

MoneyWi\$e

A Consumer Action and Capital One Financial Education Project

Personal Bankruptcy Seminar Lesson Plan

(For use by the MoneyWi\$e instructor)

Course purpose:

To educate and inform advocates and individuals about personal bankruptcy

Course objectives:

By the end of the training participants will understand that:

- Bankruptcy is an important tool for people facing severe financial problems.
- Bankruptcy laws can help you get a fresh financial start.
- The choice to file bankruptcy is a personal and complex decision—it is not right for everyone.
- There are two kinds of personal bankruptcy—Chapter 7 and Chapter 13.
- Chapter 7 bankruptcy can eliminate your legal responsibility for many of your debts.
- Chapter 13 bankruptcy helps you establish a plan to repay debts over time.
- Bankruptcy can affect your credit, insurance coverage, job prospects and your ability to get rental housing.
- When you file bankruptcy, your creditors cannot force you to sell all of your personal possessions to satisfy your debts.

Materials:

Participant's folder, which includes:

- *Bankruptcy: Your Right to a Financial Fresh Start* (pamphlet)
- Activities (*attached at the end of this lesson plan*):
 - I. **Are Julee and Jimmy in Trouble?** (Classroom activity)
 - II. **Warning Signs of Debt Trouble Self-Questionnaire** (Take home)
 - III. **Debt Payment Worksheet** (Take home)
 - IV. **The True Cost of Credit: A Guessing Game** (Classroom activity)
- Evaluation of the MoneyWi\$e Bankruptcy Seminar

For the trainer:

- Personal Bankruptcy seminar lesson plan
- Personal Bankruptcy slides (PowerPoint presentation with notes)
- Easel and pad or whiteboard, and markers

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Seminar duration: There will be two sessions of 1¼ hours each, and a 10-minute break between sessions.

MoneyWi\$e is a joint financial education project of Consumer Action and Capital One.

Training Outline

First Session

Suggested time allotment:

10 minutes

10 minutes

20 minutes

10 minutes

10 minutes

15 minutes

Topic:

Welcome and training overview

About personal bankruptcy

Two kinds of personal bankruptcy

Repercussions of bankruptcy

To declare, or not to declare?

Are Julee and Jimmy in Trouble? (activity)

BREAK (10 minutes)

Second Session

Suggested time allotment:

10 minutes

10 minutes

10 minutes

10 minutes

10 minutes

10 minutes

10 minutes

5 minutes

Topic:

Credit and credit reports

Credit counseling

The True Cost of Credit: A Guessing Game (activity)

Hiring an attorney

The aftermath of personal bankruptcy

Re-establishing credit

Questions and answers

Wrap-up and evaluation

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Training Design/Lesson Plan

Session One (75 minutes)

Before conducting the training, familiarize yourself with this lesson plan, the MoneyWi\$e brochure about bankruptcy, the Personal Bankruptcy Leader's Guide and the PowerPoint presentation.

Welcome and training overview

(10 minutes)

Welcome participants. Hand out folders. Direct attention to the bankruptcy brochure in the folders and ask participants to review it while they wait for the class to begin.

Review the topics you will cover:

- The legal right of all U.S. residents to file bankruptcy
- The difference between Chapter 7 and Chapter 13 bankruptcy
- Which type of bankruptcy—if any—makes sense for you
- Actions you can take to try to avoid bankruptcy
- Bankruptcy's effect on your life
- What possessions the law allows you to keep during a bankruptcy
- How to get and check your credit report
- What credit counseling is and how to find a reputable credit counseling agency
- Avoiding high-cost debt consolidation loans and services
- Rebuilding your credit after bankruptcy

Review the day's agenda, emphasizing that the topics will be broken down into short, easily digestible sections of 10-20 minutes each and that there will be a 10-minute break between sessions.

Optional: Ask participants to introduce themselves and say what they hope to get out of the seminar. Write down participants' expectations on the easel pad or whiteboard. (This activity will serve as a brief icebreaker to help workshop participants get to know each other and feel more comfortable, and to give you an idea of what participants are expecting from the seminar. Save the page for the final wrap-up and evaluation at the end of the second session, so that you can revisit it and ask for feedback on how participants feel about the seminar.)

About personal bankruptcy

(10 minutes)

Ask participants what they know about personal bankruptcy. Write down some of their responses on the easel pad or board.

Augment the participants' responses with the following list:

1. Bankruptcy is a court proceeding.
2. Bankruptcy remains on your credit report for 10 years.

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3. Each debt that was discharged under the bankruptcy petition (such as credit card accounts) may remain on your report for seven years.
4. Sometimes bankruptcy cannot be avoided.
5. You need to hire an attorney to file bankruptcy.
6. Common reasons for consumer bankruptcy are: large medical expenses, seriously over-extended credit, lack of adequate insurance, divorce and marital problems.

