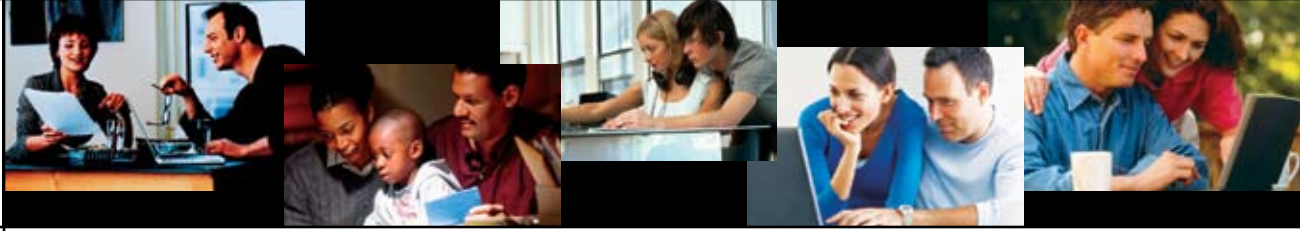


Debt Know How



www.debtknowhow.com

Teaching Guide

Prepared by:

Cindy M. Petersen

University of Minnesota Extension Service, Regional Extension Educator
Family Resource Management

Materials Needed:

- Debt Know How PowerPoint Presentation
- Teaching Guide
- Family Case Study
- Learner worksheets with instructions (one set for use in class):
 - Income and Expense Cash Flow Worksheet
 - Debt Warning Signs Quiz
 - Debt-to-Income Ratio Worksheet
 - Debt Reduction Goal–Action Plan
- Sample Letter to a Creditor
- Evaluation (Consumer and Trainer)

Equipment Needed:

- Computer and projector or overhead projector
- Screen

I. Welcome and Introductions

- A. Introduce self
- B. Participant introductions – depending on class size

II. Program Overview

- A. Partnership
- B. Components of Debt Know How
- C. Review **Tips and Information on Hosting a Successful Debt Education Session**. You would only review this information if you are hosting a session where the participants will be training others.

Workshop Goal: Participants will increase their knowledge about debt issues, assess personal debt, and develop a plan of action to pay off debt and improve credit scores.

III. Overview of Debt

- A. Debt statistics
- B. Common reasons people get into debt
- C. Debt Warning Signs Quiz
 1. Allow time for participants to complete the quiz. Ask them to total their score. The quiz may also be completed on-line at www.debtknowhow.com
 2. Review what their score means

IV. Assess Your Finances

- A. Introduce the **Family Case Study** and use it to teach the concepts in this section.
- B. Review the **Income and Expense Cash Flow Worksheet**, pointing out the various categories and the steps to complete the form. Utilize the **Family Case Study**.
 1. If participants have little or no experience completing a basic budget or income and expense cash flow worksheet, allow time and help them work through the handout using the case study. Depending on the size of your group, you may want to have them work in pairs, or work through the case study as a group. Explain when they are completing the worksheet at home with their own financial information they may find it helpful to save receipts and write items purchased with cash in a small notebook. This type of tracking expenses is recommended for one to three months.
 2. First determine the amount of income that is coming into the household. Ask questions such as:
 - What is the total income for the family?
 - Do we think this is all of their income?
 - How might they increase their income on a monthly basis?
 - Might they have income from other sources at various times during the year? (i.e.: tax returns, bonuses, profit sharing, etc.)
 - What other information would you like to know about this family's income?
 3. Next, help them calculate their monthly expenses using the expense categories in the worksheet. To save time, you might suggest one group total all the housing costs, another the food, etc. Ask questions such as:
 - What are their total expenses?
 - Where can they adjust some of their spending?
 - Do you think they have listed all of their expenses?
 - What other questions would you ask this family about their expenses?
 4. Calculate their monthly cash flow by subtracting monthly expenses from income.
 - What is their monthly cash flow?
 - In what categories can they make adjustments for next month?
 - What does it mean to have a positive cash flow? A negative cash flow?
 5. The final step in this worksheet is to find money in line items or by category to put toward paying down debt. The goal is to pay off debt and to do it as quickly as possible. Find ways to save small dollar amounts (\$5, \$10, \$20) in various categories; total the amount and pay that extra amount to the debt with the highest interest rate.
 6. Encourage individuals to complete their own **Income and Expense Cash Flow Worksheet** when they get home. Remind them they may have to keep doing this for several months to determine where their money is really going. They may also complete their personal budget on-line using the **Debt Know How Basic Budgeting Worksheet**, or the **Assess Your Debt** on-line program has a very helpful budget worksheet, calculator and helpful section to find money to pay down debt.
- C. Measure your debt utilizing the **Family Case Study**.
 1. Review the **Debt-to-Income Ratio Worksheet**.
 2. The first step is to calculate your total monthly income. This information may be found on your income and expense cash flow worksheet.
 3. Step two involves totaling the monthly non-mortgage debt. Ask class participants to total up the non-first-mortgage debts in the case study. The worksheet lists several debts that a family may have. What are the non-mortgage debts in this family case study? What is the total amount?
 4. Step three is calculating the monthly debt-to-income ratio for the **Family Case Study**. To get your monthly debt-to-income ratio, divide monthly take-home pay into monthly debt payments (excluding the first mortgage on a home). Non-mortgage debt payments above 20% of your income indicate that steps may be needed to pay down debt. Non-mortgage debt payments higher than 20% exceed your net income borrowing limit. This is an indication that you may need to develop a personalized plan to get back on track. What is the debt-to-income ratio in the family case study? What might they do to lower that ratio?
 5. Encourage each person to calculate their own personal monthly debt-to-disposable income ratio after class. It is a helpful tool that shows if they can take on more debt or if they need to take extra steps to pay down debt.

V. Improve Your Credit Score

- A. Review the PowerPoint slides in this section.
- B. Encourage each person to access a free copy of their credit report annually.

VI. Action Plan

- A. Review the **Take Action Now** PowerPoint slides. This section provides strategies to use in paying off your debt. Review the total list then go through each in more depth. Each person's debt and situation is different so therefore each person may find a different strategy or action more helpful. The idea is to find one or more that work and stick with it.
 - Assess the problem
 - Set a goal
 - Refer to the handout **Debt Reduction Goal Action Plan**. Identify one big goal you would like to achieve regarding reducing debt and list the smaller steps needed to accomplish the big goal. When you have achieved that goal, set another for yourself.
 - Generate new income
 - Create your plan
 - Track spending
 - Save on interest and late fees
 - Choose a method to pay off debt
 - Contact your creditors
 - Refer to the **Sample Letter to a Creditor** (handout) that can be used when contacting a creditor
 - Consider a loan consolidation
 - Seek help if you are overwhelmed
 - Bankruptcy
 - Ask participants to share additional strategies. If this were a question used during the introduction, refer back to some of the suggestions given.

VII. Resources

- A. Refer to the resources listed in the PowerPoint presentation and at www.debtknowhow.com
- B. Who are local resources that can help further this program along? Who can people call if they have questions? Where can they go for help?

VIII. Evaluation

IX. Thank you