WARM SPRINGS
COMMUNITY ACTION TEAM

Debt Repayment Curriculum

Name:_________________________________ Date: ____________________

When resources are scarce and options are limited, people sometimes take out loans to get them through challenging times. Paying down these loans may be crucial in making ends meet and in helping you qualify for better (e.g., loans with lower interest rates) and important (e.g., home and auto) loans in the future. This plan is to help you pay down loans, reducing debt so that you may pursue financial and personal goals. It will also provide you with the tools to establish an emergency savings fund, to assist you in coping with and overcoming unexpected challenges in the future.

Course of Study:

Debt Repayment

Instructions for Warm Springs community members and WSCAT staff members: This course of study is to provide Warm Springs community members with the tools to pay down debts to help clients qualify for new assets, per Oregon IDA Initiative program requirements.

Goal:

To provide participants with a plan to pay down debt and gain an understanding of how paying down debt can help save money, acquire assets, achieve short-term and long-term financial goals, and be prepared in case of emergencies.

Objectives:

1. Fully document and organize all debts in order to make a plan of action.

2. Understand several strategies for paying down debts.

3. Begin thinking about their future financial goals, including building up an emergency savings.

Time Required:

7 hours + Financial Counseling Sessions

Part 1: Thinking About Your Debt

(1 hour)

Review this excerpt from https://files.consumerfinance.gov/f/documents/cfpb_your-money-your-goals_debt_log_tool_2018-11_ADA.pdf

GETTING STARTED

Debt log

Before you can make a plan for paying your debt, you first have to know what you owe.

A debt is money you owe. For things like rent-to-own arrangements, credit cards, payday loans, student loans, and mortgages, the total amount you borrowed is your debt. So your total monthly payment (including interest or fees) is part of your debt payment.

There are other kinds of debt besides loans. For instance, your monthly electric bill isn't a debt, but if you're past due on your bill, that amount and any fees become debt. That past due amount should be counted in this tool as part of your monthly debt.

The first step in managing and reducing your debt is to make a list of **who you owe money to and how much you owe them**. Be sure to include debts owed to friends and family, credit card companies, banks, department stores, and payday lenders. Also include any money you owe for past due court-ordered child support payments, past due rent, and past due payments to local, state, or federal government for things like property taxes and back income taxes. You can gather this information from your free credit report, bills, and loan statements.

To figure out your debt,

1) Gather all your bills and loan statements, including home loans, student loans, auto loans, payday loans, tribal credit loans, etc.

2) Collect documentation of any past-due bills, including utilities, fines or fees, credit cards, medical bills, past-due child support, etc.

3) Get a free copy of your credit report through www.annualcreditreport.com

4) Fill out the DEBT LOG on the next page

BANKRUPTCY BASICS

Bankruptcy is the legal process through which people or entities who cannot repay debts to creditors may seek relief from some or all of their debts.

The two most common types of bankruptcy are Chapter 7 and Chapter 13.

Learn more about bankruptcy here: https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics

Answer each of the following questions to help you begin thinking about how you will pay off your debt.

What debt do you currently have? (Complete the table below)

Debt	Amount due this month	Payment is up to date?	Total amount left to pay	Interest rate (if any)	Payoff date or goal
	$		$	%	
	$		$	%	
	$		$	%	
	$		$	%	
	$		$	%	

What challenges have you had getting new assets as a result of this debt?

How will paying off this debt help you purchase other assets? (pay for school, get lower interest rates on loans, get better monthly payments on loans, qualify for higher loan amounts, etc.)

What would the alternative be if you were unable to pay your loan with your IDA?

How might you limit taking out additional (unnecessary) debt in the future?

Now that you have begun looking at your debts, it's time to understand the debt-to-income ratio.

Your debt-to-income ratio (DTI) compares all your monthly debt payments to your gross monthly income. This number is written as a percentage and is one way to understand how much of your income is going towards paying debt each month. Lenders may look at your DTI when considering a loan application. It's also another way to understand your debt compared to your income. l

First, let's calculate your income (fill out one wage calculation below):
*If paid hourly:*____________(hourly wage) x_____________(hours worked per week) = ________________(weekly wage) x 12 =_______________(yearly wage) /12 = ________________(monthly income)

*If paid every two weeks:*_________________(gross income per paycheck) x 26 = ________________- (yearly income) / 12 =___________________(monthly income)

*If paid twice per month:*_________________(gross income per paycheck) x 24 = ________________- (yearly income) / 12 =___________________(monthly income)

Seasonal or business: this may be more difficult. You can use your tax return to estimate or calculate it similarly to the hourly rate. If you are still unsure, contact the WSCAT Financial Counselor for assistance.

