

Your Money, Your Goals Spotlight Series

Dealing with debt: A closer look



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Purpose

- Provide an in-depth look at debt (including some specific types of debt), tools for dealing with debt, and consumer rights in debt collection.
- Give you a greater base of understanding on how to use the information and tools on this topic from ***Your Money, Your Goals***—the CFPB’s financial empowerment toolkit.
- Provide you with an opportunity to consider how to apply this information and tools to your own situation or within your work with clients.

Agenda

- Welcome and Overview
- A Closer Look:
 - Debt
 - Debt-to-income ratio
 - Dealing with Debt in Collections and Your Rights
 - Tools from Module 6: Dealing with Debt
- Questions
- Closing

Opening questions

- What about this topic is important for the people you serve?

About the CFPB



Consumer Financial
Protection Bureau

- The CFPB works to make consumer financial markets work for **consumers, responsible providers, and the economy as a whole.**

CFPB's work



Empower



Enforce



Educate

Office of Financial Empowerment

- Part of the CFPB's Division of Consumer Education and Engagement
- Serves populations who lack full, affordable access to financial services
 - Low- to moderate-incomes
 - Low wealth
 - Otherwise financially underserved or vulnerable

Challenges faced by low-income consumers

- Loss of jobs, homes, and wealth
- Access to financial products and services
- Accumulation of debt
- Blemished credit reports and low credit scores
- Low savings
- Lack of financial capability

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Your Money, Your Goals



ARE YOU HAVING THE MONEY CONVERSATION?

Your Money, Your Goals is a toolkit to help front line staff and volunteers as they work with consumers to...

- Make spending decisions that can help them reach their goals
- Order and fix credit reports
- Avoid tricks and traps as they choose financial products
- Make decisions about repaying debts and taking on new debt
- Keep track of their income and bills
- Decide if they need a checking account and understand what they need to open one



TOOLS AND TRAINING TAILORED TO YOUR NEEDS

[Social Services](#) | [Community Volunteers](#) | [Legal Aid](#) | [Workers](#)

Each version of Your Money, Your Goals is designed to address different settings in which people or organizations work with consumers. You'll have the resources you need to help people set goals, choose financial products, and build skills in managing money, credit, and debt. Each version includes:

- **The toolkit:** We offer each toolkit in English and Spanish.
- **The training:** Aids can help your staff or volunteers make more effective use of the toolkit.
- **Follow-up resources:** As you train, learn what's most useful by surveying the trainees both before and after.

CHOOSE YOUR VERSION

Your Money, Your Goals

- Social service organizations
- Community volunteers
- Legal aid organizations
- Workers



Why dealing with debt matters

- Most households have debt
- Many households have more debt than they can handle
- Too much debt can create financial instability and stress
- Individuals often do not often know that they have rights when it comes to collection efforts on their outstanding debts
- Specific strategies to deal with debt and understanding their rights can empower individuals

A closer look: Debt

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What is debt?

- **What is debt?**

- Money you owe.
- Debt is a liability.
- Debt may obligate future income.



- **How is debt different from credit? For our purposes...**

- Credit is the ability to borrow money.
- Debt is the result of using credit.

Four types of debt in Module 6

- Medical debt
- School loans
- Auto title loans
- Payday loans

Medical debt

Factors that may lead to medical debt

- Unplanned events
- Unknown costs
- Confusing billing

Avoiding medical debt

- Discounts and charity care
- Payment plans
- Double check insurance coverage

Medical debt and credit

- **Credit Reporting**

- The three nationwide credit reporting companies do not place medical debt on a credit report until 180 days after the date of first delinquency.

Medical debt and FICO scoring

- New scoring model ignores all paid collection accounts, including paid medical debts.
 - Only the 3rd-party collection account is ignored when the collection account is paid.
- Unpaid collections are a factor, but unpaid medical collections have a smaller impact than other kinds of unpaid collections.

Student loan debt

- Money owed for federal and private student loans.
- The vast majority of federal student loan borrowers have a right to pay based on how much money they make.
 - Income-Based Repayment
 - Pay As You Earn
 - Revised Pay As You Earn
- Federal student loan borrowers have other options too.
 - Standard Repayment
 - Graduated repayment
 - Extended Repayment

Student loan debt in default

- You haven't made a payment on your federal **student loan** for 270 days (nine months)

AND

- You haven't made arrangements with your lender or servicer that do not obligate you to make those payments, like deferment or forbearance.

