

# Oklahoma's Personal Financial Literacy Passport


**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

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- 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.

# == *Down Payment* ==



- 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.

# == *Down Payment* ==



💰 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

# == *Building Interest* ==



- 💰 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?

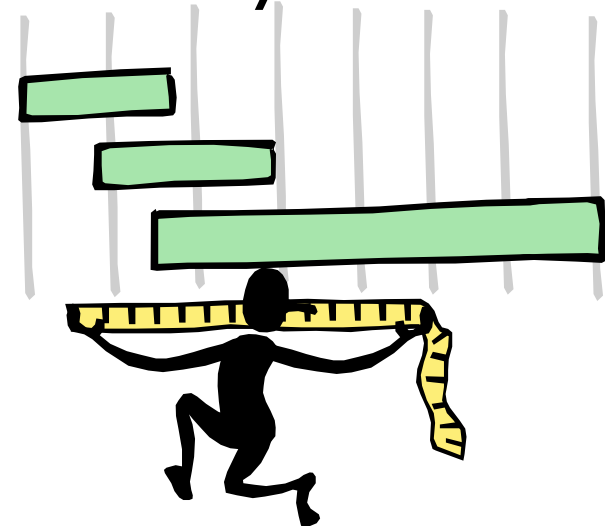


# Managing Debt



## 🏠 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?

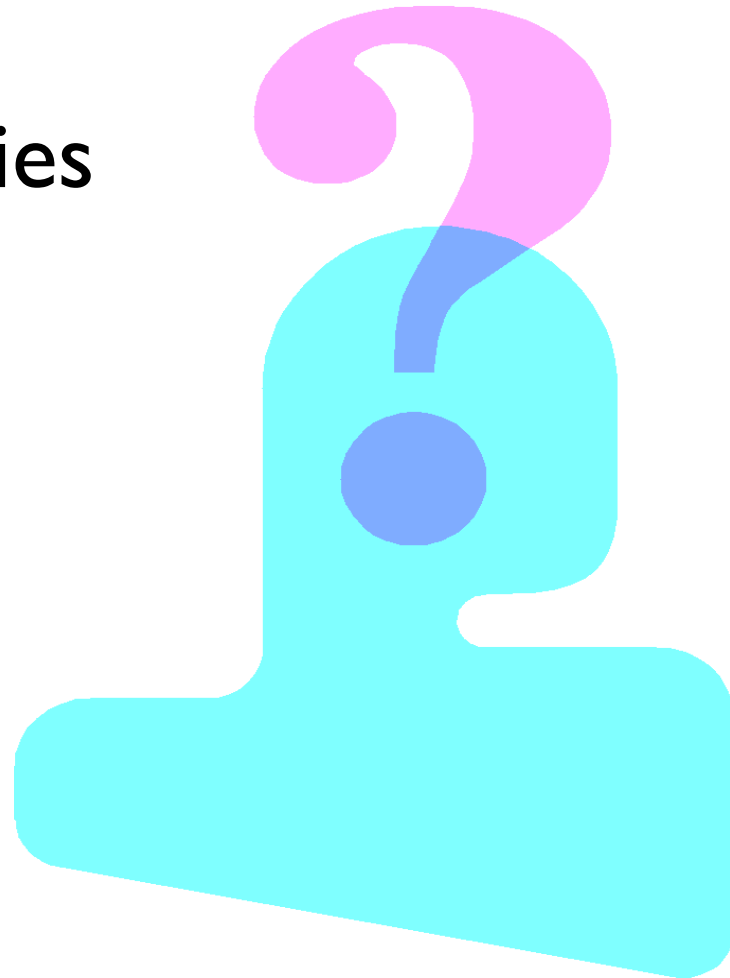


 Rights

 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.

# ≡ **Balance Sheet** ≡



- 💰 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?

## == ***Paid in Full*** ==



- 💰 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?

