

# Debt Repayment

IDA Education Series

Self-Directed Curriculum

## Contents:

Part 1: Understanding Your Debt - 2

Part 2: Paying Down Your Debt - 5

Part 3: Planning for the Future - 13

Verification of Completion - 18





The goal of the IDA Debt Repayment Education is to provide IDA Savers with information and support to understand their debt, pay down their debt, and plan for the future.

**By the end of this course, participants will:**

1. Fully document and organize all debts in order to make a plan of action
2. Understand several strategies for paying down debts
3. Begin thinking about their future financial goals, including building up their emergency savings

This curriculum was developed in part by the Warm Springs Community Action Team and has been made available to all Oregon IDA savers to support their financial goals. This material is provided for educational and information purposes only.



*Note: Some information in this packet is from the Bureau of Consumer Financial Protection's Your Money, Your Goals: A financial empowerment toolkit. The Bureau has prepared this material as a resource for the public. This material is provided for educational and information purposes only. It is not a replacement for the guidance or advice of an accountant, certified financial advisor, or otherwise qualified professional. The Bureau is not responsible for the advice or actions of the individuals or entities from which you received the Bureau educational materials. The Bureau's educational efforts are limited to the materials that the Bureau has prepared. This tool may ask you to provide sensitive information. The Bureau does not collect this information and is not responsible for how your information may be used if you provide it to others. The Bureau recommends that you do not include names, account numbers, or other sensitive information and that users follow their organization's policies regarding personal information.*

**Key**



Video



Tip



Activity



Web link

## Part 1: Understanding Your Debt

These questions are for your reflection. There is no right or wrong answer. Use these questions to reflect on the impact of debt on your household.

**What challenges have you or your family had because of debt?**



**How will reducing your debt help you and your family?**



**Debt is any money you owe.** To make a strong plan for reducing debt, you first have to know how much you owe and to whom you owe it. Complete the following steps to **identify ALL your debt**:

**Step 1:** Gather copies of any loan statements, including home loans, student loans, auto loans, payday loans, tribal credit loans, etc.

**Step 2:** Collect documentation of any past-due bills, including utilities, fines or fees, credit cards, medical bills, past-due child support, etc.

**Step 3:** Get a free copy of your credit report through [www.annualcreditreport.com](http://www.annualcreditreport.com). This can help you find any debt that has been forgotten about or has been sent to collections.

**Step 4:** Fill out the DEBT LOG on the next page, including as much information as you can.

**To calculate a debt's "payoff date":**

Take the **"Total amount left to pay" divided by "payment due this month" equals the number of months it will take to pay off the debt.** For example, if you owe \$2,400 on a loan and your monthly payment is \$200.  $\$2,400 / \$200 = 12$  months. It will take 12 months to pay off the debt.  
*For student loans: if you are on track for student loan cancellation or forgiveness, use the date of expected forgiveness.*





# Track your debts and how much you owe with this **Debt log**

1. List all the debts you have, including who you owe them to. Fill out the table to see your total monthly debt payment.
2. Repeat this exercise every few months to track if your debt is growing or shrinking.

**Remember, a bill isn't always debt.**

For instance, your phone bill isn't debt, but any past due amount for that bill is. If you're repaying a loan (like a credit card or mortgage), the entire amount is considered debt and should be included here.

Common debt types to help you brainstorm:

|           |                    |                  |                    |              |                           |                         |             |              |
|-----------|--------------------|------------------|--------------------|--------------|---------------------------|-------------------------|-------------|--------------|
|           |                    |                  |                    |              |                           |                         |             |              |
| Auto loan | Back child support | Credit card debt | Friends and family | Medical debt | Mortgage or past-due rent | Past-due fees and fines | Payday loan | Student loan |

| Debt | Payment due this month | Payment is up to date? | Total amount left to pay | Interest rate (if any) | Payoff date or goal |
|------|------------------------|------------------------|--------------------------|------------------------|---------------------|
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |
|      | \$                     |                        | \$                       | %                      |                     |

**Total monthly debt payment** \$

This tool is included in the Bureau of Consumer Financial Protection's Your Money, Your Goals: A financial empowerment toolkit.