Questions to generate discussion:

- *What is bankruptcy?*

—Bankruptcy is a federal court process that can help you eliminate legal responsibility for many of your debts or repay them over time under the protection of the bankruptcy court.

- *Why does the law allow people to file bankruptcy?*

—Bankruptcy laws offer people in serious debt a way to make a financial fresh start.

- *How can filing bankruptcy affect your life?*

—Consider bankruptcy only as a last resort as it can have a long-term negative impact on your ability to obtain credit, find a job, get insurance or rent a place to live.

- *Why do you think that U.S. laws allow people to file bankruptcy?*

—Bankruptcy is a constitutional right in the U.S. because the founding fathers who drafted the Constitution believed that people experiencing financial distress should be able to have a fresh start.

—Article One, Section Eight of the U.S. Constitution authorizes Congress to enact bankruptcy laws.

—In other countries, people can be put in prison for not paying their debts, but in the U.S. there is no debtors' prison.

Two kinds of personal bankruptcy

(20 minutes)

(The information in this section is detailed and may be challenging. Because this information is the foundation of the entire seminar, take your time and go over each kind of bankruptcy in detail. After explaining each one, ask participants if they have any questions so that you are sure they understand.)

Individuals can file for two kinds of bankruptcy: Chapter 7 and Chapter 13.

Chapter 7

Chapter 7 is also called “liquidation” bankruptcy because the bankruptcy court removes your responsibility for paying most of your debts that are not secured by collateral or property.

Collateral: Property that guarantees a loan. Mortgages are guaranteed by real estate and car loans by vehicles.

When you file Chapter 7 bankruptcy, you are allowed to keep certain “exempt assets.”

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Exempt assets or property: Property you are allowed to keep even though you file bankruptcy.

A “means test” must be taken to determine if you can file a Chapter 7.

- The “means test” compares *your* income with your state’s median income and also examines your financial ability to repay your debt. If your current monthly income is less than the median income for a household of your size in your state, you can file a Chapter 7.
- If your household income exceeds the state median *and* you have enough “disposable income” (money left after paying your monthly expenses) to pay off at least a portion of your unsecured debts over three to five years, you will be required to file a Chapter 13.
- Go to the U.S. Trustee website at www.usdoj.gov/ust to find the current median income in your state
(www.justice.gov/ust/eo/bapcpa/20141101/bci_data/median_income_table.htm)

Pre-bankruptcy credit counseling and pre-discharge debtor education are bankruptcy requirements.

- Federally approved credit counseling must be completed within the six months prior to filing.
- Debtor education must be completed after filing to have debts discharged.
- U.S. Trustee-certified agencies are listed at the Dept. of Justice website (www.justice.gov/ust/eo/bapcpa/ccde/index.htm).

You must also provide the following to file bankruptcy:

- Copies of your tax returns: Latest tax return for Chapter 7; past 4 years’ tax returns for Chapter 13
- Certificate of credit counseling within last six months
- Evidence of earnings within the last 60 days
- Monthly net income and any anticipated increase in income
- A photo ID

Under Chapter 7, a court-appointed trustee takes possession of your non-exempt property, arranges for its sale or liquidation and is responsible for paying as many of your debts as possible with the proceeds. We will learn later that not all debts can be erased by bankruptcy.

Chapter 13

Also called “reorganization” or “repayment” bankruptcy, Chapter 13 is an option if you have a source of dependable income but are unable to make all your required debt payments.

- Filing Chapter 13 bankruptcy allows you to pay your debts in installments over a three-to-five-year period.
- The court must approve your plan to repay all or part of the money you owe.

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- In general, you may keep all your property as long as you continue to make your Chapter 13 payments on time. At the end of the repayment period, the remaining balance on certain debts may be discharged (forgiven).
- Alimony and child support payments and long-term secured obligations such as your mortgage cannot be discharged.

Questions to generate discussion:

- *What things that you own would you guess are considered “exempt assets” (things you are allowed to keep when you file for bankruptcy)?*

—Under federal bankruptcy law, you are entitled to keep certain things you own outright, as long as they do not exceed maximum values under federal or state law.

—These things include your home, car, household furnishings, tools of your trade, life insurance cash value, payments you received for bodily injury and, in some cases, jewelry.

—There is a significant difference in federal and state laws for exempt assets. This is one reason why it is important to hire a lawyer when you file bankruptcy.

