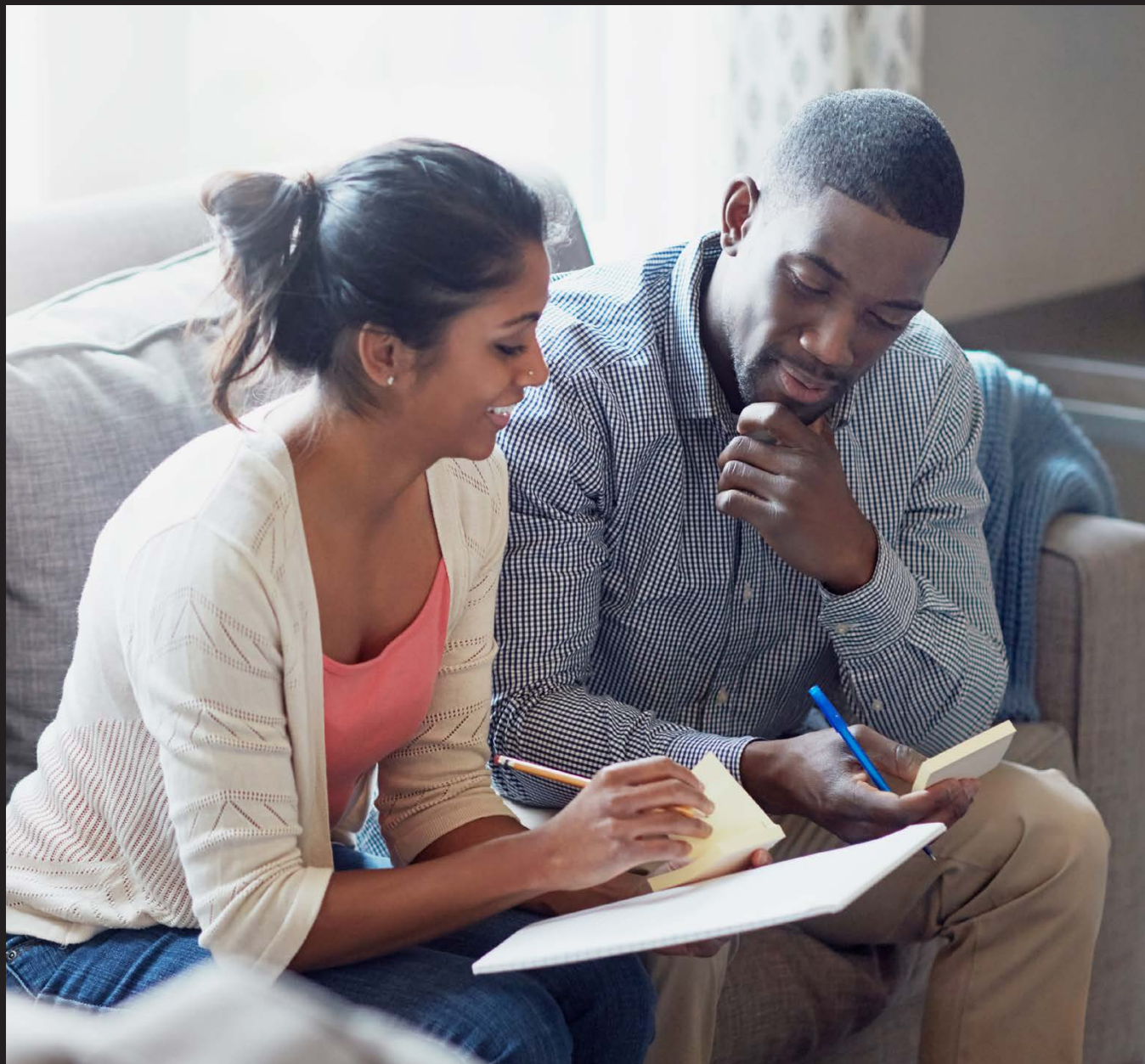




MODULE 8: **Managing Debt**

PARTICIPANT GUIDE



MONEY SMART for Adults

SEPTEMBER 2018

The Federal Deposit Insurance Corporation is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, non-biased financial education materials, including this Participant Guide. For more information about our family of Money Smart products, visit **www.fdic.gov/moneysmart**.

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Welcome

Welcome to the FDIC's Money Smart for Adults!

This is the Participant Guide for **Module 8: Managing Debt**. Use it during and after training. Mark it up, write in it, take notes—it is yours to keep.

Module Purpose

This module covers what debt is and how to manage it.

This module also:

- Defines debt and credit and explains how they differ
- Defines phrases and terms commonly used to discuss debt
- Provides strategies for reducing debt
- Explains the consequences of not paying debts
- Provides an overview of student loan debt, medical debt, and high cost debt

Section 1: What is Debt?

We will discuss what debt is, how to understand debts you may have, and how debt relates to your financial situation.



Key Takeaway



Understanding your debt is the first step to managing it.

Debt and Credit

Debt is money you owe; you've already borrowed it.

Credit is the ability to borrow money; you haven't borrowed it yet.

A **Debtor** is someone who owes money.

A **Creditor** or **Lender** is the person, business, or organization that loans money to the debtor.

Understanding Your Debt

To understand your debt, it's important to know:

- Who you owe
- How much you owe them
- How much the payments are
- When the payments are due
- Other important facts about your debts

It's also important to think about why you incurred the debt, such as to:

- Purchase assets
- Pay bills (or as a result of not paying them)
- Cover unexpected expenses or emergencies
- Buy something you wanted or needed



How Debt Can Affect Your Financial Situation

Debt can affect your financial situation because:

- You will probably need to use income you receive in the future to make payments on your debt. This is sometimes called **obligating future income**.
- You will generally pay interest and sometimes fees on your debt until you pay it in full.
- It can impact how soon you can achieve your goals.



Apply It: Understanding My Debt

Gather information on your debts, complete the table, and answer the question. This will help you start to understand your debt. You can find information about your debts on:

- Your credit reports (visit **Annualcreditreport.com**)
- Monthly bills and statements
- Loan or credit documents
- Personal agreements for loans from family, friends, or others

Debt Table

Who You Owe Money To	Total Amount You Owe	Payment Amount*	Payment Due Date	Interest Rate and Other Important Terms
1.	\$	\$		
2.	\$	\$		
3.	\$	\$		
4.	\$	\$		
5.	\$	\$		
6.	\$	\$		

* For revolving debt, like credit cards, enter the minimum payment due.