Next, let's calculate your debt-to-income (DTI) ratio:

1) My gross monthly income (from above): $_______________
2) My monthly debt payments (can be copied from table on page 4)
   Credit Cards $_______________
   Loans $_______________
   Tribal Credit Debt $_______________
   Other Debt $_______________
3) Total monthly debt payment (total from step 2) $_______________
4) My consumer debt ratio (line 3 divided by line 1) _______________%

The percent on step 4 is your debt-to-income ratio. The higher percentage means that your debt is putting more pressure on your budget, maybe making it harder to meet other financial needs. The lower the percentage, the less debt you have. Your DTI is going to vary over time. It is a good idea to look at your DTI today and then track it. As you pay down your debt, your DTI is going to drop.

For renters: Consider maintaining a debt-to-income ratio of 15% -20% or less.

- This means that monthly credit card payments, student loan payments, auto loan payment, and other debts should take up 20% or less of your gross income.

For homeowners: Consider maintaining a debt-to-income ratio of 28% -35% or less for just the mortgage (home loan), taxes, and insurance.

- This includes the monthly principal, interest, taxes, and insurance (called PITI).

For homeowners: Consider maintaining a debt-to-income ratio for all debts of 36% or less.

- This means that if you have a mortgage and other debts—credit card payments, student loan payments, auto loan payment, and payday loan payments–your debt-to income ratio should be below 36%.
- If you have court-ordered, fixed payments, such as child support, count these as debt for this purpose.
- Some lenders will go up to 43% or higher for all debt.

If your debt-to-income ratio is above these limits, the next couple sections can help you begin to look at reducing your debt. However, you may want to use additional tools to further develop a plan to reduce your debt and lower your debt-to-income ratio.

Note:

This information is included in the Consumer Financial Protection Bureau's Toolkit (pages 174-175).

The Bureau has prepared this material as a resource for the public. This material is provided for educational and information purposes only. It is not a replacement for the guidance or advice of an accountant, certified financial advisor, or otherwise qualified professional. The Bureau is not responsible for the advice or actions of the individuals or entities from which you received the Bureau educational materials. The Bureau's educational efforts are limited to the materials that the Bureau has prepared.

This tool may ask you to provide sensitive information. The Bureau does not collect this information and is not responsible for how your information may be used if you provide it to others. The Bureau recommends that you do not include names, account numbers, or other sensitive information and that users follow their organization's policies regarding personal information.

You can view the full toolkit here: https://files.consumerfinance.gov/f/201407_cfpb_your-money-your-goals_toolkit_english.pdf

Part 2: Paying off Your Debt

(3 hours)

Methods for Paying off Debt:

Although some debt is ok, too much can be unmanageable and hinder your ability to purchase new assets. This section will look at two methods that can be used to pay off your debt: Debt Snowball and Debt Avalanche.

Watch the video *Debt Snowball Vs Debt Avalanche | Which is the Best Debt Payoff Strategy?*
https://www.youtube.com/watch?v=jtgnRJKSJlw

What is the snowball method?

What are the advantages of this method?

What are the disadvantages of this method?

What is the avalanche method?

What are the advantages of this method?

What are the disadvantages of this method?

Which one is more likely to work for you (or is it a combination of the two)? Why?

Do you have any questions about either of these methods?

Once your debts are paid off, how will you keep your debt manageable?

Student Loan Debt:

Student loan debt is a little different than many other debts.

In order to find out if your loans are federal or private, start by logging into www.studentaid.gov. Anything that shows there is federal. Any student loans that don't show up there are privately held. Both private and federal loans show on your credit report – private loans are only visible there. Here are some things to know:

- **Private student loans** are private loans from banks and other lenders
  - Private student loans don't have the same options as federal loans to collect the money owed, or for forgiveness.
  - In most cases, defaulted student loans can be settled or negotiated. Student loan settlement is a process where you negotiate with your loan servicers or collection agencies and agree to make a lump-sum payment.
  - Unlike Federal Student Loans, there is a statute of limitation for collecting private student loans
  - Other than being exempt from bankruptcy, private student loans function the same as any other personal, unsecured debt.
- **Federal student loans** are administered by the U.S. Department of Education. They tend to have lower interest rates and more flexible repayment plans than private loans.
  - Federal student loans have a variety of repayment options to consider based on your circumstances, which can be accessed through www.studentaid.gov, or you loan servicer.
  - It's important to know what options are available based on your circumstances. Options may include an income-based repayment plan, consolidation, and/or student loan forgiveness. To review options, go to https://studentaid.gov/repay.

