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| **financial Literacy: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS** |
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*Financial firsts in the lives of young people can become financial pitfalls. Four, realistic scenarios set the stage for discussions of the life skills needed to navigate personal finances successfully.*

The scenarios in this activity are a springboard for discussing four financial milestones that can be fraught with risks for young people as they get established in life. This age group is coming into many financial firsts – first vehicle, first credit card, first student loan, and first job and apartment.

These materials are suitable for students in high school, college, vocational programs, and early-career jobs. The scenarios are designed for judges and lawyers to use with students in courtrooms or classrooms. Each fact pattern sets the stage for brass-tacks talks about financial issues that are making millennials one of the fastest-growing demographics filing for bankruptcy protection.

**How to Use These Resources**

Start by downloading the agenda and complete activity package.

**Resources for Courtrooms and Classrooms**

* The proposed agenda can be modified to meet the needs and interests of the participants.
* The scenarios can be used as stand-alone lessons; they can be mixed and matched; or they can be presented as a series.
* The scenarios are free of legal jargon, however, for the few words that need definition, go to the [Bankruptcy Basics Glossary.](http://www.uscourts.gov/educational-resources/educational-activities/bankruptcy-basics-glossary)

**Scenarios as Financial Literacy Reality Checks**

Four brief fact patterns present relatable situations embedded with decision points for the teens involved. A generic list of questions works with all of the scenarios and can be tailored to different audiences. These discussion starters help participants synthesize key points and reinforce the lessons learned.

**First Job Euphoria** — **Needs v. Wants**

Young people going out on their own for the first time may not be skilled in distinguishing between needs and wants, which can be a set up for overusing credit cards.

**First Credit Card Confusion** — **Read the Fine Print**

Glossing over the fine print in credit card applications can have serious financial and legal consequences.

**First Vehicle Miscalculation** — **Know All the Costs**

Every major purchase comes with additional expenses. If not figured into the cost of the purchase, they can derail a young person’s financial future.

**First Student Loan Slip Up** — **What to Know Before You Borrow**

Spending based on the expectation of future income can set the stage for overspending, debt accumulation, and long-term financial consequences.

**What’s Different About This Activity?**

Relies on Relatable Teen Scenarios

Centers on Financial Firsts That Can Become Financial Pitfalls

Requires Only 30 Minutes of Preparation for Judges and Lawyers; None for Teachers and Students

Engages Every Learning Style

***Related Links***

**Additional Financial Literacy Resources Geared to High School and College Students**

* [Credit Abuse Resistance Education (CARE](http://www.careprogram.us/))

**Financial Firsts Can Be Financial Pitfalls**

*90-Minute Courtroom Program Using One of the Fictional Scenarios*

**AGENDA**

*10 Minutes* **Arrival in the Courtroom, Get Settled, and Take Pretest**

While waiting for the program to start, students complete the pre-test.

*10 Minutes* **Welcome, Orientation, and Verbal Tour of the Courtroom by the Facilitator**

Attorneys introduce themselves and talk about why they chose the law and how they discovered that they wanted to be an attorney. The attorneys use the pretest as a discussion starter to introduce the topic and its relevance to teens.

*5 Minutes* **Small Group Activity – Reading and Getting Into Groups.**

The scenario is selected in advance. Students receive their copy of the scenario in the courtroom. There is no advance preparation outside the courtroom. Several students take turns reading the scenario out loud to the group.

**Organizing for the** **Question-Formation Activity**

Students are organized into two groups -- **Section 1:** The creditors in the scenario. **Section 2:** The student debtors in the scenario.

*10 Minutes* **Question Formation**

Students in their groups make a list of, at least, 10 questions they want to ask the other side. The creditor group writes questions its members will ask the student debtors. The student debtors group writes questions its members will ask the creditors. Each group numbers the questions in order of importance.

*10 Minutes* **First Round of Discussion**

The creditors take turns asking their group’s questions of the student debtors.