Apply It: Understanding My Debt *continued***How did you get most of your debt?**

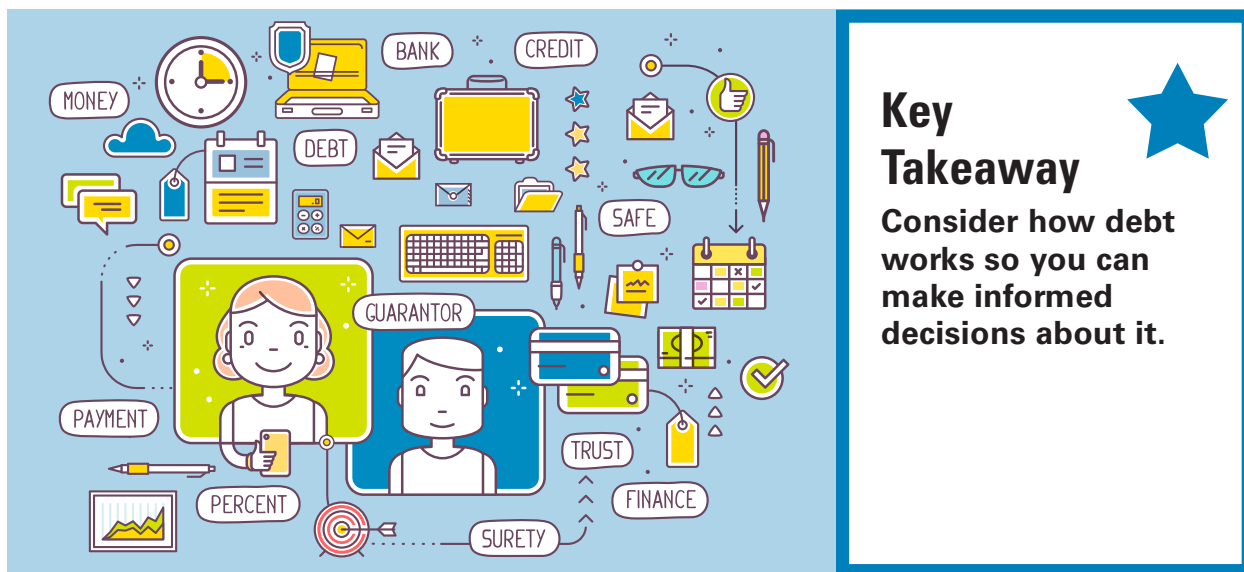
- ☐ Purchased assets
 - For example, taking out a loan to buy a car or home
- ☐ Paid bills
 - For example, using a credit card to pay a utility bill
- ☐ Did not pay bills
 - For example, not paying bills from a hospital visit, resulting in medical debt
- ☐ Covered unexpected expenses or emergencies
 - For example, borrowing money to pay for a car repair
- ☐ Bought things I wanted
- ☐ Bought things I needed

**Remember the Key Takeaway**

Understanding your debt is the first step to managing it.

Section 2: How Debt Works

We will discuss common debt terminology and how different types of loans work.



Key Takeaway

Consider how debt works so you can make informed decisions about it.

Debt Lingo

A big part of understanding how debt works is understanding the terms that are used in talking about debt.

You can fill in the “Term” column with the correct answer from the discussion.

Debt Lingo Number	Definition	Term
1	A loan with collateral that the lender can take if the loan is not repaid according to the loan agreement	
2	How much money you borrow	
3	The main cost of borrowing money	
4	A credit agreement that allows you to borrow money from time to time up to a pre-approved maximum credit line	
5	The total cost of credit on a yearly basis	
6	When you borrow a specific amount of money and repay it over a set period of time	
7	A loan with no collateral	

Installment Loans and Revolving Credit

Installment Loans: You borrow a set amount of money called the principal. Then you repay it, plus interest, over the term of the loan.

- **Term of the Loan:** the set period of time you have to repay the loan. The payments are usually the same each month unless you have a variable or adjustable interest rate. In that case, the monthly payments may change.

Revolving Credit: You borrow up to a maximum credit limit and repay it based on how much credit you have used. Usually you are billed a monthly minimum payment.



Try It: How Installment Loans Work

Read the scenario. Then answer the questions using the Sample Amortization Table on the next page.

Scenario: Zoe Learns About Installment Loans

Zoe knew her credit needed some work. She learned her financial institution offered something called a credit-building loan.

The credit-building loan would allow her to borrow \$1,000 and repay it over 12 months at a 12% annual percentage rate (APR). Her payments would be reported to one of the three nationwide credit reporting agencies. As long as she made her payments on time and as agreed, this would help to improve her credit. She thought this sounded like a great deal.



Try It: How Installment Loans Work *continued*

Use this table to answer the questions.

Installment Loan: Sample Amortization Table*

No.	Payment Date	Beginning Balance	Scheduled Payment	Principal	Interest	Ending Balance
1	1/1/20	\$1,000.00	\$88.85	\$78.85	\$10.00	\$921.15
2	2/1/20	\$921.15	\$88.85	\$79.64	\$9.21	\$841.51
3	3/1/20	\$841.51	\$88.85	\$80.43	\$8.42	\$761.08
4	4/1/20	\$761.08	\$88.85	\$81.24	\$7.61	\$679.84
5	5/1/20	\$679.84	\$88.85	\$82.05	\$6.80	\$597.79
6	6/1/20	\$597.79	\$88.85	\$82.87	\$5.98	\$514.92
7	7/1/20	\$514.92	\$88.85	\$83.70	\$5.15	\$431.22
8	8/1/20	\$431.22	\$88.85	\$84.54	\$4.31	\$346.68
9	9/1/20	\$346.68	\$88.85	\$85.38	\$3.47	\$261.30
10	10/1/20	\$261.30	\$88.85	\$86.24	\$2.61	\$175.06
11	11/1/20	\$175.06	\$88.85	\$87.10	\$1.75	\$87.96
12	12/1/20	\$87.96	\$88.85	\$87.96	\$0.89	\$0.00
TOTALS			\$1,066.20	\$1,000.00	\$66.20	Paid Off!

* Numbers may not add up due to rounding.

What is the scheduled monthly payment?

How much goes to interest from the first payment?

How much goes to interest from the final payment?

Why does the amount of interest in each payment decrease? Why does the amount of principal in each payment increase?



Try It: How Revolving Credit Works

Scenario: Zoe Learns About Revolving Credit

Zoe decides to use her credit card to buy something that costs \$1,000. Her credit card has a 12% annual percentage rate (APR).

She doesn't use her credit card for other purchases. Each month, she only pays the minimum monthly payment, which is 5% of the balance.



Use this table to answer the questions after the table.

Revolving Credit Sample Table: Paying Only the Minimum Payment Each Month*

No.	Payment Date	Beginning Balance	Minimum Monthly Payment	Principal	Interest	Ending Balance
1	1/1/20	\$1,000.00	\$50.00	\$40.00	\$10.00	\$960.00
2	2/1/20	\$960.00	\$48.00	\$38.40	\$9.60	\$921.60
3	3/1/20	\$921.60	\$46.08	\$36.86	\$9.22	\$884.74
4	4/1/20	\$884.74	\$44.24	\$35.39	\$8.85	\$849.35
5	5/1/20	\$849.35	\$42.47	\$33.97	\$8.49	\$815.37
6	6/1/20	\$815.37	\$40.77	\$32.61	\$8.15	\$782.76
7	7/1/20	\$782.76	\$39.14	\$31.31	\$7.83	\$751.45
8	8/1/20	\$751.45	\$37.57	\$30.06	\$7.51	\$721.39
9	9/1/20	\$721.39	\$36.07	\$28.86	\$7.21	\$692.53
10	10/1/20	\$692.53	\$34.63	\$27.70	\$6.93	\$664.83
11	11/1/20	\$664.83	\$33.24	\$26.59	\$6.65	\$638.24
12	12/1/20	\$638.24	\$31.91	\$25.53	\$6.38	\$612.71
TOTALS			\$484.12	\$387.28	\$96.82	Not Paid Off!

* Numbers may not add up due to rounding.

Try It: How Revolving Credit Works *continued*

Why does the monthly payment change each month?

After 12 monthly payments, how much money does Zoe still owe?

