FINANCIAL PEACE OF MIND

WRITTEN BY STEVEN R. TRUMBLE AND KATHERINE ROSS

"Education has long been understood as the pathway to a successful life. Financial education is the key that opens many doors on that pathway. FPM provides the tools and guidance for people to learn and understand how to manage their finances and help them develop the independence and freedom to choose the kind of life they want for themselves and their families."

Joseph Stasio
Professor at Merrimack College

"I have been a corporate mentor in the banking field for the past 30 years and by far Financial Peace of Mind is one of the most uncomplicated and easy to understand money management books on the market. The book provides readers with the fundamentals needed to learn how to manage their finances and take control of their financial life; from organizing finances to understanding credit. The worksheets provided are an essential part of combining lessons learned and implementing into practice. Financial Peace of Mind is a great starting point for readers that have little or no experience with money management skills to those more skilled at handling finances. This book gives every reader the knowledge needed to be a successful money manager. Tremendous read!"

John Sergi
Regional Director
Commercial Lending
Brookline Bank

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PREFACE

Theodore Roosevelt once said, "Nobody cares how much you know until they know how much you care." That is how American Consumer Credit Counseling®, Inc (ACCC) came to be, and continues to be the beacon of hope for so many individuals.

My care for and desire to help others with their personal financial difficulties are rooted in the lessons I learned from my own financial hardships. Many of us have made financial missteps in our lives. If we're lucky we learn from those mistakes. Some of the best lessons I've learned came from the mistakes I made; mistakes which helped me grow. Others may need to reach out for help. And for those who reached, I knew in my heart that no one cared more than I did about helping them. I knew I could help those who felt they had hit financial rock bottom, for those who felt hopeless with no place to turn.

My wanting to help others grew from my ability to help my friends and family, but most importantly from my ability to help myself. Because I experienced some pretty tough financial times, I knew I could be the one to help. One of the lessons I learned and carry with me to this day is to always want more; to never apologize for wanting more; to never apologize for wanting to be financially successful. That is something to constantly strive for.

ACCC was established in 1991 in a 175 square foot basement office. My nearest neighbor was the furnace room; more banging and clanging than heat; very damp and lots of leaks. But that didn't stop me from bringing my lunch every day and sitting at my desk waiting for someone to stop by for credit counseling (by the way, I don't think anyone even knew what credit counseling was back then); and it certainly didn't stop me from hanging a sign outside the building and waiting.

Business was slow and I was nervous. I knew I had something special to offer and my passion to help kept me patient. With rent and related expenses to take care of, I spent many sleepless nights worrying about how long I could keep my organization going. Then one person showed up, and another and then another. Eventually what was one person a week coming to see me for credit counseling became one person an hour, eight hours a day, five days a week. My desire to help paid off, not just for me, but for all of those who stayed with me through their journey to become financially responsible.

With much thanks to all those who believed in me in the early years, ACCC is now a national non-profit organization serving thousands of individuals a year. We all have dreams. Some of us will be lucky enough to fulfill them, others will keep dreaming. It was hard work, but I have made my dream come true; I'm a doer, not a viewer; and you can be too. Let *Financial Peace of Mind* guide you on your way. You should be proud of yourself for taking that huge first step of tackling your overburdened debt loads. You know first hand the enormous strain this has put on your day to day life.

Financial Peace of Mind was written to give you the tools you'll need to ease those strains; to live a financially healthy, responsible and peaceful life. This is not a get out of debt quick book; this is not a get rich quick scheme. By discussing the essential elements of a healthy financial life, *Financial Peace of Mind* will be a powerful resource guide for you, providing you with vital information as you regain control of your personal finances.

I sincerely believe that all individuals deserve to have a second chance at becoming debt free. This vision enables ACCC to carry out its mission of helping people regain control of the quality of their lives through financial education, counseling and debt management.

All of us at ACCC are here to listen to you, to help and inspire you as you rework your budgets and your spending patterns. With quality training and dedication, ACCC's staff strives daily to do their best for you. We take pride in providing you with unsurpassed financial education. But it is only through your hard work and dedication that changes can occur.

ACCC wants be your greatest ally in assisting you and your families as you seek to fulfill your dreams; dreams that may be bigger than your budgets, but dreams nonetheless. If I let my budget back in 1990 stop me from pursuing my dreams, ACCC wouldn't be here helping you today.

I want to express my gratitude to Katherine Ross who co-authored *Financial Peace of Mind* with me for all her hard work, devotion and patience in taking *Financial Peace of Mind* from the wouldn't it be nice stage to reality, as well as my entire staff at ACCC for their incredible dedication day in and day out. And of course, to you, the reader; without you, none of this would be possible.

Don't let your budget today stop you from reaching your dreams tomorrow.

Steven R. Trumble
President and CEO
American Consumer Credit Counseling, Inc.

INTRODUCTION

What exactly is *Financial Peace of Mind*? It means knowing how important it is to have one's personal finances under control and to live a fiscally and financially responsible life. It means being able to budget, to save, and to have goals. It means using credit wisely and responsibly. But most important it means being able to put your head to rest on your pillow every night knowing you have financial security and purpose in your life.

Stop for a moment and ask yourself what are the things that really matter in your life--your health, family, friends, education, job, and yes, your finances. You go to school, you learn to read and write. You may think about what you want to be when you grow up. And then you're an adult with adult bills to pay and adult responsibilities. But did anyone teach you how to be financially responsible?

Most of us don't have wealthy parents who will leave us a trust fund. Most of us will never win the lottery. Most of us will need to have a financial plan. We will need to conscientiously set out to learn how to take care of our financial health. That is the role of *Financial Peace of Mind*. You've already taken the first step of contacting a certified credit counselor at ACCC who will give you the tools to help you successfully plan and manage a healthy financial life for yourself (and your family).

Budgeting, saving, investing, and credit. All this and more will be discussed in the following pages. Let ACCC help you help yourself to live for today and plan for tomorrow. Let us give you *Financial Peace of Mind*.

On the next two pages you will find pre- and post-assessments containing 20 multiple choice questions each. Please take the time to complete each assessment, one before your read through *Financial Peace of Mind* and one after. Your response will help us develop future revisions and updates to the content of the book. You will also find a separate answer sheet inserted in the book. Fill in the answer sheet and mail or fax it to us once completed.

Pre-Knowledge Assessment

Please complete the following pre-knowledge assessment prior to reading *Financial Peace of Mind*. By completing the assessment this will help us in future revisions and updates to the content of the book. Fill in your answers on the separate answer sheet that is inserted in the book.

1. A SMART goal is:
   a. Long Term
   b. Short Term
   c. Both Short and Long
   d. Short, Mid, and Long

2. Tax related records should be kept for a minimum of:
   a. 1 year, 12 months from filing annual taxes
   b. 6 years
   c. 3 years
   d. Don't need to save tax documents

3. A SMART goal is:
   a. Specific, Measurable, Attainable, Realistic, Timely
   b. Special, Manageable, Attainable, Real, Timely
   c. Specific, Measurable, Attentive, Ready, Time-bound
   d. A waste of time

4. A budget includes the following sections:
   a. Fixed, Variable, Income, Periodic and Discretionary
   b. Income, Fixed and Periodic
   c. Income, Fixed, Periodic, and Variable
   d. Income and Fixed

5. Cash flow is when you take your available cash at the beginning of the month and subtract your available cash at the end of the month?
   a. True
   b. False

6. Increasing discretionary expenses increases cash flow?
   a. True
   b. False

7. A deficit is when:
   a. Your monthly living expenses equals your monthly net income
   b. Your monthly variable expenses exceeds your monthly net income
   c. Your monthly living expenses exceed your monthly net income
   d. None of the above

8. The recommended savings guidelines are 15% of your gross income:
   a. True
   b. False

9. Money Market Accounts are a type of savings account that has a ---- risk tolerance
   a. High
   b. No
   c. Low
   d. The minimum balance requirement affects the level of risk.

10. A CD is a type of investment. What does CD stand for?
    a. Certainty of Deposit
    b. Certification of Deposit
    c. Certificate of Despository
    d. Certificate of Deposit

11. The law allows you to start withdrawing from your retirement accounts at age 59 ½?
    a. True
    b. False

12. The 5 C's of credit are:
    a. Character, Collateral, Capacity, Control and Condition
    b. Character, Capacity, Collateral, Capital, Condition
    c. None of these, there are only 3 C's
    d. Courage, capacity, collateral, and character

Pre-Knowledge Assessment

13. Under the Fair Credit Reporting Act (FCRA) consumers are entitled to receive one free credit report from each of the credit reporting agencies each year.
    a. True
    b. False

14. Which loan type is easier to budget for on an ongoing basis?
    a. Both fixed rate loan and adjustable rate loan
    b. Adjustable rate loan
    c. Neither, you can't effectively budget when you have either one of these types of loans
    d. Fixed rate loan

15. The main credit bureaus are:
    a. Experian, Transunion, Equifax
    b. Experian, Transcredit, Equifax
    c. Experitan, Transunion, Equilend
    d. None of the above

16. The two most common types of credit inquiries are soft inquiries and hard inquiries?
    a. True
    b. False

17. Using credit cards to maintain your monthly budget may be a warning sign that you need to better manage your debt:
    a. True
    b. False

18. Which Act was passed in 2009 to protect a consumer's rights when using credit cards?
    a. The Fair Credit Reporting Act
    b. The Credit Card Act
    c. Fair and Accurate Transactions Act
    d. Federal Trade Commission

19. Cash advances on credit cards are an easy way to get cash on demand at a low interest rate?
    a. True
    b. False

20. Paying more towards your minimum credit card payment will decrease the payoff time and decrease the amount of interest over time?
    a. True
    b. False

Post-Knowledge Assessment

Now that you have completed reading *Financial Peace of Mind*, please complete the following post assessment. By completing the assessment this will help us in future revisions and updates to the content of the book. Fill in your answers on the separate answer sheet that is inserted in the book.

1. A SMART goal is:
    a. Long Term
    b. Short Term
    c. Both Short and Long
    d. Short, Mid, and Long

2. Tax related documents should be kept for a minimum of 1 year after you file your annual taxes?
    a. True
    b. False

3. A SMART goal is Specific, Manageable, Attainable, Realistic, and Timely
    a. True
    b. False

4. A budget includes the following sections:
    a. Fixed, Variable, Income, Periodic, Discretionary
    b. Income, Fixed, Periodic
    c. Income, Fixed, Periodic, Variable
    d. Income and Fixed

5. Cash flow is when you take available cash at the beginning of the month and subtract your available cash at the end of the month?
    a. True
    b. False

6. Increasing discretionary expenses increases cash flow?
    a. True
    b. False

7. A deficit is when:
    a. Your monthly living expenses equals your monthly net income
    b. Your monthly variable expenses exceeds your monthly net income
    c. Your monthly living expenses exceed your monthly net income
    d. None of the above

8. When saving, it is recommended that you try and save at least:
    a. 15% of your gross income
    b. 20% of your gross income
    c. 10% of your gross income
    d. 12% of your gross income

9. Money Market Accounts are a type of savings account that has a ---- risk tolerance?
    a. High
    b. No
    c. Low
    d. The minimum balance requirement affects the level of risk.

10. A CD is a type of investment. What does a CD stand for?
    a. Certainty of Deposit
    b. Certification of Deposit
    c. Certificate of Depository
    d. Certificate of Deposit

11. You are entitled to begin withdrawal distributions from your retirement at age:
    a. 62
    b. 70
    c. 70 ½
    d. 59 ½

12. Lenders evaluate a consumer's ability to pay credit back based on the 3 C's of credit
    a. True
    b. False

13. Under the Fair Credit Reporting Act (FCRA) consumers are entitled to receive one free credit report from each one of the credit reporting agencies each year.
    a. True
    b. False

Post-Knowledge Assessment

14. Which loan type is easier to budget for on an ongoing basis?
    a. Both fixed rate loan and adjustable rate loan
    b. Adjustable rate loan
    c. Neither, you can't effectively budget when you have either one of these types of loans
    d. Fixed rate loan

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19. Cash advances on credit cards are an easy way to get cash on demand at a low interest rate?
    a. True
    b. False

20. Paying more towards you minimum credit payment will decrease the payoff time and decrease the amount of interest over time?
    a. True
    b. False

Date: _________ Client Number: ___________________ Email: ____

First Name: ____ Last Name: ____________________________________

Mailing Address: ____________________________________ City: _____________________State: _____ Zip: ______

Before reading Financial Peace of Mind please take our
Pre Knowledge Assessment
(please circle the correct answer)

1. A B C D	6. A B C D	11. A B C D	16. A B C D
2. A B C D	7. A B C D	12. A B C D	17. A B C D
3. A B C D	8. A B C D	13. A B C D	18. A B C D
4. A B C D	9. A B C D	14. A B C D	19. A B C D
5. A B C D	10. A B C D	15. A B C D	20. A B C D

After reading Financial Peace of Mind please take our
Post Knowledge Assessment
(please circle the correct answer)

1. A B C D	6. A B C D	11. A B C D	16. A B C D
2. A B C D	7. A B C D	12. A B C D	17. A B C D
3. A B C D	8. A B C D	13. A B C D	18. A B C D
4. A B C D	9. A B C D	14. A B C D	19. A B C D
5. A B C D	10. A B C D	15. A B C D	20. A B C D

Financial Peace of Mind Evaluation

1. What did you like most about this program?____

____

2. What did you like least about this program?____

____

3. How could this program be improved?____

____

4. Would you recommend this program to others?

_______ Yes

_______ No

5. Comments or suggestions about the program: ____

____

<u>Upon completion you can mail or fax this answer sheet to:</u>

American Consumer Credit Counseling
130 Rumford Ave, Suite 202, Auburndale, MA 02466
Fax: 617-244-1116

PART I

MONEY AND FINANCIAL PEACE OF MIND

INTRODUCTION TO PART I

MONEY AND FINANCIAL PEACE OF MIND

Here we are, about to start on your journey towards a healthy financial life, to a life that will give you *Financial Peace of Mind.*

One of the goals of Part I is to teach you the importance of organizational skills. We all dream about having a better life financially. Organizing and prioritizing your finances can help you make your dreams reality. Dream it, see it, and do it.

It's been said many times that money alone won't buy you happiness, however, I believe that not being financially secure will make your life more difficult. This may not be the most orthodox thing you'll ever hear, but I do believe money can buy you peace of mind. Everyone's life is different; we all have different needs. But if you can pay your bills, save 10% of your income, and live within your means, then you are in the game and well on your way to living the life you want to have.

It's easy to see how one's finances can spiral out of control. There are many reasons why this can happen, job loss, health issues, divorce, living a lifestyle one can't afford. Before you know it you may have fallen behind on one or two of your monthly expenses. In no time at all you find yourself in financial distress. There's nothing enjoyable about being in debt. It's quite the opposite. Being in debt causes a great deal of stress for most of us and not to mention that it's simply not fun. But not doing anything about it is even worse. The last thing you should be is oblivious to your financial situation.

If there's one thing, and only one thing I've learned in my life, it's that avoiding a problem doesn't make it go away. No matter how difficult the problem, it will only make it worse.

Be present and tackle your problems head on. It's been said that education is leverage. With all the challenges we face each day, wouldn't it be nice to have a little leverage?

CHAPTER 1

ORGANIZING YOUR FINANCIAL LIFE

It is just as important to have a healthy financial life as it is to have your physical health. Many of us put a lot of effort into our physical health but often neglect our financial health. Becoming organized is one of the first steps to having a financially healthy life. Having the ability to organize your financial information will help you build the foundation you need to manage your finances for today and tomorrow. If you aren't good at organizing, ask for help.

In this chapter we will take a look at organizing and managing your financial information. Once you have defined all the different components that are part of your financial life, you can begin to look at each area individually and take control of each of them. We will also discuss items that at first glance wouldn't be considered financial information, but can have a huge impact on your *Financial Peace of Mind.*

> **TIP:** ***If possible, use a computer and install money management software or use a secure website to organize your monthly bills, paychecks, bank accounts and investments. The program or website should also be able to track and itemize other home expenditures.***

Once organized, you will see your whole financial picture. Proper planning and discipline will help you make choices that will lead to sound financial management of your finances.

FINANCIAL RECORD KEEPING

Keeping sound financial records[1] is an important part of your finances. This means keeping track of your sources of income and all your expenses. You should keep all papers associated with your income and expenses in a safe place; perhaps at home in a fireproof safe. This will keep all your important documents protected and easily accessible.

> **TIP:** ***Keep tax related records for a minimum of three years; optimally for six years. (This is a standard rule. Review www.IRS.gov for specific timeframes).***

LEGAL DOCUMENTS

As unsettling as it is to prepare for your death while you are still alive, knowing you have taken care of your loved ones will be a great source of comfort. (I don't know about the rest of you, but I really do want to live forever. I still have to have a will to protect my family once I'm gone).

WILLS

A will is a legal document that outlines what happens to your property, assets[2], bank accounts and even your children upon your death. Your will is your opportunity to direct where your assets go. If you die without having

[1] Organizing Your Financial Records Worksheet p. A-2

[2] Personal Asset Statement Worksheet p. A-4

written a will, state law can determine who inherits all of your assets, as well as who will have guardianship of your children (if applicable).

So what is it that you need to think about when it comes to writing a will?

- Do you have assets? Assets are anything with monetary value (e.g. stocks, bonds, a house, jewelry, bank accounts, even collectables such as a stamp collection, or a football signed by the entire New England Patriots Team from Super Bowl XXXIX)
- Are you married? If so, you and your spouse can leave your assets to each other. In the event your spouse dies before you do, you can leave everything to your children. If you have no children, you can certainly designate who you want your possessions to go to.
- Speaking of children, do you have children? How old are they? Writing a will enables you to name a guardian for your young children.
- If you have young children, you should also consider setting up a trust for them. This enables you to manage how and when your children will receive the assets left for them. Of course you will also need to name a trustee. A trustee is the individual who is in charge of overseeing the day to day management of property owned by the trust.
- Do you have a life insurance policy or retirement accounts? If those are the only assets you own, you should know that they can be considered will substitutes. Once you name beneficiaries for those policies/accounts, they will supersede your will. You should also make sure that you have named beneficiaries on any bank accounts or accounts at brokerage firms that you own.

Now you're ready to put everything on paper and make it legal. You may actually think it's simple enough to do yourself. But let me ask you a question. Do you find an attorney, or do you just walk into the nearest office supply store and pick up a do-it-yourself kit for $10? This is your life you're talking about. Your will represents everything you've worked long and hard for. A do-it-yourself kit is no substitute for an attorney who has had years of experience writing and probating wills, which is the process of transferring the assets of the deceased to the named heirs.

The best way to find an attorney is through referrals. Can your friends or business associates recommend anyone? If not, then you can always check with your state Bar Association.

There are a couple of other legal items you should get in order--designating a healthcare proxy and assigning power of attorney. Again, they are not going to help you budget your paycheck, but they will be an additional source of *Financial Peace of Mind*.

HEALTH CARE PROXY

A health care proxy is a document that allows you, the patient, to appoint an individual to make health care decisions for you if you become unable to do so. This is one document you may never need to use, but nonetheless should have just in case. Your appointed health care proxy can ONLY make those decisions when you are no longer considered competent enough to do so.

POWER OF ATTORNEY

By giving someone power of attorney, you are authorizing them to act on your behalf in a legal or business matter should you become unable (or unavailable) to do so. If you are in the hospital and could not access your bank account to make your mortgage or rent payment, the individual you gave power of attorney to could do that for you. Or, perhaps you're one of the lucky ones cruising the Mediterranean Sea and there's an emergency back home that needs to be paid for. Again, the individual you appointed power of attorney could access your bank account to pay those bills.

A health care proxy and power of attorney are just additional layers of protection for you and your assets.

FINANCIAL GOALS

Setting financial goals is another important part of your financial life. Goals emphasize what you want to accomplish and help you focus your efforts. Setting goals can help turn your dreams to reality, whether it's buying the house you always wanted to live in, sending your children to college or paying down your debt. Goals can be short-term, mid-term or long-term. No matter what the goal, the process is always the same. Create a plan, implement it, and stick with it.

One thing I am going to insist upon is that the goals you set must be achievable and realistic. Many of us would like to set a goal of riding horseback into the sunset forever. But how achievable and realistic is that? Setting goals you can't achieve will only set you back and make you think you can't do anything, and that's not what I want for you.

Goal setting is a process. It may be one step ahead and two steps back, but if you set your goals so that they are achievable and realistic, you will always meet them. That has always worked for me.

TIP: ***Involve your whole family in financial goal setting. That way you are all working toward the same goal.***

When establishing your goals, break them down into short-term, mid-term and long-term. This will help you to set your priorities and stay focused. Let's look at each type of goal and then look at how you can make your goals start working for you. Goals can be identified in the following manner:

SHORT-TERM GOALS: These are goals you want to accomplish within one month to a year. A short-term goal might
include paying off a credit card, buying a new television set, holiday shopping, or a birthday gift.

MID-TERM GOALS: These are goals you want to accomplish within one to five years, and may include buying a new car, saving to buy a home, or paying off all your credit card debt.

