

Tutorial: Financial Situations**Slide 1:**

You have been appointed a financial advisor at Best Financial. It is up to you to make the right decision for people faced with financial emergencies. Listen to each situation carefully and choose the correct path based on what you know about personal finance. Be careful, your mistake might cause a family to lose their home!

Slide 2:

Joan and her husband live in Phoenix, Arizona. They both have good jobs; live in a modest home with kids, the dog, and the cat. Before getting married, each of them had built large balances on their credit cards and they brought the debt into their marriage. The past two years have been difficult because they are trying to pay down this debt. However, as much as they plan and budget, there are always surprises: gas prices went through the roof, student loans, medical bills, and credit cards keep taking their money. When did this couple's problems begin?

Slide 3:

As young single adults, Joan and her husband built up too much personal debt. As their financial advisor, it is your job to advise them that they need to cut spending even more. They should be cutting coupons, not going out to dinner, and bringing bagged lunches to work. They may want to contact a reputable debt consolidation company, such as Consumer Credit Counseling, to help consolidate their credit cards and pay down their debt. Your role is to prevent them from getting more into debt by changing their spending habits and doing as much as possible to get them out of debt. Great work! You are on your way to becoming the Top Advisor at Best Financial!

Slide 4:

Sorry, you did not pick the right choice. By bringing a lot of personal debt into their marriage, Joan and her husband were setting themselves up for failure. As their financial advisor, it is your job to advise them that they need to cut spending even more. They should be cutting coupons, not going out to dinner, and bringing bagged lunches to work. They may want to contact a reputable debt consolidation company, such as Consumer Credit Counseling, to help consolidate their credit cards and pay down their debt. Your role is to prevent them from getting more into debt by changing their spending habits and doing as much as possible to get them out of debt. Better luck next time! Let's hope that your decision did not cause them to switch financial companies.

Slide 5:

John is an accountant and his wife is a teacher. They have two small children. John lost his good-paying federal job in September, the same week his second daughter was born. He was unemployed for six months. Before losing his job, they were somewhat overextended with several credit cards due to inattention and the American need for instant gratification. He never expected to lose his job and did not worry too much about the debt load they carried. They also did not plan for the high cost of daycare when they purchased their home. With two kids in daycare they pay more for that than for their mortgage and property taxes each month. Right now their credit card debt stands at about \$30,000. The lenders aren't too interested in working with consumers as demonstrated by the 29% annual percentage rate they pay on the two largest balances due to being late with payments.

Slide 6:

This couple needs to reduce expenses quickly or increase income. When laid off, someone should file for unemployment as soon as possible. Since their daycare costs are so expensive, John should eliminate this for the time being. He can watch the children while his wife works and

on the days that John has an interview, the wife could take off work or a friend could watch the children for a few hours. Creditors need to know what is going on and that they plan to honor their debts. Someone can not just miss a payment or pay late and leave them wondering. As their advisor, you will recommend the above situation to the couple and also let them know that it is important to stay in contact with the creditors. Nice work! You are well on your way to a promotion at Best Financial.

Slide 7:

Sorry, wrong choice. John can not keep hoping that he will find a new job immediately. He has already been out of work for over six months. This couple needs to reduce expenses quickly or increase income. When laid off, someone should file for unemployment as soon as possible. Since their daycare costs are so expensive, John should eliminate this for the time being. He can watch the children while his wife works and on the days that he has an interview, the wife could take off work or a friend could watch the children for a few hours. Creditors need to know what is going on and that they plan to honor their debts. Someone can not just miss a payment or pay late and leave them wondering. Creditors are more apt to work with someone they are in contact with. As their advisor, you should have recommended the above situation to the couple and also let them know that it is important to stay in contact with the creditors.

Slide 8:

Steve and his family moved to Charleston, South Carolina in April of 2006 for a job opportunity. With a new job and living in a new city, they finally decided to build their first home and qualified for an adjustable rate mortgage. Then they bought another car and had some more revolving debt added. They also had some repayments to make to the IRS for back taxes that Steve owed. Fast forward to now; Steve is in a 95% commission sales position at a local mattress store. Sales have literally been cut in half the last four months and his wife was laid off twice in 2007, the second time was for four months. He has calculated that they are running a deficit of \$600 a month. They got behind on their mortgage payments and now are on a reduced payment schedule until the mortgage company can renegotiate their loan. They have had to stop paying their credit cards to just cover their car payments and living expenses.

Slide 9:

Nice work. This was a tricky problem. Actually, not paying on credit cards is a good idea here. The house and car are collateral and can be taken away if they do not make payments. The credit cards are a non-collateralized debt. If someone cannot pay all of their bills, the ones they should pay are the ones that are backed with collateral. Sometimes it is necessary to stop making credit card payments in order to prevent losing your house or car. You are now well on your way to being able to train new financial advisors at Best Financial.

Slide 10:

This was a tricky problem. In this instance it made sense for Steve to stop paying his credit card bills. The house and car are collateral and can be taken away if they do not make payments. The credit cards are a non-collateralized debt. If someone cannot pay all of their bills, the ones they should pay are the ones that are backed with collateral. Sometimes it is necessary to stop making credit card payments in order to prevent losing your house or car.

Slide 11:

Did you ever think being a financial advisor would be such hard work? Although you may not be planning to go into financial planning as your career choice, it is important to know personal finance so that you can prevent yourself from getting into a money situation that you can't handle. Remember, every financial choice you make has a consequence. It is important to evaluate all aspects of a scenario before taking action!