How much interest has Zoe paid in total, after making the 12th payment?

What is the difference between the total interest Zoe has paid so far on the revolving credit and the total interest she paid on the installment loan? Why is there a difference?

Fees

Loan and credit agreements may also have fees. Fees are additional charges. They are not interest.

For example:

- Credit cards may have an annual fee, fee for late payments, fee for going over the credit limit, and perhaps others.
- Car loans may have a documentation fee, closing fee, and perhaps others.

Make sure you understand:

- The fees you **will be charged** to get and continue to have the loan or revolving credit
- The fees you **may be charged**, such as if you don't make a payment on time



Prepayment

You may be able to pay the lender more money than your required monthly payment. You can ask them to apply the “extra” amount to your outstanding balance. Prepayment can be an effective way to reduce the costs of borrowing money by paying less interest. Ask if there are any fees for prepayment.



Remember the Key Takeaway

Consider how debt works so you can make informed decisions about it.

Section 3: Reducing Debt

We will discuss strategies for reducing debt and where to get help managing debt.



Key Takeaway



Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.

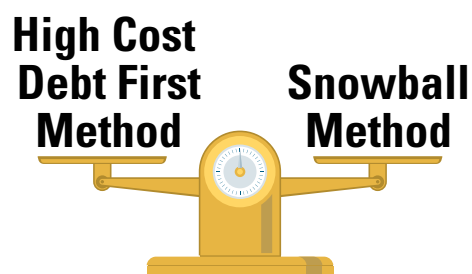
Two Strategies for Reducing Debt

There are two general strategies for reducing debt:

- The **High Cost Debt First** method, in which you first pay off the debt that has the highest cost to you
- The **Snowball** method, in which you first pay off the debt with the lowest balance

Note that both strategies work best if you avoid incurring more debt while you work to pay down the debt you have.

Which strategy is better for you will depend on your situation and preferences.



You Decide



Apply It: My Plan to Reduce My Debt

Choose the strategy you think will work best for you.

High Cost Debt First Method

Advantage: Save money because you pay less interest

Disadvantage: Progress may feel slower

To use this method:

- List your debts in order, from the highest cost to you to the lowest. The highest cost debt is usually the debt with the highest interest rate.
- Pay the amount due on each debt you listed so the lender receives it by its due date. For example, this could be the minimum monthly payment for a credit card, or the regular monthly payment for a loan.
- Then, if possible, make an extra payment to the **first debt** on your list. That will be the one with the **highest cost** to you.
- Ask the lender if you can specify that your extra payment must be applied to the principal. If the answer is yes, ask what you need to do to make that request.
- After you pay off that first debt, make that extra payment to the **next debt** on the list.
- Continue as needed.



Pay Off Highest Balance First

Apply It: My Plan to Reduce My Debt *continued*

High Cost Debt First Method Worksheet

Order of Pay Off	Who I Owe Money To	How Much I Owe	Interest Rate or Cost (list from <i>highest to lowest</i>)
1			
2			
3			
4			
5			
6			
7			

Apply It: My Plan to Reduce My Debt *continued***Snowball Method**

Advantage: Make progress faster which can be motivating

Disadvantage: May pay more money

To use this method:

- List your debts in order, from the lowest remaining balance owed to the highest.
- Pay the amount due on each debt you listed so the lender receives it by the due date. For example, this could be the minimum monthly payment for a credit card, or the regular monthly payment for a loan.
- Then, if possible, make an extra payment to the **first debt** on your list. That will be the one with the **lowest balance**.
- Ask the lender if you can specify that your extra payment must be applied to the principal. If the answer is yes, ask what you need to do to make that request.
- After you pay off that first debt, make that extra payment to the **next debt** on the list.
- Continue as needed.



Pay Off Lowest Balance First

Apply It: My Plan to Reduce My Debt *continued*

Snowball Method Worksheet

Order of Pay Off	Who I Owe Money To	How Much I Owe (list from <i>lowest to highest</i>)
1		
2		
3		
4		
5		
6		
7		



Try It: Making a Plan to Reduce Debt

Read the scenario. Then review the table listing Brian's debts and answer the questions.

Scenario: Brian Plans to Reduce His Debt

It took Brian some time to find a new job after the hospital where he worked closed. But his new job at a medical supply warehouse makes great use of his skills. He likes the people he works with. Now that he has a steady paycheck and has some money saved for an emergency, he can start to reduce his debts.

Those debts include credit card debt that accumulated during his period of unemployment, his car loan, and medical debt from when he was in the hospital a few years back.

Brian's sister went through a similar financial situation. She told him about the High Cost Debt First Method and Snowball Method of reducing debt. Brian wants to complete worksheets to get a better sense of how each method works. His sister used the Snowball Method. Brian wants to use whichever method will help him save money.



Brian's Debt Table

Who You Owe Money To	Total Amount Owed	Payment Amount	Payment Due Date	Interest Rate and Other Important Terms
Credit Card Company (Credit Card)	\$8,000	\$120 (minimum required payment)	March 20	14%
Bank (Car Loan)	\$2,000	\$290	March 22	6%
Hospital (Medical Debt)	\$10,000	\$350	March 25	10%

Try It: Making a Plan to Reduce Debt *continued*

How should Brian order his debts using the High Cost Debt First Method?

Complete the worksheet.

High Cost Debt First Method Worksheet

Order of Pay Off	Who He Owes Money To	How Much He Owes	Interest Rate or Cost (list from highest to lowest)
1			
2			
3			

How should Brian order his debts to prepare to use the Snowball Method?

Complete the worksheet.

Snowball Method Worksheet

Order of Pay Off	Who He Owes Money To	How Much He Owes (list from lowest to highest)
1		
2		
3		

Which method do you think Brian will want to use? Why?

Where to Get Help

If you need help managing debt, consider seeking help from a **nonprofit credit counseling organization**.

- Visit **www.usa.gov**. Search for “credit counseling” to locate resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.

Choose where you get help carefully:

- **Debt settlement** companies offer to make deals with your creditors to reduce the amount of debt you owe. Ask questions about their fees and process.
 - What fees would you pay, especially up-front fees? Charging a fee before settling at least one of your debts is illegal for most debt settlement companies.
 - What will they do for you? If they tell you to stop paying your creditors and you do so, you may end up in more debt than when you started. This may lower your credit scores, add late fees and interest to your accounts, or cause creditors or debt collectors to sue you.
 - For more information, visit **www.consumerfinance.gov** and search for “debt settlement.”
- **Debt consolidation** means taking out one loan and using it to pay off multiple debts. Debt consolidation loans may cost you more than the loans they replace. Ask questions about interest rates, fees and other costs.
 - For more information, visit **www.consumerfinance.gov** and search for “consolidating my debt.”





Apply It: What to Watch Out For When Getting Help with My Debt

You can use this checklist to identify some items to watch out for when you get help managing your debt. They can be a good reminder to ask more questions. Check the items you need to ask about.

Ask Questions if a Company...

- ☐ Charges fees before it will settle your debts
- ☐ Guarantees it can make your debt go away
- ☐ Guarantees that your debt can be paid off for pennies on the dollar
- ☐ Tells you it can stop all debt collection calls and lawsuits
- ☐ Tells you to not communicate with your creditors while they negotiate a better deal
- ☐ Tells you to stop making payments on your debts while they negotiate a better deal
- ☐ Encourages you to take advantage of a "new government program" to bail out debt
- ☐ Makes promises that seem too good to be true

You can take these actions to learn more about companies **before** you commit to getting help from them on your debt.