LONG-TERM GOALS: These are goals that will take five years or longer to accomplish, and may include buying a new home, saving for college, or for retirement.

TIP: ***You should never lose sight of your goals. Write them down and keep them in a safe place where you will always be reminded of them.***

SMART GOALS

The goals you set should be: Specific, Measurable, Achievable, Realistic, and Timely. In other words: **SMART**[3]. Be sure to write down as many details as you can for each aspect of your SMART goals. Applying the SMART approach will help you become more successful in reaching your goals. Here is an example of a SMART goal:

SPECIFIC: *"I will work with ACCC to pay off $15,000 in unsecured debt."*

MEASURABLE: *"I will allocate $250 per month for that payment."*

ACHIEVABLE: *"I can achieve this if I cut back on my entertainment expenses like my cable TV and my cell phone plan."*

REALISTIC: *"Instead of buying books or renting movies I will use my local library and attend free events."*

TIMELY: *"I will have my credit card debt paid off in 60 months."*

Keep in mind that when establishing your SMART goals, breaking them down further into short-term, mid-term, and long-term goals will help you to set your priorities and stay organized.

Remember, these goals are your goals. Once you have identified and defined what your goals are, you can truly become the manager of your own financial health. As you review your goals and identify the small measurable steps you can take to achieve them, you will quickly see your plans spring to action. Evaluating your progress will help you succeed and encourage you to adjust what is not working.

BUDGETING

Although Chapter 2 will discuss budgeting in greater detail, you will see that your budget will be essential to keeping you on the road to financial well-being. Although budgeting requires a big-time commitment, it is vital to your financial health. Careful tracking of your income, expenses, and spending will enable you to manage your day to day finances and reach your goals.

Just as maintaining your physical health requires dedication, so does maintaining your financial health. Start with an organized plan with specific goals. Creating and maintaining a solid, realistic budget to work with will help you implement those goals. Your dedication and discipline to this process will help you achieve what matters to you for today and tomorrow.

[3] Financial Goals Worksheet (SMART Goals) p. A-5

Chapter 1 Review:

- Financial record keeping
- The importance of having a will
- The importance of having a health care proxy
- The importance of giving someone power of attorney
- SMART goal setting
- The importance of budgeting

Chapter 1 Review Exercises:

- Use the *Organizing Your Financial Records Worksheet* to help guide you in setting up a user friendly filing system.
- Use the *Financial Goals Worksheet* and list at least three goals, one that is short-term, mid-term, and long-term. Be sure the goals you set are SMART.
- Use the *Personal Asset Worksheet* and make a list of all your assets and who you would leave them to. You will be able to refer back to the list of assets further along in the book when we discuss net worth.

NOTES

CHAPTER 2

BUDGETING BASICS

Your budget is the most powerful tool you have for managing your money. A well-constructed budget is something that everyone needs to have. Please don't sit there thinking you don't make enough money to have a budget. It doesn't matter how much money you make. What matters is how you spend the money you have. This chapter will take a detailed look at budgeting and all it entails.

You should think of your budget as a spending plan. It gives you a snapshot of the flow of money in (income) and out (expenses) of your household. A budget will also enable you to see how you are managing your money over a specific period of time. It details how much money you have, how much money you need to live, and how you spend your money. Knowing how you are spending your money will enable you to see where you may need to make adjustments. Most importantly, a budget will help with your financial plan for the future. Let your budget be your guide as you learn how to distribute your income between expenses (including if applicable, repayment of your debt through ACCC) and savings.

TIP: ***Involve your entire household in financial planning. Everyone's contributions will be helpful, everyone will be less stressed, and you will all be working toward the same goal.***

Constructing your budget shouldn't be a guessing game. Your budget needs to be as true a picture of your financial life as possible. Without proper tracking of your monthly living expenses it will be almost impossible to develop a successful and workable budget. Your goal at the end of every month should be to have a balanced budget, which means you have enough money to meet your expenses. We understand ending the month with a balanced budget may not always happen. Call a certified credit counselor at ACCC to look at your budget with you and help you get back on track. We don't charge for this. Make this an important resource in your budgeting toolbox, but whatever you do, don't give up.

Your budget is important to your financial well-being for another reason. It can indirectly affect your ability to obtain credit (which will be discussed in greater detail in Part II). What you should know, however, is that lenders use a standard set of guidelines set by the professional financial community to approve credit applications. If your debt exceeds these guidelines, you are perceived as a higher credit risk than someone whose debt does not exceed these guidelines. You may still be able to borrow money, but most likely at a rate higher than the prevailing market interest rate.

Your budget should be organized into five major areas, income, fixed expenses, variable expenses, discretionary expenses, and periodic expenses. Let's look at these categories one by one.

INCOME

Income can be looked at in two ways, gross income and net income. Although you should always use your net income when preparing your budget, it is important to understand gross income and why it matters. Gross income is your total personal income before any deductions. It is the total monetary amount that you receive in a given period of time (including, but not limited to: your salary, child support, alimony, social security, pension and retirement income, interest and dividends from savings and stocks or bonds) before deductions. You should also note that when creditors ask for your income they want to know what your annual salary is, again, before deductions.

TIP: ***You may be able to revise your deductions to increase your net income. Please be aware that this could result in an increase to your taxable income.***

Monitoring your payroll deductions will help you determine what changes should or can be made. There are so many possible sources of deductions that may come from your paycheck that, unless you list them all, you may forget about some of them. You may also find deductions being taken from your payroll check that no longer apply and could be a source of increased cash flow. An example of this would be the job you held which required you to wear a uniform to work. Deductions were automatically made from your paycheck for the cleaning of your uniform. Your position changed within the company and you are no longer required to wear a uniform to work. However, you look at your pay stub and notice the monthly deductions for cleaning are still being made. Well, congratulations my friend! You just found yourself a few extra dollars a month and increased your cash flow (see Figure 1).

Net income is the amount you actually bring home after all deductions have been taken from your paycheck. These deductions include (but are not limited to) taxes, social security payments, health insurance premiums, deductions for retirement savings, union dues, life insurance premiums, even wage garnishments and liens. In essence, everything that comes out of your paycheck is a deduction. Net income is the money you have available to pay all of your living expenses That is why it’s used when constructing your budget.

FIGURE 1
Determining Positive Cash Flow:

Monthly Income	$3,800
Monthly Expenses	-$3,600
Monthly Cash Flow	$200

EXPENSES

FIXED EXPENSES

Fixed expenses are expenses you know you will have to pay every month. The dollar amount of the expense is fixed, meaning it doesn't change from month to month. This can include your mortgage payment, rent, auto loan, insurance premiums, student loans, child support, child care, alimony, and other personal loans. These expenses can be a large part of your budget. Knowing what they are and planning for them is necessary to maintaining a balanced budget.

> **TIP:** ***Saving is an important component of your budget. Try and save as much of your income as you can. Set a yearly savings goal of 10 % of your income.***

You may want to use this time when constructing your budget as an opportunity to examine some of your fixed expenses. Is it time to renew your homeowner's insurance policy? You may want to get estimates from a few insurance companies to make sure you have the best policy for your needs. What about your car insurance? Are you carrying insurance for a child who no longer lives at home? Now is the time to make that change.

> **TIP:** ***Remember your SMART goals from Chapter 1? Your budget is a great tool to help you save and meet those goals.***

VARIABLE EXPENSES

Variable expenses are the expenses you incur for daily life. They occur monthly, but the amounts may vary. Items can include groceries, clothing, personal care, child care, gasoline, and utilities. Variable expenses can fluctuate considerably depending on your household's spending habits. The good news is that you can use your budget to manage these expenses.

> **TIP:** ***You can take out the seasonal fluctuations in your utility bills (heating oil, electricity, even your phone plan) by contacting your providers to set up a monthly budget plan. Once this is done and you have a fixed budget for these expenses, you should then move them to the Fixed Expenses category.***

Perhaps you have already budgeted for your weekly grocery shopping. Next time you go to the store, take a look at your bill. Are you over, under, or right in line with your budget? If you are over, this is a good time to make changes to your spending habits. Start by comparing generic brands to name brand items. You may also want to look through your Sunday newspaper and start cutting coupons for items you typically buy, and only for items you typically buy. Keep in mind that saving $1.00 on an item you don't normally purchase isn't saving money at all. Manufacturers offer coupons to entice the consumer to try a new item. My request to you, buy what you use, not what someone else wants you to use. These are just a couple of ways to start saving money in order to stay in line with your monthly budget.

PERIODIC EXPENSES

Periodic Expenses are those expenses that are not paid on a regular basis, but rather whenever they occur. Because they are infrequent in nature and often occur without notice, they can be difficult to budget for.
Periodic expenses may include medical expenses, prescriptions, vacations, home maintenance and auto repairs, gifts, or back-to-school items.

Periodic expenses are a funny thing. They always seem to occur when we least expect them. You know exactly what I mean. How often have you found yourself with spare cash at the end of the month, excited to head out on the town with your friends, only to find out your car needs new brakes? We've all been there.

The unexpected nature of most of these expenses makes it very important that you prepare ahead of time and include these potential items in your monthly budget. Calculate what you think you will spend annually and divide that number by 12. Set aside that amount each month in a savings account. When it comes time to pay these expenses you will have the cash on hand and you won't have to rely on credit cards (or a loan) to pay the bills.

> **TIP:** ***Pay attention to promotions you may get for items you use. Perhaps you get promotional car maintenance coupons in the mail from the car dealer who services your car. If you know the car is due for maintenance, use the coupon and bring the car in for service a little ahead of time. This way the work gets done and you save money.***

DISCRETIONARY EXPENSES

Discretionary expenses are related to nonessential goods and services. They may include magazine subscriptions, gym memberships, cable television, a massage or manicure/pedicure, lottery tickets, and even charitable donations. As you strive to increase cash flow by changing your spending habits, discretionary expenses should be the first place you look to make cuts.

Begin by making a list of all your discretionary expenses and identify those you can eliminate and/or cut back on.

> **TIP:** ***As you look at your discretionary expenses you just might realize you are spending precious dollars on items you don't need. Be honest. How many times do you walk into a store looking for one thing but find lots of "bargains you just can't live without?" Now tell me, how many of those "bargains" are sitting on your shelf collecting dust? Not such a bargain after all?***

Entertainment expenses are a common discretionary expense. Allowances are seldom made in our budgets for items such as dining out, going to the movies, purchasing music, entertaining at home, even bringing in pizza one night a week. By including a specific amount in your monthly budget for entertainment, you will effectively be able to keep these costs under control. A good way to accomplish this is to open a savings account and label it as your "Entertainment Account." Each month deposit money into your entertainment account. By doing this you won't overspend and you may even have money left over that you can put towards your savings.

> **TIP:** ***Purchasing discretionary goods on credit increases personal debt.***

SPENDING

Although spending is not a specific category in your budget, monitoring your spending is an instrumental step to successful budgeting. Tracking your daily expenses[4] is critical to this process.

Here are a few suggested methods you can use to track your daily spending:

- **The receipt method** – Collect all receipts from purchases you make and keep them in a convenient location. If you don't get a receipt, make one of your own by writing on paper the amount you spent and what you spent it on. You may even want to label all of your receipts by the expense categories you named in your budget (e.g. housing, food, entertainment, auto, etc.). Be as specific as you can. By looking over the receipts you will become more aware of how you are spending your money and can make changes where needed.
- **The envelope method** – This works well for tracking and controlling expenses purchased with cash. Set aside and label an envelope for each of your expenses. When you get paid, you can prorate for the month the amount of money that you need to put into any particular envelope. For example, you decided to save $20 a month for car repairs. Label an envelope "Car Repairs." You get paid twice a month. Put $10 from each paycheck into that envelope. Try to do this for as many expenses as you can. This method worked for my parents when they raised me and my four brothers and sisters and it still works for me today.
- **Cash only** – That's right, cold hard cash; not even a debit card. In order to manage your money properly you shouldn't spend more cash than you have. I'm a big proponent of using cash to pay for as much as I can; and that has nothing to do with how much money you make. It is all part of striving to live within one's means. Try giving yourself an allowance. Yes, every morning put a fixed amount of money in your wallet (that amount should be the same seven days a week, 365 days a year). If there is something you want to buy, pay cash. If you don't have enough cash in your wallet then you can't afford to buy it. As a result, you will become painfully aware of how much the items you buy cost and how much money you spend on a daily basis. You may also find you don't spend all the money in your wallet. You can even make a game out of this. At the end of everyday, strive to have one more dollar left in your wallet than you did the day before. Any money left at the end of the day can go toward savings.

Now that you have established a good working budget, it's time to take a look at the guidelines used by the financial community[5]. These guidelines will provide you a basic outline of where and how you should be spending your money. This is to be used solely as a point of reference.

Hopefully, through your counseling sessions with an ACCC certified credit counselor, you have started targeting areas in your budget where you can make adjustments, but you may find more changes are needed. Knowing what the recommended guidelines are can help you determine where you can make further adjustments to reach those guidelines. You may find, for example, that you are spending more than the recommended guidelines suggest for rent. You live in an area where you know you are paying one of the lowest rents available and are not able to make

[4] Daily Expense Tracker Worksheet p. A-7

[5] Financial Community Guidelines Worksheet p. A-8

much of an adjustment. However, you may be able to make modifications to your spending in other areas (such as food or utilities) to help to get you back on track financially. Once you have determined where your spending fits in these guidelines, you can (re)set your goals and make adjustments as applicable.

We must spend money in order to live in our homes, drive our cars, feed and clothe ourselves and families. We also need to occasionally spend money on discretionary items such as entertainment, gifts, and personal care. Knowing where your money goes is crucial to establishing a successful budget.

Now take out your spending worksheet and let's bring together the various budgeting categories used to create your household budget[6]. Calculate your monthly take home income and deduct all your monthly expenses (include fixed, variable, periodic and discretionary expenses). The number you arrive at will be your cash flow. This number will tell you whether you have positive cash flow (disposable income) or negative cash flow (a deficit).

Having disposable income (which may also be referred to as a surplus or positive cash flow) means you have cash left over after you have paid all your bills. It also means you are doing a great job in managing your finances. Continue to use a monthly budget to keep on track. If you have already allotted money to savings, perhaps you can increase that amount based upon the disposable income that you have. You can also use your disposable income for an occasional splurge to purchase something you have wanted without using credit!

If you have a deficit, it means your monthly living expenses exceed your monthly net income (see Figure 2). Make your budget work for you. Keep in mind that having a deficit doesn't necessarily mean that you have not been able to meet your essential expenses. It may just be you are spending more on nonessential items than you have the cash for. If this is the case, you need to prioritize your expenses and reduce your spending to meet all of your monthly obligations.

FIGURE 2
Determining Negative Cash Flow or Deficit:

Monthly Income	$3,800
Monthly Expenses	-$4,000
Negative Cash Flow (Deficit)	-$200 Deficit

TIP: ***It was mentioned earlier that you may need to be flexible with your budget. This is the time to take another look to see what changes can be made.***

[6] Household Budgeting Worksheet p. A-9

If you find you are still unable to keep up with your monthly obligations, you may need to look for ways to increase your income. Suggestions for ways of doing so can include: a part time job or two (schedule permitting), participate in paid research studies, and/or turn items sitting on the shelf at home collecting dust into cash. You would be amazed at how many people you will have knocking at your door for old books, CDs, furniture, used baby furniture, clothes, etc.

Becoming financially secure can be a challenge. Learning to manage and control spending is half the battle to achieving financial health. If you find you are consistently overspending, make adjustments as soon as possible. Make this a priority. If this doesn't help and you are still having difficulty meeting expenses, you should consult the professional certified credit counselor you are working with at ACCC to help create a new workable budget for you and your family.

NET WORTH

One more item that pertains to budgeting is your net worth. Your net worth is determined by subtracting your liabilities from your assets. You can use net worth to measure your progress over time. The more you can save, the greater your net worth will be. And by the same token, as your liabilities decrease (e.g. paying down credit card debt) the greater your net worth will be. Periodically evaluating your net worth can also help you in making financial decisions. You will be able to identify assets to sell in order to raise cash, or you may decide to put off a major purchase until another liability, such as a car loan, is paid off.

To determine your net worth[7], add up all of your fixed assets. This can include real estate, car, stocks, bonds, money in the bank, or basically any asset you own that has a monetary value. Then subtract your liabilities, such as a car loan, your mortgage, student loans, credit card debt, and personal loans. The resulting number is your net worth.

FIGURE 3

Determining Net Worth:

	2010	**2014**
Assets	$128,000	$128,000
Liabilities	$136,522	$116,000
Net Worth	-$8,522	$12,000

Developing a workable budget can be a very positive and rewarding experience. Involve family members as much as possible. Their contributions may be very helpful in developing alternative solutions. Always keep in mind that a certified credit counselor at ACCC is here to help you anytime you need the help to get back on track. Getting on track now with your budget will lay the foundation for your…*Financial Peace of Mind.*

[7] Net Worth Worksheet p. A-10

Chapter 2 Review:

- What is a budget?
- What is cash flow?
- What is disposable income?
- What is a deficit in income?
- The five components of a budget
- How to track spending and monthly expenses
- What is net worth?

Chapter 2 Review Exercises:

- Use the *Household Budgeting Worksheet* to create or modify your family budget.
- Compare your household expenditures with the *Financial Community's Guidelines*. Make adjustments based on your findings.
- Use the *Daily Expense Tracker* to track your daily expenditures.
- Use the *Net Worth Worksheet* to calculate your assets and liabilities.

NOTES

CHAPTER 3

PUTTING YOUR MONEY TO WORK

You work hard for your money, and your money should work hard for you. We briefly discussed the importance of saving as a way of paying yourself first. The suggested guideline for how much you should save is 10% of your gross income.

Chapter 3 will give you the basic knowledge you need to ensure your money is growing and working for you. And although money may not grow on trees, it can certainly grow in time.

BASICS OF SAVING AND INVESTING

Before we go any further, it is important for you to know there is a difference between saving and investing. To save money means to set money aside from earnings. Once again I will stress that it doesn't matter what your income is. If you can start by saving just a dollar a day, that will help get you on your way to meeting your financial goals.

Investing means something entirely different. It means you are taking the money you saved and you are putting it to work. And although you wouldn't necessarily think of a bank account as an investment, if your money is earning interest, it's working for you. You may also want to buy stocks and/or bonds, where your investment may accumulate dividends/interest and/or appreciate in value.

What should saving and investing really mean to you? It means you are doing the best you can for yourself with the disposable income you have. Try to meet that 10% suggested saving guideline. If you can't save 10%, save less, but try to save something every month. The more you save, the better you will feel about yourself and your ability to have a financially satisfying life.

There is another reason the ability to save and put money in the bank is important; it will help you build your credit history. Yes, when you go to a lender to borrow money, the lender wants to know you are fiscally responsible. Having a history of making deposits to a bank or brokerage account will show the lender how responsible you have been.

TIP: ***Watch the pennies and the dollars will take care of themselves. Begin by saving just one dollar a day and by the end of the year you will have $365; not a bad way to start.***

FINANCIAL INSTITUTIONS

You've been sticking to your budget and you now have a couple of hundred dollars set aside to put towards savings. What are your available options? If you don't already have a savings account, well then, march down to your nearest financial institution and open one. Financial institution, you say? You thought you'd just go to the bank down the road. But you have choices there as well.

As a matter of fact you'll find you have many choices as to where you can keep your money. Financial institutions (for our purposes we will refer to these institutions as banks) are everywhere, even on the Internet. However, for every bank you see, you may be interested to learn that many no longer exist. The economic crisis that started in 2007 had a dramatic effect on the banking system. According to the Federal Deposit Insurance Company (FDIC, the government agency that insures deposits held at banks), there were three bank failures in 2007, 25 failures in 2008 and 140 failures in 2009, the highest annual number since the Savings and Loan crisis peaked in 1992. (Just an aside, if you keep your money in a credit union, the National Credit Union Administration, or NCUA, is responsible for insuring the money on deposit with its members).

None of this is meant to scare you, actually quite the opposite. It is important for you to know that even as banks fail your money is still safer in the bank than in the milk box on the back porch. That's where my grandmother kept grandpa's hard earned money. No insurer in the world would cover that money if it were stolen.

TIP: ***Standard FDIC and NCUA insurance is $250,000 per depositor, per insured institution, for each account ownership category. Please check*** **www.fdic.gov** ***or*** **www.ncua.gov** ***for details and updates.***

TYPES OF BANKS

There are different types of banks you can choose from (of course, first and foremost, always make sure the money you deposit will be insured):

- **Credit Union**s – Credit unions are member owned institutions (the members being the depositors). They are formed to serve specific demographic groups that can be distinguished by, and not limited to: profession, geographic region, and religion. The services offered by credit unions are those most frequently requested by its members.
- **Retail Banks** – These are banks that offer services directly to the consumer and not to businesses (as commercial banks do). This could be a good place to open a savings and a checking account. Retail banks also offer personal loans, credit cards, debit cards and mortgages.
- **Thrift Institutions** – A good example of a thrift institution is a Savings and Loan (S&L). These financial institutions are typically small in size and focused on the communities in which they are located, which makes them an ideal place to stop in and form relationships with the people who work there. Keep in mind, if and when the time comes for you to buy a home, an S&L may also be one of the better options for obtaining a mortgage. This is because S&L's usually know their communities well, which means those at the S&L want to know those in the community. For that reason these banks may offer the most competitive interest rates on their loan products, They truly want your business!
- **Internet Banks** – This is not "pay your bills online" banking. Rather, they are banks that exist solely in the virtual world. Because there isn't the expensive overhead that comes with a brick and mortar institution, these banks may be more competitive with the rates they offer on savings and loan products than some of your other options. Don't be intimidated by banks that operate solely in cyberspace. Some of these institutions are very well funded and just as safe as the bank on the corner.

