

Young and Financially Empowered!

Financial Lessons for Those in their 20s

Student Handout

Series: DRS Client Education (Part 1 of 4)
Webinar & Materials available at:

www.DebtReductionServices.org/Education/Webinars



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Financial Lessons for Those in Their 20s

As a 20-something, you have great hopes and dreams for your future. Life may stretch out in front of you like a blank canvas before a painter. At Debt Reduction Services, Inc., we hope that the future you paint for yourself is beautiful and satisfying.

Unfortunately, we all make mistakes, and financial mistakes can seem among the most frustrating and dire of all. The good news is that, at your age, time is your biggest ally, and you should still expect to have a great financial life in spite of the financial missteps you make. The bad news is that, if ignored and not corrected, these missteps might transform themselves into habits and patterns of behavior that can lead you down an entirely different, and even unpleasant, financial path in life.

The following information and activities form a part of our Financially Empowered series of programs for our credit counseling and debt management clients at specific periods in their lives. That said, this information can and should be shared with anyone going through similar challenges, as it can help smooth out the rocky path of financial lapses. In addition to these handouts, there is a companion pre-recorded webinar (approx. 45 minutes) and even a quiz (for credit toward a certificate of completion) available on the webinars page of our education site at www.DebtReductionServices.org.

Signs of Financial Trouble

The following is an abbreviated list of signs or indications that we are, or may soon be, in financial trouble. If you recognize any of these signs in your own life, now is the time to pay more attention to your finances or even to seek out a competent and trusted, third-party professional.

Debt

- You can't make your standard student loan payment
- Your car payment & insurance is more than 15% of your net pay.
- You carry a balance on your credit card from one month to the next.
- You have borrowed or are considering borrowing from family or friends to pay for common living expenses (e.g. rent, loan).
- You have gone over your credit card credit limit.
- You make only the minimum payments on your debts.
- You've take out or are considering taking out a payday loan.
- Your collective minimum loan payments (excluding mortgage) are more than 20% of your monthly income.
- Your credit card interest rate has been changed to the much higher "default" (penalty) rate (typically in the 20% to 30% range).
- You have pawned or are considering pawning possessions.

Banking, Savings & Bills

- You do not regularly balance your account statements.
- You have had debit cards purchases declined.
- You have no checking account at a bank or credit union.
- You frequently miss paying an obligation (bills, utilities, etc...).
- You have no savings or very little savings.

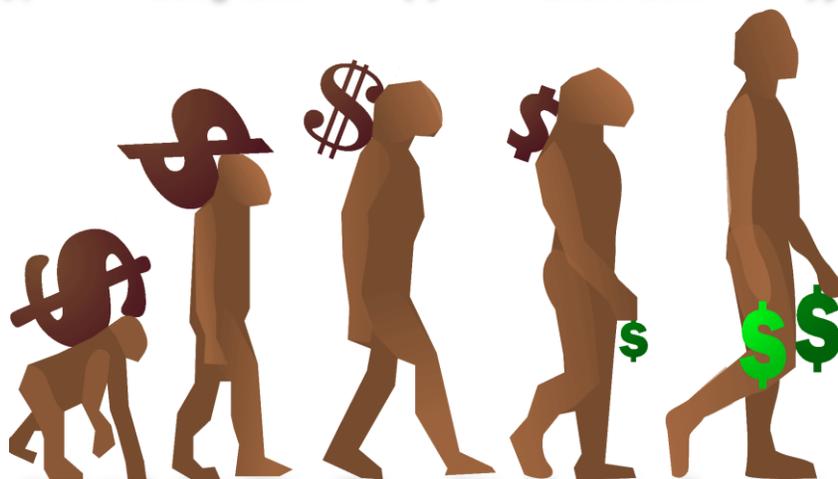
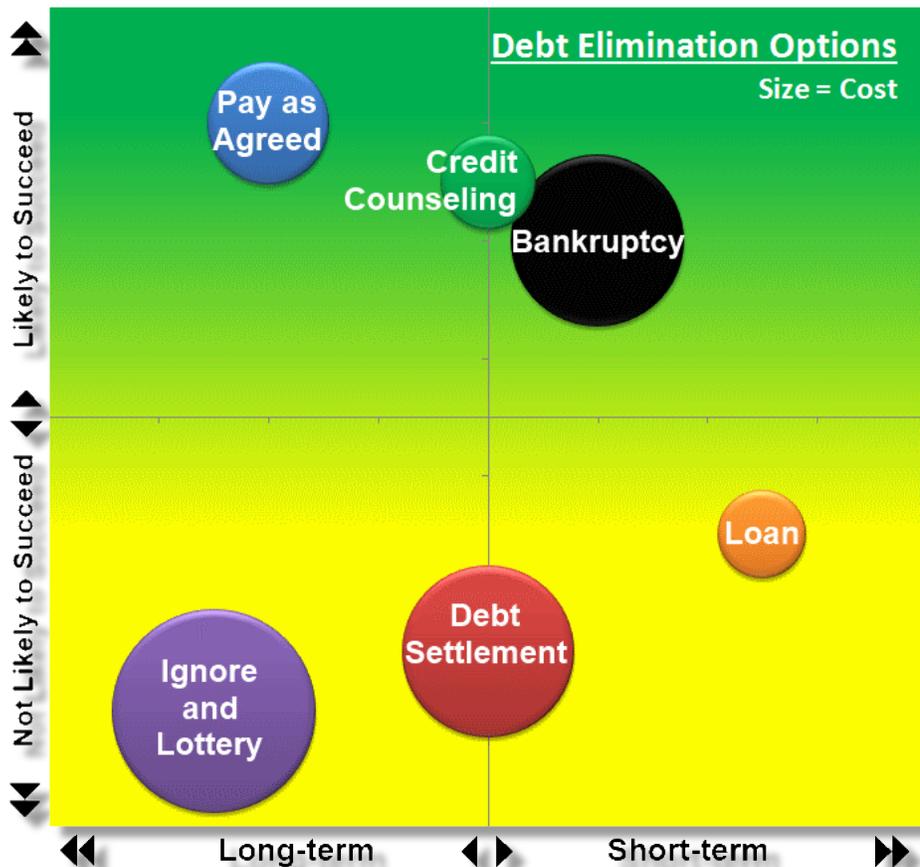
General