<input type="checkbox"/> Get help from a nonprofit credit counseling organization.	Counselors discuss your entire financial situation with you. They can help you develop a personalized plan to solve your money problems. That planning process will help you figure out what kind of additional help you need or do not need. Visit www.usa.gov and search for "credit counseling" for resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.
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Apply It: What to Watch Out For When Getting Help with My Debt *continued*

<input type="checkbox"/> Get help from a financial counselor or coach.	<p>Check with local nonprofit organizations or your financial institution for a referral to a counselor or coach. They can help you figure out what kind of additional help you need or do not need.</p>
<input type="checkbox"/> Check with your state attorney general's office.	<p>Find out if the company that offers to help you with your debts is legitimate and if any complaints have been filed against it. Find your state's attorney general on the National Association of Attorneys General website at http://naag.org.</p>
<input type="checkbox"/> Read about others' experiences with the company.	<p>You can use online rating and review sites and third parties that rate businesses.</p>
<input type="checkbox"/> Get details in writing.	<p>Ask the company to write down what they will do on your behalf and what it will cost. That includes explaining its fees and any conditions on its services.</p>



Remember the Key Takeaway

Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.

Section 4: Nonpayment of Debts and Debts in Collection

We will discuss what can happen if debts are not paid and how to deal with debts in collection.



Key Takeaway

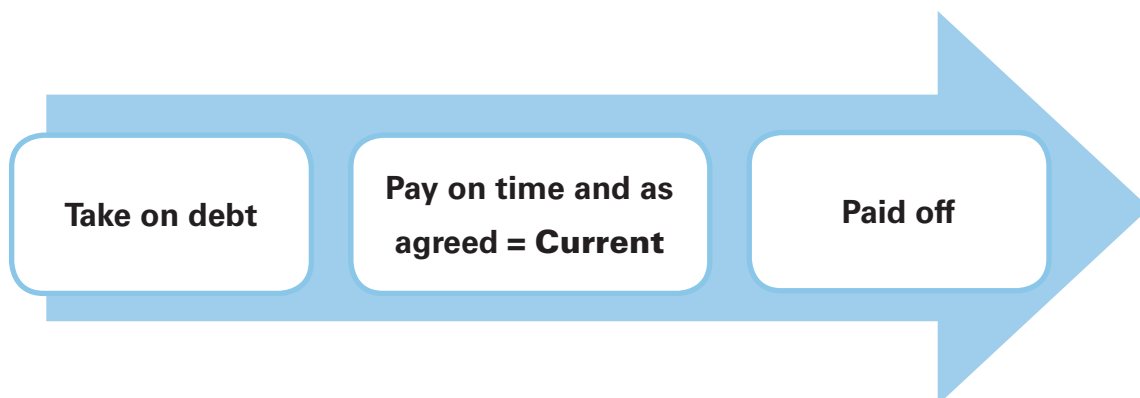


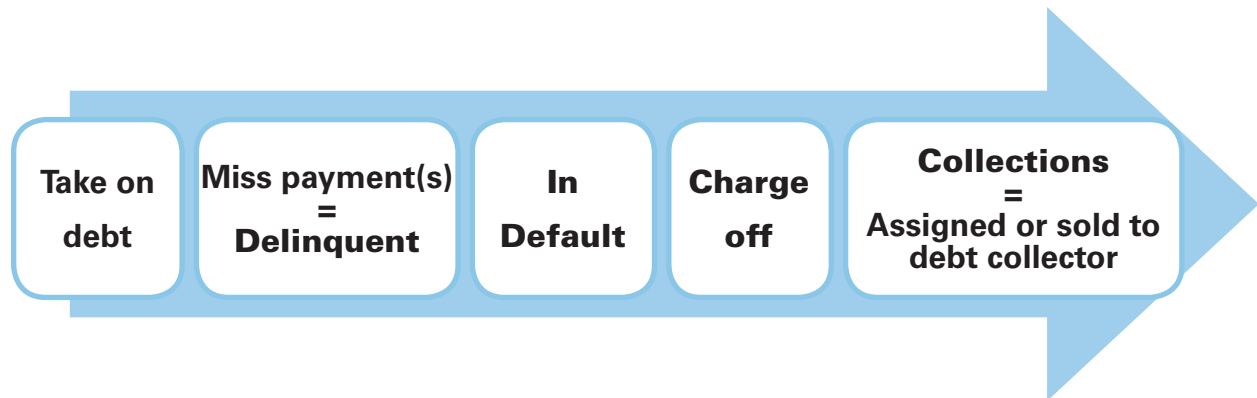
Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.

The Life Cycle of Debt

As long as you pay your debts on time and as agreed, your debts are considered to be **current** and you will eventually pay off what you owe.

This may be your goal, but you may not be in this situation right now. It helps to understand what happens if you cannot pay on time and as agreed.





If you fall behind on payments, your debts are **delinquent**.

If you continue to fall behind on payments, your debts are in **default**.

- For some loans, that may be after missing one payment. For other loans, it may be after days, weeks, or months of nonpayment.

After a debt is in default, some creditors will then **charge off** your account. They give up collecting the debt from you directly.

At this point, a debt generally goes to **collections** and a debt collector will try to collect the debt.

Not Paying Debts

Several things can happen if you do not pay your debts on time and as agreed, including:

- Having to pay late fees or paying more money in interest
- Being contacted by a debt collector who asks you to make payment
- Losing services and having to pay costs to re-establish them
- Losing collateral

Other things can happen as well, such as:

- Negative entries on your credit reports
- Drop in credit scores
- Lawsuits from creditors
- Wage garnishment
- Account garnishment
- Treasury offset



Apply It: Dealing with My Debts in Collection

If you have any debts in collections, you can use this checklist to make sure you are:

- Paying what you actually owe
- Sending payment only to someone who can legitimately collect the debt

Steps to Take

Step	Additional Information
1. Get specifics from the debt collector <input type="checkbox"/> I have done this	<p>Do not ignore a debt collector. They can contact you by phone or mail.</p> <p>Any debt collector who contacts you claiming you owe payment on a debt is required by law to tell you certain information about the debt. They must tell you:</p> <ul style="list-style-type: none"> ▪ The name of the current creditor, and ▪ The amount you owe. <p>They also must tell you that:</p> <ul style="list-style-type: none"> ▪ You can dispute the debt. ▪ If you don't dispute the debt within 30 days in writing, the debt collector will assume the debt is valid. ▪ If you dispute the debt within 30 days in writing, the debt collector will provide verification of the debt. ▪ If you request the name and address of the original creditor within 30 days (if different from the current creditor), the debt collector will provide you that information. <p>If a debt collector doesn't provide all of the above information in the first contact with you, it must send you a written notice including that information within five days of contacting you.</p>

