

PREVENTING AND MANAGING
HIGH COST DEBT:
PAYDAY LOANS, AUTO TITLE
LOANS, AND STUDENT LOANS

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Purpose

Provide you with an:

- In-depth look at high cost debt (including some specific types of debt), tools for dealing with debt, ways to avoid this debt, and rights in debt collection.
- Opportunity to consider how to apply this information in your work with young people (and possibly to yourselves, too)!

Opening questions

- How is this topic important for the young people you work with?

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.

A closer look at 4 types of debt

- Auto title loans
- Payday loans
- School loans
- Rent-to-own furniture, appliances, technology, tires



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.



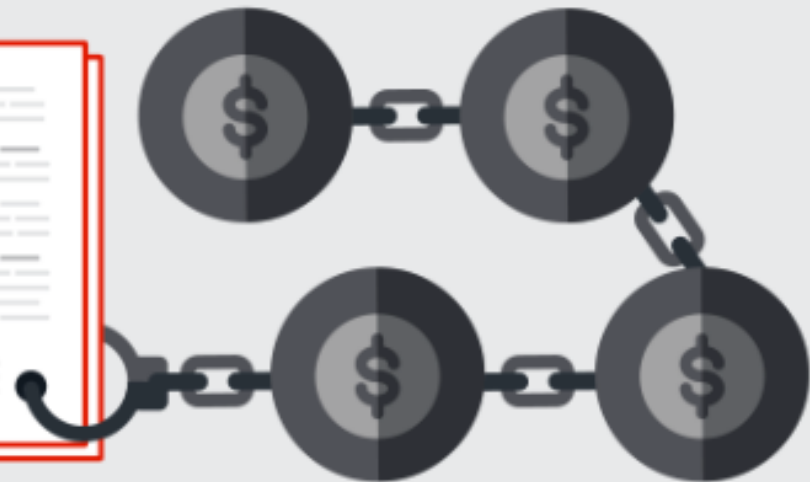
Results of auto title loans

- 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.



Poll

- **Most people who take out a payday loan are using it to cover an emergency.**
 - ▣ True
 - ▣ False

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.*

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



Student loan debt

- Federal student loan borrowers have other options too.
 - Graduated repayment
 - Standard Repayment
 - Extended Repayment



Student loan debt in default

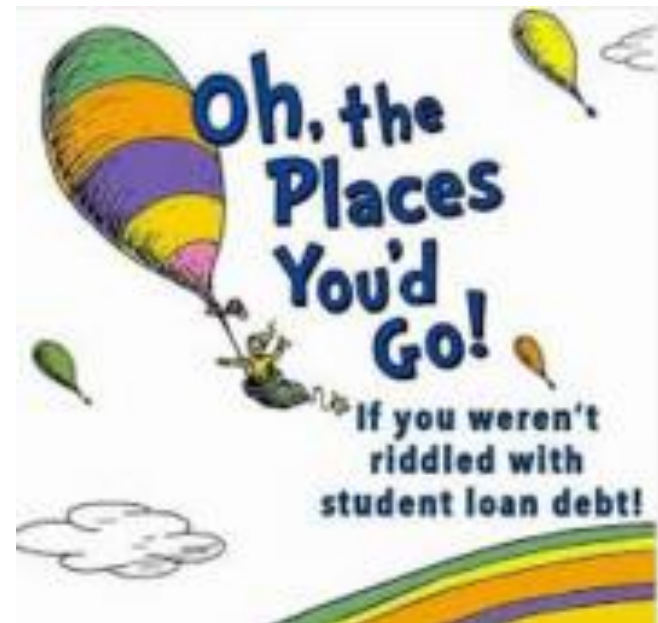
- You haven't made a payment on your federal **student loan** for 270 days (nine months)

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



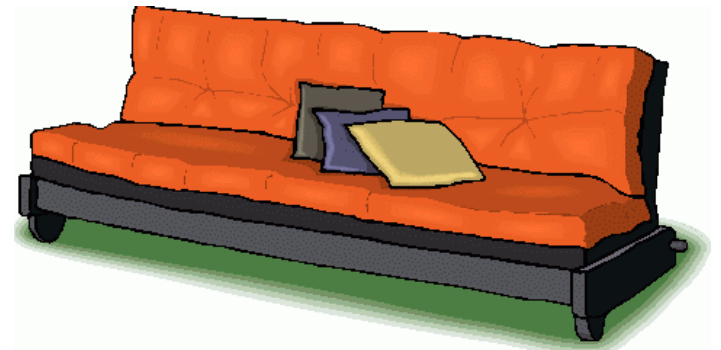
Rent-to-Own

- Buying furniture, appliances, technology, and tires
- No credit checks
- 120 days same as cash, 12-month, 18-month, or 24-month payments plans
- Lease online or in person (at rent-to-own retail stores)



Rent-to-Own

- Item may cost 2 to 3 times as much compared with:
 - Cash
 - Installment
 - Layaway
- Miss one or more payments? Item can be repossessed.



