SPECIAL RESEARCH REPORT

PERSONAL FINANCE :

BUDGETING & EMERGENCIES

TRAINING

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SECTION 1 – BUDGETING FUNDAMENTALS

LESSON #1: BEGINNING TO BUDGET FOR DOLLARS

Thinking about today and tomorrow… and where it all fits together.

OUTLINE:

- **I.** **INTRODUCTION**
- II. **WRITING THE BUDGET FOR DOLLARS**
- **III.** **WHERE THE MONEY GOES**
- **IV.** **CONCLUSION**
- **V.** **LESSON EXERCISE**

OBJECTIVES:

Upon completing this section, you should be able to:

- Understanding what a budget is….
- How to write a budget
- Indentify what things really cost

INTRODUCTION

Getting off to the right start is an essential part of anything you do in life. Most importantly in budgeting, the small amount of time spent to design, scrutinize and analyze generally yields less stress and thanksful for what you do have. Whether you make your budget on a weakly or monthly basis the critical issue is continuing to practice at it over and over again, you'll be amazed at the findings.

BUDGETING: WHERE YOU STAND TODAY

If you're like most, you really haven't figured out what money is, or, more crucially, what credit is. Neither one will tell you how to conduct yourself, but each is a very powerful tool in the world of life.

Money is more than a lot of little coins and paper. It can become a way of achieving your aspirations, supporting you when adversity strikes, or providing you with security. It can also be a source of bitterness if it is not managed properly. That's why having a budget is so important… If you operate according to a carefully laid plan (and then stick to it), you'll be better able to achieve your financial goals and you'll have a greater peace of mind.

WRITING A BUDGET

Budgeting doesn't mean having less; it means doing more with what you have. Over time, our ideas change about what we'd like to have. Seventy years ago, a refigerator was a luxury; today it's a necessity. Today's luxury may be a home computer or DVD player. How long before it's a necessity?

DESIGN YOUR OWN PERSONAL BUDGET – Somebody else's budget just won't work for you. If you're a single professional, your plan will be different from that of a married couple who has three children, or from those who have entered the world of retirement. One important aspect of budgeting is to make each family member a participant and work together.

SCRUTINIZE – Your first step, no surprise, is to find out how you spend money now. Then you need to find out how to scale it back. Seriously, sort out your obligations with the *Budget Blueprint found at the end of this section.* Begin by using your checkbook as a data source, along with your bills from credit card companies, subscriptions, property taxes, wireless, water, sewer, garbage, and other utility suppliers. Other good sources are loan payment booklets, insurance premiums (most insurance companies charge a flat fee if you pay monthly – try to pay annually), and banking statements (they charge fees too).

ANALYZE – Use the time columns to help you picture spending over time (i.e., daily, weekly, monthly, or annually). A good example is paying your mortgage or rent once a month. Think about it for a minute, and then take that number and divide by 4.25 (to find out the weekly cost of your rent or mortgage). Then take the original monthly payment amount and divide by 30 to get the daily amount to cover the expense (Note: if it's an annual expense, then divide by 12, 52, or 365 for monthly, weekly, or daily cost, respectively). Do this little math calculation with any other bill. Add up the daily and weekly entries and find out how much you need to survive. Notice that I didn't say to grow wealth or to save, only to survive. If you found that the amount needed is greater than your current income, do one of the following things: 1) get a second or third job, or 2) see the last part of this booklet on your options.

What about your pocket change! Say you buy one or two soda(s) from either a vending machine or gas station (you've just been taken!). <u>IT'S $1.00 OR MORE PER SODA</u>! Multiply that by five days a week and we're up to $5-$10 dollars or more per week. Then multiply that by 4.25 weeks in a month… now your talking $40.00 or more in CARMEL COLORED SUGAR WATER. Look at your other bills and I'll bet that your paying more than $40.00 in interest alone on some bills per month. Refrain from consumption, cut it in half, or buy in packs and put the savings toward retiring the debt.