When making your decision where to bank[8], there are factors that you should consider other than which institution has the best giveaways for opening an account. (Promotions like giveaways may come with "hooks." How long will you need to keep your money on deposit just to get that travel mug? It may be less costly for you to drive yourself to a large retail store and buy the mug outright than to open an account for the wrong reason.) Things to consider when deciding on the bank that best satisfies your needs can include:

- What products (for example: savings accounts, checking accounts, loans, debit cards, etc.) do you need and does that bank offer them?
- Is the bank conveniently located to your home and/or place of employment?
- Does the bank have many ATM locations? Can you access other bank ATMs with your bank card? If so, are there fees?
- What are the hours the bank is actually open?
- Does the bank offer services such as telephone, mobile and online banking? Are there additional fees for using any of those services?

TYPES OF ACCOUNTS

Many banks may offer accounts that are specific to that particular institution. However, there are basic types of accounts you should know about that will help you manage your day-to-day financial life.

SAVINGS ACCOUNTS

A savings account can serve many purposes, but first and foremost it is a good way for you to start to watch your money grow. Your money will earn interest and it will be insured. As mentioned before, having a history of making deposits and managing your cash will help to build your credit score.

Some of you may currently be using a check cashing service to cash paychecks or other checks you receive. Having a savings account will be a more cost effective way to cash those checks as the bank won't charge you a fee for doing so as long as there is enough money in your account to cover the amount of the check.

Now I'm going to ask you to think back to Chapter 2 and the discussion about setting money aside in envelopes to either pay for certain expenses (car repairs, for example) or to have in case of an emergency. By taking the money out of its envelope and putting it in the bank, the money will be earning interest and working for you.

> **TIP:** ***Before opening any type of account, be sure to check minimum balance requirements and/or other account related fees. The last thing you want is for it to cost you more to keep your money in the bank than you'll earn in interest.***

CHECKING ACCOUNTS

Checking accounts are really instrumental to managing your financial life. I for one would be lost without mine. That's how I pay all my monthly bills, everything from my phone bill to my mortgage. And if you have internet service at home, you may want to set up your checking account so you can pay your bills online. Another option

[8] Bank Account Comparison Worksheet p. A-11

for ensuring that your bills are paid on time is to set your accounts up so that the bills are automatically paid every month from your checking account. Of course you'll want to make sure there is money in the account to cover those bills. (Check with your bank to see if there are fees for using their online banking platform.)

For those of you who don't have a checking account and are using bank checks, certified checks, money orders, or wire transfers to pay your bills or send money to relatives, once again you may find having a checking account will be a more cost effective option for accomplishing those tasks. This isn't to say there aren't fees associated with checking accounts. As a matter of fact, banks are finding more and more ways to charge consumers for the services they use. Just do your homework, and make sure you know the fees you will be responsible for.

You may periodically be required to pay for a purchase with a cashier's check or a bank check. This means you give the bank money and the bank writes a check drawn on its account to your designated party. This is a way of guaranteeing there is money to cover the check when it is presented for payment and the check won't bounce due to insufficient funds. It is not unusual for a bank check to be requested as down payment on a car, a home, or the first and last month's rent for your apartment.

Speaking of insufficient funds, you may want to consider setting up overdraft protection for your checking account (which is really a form of a loan). If there's not enough money in your checking account to pay a check when it is presented to the bank, the bank will lend you the amount needed to cover the check. But keep in mind, this can be a costly option, as interest is charged on the money the bank lends you until it is repaid. Please understand that overdraft protection is not meant as a way for you to buy something you want but don't have the cash on hand to pay for. Rather, think of it as a stop gap incase you can't get to the bank to make a deposit to cover the check you just wrote to pay a bill.

Additionally, you may want to look into the option of having your checking account tied to your savings account. In the event a check is presented for payment against your checking account and there isn't enough money in the account to pay the check, the bank will transfer the funds from your savings account to your checking account to satisfy payment. This may be a less costly alternative than overdraft protection, but again, check with your bank as to fees for this service.

One more thing you should know about your checking account before we move on is your right to stop payment on a check. Although you may want to use this as a way to settle a dispute with a vendor or a service provider, it is a tool better used to defend yourself against identity theft. Perhaps you wrote a check that has been outstanding for way too long. You might be worried the check got lost and will wind up in the wrong hands. You may also have had your wallet stolen (which had a couple of blank checks in it). Stopping payment on those checks will guarantee they won't be fraudulently cashed. Your bank should also provide you with a Deposit Account Agreement when you open your account. This will explain its policies regarding your particular account in terms of your liabilities as well as the bank's. Read it carefully.

REGULATIONS

Before we continue, there are some pieces of legislation (some specific to you and your bank accounts) that you may want to become familiar with. These were enacted to protect you. Some of these Acts are:

- **The Electronic Funds Transfer Act** – the EFTA was enacted to protect the consumer from errors in his/her bank accounts due to electronic transfers of funds. The EFTA also forbids any creditor or lender from requesting that loans be repaid via the electronic transfer of funds. For more information on the EFTA, please visit www.fdic.gov, where you will find the Act under FDIC Law, Regulation, and Related Acts.
- **The Truth in Savings Act** – The TSA requires full disclosure of interest rates and fees associated with bank accounts. This gives the consumer all the information needed to make the most informed decisions possible when comparing the products offered by various financial institutions. For more information on the Truth in Savings Act please visit www.fdic.gov where you will find the Act under FDIC Law, Regulation, Related Acts.
- **The Expedited Funds Availability Act** – This Act regulates the amount of time it takes for a check deposited into an individual's account to be treated as cash. Because the following items are issued by entities considered low risk to financial institutions, the checks issued by them are considered to be cash the day after the deposit has been made (this list may not be all inclusive): banks checks, certified checks, postal money orders, checks drawn on a Federal Reserve Bank or a Federal Home Loan Bank, checks issued by the US Government, or any municipality or state, and checks written from an account at the same financial institution where the check will be deposited. For more information on the Expedited Funds Availability Act please visit www.fdic.gov where you will find the Act under FDIC Law, Regulation, Related Acts.
- **Right to Financial Privacy Act** – This Act has been amended for the US Patriots Act. The US Patriots Act not only gives enforcement agencies the ability to search financial records, it also expands the authority of the Secretary of the Treasury to regulate financial transactions. Please visit www.fincen.gov for more information on the US Patriots Act.

INVESTING YOUR MONEY

One of the first things I'm going to ask you to think about before you invest your money is to think about your tolerance for risk. Every single one of us wants to see our money grow. We all want to wind up with more than we started with and not less. But how much risk are you willing to take? Are you willing to lose all your money? Or, are you looking for preservation of capital? Some options that may fit into your financial planning[9] are (in no particular order):

- **Money Market Accounts** – These accounts are a type of savings account and are usually offered by financial institutions. They may have many of the same characteristics of a money market mutual fund, yet offer many of the same services you would have with your checking account (although transactions may be more limited in scope). These are considered low risk accounts. There may also be minimum balance requirements. Money market accounts are typically offered by banks, but they can also be offered by the same companies that offer mutual funds.

[9] Investment Options Worksheet p. A-12

- **Certificate of Deposit** (CD) – With this type of account, your money is invested for a specific period of time at a fixed interest rate. You may be able to withdraw the interest on the account as it is earned or you may only have access to the interest when the CD matures. CDs may have a minimum balance requirement, typically charge fees and assess penalties for early withdrawal. Before putting money into a CD you may want to ask yourself what your needs for that money will be. Will you need it before the term of the CD expires or do you have other options for accessing cash if need be. CDs are also considered low risk accounts and are typically offered by banks.
- **Bonds** – These are basically IOUs issued by governments and/or corporations. A bond has a maturity date and usually pays a fixed interest rate. Bonds issued by the US government are backed by the full faith of the government. Bonds issued by corporations are backed by the full faith of the issuing corporation. However, if that corporation goes bankrupt, there is a very good chance you may lose your investment. Keep in mind that when purchasing a corporate bond, the higher the interest rates on the bond the riskier the investment. That is because investors want to be paid to take risk. So you see, knowing your tolerance for risk when buying bonds is very important. Government bonds can be bought directly from a Federal Reserve Bank, although, depending upon the dollar amount of the purchase, you may also be able to buy them through a brokerage firm. Corporate bonds can be purchased through a brokerage firm as well.

TIP: ***Never take investment advice from someone who is not properly licensed to give it.***

- **Stocks** – When you buy stock, you are buying ownership in that particular company. As with bonds, stocks can appreciate or depreciate in value. Some stocks may pay a dividend. Always keep in mind that just because a company pays a dividend today, there is no guarantee it will have the cash to pay the dividend tomorrow. Like corporate bonds, stocks can be bought through a brokerage firm. Just know your tolerance for risk before buying a single share. You are more likely to lose money by investing in the stock of a fly-by-night company than you are by purchasing stock in a company that has a long history of being in business.

TIP: ***No matter how much money you have, never invest money you can't afford to lose.***

- **Mutual Funds** – Buying a mutual fund is like buying a group of stocks and/or bonds. This is an easy way for an individual to participate in the stock or bond market without having to make bets on specific companies. The risk here is dependent upon the makeup of the funds' holdings; some funds may buy instruments that are riskier than others by nature. Mutual funds are managed by investment professionals and can be purchased directly from a mutual fund company or through a brokerage firm.
- **Money Market Mutual Fund** – This is a mutual fund which invests strictly in short term (with short term defined as maturing within one year) debt obligations such as Treasury bills, commercial paper, and CDs. The main goal of a money market fund is preservation of capital, by nature making them risk averse. Just like mutual funds, these can be purchased directly from a mutual fund company or through a brokerage firm. They are also professionally managed.

TIP: ***Like banks and credit unions, brokerage firms also offer insurance protection. This insurance is offered through the Savings Investor Protection Corporation (SIPC) and insures money on deposit that is lost to fraud or brokerage firm failure. Please go to*** **www.sipc.org** ***for more specific information.***

- **Annuities** – Created by insurance companies, annuities are designed to provide payment to a designated holder (either the owner of the annuity or the named beneficiary) on a certain date. Annuities can be funded with a flexible deposit plan or with a lump sum payment. Annuities can pay either a fixed or variable interest rate. The interest may be paid when earned or deferred to a later date. An annuity may have a death benefit, which would make it the perfect substitute for life insurance. Many individuals purchase annuities as part of their retirement planning investments. If you haven't already guessed, annuities can be very complicated. If you are interested in purchasing an annuity, you should seek the advice of a properly licensed insurance agent.

RETIREMENT PLANNING

Long gone are the days when the companies we worked for offered pension plans (company funded retirement accounts). Because of that, it makes it even more important than ever for you to start saving as soon as you can for your retirement. Give your money a chance to grow (tax free) for you. Tax-free growth means that neither the interest nor dividends your money earns, nor any profits you make on your investments get taxed (as long as the money is in a retirement fund). As a matter of fact, you do not have to pay taxes at all on retirement money until you start making permissible withdrawals from the account. You can start making these withdrawals (otherwise called distributions) from your retirement account at age $59^{1/2}$ without having to pay penalties. Minimum withdrawals, however, must begin by age $70^{1/2}$.

TIP: ***You may occasionally want to visit*** **www.irs.gov** ***to make sure there have been no changes to the retirement and distribution ages for retirement accounts.***

Many of the types of investments we discussed above are also well suited as investment vehicles for your retirement account. Risk tolerance was mentioned earlier, and it is an even more relevant concept when it concerns the investments you make in your retirement account. The further away you are from retirement age, the more apt you may be to take risks with investing that money (as the more anxious you'll be to see your money grow). But as you get closer to retiring you'll probably become more conservative with your investments, seeking to preserve the money you have and keep it as risk free as possible. No matter how you choose to invest your hard earned dollars, do your research, ask questions and make the most informed decisions you can.

As you plan for your contributions to your retirement account, you may want to check with an accountant to learn how much money you can set aside tax free. It's likely you will also want to learn how your retirement contributions will effect your year end tax situation.

For those of you who have been working and making payments to Social Security (you'll see those deductions on your payroll stub), we suggest you contact the Social Security Administration directly to receive a copy of your benefits statement. This statement will detail the contributions that have been made on your behalf as well as the benefits you (and your family) may be eligible for now as well as at a future date.

TIP: ***Visit* www.ssa.gov *to request your Social Security Benefits statement.***

INDIVIDUAL RETIREMENT ACCOUNTS (IRA)

Individual retirement accounts are accounts that enable one to save money for retirement either on a tax free, or after tax basis. There are two types of IRAs that you should be familiar with, Traditional and Roth.

- A Traditional IRA allows for money to be deposited into an account on a pre-tax basis.
- A Roth IRA allows for money to be put away on an after-tax basis.

TIP: ***You may want to go to www.irs.gov to look for the facts about and answers to your questions on retirement saving. You will also be able to find information here about need based early withdrawals and penalties.***

EMPLOYER SPONSORED PLANS

Whether you work for a for-profit company offering a 401-K plan, a nonprofit organization offering a 403-B or 401-K plan, or a state or local public employer offering a 457 plan, it would be beneficial for you to enroll in your company plan as soon as you are eligible. Your employer will have already chosen investment options for the company plan. You will be able to select your investment choices based upon those options.

TIP*: Employer sponsored retirement plans are like autopilot savings, the minute you turn them on your money starts to work for you.*

Putting your money to work can be complicated, but without having a plan to manage your finances, it may be virtually impossible to have *Financial Peace of Mind*. Not having a plan will impact your financial future and, more importantly, your retirement. You may want to involve your spouse, partner or other family members as you start to save, invest, and plan for your future.

Chapter 3 Review:

- What is savings?
- Discussion of financial institutions
- Discussion of regulations protecting the consumer
- Types of investments
- Retirement planning

Chapter 3 Review Exercises:

- Use the *Bank Account Comparison Worksheet* to compare banking accounts at various financial institutions.
- Use the *Investment Options Worksheet* to compare various investment options that you would make use of in your retirement planning.
- Go to www.ssa.gov to request a copy of your projected Social Security benefits.

NOTES

CHAPTER 4

UNDERSTANDING INSURANCE

In this chapter we will discuss the importance and explain the various types of insurance to help you protect your assets and your loved ones. This includes having insurance; both property and casualty insurance and life insurance. We will also talk about the importance of health insurance as it relates to protecting the most important asset you have, YOU!

When you called ACCC for help with your finances, one of our certified credit counselors went through your budget with you. They asked you if there were areas in your budget where you thought you could realistically cut back to save money. You may not have said this then, but one of the first thoughts you probably had was to cut back on your outstanding insurance policies. Understandably so as for most of us, insurance is something we pay for, but rarely make use of.

To quote one of the most knowledgeable individuals in the insurance industry I know, Jim Currie, CPCU (Chartered Property Casualty Underwriter), a Producer at Stanton Insurance in Massachusetts; "one hopes to go through life without having an unfortunate event or circumstance that requires you to utilize one of your insurance policies. If and when that time comes, you will never regret having bought adequate coverage to protect you and your family." Keeping that in mind, your decisions about insurance should be based on your current financial situation. Never buy insurance for losses you can afford. Make smart use of your hard earned dollars to buy insurance that will protect you against the losses you cannot afford.

PROPERTY AND CASUALTY INSURANCE

Property and casualty insurance is the category that homeowners, renters, umbrella, and automobile insurance fall under.

HOMEOWNER'S INSURANCE

Every individual who purchases a home must have homeowner's insurance. You can choose to pay your homeowner's premiums with your monthly mortgage payment and have the lender pay your insurance company directly, or you can make your payments directly to your insurance company.

Your home is probably the most valuable asset you will own. If your home and everything in it gets destroyed by fire, could you afford to replace it all? If you're like the rest of us, your answer is probably "No." For that reason, your homeowner's policy should always be up to date regarding improvements or additions to your home as well as major purchases for the home and all valuables contained in the home.

A standard homeowner's insurance policy will typically cover your physical home (insured for what it would cost to rebuild the home, not the market value) and your personal belongings[10] (which may be insured at either current

[10] Household Inventory Worksheet p. A-13

replacement value or actual cash value, meaning the depreciated value of the item), will offer some liability protection (to cover medical liability should someone get injured on your property) and will provide living expenses should you need to move out of your home due to a covered disaster (e.g. a fire).

It's a Sunday afternoon, and you're standing in front of your house talking to your neighbor about insurance. His house is almost identical to yours. In the course of conversation you learn you both use the same insurance company for your homeowners insurance, yet his premiums (the annual fee you pay to the insurance company for your policy) are much lower than yours are. There are many reasons this may occur. The premium you pay for your policy is not solely dependent upon the house itself:

- **Your credit score** – Insurance companies have conducted studies which point out that an individual with a good credit scores typically has good financial habits and is generally more responsible in other areas of his/her life, therefore filing fewer insurance claims. (The significance of credit scores will be discussed in greater detail in Part II)
- **History of claims** – The fewer claims one has filed the better an insurance risk that person is deemed to be, therefore being able to obtain lower premiums on one's insurance policy.
- **Home maintenance** – Theoretically, the better one's home is maintained, the lower the risk is of insurance claims being filed, leading to lower premiums.
- **Home construction** – Brick and masonry homes tend to be more fire resistant than other materials and are therefore usually less costly to insure.
- **Location of the home** – This takes into consideration the physical location of the home as it relates to the likelihood of your home being damaged by earthquakes, floods, or any other natural disasters. When speaking to a licensed insurance agent about what you need in a homeowner's policy, don't be afraid to ask questions. You may live in an area where damaging floods can occur quite frequently. Ask before signing on the dotted line if your policy covers flood damage. You don't want the surprise of finding out after your home has been damaged that you don't have the coverage you thought you did.

Now that you understand the need to have homeowner's insurance, here are some suggestions for ways you are able to reduce your insurance premiums:

- Increase the deductible on your policy. Carrying a higher deductible on your policy (deductible refers to what your out of pocket payment will be to the insurance company when you file a claim) will lower your premiums.
- Ask if your insurance company rewards its long term customers with strong payment histories by offering them lower premiums on their insurance policies.
- Check with your insurance company to see if they offer discounts for having items such as security systems, fire alarms, smoke detectors, carbon monoxide detectors, etc.
- Ask if your insurance company offers discounts for having multiple policies with them (an example would be homeowner's, automobile, and umbrella policies).
- Always shop around. You should get quotes from at least three agencies. But beware, the ad you see on television or on the Internet for a "Pick your own price, pick your own piece" insurance policy may not really provide you any coverage at all. Always compare apples to apples.

TIP: ***Take pictures or videos and keep an inventory of your home and all its contents. This will come in handy in the event you need to file a claim. Keep the pictures and a detailed inventory of all items you own along with purchase price (keep receipts when possible) of all the items in a safe, easily accessible location; perhaps at a friend's house, a safe deposit box in a bank or a fireproof safe at home.***

RENTER'S INSURANCE

This type of policy provides insurance protection for personal possessions and personal liability for those of you who rent an apartment or a house. It does not cover the structure you live in; that would be covered by the owner of the property.

AUTOMOBILE INSURANCE

Automobile insurance is really a package comprised of a variety of different coverage's. Minimum coverage requirements vary by state. The basic available coverage's are:

- **Liability coverage** – This covers property damage and bodily injury.
- **No fault coverage** – This will speed up payment to victims of car accidents as well as putting a cap on the number of lawsuits that one can file for minor claims. Also included here may be personal injury protection.
- **Collision coverage** – This will typically pay for damage to the car caused by a collision or rollover.
- **Comprehensive coverage** – This will pay for damages from events other than collision (e.g. fire, theft, vandalism).

Just as we saw with homeowner's insurance, there are factors that contribute to the premiums an individual will pay for their automobile policies. These include, but are not limited to:

- **Age** – Typically drivers 25 and younger pay higher premiums than those in the 26-65 age range. After 65, insurance rates start to creep back up.
- **Driving record** – As we saw with homeowner's insurance, the more claims an individual has filed the greater a risk they are for the insurance company, hence they will be subject to paying higher premiums.
- **Type of vehicle** – Certain cars are more prone to auto theft and vandalism, cost more to repair, and may even be more prone to accidents.