Student loan debt in default

- Repayment in full
- Loan rehabilitation
- Loan consolidation

Auto title loans

- Also known as **vehicle title loans**
- Often, single-payment loans
- High-cost, small-dollar loans
- Loans have short terms—**typically 30 days**
- Borrowers let lenders hold the titles to their cars, trucks, or motorcycles in exchange for loans
- The loan amount is often far below the value of the vehicle



Results of auto title loans

- 1 One-in-five borrowers have their vehicle seized by the lender when they cannot repay the loan in full.



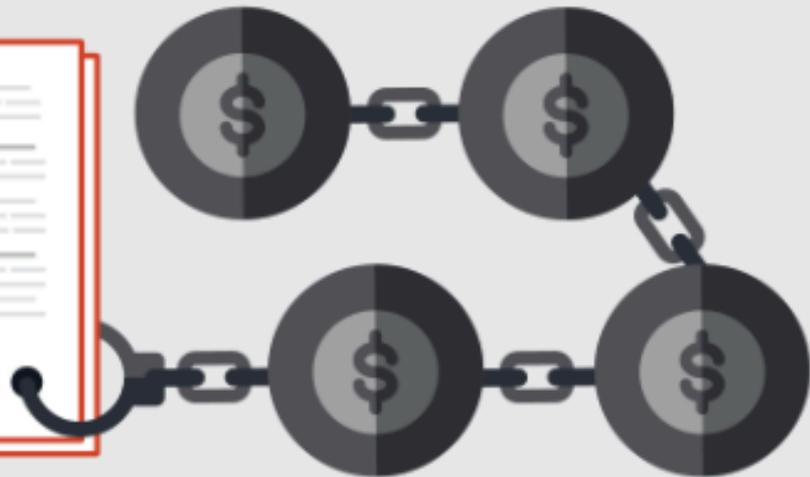
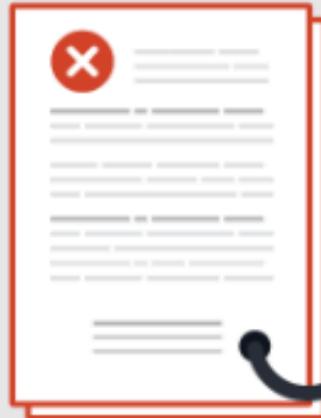
Results of auto title loans

- 2 Over four-in-five auto title loans are reborrowed on the same day they are due because borrowers cannot afford to pay them off with a single payment.



Results of auto title loans

- 3 More than half of auto title loans become long-term debt burdens where borrowers take out four or more consecutive loans in trying to repay the initial loan amount, adding more and more fees.



Results of auto title loans

- 4 More than two-thirds of auto title loan business is generated by borrowers who take out seven or more consecutive loans and are stuck in debt for most of the year.



Payday loans

Borrower visits payday lender.

No credit check or consideration of borrower's ability to repay the loan

Borrower gets loan.

Median loan is \$350 and fees range \$10 - \$30 for each \$100 borrowed

Borrower gives lender 14-day post-dated check.

*The amount borrowed + fees
 $\$350 + 52.50 = 402.50$*

In 14 days, if the borrower doesn't have the money, loan is renewed.

Borrower must pay \$52.50 to renew.

Every 14 days, the borrower must pay the loan or renew it.

The average borrower has 10 transactions per year. In this example, it would cost \$525 to borrow \$350.

Alternatives to high-cost credit

Short-term strategies

- Use emergency savings
- Consider credit union or bank short-term loans
- Borrow from a friend or family member
- Use a credit card
- Negotiate for more time to pay or a repayment plan

Alternatives to high-cost credit

Short-term strategies, continued

- Barter
- Determine whether the money you are borrowing is a need, an obligation, or a want

Long-term strategies

- Build emergency savings
- Develop a cash flow
- Generate more income



Debt-to-income ratio

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Debt-to-income ratio

- This simple calculation shows you how much of your income goes toward paying your debt—*how much of your income is obligated to debt.*



Calculating a debt-to-income ratio

Your total monthly debt payment	
DIVIDED BY your monthly gross income (your income before taxes are taken out)	÷
EQUALS your debt-to-income ratio	=

Debt-to-income analysis

Renters

- Consider maintaining a debt-to-income ratio of .15 - .20 (15% - 20%) or less.