. An attorney facilitates the discussion and uses it to teach financial literacy concepts as the conversation moves along.

*10 Minutes* **Second Round of Discussion**

The student debtors take turns asking their group’s questions of the creditors. An attorney facilitates the discussion and uses it to teach financial literacy concepts as the conversation moves along.

*10 Minutes* **Summary and Lessons Learned**

The two volunteer attorneys facilitate a debriefing discussion and help students summarize key lessons learned. They take questions and help the large group develop a list of questions for the Bankruptcy Judge.

*15 Minutes* **Judge Chat**

A Bankruptcy Judge comes into the well and takes questions

*10 Minutes*  Participants fill out their feedback forms. If the Judge agrees, and if there is time, a photo is taken with the Judge and the students in the courtroom.

**Adjournment**

*Pre-Test*

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

A Place to Start: What Do You Know*?*

When you think about everyday words like **budget, credit score, and true cost** are you sure that you have a practical, working knowledge of these pillars of financial literacy?

They are concepts that have a huge impact on your life and your future by opening – or closing -- doors to employment, housing, vehicle ownership, student loans – and even serious relationships.

Take this [pre-test and find out where your starting point is](http://www2.cuny.edu/about/university-resources/financial-literacy/financial-literacy-quiz/) on your personal journey toward financial competence.

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| **SCENARIO: First Job Euphoria – NEEDS V. WANTS** |
| *The ability to distinguish needs from wants is the foundation of sound financial decisions.* |

Susan/Sam Jackson's first job after graduating from a two-year fashion merchandising program at a local community college is as an assistant manager atAnthropologie clothing and home lifestyle store. Her base pay is $26,000, plus benefits, including health insurance. She is excited about landing her first job and moving into her first apartment.

Susan rents an apartment that she thinks has potential but it needs to be redecorated. She’s sick of garage sale finds and decides to pay for most of the expenses with the Anthropologie card the company gives new employees after they pass probation. It has higher finance charges than a bank card, but Susan can save money by using her employee discount.

Susan has difficulty distinguishing between needs and wants. She thinks that if she really wants something, that makes it a need. She uses her card at Anthropologie to furnish her apartment, establish her professional wardrobe, and take advantage of her employee discount by shopping for deals at Anthropologie. She gets a bank card to cover her entertainment expenses – restaurants, concerts, and three-day trips to attend the weddings of close friends. The big-ticket item on her bank card is an amazing deal on a scuba diving adventure trip.

Sometimes Susan has to get a cash advance on her credit card to cover the monthly payment on her new Vespa scooter. She also has to start paying back her student loan to the tune of $300 a month. She decides that the best thing to do is to get another credit card with a limit as high as possible so that she can use it as her emergency fund.

When Susan loses her job due to corporate downsizing, she quickly depletes the $500 in her savings account from graduation presents. Now she worries about how she will make her rent. After being unemployed for a six weeks, she gets a job at a J. Crew clothing store, but it is only a part-time position with no benefits or healthcare. At the same time that her income is cut by 10 percent, the interest rate on her bank credit card jumps to 18% because of her late payments while she was unemployed. As a result, every month Susan is coming up short.

When she can no longer make the minimum credit card payments and is struggling to cover her rent and Vespa payments, she admits she is in over her head. Her situation deteriorates further when the bank holding her first, regular credit card goes to court and garnishes her wages. Susan files for Chapter 13 bankruptcy (reorganization).

She knows that not everyone who files for bankruptcy protection gets it, so she is very worried. However, the judge approves the reorganization plan and, for the next 60 months (five years) part of her paycheck is garnished. If she fulfills the requirements of the reorganization plan, the remaining part of her debt will be discharged. In the meantime, she learns that bankruptcy is reported to credit bureaus and affects her credit score. Credit scores can be a determining factor when someone applies for a job, tries to rent an apartment, or gets into a serious relationship. Now this exciting time of new beginnings has become a sobering wake-up call.