WHERE DOES THE MONEY GO…

With a few calculations and filling out all of the budget speadsheet, you know where the money goes. Next, take the current stack of bills you have, get on the internet, and go to www.lowermybills.com to find out if there are any ways to cut the expense of the current bills. For example, if you are in credit crunch time, get rid of either the land line phone or your cellular phone, and eliminate all of the extra features on the phone to get just the bare bones minimum (unless, of course, you are in your own business where the phone can pay for itself). THERE IS NO WAY THAT YOU SHOULD EXCEED 250 MINUTES THE $30 PLANS OFFER. Or better yet, go to using a cheap pager and buy a Wal-mart Phone card where you get 500 minutes for $30 bucks. Did you realize that 500 minutes equates to 8.3 hours? If you took ½ of the 8.3 hours and read an accounting book (bought at a library book sale for $1.00), you would become a well-educated person in accounting, rather than a well phoned-person. Another possibility is to go the prepaid route and save yourself a monthly bill… fix your minute use and don't buy any more minutes until near the end of the month or at a 60-day time frame.

Try to anticipate changes. What I call the Unforeseen Problems of Life (UPLs). And the best defense for them is a well oiled savings plan. Some of these expenses include payment of a car repair, a home repair, clothing damage, and sick time from pending health issues.

REALIZE –

As you map out the *Budget Bluprint* and your expenses come into focus, you'll probably see places where you will want to make changes. Use the "Goals" column to note what improvements you want to make, and by what time. This way you can chart your success, which is the best visual incentive tool to keep at it!

The savings and installment payment categories have room to show at what percentage rate you're saving and borrowing. For savings, record annual yield to see at a glance which accounts are doing the most for you.

Installment payments, on the other hand, will hurt you more at higher rates. Say you have a national credit card at 21% annual percentage rate (APR), an auto loan at 11% APR, a department store account at 18% APR, and a student loan at 6% APR. Of course, always make your minmum monthy payment, but beyond that, put more money towards the national credit card because it is costing you more.

Use your credit card statement to break down expenses by category – so much money to buy clothing, for example. Just be careful not to put the figures in both the "Clothing" and the "Installment Payment" categories or your "Total Expense" will be wrong. Don't forget that if you are financing the clothing (i.e., you did not pay the bill off in full), add the interest to the $24.99 pair of jeans, and when everything is said and done, you actually paid $42.50. Your real cost is $42.50, not $24.99.

Don't be intimidated by the Blueprint; it's intended to give you flexibility. Remember, the first step is to find out where the money comes from and where it goes. Use those parts of the Blueprint that apply to you to get the biggest bang for your buck.

Now, it's time to stop passing the buck, and put more of it on your own back… be responsible.

SOME EXCERPTS FROM VARIOUS WEB SITES:

"I then took my car payment note and divided by four. This is the amount that I must pay to my envelope each week to pay my car note at the end of the month. Then I did the same with my car insurance, student loan, gas and oil changes (est. gas bill), groceries (we limit $20.00 weekly and easily stick to it for the 2 of us), medical (we spend approx. $30.00 per month on medicine, but I add about $5.00 more each week for check-ups), Internet cost, and my $7.00 bank fee. These are bills that must be paid."

CONCLUSIONS:

THERE ARE 4 PRIMARY TYPES OF BANKRUPTCY,

CHAPTER 7: LIQUIDATION

Chapter 7 is designed for debtors in financial difficulty who do not have the ability to pay their existing debts

CHAPTER 13: REPAYMENT OF ALL OR PART OF THE DEBTS OF AN INDIVIDUAL WITH REGULAR INCOME

Chapter 13 is designed for individuals with regular income who are temporarily unable to pay their debts but would like to pay them in installments over a period of time. You are only eligible for chapter 13 if your debts do not exceed certain dollar amounts set forth in the Bankruptcy Code.

CHAPTER 11: REORGANIZATION

Chapter 11 is designated primarily for the reorganization of a business but is also available to consumer debtors. Its provisions are quite complicated, and any decision for an individual to file a chapter 11 petition should be reviewed with an attorney.

CHAPTER 12: FAMILY FARMER

Chapter 12 is designed to permit family farmers to repay their debts over a period of time from future earnings and is in any ways similar to a chapter 13. The eligibility requirements are restrictive, limiting its use to those whose income arises primarily from a family owned farm.

The tough questions must now be answered to rein in on the spending habits that have plagued your financial picture. The budget is the foundation of putting a responsible financial house in order. Balance of spending and saving are the keys to proper actions that inmpove financial health, living standards, and many times personal spiritual health.

LESSON EXERCISE:

Fill in the blank with the correct word:

Borrow owe lend

1. Manual paid all of his bills on time because he did not like ……………… money to anyone.
2. It is less expensive to …………….. books from a library than to buy them from a bookstore.
3. A classmate will ……………… you a pen if you forget yours.