Apply It: Dealing with My Debts in Collection *continued*

Steps to Take

Step	Additional Information
<p>2. Verify the debt using a debt verification letter</p> <p><input type="checkbox"/> I have done this</p>	<p>Do this if you do not recognize the debt, if you question the amount of the debt, or if you question the right of the debt collector to collect the debt from you.</p> <p>A debt verification letter may also be called a debt validation letter.</p> <p>Send the letter to the debt collector within 30 days of when you were first contacted by the debt collector. Once the debt collector receives your letter, they must stop all debt collection efforts. They cannot restart until they send verification of the debt to you.</p> <p>You can use one of the example letters at www.consumerfinance.gov. Search for “debt collector letters.”</p> <p>Send the letter via certified mail, return receipt requested.</p>
<p>3. Get legal help, if the debt collector notifies you that they intend to sue you</p> <p><input type="checkbox"/> I have done this</p>	<p>Immediately contact a legal aid organization or an attorney. There may be legal aid offices or legal clinics in your area that will offer their services for free if you meet their criteria. Some attorneys may also offer free services, or charge a reduced fee. Learn more by checking the American Bar Association's findlegalhelp.org website or contacting your state or local bar association.</p> <p>And if you were already sued, immediately seek legal help. Carefully read the lawsuit, and ensure that you (or your attorney) respond by any deadline. If you don't respond, the court will likely issue a judgment against you.</p>
<p>4. Understand the statute of limitations for how long the debt can be collected</p> <p><input type="checkbox"/> I have done this</p>	<p>The statute of limitations is a state law that limits the length of time a creditor can sue to collect a debt.</p> <p>The statute of limitations varies from state to state.</p> <p>Be aware that debt collection efforts may intensify as you get close to the end of the time provided in the statute of limitations.</p> <p>Learn more from your state's consumer protection office. Go to usa.gov and search for “consumer protection offices.”</p>

Apply It: Dealing with My Debts in Collection *continued*

Steps to Take

Step	Additional Information
5. Understand how long negative information can be reported on your credit reports <input type="checkbox"/> I have done this	<p>Under the Fair Credit Reporting Act, a debt in collections can generally only be reported on your credit reports for seven and one-half years, starting from the month before you stopped paying the original debt regularly. This time limit applies no matter who owns the debt, including a third-party debt collector.</p> <p>Note that this time limit on reporting negative information differs from the statute of limitations, which determines how long a debt collector can sue to collect a debt.</p>

Before Making a Plan to Pay a Debt

Be sure you know:

1. You owe the debt.
2. The statute of limitations has not expired.
3. You are dealing with a legitimate debt collector.

If you know those three items, pay the debt in full if possible.

If payment in full is not possible, you may be able to:

- Set up a payment plan with the debt collector to pay the amount due in installments over time. Make sure it's a plan you can afford.
- Negotiate a lower balance that will be considered payment in full. Ask the debt collector to report to the credit reporting agencies that your account is "paid in full," not "settled."

Debt Collectors Must Follow Rules

The Fair Debt Collection Practices Act governs the federal standards debt collectors must follow. Debt collectors cannot use abusive, unfair, or deceptive practices to collect money from you.

Go to **www.ftc.gov** and search for “consumer information debt collection” to learn more about the rules debt collectors must follow.

Report problems with a debt collector to your state attorney general’s office. Find your state’s attorney general on the National Association of Attorneys General website at **<http://naag.org>**.

- Many states also have their own debt collection laws.
- Your state attorney general’s office can help you learn about the rights you may have under state law.

You can also report problems at **www.ftc.gov** and at **www.consumerfinance.gov**.

**Remember the Key Takeaway**

Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.

Section 5: Dealing with Student Loan Debt

We will discuss how to manage student loan debt.



Key Takeaway



When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.

What is Student Loan Debt?

The amount of money someone owes for student loans is called **student loan debt**.

For some people, student loan debt will be the biggest debt they ever have.

Dealing with student loan debt can sometimes be stressful. Know that there are repayment options and that you can reach out for help.

What Can Happen If I Don't Repay My Student Loans?

It's important to deal with student loan debt and not ignore it. You can take notes from the discussion here.



Apply It: My Student Loan Debt

You can use this checklist to explore how student loan debt may be affecting you.

1. Do you have any student loans, including loans for you or a “parent” loan?

- ☐ Yes
- ☐ No

If no, do not continue.

2. Have you been able to make all of your payments on time and as agreed?

- ☐ Yes
- ☐ No

If yes, do not continue.

3. How has your student loan debt affected you? Check all that apply.

- ☐ I’m paying more in fees and interest.
- ☐ Part of my paycheck was taken from me to repay the loan(s).
- ☐ Money was taken from my account at a financial institution to repay the loan(s).
- ☐ My tax refund was withheld to repay the loan(s).
- ☐ I had to take one or more semesters off.
- ☐ I can’t get more federal student aid.
- ☐ There are negative entries on my credit reports.
- ☐ My credit scores went down.
- ☐ I’m unable to borrow money.
- ☐ I’m stressed out because I can’t pay my student loans.
- ☐ I can’t reach my other goals.
- ☐ I don’t know.
- ☐ Other

Types of Student Loans

There are two major types of student loans: private student loans and federal student loans.

- **Private student loans** are nonfederal loans made by a lender, such as a bank, credit union, state agency, school, or other lender.
- **Federal student loans** are offered by the federal government.

The Department of Education provides a table that compares federal and private student loans. Visit **www.studentaid.gov** and search for “federal-vs-private.”

This section only covers federal student loans.

Federal Student Loan Repayment Options

You must begin repaying federal student loans after a grace period, which is usually about six months after you complete school, drop out, or take fewer credits than required by the loan.

When it’s time to start paying back federal student loans, you will deal with the loan servicer. The loan servicer handles billing and other services for federal student loans during the repayment period.

There are several repayment options for federal student loans, including:

- Standard Repayment Plan
 - This is the default option. If you do not apply for another option, you will be on this plan.
- Graduated Repayment Plan
- Extended Repayment Plan
- Revised Pay as You Earn Plan (REPAYE Plan)
- Pay as You Earn Plan (PAYE Plan)
- Income Based Repayment Plan (IBR Plan)
- Income Contingent Repayment Plan (ICR Plan)

The Department of Education provides a loan simulator tool. It can show you what plan or plans you may qualify for and give you an idea of different monthly payments under various plans.

- Visit **www.studentaid.gov** and search for “Loan Simulator”.

Forbearance and Deferment

Forbearance or deferment may also be options if you are struggling with federal student loan payments.

- Forbearance is a temporary postponement or reduction of payments for a period of time because you are experiencing financial difficulty.
- Deferment is a temporary suspension of loan payments for specific situations, such as reenrollment in school, unemployment, or economic hardship.

Loan Forgiveness, Cancellation, and Discharge

You are responsible for repaying your federal student loans, even if you:

- do not complete your education
- cannot find a job related to your area of study
- are unhappy with the education you paid for with your loan

However, under certain circumstances, your federal student loans may be forgiven, canceled, or discharged. Visit **www.studentaid.gov** to find out more about these options and whether you qualify for them:

- Closed School Discharge
- Public Service Loan Forgiveness
- Teacher Loan Forgiveness
- Total and Permanent Disability Discharge
- Discharge Due to Death

Take Action to Prevent Default

- Contact your loan servicer to find out if you can change your payment due date.
- Review different repayment plan options. Consider applying for one you are eligible for and can afford.
- Explore your eligibility for forbearance, deferment, loan forgiveness, loan cancellation, or loan discharge.

If you apply for a repayment plan, continue making payments on your loans, if possible, until you receive official notification of your new repayment plan.

Declaring bankruptcy does not automatically discharge federal student loans.

Beware of Student Loan Scams

Some companies may advertise that they can help student loan borrowers repay their loans quicker, cheaper, or get them forgiven altogether. Be cautious—some of these companies are running scams.