Again, as with homeowner's insurance, there are ways to get discounts on your automobile insurance premiums:

- **Restricted mileage** – This may be available if you drive a limited amount of miles per year.
- **Driver training classes** – Discounts may be available for taking approved driver education classes.
- **Equipment in the car** – Discounts may be available if your car has certain pieces of equipment, such as automatic seatbelts, airbags, or anti-theft systems.
- **Multi-vehicles** – If you have more than one vehicle insured through the company and they are garaged in the same location, you may qualify for lower premiums.
- **Bundling your insurance policies** – Again, discounts may be available for having more than one policy with an insurance company.
- **Always comparison shop!**

UMBRELLA INSURANCE

An umbrella policy provides the policyholder with liability coverage above what is provided through his/her homeowner and automobile policies. This type of policy kicks in after the liability limit on your other policies has been paid out. Is this worth the extra money? Keep in mind that should someone fall on your property and become critically injured, once your homeowner's policy has paid out you personally become financially liable for any balances still due. Should you find yourself in a lawsuit and not have the money to pay, a judge has the right to attach your current and future earnings. You may even be sued and could lose everything; including your home. Umbrella policies are typically not very costly and can go a long way in providing you with *Financial Peace of Mind*.

LIFE INSURANCE

Life insurance is a policy that you purchase from a life insurance company for a specific dollar amount. That amount then gets paid to the designated beneficiaries upon the policyholder's death. Proceeds from the policy can be used to pay for burial expenses, to pay off debt, as well as to provide income for anyone who is financially dependent on the policyholder (spouse, children, or anyone you financially support). This enables the beneficiaries to pay their basic living expenses including housing, utilities, food, transportation, and education for a short amount of time. Depending on the policy and the insurance company, there may be options as to how your beneficiaries receive this payment. Two of the most common payout choices are either a lump sum payment or the checkbook approach, where the money is put into an interest bearing account for the beneficiaries to make withdrawals.

There are two basic types of life insurance policies that most of us are familiar with, term life insurance and permanent life insurance. The differences are explained below. However, when shopping for life insurance, it is important to speak with a licensed insurance agent who can properly guide you and answer your questions as to what may be the most appropriate policy for you.

TERM LIFE INSURANCE

This type of policy insures your life for a specific dollar amount for a specific period of time. A term life insurance policy only pays the beneficiary if the holder of the policy dies within the term of the policy. For instance, Sam takes out a 20 year term life insurance policy and dies in year 15 of the policy. His wife Molly will receive the payout from the policy. There will be no value to this policy if policyholder, Sam, dies after the 20 year term of the policy expires. It is for this reason that a term life insurance policy is typically inexpensive to buy; they don't always pay out.

Level term is the most popular term life insurance policy. Neither the premium nor the coverage changes for the duration of the term of the policy.

PERMANENT LIFE INSURANCE

This type of policy combines benefits that are paid upon the policyholder's death with a cash value. "Cash value" means that a portion of the money you pay towards your premium goes into a cash value portion that grows and becomes available for your use after a certain period. The cash value portion of one's policy is typically used to pay the premium on the policy that increases as the policy holder ages.

The most popular type of permanent life insurance is the Whole Life policy. This policy doesn't need to be renewed, the premiums don't change and the policy remains in effect for the duration of the policyholder's life. The policy can be borrowed against, typically without specific repayment terms. If the loan isn't repaid before death, that amount will be deducted from the payout to the beneficiaries. A policyholder may also be able to cash in the policy, depending upon what has built up in the cash value portion.

HOW MUCH LIFE INSURANCE DOES ONE NEED?

There's no magical number, but it is recommended you have basic insurance coverage to take care of the immediate financial needs of your beneficiaries. Be careful not to become insurance poor and pay for a policy that will leave your beneficiaries more than they need. A good way to determine this number is to look at the budget you constructed in Chapter 2. How much income will your beneficiaries need to replace in the event of your death to pay the mortgage/rent, education, or just to survive? Keep in mind that at some point your beneficiaries will need to live within their means and find other income to replace the income that was lost.

> **TIP:** ***When your current financial situation improves (and it will as you are taking all the right steps to get back on track) you can revisit your insurance coverage and make adjustments as needed.***

As you enter different stages in your lives you should re-evaluate your life insurance policies. A single individual without financial dependents probably doesn't need life insurance, but if you have a family, or any relatives who depend on you financially then you should have insurance. Do you have young children? You may want to think about buying insurance for them to pay for their education or even burial costs and final medical expenses (you are asked again to think about losses you can't afford to pay). If your children are working adults living on their own, you may not want to provide for them as if they were little and still at home.

Now that you know all about insurance, how do you buy it? You've all heard the adage that the best advertising is word of mouth. Talk to your friends and people you respect. Is there an insurance company they've been using and really like? Do they have an agent to recommend to you? If not, then visit your state's department of insurance website to find an agent who is licensed in your area.

HEALTH INSURANCE

In 2010, President Barak Obama signed into law the Affordable Care Act. This Act effectively changes the healthcare system as we all knew it. There will be many changes to our healthcare system which should lower costs, guarantee more choices for us all and improve the quality of care we receive. The Act will be phased in over many years.

> **TIP:** ***For specifics of the Affordable Care Act, please visit*** **www.healthcare.gov.**

Because of the many changes to come regarding health care, we want to stress here the importance of coverage, the importance of knowing what you are covered for, and the importance of understanding your policies.

Hopefully all of you reading this are employed and have health insurance coverage through your employers. If that's the case and both you and your husband/wife/partner are employed and have health care coverage available through your employer, take the time to sit down and look over your policies and compare them carefully. Look to see whose policy provides better coverage and what the cost of that coverage is.

TIP: ***For information on Medicare (which is available to individuals 65 and older as well as individuals with certain disabilities), please visit the official government website,*** **www.medicare.gov.**

As you seek to protect your assets and your families from future financial stress, there are other types of insurance that you may want to take a closer look at.

LONG-TERM CARE INSURANCE

Long Term Care Insurance provides coverage if you are disabled or chronically ill for an extended period of time. Most health insurance and government programs do not provide this coverage. With long-term care insurance you can decide where you receive the services you are eligible for (i.e. in a nursing home or in your own home). Not all policies will provide the same coverage. Some things to check for are:

- The daily benefits that are provided;
- How long the benefit period lasts; and
- How long do you need to wait from the time you take out the policy until you can use it?

TIP: ***For information on Medicaid (which is available to individuals with limited incomes and resources), please visit*** **www.cms.gov.**

DISABILITY INSURANCE

Disability Insurance provides you with an income if you are unable to work due to an illness or an injury.
Many employers offer group disability insurance at little or no cost to employees.

TIP: ***Should you ever go out on disability insurance, you will be responsible for paying federal in come tax on some or all of the benefits if your employer pays for the plan.***

No matter if we're discussing property and casualty insurance, life insurance or medical insurance, always be sure to comparison shop for the policy best suited to your immediate needs. Policies can always be changed as your life situation, needs, and disposable income changes.

Chapter 4 Review

- Property and Casualty Insurance
- Health Insurance
- Long term Care Insurance

Chapter 4 Review Exercises

- Create a household inventory of valuable possessions that would need to be covered for a homeowner's insurance policy using the *Household Inventory Worksheet*.

NOTES

CHAPTER 5

MANAGING YOUR PURCHASES

Before we continue, I'd like to reflect for a moment and reiterate the importance of a tool you were given earlier. The tool of knowledge! Knowledge enables you to manage how cash flows in and out of your household, thereby helping you to create your budget. In time you'll grow more comfortable with cutting expenses when necessary, perhaps starting to save monthly, and most important, learning to unlearn any of the ineffective money habits you've accumulated over the years (no, you're not being picked on, we've all been there).

The other key concept I want to impart to you is that of managing your purchases. I'm not just referring to big ticket items such as homes, vacations, cars or college educations. Those are purchases you will undoubtedly need to map out and work into your financial goal planning. But you also need to be aware of the day to day items already included in your monthly budget that you may occasionally need more of; like food. How about that quiet home cooked Thanksgiving dinner for four that turned into a meal for 15? It's certainly a lot more food than you budgeted for, and much more expensive. And don't forget about that emergency visit to the dentist a couple of months ago. That could happen again at any time.

The point is, no matter how much we plan for the items we need and want, anything can happen to throw us off course. But there are options, and it's all about learning how to best manage them.

Although we have gone over many of the following topics in previous chapters, here is where we bring it all together in relation to items you may need or want to purchase. When thinking about your purchase, start by carefully reviewing the following:

- Your financial goals
- Your budget
- Your cash flow
- Your net worth
- Your accessibility to available credit

FINANCIAL GOALS

Having a time frame outlined for your purchase will help you prioritize your financial goals. Is it even possible to put a time frame on this purchase? Understandably not if it is an emergency, as in the toothache that caused your trip to the dentist, resulting in a root canal. If you have time on your side, however, think about your purchase in terms of your other needs and wants and *set priorities*. Perhaps the nature of the purchase is such that delaying it will allow you to save more money. For example, if it's your car that broke down and you want to buy a new (or used) one, can you borrow a car, carpool, or take public transportation until you have enough money saved? Use your financial goals to help guide you as you plan for your purchases.

BUDGET

This may also be a good time to review Chapter 2 on Budgeting. Your budget holds a lot of information you will need to look at as you prepare to make your purchase. First, reevaluate your current expenses to ensure they are your actual expenses. Are there any expenses you can eliminate from your budget to give you more money for your planned purchase? You may also want to consider how this purchase will influence your expenses. For example, a newer car could reduce your gas and repair expenses, but will certainly cost you more upfront. Also look at your current income. Has that changed since you prepared your last budget? But most important, your budget will have the answer to the following question: *Are you really prepared to make this purchase?* If the answer is no, then look to see what changes you can make so the item you need or want to purchase can become a reality.

CASH FLOW

Your completed household budget will show your cash flow. Hopefully you'll have positive cash flow, otherwise known as discretionary income. You can plug in numbers to see how the payments for your projected purchase will affect your free cash. This will give you a clear picture of your future financial needs and enable you to take another look at your income and expenses for each month and plan accordingly. You may also be able to account for seasonal fluctuations in your budget. Perhaps you know you have a tax refund coming to you in April. Can your purchase wait until then?

TIP: ***Don't allocate all of your discretionary income to your new purchase – you may need some of that extra money in the future.***

NET WORTH

It's also worth taking the time to (re)calculate your current net worth. This will help you identify any assets you can use to pay for your purchase or liabilities you may be able to reduce before you make the purchase. When you examine what you have and what you owe, you might decide to raise money by selling an asset (such as a second car) or to reduce expenses (such as paying off a loan) before moving ahead.

CREDIT

Although credit will be discussed in greater detail in the second part of *Financial Peace of Mind*, there is a good possibility you will need to access credit to make your purchase. In accessing credit, you will need to submit an application, be it an application for a loan or a credit card. The application will be approved based upon creditor review of your credit history and credit score. Naturally you want to be approved for the best interest rate possible. Some thoughts to always keep in mind to ensure your credit score is the best score you can have are:

- Always pay your bills on time, all the time;
- Always pay down on your credit card balances;
- Always limit your borrowing; and
- Always avoid opening unneeded lines of credit.

You may also want to take this opportunity to look over your credit report. This will give you the chance to correct any errors you find before the lender finds them. You can get a copy of your credit report and score from all three credit reporting agencies as mentioned in Chapter 7 and the Resource Page in the Appendix.

TIP: ***Your credit score is not included in your credit report. You will need to purchase that from one of the three credit reporting agencies***

If your credit needs improvement, now is the time to get to work. Correcting errors and/or increasing your credit score may possibly save you thousands of dollars over the life of a loan. The higher your credit score is, the better the rate you will obtain on the loan you seek. You may be interested to learn that the difference between a credit score of 650 and 720 could be as much as $62 per month; that can amount to over $2,000 in three years of making interest payments. Just think what you can do with that $2,000!

PURCHASING OPTIONS

Hopefully you will have options when it comes to paying for your purchase (other than a house, for example, for which most of us still need a mortgage). It would be ideal, though not always practical, to pay cash for as much as possible. Yet there are some very good reasons to use credit in the form of a credit card, charge card, or a loan. One thing about using credit (responsibly, that is) is it enables you to build credit. By making payments on time you are building a good credit history. The use of credit for a purchase enables you to keep a cash reserve on hand for use at a later date. Using credit also allows you to pay for an emergency purchase you may not have the cash on hand for at the time.

Using credit in the form of a credit card may also provide you with price protection and extended warranty options. But be smart about using your credit cards. Plan to pay the bill in full in the upcoming billing cycle. If you can't do that, try your best to make a better than minimum payment, but have a plan for when you will be able to pay the balance in full. To avoid a negative effect on your credit score, be sure to use less than 50% of your available credit limit, and yes, always use your credit wisely.

Now let's take a closer look at what some of your options for making your purchase are. We ask you to please keep in mind that these are not necessarily recommendations. It is our intent to give you as much information as possible to explain products and options that you may come across, so that ultimately, you can make the best decision for your own *Financial Peace of Mind*:

- **Credit cards** – Credit cards may come with high interest rates, fees and penalties for not making payments on time or in full. However, they do offer convenience. Before using a credit card for your purchase, make sure you have budgeted for the monthly payments and have a plan to pay off the debt.
- **Home equity loans** – With a home equity loan, your house becomes collateral for the loan. It can be risky though because if you miss a payment or two you risk losing your house. A home equity loan or line of credit is most appropriate when it is used for home improvements that will increase the value of your home. These loans often have lower interest rates than those offered with a personal loan and the interest may be tax deductible. Above all, never use a home equity loan or line of credit to treat your home like an ATM.

- **Retirement plans** – There is certain hardship situations for which you may be able to borrow money penalty free from your retirement plans (check with your accountant or visit www.irs.gov). Otherwise, you will have to pay penalties and taxes on any monies you withdraw prior to retirement. If you have a retirement plan set up through your employer, you may have the option of taking a loan against those funds. Keep in mind, however, this is your future you are borrowing against. If you use it now, what will you have later? One thing I really want to stress to you is to not use your retirement plan (or your home) to pay for a child's college education. Children have access to other financial sources to pay for college, such as…
    - **Student loans** – These loans can have low guaranteed interest rates, delayed payments, and tax deductible interest. This is not always true when you borrow against your home or retirement for education costs. There are loan products that both parents and children can apply for to pay for college education. For more information on college financial aid, visit the U.S. Department of Education at www.ed.gov.
- **Payday loans** – Otherwise known as cash advances, these may sound like an attractive way of taking out a small, short term loan, especially for borrowers who have poor credit and are unable to qualify for traditional loans. But don't be fooled. These types of loans are very costly. With an APR (Annual Percentage Rate) of 360% or higher and excessive fees, they are designed to perpetually keep borrowers in excessive debt. Many states have put interest rate caps on what payday lenders can charge. There are also many states that have banned payday lending altogether.
- **Title loans or car title loans** – These are generally small amount, short term loans with high interest rates. The title to your car is the collateral. Just like the home equity loan, if you miss your payment, the collateral (your car) can be repossessed.
- **Rent-to-own** – This type of loan is most often associated with the purchase of furniture. You make enough payments, and that sofa is yours. The financing can be very expensive, and once again, if you don't make your payments, the item you've been paying for can be repossessed.
- **Alternative loans** – The most commonly used alternative loan product is an interest only loan. This is a loan wherel, for a set amount of time, the only payment you make is the interest. It sounds appealing, but what happens when you need to start paying back the principle amount of the loan? It takes time and money until you are making payments to reduce the balance. You are servicing the debt by paying the interest.
- **Cash** – As mentioned earlier, cash is always a good place to start, but not always a practical payment option. There are certain items, however, that if you can pay cash for you should. A car is one of them. I know, you're thinking cars are way too expensive to pay cash, and if you do that, you'll never be able to afford anything more than a bicycle. Well, that is where financial goals and budgeting come into play. (And if you can't pay the entire purchase price with cash, put down as much as you can.)
  The main reason for using cash for this purchase is that a car depreciates very quickly, actually, as soon as you drive it off the lot. If you finance the car, you may very well find yourself paying more in finance charges than the car is actually worth. And if financing your car is really your only option, then do your best to budget to have the loan paid off before the car needs to be replaced.

- **Personal loan** – At one time, a personal loan given to you by your local financial institution (bank) was probably the best available way to borrow money. Unfortunately, we've seen that in hard economic times personal loans have become more and more difficult to obtain. But, an option I strongly urge you to look into is using your personal savings as collateral for a loan. Perhaps you have $3,000 on deposit at Bank XYZ. You may be able to present that money as collateral for your loan. It's a great way keep your money working for you while at the same time taking care of any emergency that might arise.

TIP: ***Here's an example (please note that all rates quoted are theoretical). Perhaps the money you have in the bank is earning 3%. Using your account as collateral, the bank will lend you money at 6%; effectively making the interest rate on your borrowed money 3%. Using your account as collateral is a wise use of your money. You can use your money in the bank as leverage to get the best rate you can AND your money is still working for you.***

THE PURCHASE

Before reaching into your pocket to pay for that item, ask yourself some important questions. Can this purchase wait? Is this item an impulse purchase? Is it something you've always just wanted, or is it something you really need? Don't fall prey to sales pressure. The item that's on the shelf today will be on the shelf tomorrow. If there's one thing I've seen time and time again in all my years with ACCC, it is that an item one thinks they can't live without today will be a distant memory tomorrow. And if the feeling that you need to have item XYZ hasn't vanished in a week or so, at least you will have the tools to understand how you will pay for it.

Anytime you spend more money than you normally would, you should make sure you have done all your research on the product. Put as much effort into learning about the product itself as you put thought into how it will be paid for. If you are purchasing a major appliance, have you looked at all the different brands to understand why some may be more expensive than others? If you have access to the Internet, you can go online and read reviews on the products you want to purchase. You can also read consumer reports, look for sales or discounts, and by all means, speak with family and friends who may have purchased similar items. Do you want to buy a new, used, or refurbished product? While used or refurbished products may come with some risk, you can minimize the risk by asking questions, trying out the product, understanding return and warranty policies, and evaluating the seller's reputation.

BUYING A HOME

For those of you whose purchase will be a home, this is likely not just the largest purchase you will make in your lifetime, but also the most complex by far. One of the most important things you can do when buying a home, especially your first home, is to attend a homebuyer education class. Contact your local HUD office to find an appropriate class. (And I am happy to let you know that for those of you who may live in the Boston, MA area, ACCC is an approved HUD housing counseling agency).

The basic steps of home-buying are:

1. Knowing how much you can afford
2. Knowing your rights
3. Shopping for a loan
4. Attending a home buying program
5. Shopping for a home
6. Making an offer
7. Holding a home inspection
8. Getting homeowner's insurance
9. Closing the loan

Learning as much as you can about the home buying process before you take the plunge will make your life a lot easier in the long run. Understanding the various available mortgage loan products will help you to become a wise consumer. Don't be sold on a mortgage you don't understand and never be afraid to ask questions. Bear in mind that not only is it important to budget for the mortgage payments, insurance, and taxes, you'll also want to have money in the budget for decorating your new home.

There are two aspects to managing any purchase: reviewing your overall financial status and making the purchase itself. Depending on the type of purchase, how you handle each one will be different. Always be sure to review your goals and budgets and to update them for changes that have occurred. You should also use your cash flow predictions to take into account good and bad future financial changes. Your purchase may also require maintenance and/or preventive care. Make sure your budget and savings will cover maintenance, preventive, and replacement costs when they are required.

Chapter 5 Review:

- Preparing your finances for a purchase
- Making your purchase
- Paying for your purchase

Chapter 5 Review Exercises:

- Identify a major purchase you expect to make in the next 5 years.
- Review and update your *Financial Goals Worksheet* (SMART) to reflect this purchase.

NOTES

PART II

CREDIT AND FINANCIAL PEACE OF MIND

INTRODUCTION TO PART II

CREDIT AND FINANCIAL PEACE OF MIND

In Part II we will discuss topics that are near and dear to my heart…credit, credit scores, obtaining credit, maintaining credit, and using credit.

As President and CEO of ACCC it is my job and responsibility to be financially and fiscally conscientious both in and out of the organization. And it is my job to ensure my knowledge is passed along to you so that you too can be fiscally responsible. Obtaining and maintaining one's credit are an enormous part of this responsibility and are instrumental to one's *Financial Peace of Mind*.

For years it seemed that credit grew on trees. It appeared to be that no matter what one's credit score was, credit was readily available and easy to obtain. Credit card offerings were mailed by the dozens to consumers. Some of you may have filled out every application that made its way to your mailbox. Others of you may have thrown out the offerings the moment you saw them. Whichever camp you are in, I need to stress that having credit is instrumental to who you are and to how you conduct the financial peace of your life.

The economic crisis that started in 2007 changed everything. Credit dried up. No longer was credit available to everyone and anyone who wanted it. Those who just a few years earlier had easy access to credit are now being scrutinized by banks and creditors to obtain what was once almost thought by all to be a constitutional right to obtain credit.

Let me relay a story to you about something that in my wildest dreams I never thought I would experience at this stage in my financial life. And I say "this stage" in my financial life because there was a period of time when I too experienced personal financial setbacks. At one time, I would have been my agency's ideal client.