Use the present perfect or the past tense of the verb in parentheses

1. They(come)………… to United States three years ago.
2. The Castillos(rent) ……………… their apartment since 2000.
3. The Castillos are not new neighbors They (live) ………….. in this same neighborhood for five years.
4. Their friends (buy) …………………. A new house two months ago.
5. There (be) …………….. more new houses built in the neighborhood since last year.

Write a letter to Rosa and Manual Castillo. First, tell them about the advantage and disadvantages of obtaining a mortgage. Next, give them advice on the costs of a home before possession and after.

SECTION 2 – THE BASICS OF MONEY MANAGEMENT

LESSON #2:

PERSONAL PLANNING, VALUES, GOALS, AND PRIORITIES

OUTLINE:

I. INTRODUCTION

A. Values
   1. Why Values Are Important to a Successful Financial Recovery
   2. Achieving Balance Between Values

B. Wants vs. Needs

C. The Real Value of Money

II. VALUES, GOALS, AND PRIORITIES

A. Communication
   1. Upbringing
   2. Communication Techniques

B. Relationships and Money

C. Emotions and Money

III. THE PLANNING PROCESS

IV. CONCLUSION

V. LESSON EXERCISE

VI. SUPPLEMENTAL SECTION
   1. Beware of Bankers Touting Home Equity Loans
   2. Borrower's Bill of Rights

OBJECTIVES:

Upon completing this section, you should be able to:

- **Determine your values** – what are the most important things to you
- Understand the **steps in the planning process**
- Establish **realistic goals** and write them down
- **Set priorities for your goals** – i.e., put first things first

INTRODUCTION

Financial success seldom happens by accident. And it seldom happens overnight.

Those who are able to achieve their financial goals in life – even those with relatively little income – have usually identified their specific goals, and then have developed a plan that will help them achieve their goals over time.

Even though you may feel overwhelmed at this point, remember that you CAN develop a financial plan for yourself that will help you to achieve your goals. Your financial plan doesn't have to be complicated, sophisticated, or require the help of a professional.

You don't have to earn a lot of money to have a financial plan. Your financial plan can be as simple as finding a way to live within your income, pay your bills on time, and maybe save a little bit of money as well.

It is helpful to think of your road to financial recovery as just that – a journey. Your financial success is the destination of your journey, and your financial plan is the road map that will get you to that destination. Before we talk about how to develop your plan, it is helpful to explore some other facets of your life that can either speed up or slow down your journey to financial success. Just as you have many small and large choices that you must make in preparing for a trip, you will also have many choices to make in developing your successful financial plan.

VALUES

Why are values important to a successful financial plan?

We value the things we think are important. In a time of hard financial choices, you have to re-examine the things you really value in life and decide to spend your money only on the things you value most. If you are not careful, you may end up devoting all your time, money, and energy to the immediate crisis and neglecting other things that are really important.

One way to help you decide which of your values is the most important is to set priorities. Completing the activities on this page will help.

Values Activity #1 — Values Priority Chart

1. List your additional values in the "Values" section on the left.

2. Rank them in their order of importance to you in the "Priority Order" section on the right.

For instance, if both financial health and mental health are important to you, which one would you choose to address first if you had to make a choice?

Values Priority Order

- *Rewarding Career* ____________________
- *Financial Health* ____________________
- *Mental Health* ____________________
- *Spiritual Health* ____________________
- *Physical Health* ____________________
- *Family Relationships* ____________________
- ____________________ ____________________
- ____________________ ____________________
- ____________________ ____________________

Values Activity #2: "I Won the Lottery"

What would you do if you won the lottery? Name the first three things on which you would spend your money if you won the lottery:

1. ____

2. ____

3. ____

Did you find that the items you listed here reflect the values you listed in Activity #1?

How much time, money, and energy is spent on your first priority? Where are you spending most of your resources?

ACHIEVING BALANCE BETWEEN VALUES

You often find that you have to make difficult choices between values when they compete with each other for your time, money, and energy.

When values conflict with each other, success in one can cause you to have to compromise another. For instance, if you value your work and your family highly, but your job demands that you spend a lot of overtime, a conflict could arise when that overtime at the office takes quality time away from your family.

The trick is to be able to balance your values so that they complement each other. This means that achievement in one promotes achievement in the other. But how do you achieve this balance in the real world? The planning process will help you achieve this balance because you will take all of your most important values into consideration when you develop your financial plan.