## Calculating your DTI (Debt to Income Ratio):

Your debt-to-income ratio (DTI) compares all your monthly debt payments to your gross monthly income. This number is written as a percentage and is one way to understand how much of your income is going towards paying debt each month. Lenders may look at your DTI when considering a loan application. It's also another way to understand your debt compared to your income.

For instructions on calculating monthly income, see side box

### To calculate your DTI:

|   |    |
|---|----|
| <b>Total Monthly debt payment<br/>(total from DEBT LOG)</b> | \$ |
| divided by  | ÷  |
| <b>Gross monthly income</b>                                 | \$ |
| equals  | =  |
| <b>Debt to Income Ratio</b>                                 | %  |

### To calculate your monthly income:

**STEP 1:** Calculate your annual income

If paid hourly:

(hourly wage) x (hours per week) x 52 = annual income

If paid every two weeks:

(gross income per paycheck) x 26 = annual income

If paid twice per month:

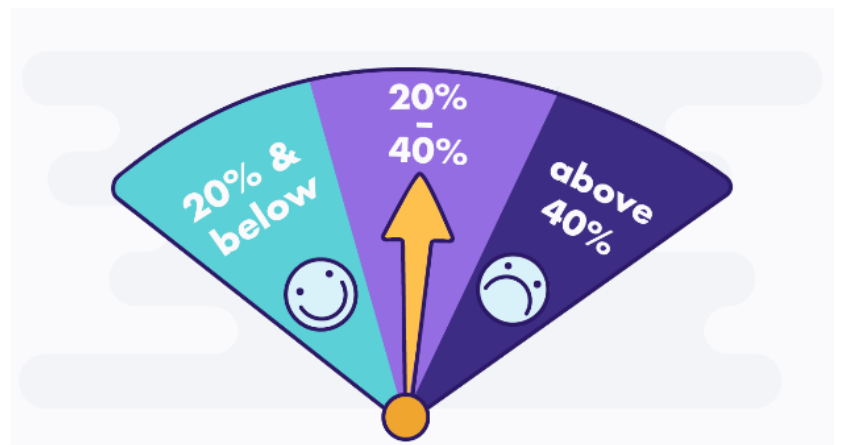
(gross income per paycheck) x 24 = annual income

Seasonal or business: Do your best to estimate how much you make in a year

**STEP 2:** Take your annual income and divide by 12 to get your average monthly income

## What does this mean?

Your DTI measures how much of your income is going to monthly debt payments. A higher percentage means that your debt is putting more pressure on your budget, maybe making it harder to meet other financial needs. Your DTI is going to vary over time. It is a good idea to look at your DTI today and then track it. As you pay down your debt, your DTI is going to drop.



## Part 2: Paying Down Your Debt

### Debt Payoff Strategies:

This section will look at two main strategies that can be used to help you create a plan for paying down your debt. **Debt Snowball vs Debt Avalanche**



Watch the video “**Debt Snowball Vs Debt Avalanche | Which is the Best Debt Payoff Strategy?**” by Next Level Life <https://youtu.be/jtgnRJKSJlw>

#### The Debt SNOWBALL method: Paying off the smallest debt first

What are the advantages of this method?

What are the disadvantages of this method?

#### The Debt AVALANCHE method: Paying off the debt with the highest interest rate first

What are the advantages of this method?

What are the disadvantages of this method?



## Student Loan Debt



Student loan debt is a little different than many other debts. In order to find out if your loans are federal or private, start by logging into [studentaid.gov](https://studentaid.gov). Anything that shows there is federal. Any student loans that don't show up there are privately held. Both private and federal loans show on your credit report – private loans are only visible there. Here are some things to know:

- **Private student loans** are private loans from banks and other lenders
  - Private student loans don't have the same options as federal loans to collect the money owed, or for forgiveness
  - In most cases, defaulted student loans can be settled or negotiated. Student loan settlement is a process where you negotiate with your loan servicers or collection agencies and agree to make a lump-sum payment.
  - Unlike Federal Student Loans, there is a statute of limitation for collecting private student loans
  - Other than being exempt from bankruptcy, private student loans function the same as any other personal, unsecured debt.
- **Federal student loans** are administered by the U.S. Department of Education. They tend to have lower interest rates and more flexible repayment plans than private loans.
  - Federal student loans have a variety of repayment options to consider based on your circumstances, which can be accessed through [Studentaid.gov](https://studentaid.gov), or you loan servicer.
  - It's important to know what options are available based on your circumstance. Options may include an income-based repayment plan, consolidation, and/or student loan forgiveness. To review options go to <https://studentaid.gov/repay>