Key points:

- You can only file under one category at a time.
- Chapter 7 is a quicker process and offers a financial fresh start.
- A “means test” will determine if you are eligible to file a Chapter 7 or if you must repay part of your debt under a Chapter 13.
- Pre-bankruptcy credit counseling and pre-discharge debtor education are bankruptcy requirements.
- You can file Chapter 7 only once every eight years.
- You cannot file Chapter 13 if you obtained a bankruptcy discharge in the past 2-4 years.
- Chapter 13 may be the better choice for people who have non-exempt property they wish to keep that otherwise would be liquidated during a Chapter 7 filing.

Repercussions of bankruptcy

(10 minutes)

Key points:

- When you file Chapter 7 bankruptcy, all your property except “exempt assets” will be sold to pay your creditors. An exempt asset is property you are allowed to keep during bankruptcy.
- If you file a Chapter 13 bankruptcy—a repayment plan—it typically will take three to five years to repay your debts and receive your discharge from the court. (Not all debts must be paid in full.)
- Bankruptcy will not remove certain “non-dischargeable” debts, including the following:
 - Child support and alimony

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- Debts incurred for personal injury or death caused by you while driving under the influence of alcohol or illegal drugs
 - Student loans, unless hardship prevails
 - Fines and penalties imposed for law violations, such as traffic tickets or criminal restitution
 - Income taxes from the past three years and other tax debts
 - Credit purchases of \$1,150 or more for luxury items or services made within 60 days of your bankruptcy filing
 - Loans or cash advances of \$1,150 or more taken out within 60 days of your bankruptcy filing
 - Debts owed to a single creditor of more than \$650 for luxury goods purchase with 90 days of filing
 - Cash advances on one credit card that total more than \$925 made within 70 days of filing
 - Criminal restitution resulting from illegal activities such as embezzlement, larceny, fraud or willful or malicious injury to another person or another person's property
 - Debts you owe from a divorce decree or settlement
 - Debts you forget to include in your bankruptcy filing (You must include all your debts, but if you forget to mention one, it becomes non-dischargeable.)
- Bankruptcy remains on your credit report for up to 10 years, which can make it difficult to get new credit, find a place to rent, get insurance or qualify for some jobs.
 - Unless you change your financial habits after you file bankruptcy, you might fall into debt again.

Questions to generate discussion:

- *Why do you think the law does not allow you to erase loans, credit card purchases of luxury items or cash advances within 60 days of your bankruptcy?*
 - Taking loans, cash advances or buying luxury goods on credit in the weeks before you file bankruptcy is seen as a sign of bad faith. The court assumes that you are filing bankruptcy just to get out of paying for these obligations.
- *Can you stop paying your student loans if you file for bankruptcy?*
 - Student loans made, insured, guaranteed or funded by the government are not dischargeable in bankruptcy.
 - An exception exists for "undue hardship" on the debtor or a dependent of the debtor, but this exception is rarely granted.
 - If your wages are being "garnished" (withheld by court order) to pay a student loan, filing bankruptcy will stop the garnishment, but you will still be liable for the payments.

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- *Will my spouse's property be affected if I file bankruptcy?*
 - One spouse can file for bankruptcy without the other joining the petition. In the nine community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin), all community property must be included in the bankruptcy. (In community property states the income earned and property acquired during marriage are shared equally by both spouses, even if one spouse earned all the income.)
 - In other states, only jointly held property is included in a married couple's bankruptcy filing.
 - In all states, property owned before marriage by the non-filing spouse is outside of the reach of the filing spouse's creditors.

To declare, or not to declare?

(10 minutes)

Key points

- Bankruptcy is not a way to avoid debts you can afford to pay but just don't want to pay.
- Bankruptcy will not allow you to keep your house and cars if you have a mortgage or car loan unless you pay your creditors for the property.
- Bankruptcy will immediately stop most collection efforts against you.
- Creditors can't take further action against you unless they obtain permission from the bankruptcy court.

Questions to generate discussion:

- Should you call your creditors to let them know you are having trouble making payments?
 - Talking to your creditors may help to resolve your problems if you have just a few debts and believe you can get back on your feet if given a little time.
 - Explain that you are willing to pay off your debts.
 - Ask to arrange a payment plan or negotiate a reduced settlement amount.
- *Do you know what credit counseling is?*
 - Credit counseling organizations offer credit education, credit review and budgeting workshops. They can help you to manage your debts more easily by representing your case for you to your creditors.
 - The counselors contact your creditors on your behalf. Sometimes creditors will waive interest charges and late fees when you enroll in an established debt management plan through the credit counseling agency.
- *Are all credit counselors reputable?*
 - No! Many "credit counseling" companies that advertise to attract people in debt are in business to make money by charging high fees.
 - Investigate all debt assistance offers thoroughly before paying any money.

