to recognize, respond to, and reduce the risks of identity theft, along with strategies for protecting other assets
12	**Making Housing Decisions**	Different types of safe and affordable housing, including specific information on renting
13	**Buying a Home**	The home buying process, including mortgages
14	**Disasters—Financial Preparation and Recovery**	How to financially prepare for, and recover from, disasters

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Visit the FDIC's website at **www.fdic.gov/education** for more information and resources on banking-related issues. For example, FDIC Consumer News provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

You can also call the FDIC for information and assistance at 877-ASK-FDIC (877-275-3342).

MONEY SMART

MONEY SMART for Adults

INSTRUCTOR GUIDE
Module 8: Managing Debt

September 2018
www.fdic.gov/education