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Discussion Starter Questions to Stimulate Discussion*

**Scenario: First Job Euphoria -- Needs v. Wants**

**Discussion Starter**

The scenario and questions are meant to stimulate critical thinking and discussions about life decisions that may put young people on the path to bankruptcy court.

1. List Susan’s/Sam’s **needs versus wants** in this scenario. How could these wants be managed to prevent a financial crisis?
2. Identify some **decision points** at which Susan/Sam made his/her financial situation worse. How could he/she have handled each of these turning points differently?
3. What **safeguards** should Susan/Sam have put in place to protect his/her financial stability -- and avoid the risk of facing bankruptcy?
4. What are some financial setbacks/surprises that Susan/Sam should **anticipate and prepare for** in his/her teens, 20s and 30s?

5. When Susan’s/Sam realizes he/she is in trouble, what are some steps to take to put **on the brakes?**

6. What are some factors a judge may consider when deciding whether Susan/Sam will **keep his/her vehicle** (motorcycle, truck, and car)?

7. Given this scenario, can **student loans forgiven?**

8. What kinds of debts cannot be **discharged?**

9. What are some of the short-term and long-term **impacts** on someone’s professional and personal life that stem from filing for bankruptcy protection?

10. What are some typical, **student spending habits** that can put someone’s future in jeopardy?

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Examples of Responses to Discussion Starter Questions*

The general approach taken in these responses can be used with each of the scenarios. The boldface type identifies the point of each question.

**1. Needs v. Wants**. Using this scenario as a springboard for differentiating between basic needs and wants, students are asked to identify both. Among the needs that students are likely to find in any scenario are rent, transportation, basic living expenses and financial obligations, including student loans, car payments, and monthly bills.

The protagonist’s wants are easy to identify. Some of the ways to manage finances and prevent a financial meltdown include creating and maintaining a budget, building in spending for entertainment and travel, etc. The protagonist also could have scaled down her current spending and set short-term and long-term financial goals.

**2. Decision Points.** Some points at which protagonists can make their financial situation worse include the following: 1) deciding to buy everything, or to buy expensive items all at once, rather than developing a scaled-down, incremental plan; 2) putting optional expenses on a credit card; 3) charging more than what could easily pay off in one billing cycle; 4) accumulating too many credit cards; 5) maxing out the credit card limits; and 6) only making the minimum monthly payment on each card.

**3. Safeguards.** To protect finances, some safeguards that could be put into place include 1) establishing a budget that includes spending money; 2) setting up automatic savings from paychecks; and 3) building up a cash reserve to cover living expenses for six months to provide a safety net. 4) building up an emergency fund.

**4. Anticipation.** Some financial challenges that should be anticipated and prepared for at this stage in the teen years, 20s and 30s include: Saving to create an emergency found that will cover: 1) a long period of unemployment during job searches; 2) getting a job and establishing a work-appropriate wardrobe; 3) working part time or being under employed; 4) being financially self sufficient; 5) getting a car; 6) getting an apartment (deposit, plus first and last month’s rent).

**5. Brakes**. When the protagonist in the scenario realizes he/she is in financial trouble some steps can be taken to put on the brakes. They include: 1) cutting up credit cards but not closing accounts; 2) scaling down the standard of living; 3) getting a roommate; 4) getting a second job, even if it is only occasional work.

**6. Car Debt**. If it is determined that the protagonist can continue making car payments after discharging the credit card debt, the car note, sometimes, can be reinstated so that the car can be kept.

**7. Student Loans.** The protagonist, probably, will not be able to get student loans discharged. Such debts are not discharged unless the debtor can prove that repaying the student loans would impose an undue hardship on the debtor.

**8. Nondischargeable Debts.**  In addition to student loans, other debts that cannot be discharged include:

* Income taxes for the three years preceding the bankruptcy filing
* Fraudulently incurred obligations (that is, providing a creditor, such as a credit card company, with false or incomplete financial statements)
* Certain domestic obligations, such as child support and alimony
* Debts arising from the debtor's willful and malicious injury of person or property
* Personal injury obligations incurred as a result of the debtor's driving while intoxicated.