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—Check with your local Better Business Bureau before you sign a contract with any debt management or loan consolidation company.

—To find a reputable not-for-profit credit counseling organization near you, contact the National Foundation for Credit Counseling (NFCC) online (www.nfcc.org) or by phone (800-388-2227).

—Many NFCC-affiliated credit counseling agencies (often known as “Consumer Credit Counseling Service,” or CCCS) have fees based on a sliding scale depending on your income.

- *Are debt consolidation loans available to help me refinance my loan?*

—A lot of these loans are high-interest loans and/or second mortgages that target people who are deep in debt.

—These loans often push you deeper into debt with high fees and exorbitant interest rates.

—If you decide to look for a loan, shop around and compare the terms among at least three companies, including banks and credit unions.

Are Julee and Jimmy in Trouble?

(Classroom activity) (15 minutes)

Calculators come in handy for this exercise. Stress that this is not a test, but a learning activity.

Ask participants to take out the “Are Julee and Jimmy in Trouble?” activity sheet from their folders. Go over the instructions with the class:

Assess the financial information for Julee and Jimmy to determine if you think they are in danger of financial trouble. Keep in mind the following guidelines:

- You usually can afford a maximum monthly rent or mortgage payment of 25%-28% of your monthly gross (before tax) income. (If you are a homeowner, this percentage includes your principal and interest mortgage payment, real estate taxes and insurance.)
- Your rent (or mortgage payment) plus other monthly debt payments should not exceed 36% of your gross monthly income. (This means that your other monthly debt payments, including credit cards, should be no more than about 8% of your monthly gross income.)
- At minimum, experts advise that you have emergency savings equal to three to six months of your expenses.
- Money left over after all obligations are paid each month and you have contributed to your savings account is called “discretionary income.” This is “leftover” money that you can add to your savings or spend on anything you choose.

Help the class figure out the total housing and debt payments in the Julee and Jimmy example. If they’re having difficulty, explain that:

- Julee’s housing costs include only her monthly rent. Julee’s non-housing debt payments include her auto loan, credit cards and hospital bill.

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- Jimmy's total housing costs include his mortgage payment with taxes and insurance. Jimmy's non-housing debt payments include his auto loan, credit cards and school loans.

To find the percentages, divide the total costs by their monthly before-tax income.

Example:

Julee pays \$1,050 per month in rent. Divide \$1,050 by \$2,900 (her gross monthly pay). This gives you 0.362, which can be rounded to 36%—the percentage of Julee's monthly income spent on housing costs.

Key points for classroom discussion:

- Julee's and Jimmy's non-housing debt payments and Julee's rent exceed accepted guidelines. This could put them in danger of missing payments and possibly going into bankruptcy.
- Julee and Jimmy don't have the recommended savings of three to six months' expenses in case of emergency. This could make it difficult for them to pay their housing costs and other bills if they were to be laid off from their jobs. Having too much debt may cause them to fall behind with payments.

Point out the two take-home worksheets—"Warning Signs of Debt Trouble" and "Debt Payments Worksheet" in participants' folders. Explain that these worksheets are for them to take home and fill out privately.

BREAK

(10 minutes)

Session Two (75 minutes)

Credit and credit reports

(10 minutes)

Key points:

- A credit report is a record of your payment history for all credit accounts, such as credit cards, unsecured loans, car loans and mortgages.
- Credit bureaus make this information available to companies that grant credit based upon payment histories.
- Most credit grantors obtain their information from one of these three large national credit reporting bureaus: Equifax, Experian and TransUnion.
- You have the right to order a free copy of your credit report annually.
- If you are turned down for credit, you are entitled to a free copy of your credit report from the credit reporting bureau that provided the information that the lender/creditor based its decision on.
- Your credit reports give you a breakdown of your debts.

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- Reviewing your report allows you to make sure the information listed on the report is accurate.

TIP: On the easel pad or board, write the information of how to obtain a copy of your free credit report:

-Online: www.annualcreditreport.com

-By phone: 877-322-8228

-By mail: Annual Credit Report
P.O. Box 105281
Atlanta, GA 30348-5281

Credit counseling

(10 minutes)

Key points:

- Credit counseling services are organizations that assist individuals with personal financial matters. They provide budgeting assistance, credit counseling, debt management programs and information about consumer rights in regard to debt collection and bankruptcy. Many, though not all, of these agencies are non-profit organizations and some provide counseling free of charge.
- If you enroll in a debt management program, the credit counseling agency will negotiate with creditors on your behalf and help you consolidate your bills into one monthly payment that you send to the counseling agency—the agency will divide up the money as agreed and disburse it to your individual creditors.
- It can be difficult to check out all credit counseling companies. Many are not reputable and are really profit-making enterprises hiding behind non-profit status.