Homeowners

- Consider maintaining a debt-to-income ratio of .28 (28%) or less for just the mortgage (home loan), taxes, and insurance.
- Consider maintaining a debt-to-income ratio for all debts of .36 (36%) or less.

Debt-to-income



\$0.50 is going to debt

\$0.50 for everything else:

- Taxes
- Utilities
- Cell phone
- Gasoline
- Food
- Clothing
- School fees
- Gifts
- Savings
- Car repairs
- Home repairs
- Appliances
- Furniture
- Household supplies
- Pet food and supplies
- And so on

Dealing with debt in collections and your rights

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Original creditor versus debt collector

Original creditor

- Company that gave you the loan or credit
- May attempt to collect a past due amount
- May hire a debt collector
- May sell your account

Debt collector

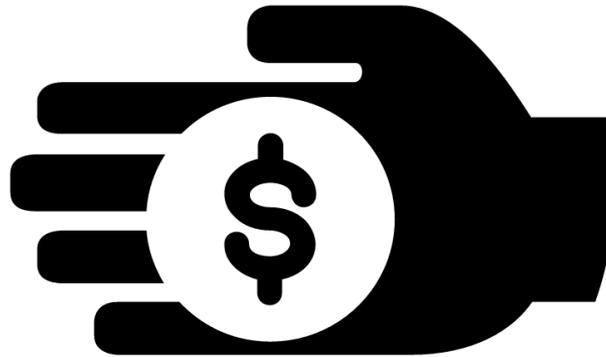
- Generally, a 3rd party who has been contracted specifically to collect on your account, or someone who has purchased it from the original creditor or another debt collector or debt buyer after default.

How to handle debt in collections

- A debt collector contacting you for payments on a debt is required by law to tell you:
 - The name of the creditor,
 - The amount owed, and
 - How you can dispute or seek verification of the debt.
- If you don't recognize the debt or have questions, consider disputing the debt in writing within 30 days of receiving the required information.

How to handle debt in collection

- Pay nothing—but understand the potential consequences.
- Make partial payments.
- Negotiate and/or pay off the debt.
- **Never ignore lawsuits.**



Fair Debt Collection Practices Act— Know your rights

The **Fair Debt Collection Practices Act** protects consumers from:

- Repeated phone calls intended to annoy, abuse, or harass
- Obscene or profane language
- Harassment
- False statements
- Threats of arrest, violence, or harm
- Threats to seize, garnish, or attach wages, or sell property unless permitted by law

Fair Debt Collection Practices Act— Know your rights

- Publishing lists of people who refuse to pay their debts
- Communicating about your debt with other people, except to locate you
- Unfair practices, i.e., collect extra fees and interest that are not allowed
- Calling you without telling you who they are
- Using false, deceptive, or misleading practices

Submitting a complaint

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We're on your side

We are the Consumer Financial Protection Bureau, a U.S. government agency that makes sure banks, lenders, and other financial companies treat you fairly.

FEATURED

We recently studied how auto title loans affect consumers.

[Find out what we learned](#)

We're working on a student loan Payback Playbook to help borrowers like you learn about repayment options. Let us know what you think.

[Share your thoughts on our student loan Payback Playbook](#)

Tools from Module 6: Dealing with debt

Your Money, Your Goals Spotlight Series

Tool 1: Debt worksheet

Debt worksheet

Use this worksheet to list who you owe money to and how much you owe them. This is the first step in managing and reducing your debt.