For federal loans that are in default, wage garnishment and tax offset can start directly after collections phase – similar to tax debt, no judgement is required. Student Loan Default can be resolved through rehabilitation (call your servicer or debt collector) or through consolidation at studentaid.gov. Please Note: Federal Student Debt can negatively amortize, or grow year after year. If you are on track for forgiveness or cancellation that negative amortization may be fine – if not, consider paying more than your income driven repayment minimum.

If you have received incorrect information, have had your payments misapplied, or have other complaints about your student loan servicer, please contact the student loan Ombuds at Oregon's Division of Financial Regulation. https://dfr.oregon.gov/Pages/index.aspx or email DFR. BankingProductHelp@DCBS.oregon.gov or call 888.877.4894.

Negotiating Debt:

It can be financially beneficial to negotiate debt in some cases, because you might pay less than you owe. It can also be a confusing and frustrating process, one that you may get help with. Here are some considerations to get you started:

- **Understand the source.** Only certain debts can be negotiated. You may not be able to negotiate utilities. However, they might offer a payment plan, so services can get restored.
- **Consider your options.** Is negotiation the right move for you? It's important to think carefully and consider different options related to that debt.
- **Know the terms and details of what you owe.**
- **Read and save your mail.**
- **Ask for help.** If you need additional assistance, talk with your IDA Provider for support or go to www.nfcc.org/ to learn more about the difference between credit counselors and debt settlement or debt relief companies.

Tips when working with debt collectors or creditors:

- **Know your Rights**. You can ask questions and you don't need to tolerate bullying.
- **Know who you owe the money to**. Debt is often sold and bought, meaning you might not owe money to the original creditor. If possible, talk to creditors rather than collection agencies.
- **If you are paying off the debt in full, ask for a percentage off** (start low, around 20 or 25 cents to every dollar and go from there). Once paid, be sure to have collector to note "paid as agreed".
- **Negotiate your payment amounts and dates if setting up a payment plan**. Creditors will often settle for a lessor amount; ask collector to note "paid as agreed" and send the agreement in writing.
- **Get information in writing**. Document conversations and keep notes.
- **Never give out your banking account information** until you have documentation and can verify the legitimacy of the entity.

Note: Items in collections stay on your credit report for 7 years. Negotiating certain items in collections could re-start that 7-year time frame.

To learn more visit the Fair Trade Commission FAQs, including how to report a debt collectors, go to: https://consumer.ftc.gov/articles/debt-collection-faqs

Beware of **DEBT SETTLEMENT or DEBT MANAGEMENT SERVICE COMPANIES** that:

1. Charge excessive up-front fees (more than $100) and **guarantee** positive results.
2. Claim to settle your debt for "pennies on the dollar."
3. Instruct you to stop making payments to existing creditors, including the financial institution that holds your home mortgage.

See more about managing debt and filing a complaint by visiting the Oregon Division of Financial Regulation: https://dfr.oregon.gov/financial/manage/Pages/debt-management.aspx.

Your Rights and Debt Collectors:

Watch the video **Debt Collection: Know Your Rights | Federal Trade Commission**:

https://www.youtube.com/watch?v=eqzAFQ67t0M

You have the right to be treated fairly by debt collectors. Here are 6 examples of your rights, when it comes to debt collectors:

- Can't use abusive language, threaten violence, or harass you.
- Can't call before 8 AM or after 9 PM.
- Can't lie or pretend to be something they are not.
- Can't get you to pay a debt that doesn't exist.
- Can't have you arrested or deported.
- Can't tell anyone about your debt.

Have you had debt collectors call you? What do debt collectors do to try to get you to pay immediately?

Understanding Bankruptcy:

Bankruptcy is the legal process through which people or entities who cannot repay debts to creditors may seek relief from some or all of their debts. The two most common types of bankruptcy are Chapter 7 and Chapter 13.

Watch this video "**Animated Video Explaining Bankruptcy for Oregonians" by Oregon LawHelp**
https://www.youtube.com/watch?v=q9A_S4cXElU

What's the difference between chapter 7 and chapter 13?

