

Young and Financially Empowered!

Financial Lessons for Those in their 20s

Teacher's Guide

Series: DRS Client Education (Part 1 of 4)

Program Length: 45-90 Minutes

Audience: DRS Clients age 20-29



Young and Financially Empowered

by Debt Reduction Services Inc

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Published by Debt Reduction Services Inc, Boise, Idaho
Printed in the United States of America

Excessive consumer debt stinks. There's no doubt about that. And when such debts occur in our early adulthood, they not only feel stifling, but they can obscure and threaten our entire future. These debts can cause physical, emotional and relationship stresses that, in turn, can lead to poor health, bad decisions, job loss, and even divorce and suicide.

Debt is not in and of itself a bad thing. Debt is simply a tool, and like any tool, it can be misused and lead to devastating effects in our lives.

LEARNING OBJECTIVES

Participants will:

- I. Recognize signs of financial trouble common to those in their 20s (particularly debts associated with credit cards, student loans, car loans and unpaid bills)
- II. Identify current and future problems associated with excessive debts
- III. Predict the negative outcomes of excessive debts
- IV. Apply knowledge to determine how to get out and stay out of debt
- V. Remember what their options are in the future for paying off consumer debts
- VI. Explain the most common reasons for filing for bankruptcy and consequences on financial futures of those in their 20s (and that student loans are typically "bankruptcy-proof")
- VII. Recognize which types of loans come with high costs (interests and fees) and which tend to target (or even deceive) young adults
- VIII. Compare and contrast the negative and positive consequences of different repayment options

Topic: ... Preventing and Eliminating Debt

Time Required: 45-90 minutes

SUPPLIES, MATERIALS & EQUIPMENT

- Projector and screen (optional)
- Project DEBT-o-nation PowerPoint (optional)
- Participant handouts (4)

PREPARATION:

- Copy Financial Toolboxes
- Copy and cut Debt "At a Glance" Cards
- Copy "It's Not That Bad, Is It?" Activity Sheets
- Copy "Which Repayment Option Rocks?" Activity Sheets

PARTICIPANT HANDOUTS:

- Financial Toolbox: DEBT
- Debt "At a Glance" Cards
- "It's Not That Bad, Is It?" Activity Sheets
- "Which Repayment Option Rocks?" Activity Sheets

Discussion Question: What can I do to avoid the problems of consumer debt?

INSTRUCTOR TIPS
<p>Discussion Question: The Discussion Question is meant to grab the participants' attention and interest, encourage engagement, and begin them on the steps up Bloom's taxonomy of learning (Remember, Understand, Apply, Analyze, Evaluate & Create). It addresses ideas that are relevant to the participants' lives from a top-level perspective.</p>
<p>Personal Experience:</p>
<p>Current Event Ideas: Consider mentioning or referring to current events (local, regional, national or global) that have to do with excessive personal debt or missing payments. It may be appropriate to mention a public figure (politician, professional athlete, musician, actor or other celebrity) who has lost his or her home or has filed for bankruptcy.</p>
<p>Story Relevant to Participants' Lives:</p>
<p>Links to Other Lessons:</p>

I. Recognizing ProblemSigns of Financial Trouble

Suggested Time: 5-10 minutes

1. What are some everyday signs or indications that there are currently or soon may be financial troubles in your life? How do you know you're in or about to be in financial trouble?
 - Debt: You can't make your standard student loan payment
 - Debt: Your car payment & insurance is more than 15% of your net pay.
 - Debt: You carry a balance on your credit card from one month to the next.
 - Debt: You have borrowed or are considering borrowing from family or friends to pay for common living expenses (e.g. rent, loan).
 - Debt: You have gone over your credit card credit limit.
 - Debt: You make only the minimum payments on your debts.
 - Debt: You've take out or are considering taking out a payday loan.
 - Debt: Your collective minimum loan payments (excluding mortgage) are more than 20% of your monthly income.
 - Debt: Your credit card interest rate has been changed to the much higher "default" (penalty) rate (typically in the 20% to 30% range).
 - Banking: You do not regularly balance your account statements.
 - Banking: You have had debit cards purchases declined.
 - Banking: You have no checking account at a bank or credit union.
 - Bills: You frequently miss paying an obligation (bills, utilities, etc...).
 - Saving: You have no savings or very little savings.
 - General: You feel like you must work overtime to pay your living expenses.
 - General: You have delayed doctor visits for financial reasons.
 - General: You have pawned or are considering pawning possessions.
 - General: You have used or are considering renting-to-own a piece of furniture, electronics, or appliance.
 - General: You lose sleep due to financial worries.