The values you have listed will be reflected in the goal(s) that you have set for yourself. You may well find that you have more than one goal that you want to pursue. That can be built into your plan. But just as you have set priorities with your values, you will also need to set priorities with your goals.

We will talk more about the planning process later in this lesson on page 23, but keep the importance of planning in mind as you read more about values.

WANTS VS. NEEDS

Values Activity #3: The Difference Between Wants and Needs

Where does most of your money go? Does it go to "wants" or "needs?"

WANTS	***NEEDS***
What food do I like?	*What food do I need to stay healthy?*
What clothes do I want to be in style?	*What clothes do I need for work or recreation?*
What kind of car can I drive to make people think I'm important?	*What transportation do I need to get to work?*
What kind of home will impress people?	*What housing meets my basic needs?*

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Examine the lists below. Have you ever thought you really *need* anything on the list of "wants?"

Basic Needs

Food – Clothing – Shelter – Good Health – Love

BASIC NEEDS FOR WORK/EMPLOYMENT

Health care – Work skills – People skills – Transportation – Support from family – Stable home life – Enthusiasm for work – Good credit history

Wants

Cell phone – VCR – 4WD Vehicle – Big house – Designer jeans – Boat – Sports car – CD player – Fancy sound systems – Truck – Fitness equipment – Whatever friends have – Vacations – Swimming pool – Credit cards – Whatever is advertised

The basic needs of life are quite simple. What good are the "wants" if we don't enough money for the basics of food, clothing, and shelter?

THE REAL VALUE OF MONEY – HOW MUCH IS MONEY REALLY WORTH?

Money in and of itself is not worth much. The value of money is only a function of how it fulfills your own wants and needs.

Some people have sold or given all they had to the poor. Others have spent their entire lives in the pursuit of wealth and power and have become rich. The true value of money to *you* probably lies somewhere in between these two extremes. *The value of money is only a function of how it fulfills your own wants and needs.*

"Money can't buy you …"

Money can't buy you many of the things in life that most people value most highly.

Love – *Many people try to fill this emotional need by buying things.*

Happiness – *If money could take away loneliness, rich people would not be lonely.*

Security – *If money could give real security, no one who is wealthy would ever feel insecure.*

Prestige – *People you recognize as having power or position in your community aren't always those with the most possessions.*

VALUES, GOALS, AND PRIORITIES – WHAT YOU WERE TAUGHT

What you think about money is shaped by the way you were brought up and all the experiences of your life.

You probably heard both positive and negative messages about money when you were growing up – sometimes even from the same person. Knowing how these messages affect us today is important to understanding why we make, spend, and save money as we do.

Values Activity #4: Money Message

Take a moment and write down the answers to these questions.

- *What messages or "sayings" about money did you hear from your parents, grandparents, aunts, uncles, or other significant persons in your life?*
- *What did they say about money – making money, spending money, saving money, etc.?*
- *What didn't they say about money?*

After we become adults, some messages affect us more than others. What messages did you receive about money as a child which might be affecting your spending decisions today as an adult?

These impressions come from different sources and can affect the way we feel about money. For example, your concepts of money might be influenced by being the oldest or the youngest child, or an only child. What we learn in childhood, including our attitudes about money, becomes firmly set by the time we are adults.

The same is true about differences in our personalities and upbringing. All of these factors affect our spending habits and, in turn, impact our relationships.

COMMUNICATING MONEY ISSUES

Communication is important to your money choices because the financial choices you make affect not only you, but other people as well. Communicating your feelings about money and your financial objectives with others who are part of your life – your family, friends, employers, business associates, and your attorney – is critical to your personal financial success. Just as we learn our attitudes about money as children, we also learn to communicate – particularly about money – in childhood. Did your parents, for instance, "never talk about money in front of the kids?" Did one of your parents hide his or her spending behavior from the other? Did your parents argue about money because they disagreed about how it should be spent?

COMMUNICATION TECHNIQUES

In the best of times, communication can very easily become confused; in the worst of times, it can be almost impossible. You may have heard the Abbot & Costello comedy sketch about "Who's on First." This is a funny exchange because the two people are not communicating. A few simple "listening techniques" will help you to be better able to communicate your concerns about money, your financial objectives, and your financial plan to others who may be directly or indirectly involved in your financial affairs.

Here are some simple techniques that you can use to improve your communication about money or any other topic of importance in your life.

