



Credit Reporting Agencies

- There are three main credit reporting agencies in the United States: **Equifax**, **Experian**, and **TransUnion**. By law, people are entitled to a free copy of their credit report from each of these companies once every 12 months.

Modern Credit Reporting

- In 1971, Congress passed the **Fair Credit Reporting Act (FCRA)**, which established a framework for fair information practices to protect privacy and promote accuracy in credit reporting. Consumers gained the right to view, dispute and correct their records.

Credit Reporting Agencies

- The most popular credit score is the **FICO score**. The score ranges from about 300 to 850, with the higher score reflecting a lower risk for the lender.

FICO Scores

Credit Score Chart	
Score	Grading
720 and Above	Excellent
680 to 719	Good
620 to 679	Average
580 to 619	Poor
500 to 579	Bad
Less than 500	Miserable

Credit Tips

- Excluding rent or mortgage the maximum percentage of disposable income going toward loan payments is 20%.

Credit Tips

- When paying off multiple debts, first payoff any debts small enough to be quickly paid in full.
- If none can be paid in full quickly, then payoff the loan with the highest interest rate.


Credit Tips

- If a mistake is found on a credit card statement, first notify the company "in writing" of the error.
- Limit the number of credit cards you have.
- Try to only charge what you can pay off each month.

Rule of Thumb [20%]

- $Y = \text{Monthly Take Home Pay}$
- $X = \text{Monthly Car Payment}$
- $Y = 5X$
- Ex: $Y = \$250 \times 5$
- $Y = \$1250 \text{ min. month take home}$

THEME 6 Debt



Current as of December 2014


- U.S. household consumer debt profile:
 - Average credit card debt: **\$15,611**
 - Average mortgage debt: **\$155,192**
 - Average student loan debt: **\$32,264**

Current as of December 2014

- In total, American consumers owe:
 - \$11.74 trillion in debt
 - \$882.6 billion in credit card debt
 - \$8.14 trillion in mortgages
 - \$1.13 trillion in student loans

Financial Consequences of Debt

- Overspending
- Paying high interest rates
- Lowers credit score
- Difficulty getting a loan



How-To Guide: Reduce Your Debt

- A Debt Snowball is a debt elimination strategy popularized by Dave Ramsey.
- Reduce your debt by paying the minimum monthly payment to all debts, except the one with the smallest balance, which you'll try to pay down as fast as you can.

How-To Guide: Reduce Your Debt

- The basic steps in the Debt Snowball debt reduction plan are as follows:
 - List all debts from smallest balance to largest. Some people (including me) advocate paying the highest interest rate debt first, but that's not the Debt Snowball method.

How-To Guide: Reduce Your Debt

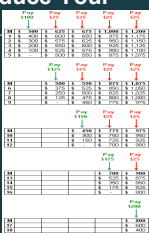
- Pay the minimum payment on every debt, except the smallest debt.
- Pay as much as you can towards that smallest debt until it is paid off.

How-To Guide: Reduce Your Debt

- Once the smallest debt is paid in full, repeat the process by paying as much as you can toward the second smallest debt.

How-To Guide: Reduce Your Debt

- An Illustration Of The Debt Snowball



Bankruptcy

- When debt gets beyond your control this may be your only option.
- **Bankruptcy** - A legal process to get out of debt when you can no longer make all your required payments.



Reasons for Bankruptcy

- **Medical Expenses**
- **Job Loss**
- **Business Losses**
- **Natural Disaster**
- **Credit Card Debt**

Bankruptcy Basics

- **Chapter 7**
 - **LIQUIDATION**
 - makes up about 70 percent of non-business bankruptcy cases
 - wipes out all allowable debts and allows certain personal property exemptions.

Bankruptcy Basics

- **Chapter 13**
 - **REORGANIZATION**
 - makes up for about 30 percent of non-business bankruptcy filings
 - is a court-approved repayment plan.

Bankruptcy Basics

- Chapter 9: may only be applied to municipalities such as cities or towns and allows for their reorganization.
- Chapter 11: is the third most common type of bankruptcy filing. Used to reorganize businesses but may be used by individuals as well.

Bankruptcy Basics

- Chapter 12: is used exclusively to adjust the debts of a family farmer or family fisherman.
- Chapter 15: applies to cross-border cases, in which the debtor has assets and debts both in the United States and elsewhere.

Changes to Bankruptcy Law

- New law in effect October 17, 2005.
- New limits on personal bankruptcy.
- Requires those filing to get counseling before they are allowed to file.
- Bars filers with above-average income from filing Ch.7 (liquidation).
- New debt may not be discharged.

Things to Do BEFORE Filing:

- Reduce your spending
- Talk with your creditors.
- Talk with a nonprofit counseling agency.
- Talk with an attorney & understand the consequences of bankruptcy.
- Consider consolidation carefully.

TIPS TO REMEMBER

- Keep track of your daily expenses.
- Save money on a regular basis.
- Make changes right away if you see yourself starting to get into financial trouble.
- Pay attention to your household finances, especially if married.

Class Activity

- Try and be one of the first 5 to complete the following:
- What is the minimum monthly salary needed to afford a car payment of \$490.

□ **\$2450**