**9. Impact.** **Some of the short-term results of filing for bankruptcy might include:**

* Protection of assets from collection
* The establishment of a repayment plan that is less burdensome.
* The possibility that -- after a set number of months of reliable payments are made -- the remaining debts may be discharged.

**Some of the long-term consequences that are less favorable might include:**

* Bankruptcy damages a credit rating for 10 years.
* It also will jeopardize opportunities for renting an apartment, landing a job; getting a mortgage; or getting into a serious personal or business relationship.

**10. Self-Awareness.** Students discuss spending habits that could get them into financial trouble, e.g. using credit cards for consumables – food, cosmetics, etc.

**SCENARIO: FIRST CREDIT CARD CONFUSION – READ THE FINE PRINT**

*Serious financial and legal complications can be a consequence of not reading*

*the fine print on credit card applications. Find the fine-print, red flags in this scenario.*

When Dylan/Dana Brown goes away to college, he applies for his first credit card at the freshman orientation fair on campus. The card he chooses offers the coolest T-shirt and the lowest interest rate.

On the application, Dylan reports his income as $50 a week, based on his hourly rate and the commission at his summer job as a sales rep for Nike. Because of his full-ride academic scholarship, Dylan doesn’t work during the school year. He uses his new credit card only for recurring, automatic payments, Amazon purchases, expensive concert tickets, and pizza deliveries.

Everything changes in the second semester of his freshman year when he and 11 other students in his dormitory are hospitalized with bacterial meningitis. College students living in group settings are at higher risk for this serious illness. The outbreak takes hold and all 11 students are sent to area hospitals.

Dylan becomes so ill that he has to take incompletes for classes he can’t finish. In the meantime, he loses his scholarship. He thinks the only way he can stay in school is to use credit. After all, his Dad told him to use his credit card only for emergencies, and this is an emergency. He remembers how easy it was as a freshman to get a credit card, so he looks into getting two more cards

Dylan chooses one card that starts with a 0 percent interest rate for the first six months. He overlooks the fine print that says the APR goes to 22% in the seventh month. He gets another card that doesn’t have a fee for balance transfers. However, in the fine print, he misses the transfer fees, so he doesn’t realize the second card charges 3% of the amount transferred. He uses these offers to get two new cards.

By the end of the school year, after charging tuition, books, living expenses and spring break, he wakes up to the fact that he has $30,000 on his charge cards that he can’t begin to pay off. He files for bankruptcy under Chapter 7 of the Bankruptcy Code (liquidation).

At his Section 341 meeting -- where he is questioned by attorneys for the creditors – all of which are owned by the same bank -- Dylan says he filled in the income category of his college card based on his pay at Nike. The credit card company reviews Dylan’s application and files a nondischargeability action against him alleging that he had made a false representation of this income on the application. Dylan doesn’t know how this happened to him.

**Discharge**--A release of a debtor from personal liability for certain dischargeable debts. A discharge releases a debtor from personal liability for certain debts known as dischargeable debts and prevents the creditors owed those debts from taking any action against the debtor or the debtor's property to collect the debts. The discharge also prohibits creditors from communicating with the debtor regarding the debt, including by e-mail, phone, letters, or personal contact.

**341 Meeting**--A meeting of creditors at which the debtor is questioned under oath by creditors -- a trustee an examiner, or the U.S. Trustee -- about the debtor’s financial affairs.

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** Discussion Starter Questions to Stimulate Discussion

**Scenario: First Credit Card Confusion: Read the Fine Print**

**Discussion Starter**

The scenario and questions are meant to stimulate critical thinking and discussions about life decisions that may put young people on the path to bankruptcy court.

1. List Dylan’s/Dina’s **needs versus wants** in this scenario. How could these wants be managed to prevent a financial crisis?
2. Identify some **decision points** at which Dylan/Dina made his/her financial situation worse. How could he/she have handled each of these turning points differently?
3. What **safeguards** should Dylan/Dina have put in place to protect his/her financial stability -- and avoid the risk of facing bankruptcy?
4. What are some financial setbacks/surprises that Dylan/Dina should **anticipate and prepare for** in his/her teens, 20s and 30s?

