

# CREDIT

## ACTIVITY 6



### Managing Credit Challenges

#### RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

#### OBJECTIVES

Participants will:

- Recognize warning signs of credit abuse.
- Identify available assistance and resources for coping with credit issues.

#### MATERIALS NEEDED

- Overhead projector and screen\*
- Overhead transparency
- Activity handouts

#### ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

Credit is of great interest to everyone. Facilitators cannot be expected to know everything about credit. Be honest with all questions. If you do not know the answer to a question, be up front and explain, *“I do not know the answer to your question. However, I will find the answer and get back with you.”* Be sure to write down the question and follow through when you commit to finding an answer.

This activity may seem brief, but it covers significant financial concepts. There is only one overhead for this activity, and several handouts. This process reflects the need to cover basic financial material in an informal way that will allow participants to add personal notes to their handouts for later reference.

\* If an overhead projector isn't available, consider making photocopies of the overhead transparencies for handouts instead.

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## ACTIVITY 6 - DELIVERY NOTES



### Managing Credit Challenges

#### Presentation Opening

- Welcome the participants.
- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where participants can see and refer to it during the session. Some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

#### Activity Overview

Review the topics for discussion in this activity:

Managing Credit Challenges

- Trouble Signs
- Resources and Assistance

Display “**Overhead 1: Your Debt-to-Income Ratio**” and discuss the following points:

- The Debt-to-Income ratio is the percentage of your monthly income that is consumed by monthly debt **and** housing payments.
- Based on a monthly gross income of \$3,750 and current monthly debt and housing payments of \$712, the debt-to-income ratio would be 19%. That means for every dollar of income, \$.19 is being consumed for debt.
- Review the Overhead, which provides a general guide to help assess your level of debt.

Distribute “**Handout 1: Measuring the Seriousness of Credit Trouble Signs**” to each participant. Review the handout to make sure everyone understands the directions. Some terms may be unfamiliar to participants. Discourage any discussion at this point, but encourage participants to do their best in estimating the level of seriousness.

- Facilitators should note that *all* of the trouble signs should be marked **4**. The task’s objective is to emphasize that all trouble signs are serious and there are no lesser degrees of trouble signs.
- Allow participants a few minutes to complete the handout.
- Call time, and then move through the items listed in the chart as you ask for responses. Encourage participants to support their responses with reasons.
- Ask participants for additional trouble signs. Responses will vary.

### Visual Aids

#### Overhead 1

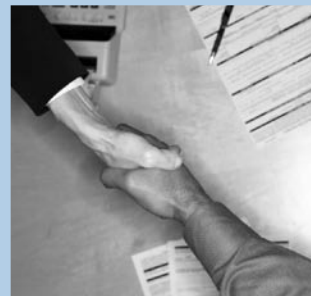
Your Debt-to-Income Ratio

#### Handout 1

Measuring the Seriousness of Credit Trouble Signs

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## ACTIVITY 6 - DELIVERY NOTES



- When all items have been covered, explain that it was not a trick activity but rather designed to show that all trouble signs are critical and should be treated with utmost seriousness.

Explain that since everyone has some familiarity with credit problem trouble signs, it would be important to discuss each so that such signs are recognizable.

Distribute **“Handout 2: Warning Signs of Debt Problems”** to each participant.

- Move through the categories, and provide a brief explanation.
- Encourage discussion.

Ask the participants to raise their hands if they believe that the minimum payment due is the only amount due on their credit card balance. Respond by letting them know that this is FALSE.

You actually owe the full balance and you’ll owe interest on any portion of the balance that you don’t pay.

Paying only the minimum payments on your credit card may seem appealing, but if only minimum payments are made, it can take years, and sometimes decades, to achieve full repayment. While paying the minimum amount due keeps your credit history clean, it also costs you more.

Many national banks and credit card issuers are increasing their monthly payment requirements. This industry-wide change comes at the recommendation of industry regulators and is intended to help customers pay down their balances more quickly. Credit card issuers work with regulators on a regular basis to ensure that their practices are in the best interest of consumers. This change in the minimum payment due is an example of that. Minimum due requirements vary from 2% to 4%.

If you only pay the minimum amount due each month, you will not only pay more in finance charges but it will take you longer to pay off the debt.

Distribute **“Handout 3: Credit Card Reductions”** and walk participants through the example. Note that the example shows how much money you can save by increasing the amount of the fixed monthly payments you make.

In the example, if you make fixed monthly payments of \$205, it would take you only one year and two months to be rid of your debt. However, if you pay only the minimum each month, your first payment would be \$55, but your subsequent payments would decrease slightly each month and thus delay the payoff of the debt. In that instance, it would take you more than 13 years to be rid of your debt.