WATCH OUT!

- Many “credit counseling” companies that advertise to attract people in debt are in business to make money by charging high fees.
- Investigate all debt assistance offers thoroughly before paying any money.
- Check with your local Better Business Bureau before you sign a contract with any debt management or loan consolidation company.

RESOURCE: Find a reputable non-profit credit counselor affiliated with the National Foundation for Credit Counseling by visiting its website (www.nfcc.org) or calling 800-388-2227.

The True Cost of Credit: A Guessing Game (activity)

(10 minutes)

Ask participants to take out the activity sheet from their folders. Stress that this is not a test, but a learning activity.

Go over the instructions:

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Ask participants to check the box they believe gives the true cost of buying these goods on credit. Explain that the activity is designed to test your instincts about the cost of buying things on credit. Let participants know that the examples may not give them all of the information they need to find the answer using math. Advise them to take their best guess—the point of the exercise is to correct preconceived notions that participants have about how much credit costs.

Allow participants five minutes for the activity. Go over the answers page together with participants.

Questions to generate discussion:

- *Did your responses agree with the answers?*
- *What surprised you most?*
- *Are there ways to keep finance charges at a minimum?*

Hiring an attorney

(10 minutes)

Spend a few minutes talking about the importance of hiring an attorney when you file bankruptcy.

Share these tips with the class:

- Hiring an attorney helps protect your rights in bankruptcy court. Make sure the attorney you retain is an expert in bankruptcy.
- The cheapest attorney is not necessarily the best one.
- Don't just pick up the Yellow Pages or search online to find an attorney.
- To find an attorney, ask people you know if they have a personal recommendation.
- You can call your state bankruptcy bar association for recommendations.

Internet resources for finding a lawyer *(write these on the easel pad or board):*

- National Association of Consumer Bankruptcy Attorneys: Visit www.nacba.org, click on the "Consumers" tab and choose "Find Your Attorney" from the drop-down menu.
- Legal Service Corporation: Visit www.lsc.gov and choose the "Find Legal Aid" option under the Programs tab or on the home page.

The aftermath of personal bankruptcy

(10 minutes)

Key points:

- Filing bankruptcy may change your life in a positive way because it removes worry about your debts and gives you a financial fresh start.

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- Some negative things may happen after you file bankruptcy: It may be hard to get a new credit card or to rent a place to live if the landlord checks applicants' credit reports.

Questions to generate discussion:

- *Will I be able to get a new credit card?*
 - You might have trouble getting a credit card, but you should qualify for a secured credit card if you put money in a savings account to guarantee the card.
 - Most secured credit card issuers will give you a credit line equal to 100% of the amount you have on deposit, but some will grant you credit equal to only a part of your deposit.
 - A few issuers offer credit lines of double the amount you have on deposit. In this case, part of your credit line is secured and part is unsecured.
 - Some issuers charge a fee for credit line increases. Use caution when accepting such a deal.
 - Some banks issue credit cards for people with damaged credit that do not require a deposit, however they have higher interest rates or higher fees than secured credit cards. **Investigate every credit card offer thoroughly before you apply.**
- *Can I open a bank account?*
 - Unless you have abandoned a bank account while owing money, bounced checks you never paid back or had a bank account closed on suspicion of fraud, you should have no trouble opening a new bank account subsequent to filing bankruptcy.
 - If you have had any of these problems, you are probably listed in a database such as ChexSystems that banks use to screen new applicants.
 - If you make no more mistakes, ChexSystems entries are removed from the database after five years, so they will no longer affect your ability to get a new bank account.
 - Even if you are in ChexSystems, there's a chance that you can find a bank or credit union that does not use ChexSystems to screen new applicants or that offers a "second chance" account.
- *Will bankruptcy affect my job?*
 - The Bankruptcy Code specifically prohibits employers from discriminating against **current** employees who file bankruptcy.
 - The law applies to private as well as government employers.
 - If you look for a new job in the future while the bankruptcy is still listed on your credit report, potential employers may choose to reject you. There is no law to prevent this from happening.

Re-establishing credit

(10 minutes)

Key points

- A Chapter 7 bankruptcy will stay on your credit report for 10 years.