- Be clear about what you want to say before you attempt to explain something to someone else.
- Identify the issue you want to discuss with the other person and make sure they understand it before you begin your discussion.
- Don't jump to conclusions.
- Stay on the topic.
- Ask the other person if they understand the meaning of what you are saying.
- Tell the other person what *you* think *they* are trying to say to you.
- Don't blame!

RELATIONSHIPS AND MONEY

In relationships, we are often attracted to opposites. We often seek out other people to make us feel more complete. Each person comes to a relationship with his or her strengths and weaknesses. However, these in turn can turn into power struggles. It then becomes hard to determine whose way is the "right way" to handle finances. There may be no "right way" to handle finances, but people who live and work together can find the "best way" to handle their finances by communicating their own feelings about money to each other.

Values Activity #5: Personality Types

Study this list of personality types, which might be said to be "opposites," then fill in the spaces to the right.

Description	***Which One Are You?***	***Which One Describes Your Most Significant Family Member***
Risk Taker or Conservative	______________________	______________________
Saver or Spender	______________________	______________________
Worrier or Happy-Go-Lucky	______________________	______________________
Detail Lover or Big Picture	______________________	______________________

There is usually a "gap" in the thinking of individuals who are opposites. The goal of communication is to build a bridge between people, to "bridge" this gap so that they can work together to achieve each of their financial goals.

Defining the "type" of your partner will allow you to discuss financial matters from his or her perspective, not yours. This technique will facilitate productive communication.

EMOTIONS AND MONEY

Do you think that feelings or emotions affect the way you spend money? Ask yourself if you are spending your money on the things that are really important to you, or whether you are spending money for other reasons, such as these:

- Have you ever felt deprived and angry when you didn't have enough of what you really wanted for yourself?
- Have you ever spent money you didn't have on "bargains," thinking that you were saving money?
- Have you ever used your credit cards to buy things because you didn't have enough money to pay cash for them?

Do you control your money or does your money control you? Here are emotions that may have affected your spending at some time in the past.

Anger

Have you ever been angry with someone so you spent money just to "get even?"

Guilt

Have you ever felt guilty about neglecting someone so you bought them a gift to make *you* feel better?

Jealousy

Have you ever bought something just because someone you know had one just like it, not because you really needed that item?

Depression

Have you gone to the mall when you were feeling down, or have you spent money you didn't have because you thought buying yourself something would soothe your feelings?

Joy

Have you decided to celebrate something good that has happened to you by purchasing a wanted but not needed big ticket item?

Loneliness

Have you ever gotten off work and avoided going home because no one was there?

Did you then go shopping so you wouldn't have to be alone?

Values Activity #6: Values and Goals Questionnaire

Answer the following questions: If you live with others, think about how they might answer. Ask them to answer these questions, too. You may be surprised at what you will learn about each other.

- *What are your greatest fears about money? What do you think might happen if you don't have enough?*

Your Response	***Partner's Response***
____________________	____________________
____________________	____________________
____________________	____________________

- *What money topic often starts an argument within your family?*

Your Response	***Partner's Response***
____________________	____________________
____________________	____________________
____________________	____________________

- *If you had to cut back on spending, what would you cut? How much could you save?*

Your Response	***Partner's Response***
____________________	____________________
____________________	____________________
____________________	____________________

- *If you suddenly had $10,000, what would you do with it?*

Your Response	***Partner's Response***
____________________	____________________
____________________	____________________

- *What was the poorest choice(s) you ever made about money? Why?*

Your Response ***Partner's Response***

- *How has your attitude about money changed from childhood, or in the last three to five years?*

Your Response ***Partner's Response***

- *What kind of things are a pleasure to buy?*

Your Response ***Partner's Response***

- *What kind of things are not a pleasure to buy?*

Your Response ***Partner's Response***

- *Do you think you are too tight with money, too free with money, or about right with your spending habits?*

Your Response ***Partner's Response***

- *If you wanted to save money for some things that are important, what would they be?*

Your Response ***Partner's Response***

THE PLANNING PROCESS

Now that you have a better understanding of how your values affect your priorities, how your priorities affect your spending choices, and how your spending choices are affected by your attitudes and beliefs, you can start to identify your financial goals. When you have a clear understanding of your goals, then you can start to develop your plan to achieve them.

You *can* regain control of your financial life, establish financial security, and achieve your own personal goals and dreams. For instance, imagine yourself debt free, living within your income, and saving money. This is a realistic goal!

