Debt Reduction Planning Worksheet

Chapter 13.1: Strategies for Managing High Levels of Debt | PFL Academy

Case Study: Emily's Financial Situation

Personal Information: Emily is 28 years old and works as an administrative assistant at a local company. She has been at her job for 10 months after being unemployed for several months.

Debt Profile:

- Credit Card A: $8,500 with 22% APR
- Credit Card B: $6,200 with 19.5% APR
- Personal Loan: $5,000 with 12% APR
- Medical Bills: $3,800 (no interest, but in collections)
- Car Loan: $12,000 with 6.5% APR (car valued at $10,000)

Financial Information:

- Monthly take-home income: $3,200
- Essential monthly expenses (rent, utilities, groceries, insurance, gas): $2,400
- Discretionary income: $800 per month
- Current credit score: 580

Additional Context: Emily makes minimum payments on all her debts, but is struggling to make progress. The medical bills recently went to collections, and she's receiving regular collection calls. She's concerned about her credit score and wants to improve her financial situation, but isn't sure where to start.

1. Debt Prioritization Planning

List Emily's debts in order of priority (which should be addressed first and why?). Consider factors such as interest rates, collection status, secured vs. unsecured, and other relevant factors.

Priority Order	Debt Type	Amount	Interest Rate	Reason for Priority
1				
2				
3				
4				
5				

Explain your overall prioritization strategy:

2. Debt Management Strategy Selection

Which debt management strategy or combination of strategies would be most appropriate for Emily's situation? Consider debt management plans, debt consolidation, debt settlement, and bankruptcy.

Recommended Strategy:

Rationale: Why is this strategy the most appropriate for Emily's specific circumstances?

Implementation Steps: What specific actions should Emily take to implement this strategy?

3. Monthly Budget Adjustments

Create a monthly budget showing how Emily could allocate her resources to address her debt situation.

Category	Current Amount	Proposed Amount	Difference	Notes
Take-home Income	$3,200			
Essential Expenses	$2,400			
Debt Payments				
Savings/Emergency Fund				
Discretionary Spending				

Specific Expense Reduction Recommendations:

Income Increase Possibilities:

4. Bankruptcy Evaluation

Would bankruptcy be appropriate for Emily? If so, which type (Chapter 7 or Chapter 13)? Provide your reasoning.

Is bankruptcy appropriate? Yes / No

If yes, which chapter? Chapter 7 / Chapter 13

Reasoning:

Factors considered in this evaluation:

5. Credit Rebuilding Plan

Outline a 12-month plan for Emily to begin rebuilding her credit.

Months 1-3 (Immediate Actions):

Months 4-6 (Short-term Steps):

Months 7-9 (Medium-term Steps):

Months 10-12 (Longer-term Steps):

Expected Credit Score Improvement: By the end of 12 months, what range might Emily expect her credit score to be in? Provide reasoning.

6. Overall Debt Reduction Timeline

Create a realistic timeline for Emily to become debt-free (or significantly reduce her debt) based on your recommended strategy.

Time Period	Focus/Goal	Expected Progress
1-6 months		
7-12 months		
1-2 years		
2-3 years		
3+ years		

Total estimated time to debt freedom:

Important Considerations

- There is no single "right" answer for this case study. The best approach depends on how you weigh different factors.
- Your recommendations should be realistic, specific, and tailored to Emily's particular situation.

- Consider both mathematical factors (interest rates, amounts) and human factors (sustainability, quality of life).
- Remember that debt management is about consistent progress over time, not quick fixes.

Example for Debt Prioritization

This is just one possible approach to the first section:

1. **Medical Bills ($3,800)** - Reason: Already in collections and damaging credit; settling or paying these would stop collection calls and prevent potential legal action.
2. **Credit Card A ($8,500 at 22% APR)** - Reason: Highest interest rate costing the most in carrying charges each month; following debt avalanche method.
3. **Credit Card B ($6,200 at 19.5% APR)** - Reason: Second highest interest rate; continues debt avalanche approach.
4. **Personal Loan ($5,000 at 12% APR)** - Reason: Lower interest rate than credit cards but still unsecured debt.
5. **Car Loan ($12,000 at 6.5% APR)** - Reason: Lowest interest rate and secured debt; car is underwater but necessary for transportation.