For federal loans that are in default, wage garnishment and tax offset can start directly after collections phase – similar to tax debt, no judgement is required. Student Loan Default can be resolved through rehabilitation (call your servicer or debt collector) or through consolidation at [studentaid.gov](https://studentaid.gov). Please Note: Federal Student Debt can negatively amortize, or grow year after year. If you are on track for forgiveness or cancellation that negative amortization may be fine – if not, consider paying more than your income driven repayment minimum.



If you have received incorrect information, have had your payments misapplied, or have other complaints about your student loan servicer, please contact the student loan Ombuds at Oregon's Division of Financial Regulation. [DFR.Oregon.gov](https://DFR.Oregon.gov) or email [DFR. BankingProductHelp@DCBS.oregon.gov](mailto:DFR.BankingProductHelp@DCBS.oregon.gov) or call 888.877.4894



## Your Rights with Debt Collectors:



Watch the video “**Debt Collection: Know Your Rights**” by the **Federal Trade Commission** <https://youtu.be/eqzAFQ67t0M>

You have the right to be treated fairly by debt collectors. Here are 6 examples of your rights, when it comes to debt collectors:



- Can't use abusive language, threaten violence, or harass you
- Can't call before 8 AM or after 9 PM
- Can't lie or pretend to be someone they are not
- Can't get you to pay a debt that doesn't exist
- Can't have you arrested or deported
- Can't tell anyone about your debt

Have you had debt collectors call you? What do debt collectors do to try to get you to pay immediately?



## Negotiating Debt

It can be financially beneficial to negotiate debt in some cases, because you might pay less than you owe. It can also be a confusing and frustrating process, one that you may get help with. Here are some considerations to get you started:



- **Understand the source.** Only certain debts can be negotiated. You may not be able to negotiate utilities. However, they might offer a payment plan, so services can get restored.
- **Consider your options.** Is negotiation the right move for you? It's important to think carefully and consider different options related to that debt.
- **Know the terms and details of what you owe.**
- **Read and save your mail.**
- **Ask for help.** If you need additional assistance, talk with your IDA Provider for support or go to [www.nfcc.org/](http://www.nfcc.org/) . [Click here](#) to learn more about the difference between credit counselors and debt settlement or debt relief companies.





## Tips when working with debt collectors or creditors:



- **Know your Rights.** You can ask questions and you don't need to tolerate bullying.
- **Know who you owe the money to.** Debt is often sold and bought, meaning you might not owe money to the original creditor. If possible, talk to creditors rather than collection agencies.
- **If you are paying off the debt in full, ask for a percentage off** (start low, around 20 or 25 cents to every dollar and go from there). Once paid, be sure to have collector to note "paid as agreed".
- **Negotiate your payment amounts and dates if setting up a payment plan.** Creditors will often settle for a lesser amount; ask collector to note "paid as agreed" and send the agreement in writing.
- **Get information in writing.** Document conversations and keep notes.
- **Never give out your banking account information** until you have documentation and can verify the legitimacy of the entity.



Visit the Fair Trade Commission FAQs, including how to report a debt collectors, go to: <https://consumer.ftc.gov/articles/debt-collection-faqs>



### Beware of **DEBT SETTLEMENT** or **DEBT MANAGEMENT SERVICE COMPANIES** that:

1. Charge excessive upfront fees (more than \$100) and **guarantee** positive results.
2. Claim to settle your debt for "pennies on the dollar."
3. Instruct you to stop making payments to existing creditors, including the financial institution that holds your home mortgage.

See more about managing debt and filing a complaint by visiting the [Oregon Division of Financial Regulation](#).



## Understanding Bankruptcy

Bankruptcy is the legal process through which people or entities who cannot repay debts to creditors may seek relief from some or all of their debts. The two most common types of bankruptcy are Chapter 7 and Chapter 13.