We talked about using the planning process as a roadmap that will help you reach your goals. Identifying your wants and needs is like putting up the various traffic signals that will help you get to your destination without having an accident.

FOUR STEPS IN THE PLANNING PROCESS

1. ***Assess needs***
2. ***Set goals***
3. ***Make a plan***
4. ***Take action***

Step #1 – Assess Needs

Evaluate your current financial situation. In this step, take a broad look at the way things are now. Ask yourself these questions:

- What are my basic needs?
- What else do I need?
- Do I really NEED it? Is there an alternative to buying it now?
- What else do I want?
- Why do I want it?
- How would life be different if I had it? What would change if I had it?

Make a list of wants and a list of needs. Go back to Activity 1 on page 15. Do the lists agree with your values and priorities?

Step #2 – Set Goals

A goal is a specific result you intend to work toward. A realistic goal is **SMART**:

S*pecific*

M*easurable*

A*ttainable*

R*elevant*

T*ime-related*

Specific – Set specific goals which you can clearly name. For example, save money to get a new refrigerator – not just to save money.

Measurable – Measure goals by the time and/or money it will take to attain them.

Attainable – Make sure goals are reasonable and possible. For example, "I know I can save ***X*** dollars each week to reach my goal within six months."

Relevant – Make sure your goals fit your needs.

Time-related – Set a definite target date. For example, "I must save enough to purchase a new refrigerator within six months (by ______________ month, ________ day, ________ year)."

Now, list the results you are working toward. Examples of goals could be as follows:

- "By __________ (date) I will have paid off my ________________________."
- "By __________ (date) I will have saved $_____ (specific dollars) for a trip to visit ________."
- "By __________ (date) I will have ____."
- "By __________ (date) I will have ____."
- "By __________ (date) I will have ____."
- "By __________ (date) I will have ____."
- "By __________ (date) I will have ____."
- "By __________ (date) I will have ____."

Step #3. Make a Plan

Imagine the actions or steps you need to take to get from where you are now to where you want to be. The more steps you can visualize, leading from where you are to where you want to be, the more likely you will be to reach your goal.

Once you can truly "see" the actions you need to take to get you to where you want to be. Write down everything needed to accomplish each of these actions. Be sure you think about the money, time, energy, people, and information that will be required.

Action	***Resources Needed***
________________________	____
________________________	____
________________________	____
________________________	____
________________________	____

Next, determine the best order in which you should take these steps. What do you have to do first, second, third… last? Try to foresee possible roadblocks to reaching your goal, but don't let these roadblocks discourage you. Thinking about them now will give you the opportunity to prepare for them before they happen.

Steps	***Possible Roadblocks***	***Possible Solutions***
1. __________________________	______________________	________________________________

2. ___________________________ _______________________ __________________________________
3. ___________________________ _______________________ __________________________________
4. ___________________________ _______________________ __________________________________

Step #4. Take Action

Take the first step. Many times goals are not reached just because the first step was never taken. Just ***having*** a plan doesn't mean you will reach your goal. You must actually ***take the actions*** listed in your plan.

Keep on keeping on. When you encounter obstacles, persistence wins more often than talent. Place reminders or pictures of your goals where you will see them every day. This will remind you of them as you make financial choices.

CONCLUSION

Financial success is usually a result of consciously deciding what we really want and need and making a realistic plan to achieve these things. In order for us to get what we want or need or help someone else to get what they want or need, we have to have a clear understanding of our values. Our values affect our priorities, and our priorities affect our spending choices. All along the way, our background, training, relationships, emotions, and communication all influence the choices we make about our goals, priorities, and spending.

Whenever you spend money for anything, you are making a decision, even if it is a small one. Before you take out your wallet, remember what you value most in life, what goals you have already decided you want to achieve and when, and the plan you have made to achieve those goals.

You may even forget once in a while and spend money without thinking. If you do, it isn't the end of your plan. But you do need to assess how that thoughtless expenditure has affected your plan. Then, adjust your plan so that you can get back on track right away.

We will talk more in the next chapter about just how to spend your money so that your daily spending keeps you on plan.

LESSON EXERCISES

Choose the best answer and circle the letter.