It was late 2009. The drop in interest rates in the home mortgage market made me eager to refinance my mortgage (ultimately enabling me to lower my interest rate from 7% to 4.9%). Given my position as President and CEO of a national consumer credit counseling agency, coupled with my long standing relationship with my bank, I didn't think twice about what paperwork I would need to show in order to refinance my mortgage. I really thought I could call my banker, tell him what I wanted to do, and it would be taken care of.

Well, it wasn't quite that easy. As a matter of fact, it took longer than anticipated. I needed to present more documentation for my refinancing than I did when I originally took out my mortgage. I could see how the economic crisis effected lending institutions and their loan making process.

The first thing my bank did was pull my credit score. That would dictate everything from whether or not my application to refinance my mortgage would be approved to the rate and term of the new mortgage. Next, the bank needed verification of my employment and then copies of bank statements. Not only did the bank check on these items when I first submitted my application, but everything was re-checked the day before I closed on the refinancing. This was to ensure my financial situation hadn't changed. Lax lending practices are a thing of the past and have been replaced by banks doing greater due diligence on their loans than ever before.

This was an incredibly humbling experience for me. I worked long and hard both professionally and personally to get my credit score where it is today. This experience makes me want to pound the table even harder to stress to you that a good credit score is one of the best gifts you can give yourself.

The days of being irresponsible with credit and being able to continually obtain credit are gone, possibly forever. Part II of *Financial Peace of Mind* will teach you about credit, what it is, and how to use it. We'll discuss credit reports and one of my favorite topics, credit scores and how to get the credit score you want and need in order to have access to credit.

Right now (and this holds true for every single one of you) your creditors know who you are. They know when to expect their payments from you, they know how much they'll be getting, and how long before you'll have paid them in full. Wouldn't it be nice to be anonymous to your creditors or to know they have no reason to be looking for you and your money? Once your credit score is where you want it to be (which I hope will be 700 or higher), your creditors will forget all about you until you once again want to borrow money. By then, however, creditors will no longer be hesitant to lend to you thanks to your much improved credit score.

There's an old saying; "When the student is ready, the teacher appears." Here we are, let's get started.

CHAPTER 6

UNDERSTANDING CREDIT

There are many individuals who believe it is best not to have any outstanding debt or to not use credit at all. Given your current situation, you may feel the same way. But that's not the case. The goal with credit is to understand what it is and how you can use it most effectively to have the life you want to live.

Some of you may have called ACCC for help with your monthly budget; some of you may have enrolled in a Debt Management Plan to pay off your outstanding debt and others may just be curious as to your options to get back on the road to financial well-being. Regardless of why you have called, or why you are reading this book, our goal is to work with you to get you as close to debt free as possible. However, it is not conceivable to think you'll stay that way; nor is it practical. Just make sure your use of credit is kept to a level that is manageable and fits into the allowances you made in your monthly budget.

TIP: ***Once used, credit becomes debt. There is good debt, which is used to improve one's quality of life (e.g. college education) and bad debt (e.g. a $50 dinner that never got paid off and is now $75 including interest and late fees).***

As you go forward with your financial lives, we want to give you as much information as possible so that you can make the best choices for yourself. Chapter 6 will cover what credit is, how credit is granted, the different types of available credit as well as your rights as a consumer surrounding credit.

WHAT IS CREDIT?

Credit is an amount of money that is made available to you, the consumer. Once credit is used it becomes debt and needs to be repaid within a specified period of time. Interest is charged to the consumer on the amount of money borrowed. Credit allows consumers to purchase items and services today and pay for them at a later date. Without credit it would be very hard to obtain the things we need and want like education, a home, transportation, or a vacation.

GETTING CREDIT

A creditor (also called a lender) is typically a financial institution that grants credit to the consumer. Before granting credit the creditor needs to know that the money lent will be repaid in a timely manner. Lenders evaluate a consumer's credit worthiness[11] and ability to pay based on the Five C's of Credit: character, capacity, collateral, capital and condition. If a consumer meets the lender's criteria, then credit will be granted. Let's take a look at the Five C's of Credit so you can get a better understanding of how this process works.

[11] Credit Worthiness Worksheet p. A-15

THE 5 C'S OF CREDIT

Character – When an application for credit is received, the creditor will evaluate the borrower's character, or integrity. This evaluation is based upon the information in the borrower's credit report (credit reports will be discussed further in Chapter 7), which includes repayment history on outstanding debts, the amount of debt currently owed, and how many years one has been using credit. A creditor may also consider other factors when looking at character, such as one's banking history, employment history, and/or housing history.

A quick way for a creditor to determine the borrower's character is to look at his/her debt to income ratio[12]. This represents the percentage of one's monthly gross income that goes towards paying debts, which typically include housing costs and insurance as well as recurring debts such as credit cards payments, car payments, alimony, etc. Keep in mind that every month you pay down your debt, your debt to income ratio (as long as you don't incur new debt in its place) will be reduced. You can also reduce your debt to income ratio by increasing your monthly gross income.

TIP: ***The best way to convince creditors of your good character is to pay bills on time, keep accounts with lengthy and good histories open, and use no more than 50% of your credit limit.***

Capacity – Creditors also look at the borrower's capacity to repay loans. Does the borrower have enough disposable income to cover the payments? If you remember, disposable income was discussed in Chapter 2; it is the money that remains at the end of the month after all your bills and living expenses have been paid. If your disposable income isn't sufficient to cover the monthly debt payment, it is unlikely the creditor will approve your credit application.

TIP: ***KEEP YOUR DEBT-TO-INCOME RATIO BELOW 36%***
Monthly debt payments ÷ Monthly gross income = Debt to Income Ratio

Collateral – Creditors take a risk of nonpayment when they lend money to consumers. To reduce this risk, creditors will sometimes ask for collateral. Collateral is an asset used to guarantee repayment of the loan, or in other words, to secure the loan. Collateral can be a savings account, an automobile, real estate, or other property you own that has monetary value. In the event a borrower is unable to repay his/her loan the creditor can seize the collateral pledged for the loan as repayment.

A good example of this would be a home equity loan where one's home is presented as the collateral. Not repaying a loan puts the collateral backing the loan at risk of being repossessed by the lender to satisfy the loan.

TIP: ***Always think twice before offering any personal asset as collateral, especially the one you live in.***

Capital – When creditors refer to capital, they are referring to net worth, or wealth in terms of monetary assets. If you remember, net worth is calculated by subtracting your total liabilities from your total assets. Having a high

[12] Debt to Income Worksheet p. A-16

net worth shows the creditors that building your assets was important to you and that you can manage your finances better than someone who has a lesser net worth. In the eyes of the creditor, this makes the individual with the higher net worth a better credit risk and more apt to repay his/her debts.

TIP: ***Increase your net worth by paying down debts. The more your assets exceed your liabilities, the greater your net worth is. Total assets – Total liabilities = Net worth***

Condition - This is the last "C" that creditors review. Condition is how the borrower intends to use the loan. Will the money be targeted for college tuition or a new pool table? Condition also refers to the financial stability of your employer, the industry outlook for the company, as well as current economic conditions and how they may ultimately affect the borrower's ability to repay the loan.

DIFFERENT TYPES OF CREDIT

Let's start by understanding the two basic types of credit, secured and unsecured. Each form of credit comes with different costs, risks, and terms. Understanding what the differences are will help you make the wisest choices you can.

SECURED CREDIT

Secured credit is backed by the pledging of an asset (collateral) to guarantee that the loan will be repaid. If the loan isn't repaid, the collateral may be repossessed. A good example of secured credit is a mortgage, which is a loan backed by the home that is being purchased. If the consumer fails to make the mortgage payments, the home will eventually be foreclosed upon, with the bank taking the collateral. Other examples of secured credit are equity lines of credit, equity loans, car loans, passbook savings loans, secured credit cards (a secured credit card is one that is attached to one's personal savings account of usually lesser value than the loan) and even a mobile home loan.

UNSECURED CREDIT

Unsecured credit is just the opposite of secured credit. There is no pledging of collateral to back an unsecured loan. An example of this is your bank issued credit card. If you fail to make your monthly payment, there is no collateral for the creditor to repossess. It is for this reason that interest charged on unsecured credit generally has a higher interest rate than money borrowed under a secured loan. A creditor's only recourse is to often pursue legal action to recoup these monies. Other examples of unsecured credit are store charge cards, medical, personal, and student loans.

After deciding upon secured or unsecured credit, you still have more choices to make. Do you want a revolving credit line or do you want an installment loan?

REVOLVING CREDIT

A revolving credit line is a specific dollar amount of credit made available from a financial institution to the borrower. This line of credit can be accessed at any time. Once money borrowed is repaid, it can be borrowed again. Because revolving lines of credit are typically not backed by collateral, there may be a higher interest rate charged than on an installment loan. There are no fixed repayment schedules; you can pay part or all of your balance at the end of any billing cycle. Examples of revolving credit include, but may not be limited to, credit cards (both secured and unsecured), equity lines of credit (which are secured), charge cards, personal loans, and even overdraft protection on your checking account.

INSTALLMENT CREDIT

Installment credit is a loan that is used for a specific purpose and has defined repayments terms. The monthly payment is based on interest, finance charges, and the principal amount of the loan. Unlike revolving credit, when the loan is paid off it is paid off. How many of you remember mortgage burning parties? Examples of installment loans include a mortgage, a car loan, a passbook loan, and a student loan.

> **TIP:** ***The principal amount of the loan is the total sum of money owed on which interest payments are calculated.***

UTILITY CREDIT

Utility credit is an often overlooked form of credit. This type of credit is issued by utility companies for services that you access before you pay for them. Depending upon your credit history and whether or not you are a new customer, the utility service provider may require a deposit from you before service is initiated.

Cable TV providers are a good example of this. I was recently in line at the local office of my cable TV service provider to exchange my cable box. The representative at the counter was having a hard time with a customer who apparently was trying to open a new account. The customer had her service turned off months ago due to not paying her bills. The representative at the counter informed the customer that she would need to give a down payment for her cable box, something I never had to do, but something this particular cable company requires from customers with bad payment histories.

> **TIP:** ***Many of your service providers will be glad to set you up on a monthly fixed budget plan based on your usage history.***

TYPES OF LOANS

When accessing credit, you will also find you have choices as to the type of loans you can choose from. These options will most often present themselves when looking for a mortgage, but none the less, they are important choices to know about.

FIXED RATE LOAN

A fixed rate loan is one which carries a fixed interest rate for the term of the loan. Most commonly associated with mortgages, knowing what the monthly payments are will make it easier to budget for this expense. If you think interest rates are headed higher, a fixed rate loan is a great way to lock in interest rates before they rise.

ADJUSTABLE RATE LOAN

Just the opposite of a fixed rate loan is an adjustable rate loan. Again, most commonly associated with mortgages, these loans are commonly referred to as ARM's (adjustable rate mortgage), these loans were initially offered to first time homebuyers to give them easy access to mortgages. ARM's typically have low down payment requirements and low teaser interest rates. ARM's have also been used by consumers making bets that interest rates would go lower over time, giving them the ability to lock in a lower rate later on. Unfortunately, history has shown that not to have been the case, with rates more often rising than going lower. The fact that an ARM readjusts periodically can make it difficult to budget for the monthly payment.

Credit can be a real catch-22. Often you need credit to get credit (this will be discussed further in the following chapters). Having access to credit can help us achieve some of our financial goals, such as buying our dream home or going to college. However, having credit makes using credit very easy and should be carefully monitored.

You have many choices when deciding what type of credit is best for your needs. Understanding the different types of credit will help you make the wisest choices you can.

Used properly, credit can be a powerful tool for building wealth. It can give you access to goods and services you may not have otherwise, as well as giving you *Financial Peace of Mind*.

Chapter 6 Review:

- What is credit?
- The Five C's of Credit
- Types of credit
- Equal Credit Opportunity Act

Chapter 6 Review Exercises:

- For each of the Five C's of credit, assess your current creditworthiness
- For each of the Five C's of credit, identify plans for improving your creditworthiness

NOTES

CHAPTER 7

CREDIT REPORTS AND SCORES

In Chapter 6 we talked about what credit is and how to obtain it. In this chapter we will explain credit reports and discuss the importance of credit scores.

First, we will discuss the role of the credit bureau followed by the information contained in a credit report. Most importantly, we will talk about your credit scores, what it is, what it means, and why you need to devote time and energy to improving it. And let's not forget identity theft! What is it, and how can you best protect yourself?

TIP: ***Reviewing your credit report annually is a good way to monitor whether or not you have been a victim of identity theft.***

Given today's economic climate and the challenges that lie ahead, it is critical that you know what your credit score is and that you work to consciously improve it.

Although it's been said that one's credit is not as good as one's money, your goal should be to have your credit be better than cash. You should be in a position to turn down a credit card offer, not the other way around.

Your success in managing credit is reflected in your credit report[13] and score. A credit report lists your current use of credit as well as giving a detailed history of how you used credit in the past.

A credit score is the mathematical representation of the information in your credit report. Although it's just a number, that number will affect not only your ability to acquire credit as well as the terms you are given. The number can also affect your ability to rent an apartment, buy a home or a car, get a job you are well qualified for, or even obtain a cell phone plan.

CREDIT BUREAUS

Let's get started with the three main credit bureaus: Experian®, TransUnion® and Equifax®. They collect and maintain financial information and consumer identification about you, the consumer. They are for-profit companies and are not associated with any government agency or financial institution. Not all creditors report to all three credit bureaus. As a result, your credit report, and therefore your credit score will differ amongst each of the bureaus.

TIP: ***Contact information for each of the credit bureaus can be found in the resource page in the back of the book.***

[13] See sample credit report provided by Experian® p. A-17

CREDIT REPORTS

A credit report is a record of an individual's borrowing and repayment histories. A credit report contains financial information and identifying information about you. This can include:

- Payment history - collections including IRS, medical, child support, mortgages, loans, credit cards, leases, lines of credit, and student loans
- Identifying information - given name, any aliases used, current and past addresses, marital status, date of birth, and sometimes employment history
- Public records - judgments, bankruptcy, and criminal records
- Credit inquiries - both personal inquiries and inquiries from lenders
- Creditor contact information - phone numbers and addresses for all current and former lenders

The information that appears in your credit report comes from the credit bureaus. They collect information about your credit history from your creditors. Your history is created when you apply for credit or purchase items on credit. Credit bureaus also collect information through other sources, such as mortgage lenders or state and federal courts (where public records are maintained). All this information is kept in your credit file.

It is easier now than ever for you to get a copy of your credit report. One term of the Fair Credit Reporting Act (FCRA) entitles you to obtain one free credit report a year from each of the three credit bureaus. You can obtain your free report by visiting *www.annualcreditreport.com*[14], or by calling 1-877-322-8228.

TIP: www.annualcreditreport.com *is the only free credit report service promoted by the Federal Trade Commission (FTC), and is used by all three credit bureaus to comply with the FCRA. Please note that credit scores are not provided with your free credit report. You will need to obtain your score separately.*

Some states allow consumers a second free credit report every year. To find out if this is offered by the state you live in, contact your State Consumer Affairs Department. There are also special circumstances under which you are entitled to an additional free report. These include:

- Having been denied employment due to poor credit
- Having been denied credit due to information in your credit file
- Having been a victim of identity theft
- Having been denied insurance
- Having been denied services, such as utilities
- Having been denied government licensure or benefit
- Being unemployed and seeking employment within the next 60 days
- Receiving public welfare assistance
- Having been denied housing

[14] Annual Credit Report Request Form p. A-21

CREDIT INQUIRIES

When you apply for a loan, or any type of credit, the creditor will likely obtain a copy of your credit report. Creditors can buy the pieces of your credit report they need Some may only purchase your identifying information and credit score while others may purchase public financial records, payment history, and credit inquiries. Otherwise, all information is available to creditors with permissible purposes as defined by the FCRA. Permissible purposes that require your authorization include credit transactions (i.e. when you apply for a loan or line of credit) and legitimate business needs, as requested by (this is not an all inclusive list):

- Potential grantors of credit,
- Landlords,
- Employers, both potential and current,
- Child support enforcement,
- Existing creditors, and
- Government agencies.

TIP: ***Contact 888-5-OPT-OUT to stop creditors from sending you pre-approved credit offers.***

Two of the most common types of credit inquires to be aware of are soft inquiries and hard inquiries. A soft inquiry is one that does not show intent to borrow money and will not affect your credit score. These inquiries are usually initiated by the consumer, or by a bank that wants to send you a prequalification letter for a loan or credit card. Another example of soft inquiry is when a current lender pulls your credit report to get updated information on you. This is done to ensure that your condition hasn't changed (remember the Five C's of Credit) and that you are still a good risk for the lender.

A hard inquiry represents the intent to borrow money and will affect your credit score. Hard inquiries occur when applications for credit are filed with a creditor (this can include a department store card,cell phone, or mortgage application). Hard inquiries count as 10% of your credit score, which means that they will have a minimal affect on your score.

TIP: ***Always remember that pulling your own credit report has no effect on your credit score.***

UNDERSTANDING YOUR CREDIT REPORT

Credit reports can be very difficult to understand. The reports contain information specific to the data collected by the particular credit bureau. Therefore, each of the three reports will likely have different information.
By reviewing all three credit reports, you can see your entire credit history.

TIP: ***Mortgage lenders look at a report called a 3-in-1 report. It is a comprehensive up-to-date look at your entire credit history. You can purchase a similar report from any of the three credit bureaus.***

CORRECTING CREDIT REPORT ERRORS

As careful as people are, errors can be found in credit reports. Credit report errors happen for a variety of reasons, including:

- Submission of incomplete credit applications
- Clerical errors having been made in entering a consumer's social security number, name, and/or address
- Having information missing from one's file
- Using different names in credit applications
- Being mistaken for an individual who has the same name you do. This happens frequently in families where there may be generations of the individuals with the same names.

If you find an error, report it to the credit bureau as soon as possible. You can obtain information on how to dispute errors by visiting the credit bureaus websites.

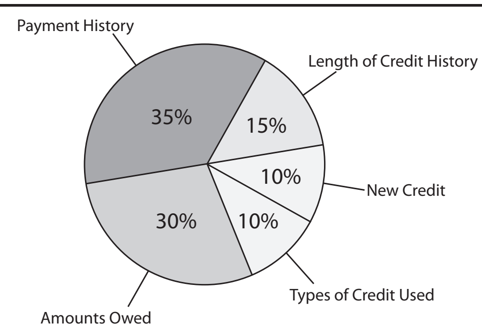
CREDIT SCORES

I don't think I'll ever be able to say this often enough. Your credit score is one of the most meaningful pieces of financial information you can have. There isn't a lending institution that you can think of that will give you a loan or a credit card today without first looking at your credit score. And if your credit score isn't good (meaning 620 or better), you very well may not qualify for that personal loan, credit card, or mortgage. As was said earlier, your credit score can even affect your ability to rent an apartment, get a job, or get cell phone service.

In the Introduction to Part II I relayed the experience I had refinancing my mortgage. That experience reinforced to me how much our credit scores matter. Some may say it's just a number like your age, which is mind over matter. If you don't mind, it doesn't matter. But it isn't. Your credit score DOES matter! It defines you. And although your credit score controls what you can do today, you can change that number so you can control what it does for you tomorrow. An improved credit score can lead to better interest rates and terms on your credit cards, can make you eligible for lower interest rates on loans, can speed up credit approval, and as mentioned in Chapter 4, can help you get lower premiums on various types of insurance policies.

The credit score you will see most often is referred to as the FICO score, which was created by the Fair Isaac Corporation. Your credit score is a snapshot of your credit risk at a particular point in time. The higher your score, the less of a risk you pose to the lender. The FICO Scoring System calculates scores by percentages in five categories. The percentages in Figure 4 reflect the importance of each category in determining your FICO score:

FIGURE 4



Your credit score helps a lender determine whether or not you are a good credit risk – will you make your payments on time? Again, the higher your score, the less risk you are to the creditor. Lenders continue to look at your credit score even after you have obtained credit. They will use your score to make decisions as to whether or not they should change your interest rate on your charge cards, or if they should increase or decrease your credit limit.

In 2008, Fair Isaac made some changes to their credit scoring formula to allow them to better predict a consumer's likelihood of defaulting. Creditors asked for these changes so they could better monitor the amount of risk they have in their consumer loan portfolios.

Credit scoring is now a little more forgiving to borrowers who are behind on just one of their accounts, while maintaining excellent payment history on their other accounts. FICO 08 (as it is referred to) also allows for notes to be made regarding individuals who are just starting to build their credit and don't have a lengthy history of payments.