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

- 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

Shawna has just graduated, completing her associates degree in nursing. She has already landed a full-time job earning \$17.50 per hour. She works full time (160 hours per month). She will be working at a hospital 21 miles from her home and public transportation is not a viable option for her.

She found a good used car, but she can't afford to buy it without a loan. Her monthly payments on that loan would be \$158.

Every month she also pays the following debts:

- ❑ School loan \$205.00
- ❑ Credit card #1 \$90.00; Credit card #2 \$55
- ❑ Mortgage \$625.00

- ❑ **What is the debt to income ratio without car loan? With the car loan?**
- ❑ **Based on her DTI, do you think she can afford the loan?**

Debt-to-income



\$.50 is going to debt

\$.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

Poll

- **Once a debt is written off or charged off, you are no longer responsible for payment of the debt.**
 - True
 - False

Original creditor versus debt collector

Original creditor

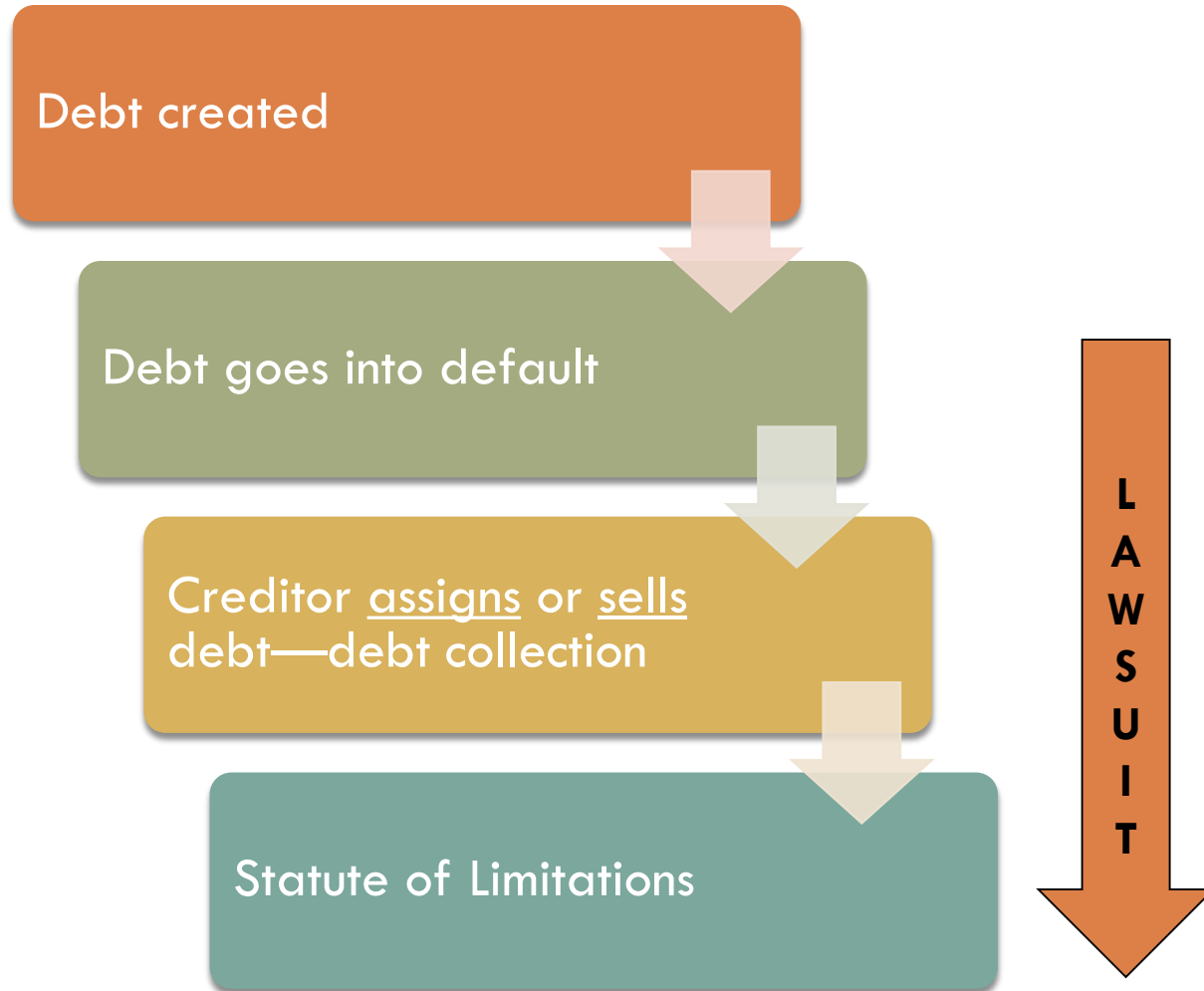
- ❑ Company that gave you the loan or credit
- ❑ May attempt to collect a past due amount
- ❑ May hire a debt collector
- ❑ May sell your account

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.