Watch this video “**Animated Video Explaining Bankruptcy for Oregonians**” by Oregon LawHelp [https://www.youtube.com/watch?v=q9A\\_S4cXEIU](https://www.youtube.com/watch?v=q9A_S4cXEIU)

### What’s the difference between chapter 7 and chapter 13?

- **Chapter 7 bankruptcy** can clear away many types of unsecured debts. This could be a last resort to help you reset your finances. However, you might have to give up some of your possessions, and it will have a long-lasting negative impact on your credit.
- **Chapter 13 bankruptcy** allows you to keep your stuff and get on a more affordable repayment plan with creditors. You need to have enough income to afford the payments and be below the maximum total debt limits. If eligible, you are put on a court-mandated repayment plan that lasts three to five years.



Legal Aid Services of Oregon is a non-profit law firm that provides free legal services to low income Oregonians, and may be able to provide support for those considering bankruptcy. For more info go to <https://oregonlawhelp.org/issues/consumer/bankruptcy> or learn more by going to <https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics>.

Student debt, both private and federal, is generally not dischargeable in bankruptcy. If you are struggling to pay your student loans, contact your servicer.



**If you simply don't have enough income to pay what you owe over time, talking with a lawyer about bankruptcy might be helpful as you consider options for dealing with your debt.**



## Comparing your Debt:

Debt can be unmanageable, overwhelming, stressful, and ultimately hinder your ability to reach your financial goals. But not all debt can or should be paid off at once. Some debt may be hindering your financial goals, while other debt may not be having as much of an immediate impact. For example, it may benefit you to only pay the minimum on your student loan debt while paying as much as you can towards credit card debt.

Looking at your debts from your **Debt Log in Part 1**, consider the following



| Your Debts  |  |   |  |
|---|--|---|--|
| Which debt has the highest interest rate?                                   |  | How long will it take to pay off this debt? |  |
| Which debt has the shortest term?   |  | How long will it take to pay off this debt? |  |
| Which debt has the lowest balance?  |  | How long will it take to pay off this debt? |  |
| Which debts have the <b>biggest</b> financial impact on my household?       |  |   |  |
| Which debts have the <b>smallest</b> financial impact on my household?      |  |   |  |
| Which method makes the most sense for you- debt snowball or debt avalanche? |  |   |  |
| Which debt will you prioritize paying off first?                            |  |   |  |



Consider using PowerPay for a tool to help you compare debt repayment methods. go to: <https://extension.usu.edu/powerpay/> and create a free PowerPay account, which is an online tool developed by Utah State University Extension, which will help you develop a personalized, self-directed debt elimination plan.



## Making a plan with your IDA

If you have any questions about managing your debt, it's a great idea to sit down with someone to talk about what approach might work best for you.

IDA funds can be used to pay for financial obligations that are legally owed to a creditor. This could include the principal and interest on a loan, a credit card balance, a medical debt, or student loan debt among others. If you aren't sure which of your debts your IDA can go toward, please talk with your IDA Provider.

Based on all these factors: **What plan will work best for YOU to pay down your debt with your IDA?**



| Debt         | Total amount left to pay | Amount from my IDA | Amount from my Savings |
|--------------|--------------------------|--------------------|------------------------|
|              | \$                       | \$                 | \$                     |
|              | \$                       | \$                 | \$                     |
|              | \$                       | \$                 | \$                     |
|              | \$                       | \$                 | \$                     |
| <b>Total</b> | \$                       | \$                 | \$                     |



Once you have paid off a debt:

***CELEBRATE!***

Do something special to celebrate that you are one step closer to being debt free!



## Part 3: Planning for the Future

Some debt may be unavoidable, but planning for an emergency can help reduce the amount of debt you have or the amount you pay for that emergency in the long run. This section will begin to look at your goals related to saving for those unexpected financial emergencies. You're already on the right track by putting into action a plan to pay off some of your debt, while still thinking about future emergencies.

### Starting an Emergency Fund

An emergency fund is a cash reserve that's specifically set aside for unplanned expenses or financial emergencies, including car repairs, home repairs, medical bills, or a loss of income among other things. Without that savings, even a minor financial shock could set you back.