On most scales, credit scores range from 300-850 (see Figure 5). By law, if a credit bureau gives you an imperfect credit rating, it must provide reasons for that rating. Common reasons include:

- Not enough recent activity
- Too many inquiries
- Very high debt balances
- Accounts that have gone to collection
- A history of late payments

FIGURE 5
Credit Score Range:

- **700 and 850 – Very good or excellent credit score**
- **680 and 699 – Good credit score**
- **620 and 679 – Average or OK score**
- **580 and 619 – Low credit score**
- **500 and 579 – Poor credit score**
- **300 and 499 – Bad credit score**

TIP: ***Because each of the three credit bureaus uses different software to calculate credit scores, a consumer may not have the same credit score from each of the credit bureaus.***

IMPROVING YOUR CREDIT SCORE

Your credit score can determine how successful you will be in life. You know that without a good credit score you very well may not get that desirable job or buy your dream home. You put significant effort into giving yourself the best life you can, and your credit score is a big part of doing that. You should put extra effort into working to improve your credit score. Pick a number you want your credit score to be and you will see that with perseverance, focus, and diligence, you can get there.

And if I may interject a few words of advice; please don't pay attention to any advertisement claiming to be able to fix your credit report or to any individual or organization claiming to be able to repair your credit score. Only you, with hard work, proper use of credit and time can do that.

The day will come when you will once again look to get credit. How can you make sure you can get credit? How do you rebuild your credit score? Here are some suggestions:

- **Pay your bills on time** – Delinquent payments and collections can have a major negative impact on your score. Paying your bills on time accounts for 35% of your credit score.
- **Pay down balances** – Paying down your balances reduces your outstanding debt. It is suggested that you keep your balances within 50% of your credit limit. This will positively impact your credit score by 30%.
- **Only access credit as needed** – When you access new credit, whether it's a department store card, bank loan, or a credit card, inquiries will appear on your credit report. Inquiries count as 10% of your credit score-enough to prevent you from irresponsibly accessing credit, but low enough to allow you to obtain credit when needed.
- **Pay off your credit card bills on a monthly basis** – Don't transfer money from one credit card to pay off another. If you can't pay your bills then perhaps you should hold off using your credit cards until you are back on your feet financially.
- **Don't close unused credit card accounts** – Many people think that closing accounts they no longer use is a good thing but not necessarily. Creditors will look at your total amount of outstanding debt vs. how many credit cards you have. For example, you may have five credit cards with $5,000 in outstanding debt. One of those cards still has an unused credit line of $3,000. You decide the wise thing to do is close the card with the unused credit line, but perhaps that's not so smart. The next time a lender pulls your credit report that available $3,000 line of credit won't be there, making the lender think you used it when in effect you voluntarily closed the account.
- **Open a savings or checking account** – Your ability to save and to write checks shows the responsible use of money.

TIP: ***Work with your creditors so that the payment dates on your bills correspond with the date your paycheck gets deposited into your checking account.***

IDENTITY THEFT

One of the most important reasons to check your credit reports is to be on notice for signs of identity theft. Identity theft happens when your personal identifying information (your social security number, your name, or your credit card number) is stolen and used to commit fraud. Believe it or not, identity theft is not always committed by a stranger. Studies have shown that identity theft is frequently committed by a family member.

Identity theft can happen in many ways. Someone may rent an apartment in your name, establish a cell phone account, or even get a credit card. You may suddenly get a credit card statement for an account you know you didn't open, or you may get a phone call from a collection agency for bills gone unpaid. Careful monitoring of your credit reports will help you spot any fraudulent activity.

We don't want to make you paranoid about your use of credit or your own personal information, but if you pay attention to the following ways identity theft can happen, you may find yourself feeling less vulnerable and more capable to protect yourself. Here are some common identity theft techniques:

- **Dumpster Diving** – Always shred any papers with account numbers (including personal checks) or personal identifying information before throwing them in the garbage. Identity thieves will rummage through the trash looking for this information.
- **Skimming** – Credit/debit card numbers are stolen by the use of a special storage device when your credit card payment is being processed.
- **Phishing** – You get emails or phone calls from "financial institutions" asking you to reveal your personal information. Never give that information to any unknown entity.
- **Changing Your Address** – Never fill in a change of address form asked for by a company/individual you do not recognize. This is a way for a thief to get your information.
- **Stealing** – Having one's wallet or purse stolen is a sure fire way of having your identity misused. Contact your creditors and your bank the minute your credit cards/bank cards/blank checks are no longer in your possession.
- **Pretexting** – How many of you receive emails claiming you are the heir to a new found fortune? Or how about the one from the FBI that I just got; by sending $975 I would get a pre paid credit card with a $275,000 value. Not a bad deal, right? WRONG… If it sounds too good to be true, you can bet it is. These scams will ask for your personal information, and usually a bank account. Hit the delete button on your keyboard as fast as you can.

This isn't to say that you can't take steps on your own to protect your identity. Quite the contrary. Here are some suggestions for protecting yourself before you even see signs that you may have been victimized:

- Don't sign the back of your credit card. Instead, write "photo id required." After all, is there really someone out there with your identical face and name? Unfortunately, this won't help if a thief is using your credit card for online, telephone, or mail order purchases.
- When paying a credit card bill by check, only put the last four digits of the card number in the "For" line. The credit card company has the entire number. If that check falls into the wrong hands, it will be harder, if not impossible, for that person to obtain your credit card number.
- Don't print your address or phone number (and certainly not your social security number) on your check. The less information you provide to a potential thief, the harder you make the theft for him/her. You can always write that information on your check if it is requested.

If you are particularly worried about identity theft, we recommend you place a fraud alert on your account with the credit bureaus. This will allow the credit bureau to notify you regarding any new activity on your account.

Should you discover that you have in fact been a victim of identity theft, you will need to take the following steps as quickly as possible:

- File an Identity Theft Report with the local police department. This report can provide legal rights to you if it is sent to the three major credit bureaus as well as to the appropriate credit card issuer/lender.
- Call all three credit bureaus to report the theft (see page A-25 in the Appendix).
- Call the Social Security Administration fraud line at 1-800-269-0271.

TIP: ***You may want to keep copies of everything that is in your wallet so that you will always have contact information and phone numbers handy.***

Knowledge is power, especially when knowing how to best defend yourself against identity theft and how to handle it if you are a victim.

It was said earlier and it is worth repeating, a good credit score is one of the best gifts you can give yourself. Take the time now to perfect it. I know it will pay off in the future.

Chapter 7 Review

- What is a credit report?
- Who can access your credit report?
- How to get your credit report and score
- Understanding your credit report
- Understanding your credit score
- How to improve your credit
- How identity theft can occur
- How to protect yourself from identity theft

Chapter 7 Review Exercises:

- Visit *www.annualcreditreport.com* and obtain at least one credit report from each of the 3 credit bureaus annually.
- Review your credit report for errors and report any erroneous information.

NOTES

CHAPTER 8

RESPONSIBLE USE OF CREDIT

Although there have been numerous discussions about credit throughout *Financial Peace of Mind*, we really haven't addressed using credit once you have it. Although cash will always be king, the world we live in dictates there will be times it will make sense to use credit. And as we said earlier, it would be totally impractical to think that none of us will ever use credit again.

We live in a society where many believe immediate gratification is a given right. We see something advertised on TV, we read an ad in the newspaper, or we hear our friends talk about the latest gadget, and then we want the same things. It's human nature, I suppose. Few of us want to save to buy the newest "it" of the moment. We want it and we want it NOW!

If nothing else, we want to impress upon you that using credit is not to be taken lightly. Whether you are taking out a loan or using a credit card, the credit you use is not a get out of jail free card. This chapter will discuss the importance of using credit wisely, no matter the type of credit (loan or credit card) or the dollar amount of your purchase.

YOUR OPTIONS FOR CREDIT

Not to sound like a broken record, but we all know how difficult it can be to live in our society without having access to credit; whether it is in the form of a loan or a credit card. Using cash for purchases isn't always the most practical solution. And there are two reasons for that; most of us don't walk around with wads of cash in our wallets to pay for our purchases, and secondly and perhaps even more important, using cash won't help you build your credit history. And as you know, without that coveted credit history it can be difficult to qualify for credit at all.

Taking out a bank loan and making your monthly payments on time is one good way to build your credit history. Bank loans, however, aren't always the most practical solution for short term cash needs or purchases, especially for purchasing items we buy frequently (and most certainly if you use a credit card for items such as gasoline and groceries).

A bank loan, however, can be an ideal solution for a major purchase such as home improvements, buying a house, buying a car, or paying for a college education.

Hopefully you'll have enough cash on hand for the items you purchase on a daily basis, such as groceries, gasoline, public transportation, dry cleaning, or just about anything and everything. If you don't have enough cash on hand, you may choose to use your debit card to pay for any of these items, or perhaps you'll want to write a check.

But there will be times when you'll want to use a credit card. Credit cards offer convenience. They allow us to shop anywhere, anytime. They give us the ability to monitor our purchases, and yes, responsible use of credit cards allows you to build a positive credit history. Some credit cards may come with rewards programs (such as airline miles, hotel points, or other gift items) as well as offer insurance and warranty protections. But don't be misled; you pay for these rewards. Banks offer concessions for reasons. Weigh your options carefully. If there's one thing I've learned in life, if it's too good to be true, it usually is.

TIP: ***Any discussion about credit cards would be incomplete without mentioning the Credit Card Act of 2009. The Act protects and details consumers' rights when using credit cards. Key components of the Act can be found at*** **www.federalreserve.gov.**

CREDIT, CHARGE, AND DEBIT CARDS

We know that credit cards are a practical solution to meet some of your purchasing needs. As a responsible individual, you should have at least one credit card in your wallet. Our guidelines, however, suggest you shouldn't have more than two.

The first step in effectively using a credit card is to understand what the card offers.[15] You also need to be familiar with the type of card you have. Is it a credit card, charge card, or debit card? They all offer purchasing power, but they are all different. Not until you know the differences between them can you make the best decisions possible.

- **Credit Cards** – these can be thought of as revolving lines of credit. Every credit card comes with a pre-approved spending limit (line of credit). Once a dollar amount of credit is used, the available line of credit is reduced by that amount. As the amount charged gets repaid, it becomes available again. Using a credit card gives you the flexibility to purchase goods and services without having to pay for them until you receive the bill at the end of the cycle. Credit cards are also a convenient way to help pay for an emergency expense. What's an emergency expense? Something unexpected, like the visit to the dentist to take care of a throbbing toothache, not a dinner to celebrate a loved one's birthday. Credit cards can also provide a way to pay for a big ticket item, something you may need (new tires for your car or a new washing machine) or something you may want (a new television set for the living room).
- **Charge Cards** – these are a type of credit card. This type of card doesn't usually have a credit limit. The balance must be paid in full at the end of the billing cycle. And because of the payment in full requirement, there are no minimum payment requirements or finance charges associated with this type of card. It is possible that some charge cards will come without preset spending limits. You may also find there are tougher qualification requirements for obtaining a charge card than a credit card, including but not limited to a high credit score and income level. Some charge cards may also come with rewards programs.
- **Debit Cards** – these are cards that are directly tied to your checking or savings account. Every time you use your debit card to make a purchase the money is automatically debited from the related account. The benefit of using a debit card to pay for purchases means there are no bills to pay at the end of the month. However, it also means you need to have cash in those accounts and you need to be organized, remembering to keep track of the dates, vendors and dollar amounts of your purchases.

[15] Credit Card Options Worksheet p. A-22

Keeping careful track of usage of your debit card will help ensure you don't overdraw your account. There are, however, drawbacks to using a debit card for purchases. The major drawback being that use of your debit card is not reported to any of the credit rating agencies, meaning use of the card does not help you to build your credit history.

TIP: ***Always keep in mind that future creditors (such as bankers approving loans) will review your credit history when they make a decision to extend credit to you. Having too many open credit accounts will affect your credit ratio (the percentage of your total available credit), and potentially your chances of being approved for new credit. Interestingly enough, submitting too many credit card applications will also hurt your credit score.***

CREDIT CARD COSTS

There will be costs associated with using your credit cards. There may be annual fees, there may be fees for enrolling in rewards programs and there may be fees for accessing other services and products provided by your card issuer (which will be discussed in the following section).

But for the majority of us, the most costly fees associated with using your credit cards are interest and late fees. Thanks to the Credit Card Act of 2009, your card issuer will be providing information on your monthly credit card statement that details how long it will take you to pay off your balance if you choose to only make the minimum payments. In time you will also be able to find information detailing (for example) what the monthly payments would be on your outstanding balance if you wanted to pay it off within a three year time frame.

TIP: ***To calculate your average daily balance, total your balance from each day in the billing cycle and divide by the number of days in that period. To calculate the average daily balance finance charge, multiply the average daily balance by the interest rate on your purchases and number of days in the billing cycle, then divide by 365.***

Below is an example of a $2500 furniture purchase made on a credit card that has an 18% Annual Percentage Rate (APR). We show you the result of three different monthly payments scenarios:

TYPICAL CREDIT-CARD COSTS FOR A LARGE PURCHASE

PURCHASE PRICE	APR	MONTHLY PAYMENT	AMOUNT PAID IN INTEREST	YEARS TO PAYOFF	TOTAL PAID FOR ITEM
Furniture: $2,500	18%	$25	$4,828	19.3	$7,328
Furniture: $2,500	18%	$50	$2156	7.8	$4,656
Furniture: $2,500	18%	$75	$992	3.9	$3,492

Learning how to read your credit card statement[16] is also crucial when signing up and utilizing a credit card for purchases.

[16] Sample Credit Card Statement p. A-23

YOUR CREDIT CARD ISSUER

The restrictions on fees and limits that the Credit Card Act of 2009 places on credit card issuers led those issuers to look for new revenue sources from the consumer. Some card issuers:

- Have shortened billing cycles.
- Have raised minimum payment amounts. This also enables the issuer to raise late fees as late fees can't be greater than $25 or the minimum payment amount.
- Are levying fees on cards with low credit limits.
- Are increasing fees for balance transfers, cash advances, and foreign exchange transactions.
- Are heavily promoting products such as high-fee prepaid cards (which are exempt from most of the rules under the Act).

In addition to the credit card itself, your credit card issuer may offer other products and/or services. It can't be stressed enough how important it is to be familiar with the terms of your card as they pertain to the below items (and other items not mentioned here).There may be built in fees for services (regardless if you use those services or not). Some of these products and/or services can include:

- **Cash advances** – Cash advances typically carry higher APR's than ordinary charges. There are also no grace periods for repaying borrowed money. Because of the higher APR and other potential fees, taking a cash advance can wind up costing you money if you don't repay the advance in full on the payment due date. But think this through, as a cash advance may have a negative impact on your credit rating because it may be viewed as a loan.
- **Balance transfers** – Balance transfers typically allow you to move balances from one credit card to another. Individuals may find the very tempting low (or even 0%) teaser interest rates a good reason to transfer and consolidate outstanding credit card balances. Be sure to read the fine print to understand how long the teaser rate is effective for, how the interest rate will reset once the teaser period expires as well as to learn about all fees that can be imposed. Remember that balance transfers don't eliminate your debt. They only move your debt from one creditor to another and may negatively affect your overall credit score. You should also familiarize yourself with what may constitute violations of your balance transfer agreement and the penalties that may be levied.
- **Identity theft insurance and credit protection** – Identity theft protection and credit protection from unemployment, divorce, and death have also become popular offerings. These plans are pricey, usually based on a percentage of your outstanding balance, have complex terms, and have many loopholes. You will find, for example, that most unemployment insurance coverage requires proof of wrongful job termination for the policy holder to be able to make a claim on the benefit. If the unemployment benefit does get paid, chances are the benefit will only pay the minimum monthly payment. Outstanding card balances continue to accrue interest for which you, the cardholder, are responsible. Likewise, ID theft insurance can be expensive, providing protection for a service that you can most likely do for yourself.

TIP: ***To protect yourself against identity theft, sign your new card immediately. Unless you need to keep purchase receipts for warranty purposes, shred them once the charges appear on your credit card statement. If you do keep them, be sure they are in a safe place. Always use caution when giving your credit card number over the phone, internet, or via fax to anyone you don't know. Most important, the minute you suspect fraudulent use of your credit card contact your card issuer.***

This can't be said often enough, that prior to using any services provided by your credit card issuer, make sure you understand the terms and conditions, the impact on your budget, and the potential effect on your credit rating.

OVERUSE OF CREDIT

To ensure you are using your credit cards in a positive way, you should access credit only when you need it, pay your bills on time, and keep your balances as low as possible – ideally less than 50% of your credit limit.

Of course, before you even take your card out of your wallet we know you've already asked yourself the important questions:

- "Can my budget handle another $25 in monthly expenses for the next 20 years?"
- "Do I want to be paying my vacation off for the next seven years?"
- "Can I put my money to better use than paying interest on my credit card balances?"
- "Is it worth spending more in interest than on the actual purchase?'

TIP: ***If you have more credit card accounts than you can manage, pay off the balances and close the cards you really don't need. Perhaps one bank issued credit card will meet your needs. Closing credit card accounts will initially lower your credit score, but using credit cards responsibly helps you establish and maintain a positive credit history.***

What happens when you find you have overspent and can't pay your bills? Sometimes we don't see the signs of financial trouble until it is too late. However, knowing how to recognize the warning signs may help save you from having your debt spiral out of control. Some of these signs may include:

- Paying your bills after the payment due date,
- Missing your credit card or loan payments altogether,
- Relying on overtime to cover your debt related expenses,
- Borrowing from family members to make your monthly debt payments,
- Skipping one credit card bill to pay another,
- Transferring balances from one credit card to another,
- Ignoring your credit card statements, as well as
- Not having set aside money in your monthly budget to pay off your debts.

There can be very damaging and serious consequences to not paying your credit card bills or making your loan payments. Your credit card account may be "charged off" or "written off." This means the creditor has been unable to collect your debt. This will appear on your credit report and will negatively affect your credit score. Your obligation to pay the debt does not go away because either of these actions may have been taken. As a matter of fact, the next step is for the creditor to send that debt to a collections agency. You may find similar repercussions with bank loans that go unpaid. Depending upon whether the loan is secured or unsecured, the creditor may repossess the collateral backing the loan, send the loan to collections, or take you to court to sue you for the money you owe.

Now that you understand your responsibilities for paying back your debts, let's look at suggestions for how you can manage your payments when you hit a rough patch:

1. Contact your creditor the moment you know you can't make your payment. If it's your credit card bill you can't pay, perhaps the card issuer will work out a plan with you to repay your debt. If it's a bank loan you can't repay, try to renegotiate the interest rate on your loan. It is important you agree only to what you can realistically afford. If you find the creditor's proposed solution is not an option that will work for you, then
2. Contact a certified credit counselor at ACCC who will work with you to reconstruct your budget, making adjustments to your expenses to find the money you need to make your monthly payments.
3. If you find you are still having trouble making your credit card payments, ask the certified counselors at ACCC about a Debt Management Plan (DMP). Under a DMP, a certified credit counselor will work with you and your creditors to develop a plan for you to repay your debts. Creditors may lower your monthly interest rates and/or accept a lower monthly payment. A DMP also allows you to make one monthly payment (to ACCC) which will then be disbursed to all of your creditors.
4. Bankruptcy is an option, though one that should be viewed as a last resort. If you are considering filing for bankruptcy protection, you should seek the advice of an attorney to ensure this is the right option for you. Filing for bankruptcy is a decision that should not be taken lightly. It does affect your credit score and will show on your credit report. A bankruptcy filing can also hurt your chances of getting a mortgage or car loan for some time. There are two types of bankruptcy protection you should know about:
    - **Chapter 7 bankruptcy** is when the court appoints a trustee who may liquidate or sell some of your assets to pay your creditors. Most of your debt will be cancelled, but you may choose to pay some creditors. Most individuals choose to continue paying their car loan or home mortgage (two instances in which the creditor can take the collateral if the loan is defaulted on). A Chapter 7 bankruptcy filing will remain on your credit report for 10 years.
    - **Chapter 13 bankruptcy** is when the court reorganizes your debt into a single monthly payment, which is made to the trustee and then disbursed to your creditors. A Chapter 13 bankruptcy is most often used by individuals who want to keep their homes. A Chapter 13 bankruptcy will remain on your credit report for 7 years.

You should also know that not all debt can be discharged in a bankruptcy filing. Some debt that cannot be discharged is child support, alimony, some student loans, divorce settlements and some income taxes. Once again we advise you to check with an attorney as to which debts are eligible for discharge.

Should you and your attorney decide that bankruptcy is the only alternative for you, ACCC can provide you with the mandated pre-bankruptcy counseling and post-bankruptcy debtor education that is required by the Executive Office of the U.S. Trustee.

YOUR RIGHTS AS A USER OF CREDIT CARDS

Because you will inevitably be using credit cards, it is important you know your credit card rights. The two federal laws that provide protection to consumers on their use of credit cards are the Credit Card Act of 2009 and the Fair Credit Billing Act (detailed information can be found at *www.federalreserve.gov*.) Some of these provisions include:

- The ability to dispute a charge you did not make. You still must pay the amount of the bill that's not in dispute, including finance and other charges.
- Protection from unauthorized charges due to a lost or stolen credit card. If you contact the credit card issuer as soon as you realize your card is missing, you cannot be held liable for any unauthorized charges. Otherwise you can be held responsible for up to $50 in charges from the card issuer. Always verify that this information is correct as it can change without your knowledge.
- Crediting payment to your credit card account the day payment is received.
- The ability to request either a check for the amount of an item that has been returned and credited to your charge card or to have the amount kept as a credit balance on your account.
- The ability to dispute charges for unsatisfactory goods or services.
- No longer having the ability to penalize a consumer for making a late payment to another creditor.
- Credit card issuers no longer having the ability to increase the interest rate charged unless a consumer is at least two months late making payments. After six months of making on time payments, the creditor has to reset the interest rate back to the original rate.
- The inability of card issuers to charge over limit fees unless the consumer has agreed to pay them.
- The inability of card issuers to make increases in interest rates retroactive.
- Card issuers having to apply payments made in excess of the minimum payment to the balance with the highest interest rate (except when interest is deferred- payment will then be applied to that balance).