### Visual Aids

#### Handout 2

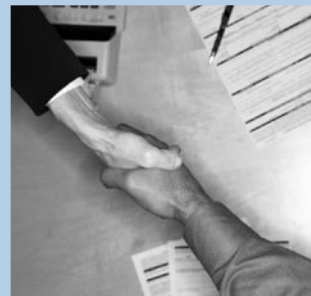
Warning Signs of Debt Problems

#### Handout 3

Credit Card Reductions

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## ACTIVITY 6 - DELIVERY NOTES



### Visual Aids

**Handout 4**  
Correcting Credit Errors

**Handout 5**  
Correcting Credit Problems

Explain that it is important to take charge of your credit by paying more than the minimum payment and by regularly monitoring your credit report. Errors do occur in credit reports, so it is important to review your report at least once a year.

Distribute **“Handout 4: Correcting Credit Errors,”** which describes the steps to take to correct errors and includes a sample dispute letter. Tell participants to keep Handout 4 and refer to it if they find errors in their credit report.

Unfortunately, sometimes the negative information in a report is not due to an error. If this is the case, there is nothing you can do to remove the negative information if it is accurate. However, there may be some credit problems that need to be corrected.

Distribute **“Handout 5: Correcting Credit Problems”** to each participant.

- Move through the steps and provide a brief explanation.
- Encourage discussion.

### Closing

Close the activity by reminding the participants that credit is a very valuable financial tool but that it must be used carefully and wisely. However, if credit problems do occur, there are solutions.

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a “sneak preview” of any activity to come.

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## ACTIVITY 6 - OVERHEAD 1



### YOUR DEBT-TO-INCOME RATIO

Debt-To-Income Ratio	How You're Doing	Analysis
51% or more		<b>DANGER!</b> Your debt-to-income ratio is at an extremely high level. At this level you may not be able to meet all of your monthly obligations and still make the minimum required payment on your consumer credit accounts.
39% to 50%		<b>HIGH!</b> Your debt-to-income ratio is at a high level. You probably need to reduce your debt level in order to accomplish your goals and objectives.
24% to 38%		<b>FAIR!</b> Although your debt-to-income ratio is at an acceptable level, you are still using a sizable amount of your income to service your debt payments.
16% to 23%		<b>GOOD!</b> Your debt-to-income ratio is at a safe level. You should be focusing on eliminating any high interest consumer debts that you may have.
15% or less		<b>GREAT!</b> You have a very low debt-to-income ratio if you have a home mortgage. You are in fair shape if all of your debt is consumer debt.

*Note: This example is for illustrative and educational purposes. Individual circumstances vary based on a variety of factors.*

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## ACTIVITY 6 - HANDOUT 1



### MEASURING THE SERIOUSNESS OF CREDIT TROUBLE SIGNS

Check the box that indicates how serious you believe the particular trouble sign is.

**1 = Not Serious; 4 = Very Serious**

TROUBLE SIGNS	How Serious?			
	1	2	3	4
1. Delinquent Payments				
2. Default Notices				
3. Repossessions				
4. Collection Agencies				
5. Lien				
6. Garnishment				
7. Others?				

# CREDIT

## ACTIVITY 6 - HANDOUT 2



### WARNING SIGNS OF DEBT PROBLEMS

#### 1. Delinquent Payments

Written notices that credit payments are overdue.

#### 2. Default Notices

If delinquent payments are not acknowledged, written notices are sent from the creditor warning that more serious steps will be taken if credit is not paid.

#### 3. Repossessions

When the creditor takes back an item that has been purchased, because of nonpayment.

#### 4. Collection Agencies

When a creditor has not received any response to written notices of nonpayment, the account can be turned over to a business that specializes in collecting unpaid debts.

#### 5. Judgement Lien

When a creditor has received no response from previous attempts to collect a debt, the creditor may be able to obtain a court order placing a claim on property or other types of security owned by the individual to recover the costs of the debt.

#### 6. Garnishment

If the borrower does not pay the credit bills, the creditor may be able to obtain a court order requesting that an employer deduct a percentage of the employee's paycheck and send it to the creditor before the paycheck is given to the employee.

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## ACTIVITY 6 - HANDOUT 3



### CREDIT CARD REDUCTIONS

Paying only the minimum payments on your credit card may seem appealing, but if only minimum payments are made, it can take years, and sometimes decades, to achieve full repayment.

- Paying the minimum amount due keeps your credit history clean, but it also costs you more.
- The first chart below shows what your true costs would be if you pay only the minimum payment on \$500, \$1,000, and \$2,500 balances.
- The second chart shows how increasing your monthly payment on a \$2,500 balance will reduce both your true costs and the time it takes to pay off the balance.