Watch the video “Why You NEED an Emergency Fund!” by Two Cents <https://www.youtube.com/watch?v=vftjBTjFizI>

How would having an emergency fund help you?


What are three things you can do to build your emergency fund?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

**What are your goals for saving in an emergency fund in the next year?** Note that you can use part of your IDA account to build your emergency fund!

|  |    |
|--|----|
| What is my goal for saving in the next <b>3 months</b> ? | \$ |
| What is my goal for saving in the next <b>6 months</b> ? | \$ |
| What is my goal for saving in the next <b>year</b> ?     | \$ |

For more information on emergency funds and strategies for building them, read the article: [An Essential Guide to Building an Emergency Fund](#)




## Avoiding high cost credit and loans

While accessing credit (like a loan or credit card) can help you build your credit score, it can also hurt you and end up costing more in the long run. Just because you are offered something, doesn't mean it's right for you. If you do decide to open a new line of credit, you may not benefit from using all the credit available to you. Borrowing only as much as you can pay off quickly will help you avoid paying more in the long run and damaging your credit.



Watch the video “Predatory Lending” by CUA: <https://youtu.be/9-BEyc4Ey5c>

Many financial institutions, including payday lenders, auto financing companies, or credit card offers often use deceptive tactics to offer loans that aren't in your best interest. Many institutions find ways to avoid regulations and build their profits from your financial emergencies, offering short-term loans are very high interest rates.



**When considering a loan or line of credit, look for the following red flags:**



1. **Unclear Pricing and Terms:** Offering a “teaser interest rate” that will expire and rise considerably. This could include “buy now pay later” offers that are zero interest until you miss a payment or high “activation fees” or “annual fees” associated with their products, often hidden in the fine print.
2. **Aggressive or abusive broker practices:** Pushing you to sign the papers without giving you true costs until they get your signature. Pressuring to get access to your other accounts.
3. **Pre-payment Penalties:** making it not beneficial for you to pay off the loan early
4. **Approval is too easy:** Offers that seem too good to be true by promising easy deposits, “same day”, or “instant approval”, while downplaying the high fees for these products, which are often in the details of the loan.
5. **Abnormal Payment Structures:** Payment terms that vary from day to day or month to month.
6. **Short term loans:** Taking advantage of someone's financial emergency by charging high fees and trapping someone in a high cost debt cycle.
7. **Not willing to answer questions**

Consider your options carefully when you are offered loans or credit.

For example, consider Rapid Anticipation Loans, which are based off your “anticipated” tax return. They often offer these late in the year, typically at or before the holiday shopping season. They will offer \$500-\$4,000 from your next year's tax return. The catch is that they charge fees, interest, and you pay to use their tax services, which generally cost several hundred dollars.



# 7 WARNING SIGNS of POSSIBLE PREDATORY LENDING

- 1** UNCLEAR PRICING AND TERMS  

- 2** AGGRESSIVE OR ABUSIVE BROKER PRACTICES  

- 3** PRE-PAYMENT PENALTIES  

- 4** APPROVAL IS TOO EASY  

- 5** ABNORMAL PAYMENT STRUCTURES  

|                                   |                                |                         |
|-----------------------------------|--------------------------------|-------------------------|
| TO JOHN DOE<br>FROM ONLINE LENDER | TO JOHN DOE<br>ORIGINAL LENDER | FROM JOHN DOE<br>LENDER |
| PREY LITE BOUNTY                  | ST                             | ST                      |
| <b>PAST DUE</b>                   | -\$50                          | -\$35                   |
| INTEREST                          | -\$100                         | -\$20                   |
| DELAY IN PAYMENT                  | -\$250                         | -\$150                  |
| TOTAL DUE                         | -\$425                         | -\$300                  |
- 6** SHORT TERM LOANS  

- 7** NOT WILLING TO ANSWER QUESTIONS  


Source: <https://aofund.org/resource/what-predatory-lending/>

Have you seen or experienced similar pressure tactics in your community? What strategies will work for you to avoid getting stuck with a high cost loan or debt in the future?





## Co-signing on a Loans

Co-signing on a loan means you are putting your name on another borrower's loan application. It can help someone qualify for a loan, especially if they have a low credit score or no credit.