All in all, credit of any kind can be very useful if managed properly. Having credit means you need to be responsible with your money. It means you need to pay attention to the monthly budget you constructed so you can live within your means. Having a plan to manage and budget for credit card charges and bank loans will ensure you have *Financial Peace of Mind*. And by all means, using credit responsibly means always letting common sense prevail. Don't buy more than you can afford, no matter how big a line of credit you have.

Chapter 8 Review:

- Choosing the right credit option for the right reason
- Managing your credit cards
- Understanding your credit card rights

Chapter 8 Review Exercises:

- Explain why you need a credit card.
- Go through the decision making process as to which is best for you; credit card, charge card or debit card. Use the *Credit Card Options Worksheet*.
- Review the terms and conditions of your credit card and evaluate if this is the best choice for you.

NOTES

CONCLUSION

There's an old proverb that says "Teachers open the door, but you must enter by yourself."

It is my hope that *Financial Peace of Mind* is the door you needed help walking through. You have been presented with a lot of useful, solid financial education material. Regardless of how much my staff and I want to see each and every one of you succeed as you start to rebuild your financial lives and plan for your futures, you and only you can see to your success.

Becoming financially healthy is a lifelong process. You will make some giant strides, and you may suffer an occasional setback. But with careful planning, organizational skills, and patience, you can have the financial life you always dreamed of. You can have a plan. You can have an end game. You can take control of where your financial life goes.

No matter what has happened before today, there is no time like the present to start planning for your future. It's been said that education is the best provision for old age. If that's the case, think of what you can accomplish given the wealth of financial information you've been given in *Financial Peace of Mind*.

Remember, there are two types of people in this world, doers and viewers! The choice is yours.

APPENDIX

Organizing Your Financial Records

Use this worksheet as a guide when organizing your financial life.

Financial Record General Category	Specific Items Within Category	Filed	Lockbox	Safe Deposit	Notes
Automotive and recreational vehicles	Inspection Records				
	Copy of registration and title				
	Repair and maintenance receipts				
	Dealership Papers				
Bank Accounts	Monthly account statements				
	1099 tax forms				
	PIN numbers and passwords				
	Deposit slips				
	Cancelled Checks				
	Withdrawal slips				
Credit	Applications				
	Credit Card Information				
	Receipts				
	Correspondence				
	Student Loans				
Employment	Benefits description and related paperwork				
	Handbook				
	Employer information				
	Most recent paycheck stub				
	Resume				
	W2's				
Insurance	Policies				
	Correspondence				
	Info on how to file a claim				
	Copies of claims filed and receipts				
	Spare claim forms				
Medical Record	Correspondence				
	Personal medical records				
	Receipts of paid bills				
	Treatment plans and long term medication needs				
	General medical history				
Personal	Adoption papers				
	Naturalization papers				
	Birth and death certificates				
	Marriage, divorce, and separation certificates				
	Court orders on personal matters				

	Military discharge papers				
Financial Record General Category	**Specific Items Within Category**	**Filed**	**Lockbox**	**Safe Deposit**	**Notes**
Residence	Annual mortgage statements				
	Copies of purchase related documents				
	Legal proceeding regarding property				
	Association information				
	Receipts for improvements				
	Copy of lease and rental receipts/cancelled checks				
	Correspondence and agreements				
Retirement savings	Tax forms				
	Information on loans from tax deferred accounts				
	IRA records				
	Records of withdrawals				
	1099 Forms				
	Distributions				
	Income received				
Schools	Correspondence				
	Financial aid forms				
	W10 for childcare				
	Receipts for tuition, books, fees, etc.				
	Transcripts				
Social Security	Correspondence				
	Social Security Number				
	Personal earnings history				
	Record of income received				
Taxes	Cancelled checks for taxes paid				
	Copies of estimated returns				
	Requests for extensions				
	Correspondence				
	Most recent year of filing and supporting documents				
	Records of alimony				
	Gambling income, losses, and prizes				
Warranties and receipts	Receipts when you need evidence of items value				
	Maintenance contracts and records				
	Owner’s manuals				
Wills and trusts	Copies of trust, wills				
	Correspondence				
	Documentation of gifts				
	Tax documents				

Personal Asset Worksheet

Use this worksheet to identify your current assets and value. Identify your current beneficiary (if applicable) and name the person for future designation.

Type of Asset	Current Value	Current Beneficiary (if applicable)	Future Designation
Home/Residence			
Land			
Other:			
Savings Accounts			
Checking Accounts			
Certificates of Deposit			
IRA (1)			
IRA (2)			
401K (1)			
401K (2)			
Mutual Funds			
Money Market			
Life Insurance Policy (1)			
Life Insurance Policy (2)			
Annuities			
Cash on Hand			
Education Account			
Household Goods			
Personal Collections			
Other Assets			
Total Assets			

Financial Goals Worksheet (SMART)

Use this worksheet to create a SMART goal. Identify a goal that is short, mid, and long-term when completing. Make copies of this worksheet for each individual goal.

Today's Date: ____________ Start Date: ____________ Date Achieved: ____________

Verify that your goal is **SMART**

Specific: *What is your goal? (What? Why? and How?)*

____

____

____

Measurable: *How will you measure your progress? (How many? How much?)*

____

____

____

Achievable: *Is achieving this goal realistic with effort and commitment? What steps are involved?*

____

____

____

Realistic: *What skills and knowledge are necessary to reach the goal? Is it do-able?*

____

____

____

Timely: *When will you achieve this goal?*

____

____

____

This goal is important because: ______________________________

Financial Goals Worksheet - Take Action!

Identify the obstacles you may face when working to achieve your goals, and find solutions.

Potential Obstacles	Potential Solutions
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

Who are the people you will ask to help you?

____

____

____

Specific Action Steps: *What steps need to be taken to reach your goal?*

What:	Expected completion date:	Completed:
______________	______________	______________
______________	______________	______________
______________	______________	______________
______________	______________	______________
______________	______________	______________

Daily Expense Tracker

Track your daily spending on this worksheet to see exactly where your money is going.

Date	Expense	Amount: Cash/Check/Debit	Amount Credit

Financial Community Guidelines

Calculate and compare your spending to the financial community guidelines.

Compare your spending to the financial community guidelines

Housing 35%
Mortgage or rent, taxes, repairs, improvements, insurance, and utilities

Transporation 20%
Monthly payments, gas, oil, repairs, insurance, parking, and public transportation

Debt 5%
Credit cards, personal loans, student loans, and other debt payments

All other expenses 20%
Food, insurance, prescriptions, doctor & dentist bills, clothing, and personal

Investments & Savings 20%
Stocks, bonds, cash reserves, savings accounts, retirement funds, etc.

*To calculate the recommended expenditure for each category, multiply the recommended percentages by your gross income. For example, if your gross income is $3,000.00 and the recommended allowance for housing is 35%, multiply $3,000.00 by .35. The recommended housing expenditure should not exceed $1,050.00 per month.

*To calculate your true monthly budget expenditure for each category, divide your monthly expense by your gross income, and multiply that by 100. For example, if your housing expense is $1,200.00, divide by $3,000.00, and multiply by 100. You are spending 40% of the recommended expenditure on housing.

Budgeted Expense	Recommended	Recommended Expense (gross income x recommended %)	Actual Expense	Budget Percentage (expense/income) x 100	Explanation
Housing	35%	$	$	%	
Transportation	20%	$	$	%	
Debt Payments	5%	$	$	%	
All Other	20%	$	$	%	
Savings	20%	$	$	%	

Household Budgeting Worksheet

Housing/Utilities	
Rent/mortgage	$
Heating	$
Electricity	$
Water/sewage	$
Renter/homeowner insurance *(if not included in mortgage)*	$
Trash service	$
Telephone and cell phone	$
Home maintenence	$
Cleaning supplies	$
TOTAL	$

Transportation	
Gas	$
Car payment(s)	$
Car insurance	$
Car inspection	$
Car repairs and maintenence	$
Car registration	$
Public transportation or taxi	$
Parking and tolls	$
TOTAL	$

Insurance (if not payroll deducted)	
Health	$
Life	$
Disability	$
TOTAL	$

Food	
Groceries	$
School lunches	$
Work-related (lunch/snacks)	$
TOTAL	$

Medical	
Doctor visits	$
Dental	$
Prescriptions	$
TOTAL	$

Childcare	
Daycare	$
Babysitter/nanny	$
Child support/alimony	$
TOTAL	$

Donations	
Religious or charity	$
TOTAL	$

Education	
Tuition	$
Books and supplies	$
Newspapers and magazines	$
TOTAL	$

Personal	
Barber/salon services	$
Toiletries	$
Children's allowances	$
Tobacco products	$
Beer, wine, or liquor	$
Clothing	$
Laundry/dry cleaning	$
TOTAL	$

Entertainment	
Sporting events, concerts, etc.	$
Movies/video rentals	$
Restaurants/take-out	$
Internet service	$
Cable/satellite TV	$
Gambling/lottery tickets	$
Fitness/social clubs	$
Vacation/travel	$
Hobbies	$
TOTAL	$

Debts	
Student loan	$
Credit card	$
Medical bills	$
Personal loan	$
TOTAL	$

Savings	
Emergency fund	$
Down payment fund	$
TOTAL	$

Gifts	
Birthdays	$
Major holidays	$
TOTAL	$

Total Monthly Expenses	$
- Net Income	$
= Cash Flow (disposable/deficit)	$

Net Worth Worksheet

ASSETS	VALUE
PERSONAL POSSESSIONS	
Cash	
Money in checking accounts	
Market value of home	
Market value of vacation home	
Market value of any businesses	
Furniture	
Art, antiques, & collectibles	
Jewelry	
Resale value of car 1	
Resale value of car 2	
Boats or other recreational vehicles	
Other:	
SAVINGS AND INVESTMENTS	
Money in savings accounts	
Money in emergency fund	
Certificates of deposit (CDs)	
Money market accounts	
Annuities	
Cash value of life insurance	
Stocks	
Bonds	
Mutual funds	
Real estate	
Other:	
RETIREMENT SAVINGS	
Employee pension	
401K or 403B accounts	
IRA accounts	
Keough accounts	
Other:	
TOTAL ASSETS =	

LIABILITIES	BALANCE
DEBTS	
Mortgage	
Vacation home mortgage	
Home equity loan	
Car loan 1	
Car loan 2	
Credit card 1	
Credit card 2	
Credit card 3	
Student loans	
Bank loans	
Private loans (friends and family)	
Cash advances	
Medical bills	
Taxes owed	
Alimoney/child support owed	
Other debt 1	
Other debt 2	
TOTAL LIABILITIES =	
TOTAL ASSETS	
TOTAL LIABILITIES -	
TOTAL NET WORTH =	

Bank Account Comparison Worksheet

Use this worksheet to decide which type of bank account is right for you.

FEATURES	Account Name ______ Bank ______ FDIC/NCUA Yes No	Account Name ______ Bank ______ FDIC/NCUA Yes No
RATES & FEES		
Average minimum balance	$ ______	$ ______
Daily minimum balance required	$ ______	$ ______
Monthly service fee (if below minimum balance)	$ ______	$ ______
CHECKS		
Direct deposit required	Yes No	Yes No
Free or discounted printing of checks	Yes No	Yes No
Limit on number of checks written each month	Yes No	Yes No
Checks imaged or returned	Yes No	Yes No
ATM & DEBIT CARD		
ATM card	Yes No	Yes No
Check card	Yes No	Yes No
Free use of another bank's ATM	Yes No	Yes No
Free use of Debit Card	Yes No	Yes No
ONLINE BANKING		
Online banking (costs?)	Yes ($) No	Yes ($) No
Online bill pay (costs?)	Yes ($) No	Yes ($) No
TELEPHONE BANKING		
Automated telephone access	Yes No	Yes No
24/7 customer service	Yes No	Yes No
OTHER SERVICES		
Overdraft protection option	Yes No	Yes No
Travelers checks fees	$______	$______
Money orders & cashier's checks fees	$______	$______
Safe deposit box monthly fees	$______	$______
INVESTMENTS & TRADING		
Online investing access	Yes No	Yes No
Linked brokerage accounts	Yes No	Yes No

Investment Options Worksheet

Use this worksheet to compare various investment options available.

Feature	Investment #1	Investment #2	Investment #3
Guaranteed or recent investment rate of return (e.g., 7%)			
Minimum initial deposit (e.g., $500)			
Minimum subsequent deposit (e.g., $50)			
Up-front cost or commission, if any			
Investment objective (e.g., growth, income)			

Household Inventory

LIVING ROOM

#	ITEM	VALUE
	Furniture (chairs, sofas)	
	Misc furniture (tables, lamps, mirrors, etc)	
	Paintings, pictures, art decorations	
	Rugs, draperies	
	Musical instruments	
	Electronics	
	Other:	
	Other:	

DINING ROOM

#	ITEM	VALUE
	Chairs and tables	
	Draperies, rugs	
	China, glassware	
	Silverware	
	Linens	
	Paintings, pictures, art	
	Other:	
	Other:	

STORAGE ROOM, GARAGE

#	ITEM	VALUE
	Outdoor furniture	
	Lawnmower, equipment	
	Hand tools	
	Snow blower	
	Sports equipment	
	Other:	
	Other:	

KITCHEN, UTILITY ROOM

#	ITEM	VALUE
	Furniture (chairs, sofas)	
	Major appliances (stove, refrigerator, dishwasher)	
	Small appliances (toaster, microwave, coffeemaker)	
	Dishes, glassware	
	Pots, pans, serving dishes	
	Silverware	
	Other:	
	Other:	

BATHROOMS

#	ITEM	VALUE
	Rugs, mats, draperies	
	Medicine cabinet contents	
	Linens, towels	
	Electrical appliances	
	Other:	
	Other:	

FAMILY ROOM/DEN

#	ITEM	VALUE
	Furniture (chairs, sofas)	
	Misc furniture (tables, lamps, mirrors, etc)	
	Paintings, pictures, art decorations	
	Rugs, draperies	
	Books	
	Electronics	
	CDs, DVDs	
	Other:	

Household Inventory

BEDROOM(S)

#	ITEM	VALUE
	Furniture (bed, dresser)	
	Misc furniture (tables, lamps, mirrors, etc)	
	Bedding (blankets, pillows, etc)	
	Rugs, draperies	
	Paintings, pictures, art	
	Electronics	
	Other:	
	Other:	

PERSONAL EFFECTS - FAMILY

#	ITEM	VALUE
	Cameras	
	Firearms	
	Exercise equipment	
	Sports equipment	
	Heirlooms	
	Other:	
	Other:	
	Other:	
	Other:	

PERSONAL EFFECTS - MAN

#	ITEM	VALUE
	Clothing	
	Outerwear	
	Jewelry	
	Shoes	
	Accessories	
	Other:	
	Other:	
	Other:	
	Other:	

PERSONAL EFFECTS - WOMAN

#	ITEM	VALUE
	Clothing	
	Outerwear	
	Jewelry	
	Shoes	
	Accessories	
	Other:	
	Other:	
	Other:	
	Other:	

PERSONAL EFFECTS - CHILDREN

#	ITEM	VALUE
	Clothing	
	Outerwear	
	Jewelry	
	Shoes	
	Accessories	
	Other:	
	Other:	
	Other:	
	Other:	

Assessing Your Creditworthiness Using the Five C's of Credit

Use this worksheet to rate yourself on each of the five C's of credit using the following scale. (1=unacceptable, 2=needs work, 3=good, 4=excellent)
Based on your assessment, identify goals for improving your creditworthiness.

	Score	Notes
Capacity • Wage, salary, and other income sufficient to make payments • Affordable current monthly payment obligations		
Capital • Positive net worth, appropriate for life-cycle stage		
Collateral • Valuable assets in adition to income (checking, savings, investment accounts) • Adequate collateral for loan (if applicable)		
Character • Previous experience with credit • Past credit history indicates a good attitude towards paying debts • No history of bankruptcy • Stable employment and residency		
Conditions • Job and employer security • General economic conditions are favorable		

Plan for improving creditworthiness

1.

2.

3.

4.

5.

Debt-to-Income Ratio Calculator

Use this worksheet to calculate your debt-to-income ratio. Fill in your monthly take home income and all your monthly debt payments. Then use the calculation key to determine your ratio.

Monthly Take-Home Income

	You	Spouse	Total
Salary/Wages			
Social Security			
Military Pay			
Pension/Retirement Income			
Bank and Investment Interest			
Alimony			
Rental Income			
Unemployment			
Food Stamps			
Royalties			
Business Income			
Other			
Other			
Total Income			

Outstanding Monthly Debt Payments

	You	Spouse	Total
Credit Card Pmts			
Student Loans			
Car Payments			
Recreational Vehicle/ Boat Payments			
Bank/Credit Union/ Loan Payments			
Med/Dental Bills			
Computer/Electronic Bill Payments			
Other Credit Loans or Accounts			
Other			
Other			
Total Monthly Pmts			

Calculation Key

Monthly Debt Payment	
(divided by)	/
Monthly Income	
(equals)	=
Debt-to-Income Ratio	

How do you measure up for the creditors?

Less than 10%	Great Shape
10 - 20%	Good Credit Risk
20 - 35%	Questionable Risk
35% and higher	High Risk

Sample Credit Report

Experian
A world of insight

Online Personal Credit Report from Experian for

Experian credit report prepared for
JOHN Q CONSUMER
Your report number is
1562064065 1
Report date:
04/24/2007

Index:
- Potentially negative items
- Accounts in good standing
- Requests for your credit history
- Personal information
- Important message from Experian
- Contact us

2

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

To return to your report in the near future, log on to www..experian.com/consumer and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

Potentially Negative Items 3

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Public Records

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit items listed later in this report.

MAIN COUNTY CLERK

Address:
123 MAINTOWN S
BUFFALO , NY 10000

Identification Number:
1

Plaintiff:
ANY COMMISSIONER O.

Status:
Civil claim paid.

Status Details:
This item was verified and updated in Apr 2007.

Date Filed:
10/15/2006
Date Resolved:
03/04/2007
Responsibility:
INDIVIDUAL

Claim Amount:
$200
Liability Amount:
NA

Credit Items

For your protection, the last few digits of your account numbers do not display.

ABCD BANKS

Address:
100 CENTER RD
BUFFALO, NY 10000
(555) 555-5555

Account Number:
1000000....

Status: Paid/Past due 60 days. 4

Date Opened:
10/2005
Reported Since:
11/2005
Date of Status:
04/2007
Last Reported:
04/2007

Type:
Installment
Terms:
12 Months
Monthly Payment:
$0
Responsibility:
Individual

Credit Limit/Original Amount:
$523
High Balance:
NA
Recent Balance:
$0 as of 04/2007
Recent Payment:
$0

Account History:
60 days as of 12-2006
30 days as of 11-2006

Report number:

You will need your report number to contact Experian online, by phone or by mail.

Index:

Navigate through the sections of your credit report using these links.

Potentially negative items:

Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

Status:

Indicates the current status of the account.

If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at:

www.experian.com/disputes

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

Sample Credit Report

MAIN COLL AGENCIES

Address:
PO BOX 123
ANYTOWN, PA 10000
(555) 555-5555

Account Number:
0123456789

Original Creditor:
TELEVISE CABLE COMM.

Status: Collection account. $95 past due as of 4-2000.

Date Opened: 01/2005
Reported Since: 04/2005
Date of Status: 04/2005
Last Reported: 04/2005

Type: Installment
Terms: NA
Monthly Payment: $0
Responsibility: Individual

Credit Limit/Original Amount: $95
High Balance: NA
Recent Balance: $95 as of 04/2005
Recent Payment: $0

Your statement: ITEM DISPUTED BY CONSUMER

Account History:
Collection as of 4-2005

Accounts in Good Standing

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Accounts in good standing:

Lists accounts that have a positive status and may be viewed favorably by creditors. Some creditors do not report to us, so some of your accounts may not be listed.

AUTOMOBILE AUTO FINANCE

Address:
100 MAIN ST E
SMALLTOWN, MD 90001
(555) 555-5555

Account Number:
12345678998....

Status: Open/Never late.

Date Opened: 01/2006
Reported Since: 01/2006
Date of Status: 04/2007
Last Reported: 04/2007

Type: Installment

6

Terms: 65 Months
Monthly Payment: $210
Responsibility: Individual

Credit Limit/Original Amount: $10,355
High Balance: NA
Recent Balance: $7,984 as of 04/2007
Recent Payment: $0

Type:

Account type indicates whether your account is a revolving or an installment account.