5. When Dylan/Dina realizes he/she is in trouble, what are some steps to take to put **on the brakes?**

6. What are some factors a judge may consider when deciding whether Dylan/Dina will **keep his/her vehicle** (motorcycle, truck, and car)?

7. Given this scenario, can **student loans forgiven?**

8. What kinds of debts cannot be **discharged?**

9. What are some of the short-term and long-term **impacts** on someone’s professional and personal life that stem from filing for bankruptcy protection?

10. What are some typical**, student spending habits** that can put someone’s future in jeopardy?

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Examples of Responses to Discussion Starter Questions*

The general approach taken in these responses can be used with each of the scenarios. The boldface type identifies the point of each question.

**1. Needs v. Wants**. Using this scenario as a springboard for differentiating between basic needs and wants, students are asked to identify both. Among the needs that students are likely to find in any scenario are rent, transportation, basic living expenses and financial obligations, including student loans, car payments, and monthly bills.

The protagonist’s wants are easy to identify. Some of the ways to manage finances and prevent a financial meltdown include creating and maintaining a budget, building in spending for entertainment and travel, etc. The protagonist also could have scaled down her current spending and set short-term and long-term financial goals.

**2. Decision Points.** Some points at which protagonists can make their financial situation worse include the following: 1) deciding to buy everything, or to buy expensive items all at once, rather than developing a scaled-down, incremental plan; 2) putting optional expenses on a credit card; 3) charging more than what could easily pay off in one billing cycle; 4) accumulating too many credit cards; 5) maxing out the credit card limits; and 6) only making the minimum monthly payment on each card.

**3. Safeguards.** To protect finances, some safeguards that could be put into place include 1) establishing a budget that includes spending money; 2) setting up automatic savings from paychecks; and 3) building up a cash reserve to cover living expenses for six months to provide a safety net. 4) building up an emergency fund.

**4. Anticipation.** Some financial challenges that should be anticipated and prepared for at this stage in the teen years, 20s and 30s include: Saving to create an emergency found that will cover: 1) a long period of unemployment during job searches; 2) getting a job and establishing a work-appropriate wardrobe; 3) working part time or being under employed; 4) being financially self sufficient; 5) getting a car; 6) getting an apartment (deposit, plus first and last month’s rent).

**5. Brakes**. When the protagonist in the scenario realizes he/she is in financial trouble some steps can be taken to put on the brakes. They include: 1) cutting up credit cards but not closing accounts; 2) scaling down the standard of living; 3) getting a roommate; 4) getting a second job, even if it is only occasional work.

**6. Car Debt**. If it is determined that the protagonist can continue making car payments after discharging the credit card debt, the car note, sometimes, can be reinstated so that the car can be kept.

**7. Student Loans.** The protagonist, probably, will not be able to get student loans discharged. Such debts are not discharged unless the debtor can prove that repaying the student loans would impose an undue hardship on the debtor.

**8. Nondischargeable Debts.**  In addition to student loans, other debts that cannot be discharged include:

* Income taxes for the three years preceding the bankruptcy filing
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* Debts arising from the debtor's willful and malicious injury of person or property
* Personal injury obligations incurred as a result of the debtor's driving while intoxicated.

**9. Impact. Some of the short-term results of filing for bankruptcy might include:**

* Protection of assets from collection
* The establishment of a repayment plan that is less burdensome.
* The possibility that -- after a set number of months of reliable payments are made -- the remaining debts may be discharged.

**Some of the long-term consequences that are less favorable might include:**

* Bankruptcy damages a credit rating for 10 years.
* It also will jeopardize opportunities for renting an apartment, landing a job; getting a mortgage; or getting into a serious personal or business relationship.