Try It: Exploring Options for Repaying Student Loans

Scenario: Hugo Is Worried About His Student Loans

Hugo is proud to be the first member of his family to graduate from college. The balance on his federal student loans is \$27,000, not including interest. He got a job offer shortly after graduation, but the same day he learned that his father had a serious health issue. Hugo made the difficult decision to decline the job offer so that he could return to his hometown to help his parents and siblings.



Hugo found a job in his hometown, but it does not pay what he expected to earn after college. Hugo does not regret his decision to return home to help his family. However, he doesn't know where the money will come from to make payments on his student loans.

The grace period will be ending soon and he still has no idea how he will make the payments. The worry about his student loans is really weighing on him, especially when his family is already under stress.

What repayment options could Hugo explore?

Where can Hugo learn more about repaying federal student loans?



Apply It: Behind On My Student Loans Checklist

If you are behind on payments or in default, there are several steps you can take. You can use this checklist to track the steps you take toward resolving your student loan debt.

If you need more information to move forward with these steps, contact the financial aid office of the school you attended or contact the lender or loan servicer. For federal student loans, you can also look up your loan information in the National Student Loan Data System: https://nsldsfa.ed.gov/nslds_SA/.

Step	Check When Completed
1. Know the type of loan you have: This will determine the repayment options available to you.	
2. Read your promissory note or loan agreement	
3. Keep good records, including: <ul style="list-style-type: none"> ▪ Financial aid award letters ▪ Loan counseling materials (entrance counseling and exit counseling) ▪ Your promissory note(s) ▪ Amount(s) of all student loans you have ▪ Account number for each student loan you receive ▪ Loan servicer contact information ▪ Loan disclosure(s) ▪ Payment schedules ▪ Record of your monthly payments ▪ Notes about any questions you ask about your student loan, the answers you received, and the name of the person you spoke to ▪ Copies of paperwork and written communications exchanged with your loan servicer 	

Apply It: Behind On My Student Loans Checklist *continued*

Step	Check When Completed
<p>4. Take action to prevent default:</p> <p>If you have missed one or more payments, you are delinquent, but may not yet be in default. For many federal student loans, you are considered to be in default if you don't make your scheduled student loan payments for a period of at least 270 days. Check your promissory note or loan agreement to see how it defines default.</p> <p>Contact your loan servicer to find out if you can change your payment due date. If your payment due date is falling between paychecks, you may find you are struggling to make the payment.</p>	
<p>5. Consider repayment plan options:</p> <p>Review the different repayment plan options. Consider applying for one you are eligible for and can afford.</p> <p>If you apply for a repayment plan, continue making payments on your loans, if possible, until you receive official notification of your new repayment plan.</p>	
<p>6. Find out about other options:</p> <p>If you have a federal student loan, find out if you qualify for deferment, forbearance, loan forgiveness, loan cancellation, or loan discharge. Visit www.studentaid.gov to learn more.</p>	
<p>7. If your loan is in default, decide what you will do:</p> <ul style="list-style-type: none"> ▪ Do nothing and accept the consequences of being in default ▪ Repay the loan in full ▪ Apply for a Direct Consolidation Loan, if your loan is a federal student loan ▪ Work with your loan servicer on a new repayment plan, which may be called "rehabilitating" your federal student loan 	

NOTE: Federal student loan debt is not automatically discharged if you file bankruptcy. Consult an attorney if you are considering filing for bankruptcy as a way to resolve default on student loan debt.



Remember the Key Takeaway

When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.

Section 6: Managing Medical Debt

We will discuss why medical debt is unique and how you can manage it.



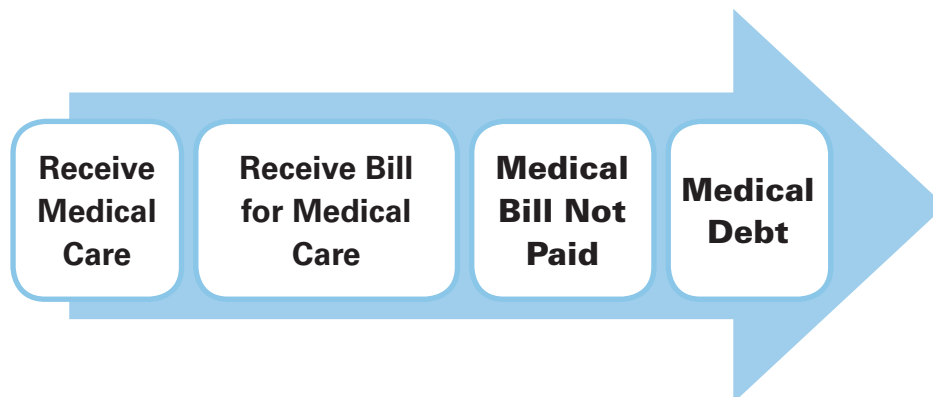
Key Takeaway



If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.

What is Medical Debt?

Medical debt is the result of not paying medical bills when they are due. You don't start out with debt when you receive medical care.



Why do medical bills often turn into medical debt? You can take notes from the discussion here.



Apply It: Taking Action on My Medical Debt

If you have medical debt, consider the following steps.

Situation	Action
<p>You get what looks like a medical bill</p>	<p>Make sure you are looking at an actual bill:</p> <ul style="list-style-type: none"> ▪ Read it carefully. It could be an Explanation of Benefits (EOB). An EOB is not a bill. An EOB is a document that lists the charges for medical products or services received. It shows how much money you are responsible for paying, and what your health insurance, if any, is responsible for paying. ▪ If it is a bill, review it carefully. Did you receive the supplies or services on the dates listed on the bill? ▪ If you have insurance, check that your insurance company paid what it was supposed to pay. ▪ If you do not owe what the bill shows you owe, act quickly to dispute it. The bill should indicate who you need to contact to dispute the bill. <p>If you owe what the bill shows you owe, try to pay it in full.</p>
<p>The bill is accurate but you can't pay it in full</p> <p>Option 1</p>	<p>Try to negotiate a lower payment amount:</p> <p>If you don't have insurance, ask for the rate that people who have insurance pay.</p> <ul style="list-style-type: none"> ▪ Ask for a discount if you pay part or all of the bill more quickly than required. ▪ Ask if they have a program to forgive part of the bill. ▪ Think about what you can reasonably afford to pay. Reviewing your spending and saving plan may be helpful. <p>Do not neglect basic needs to pay for your medical debt.</p>

Apply It: Taking Action on My Medical Debt *continued*

Situation	Action
<p>The bill is accurate but you can't pay it in full</p> <p>Option 2</p>	<p>Try to set up a payment plan:</p> <ul style="list-style-type: none"> ▪ You might be able to pay a lower, set amount each month until the debt is paid off. ▪ Think about what you can reasonably afford to pay. Reviewing your spending and saving plan may be helpful. Do not neglect basic needs to pay for your medical debt. ▪ You can try to negotiate the terms of a payment plan—the amount you have to pay each month, the interest rate, and any fees. You may need to demonstrate your inability to pay the bill in full by sharing details of your income and expenses. ▪ Be sure to get your agreement in writing. <p>A payment plan may be less expensive than using a credit card to pay the bill. Compare your options.</p>
<p>The bill is accurate but you can't pay it in full</p> <p>Option 3</p>	<p>Try to settle the debt:</p> <ul style="list-style-type: none"> ▪ This means negotiating for a reduced overall balance that is considered full payment. ▪ Any unpaid balance that you don't have to pay could be counted as income. You may owe income taxes on the amount forgiven. ▪ The unpaid balance may be marked as “settled” on your credit reports, and this may negatively affect your credit scores. Even so, that is a better outcome than not paying anything. <p>To explore this option, talk directly with the billing office at the entity that sent you the bill. Ask if they can mark the bill as “paid in full” instead of “settled.”</p>
<p>The bill is accurate but you can't pay it in full</p> <p>Option 4</p>	<p>Work with a nonprofit credit counseling organization:</p> <ul style="list-style-type: none"> ▪ A credit counselor can help you work through your medical debt situation. ▪ Visit www.usa.gov and search for “credit counseling” for resources that include tips from the Federal Trade Commission (FTC) on how to find and choose a credit counselor.

