

Borrowing and Managing What You Borrow

Presented By:

**Consumer Credit
Counseling Service**

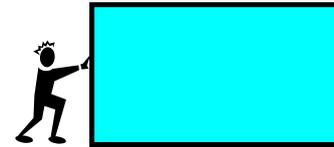
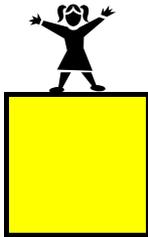
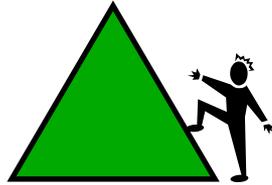


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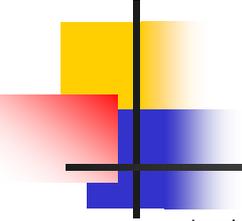
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What is your Money Personality?



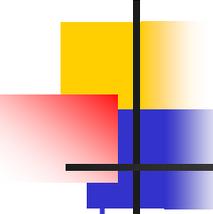
Goals of the Session



To Understand:

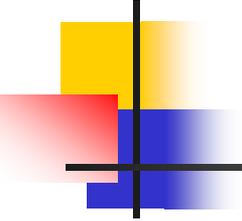
- About the challenges and benefits of borrowing
- How to recognize bad situations
- Even bad situations are reversible
- How to find credible resources to assist with debt and credit concerns

Families Need to Know...



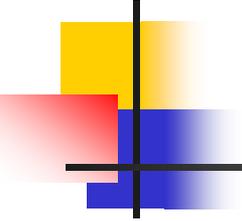
1. How to determine if their debt puts them at risk
2. The basics of borrowing, including its benefits and risks
3. That there is a strong relationship between borrowing and their credit history
4. Credit scores can have big impact on their lives
5. That even the worst situations can be overcome with time and hard work
6. How to distinguish between predatory and reputable services
7. Where they should go if they need help managing loans or getting out of debt

Understanding the Challenges

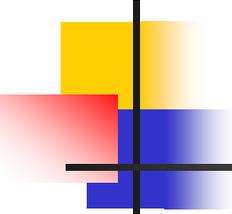


- Understanding the terms and conditions and the cost of credit
- Taking out loans or using a credit card may seem like an easy fix for emergencies, but they can have long-lasting consequences
- Low-income families are being targeted by predatory lenders

Overcoming the Challenges



- Educate families to promote awareness about the benefits and risks of borrowing
- Develop a realistic action plan to improve financial situation
- Assist in spotting predatory services and recommend reputable ones



Not All Debt Is Bad Debt

Good debt creates value and assets:

- Real Estate Loans
- Student Loans

But even “good debt” can be harmful:

- Borrowing more than you need
- Getting behind on payments
- Being a co-signer on a loan

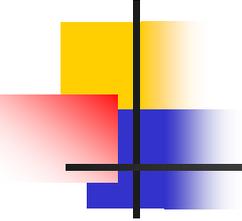
Relationship between Credit and Borrowing



Borrowing and credit history are linked together

- Making loan payments on time helps improve a family's credit history, which, in turn, allows families to take loans in the future with lower interest rates
- Decisions that lead to bad credit can limit a family's ability to borrow in the future, and can make borrowing much more expensive

Importance of the Credit Report

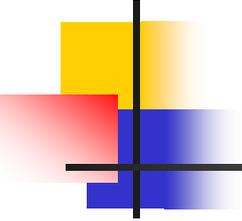


Credit scores have an impact on:

- Ability to get credit and the amount of interest you pay
- Higher deposits on services
- Housing
- Job prospects
- Home and car insurance

Bottom Line:

Low credit scores lead to more money out of your pocket!



Improving Your Score

- Pay bills on time
- Keep balances low
- Pay off debt
- Apply for and open new lines of credit only when you need them
- Check your credit report for accuracy and clear errors as soon as possible



Spotting a Harmful Situation

- Living from paycheck to paycheck
- Making late, minimum, or skipping payments
- Having credit cards at or near their credit limit
- Arguing with family or friends over spending habits
- Getting calls from your creditors
- Not opening your mail
- Using payday lending to pay your bills
- Having your credit card declined
- Having more of your income paying for debts each month

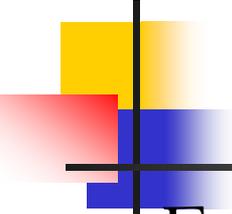


Bad Situations Are Reversible

- Determine the cause
- Take inventory of where you are
 - Track your spending
 - How much do you owe?
 - How much have you saved?
- Review your budget monthly and make adjustments
 - Prioritize your needs vs. wants
 - Find ways to decrease expenses and increase income
- Seek assistance from a professional

