LESSON 3

FINANCIAL LITERACY

Drowning in debt?

When a person spends or owes more money than they have, this is called debt. With careful planning, a person can usually avoid debt. However, there are times when there is nothing a person can do to stop it. For example, if there is an emergency and someone spends time in the hospital they might not have enough money to pay the bills afterwards. The same could happen if someone loses their job and can not pay their bills.

If over time a person can not pay back all of the money they owe, bankruptcy might be an option. Bankruptcy is a legal way for a person to declare or say they can not pay back the money they owe. When a person does this the other personal items they own can be sold to pay off their debt.

Bankruptcy can:

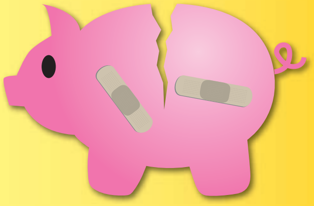
- stop your house from being taken away from you
- stop your car from being taken away from you, or make sure it is returned to you after your debt has been paid
- make sure you get to keep all of the money you earn when you work

Bankruptcy CAN NOT:

- stop you from paying for students loans or taxes
- protect someone who has co-signed or helped you get a loan, car, apartment, etc.
- protect you from paying debts that you make after you declare bankruptcy

Discussion:

1. What are some ways to prevent bankruptcy? If you find yourself in debt, what options other than bankruptcy do you have to get help?
2. Explain the importance of re-establishing a positive credit history and steps to improve a credit score after bankruptcy.
3. Explain the difference between Chapter 7 bankruptcy and Chapter 13 bankruptcy.



This lesson is consistent with the Oklahoma State Department of Education's Standard 13 of the Personal Financial Literacy Passport. For more resources, visit the Oklahoma Council on Economic Education's support website at www.moneyisok.org.