From Debt to Debt Collection

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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.

Verify the debt

[Your name]
[Your return address]

[Date]

[Debt collector name]
[Debt collector address]

Re: [Account number for the debt, if you have it]

Dear [Debt collector name]:

I am responding to your contact about a debt you are trying to collect. You contacted me by [phone/mail], on [date] and identified the debt as [any information they gave you about the debt]. Please supply the information below so that I can be fully informed:

Why you think I owe the debt and to whom I owe it, including:

- The name and address of the creditor to whom the debt is currently owed, the account number used by that creditor, and the amount owed.
- If this debt started with a different creditor, provide the name and address of the original creditor, the account number used by that creditor, and the amount owed to that creditor at the time it was transferred. When you identify the original creditor, please provide any other name by which I might know them, if that is different from the official name. In addition, tell me when the current creditor obtained the debt and who the current creditor obtained it from.
- Provide verification and documentation that there is a valid basis for claiming that I am required to pay the debt to the current creditor. For example, can you provide a copy of the written agreement that created my original requirement to pay?

Verify the debt

- If you are asking that I pay a debt that somebody else is or was required to pay, identify that person. Provide verification and documentation about why this is a debt that I am required to pay.

The amount and age of the debt, specifically:

- A copy of the last billing statement sent to me by the original creditor.
- State the amount of the debt when you obtained it, and when that was.
- If there have been any additional interest, fees or charges added since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each added amount. In addition, explain how the added interest, fees or other charges are expressly authorized by the agreement creating the debt or are permitted by law.
- If there have been any payments or other reductions since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each of them.
- If there have been any other changes or adjustments since the last billing statement from the original creditor, please provide full verification and documentation of the amount you are trying to collect. Explain how that amount was calculated. In addition, explain how the other changes or adjustments are expressly authorized by the agreement creating the debt or permitted by law.
- Tell me when the creditor claims this debt became due and when it became delinquent.
- Identify the date of the last payment made on this account.
- Have you made a determination that this debt is within the statute of limitations applicable to it? Tell me when you think the statute of limitations expires for this debt, and how you determined that.

Verify the debt

Details about your authority to collect this debt.

- I would like more information about your firm before I discuss the debt with you. Does your firm have a debt collection license from my state? If not, say why not. If so, provide the date of the license, the name on the license, the license number, and the name, address and telephone number of the state agency issuing the license.
- If you are contacting me from a place outside my state, does your firm have a debt collection license from that place? If so, provide the date of the license, the name on the license, the license number, and the name, address and telephone number of the state agency issuing the license.

I have asked for this information because I have some questions. I need to hear from you to make an informed decision about your claim that I owe this money. I am open to communicating with you for this purpose. In order to make sure that I am not put at any disadvantage, in the meantime please treat this debt as being in dispute and under discussion between us.

In addition to providing the information requested above, please let me know whether you are prepared to accept less than the balance you are claiming is owed. If so, please tell me in writing your offer, with the amount you will accept to fully resolve the account.

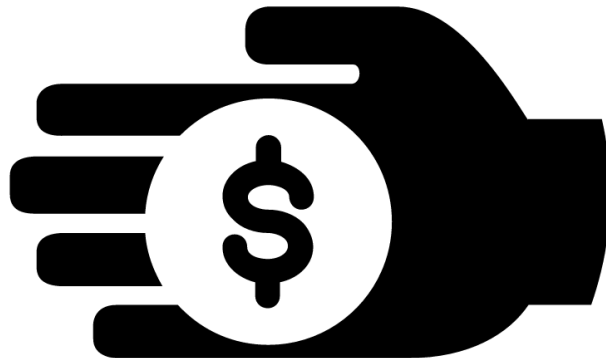
Thank you for your cooperation.

Sincerely,

[Your name]

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.**



Poll

- **A consumer has the right to tell a debt collector in writing to stop contacting him. This means the debt collector can make no further contact and generally cancels the debt.**
 - True
 - False

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

Garnishment

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- Wages versus bank accounts
- Protected sources
 - Social Security
 - Disability
 - Retirement
 - Child support
 - Alimony
- Exceptions when owing federal government or student loans

Time-Barred Debts

- Beyond the statute of limitations
- If someone thinks a debt is time-barred ASK:
 - ***If the debt is time-barred—the law requires a truthful answer.***
 - ***“What do your records show as the date of last payment?”***

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								

Contact Information

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THANK YOU

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