1. A mortgage lender wants to see a credit report
   a. To find out were you shop
   b. To decide if you will be able to repay the loan
   c. To see how much money you have in the bank
2. You can get a copy of your credit report from
   a. your bank
   b. The library
   c. A credit reporting agency
3. If you don't have credit cards or have never had a loan, you can
   a. Put together your own nontraditional credit history
   b. Get a letter from a bank
   c. Get a letter from a credit reporting agency

Write in the answer

4. From a sample credit report, which creditor shows the worst repayment record.______________

Discuss these questions with your classmates. Report your group's answers to the classs.

5. From the sample credit credit, what should be done to improve it?
6. What would a lender say about the credit report?
7. How does the credit report effect the terms of credit from lenders.

Fill in the blank with the correct answer.

Debt check utilities cancelled checks late charges agency

1. If you don't pay your credit card bill on time, you have to pay ……………………….
2. you can make copies of your ………………………….. for a nontraditional credit history.
3. …………….. is the money you owe for credit cards, car loans, school loans, and any other loans.
4. Elelctricity, gas, and water are …………………….
5. A lender of any credit will ………………….. your credit history.
6. You can get a copy of your credit report from a credit reporting ……………….

CLIPPING COUPONS:

Clipping coupons can have big payoffs when you begin to figure it out. I spent five minutes to save $4. That's an hourly rate of $48 non-taxed. If you spend 30 minutes doing the coupons and going through the flyers and then save $25 at the store, that's $50 an hour.

Granted, most efforts at savings don't pay off at the $50 an hour rate, but once you have these money saving habits down, they pay off big.

The more I thought about it, the more I began to realize how much those habits can lead to financial freedom, especially if you are very intentional about what you do with the money saved.

However, you can go to the other extreme. It doesn't really make a lot of sense to drive five miles because they have milk on sale for ten cents a half gallon less than your corner store. Still, applying some of those money-saving habits and then making good use of what you save can have a profound influence on your financial life.

Of course, different money-saving habits will work for different individuals and families depending on geography, circumstances, and interests.

TIPS TO GET YOU STARTED

- **Buy gently used when it makes sense** – The amazon.com marketplace and half.com act as online consignment stores for books, movies, software, and the like. Often you can find like-new items without having to spend too much time as both sites are well organized. Used cars make sense for people who don't drive a lot and you can find some real bargains on gently used furniture in the classifieds and consignment stores.
- **Use grocery coupons** – Once you get a system down, you can use a rotation system to slash your food dollar. You can buy non-perishables when they are on sale and then use a coupon. If your schedule allows you to go to the store in the morning, you can also buy surplus meat or milk, which is perfectly good, but value priced. These tools can save up to 50% off your grocery bill.
- **Use online auctions for gift type items** – If you think ahead and realize that Aunt Franny loves Hummel figurines and doesn't have a particular one, you can save yourself money and hassle by going on eBay.com or another auction and finding it rather than going to a mall the day before and buying a scarf that ends up not being her color.
- **Go to closeout stores** – You can do remarkably well for clothing, housewares, and lots of other items in closeout stores such as Big Lots, TJ Maxx, Marshall's, and Burlington Coat Factory. The selection of merchandise can be remarkably current. If you haven't been to one of these stores lately, check them out.
- **Use your daily newspaper to identify sales** – Here in Michigan, JCPenny, Marshalls, and Sears may have sales almost every weekend. Catch them and you can save a bundle on current merchandise.
- **Check out the dollar stores** – Stores like the 99 Cent Store and Dollar Tree are becoming a larger part of the landscape. Here you can find a lot of closeout merchandise for a dollar. Often they are current products that merely are experiencing a change in labeling. Today, when I was out wandering around, I stopped by Dollar Tree and saw pickle relish at a great price. Since I use that

relish a lot in the macaroni salad that I make for bar-b-que's and potlucks, I grabbed several jars. This is also a great source for videotapes, snack products, juices, and the like. Just be careful about expiration dates.

Once you develop and start to use your own array of savings habits, one key step is to be very intentional about what to do with the money you save. Let's say you get inspired and start saving $200 a month. What would be good use of that money. Again, that depends on your circumstances, but here are some ideas:

- **Get out of debt** – Debt is the enemy of financial freedom and credit card debt is the worst. If you are enslaved to the card companies, check out some of the other articles on this site for more ideas.
- **Develop a cash reserve** – If you don't have a cash reserve for when the clutch on the car blows, this would be a great use for the money you save. Start by putting it in the back of some drawer if you need to, and then start a savings account when you have enough. This way you won't have to borrow when you have an unexpected need for money.