**10. Self-Awareness.** Students discuss spending habits that could get them into financial trouble, e.g. using credit cards for consumables – food, cosmetics, etc.

**SCENARIO: FIRST VEHICLE MISCALCULATION – KNOW ALL THE COSTS**

*Every major purchase comes with additional expenses. If not figured into the cost of the purchase, they can come up as surprises that can derail the purchaser’s financial future.*

James/Janie Crutcher is 20 years old and lives with his/her grandparents who have taken care of him since childhood. He is close to them and sometimes helps out by paying their utility bills. James manages to save up some money and decides to buy a truck. He has a seasonal job during the summer working for a construction company. He has about $3,000, in savings, which he plans to use as a down payment. However, wiping out his savings to get the truck leaves him with no financial cushion to deal with surprises and emergencies.

At the car lot, James impulsively purchases the first truck that he sees after he is told by the dealer that he can afford it and the dealership will approve financing for him. James doesn’t consider the real costs of owning a vehicle, in particular, insurance, fuel, maintenance, and an emergency fund to cover, at least, three months of car payments in the event he loses his job.

At this point, things begin to go wrong for James. Shortly after he buys the truck, his grandparents' health begins to fail. James now feels obligated to pay their medical bills in addition to taking care of his own financial obligations. That’s when he gets his first surprise – his first insurance bill and it is a big one,

As the car payments come due each month, James discovers that he is unable to keep up with all of his bills, including the truck and insurance payments. Nine months later, he files for Chapter 13 (wage-earner plan) bankruptcy hoping that he can work out a payment plan with his creditors that will allow him to keep his truck, his large screen TV, and his motocross gear.

James is attempting to work out a deal to satisfy his creditors. However, when the financiers at the dealership learn that he is behind on his car payments and has been dropped from his insurance for nonpayment, they file a petition with the bankruptcy court to lift the automatic stay that protects all of James' property.

Things get worse for James. Although one of his primary reasons for filing for bankruptcy is to save his truck, the bankruptcy judge rules in favor of the dealership. Because James has not met his contractual obligations and the other, car-related costs, the judge allows the dealership to repossess the truck.

The dealership sells the truck at auction for the wholesale (not retail) value. This means that, in addition to losing the truck and the money that he already put into it, James still owes the dealership’s financing company $22,000 for a car he no longer possesses. How much of this he ultimately will have to pay will depend on the findings of the bankruptcy court.

Without transportation to and from work, James loses his job. With no income to pay his creditors, he now is forced to withdraw his petition for Chapter 13 bankruptcy (wage-earner plan) and file for Chapter 7 bankruptcy (liquidation) instead.

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Discussion Starter Questions to Stimulate Discussion*

**Scenario: First Vehicle Miscalculation: Know All the Costs**

**Discussion Starter**

The scenario and questions are meant to stimulate critical thinking and discussions about life decisions that may put young people on the path to bankruptcy court.

1. List James’/Janie’s **needs versus wants** in this scenario. How could these wants be managed to prevent a financial crisis?
2. Identify some **decision points** at which James/Janie made his/her financial situation worse. How could he/she have handled each of these turning points differently?
3. What **safeguards** should James/Janie have put in place to protect his/her financial stability -- and avoid the risk of facing bankruptcy?
4. What are some financial setbacks/surprises that James/Janie should **anticipate and prepare for** in his/her teens, 20s and 30s?

5. When James/Janie realizes he/she is in trouble, what are some steps to take to put **on the brakes?**

6. What are some factors a judge may consider when deciding whether James/Janie will **keep his/her vehicle** (motorcycle, truck, and car)?

7. Given this scenario, can **student loans forgiven?**

8. What kinds of debts cannot be **discharged?**

9. What are some of the short-term and long-term **impacts** on someone’s professional and personal life that stem from filing for bankruptcy protection?

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**10. Self-Awareness.** Students discuss spending habits that could get them into financial trouble, e.g. using credit cards for consumables – food, cosmetics, etc.