Getting out of debt takes time, hard work, and sacrifice

Recognize Predatory Lenders



- Families need to know to avoid lenders who...
 - ...solicit through phone or mail to sell a loan
 - ...place pressure on them to act quickly
 - ...try to get them to borrow more than they think they need

- To avoid predatory loans, families should...
 - ...not sign anything they don't understand
 - ...not let a lender rush them in any way
 - ...know the terms and conditions of the loan

Payday Loans



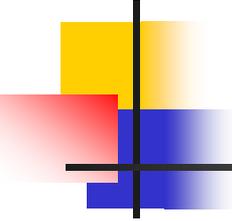
- These are dangerous because:
 - They have high upfront interest rates
 - There are large fees for late payments
 - Taking multiple loans creating a snowball effect
- There are options for families to avoid payday loans
 - Talking to the creditor - they might be willing to work with families who can't pay right away
 - Going to a community bank or credit union for a short-term loan



Alternative Loan Statistics

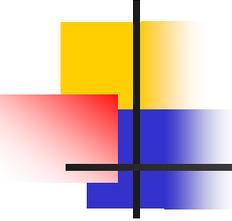
- There are more payday, title loan and check cashing agencies in the US than there are Burger King, McDonalds, Walmart, Target and Starbucks combined
- On average, it takes a person 5 times in renewing a payday loan before they are able to pay it off
- More than 60% of people who use payday lending have more than one loan going at a time

Recognize Predatory Debt Counselors



- There are predatory services which claim to help. Beware of hidden fees.
- Families should watch out for:
 - Companies claiming to get families out of debt quickly and easily
 - Requires a large upfront fee

If it sounds too good to be true, it probably is



Credit Counseling Services

Reputable credit counseling agencies will provide a free counseling session to assess the current financial situation and present an action plan

An action plan may include:

- Ideas to increase income or decrease expenses
- Referrals to community resources
- Debt Management Plan
- Housing Counseling
- Bankruptcy Counseling



Debt Management Plan

Works with creditors to:

- Reduce minimum payments
- Reduce interest rates
- Re-age accounts on credit reports
- Stop fees
- Pay off debt within 5 years

How You Can Help

**Lower-intensity /
Lower investment**

Tell families about the basics of borrowing, the long-term risks, and reputable resources available to help with their debt concerns

COMMUNICATE

Train staff to do basic credit counseling and educate families about steps they can take to avoid debt risks or to overcome past mistakes

MOTIVATE

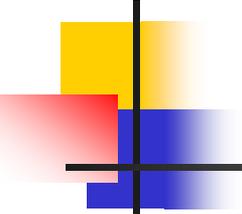
**Higher-intensity /
Higher investment**

Participate in a community partnership with a reputable credit counseling service

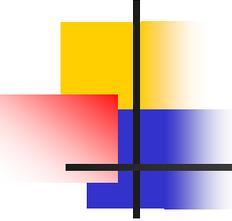
PARTICIPATE

Help is needed at all points along the range –
Think about where your organization would fit best

Communicate



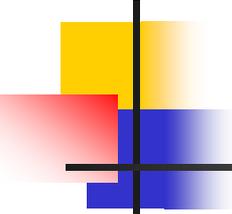
- **Local Early Learning Community Roles:**
 - Let families know about borrowing basics and what resources are available to them
 - Post information about credit counseling and borrowing basics in prominent places and send flyers home to parents
 - Talk about debt concerns at upcoming parent meetings or staff trainings
- **Local Asset Building Community Roles:**
 - Provide materials about borrowing and warnings about predatory services to early child care providers
 - Look for opportunities to explain to parents the benefits, risks, and things to look out for when it comes to borrowing and credit



Participate

- Local Early Learning Community Roles:
 - Take steps to partner with a credit counseling service that offers low or at no cost services
- Local Asset Building Community Roles:
 - Partner with local child care providers and a credit counseling service or asset building organizations that provide financial education
 - Provide on-site financial education at VITA sites during tax season

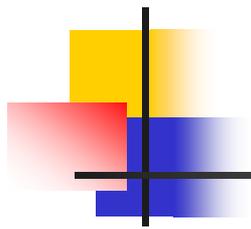
Where You Can Learn More



- Apprisen Financial Advocates (www.apprisen.com)
- National Foundation for Credit Counseling (www.nfcc.org)

For financial education curricula on borrowing and credit, visit:

- FDIC's Money Smart: Borrowing Basics
www.fdic.gov/consumers/consumer/moneysmart/overview_program.html



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