- **Chapter 7 bankruptcy** can clear away many types of unsecured debts. This could be a last resort to help you reset your finances. However, you might have to give up some of your possessions, and it will have a long-lasting negative impact on your credit.
- **Chapter 13 bankruptcy** allows you to keep your stuff and get on a more affordable repayment plan with creditors. You need to have enough income to afford the payments and be below the maximum total debt limits. If eligible, you are put on a court-mandated repayment plan that lasts three to five years.

Legal Aid Services of Oregon is a non-profit law firm that provides free legal services to low-income Oregonians, and may be able to provide support for those considering bankruptcy. For more info go to http://oregonlawhelp.org/issues/consumer/bankruptcy or learn more by going to https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics.

Student debt, both private and federal, is generally not dischargeable in bankruptcy. If you are struggling to pay your student loans, contact your servicer.

If you simply don't have enough income to pay what you owe over time, talking with a lawyer about bankruptcy might be helpful as you consider options for dealing with your debt.

Comparing you Debt:

Debt can be unmanageable, overwhelming, and ultimately hinder your ability to reach your financial goals. But not all debt can or should be paid off at once. Some debt may be hindering your financial goals, while other debt may not be having as much of an immediate impact. For example, it may benefit you to only pay the minimum on your student loan debt while paying as much as you can towards credit card debt.

Looking at your debts from your Debt Log in Part 1, consider the following:

Your Debts			
Which debt has the highest interest rate?		How long will it take to pay off this debt?	
Which debt has the shortest term?		How long will it take to pay off this debt?	
Which debt has the lowest balance?		How long will it take to pay off this deby?	
Which debts have the **biggest** financial impact on your household?			
Which debts have the **smallest** financial impact on your household?			
Which method makes the most sense for you – debt snowball or debt avalanche?			
Which debt will you prioritize paying off first?			

Consider using PowerPay for a tool to help you compare debt repayment methods. Go to https://extension.usu.edu/powerpay/ and create a free PowerPay account, which isan online tool developed by Utah State University Extension, which will help you develop a personalized, self-directed debt elimination plan.

Making a plan with your IDA:

If you have any questions about managing your debt, it's a great idea to sit down with someone to talk about what approach might work best for you. IDA funds can be used to pay for financial obligations that are legally owed to a creditor. This could include the principal and interest on a loan, a credit card balance, a medical debt, or student loan debt among others. If you aren't sure which of your debts your IDA can go toward, please talk with your IDA Provider.

Based on all these factors: **What plan will work best for YOU to pay down your debt with your IDA?**

Debt	Total amount left to pay	Amount from my IDA	Amount from my Savings
	$	$	$
	$	$	$
	$	$	$
Total	$	$	$

Part 3: Planning for the Future

(3 hours)

Some debt may be unavoidable, but planning for an emergency can help reduce the amount of debt you have or the amount you pay for that emergency in the long run. This section will help you look at your goals related to savings for those unexpected financial emergencies. You're already on the right track by putting into action a plan to pay off some of your debt, while still thinking about future emergencies.

Emergency Savings:

An emergency fund is a cash reserve that's specifically set aside for unplanned expenses or financial emergencies, including car repairs, home repairs, medical bills, or a loss of income among other things. Without that savings, even a minor financial shock could set you back.

Watch the video *Why You NEED an Emergency Fund!* By Two Cents
https://www.youtube.com/watch?v=vftjBTjFlzI

How would having an emergency fund help you?

What are three things you can do to build your emergency fund?

1. ____
2. ____
3. ____

What are your goals for saving in an emergency fund in the next year? Note that you can use part of your IDA account to build your emergency fund!

What is your goal for saving in the next **3 months?**	$
What is your goal for saving in the next **6 months?**	$
What is your goal for saving in the next **year?**	$

For more information on emergency funds and strategies for building them, read the article: An Essential Guide to Building an Emergency Fund - https://www.consumerfinance.gov/start-small-save-up/start-saving/an-essential-guide-to-building-an-emergency-fund/

Avoiding high-cost credit and loans:

While accessing credit (like a loan or credit card) can help you build your credit score, it can also hurt you and end up costing more in the long run. Just because you are offered something, doesn't mean it's right for you. If you do decide to open a new line of credit, you may not benefit from using all the credit available to you. Borrowing only as much as you can pay off quickly will help you avoid paying more in the long run and damaging your credit.

Watch the video **"Predatory Lending" by CUA:** https://youtu.be/9-BEyc4Ey5c

Many financial institutions, including payday lenders, auto financing companies, or credit card offers often use deceptive tactics to offer loans that aren't in your best interest. Many institutions find ways to avoid regulations and build their profits from your financial emergencies, offering short-term loans are very high interest rates.

