Standard 13: The student will evaluate the consequences of bankruptcy.

Standard 13. Bankruptcy
Lesson 13.1 Personal Bankruptcy
Handout 13.1.1 — You Be the Judge

Teacher Presentation Series 13
1.1. Assess the costs and benefits of bankruptcy to individuals, families, and society.

1.2. Examine ways to prevent bankruptcy and identify alternatives to bankruptcy (e.g., budget management, debt management, refinancing, and financial counseling).

1.3. Explain the importance of re-establishing a positive credit history and steps to improve a credit score after bankruptcy.
Standard 13.1

Bankruptcy

Personal Bankruptcy
Payoff

- Identify ways to deal with high levels of personal debt.
- Compare the costs and benefits of filing bankruptcy.
- Recognize the impact of filing bankruptcy.
- Explain the importance of regaining positive credit history.
- Demonstrate the steps to rebuild positive credit history.
Montana and Carolina could not wait to graduate from high school and get married. They were shocked to learn how much the other person owed.

Montana had:

- A new truck
- Borrowed money on his credit card for the down payment, tag, and title
- Booked their honeymoon to Mexico on his credit card for $5,000.
Carolina:

- Drove an old car that constantly cost her money on repairs
- Charged those repairs on her credit card, along with her clothes, shoes, dinners with friends, and everything else she wanted or needed
- Her charges totaled $8,000.

Is this a good start to a marriage? What do you recommend Montana and Carolina do to get control over their debt?
Cache

- Bankrupt
- Bankruptcy
- Consumer Credit Counseling
- Creditor
- Debt Consolidation Loan
- Financial Counseling
- Home Equity Loan
What does bankruptcy mean?
What is the difference between a person or family going bankrupt and a business going bankrupt?
What do people do when they cannot pay their bills?
How can you start over when you are in swimming in debt?
Managing Debt

- Refinancing debt
  - Debt consolidation loan
    - Combines all payments into one
    - Tends to have high interest rate
    - Must change your behavior or you will only have more debt!
Home Equity Loan

Borrow money on your home to pay your monthly bills.

If you miss one or more payments, you can lose your home.
Credit Counseling

- Restructure your debt
- Set up a new payment plan
- Monitor your progress
- Some are not reputable
Bankruptcy

A legal process where you request help from the courts to help manage your debt.

Bankruptcy petition

- Chapter 7 – Straight bankruptcy
- Chapter 13 – Reorganization of debt

Financial counseling required
Bankruptcy

Chapter 7

• Bankruptcy trustee takes your assets, converts them to cash, and uses the money to pay your creditors.

• Exempt and Non-exempt property
  • Most people who file only have exempt property.

• Cannot re-file for 8 years
  • No exceptions
Bankruptcy

Chapter 13

• Debt adjustment
• Allows you to keep your property.
• Repayment plan -
  • You must have a job where you can make regular monthly payments to file.
• Lasts about three to five years.
Top Reasons for Bankruptcy

- Divorce
- Illness
- Gambling
- Unemployment
- Failing to pay taxes
- Excessive medical bills

Why would these contribute to bankruptcy?
When to File?

- When you have no other choice:
  - Financial or credit counseling?
  - Call creditors?
  - New payment plans?

- It is a drastic action, so be sure!
- Contact an attorney for pre-screening.
Costs and Benefits of Bankruptcy

What are some of the “costs” of filing bankruptcy?

What are some of the “benefits” of filing bankruptcy?
What Have You Learned?

- Rights
- Responsibilities
- Costs
- Benefits
Life After Bankruptcy?

- Remains on credit history for ten years
- Lower credit score
- Higher interest rates
- High risk
- Not all debt eliminated

Fees
  - Attorneys
  - Counseling
  - Others
Life After Bankruptcy?

- No more debt collectors calling
- Reduces stress
- Fresh start
- Lessons learned
Repairing Credit

- Pay bills on time.
- Establish budget.
- Avoid credit repair services!

Continue these good habits, and your score will increase!
Earnings

- Good money management skills reduces the potential of filing bankruptcy or having excessive debt.
- High levels of debt is stressful.
- High levels of debt lead to personal and family problems.
- Know your options to make the best choices when dealing with debt.
What are the options to bankruptcy?
Who files bankruptcy?
Why do people file bankruptcy?
What are the costs and benefits of bankruptcy?
How can you avoid bankruptcy?
So, what do you think Montana and Carolina should do?
If you said they need financial counseling, then you are correct.
Managing debt is very stressful and is frequently a source of marital problems, suicide, and health-related issues.
Paid in Full

Young people are among the fastest growing segment of the population filing bankruptcy because of high debt levels.

With counseling and changes in behavior, this young couple might be able to avoid becoming a statistic.
Handout 13.1.1 – You Be the Judge

You have successfully filed bankruptcy and your debts have been forgiven. Does that ensure that you will have a successful financial future?