- You feel like you must work overtime to pay your living expenses.
- You have delayed doctor visits for financial reasons.
- You have used or are considering using a rent-to-own to acquire a piece of furniture, electronics, or an appliance.
- You lose sleep due to financial worries.

Getting Out of Debt

Options and Consequences

There are many options to consider when you have significant amounts of debt. Some seem to offer immediate help but may cause troubles down the road. Others require extra effort and patience but may render your financial future much more palatable. Consider the following chart, which lists them vertically based upon how likely they are to succeed and horizontally based upon the length of time they require to complete. The size of the bubble indicates the cost of the option, including fees, negative impact to your credit and long-term financial consequences.



Debt Repayment Options

1. **Consolidation Loan**
You take out a new, single loan to pay off other loans. Typically the interest rates and/or length of loan will be significantly higher, meaning you'll pay more interest over time.
2. **Credit Counseling**
Third-party attempts to negotiate better interest rates, stops late and over-limit fees, and lower monthly payments. Typically takes 3-5 years. It is not a factor in the FICO credit rating model.
3. **Debt Settlement**
Third-party attempts to negotiate a lower principle balance after collecting fees and payments for 1-4 years. Rarely successful. Always hurts credit rating. Can lead to judgments and wage garnishments.
4. **File Bankruptcy**
Legal proceeding in federal court asking the government to protect your assets, possibly avoid foreclosure and protect your wages from garnishments.
5. **Ignore**
Ignoring bills, collection calls, and other correspondence from creditors typically leads to additional fees, increased credit rating damage, and higher anxiety.
6. **Pay Off as Agreed**
Making at least your minimum payments (in full is best) on time and according to your loan/credit agreement is the best thing you can do to build your credit rating and avoid the pain of penalty fees and collections.

It's Not THAT Bad, Is It?!

Predict possible consequences of being unable to pay your debts. Circle common consequences you think might result from such actions.

- Repossessed TV
- Poor
- Health
- Pay Higher Car Insurance
- Be Denied a Loan
- Lose a Job
- Vehicle Repossessed
- Be Denied an Apartment
- Be Charged Higher Interest
- Be Kicked Out of College
- Require a Larger Deposit
- Pay Extra Fees
- Be Refused a Cell Phone
- Lose Home to Foreclosure
- Divorce
- Unable to Sell Home
- Be Refused a Utilities Account
- Not Get Hired
- Have Degree Cancelled
- File Bankruptcy
- Go to Jail

Which Repayment Option Rocks?

1. Draw a line between the debt repayment option on the left and its matching description on the right.

Ignore	Negotiate smaller balance to pay off
Debt Settlement	Ask a judge to cancel your obligations
Credit Counseling	Attempt to stop thinking about the debt
Pay Off as Agreed	Ask a company to lower your interest rates
File Bankruptcy	Make requested payments each month

2. Rank the options in order of best impact (1) to worse impact on your finances (5).

- Ignore _____
- Debt Settlement _____
- Credit Counseling _____
- Pay Off as Agreed..... _____
- File Bankruptcy _____



Debt Reduction Services, Inc.

6213 N Cloverdale Rd Ste 100

Boise ID 83713

Toll-free (877) 688-3328

www.DebtReductionServices.org

Education@DebtReductionServices.org

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