

Lesson 5: Huge Debt Problems Made Simple

Student Guide Pages: 205-210

Lesson Objectives: By the end of this lesson, your students should be able to:

- explain why they should not focus on the total amount of debt they have
- explain why having a plan to pay off debt is so important

Lesson Summary:

Debt can be a major stress inducer. While it's tough to eliminate debt overnight, you can get rid of a lot of the stress quickly with a little planning and a slight change in perspective.

The first step is to plan ahead. If your credit is terrible, it will be tough to get a cellphone, an apartment, or a loan, maybe even a job. Be prepared to address these in advance. There are landlords who don't do credit checks, and you can buy a prepaid phone. Think forward, into the future.

The second, even simpler step is to just change your perspective on debt. If you have \$10,000 in credit card debt, it might be intimidating, but imagine the payments are \$300 a month and all you can pay is \$250 a month, so you'll be \$50 short every month. Looking at the situation this way, it quickly becomes frustrating.

A slight change in perspective changes everything. Really, you only have a fifty-dollar monthly problem. If you can increase your income, cut your expenses, or make a large enough payment toward the debt to get rid of that fifty-dollar gap, you can make huge progress with a very small step. Look for an extra part-time job for a month. Have a yard sale. Sell some clothes. Do whatever you need to do to bridge that gap.

Review Questions:

- How does changing your perspective help with your debt problems?

Answer: It turns an unsolvable problem into a solvable one.

Many people don't have the money to instantly wipe out their debt, but in the case of debt, an extra five, ten, or fifty dollars can change everything. Those are manageable amounts, so break your debts into bite-sized numbers.

- This lesson mentions that people with bad credit should plan ahead. What are some things they can do?

Answer: They can attach a 100-word statement to their credit report explaining their situation. They can build their own credit report like we discussed in Unit 5, Lesson 5. They can ask friends and family for referrals to landlords and banks that work with people who have bad credit.

Homework Assignment:

Ask students to visit bankrate.com and find the credit card Calculator. Tell them to key in \$10,000 of debt and a payment of \$250 a month. How long will it take to pay it off? Then instruct them to type in \$300 a month, just \$50 more. How much quicker is the payoff? How about just five extra dollars? What does that do? Have them play around with different debt amounts, interest rates, and payments so they can see how big of a difference even a tiny change can make.

Class Activity:

Imagine together that a student has \$10,000 in credit card debt and \$10,000 in student loan debt. When the student graduates, he finds a job that earns \$27,000 a year. Ask your students to think of ways he

could arrange his financial life to make sure his loans are paid on time.

Assume that his student loan payments are \$100 a month, just as his credit card payments are. As a class, think about the other expenses the student might have, like food, gas etc. What can he do to be sure he meets his debt obligations? Some suggestions might include:

- live at home for one year and put all this would-be rent payments toward the debt
- get an extra roommate for one year and put that savings toward debt
- walk or carpool to work

Get creative and help the group come up with the best ideas.

Additional Information:

www.nfcc.org: The National Foundation for Credit Counseling can help with even huge debt problems. They can advise on everything from debt consolidation to home foreclosure issues to bankruptcy.

www.bankrate.com: This website offers many calculators, including some pertaining to credit cards.

Fun Facts:

According to the Delray Credit Counseling website, it took the city of Montreal 30 years to pay off its Olympic debt of \$2 billion, held in 1976!

Notes: _____

Debt Payoff A Five-Step Plan

Step 1: List all your debts, including name of creditor, type of debt (student loan, home loan, car loan, etc.), monthly payment, total amount owed, interest rate, minimum payment, and whether it is a fixed or locked rate. (Remember that credit cards have no fixed rates.)

Step 2: Reprioritize by putting the smallest debt first.

Step 3: Pay the minimum on all debts except the smallest one. Pay as much as you can toward that one.

Step 4: Once the smallest debt is wiped out, apply that payment toward the next-smallest debt.

Step 5: Keep repeating this process, paying the minimums on all except the smallest debt, which gets as much money as you can afford. As each debt is wiped out, put those payments toward the next-smallest debt. The amount of your payments won't change, but you will create a snowball effect as your debts shrink and you keep paying the same amount.

Debt Payoff Sheet

	Creditor	Amount You Owe	Interest Rate	Monthly Payment	Fixed?	Type	Minimum Payment
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

Where Can You Find Cash?

- **Unclaimed.org:** This website is a database of all the Unclaimed Funds Offices in the United States. These offices collect missing money like unclaimed tax refunds or security deposits, maybe even an inheritance you never knew about. Visit the site, type in your name and any state you've lived in, and see if there's any money out there for you. Good luck!
- **Work binge:** Can you get a second job for a few weeks? Can you take on extra hours or an extra shift at your current job?
- **Savings binge:** Commit to a couple spending-free weekends. This isn't easy, but it means no driving, no grocery shopping, and no going out. Often, you'll find yourself doing something productive (like cleaning your apartment!)
- **Sell stuff:** Look at your list of depreciable assets. What can you get rid of?
- **Freeze memberships:** If you have a monthly membership to a gym or studio, can you freeze it for six months?
- **Shop around:** Have you shopped around for better deals on car insurance? Heating and utilities? Cellphone plan? See if you can shave some money off any of these monthly expenses.