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- It should be possible to qualify for a secured credit card if you deposit money in a bank account to guarantee the card.
- Even people with damaged credit or a bankruptcy may be able to obtain a secured credit card.
- Your line of credit on a secured card usually is the same as the amount of money you deposit.
- Some banks require as little as \$300 for the deposit on a secured credit card.
- Generally, after six months to one year of on-time payments and careful use of your secured credit card, you may begin to get offers from unsecured credit card issuers.
- Home and auto loan and credit card applications commonly ask if you've ever declared bankruptcy, and your answer may be a factor in the lender's decision.
- You may be able to qualify for a mortgage or car loan at a higher-than-average interest rate.

TIP: To find some secured credit cards, visit Bankrate.com, CreditCards.com or one of the other credit card comparison websites on the Internet and search for "secured credit cards." This will provide you with some national companies that offer secured cards.

Questions and answers

(10 minutes)

Open the floor to questions. The Leader's Guide is written in Q&A format to help you anticipate frequently asked questions.

Wrap-up and evaluation

(5 minutes)

Review participants' expectations from the beginning of the course. Discuss whether or not the seminar lived up to those expectations.

Questions to generate discussion:

- *Was enough time spent on the topics for you to gain a thorough understanding?*
- *Which topics were the most interesting, or valuable, to you in your work or in your daily life?*

Congratulate participants on their attention and participation in the day's training. Ask them to fill out the "Seminar Evaluation Form" and leave it with you on their way out.

TIP: If participants would like to know more about the MoneyWi\$e program, direct them to www.consumer-action.org. From the Consumer Action home page, click on "Select a Subsite" on the right and then choose "MoneyWi\$e" from the drop-down menu.

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Are Julee and Jimmy in Trouble? MoneyWi\$e Classroom Activity

Using the following guidelines, assess the financial information for Julee and Jimmy to determine if you think they are in danger of financial trouble:

- *You usually can afford a maximum monthly rent or mortgage payment of 25%-28% of your monthly gross (before tax) income. (If you are a homeowner, this percentage includes your principal and interest mortgage payment, real estate taxes and insurance.)*
- *Your rent (or mortgage payment) plus other monthly debt payments should not exceed 36% of your gross monthly income. (This means that your other monthly debt payments, including credit cards, should be no more than about 8% of your monthly gross income.)*
- *At minimum, experts advise that you have emergency savings equal to three to six months of your expenses.*
- *Money left over after all obligations are paid each month and you have contributed to your savings account is called “discretionary income.” This is “leftover” money that you can add to your savings or spend on anything you choose.*

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Julee's Monthly Financial Profile

Monthly pay (before taxes) 2,900.00

Monthly expenses:

Payroll deductions (taxes, etc.)	710.00
Monthly rent	1,050.00
Monthly auto loan payment	270.00
Monthly credit card payments @ 4%	220.00
Other monthly loan payments (hospital debt)	165.00
Monthly living expenses	400.00
Monthly savings	50.00
Total expenses	2,865.00

Leftover money ("discretionary income") 35.00

Emergency savings fund 1,200.00

Julee's credit card balances 5,500.00

Assess Julee's finances

1. What percentage of her income does Julee pay in rent? _____
2. What percentage of her income does Julee need to satisfy her credit card payments, car loan and hospital debt? _____
3. Does Julee have enough money in her emergency savings fund? Why or why not? _____

4. How do you assess Julee's overall financial picture? _____

5. What advice would you give Julee about her finances? _____

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Jimmy's Monthly Financial Profile

Monthly pay (before taxes) 5,400.00

Monthly expenses	
Payroll deductions (taxes, etc.)	1,525.00
Monthly mortgage payment with taxes and insurance	1,500.00
Monthly auto loan payment	319.00
Monthly credit card payments @ 4%	280.00
Other monthly loan payments (student loans)	150.00
Monthly living expenses	750.00
Monthly savings	250.00
Support of his mom	500.00
Total expenses	3,864.00

Leftover money ("discretionary income") 126.00

Emergency savings fund 3,800.00

Jimmy's credit card balances 7,000.00

Assess Jimmy's finances:

1. What percentage of his income does Jimmy pay for housing (mortgage payment, property taxes and homeowners insurance)? _____

2. What percentage of his income goes to Jimmy's credit card payments and car and student loan installments? _____

3. If Jimmy loses his job, how long will he be able to pay his bills without finding a new job? Explain: _____

4. Do you think Jimmy uses his income wisely? _____

5. What advice would you give Jimmy about his finances? _____

Answers

Julee:

1. 36%
2. 23% (rounded up from 22.586).
3. Julee has \$1,200 in her savings fund. This is much less than the three to six months' income recommended by experts. Julee pays more than the 25%-28% of her gross monthly income recommended for rent and more than the 36% maximum for total housing and debt payments.
4. Because she has credit card balances and is paying off a hospital bill, Julie's monthly income is being drained by higher-than-recommended credit payments. All in all, Julee is spending too much considering her income and not saving enough.
5. Julee owes \$5,500 on her credit cards—she might want to consider ways to pay off the cards as soon as possible. Julee might look into transferring the balances to a low-rate credit card so she can pay them off faster by making more than the minimum payment. Julee also might want to consider moving to lower-priced housing if it's available.