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| **SCENARIO: Student Loan Syndrome** |
| *Spending based on the expectation of future income can set the stage for accumulation of debt and long-term financial consequences.* |

In high school, Bob/Bobbie Warehouser works hard for everything he gets – grades, sports, school leadership positions, community service opportunities, and summer jobs. He wants to set himself up for a college that has a good undergraduate business school. He says his ultimate goal is to become a social entrepreneur. His parents can’t pay for college, so Bob takes out a student loan.

By the time he graduates, Bob has put tuition, fees, books, and room and board for his undergraduate degree on his student loan of $120,000. Bob uses $10,000 of the loan for a down payment on a new car for his part-time job.

Bob thinks that repaying his school loan, which includes the car, will not be a problem. He expects to get a high-paying job with a prestigious consulting firm in his hometown. The firm he has in mind hires business majors from his college who are planning to get an MBA after they work at the company for a year. Bob believes the typical, starting salary will allow him to make the $633 monthly payment on his loan, so he signs up to start repaying the loan as soon as he graduates.

Unfortunately, things do not go as Bob planned. Not only is he passed over by the big firm, he can’t find a job with another high-paying consultancy. When Bob tries to rent an apartment, the management office runs a credit check and rejects his application. That’s how he learns that he has a low credit score based on his high debt load, short credit history, and a pattern of late payments on his credit card accounts. Bob wonders if the score was a factor when he wasn’t hired by the big firms. They must have done a credit check. With a poor credit rating, Bob is having a hard time finding an apartment, let alone a real job.

When Bob files for bankruptcy protection, his lawyer tells him that student loans are rarely discharged in bankruptcy proceedings. That means that, despite his financial situation, he has to pay off the student loan – and that includes the Hyundai. As part of the student loan, the car obligation is not dischargeable. According to the judge, student loans may only be discharged if they create an undue hardship for either the petitioner or his/her dependents. Bob is not married, has no children, and lives with his parents.

Finding that no undue hardship exists, the judge refuses to discharge Bob’s student loan. That means that Bob will pay $633 per month on his student loan for the next 25 years. Although he borrowed $120,000, because of the interest that accumulates, by the time he closes out the loan, he will have paid $190,000. Bob realizes that by that time he will have a 25-year-old, broken down Hyundai as a reminder of his bad judgment in buying a car with his student loan.

[**Chapter 7**](http://156.119.86.236/EducationalResources/CourtroomEvents/YourDayInBankruptcyCourt/Chapter7.aspx) – This chapter of the Bankruptcy Code provides for liquidation, that is the sale of a debtor’s nonexempt property and the distribution of the proceeds to creditors. In order to be eligible for Chapter 7, the debtor must satisfy a means test. The court will evaluate the debtor’s income and expenses to determine if the debtor may proceed under Chapter 7.

**Discharge** -- A discharge releases a debtor from personal liability for certain debts known as dischargeable debts. It prevents the creditors owed that money from taking any action against the debtor or the debtor’s property to collect the money. The discharge also prohibits creditors from communicating with him.

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Discussion Starter Questions to Stimulate Discussion*

**Scenario: First Student Loan Slip Up – What to Know Before You Borrow**

**Discussion Starter**

The scenario and questions are meant to stimulate critical thinking and discussions about life decisions that may put young people on the path to bankruptcy court.

1. List Bob’s/Bobbie’s **needs versus wants** in this scenario. How could these wants be managed to prevent a financial crisis?
2. Identify some **decision points** at which Bob/Bobbie made his/her financial situation worse. How could he/she have handled each of these turning points differently?
3. What **safeguards** should Bob/Bobbie have put in place to protect his/her financial stability -- and avoid the risk of facing bankruptcy?
4. What are some financial setbacks/surprises that Bob/Bobbie should **anticipate and prepare for** in his/her teens, 20s and 30s?

5. When Bob/Bobbie realizes he/she is in trouble, what are some steps to take to put **on the brakes?**

6. What are some factors a judge may consider when deciding whether Bob/Bobbie will **keep his/her vehicle** (motorcycle, truck, and car)?