MAIN

Address:
PO BOX 1234
FORT LAUDERDALE, FL 10009

Account Number:
1234567899876

Status: Closed/Never late.

Date Opened: 03/1997
Reported Since: 03/1997
Date of Status: 08/2006
Last Reported: 08/2006

Type: Revolving
Terms: 1 Months
Monthly Payment: $0
Responsibility: Individual

Credit Limit/Original Amount: NA
High Balance: $3,228
Recent Balance: $0 /paid as of 08/2006
Recent Payment: $0

Your statement:
Account closed at consumer's request

Sample Credit Report

Requests for Your Credit History

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Requests Viewed By Others

We make your credit history available to your current and prospective creditors and employers as allowed by law. Personal data about you may be made available to companies whose products and services may interest you.

The section below lists all who have requested in the recent past to review your credit history as a result of actions involving you, such as the completion of a credit application or the transfer of an account to a collection agency, application for insurance, mortgage or loan application, etc. Creditors may view these requests when evaluating your creditworthiness.

HOMESALE REALTY CO

Address:	Date of Request:
2000 S MAINROAD BLVD STE ANYTOWN CA 11111 (555) 555-5555	07/16/2006

Comments:
Real estate loan on behalf of 3903 MERCHANTS EXPRESS M. This inquiry is scheduled to continue on record until 8-2008.

M & T BANK

Address:	Date of Request:
PO BOX 100 BUFFALO NY 10000 (555) 555-5555	02/23/2006

Comments:
Permissible purpose. This inquiry is scheduled to continue on record until 3-2008.

WESTERN FUNDING INC

Address:	Date of Request:
191 W MAIN AVE STE 100 INTOWN CA 10000 (559) 555-5555	01/25/2006

Comments:
Permissible purpose. This inquiry is scheduled to continue on record until 2-2008.

Requests Viewed Only By You

The section below lists all who have a permissible purpose by law and have requested in the recent past to review your information. You may not have initiated these requests, so you may not recognize each source. We offer information about you to those with a permissible purpose, for example, to:

- other creditors who want to offer you preapproved credit;
- an employer who wishes to extend an offer of employment;
- a potential investor in assessing the risk of a current obligation;
- Experian or other credit reporting agencies to process a report for you;
- your existing creditors to monitor your credit activity (date listed may reflect only the most recent request).

We report these requests **only to you** as a record of activities. We **do not** provide this information to other creditors who evaluate your creditworthiness.

MAIN BANK USA

Address:	Date of Request:
1 MAIN CTR AA 11 BUFFALO NY 14203	08/10/2006

MYTOWN BANK

Address:	Date of Request:
PO BOX 825 MYTOWN DE 10000 (555) 555-5555	08/05/2006

INTOWN DATA CORPS

Address:	Date of Request:
2000 S MAINTOWN BLVD STE INTOWN CO 11111 (555) 555-5555	07/16/2006

Requests for your credit history:

Also called “inquiries,” requests for your credit history are logged on your report whenever anyone reviews your credit information. There are two types of inquiries.

i.
Inquiries resulting from a transaction initiated by you. These include inquiries from your applications for credit, insurance, housing or other loans. They also include transfer of an account to a collection agency. Creditors may view these items when evaluating your creditworthiness.

ii.
Inquiries resulting from transactions you may not have initiated but that are allowed under the FCRA. These include preapproved offers, as well as for employment, investment review, account monitoring by existing creditors, and requests by you for your own report. These items are shown only to you and have no impact on your creditworthiness or risk scores.

Sample Credit Report

Personal Information

8

The following information is reported to us by you, your creditors and other sources. Each source may report your personal information differently, which may result in variations of your name, address, Social Security number, etc. As part of our fraud prevention efforts, a notice with additional information may appear. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

Names:
JOHN Q CONSUMER
Name identification number: 15621

JONATHON Q CONSUMER
Name identification number: 15622

J Q CONSUMER
Name identification number: 15623

Social Security number variations:
999999999

Year of birth:
1959

Spouse or co-applicant:
JANE

Employers:
ABCDE ENGINEERING CORP

Telephone numbers:
(555) 555 5555 Residential

Address: 123 MAIN STREET
ANYTOWN, MD 90001-9999
Address identification number:
0277741504
Type of Residence: Multifamily
Geographical Code: 0-156510-31-8840

Address: 555 SIMPLE PLACE
ANYTOWN, MD 90002-7777
Address identification number:
0170086050
Type of Residence: Single family
Geographical Code: 0-176510-33-8840

Address: 999 HIGH DRIVE APT 15B
ANYTOWN, MD 90003-5555
Address identification number:
0170129301
Type of Residence: Apartment complex
Geographical Code: 0-156510-31-8840

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Your Personal Statement

10

No general personal statements appear on your report.

Important Message From Experian

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By law, we cannot disclose certain medical information (relating to physical, mental, or behavioral health or condition). Although we do not generally collect such information, it could appear in the name of a data furnisher (i.e., "Cancer Center") that reports your payment history to us. If so, those names display in your report, but in reports to others they display only as MEDICAL PAYMENT DATA. Consumer statements included on your report at your request that contain medical information are disclosed to others.

Contacting Us

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Contact address and phone number for your area will display here.

Personal information:

Personal information associated with your history that has been reported to Experian by you, your creditors and other sources.

May include name and Social Security number variations, employers, telephone numbers, etc. Experian lists all variations so you know what is being reported to us as belonging to you.

Address information:

Your current address and previous address(es)

Personal statement:

Any personal statement that you added to your report appears here.

Note - statements remain as part of the report for two years and display to anyone who has permission to review your report.

Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies - Equifax, Experian and TransUnion.

For instant access to your free credit report, visit www.annualcreditreport.com.

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.

Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z   0 1 2 3 4 5 6 7 8 9

Social Security Number: ___ - __ - ____

Date of Birth: __ / __ / ____
Month **Day** **Year**

Fold Here Fold Here

First Name **M.I.**

Last Name **JR, SR, III, etc.**

Current Mailing Address:

House Number **Street Name**

Apartment Number / Private Mailbox **For Puerto Rico Only: Print Urbanization Name**

City **State** **ZipCode**

Previous Mailing Address (complete only if at current mailing address for less than two years):

House Number **Street Name**

Fold Here Fold Here

Apartment Number / Private Mailbox **For Puerto Rico Only: Print Urbanization Name**

City **State** **ZipCode**

Shade Circle Like This →

Not Like This →

I want a credit report from (shade each that you would like to receive):

- ○ **Equifax**
- ○ **Experian**
- ○ **TransUnion**

○ **Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.**

31238

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

Your request will be processed within 15 days of receipt and then mailed to you.

Credit Card Options Worksheet

Use this worksheet to compare various credit card offers before signing up for an account
WARNING: We do not encourage the use of multiple credit cards, but understand you may need them for business, emergencies, etc. Please do your research before signing up for a credit card.

Feature	Credit Card #1	Credit Card #2	Credit Card #3
Annual Fee			
Grace Period			
APR			
Maximum Credit Offered			
Benefits			

Sample Credit Card Statement

1 Payment Due Date	2 New Balance	3 Past Due Amount	4 Minimum Payment
8/27/20XX	1097.82	0.00	$21.00

1. *Payment Due Date:* Your payment must be received by the credit card company no later than this date or you they will incur a late fee.

2. *New Balance:* The total amount that is charged to your credit card. You can either pay this in full or pay in a lesser amount and be charged interest.

3. *Past Due Date:* Status of an account when the minimum payment has not been received at the due date

4. *Minimum Payment:* The minimum amount that you can pay to prevent your account from going into default.

Account Number: XXXXXXXXX

$

Make your check payable to:
Credit Card Services.
Please write amount enclosed.
New address or email? Print on back.

Samantha Waters
202 Lexington Street
Anytown, USA 31011

Mail payment to:
ABC Card Services
84 Freeman Street
Anytown, USA 22011

Manager your account online:
www.yourcard.com/creditcards

Additional contact information
conveniently located on the reverse side

ACCOUNT SUMMARY

Account Number: XXXXXXXXX

5	Previous Balance	$210.00
6	Payment, Credits 7	- $210.00
8	Purchases	+ $1,097.82
	New Balance	$1,097.82
9	Opening/Closing Date	07/03/10 - 08/02/10
10	Total Credit Line	$5,000
11	Available Credit	$3,903
12	Cash Access Line	$5,000
13	Available for Cash	$3,903

5. *Previous Balance:* The total amount charged to your credit card reflected on your previous billing statement

6./7. *Payment, Credits:* The amount that has been paid back to your credit card from returns or payments during the billing period.

8. *Purchases:* The total of everything you have paid for with your credit card since the last statement date.

9. *Opening/Closing Date:* The dates that the billing cycle begins & ends

10. *Total Credit Line:* This is the total amount you have to spend on your credit card before any purchases are made.

11. *Available Credit:* This is the amount of credit you have left on your credit card after subtracting your current balance.

12. *Cash Access Line:* This is the total amount of cash you are allowed to take out for a cash advance

13. *Available for Cash:* This is the amount you have left to take out for a cash advance

14. *Late Payment Warning:* A letter from the creditor warning that if they do not receive a payment by a certain date they will charge you a late fee and your APR may increase to the penalty rate

15. *Minimum Payment Warning:* A letter from the creditor warning that if you only make the minimum payment each month on your credit card, you will be expected to pay more interest and it will take longer to pay off your balance.

PAYMENT INFORMATION

New Balance	$1,097.82
Payment Due Date	08/27/10
Minimum Payment Due	$21.00

14 **Late Payment Warning:** If we do not receive your minimum payment by the date listed above, you may have to pay up a $39.00 late fee and your APRs will be subject to increase to a maximum Penalty APR of 29.99%

15 **Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of..
Only the minimum payment	13 years	$2,035
$37	3 years	$1,338 (Savings=$697)

If you would like information about credit counseling services, call 1-234-567-8910.

Continued...

ACCOUNT ACTIVITY

Date of Transaction	Merchant Name or Transaction Description	$ Amount
	PAYMENTS AND OTHER CREDITS	
07/19	Payment - Thank you	- 210.00
	PURCHASES	
07/24	Gourmet Food, Anytown USA	230.23
07/25	Hotel, Anytown, USA	370.94
07/26	Car Rental, Anytown, USA	226.42
07/27	Clothing 123, Anytown, USA	270.23

2010 Totals Year-to-Date	
Total fees charged in 2010	$0.00
Total interest charge in 2010	$0.00

Year-to-date totals reflect all charges minus any refunds applied to your account on or after January 31, 2010.

INTEREST CHARGES

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

16 **Balance Type**	17 **Annual Percentage Rate (APR)** 31 days In Cycle	18 **Balance Subject To Interest Rate**	19 **Interest Charges**	20 **Accrued Interest Charges**
Purchases	13.24% (v)	$0.00	$0.00	$0.00
Cash Advances	19.24% (v)	$0.00	$0.00	$0.00
Balance Transfer	13.24% (v)	$0.00	$0.00	$0.00

(v) = Variable Rate

Please see Information About Your Account Section for the Calculation of Balance Subject to Interest Rate, Annual Renewal Notice, How to Avoid Interest on Purchases, and other important information, as applicable.

16. ***Balance Type:*** The method in which interest is calculated for your account

17. ***Annual Percentage Rate:*** The annual percentage rate you'll be charged if you carry over a balance from month to month.

18. ***Balance Subject To Interest Rate:*** This refers to the balance that is being incurred interest

19. ***Interest Charges:*** A charge incurred by the credit card company to service its debt over a period of time

20. ***Accrued Interest Charges:*** The total amount of interest that has been charged to your account to date

Disclaimer: All quoted interest rates, fees, and repayment time frames are examples only. Refer to your personal credit card for terms and agreements.

Resources

AARP Legal Services Network
Access to attorneys who reduce their fees for AARP members and provide free consultations.
www.aarplsn.com
866-330-0753

Affordable Care Act
Information on the Affordable Care Act and various health care options can be found here.
www.hhs.gov/healthcare/facts/timeline/index.html

American Consumer Credit Counseling
130 Rumford Ave, Suite 202
Auburndale, Ma 02466
www.consumercredit.com
800-769-3571

American Student Assistance
For student loan borrowers in need of information about repayment options.
www.asa.org
866-493-5563

Benefits Checkup
Comprehensive screening of benefits programs from local, national, private, and public providers.
www.benefitscheckup.org
202-479-1200

Career One Stop
Information for employment, career success, education, training, unemployment benefits, and more.
www.careeronestop.org
877-348-0502

Check Systems
You can order a report to learn what information, if any, is listed in your consumer file at ChexSystems.
www.consumerdebit.com
800-428-9623

Credit Card Offer Removal List
The national credit bureaus offer a toll free number for you to opt out of all preapproved credit card offers with just one phone call.
888-5OPT-OUT (888-567-8688)

Credit Reporting Agencies
Experian
www.experian.com
800-682-7654
Equifax
www.equifax.com
800-865-1111
Transunion
www.transunion.com
800-916-8800

Direct Mail Removal List
The Direct Marketing Association has developed a tool to help manage your mail. Contact them be removed frommailing lists including catalogs, newsletters, donation requests, and more.
www.dmachoice.org
212-768-7277

Federal Deposit Insurance Corporation
You can find resources provided by the FDIC to protect and educate consumers
www.fdic.gov
877-275-3342

Federal Reserve
www.federalreserve.gov

Federal Trade Commission
www.ftc.gov

FICO Scores
To purchase your FICO scores; one from each bureau.
www.myFICO.com
800-319-4433

Resources

Free Annual Credit Report
This website enables you to order a free copy of your credit report from each of the credit reporting agencies.
www.annualcreditreport.com
877-322-8228

Government Benefits
Online access to government benefits and assistance programs.
www.benefits.gov

HUD Approved Counseling Agencies
The Department of Housing and Urban Development sponsors housing counseling agencies throughout the country. Find an agency near you.
www.hud.gov
800-569-4287

Internal Revenue Service
The nation's tax collection agency where you can find information on tax related information
www.irs.gov
800-829-1040

Making Home Affordable
If you are having trouble making your mortgage payments or have missed a payment, contact to see what options are available to you.
www.makinghomeaffordable.gov
888-995-4673

Medicaid
www.cms.gov
800-633-4227

Medicare
www.medicare.gov
800-MEDICARE (800-633-4227)

National Credit Union Association
You can learn more about how to join a credit union and financial self sufficiency.
www.ncua.gov
703-518-6300

Safelink
A government supported program that provides free cell phone and air time to income eligible participants.
www.safelinkwireless.com
800-977-3768

Service Members Civil Relief Act
Limits the amount of interest that can be collected on debts to 6% per year during military service.
usmilitary.about.com/cs/sscra/a/scra2.htm

Social Security Benefits
To order earnings and benefits statement or to report fraudulent use of SS#
www.ssa.gov
800-772-1213

Student Loans
Department of Education (student loans, forgiveness, grants, and more)
www.ed.gov
800-621-3115

TeleCheck
To report fraudulent use of your checks you may file a report with TeleCheck. You may also order a file report if you believe that there may be inaccurate or incomplete information.
www.telecheck.com

USA Government Made Easy
A-Z resources through the government's official portal
www.usa.gov
800-333-4636

US Department of Veterans Affairs
Information on veteran benefits and services, and locations of VA hospotals, clinics, benefits offices, etc.
www.va.gov
800-827-1000

Vet2Vet Veterans Crisis Hotline
877-838-2838

Glossary of Financial Terms

Annual percentage rate (APR)
The periodic rate times the number of periods in a year. For example, a 5% quarterly return has an APR of 20%.

Annuity
A financial product sold by financial institutions that is designed to accept and grow funds from an individual and then, upon annuitization, pay out a stream of payments to the individual at a later point in time. Annuities are primarily used as a means of securing a steady cash flow for an individual during their retirement years.

ARMs
Adjustable rate mortgage. A mortgage that features predetermined adjustments of the loan interest rate at regular intervals based on an established index.

Asset
Any possession that has value in an exchange.

Bankruptcy
State of being unable to pay debts.

Bond
A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

Budget
A detailed schedule of financial activity.

Cash Flow
A revenue or expense stream that changes a cash account over a given period.

Certificate of deposit (CD)
A certificate issued by a bank that indicates a specified sum of money. A CD has a maturity date and a specified interest rate, and can be issued in any denomination. The duration can be up to five years.

Chapter 7
Provisions of the Bankruptcy Reform Act under which the debtor's assets are liquidated by a court because a reorganization plan would not work.

Chapter 13
A U.S. bankruptcy proceeding in which the debtor undertakes a reorganization of his or her finances under the supervision and approval of the courts.

Credit
A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.

Credit bureau
An agency that researches the credit history of consumers so that creditors can make decisions about granting of loans.

Credit card
Any card that may be used repeatedly to borrow money or buy goods and services on credit.

Credit history
A record of how a person has borrowed and repaid debt.

Credit rating
An evaluation of an individual's ability to repay obligations or its likelihood of not defaulting.

Credit risk
The risk that a borrower may default on its obligations to repay debt and in a timely manner.

Credit scoring
A statistical technique that combines several financial characteristics to form a single score to represent a customer's creditworthiness.

Credit union
A not-for-profit institution that is operated as a cooperative and offers financial services such as low-interest loans to its members.

Creditor
Lender of money.

Creditworthiness
Eligibility of an individual to borrow money.

Debt
An amount of money borrowed from one party from another.

Debt ratio
Total debt divided by total assets.

Deficit
An excess of liabilities over assets.

Discretionary income
The amount of income a consumer has available after purchasing essentials such as food and shelter.

Disposable income
The amount of personal income an individual has after taxes and government fees, which can be spent on necessities, or non-essentials, or be saved.

Emergency fund
A reserve of cash kept available to meet the costs of any unexpected financial emergencies.

Estate planning
The preparation of a plan to carry out an individual's wishes as to the administration and disposition of his/her property before or after his/her death.

Federal Deposit Insurance Corporation (FDIC)
A federal institution that insures bank deposits.

Five Cs of credit
Five characteristics that are used to form a judgment about a customer's creditworthiness: character, capacity, capital, collateral, and conditions.

Fixed rate
A traditional approach to determining the finance charge payable on an extension of credit. A predetermined and certain rate of interest is applied to the principal.

Fixed-rate loan
A loan whose rate is fixed for the life of the loan.

Goal
An individual's financial objective.

Gross income
A person's total income prior to exclusions and deductions.

Homeowners Insurance
A form of property insurance designed to protect an individual's home against damages to the house itself, or to possessions in the home. Homeowners insurance also provides liability coverage against accidents in the home or on the property.

Homeowner's insurance policy
An insurance policy protecting a homeowner against damage or loss to property.

Insurance policy
A contract detailing an insurance policy and outlining what risks are insured, what insurance premiums are to be paid by the policyholder, what deductibles prevail, and all the details associated with a policy.

Interest rate
The monthly effective interest rate. For example, the periodic rate on a credit card with an 18% annual percentage rate is 1.5% per month.

Internal Revenue Service (IRS)
The federal agency responsible for the collection of federal taxes, including personal and corporate income taxes, Social Security taxes, and excise and gift taxes.

Liability
A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Life insurance
An insurance policy that pays a monetary benefit to the insured person's survivors after they pass away.

Life insurance policy
The contract that sets out the terms of life insurance coverage.

Living will
A document specifying the kind of medical care a person wants-or does not want-in the event of terminal illness or incapacity.

Money market fund
A mutual fund that invests only in short term securities, such as bankers' acceptances, commercial paper, repurchase agreements and government bills.

Mortgage
A loan secured by the collateral of some specified real estate property which obliges the borrower to make a predetermined series of payments.

Mutual Fund
Mutual funds are pools of money that are managed by an investment company.

Net Worth
The amount by which assets exceed liabilities.

Permanent Life Insurance
An umbrella term for life insurance plans that do not expire (unlike term life insurance) and combine a death benefit with a savings portion.

Power of Attorney
A legal document giving one person (called an "agent" or "attorney-in-fact") the power to act for another person.

Umbrella Insurance
Extra liability insurance coverage that goes beyond the limits of the insured's home, auto or watercraft insurance. It provides an additional layer of security to those who are at risk for being sued for damages to other people's property or injuries caused to others in an accident. It also protects against libel, vandalism, slander and invasion of privacy. An umbrella insurance policy is very helpful when the insurance owner is sued and the dollar limit of the original policy has been exhausted.

Renters Insurance
A form of property insurance that provides coverage for a policy holder's belongings and liability within a rental property.

Savings bond
A government bond issued in face value denominations from $50 to $10,000, with local and state tax-free interest and semiannually adjusted interest rates.

Savings deposits
Accounts that pay interest, typically at below-market interest rates, that do not have a specific maturity, and that usually can be withdrawn upon demand.

Secured debt
Debt backed or secured by collateral to reduce the risk associated with lending.

Tax refund
Money back from the government when too much tax has been paid or withheld from a salary.

Taxable income
Gross income less a set of deductions.

Term Life Insurance
A policy with a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the term life insurance policy or to let the coverage end.

Variable expenses
A cost to a person that varies over periods of time.

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