Apply It: Taking Action on My Medical Debt *continued*

Situation	Action
<p>The bill is accurate but you can't pay it in full</p> <p>Option 5</p>	<p>Consider bankruptcy, perhaps as a last resort:</p> <p>Bankruptcy is a legal process that helps people who can't pay their debts.</p> <ul style="list-style-type: none"> ▪ Explore all of your options before turning to bankruptcy. ▪ Your credit scores will likely go down. ▪ Bankruptcy will be reported on your credit reports for up to ten years. And, you would not be able to file for bankruptcy again for several years. ▪ If you want to consider bankruptcy, get legal help. Visit https://lsc.gov to find a legal aid program to contact for help.

This *Apply It* is based on a tool in *Navigating Medical Bills and Debt: A practical guide for current and former foster youth and their adult allies in Maine*. University of Southern Maine's Muskie School and Cutler Institute. Written by Becca Matusovich, Inger Giuffrida, and Mary Schneckenburger, October 2016. <https://www.maine-yc.org/navigating-medical-bills-debt/>.

Medical Debt in Collections and Credit

The three nationwide credit reporting agencies do not place medical debt on credit reports until one year after the date of the first missed payment.

However, even if your credit is not affected, your health care provider or insurance company may still send the bill to collections if you do not pay it in full by the due date on the bill.

- Medical debt that went to collections but has since been paid no longer appears on consumer credit reports issued by the three nationwide credit reporting agencies.
- You are responsible for paying all of your debts, including medical debts.
- Reach out for help if you need it.



Try It: What To Do About Medical Debt?

Read the scenario and answer the question to figure out what Luther could do about his medical debt.

Scenario: Luther Has Medical Bills

Luther had multiple injuries after falling off a ladder at his home. He has basic health insurance. After three surgeries, the bills started coming in the mail. He just put the bills in a drawer and decided to deal with them when he was feeling better.



What steps can Luther take to reduce the chance that his medical bills will go to a debt collector?



Remember the Key Takeaway

If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.

Section 7: Understanding High Cost Debt

We will discuss what high cost debt is, where it comes from, and alternatives to high cost debt.



Key Takeaway



Understand how high cost debt works. Identify lower cost options for the future.

What is High Cost Debt?

High cost debt is often the result of small-dollar, short-term loans that have either costly fees or high interest rates, or both.

There are risks as well as benefits associated with all financial products and services, including high cost debt.

Car or Vehicle Title Loans

A car or vehicle title loan is generally a loan for a small amount of money and for a short time.

You give the lender the title to your vehicle – for example, your car, truck, or motorcycle. If you cannot repay the money you owe, the lender can take your vehicle.

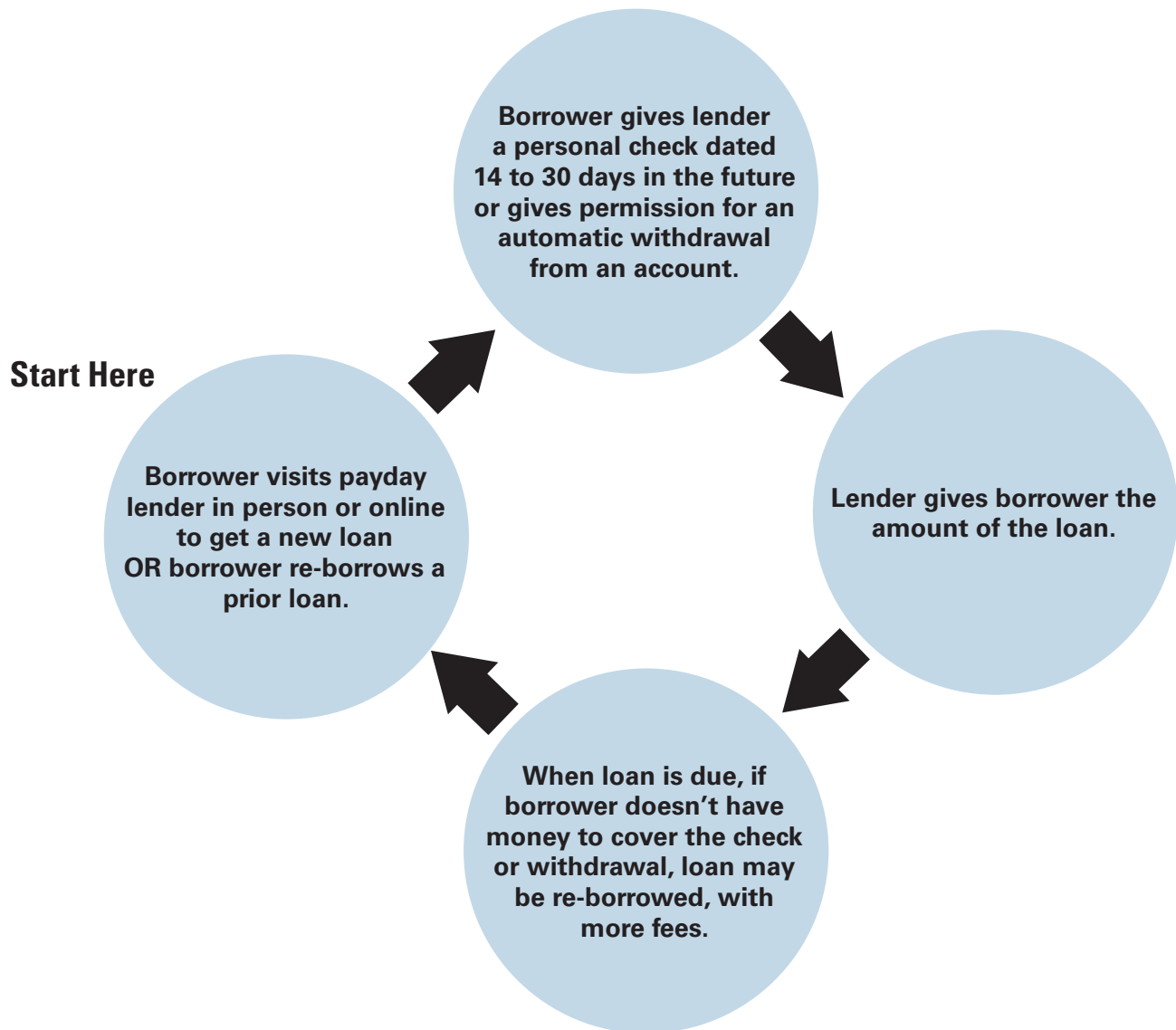
Lenders charge a monthly fee. This fee can be 25% or more of the amount you borrow per month. If you can't pay off the loan in full when due, the lender may offer to "roll over" the loan into a new loan. That process adds fees and interest to the amount you originally borrowed.