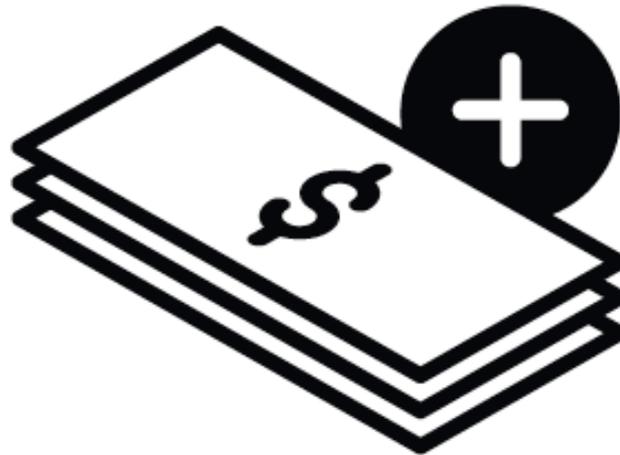
Category	Lender	Total amount borrowed	Amount outstanding	Total payment amount	Payment due date	Secured? If yes, by what.	Interest rate	Other important terms
Mortgage								
Vehicle loan								
Appliance / furniture loan								
Student loan								
Credit card debt 1								
Credit card debt 2								
Payday loan								
Car title loan								
Other								
Other								
Total monthly debt payment								

Tool 2: Debt-to-income worksheet

Your total month debt payment (from Tool 1)	
DIVIDED BY your monthly gross income (your income before taxes are taken out)	÷
EQUALS your debt-to-income ratio	=

Tool 3: Reducing debt worksheet

- The two primary methods for reducing debt are:
 - Highest interest rate method
 - Snowball method
- Consider the pros and cons of each.



Tool 4: Repaying student loans

CFPB's "Paying for College" online tool:

- Researching schools
- Filling out the Free Application for Federal Student Aid (FAFSA)
- Choosing a loan
- Comparing financial aid packages and college costs
- Managing your money while in college
- Repaying your student loans

Student loan debt

The screenshot shows the top portion of the CFPB website. At the top left is the CFPB logo (Consumer Financial Protection Bureau). To the right is a contact number (855) 411-2372 and a search bar. Below this is a navigation menu with links: HOME, INSIDE THE CFPB, GET ASSISTANCE, PARTICIPATE, LAW & REGULATION, and SUBMIT A COMPLAINT. The main content area has a green background with the heading 'Paying for College'. Below the heading is a text box that says: 'Get help to make informed financial decisions about how to pay for college. Start by comparing financial aid offers or understanding student loan repayment options.' To the right of the text box is an illustration of a calculator, a pencil, a document with a dollar sign, a blue arched doorway, and a green folder. Below the illustration is a dark teal bar with four buttons: 'Get started', 'Student financial guides', 'Compare financial aid offers', and 'Repay student debt'. Below this bar is a white section with the heading 'Welcome!' and a paragraph: 'It's more important than ever for students and former students to make smart decisions about financing their college education. Whether you're attending college soon, are a current student, or already have student loans, we've put'. To the right of the paragraph is the text 'SHARE THIS PAGE' and three social media icons: Facebook, Twitter, and Email.

Visit <http://www.consumerfinance.gov/paying-for-college>

Questions?

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Final discussion questions

- How will you use this information in your work with clients?
- What additional information do you want related to debt?

Stay informed about work of the Office of Financial Empowerment

www.consumerfinance.gov/empowerment/

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Financial empowerment



We work to empower low-income and economically vulnerable consumers to make informed financial decisions by providing them with tools and information and by promoting a more inclusive and fair financial marketplace.

We work closely with social service providers, financial educators, and community-based organizations, to reach low- to moderate-income consumers where they are and get them information when they need it most.

Stay informed about our work

Email address:

SIGN UP

Join the 2016 *Your Money, Your Goals* Cohort

The Consumer Financial Protection Bureau is providing *Your Money, Your Goals* toolkits, training, and technical assistance to [20 entities](#) across the country that are committed to helping financially empower the populations they serve. We are working with entities that serve low-income and other vulnerable populations. These include public and private social service, faith-based, legal aid, volunteer, and worker-focused organizations. [Read the announcement](#) to learn more.

HELPING YOU HELP OTHERS

Financial empowerment tools and resources

Community training resources

Empowering youth

Tax-time savings



Get updates on *Your Money, Your Goals*

Sign up for email updates at the bottom of the *Your Money, Your Goals* page of consumerfinance.gov

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Your Money, Your Goals

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[Creating a referral guide](#)

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- Email YourMoneyYourGoals@cfpb.gov

**Thank you for your
participation!**

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