Jimmy:

1. 28%
2. 14%
3. Jimmy would be able to cover his current expenses for about one month using his savings of \$3,800. (This would cover his housing costs, auto and student loan payments, credit card payments, monthly living expenses and support of his mom—a total of \$3,400.)
4. Some of Jimmy's expenses show that he is not using his income wisely. For instance, Jimmy's monthly debt payments push him over the recommended 36% maximum for combined housing and debt payments.
5. Jimmy has a high balance on his credit cards. If he lost his job, he might have trouble making the minimum monthly payment on such a large amount. Jimmy is admirable for helping to support his mom, but he might be wiser to save this money for his own retirement. At his current spending levels, Jimmy has very little money left over each month for unexpected expenses, such as car or home appliance repairs. Jimmy would be wise to save more money so that he could weather a job layoff.

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Warning Signs of Debt Trouble (Self-Questionnaire)

This questionnaire is for you to take home and complete. It is designed to help you assess whether you are headed for serious debt trouble.

- Yes No I spend more than 20% of my monthly income on consumer debt payments. (To find the answer to this question, fill out the accompanying Debt Payment Worksheet.)
- Yes No My credit cards are charged to the max.
- Yes No I use one credit card to pay the bill for other credit cards.
- Yes No I make only the minimum payments on my credit cards, and continue to make charges.
- Yes No I don't pay all my bills every month.
- Yes No I have thought about seeking help with my spending.
- Yes No I have responded to debt consolidation ads or offers.
- Yes No I use my credit card to buy groceries because I don't have enough money in the bank.
- Yes No I have bounced checks.
- Yes No I have borrowed money from a payday lender.
- Yes No I have pawned some possessions to get cash.
- Yes No Collection agencies are calling me.
- Yes No I have late payments and other negative information on my credit report.
- Yes No My paycheck has been garnished.
- Yes No I am behind with my child support payments.*
- Yes No I spend more than I earn every month.
- Yes No Sometimes I buy things I don't need and can't afford.
- Yes No I have been late with my rent or mortgage payment.
- Yes No I have been late with my car loan payment.
- Yes No I have had my phone or lights shut off because I didn't pay the bill on time.
- Yes No I have had my car repossessed.
- Yes No I fear that I might lose my job.
- Yes No I don't have any health insurance.
- Yes No I don't have any homeowners or renters insurance.
- Yes No I don't have disability insurance.
- Yes No I don't know how much I owe.

Yes: _____ No: _____

(In the spaces just above, add up the total number of Yes and No answers.)

How to evaluate your answers: One or more "Yes" answer signals that you may have debt problems or be at risk for money trouble. The more "Yes" answers you have, the more serious your financial problems may become. If you answer "Yes" to most of the questions, filing bankruptcy might help you make a financial fresh start. **Bankruptcy will not erase your child support obligations.*

A MoneyWi\$e Training: Personal Bankruptcy

Debt Payment Worksheet

This worksheet is for you to take home and complete.

When you owe money for purchases that don't increase in value over time, the amount you owe is your **consumer debt**. This kind of debt doesn't include home loans (mortgages) but does include credit card balances, department store cards, student loans and auto loans.

If more than 10% to 15% of your after-tax income goes to pay off your consumer debt, you may have problems paying your bills. This means you could face default, which would negatively affect your credit record.

Use this chart to figure how your percentage of consumer debt fits into this guideline:

Monthly Debt Payments

Exclude your home loan (mortgage) and credit accounts or bills you normally pay in full.