One in five single-payment vehicle title loan borrowers has their vehicles seized by the lender when they cannot repay their loans, according to the Bureau of Consumer Financial Protection.

Payday or Payday Advance Loans

These are short-term, small-dollar loans. You borrow money now, based on the expectation that you'll pay off the loan when you get your next paycheck.

A typical payday loan works like this:



Pawn Shop Loans

When you borrow using a pawn shop loan, the debt is secured with the item you have pawned. If you don't make the payment when it is due, expect the pawn shop to keep your item and sell it.



Try It: Exploring Alternatives to High Cost Debt

Read the scenario and answer the questions to explore Jamila's alternatives to a high cost loan.

Scenario: Jamila's Alternatives to High Cost Debt

Jamila needs to pay her electricity bill, but she is out of money. Her only credit card is nearly maxed out. With her low credit scores, she doesn't think she'll get a loan from a financial institution. But, she knows not paying her bill will mean her electricity will be shut off. And getting service restarted will require a big deposit in addition to paying what she owes.

She feels like a payday loan or vehicle title loan may be her only option.



What are Jamila's alternatives for covering the electricity bill?

How can Jamila avoid this situation in the future?



Apply It: My Alternatives to High Cost Debt

You can use this checklist to identify alternatives to high cost debt that could work for you.

Short-term Alternatives

- ☐ Think about why you need to borrow money. Do you need a loan to pay for a need, an obligation, or a want? If it's a want, consider spending less money for it, not buying it, or waiting until you have the money to pay for it.
- ☐ Explore options in your community. There may be programs offering assistance in paying bills, such as utility bills.
- ☐ If you are considering borrowing money as a way to pay a bill, try to negotiate for more time to pay the bill or set up a payment plan instead.
- ☐ Use lower-cost alternatives from a financial institution. They may offer small-dollar credit-building loans. Do not assume that you will not qualify. Find out.
- ☐ Use your emergency savings.
- ☐ Borrow from a friend or family member.
- ☐ Consider using a credit card – while it will increase your monthly credit card payment, it could be cheaper in the long run.
- ☐ Other: _____

Long-term Alternatives

- ☐ Build an emergency fund. You can be your own payday lender when there are unexpected expenses.
- ☐ Make a spending and saving plan. Use it to identify why you need to borrow money. Find ways to reduce expenses or increase your income.
- ☐ Ask lenders, landlords, utilities, and others to move monthly due dates closer to when you receive income.
- ☐ Take steps to repair your credit. Apply for a credit-building loan.
- ☐ Apply for a credit card and only use it to cover emergencies.
- ☐ Get another job or increase your hours at your current job.
- ☐ Other: _____



Remember the Key Takeaway

Understand how high cost debt works. Identify lower cost options for the future.

Module Closing

★ Remember the Key Takeaways

Section	Key Takeaway
1: What is Debt?	Understanding your debt is the first step to managing it.
2: How Debt Works	Consider how debt works so you can make informed decisions about it.
3: Reducing Debt	Develop a plan to reduce your debt and get help if needed, such as from a trained credit counselor.
4: Nonpayment of Debts and Debts in Collection	Don't ignore a debt collector. Make sure any debt you are asked to pay is valid as soon as possible. Get help if you need it.
5: Dealing with Student Loan Debt	When it's time to pay back your student loans, consider your options and understand what will happen if you are late with payments. Your loan servicer can help you explore repayment plans.
6: Managing Medical Debt	If you receive a medical bill, make sure it is valid. If you can't afford to pay it, try to set up a payment plan.
7: Understanding High Cost Debt	Understand how high cost debt works. Identify lower cost options for the future.

Take Action

You are more likely to take action if you commit to **taking action now**. One way to commit is to think about what you plan to do because of what you learned today. Then write it down.

What will I do?

How will I do it?**Will I share my plans with anyone? If so, who?****Where to Get More Information or Help**

For help understanding your debt, visit www.usa.gov and search for “credit counseling.”

For more information about coping with debt, review the Federal Trade Commission article at: www.consumer.ftc.gov/articles/0150-coping-debt.

For more information about federal student loans, visit www.studentaid.gov.

If you have a question about a banking product, ask a customer service representative at the financial institution for help.

If you have a concern, explain to the customer service representative what happened and what you would like them to do to correct the situation. If that does not help, consider contacting the federal regulator for that financial institution.

To find out who regulates the financial institution, call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342) or visit www.fdic.gov/consumers/assistance/filecomplaint.html.

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Pre-Training Survey

Your instructor may ask you to complete this pre-training survey before the training begins.

Please answer these questions:

- | | | | |
|----|--|------|-------|
| 1. | You don't need to understand your debt, as long as the company you owe money to sends you paperwork. | True | False |
| 2. | All debt works the same way. | True | False |
| 3. | There are different approaches for reducing debt. | True | False |
| 4. | Which of these statements about debt is true? Choose all that are true. | | |
| | a. It obligates your future income | | |
| | b. Going into debt to pay for something usually costs more money than paying in cash | | |
| | c. Having debt does not affect your credit | | |
| | d. All of the above | | |
| 5. | Which of these is one of your rights in debt collection? | | |
| | a. Not to be sued if you tell a debt collector to stop contacting you | | |
| | b. To have the debt cancelled if you don't have the money to repay it | | |
| | c. Not to be called at inconvenient times or places, such as before 8:00 a.m. or after 9:00 p.m., unless you agree to it | | |
| | d. All of the above | | |

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Post-Training Survey

Your instructor may ask you to complete this post-training survey after the training ends.

Please answer these questions:

1. You don't need to understand your debt, as long as the company you owe money to sends you paperwork. True ☐ False ☐
2. All debt works the same way. True ☐ False ☐
3. There are different approaches for reducing debt. True ☐ False ☐
4. Which of these statements about debt is true? Choose all that are true.
 - a. It obligates your future income
 - b. Going into debt to pay for something usually costs more money than paying in cash
 - c. Having debt does not affect your credit
 - d. All of the above
5. Which of these is one of your rights in debt collection?
 - a. Not to be sued if you tell a debt collector to stop contacting you
 - b. To have the debt cancelled if you don't have the money to repay it
 - c. Not to be called at inconvenient times or places, such as before 8:00 a.m. or after 9:00 p.m., unless you agree to it
 - d. All of the above

About the Training

Check the box that best describes your agreement or disagreement with each of these statements.

	Completely agree	Somewhat agree	Somewhat disagree	Completely disagree
6. I would recommend this training to others.				
7. I plan to apply what was discussed in this training to my life.				
8. The instructor used engaging training activities that kept me interested.				
9. The instructor was knowledgeable and well prepared.				
10. The Participant Guide is clear and helpful.				

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Visit the FDIC's website at **www.fdic.gov/education** for more information and resources on banking-related issues. For example, FDIC Consumer News provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

**You can also call the FDIC for information and assistance at
877-ASK-FDIC (877-275-3342).**



MONEY SMART for Adults

**PARTICIPANT GUIDE
Module 8: Managing Debt**

**September 2018
www.fdic.gov/education**