It is up to you to decide whether you want to co-sign for someone on a loan, but it's important to know the risks before co-signing. Consider:

- How might this affect your relationship with them?
- Will they have the means to pay the loan?
- Would you be able to afford to pay their loan if they stop making payments?



### Consider the following:

1. You are responsible for the entire loan amount
2. Your relationship could be damaged
3. Your credit is on the line
4. Your access to additional credit may be affected
5. You could be sued by the lender
6. Removing yourself as a co-signer isn't easy

**As a co-signer, if payments aren't being made, YOU are responsible, and missed payments can negatively impact your credit as a co-signer.**

Have you co-signed on a loan, or has someone co-signed on a loan for you? How did it work out? Are there reasons you would or wouldn't do that again?

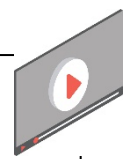


# Understanding Payday Loans:

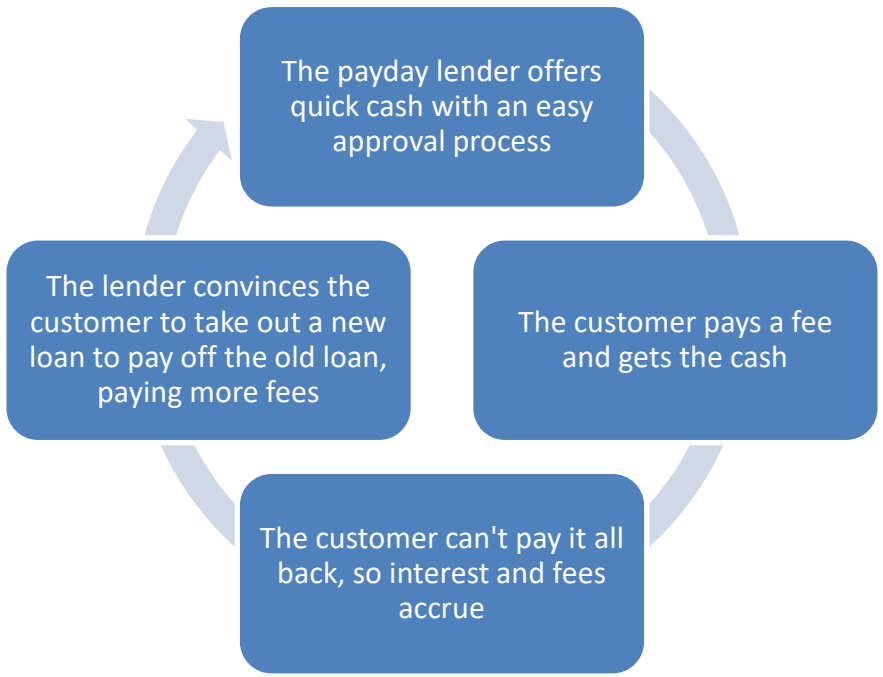


Watch Payday Loans Explained | Pew <https://youtu.be/3rOVmUnUM7A>

OPTIONAL: To learn more about the Payday Lending Industry, you can watch *Predatory Lending: Last Week Tonight with John Oliver* (HBO): <https://www.youtube.com/watch?v=PDylqzybWAw>



Payday Lenders frequently profit off customers by trapping them in a cycle of debt. Before taking out a payday loan, make sure to consider what other alternatives you might have. In summary, payday loans trap people into the following cycle:



## Before signing for a new loan or line of credit, make sure you first:



- Consider a variety of other alternatives first, such as a loans from a bank
- Read the fine print
- Ask questions
- Compare the annual percentage rate with other options
- Compare the terms, or length, of the loan
- Don't give lenders any of your account information until you check all the details first.



# Verification of Completion

## Debt Repayment

### IDA Education Series

Give this page to your IDA Provider after completing this IDA Debt Repayment Curriculum. You keep the rest of this packet.

Name: \_\_\_\_\_

Date Completed: \_\_\_\_\_

*Sign here to verify that you have completed the IDA Debt Repayment Education packet!*

➤ Signature: \_\_\_\_\_

Is there anything related to Understanding Your Debt, Paying Down Your Debt, or Planning for the Future that you would like to learn more about or discuss with your IDA Provider?

Do you have any recommendations to make this curriculum better?

THANK YOU!