True Costs of Paying Only the Minimum Monthly Payment

Balance*	APR	First Month Payment	Interest Costs When Making Just the Minimum Payment	True Costs When Making Just the Minimum Payment on Time	Number of Years to Pay for the Item
\$500	15%	\$20	\$100	\$600	2.4
\$1,000	15%	\$22	\$552	\$1,552	6.3
\$2,500	15%	\$55	\$2,377	\$4,877	13.9

Impact of Paying More than the Minimum Monthly Payment on a \$2,500 Balance

Balance	APR	Monthly Payment	Interest Costs	True Costs	Number of Years to Pay for the Item
\$2,500	15%	\$55 (minimum)	\$2,377	\$4,877	13.9
\$2,500	15%	\$80	\$944	\$3,444	5.1
\$2,500	15%	\$105	\$584	\$3,084	3.1
\$2,500	15%	\$130	\$476	\$2,976	2.3
\$2,500	15%	\$155	\$394	\$2,894	1.8
\$2,500	15%	\$180	\$323	\$2,823	1.4
\$2,500	15%	\$205	\$242	\$2,742	1.2

**\*Assumptions:**

1. No additional sales 2. Customer is paying minimum due only (assuming 2.5% of payment rate for interest calculation). 3. Payment is made on time. 4. Minimum is the positive amortization scenario, maximum of financial charge + late fee + 1% and \$20, with a floor of 1.5%.

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## ACTIVITY 6 - HANDOUT 4 - PG. 1



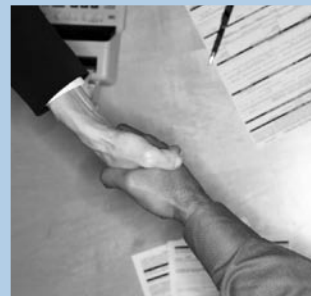
### CORRECTING CREDIT ERRORS

Unfortunately some credit reports contain serious errors that might cause consumers to be denied credit cards, car loans and even mortgages. That's why it is so important for you to regularly check your credit report. You don't need a credit repair company to fix mistakes on your credit report. Everything a credit repair clinic can do for you legally, you can do for yourself at little or no cost. If you find an error, take the following steps to correct it.

1. Make a copy of your credit report and circle every item you believe is incorrect.
2. Write a letter in English to the reporting agency (the address will be printed on the report). Tell the consumer reporting company, in writing, what information you think is inaccurate. Include copies (NOT originals) of documents that support your position. Explain each dispute and request an investigation to resolve the issues. (See sample dispute letter on Pg. 2.)
3. Send all materials by certified mail, return receipt requested, so that you can prove the packet was received.
4. Send a similar letter of dispute to the creditor whose reports you disagree with.
5. The reporting agency will initiate an investigation, contacting your creditors to verify the accuracy of the information. If the creditor cannot verify that the entry is correct, it must be removed. When the investigation is complete, the agency must send you a free copy of your report if changes were made.
6. If the investigation uncovers an error, you have the right to ask that a corrected version of your credit report be sent to everyone who received the report during the past six months.
7. If an investigation doesn't resolve your dispute with the consumer reporting company, you can ask that a 100-word statement of the dispute (either written by you or the consumer reporting company) be included in your file and in future reports. The credit-reporting agency must include this explanation in your report each time it sends it out.
8. Keep in mind that when negative information in your report is accurate, only the passage of time can assure its removal. Accurate negative information can generally stay on your report for seven years. Bankruptcies can remain on a credit report for up to ten years.

# CREDIT

## ACTIVITY 6 - HANDOUT 4 - PG. 2



### SAMPLE LETTER FROM THE FEDERAL TRADE COMMISSION: DISPUTING CREDIT REPORT ERRORS

Date  
Your Name  
Your Address, City, State, Zip Code

Complaint Department  
Name of Company  
Address  
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents, etc.) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

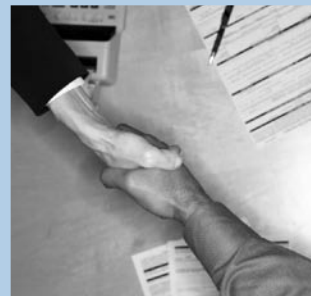
Sincerely,

Your name

Enclosures: (List what you are enclosing.)

# CREDIT

## ACTIVITY 6 - HANDOUT 5



### CORRECTING CREDIT PROBLEMS

#### **Take responsibility for actions.**

Examine spending patterns; recognize ways to correct bad habits. Establish a plan of action for getting out of debt, and stick with it.

#### **Communicate with creditors.**

Contact creditors to let them know there are temporary financial problems; request an adjustment in payment schedule.

#### **Debt Consolidation**

Consolidate, or merge, several debts into one new loan with manageable payments.

Do not continue to take on more debt.

Beware of unscrupulous debt consolidators. Shop around for the best deal.

#### **Credit Counseling**

Get professional guidance from trained individuals. Credit counselors will work with an individual to get him or her out of debt and establish a sound financial management plan. See the appendix of this curriculum for information on credit counselors.

#### **Bankruptcy**

Bankruptcy should be the last step for anyone; a person files with the court to be released from debts. Filing for bankruptcy seriously affects one's ability to obtain credit in the future.

- **Chapter 7:** Most serious of the two types of bankruptcy; when the property of a debtor is sold, and the money obtained is used to pay off creditors.
- **Chapter 11:** When the debtor is allowed to keep property, but develops a plan of action that the court approves for repaying debts.
- **Chapter 13:** In this type of bankruptcy, the debtor keeps all of his or her property and makes regular payments on the debt after filing for bankruptcy.