7. Given this scenario, can **student loans forgiven?**

8. What kinds of debts cannot be **discharged?**

9. What are some of the short-term and long-term **impacts** on someone’s professional and personal life that stem from filing for bankruptcy protection?

10. What are some typical, **student spending habits** that can put someone’s future in jeopardy?

**FINANCIAL LITERACY: FINANCIAL FIRSTS CAN BE FINANCIAL PITFALLS**

**For the Attorneys:** *Examples of Responses to Discussion Starter Questions*

The general approach taken in these responses can be used with each of the scenarios. The boldface type identifies the point of each question.

**1. Needs v. Wants**. Using this scenario as a springboard for differentiating between basic needs and wants, students are asked to identify both. Among the needs that students are likely to find in any scenario are rent, transportation, basic living expenses and financial obligations, including student loans, car payments, and monthly bills.

The protagonist’s wants are easy to identify. Some of the ways to manage finances and prevent a financial meltdown include creating and maintaining a budget, building in spending for entertainment and travel, etc. The protagonist also could have scaled down her current spending and set short-term and long-term financial goals.

**2. Decision Points.** Some points at which protagonists can make their financial situation worse include the following: 1) deciding to buy everything, or to buy expensive items all at once, rather than developing a scaled-down, incremental plan; 2) putting optional expenses on a credit card; 3) charging more than what could easily pay off in one billing cycle; 4) accumulating too many credit cards; 5) maxing out the credit card limits; and 6) only making the minimum monthly payment on each card.

**3. Safeguards.** To protect finances, some safeguards that could be put into place include 1) establishing a budget that includes spending money; 2) setting up automatic savings from paychecks; and 3) building up a cash reserve to cover living expenses for six months to provide a safety net. 4) building up an emergency fund.

**4. Anticipation.** Some financial challenges that should be anticipated and prepared for at this stage in the teen years, 20s and 30s include: Saving to create an emergency found that will cover: 1) a long period of unemployment during job searches; 2) getting a job and establishing a work-appropriate wardrobe; 3) working part time or being under employed; 4) being financially self sufficient; 5) getting a car; 6) getting an apartment (deposit, plus first and last month’s rent).

**5. Brakes**. When the protagonist in the scenario realizes he/she is in financial trouble some steps can be taken to put on the brakes. They include: 1) cutting up credit cards but not closing accounts; 2) scaling down the standard of living; 3) getting a roommate; 4) getting a second job, even if it is only occasional work.

**6. Car Debt**. If it is determined that the protagonist can continue making car payments after discharging the credit card debt, the car note, sometimes, can be reinstated so that the car can be kept.

**7. Student Loans.** The protagonist, probably, will not be able to get student loans discharged. Such debts are not discharged unless the debtor can prove that repaying the student loans would impose an undue hardship on the debtor.

**8. Nondischargeable Debts.**  In addition to student loans, other debts that cannot be discharged include:

* Income taxes for the three years preceding the bankruptcy filing
* Fraudulently incurred obligations (that is, providing a creditor, such as a credit card company, with false or incomplete financial statements)
* Certain domestic obligations, such as child support and alimony
* Debts arising from the debtor's willful and malicious injury of person or property
* Personal injury obligations incurred as a result of the debtor's driving while intoxicated.

**9. Impact.** **Some of the short-term results of filing for bankruptcy might include:**

* Protection of assets from collection
* The establishment of a repayment plan that is less burdensome.
* The possibility that -- after a set number of months of reliable payments are made -- the remaining debts may be discharged.

**Some of the long-term consequences that are less favorable might include:**

* Bankruptcy damages a credit rating for 10 years.
* It also will jeopardize opportunities for renting an apartment, landing a job; getting a mortgage; or getting into a serious personal or business relationship.

**10. Self-Awareness.** Students discuss spending habits that could get them into financial trouble, e.g. using credit cards for consumables – food, cosmetics, etc.