II. Identify.....Potentially Good, Bad & Ugly Debt

Suggested Time: 5-10 minutes

2. Is all debt bad? What makes debt potentially good, practical or bad?
 - Cost of interest, Grace periods, Minimum payments and payoff projections
 - Potentially Good Debt: Likely to increase net worth (Home, Business, School and, though rarely, a car) Spend
 - Practical: Credit card debt paid off in full each month
 - Bad: All others

III. PredictWhat Are the Possible Outcomes of Excessive Debt?

Suggested Time: 5-10 minutes

3. On the handout, "It's Not That Bad, Is It?" circle the consequences you think might happen if you got into too much debt?
 - Have participants complete the activity
 - Review answers and possible outcomes of excessive debts
 - Answers: All can be circled except Go to Jail, TV Repossessed, Denied Utilities Account, Have Degree Cancelled, Be Kicked Out of College

IV. Apply Getting and Staying Out of Debt

Suggested Time: 5-10 minutes

4. What are the steps to getting out and staying out of debt?
 - Stop the Slide
 - Credit and Live by a Spending Plan
 - Have participants repeat "I Live by a Budget! after you. Do it three times, louder each time. If you're not confident or comfortable with such a request, skip this interaction.
 - Modify Spending Habits and Behaviors
5. What are the components of a Spending Plan?
 - Establish and write down one to three goals
 - Add income
 - Subtract expenses
 - Increase income and/or reduce expenses
6. What spending habits and behaviors might you need change to live below your mean? What success have you or your acquaintances had in overcoming these negative spending behaviors?
 - Impulse spending (create a goals card and place in wallet/purse)
 - Sales spending (Sales are occasion to spend, not opportunities to save)
 - Bad timing spending (hungry, stressed, hurried, with kids)
 - Entitlement spending ("I deserve this" or "I work just as hard")
 - Compensatory (making up for lack of time, drive or confidence)

V. Remember What Are Our Options when We're in Debt?

Suggested Time: 5-10 minutes

7. How do people get out of debt or deal with too much debt? What are the consequences of the various options?
 - Pay as agreed: Make requested payments until paid off.
 - Transfer debt from one credit card/loan to another while making minimum payments. (This is moving debt, not paying it off. It may cause problems if transfers don't happen on time or as expected).
 - Ask their creditors for lower interest rates. (If creditor knows we have multiple accounts, they're likely to refer us to a credit counselor – As proof, all credit card statements now list phone of credit counselor)
 - Consolidate multiple debts into one loan (usually at high interest rate if even approved, though unlikely).
 - Use a nonprofit credit counseling agency to lower their interest rates and make repayment more affordable. Takes 5 years or less.
 - Use a debt settlement company that tries to lower the amount you owe, but rarely succeeds. Can end in judgment and garnishment.
 - File for bankruptcy to eliminate financial obligations (except child/familial support, student loans, recent back taxes, and recent debts).
 - Ignore the debts, although this leads to wage garnishments and loss of tax refunds.

INSTRUCTOR TIPS
<i>Additional Questions:</i>
<i>Personal Experience:</i>
<i>Current Event Ideas:</i>
<i>Story Relevant to Participants' Lives:</i>
<i>Links to Other Lessons:</i>

INSTRUCTOR TIPS

Additional Questions:

Personal Experience:

Current Event Ideas:

Story Relevant to Participants' Lives:

We had a participant in one class share her story: She had taken out three \$500 payday loans and paid only the "roll over" or repayment extension fee (about \$225) every two weeks for five years. She had paid over \$29K and still owed the original \$1.5K. Such rolling over has been limited in many states to 3 or 4 times.

Links to Other Lessons:

VI. Explain..... Why People File for Bankruptcy

Suggested Time: 5-10 minutes

8. Identify and explain why most 20-something bankruptcy filers file?*
- What do you think the most common reasons are for 20-somethings to file for bankruptcy?
- Only 35% had a mortgage
 - 45% had \$20k-\$49k in non-mortgage debt
 - Most common debts: Credit card (73%), Medical (70%), Vehicle (60%), Student Loan (25%), Mortgage (24%), Payday loans (17%)
 - Most common reason for filing: Job loss/Income reduction (36%), Medical expenses (26%), Overspending (13%), Overuse of Credit cards (10%), Divorce (9%)
 - How much savings did they have in their accounts before heading to bankruptcy? \$0 (68%), Less than \$1k (27%)

*Based upon our bankruptcy survey of well over 300 filers in their 20s

VII. Recognize Painful Debts

Suggested Time: 5-10 minutes

9. What do the following lenders/creditors have in common? (High interest rates/fees)
- Title Loan (50%-100%)*
 - Rent-to-own Contract (100%-500%)*
 - Corner Finance Company (20%-50%)*
 - Checking Account Overdraft (10%-100%)*
 - Credit Card Cash Advance (20%-30%)*
 - Payday Loan (390%-800%+)
 - Pawn Shop Loan (50%-100%)
 - Tax Refund Anticipation Loan (50%-500%)

*Young adults in particular are often unaware of these dangers because they can be marketed in deceptive (or borderline deceptive) ways.

VIII. Compare Solutions Which repayment option rocks?

Suggested Time: 5-10 minutes

10. Using handout "Which Repayment Option Rocks?" rank, from best (1) to worst (5), the listed debt repayment options with regard to their impact on your finances. Answers:
1. Pay as agreed
 2. Use a nonprofit credit counselor (non direct impact on FICO credit score -www.myfico.com/crediteducation/whatsnotinyourscore.aspx; temporary notation on credit report; 3-5 year pay off; enrollment and maintenance fees)
 3. Settle your debts for less than the balance owed (judgment and garnishments)
 4. File for bankruptcy (Typically takes bankruptcy filers 1-2 decades to catch back up with non-filers with regards to income and network: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1208151. Infers that the younger the filers, the less drastic the impact)
 5. Ignore your debts



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