

Bankruptcy Consequences

Lesson: The Consequences of Bankruptcy

Bankruptcy is a costly and discouraging process of consolidating or eliminating debt to make life more manageable. The process of filing bankruptcy can wreak havoc on a person's credit score and ability to borrow money in the future. Students should know how to build a positive credit history and a strong credit score.

Objective

- Define bankruptcy
- Discuss the importance of establishing a positive credit history
- Identify the steps to improve a credit score after bankruptcy

Activity

1. Define bankruptcy and explain to students that filing bankruptcy does not make money problems go away. Bankruptcy has long-lasting consequences that can negatively affect an individual and their family. Although bankruptcy is the best option for some, it should be a last resort. Explain to students that by learning how to budget, saving for unexpected expenses, and living within their means, they are more likely to avoid bankruptcy in the future. Discuss the importance of a positive credit history and how bankruptcy will negatively affect a credit score.
2. Put students into small groups. Assign each group the following two scenarios to compare and contrast how overspending and bankruptcy can affect a person's life. (AnnualCreditReport.com is an excellent resource for students.)

Scenario 1: Jolie is a spender who never learned to budget. She has been working with a financial counselor to create and follow a budget. After many months of trying to climb out of debt, Jolie has decided to file Chapter 7 bankruptcy. She knows that by filing bankruptcy, her credit score will drop significantly and impair her ability to borrow money in the future. How can Jolie overcome bankruptcy and improve her credit?

Scenario 2: Paul learned how to save and budget from his grandfather. He always spent less than he made and paid himself first with each paycheck. He has been using credit wisely to improve his credit score. Currently, Paul's credit score is 740. Paul is considered to have excellent credit. How does Paul's credit score help save him money?

Reflection: Discuss their answers as a class.