When considering a loan or line of credit, look for the following red flags:

1. **Unclear Pricing and Terms:** Offering a "teaser interest rate" that will expire and rise considerably. This could include "buy now pay later" offers that are zero interest until you miss a payment or high "activation fees" or "annual fees" associated with their products, often hidden in the fine print.
2. **Aggressive or abusive broker practices:** Pushing you to sign the papers without giving you true costs until they get your signature. Pressuring to get access to your other accounts.
3. **Pre-payment Penalties:** making it not beneficial for you to pay off the loan early.
4. **Approval is too easy:** Offers that seem too good to be true by promising easy deposits, "same day", or "instant approval", while downplaying the high fees for these products, which are often in the details of the loan.
5. **Abnormal Payment Structures:** Payment terms that vary from day to day or month to month.
6. **Short term loans:** Taking advantage of someone's financial emergency by charging high fees and trapping someone in a high-cost debt cycle.
7. **Not willing to answer questions.**

Consider your options carefully when you are offered loans or credit.

For example, consider Rapid Anticipation Loans, which are based off your "anticipated" tax return. They often offer these late in the year, typically at or before the holiday shopping season. They will offer $500-$4,000 from your next year's tax return. The catch is that they charge fees, interest, and you pay to use their tax services, which generally cost several hundred dollars.

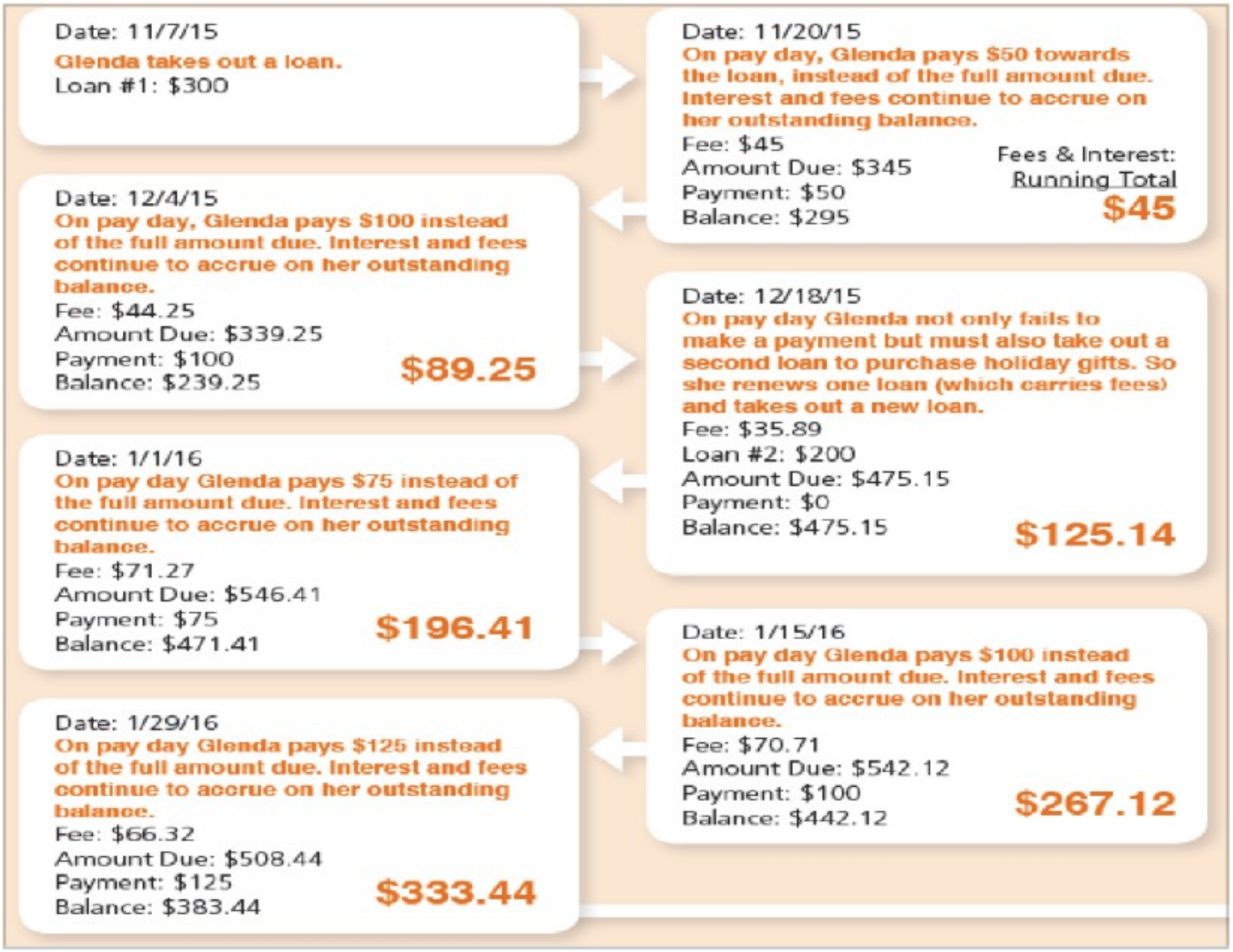
Understanding Payday Loans:

Predatory lenders often use deceptive tactics to offer loans that aren't in the best interest of the client. They find ways to avoid regulations and profit from your financial emergencies, often offering short-term loans are very high interest rates.

Watch Payday Loans Explained | Pew https://youtu.be/3rOVmUnUM7A

Payday Lenders frequently profit off customers by trapping them in a cycle of debt. Before taking out a payday loan, make sure to consider what other alternatives you might have. Payday loans trap people into a cycle. See the example below from Building Native Communities: Financial Skills for Families. Full textbook is available here: [https://www.firstnations.org/publications/financial-skills-for- families-workbook-5th-edition/](https://www.firstnations.org/publications/financial-skills-for-families-workbook-5th-edition/)

Glenda takes our two payday loans during the holiday season and struggles with paying them off. Each loan charges a $15 fee for every $100 borrowed (15%), with the full amount due on Glenda's next bi-weekly payday.



How much does Glenda originally borrow? $____________________________

What happens when Glenda doesn't pay the full amount?

How much in fees and interest have accrued by the end of January (less than three months later)? $ ________

Let's continue…

How many months passed between the original loan and her paying it off completely? _____________

How much did she borrow in total (original loan amounts)? $____________________

How much does Glenda pay in interest and fees over the course of the loan? $___________________

Before signing for a new loan or line of credit, make sure you first:

- Consider a variety of other alternatives first, such as a loan from a bank.
- Read the fine print.
- Ask questions.
- Compare the annual percentage rate with other options.
- Compare the terms, or length, of the loan.
- Don't give lenders any of your account information until you check all the details first.

For more information about the Payday Lending Industry, you can watch Predatory Lending: Last Week Tonight with John Oliver (HBO): https://www.youtube.com/watch?v=PDylgzybWAw

Co-signing on Loans:

Co-signing on a loan means you are signing putting your name on another borrower's loan application. It can help someone qualify for a loan, especially if they have bad or no credit.

It is up to you to decide whether you want to co-sign for someone on a loan, but it's important to know the risks before co-signing. Consider:

- How might it affect your relationship with them?
- Will they have the means to pay the loan?
- Would you be able to afford to pay their loan if they stop making payments?

Consider the following:

1. You are responsible for the entire loan amount
2. Your relationship could be damaged
3. Your credit is on the line
4. Your access to additional credit may be affected
5. You could be sued by the lender
6. Removing yourself as a co-signer isn't easy

As a co-signer, if payments aren't being made, YOU are responsible, and missed payment can negatively impact your credit as a co-signer.

To learn more read the article Co-Signing a Loan: Risks and Benefits:
https://www.nerdwallet.com/article/loans/personal-loans/3-bad-reasons-to-co-sign-a-loan

Have you co-signed on a loan, or has someone co-signed on a loan for you? How did it work out? Are there reasons you would or wouldn't do that again?

Part 4: Credit Counseling / Verification of Completion
(1+ hours)

Debt Repayment

While saving for a debt repayment IDA, you will need to regularly meet with a financial counselor. If you aren't already in touch with a financial counselor, schedule an appointment once you have completed Parts 1-3 above. They will go over this packet with you and help you come up with a plan to pay your debts.

Once you meet with the credit counselor, fill out the following verification and turn it into your IDA provider.

Sign here to verify that you have completed the Debt Repayment Curriculum packet and met with a credit counselor!

Signature:______________________________________ Date: _____________________

Is there anything related to the debt repayment education that you would like to learn more about or discuss with your IDA Provider of counselor?

Do you have any recommendations to make this curriculum better?

THANK YOU!

Credit Counselor: I have reviewed the participants curriculum and answered any questions they have.

Staff Signature: ____________________________________ Date: ___________