Monthly Debts	Sample Payments	Fill in your information
Car loan	\$200	
Student loan	\$80	
Credit card 1	\$125	
Credit card 2	<i>N/A</i>	
Department store card 1	\$45	
Department store card 2	<i>N/A</i>	
Other	<i>N/A</i>	
Other	<i>N/A</i>	
Total debt payments:	\$450	
Monthly take-home pay:	\$3,500	
Divide total debt payments by monthly take-home pay:	<i>\$450 divided by \$3,500 = 0.128</i>	
Round the percentage to two decimals.	<i>Rounding 0.128 gives you 13%*</i>	

***Ideally, this percentage should be under 10%. If the percentage is between 15% and 20%, you are carrying too much consumer debt in relation to your income. The higher the percentage, the greater the likelihood that you are heading for debt trouble.**

The True Cost of Credit: A MoneyWi\$e Guessing Game

This activity is designed to test your instincts about the cost of buying things on credit. **Note:** The examples may not give you all of the information you need to find the answer using math—*just take your best guess!*

Check the box that you believe gives the true cost of buying these goods on credit:

1. You buy a leather jacket from a mail order catalog. The jacket costs \$395. The company charges you \$24.99 to ship the jacket. You charge the jacket to your credit card, which has an annual interest rate of 17%. Each month you pay only 2% of your balance as the minimum payment that the card company asks for. The total cost of your jacket purchase, including finance charges, is:

- \$400.00
- \$450.33
- \$555.47
- \$642.53

Bonus question: How long would it take for you to pay for the jacket?

- 9 months
- 2 years, 2 months
- 3 years, 6 months
- 5 years, 5 months

2. You buy a used car for \$9,000. You pay \$1,500 out of pocket. You choose a 6-year loan with an annual interest rate of 6.49%. The total cost of your car, including finance charges, is:

- \$7,500.00
- \$8,800.63
- \$9,074.79
- \$10,574.79

Bonus question: What is your monthly car payment?

- \$95.95
- \$126.04
- \$245.33
- \$310.66

3. You buy a house for \$112,000. You make a 10% down payment of \$11,200 and finance the remaining balance with a 30-year fixed rate mortgage with an annual percentage rate of 7%. Assuming you don't refinance the loan, what is the total you will pay, including finance charges, to own this house:

- \$112,000.11
- \$140,629.20
- \$173,200.65
- \$252,629.20

Bonus question: What is your monthly mortgage payment, *not* including property tax or homeowners insurance:

- \$550
- \$670.62
- \$989.77
- \$1,200.56

The True Cost of Credit: A MoneyWi\$e Guessing Game—Answer Key

1. Answer: The total cost of the purchase is \$642.53. This includes the original purchase price, shipping and \$222.54 in finance charges. It would take 5 years, 5 months to pay for the jacket.

Q. How could you cut down on interest payments and pay for the jacket in a shorter time?

A: You could make a higher monthly payment, or you could transfer the balance to a lower-rate credit card.

2. Answer: The total cost of the car is \$10,574.79, including the amount financed, the down payment and all finance charges. The monthly payment is \$126.04.

Q. How could you cut down on finance charges?

A: Arrange for a shorter loan term—perhaps a four- or five-year term instead of six.

Q. How would choosing a shorter loan term affect your monthly payment?

A: Your monthly payment would be higher, but you should be able to get a lower interest rate by choosing a shorter term, which can offset some of the increase. For instance, if you chose a five-year term in the same example given in Question 2, you would have been offered a 5.89% interest rate, which would have resulted in a payment of \$144.61—about \$20 more per month. With the five-year term, you would have saved \$398 in interest.

3. Answer: \$252,629.20 is the total cost of the home purchase paid over 30 years, which includes the full purchase price of \$112,000 plus finance charges of \$140,629.20. The monthly mortgage payment is \$670.62.

Q: Can you think of ways to lower your monthly mortgage payment?

A: You could make a larger down payment, or you could shop around for a mortgage with a lower interest rate.

A MoneyWi\$e Training: Personal Bankruptcy

Evaluation of the MoneyWi\$e "Bankruptcy" Seminar (For class distribution)

Thanks for attending!

Before you leave today, please help us improve future presentations by giving us your opinion of today's seminar. Circle the response that best reflects your feelings about each statement:

1. I have a better understanding of the options available under bankruptcy.
Strongly agree Agree Disagree Strongly disagree
2. I have a better understanding of how bankruptcy can offer a financial fresh start.
Strongly agree Agree Disagree Strongly disagree
3. I have a better understanding of the pros and cons of filing bankruptcy.
Strongly agree Agree Disagree Strongly disagree
4. The instructor was well informed.
Strongly agree Agree Disagree Strongly disagree
5. The materials I was given are easy to read and understand.
Strongly agree Agree Disagree Strongly disagree
6. I would like to attend another class like this.
Strongly agree Agree Disagree Strongly disagree

On a scale of 1 to 10 (**10 being the highest**), how would you rate the seminar? _____

What else would you like to tell us about how we could improve future MoneyWi\$e seminars?

Please return this form to the instructor.

Thank you for giving us your thoughts!