BEWARE OF BANKERS TOUTING HOME EQUITY LOANS IN MICHIGAN

These loans are extremely painless and risk free – to the banker. After all, the bank can always foreclose or place a lien if you do not pay your loan. So much for good credit. They can be extremely risky to borrowers.

Here in Michigan, the ads are ever-present… "You've worked hard to build up equity in your home. Now let your home work for you." The ads may feature couples talking about kitchens, Hawiian vacations, boats, or whatever. The banks make borrowing against your equity seem like a painless way to enjoy the good life.

They can be extremely risky to borrowers because many times it's not getting out of debt – it's replacing secured debt with unsecured debt. Let me tell you that "when the rubber hits the road, unsecured debt doesn't stand a chance versus secured debt." But let's do the math: You own a home worth $100,000 and you have $20,000 dollars in equity and $15,000 in credit card bills. The mortgage broker sold you the song and dance and you refinance 100% to "lower your payments and deduct the interest" – yeah, right (half-truth). What really happened is that you lost all your equity and you are still paying interest on your own money (equity) and the mortgage broker got his fees. You get behind again in some payments and the interest on the new $97,000 note with the principal surpasses the value of the home. Do you realize that you will never get any money out of your home if you were to sell it – not now and maybe never depending upon your neighborhood? Because you got behind, you figure you can save the house with a cash advance on the credit cards that you failed to destroy in the first place. One year later, you have no home value, still a monthly payment, and new credit card debt. **"CUT BAIT" or I should say CUT CARDS - IT'S YOU AND YOUR SPENDING HABITS THAT ARE THE PROBLEM, AND YOU FAILED TO LEARN THAT THE FIRST TIME AROUND**.

Home equity loans can take various forms… One is a refinance of the original mortgage that is structured in such a way that you get some cash, out which you pay back into the new mortgage. Another form is a separate loan against the equity in your home. You can also get a line of credit, which means that you are not borrowing now, but you are able to at some later date when you find something you need (want?) money for. Some banks even offer credit cards secured by the equity in your home. Can you imagine what a shopaholic can do with that type of credit card?

Bankers know that things are slow. Until about a year ago, many of us had a variety of ways to get extra money if we wanted it or needed it. Those of us with a little knowledge of stocks could find an under priced stock, buy some shares, and wait a few months for it to go up. During the bull market, that worked most of the time. High-tech professionals could find a little consulting job on the side and use the money for a new car or Hawiian vacation.

Those opportunities are now gone for many of us, but our appetite for the good life is not gone. Bankers and their ad agents know this. With fewer people coming to the bank for long-term loans, bankers would much rather put on an ad blitz for home equity loans than lower interest rates to entice people to borrow.

Home equity loans can be useful, but they can also be very dangerous. You need to decide if the loan is right for you. Here are some questions to consider:

- *How sure am I that I will be able to pay off the loan?*

  Let's take a look at two opposite scenarios. In the first scenario, a formerly paid high-tech worker gets laid off. This has never happened to him before because he's used to a great salary and not having to budget. He figures that he'll get another job soon because he has great skills. He figures that while he is between jobs is a great time to travel. The economy takes longer to recover than he expected and he starts getting those nasty notices. For him, now is not the time for a home equity loan.

  In scenario two, a couple finished paying off their mortgage three years ago. They had incurred a large number of expenses the past several years from putting their children through college. They both have done well in their work. Their house, however, is not doing as well as their careers or their children. They need a new roof and paint inside and out. Most of their assets are in retirement accounts and they don't want to be cash poor. They research the various options and find that a $35,000 home equity loan can help them have a house that they will enjoy and that will sell for more when the time comes. For this couple, a home equity may be the right thing to do.

- *Why am I considering borrowing against my home?*

  People consider borrowing for many reasons. Sometimes it is because they are out of control as a result of poor financial habits. Sometimes it is because of an unforeseen, unfortunate event. Sometimes it is to make long-lasting improvements in their life or surroundings.

  <u>NEVER borrow against your home to make up for poor planning unless you are 100% sure you have solved your problem, and then only after at least a year of making substantial progress at eliminating your debt</u>. If you have heavy credit card debt and want to use home equity to pay off that debt because it is less expensive, you may be looking for trouble. The same bad habits that got you into credit card debt could cause you to default on your home equity loan, with much greater consequences.

- *Can I afford the payment now?*

  Many people who wrongly use home equity loans are optimistic about the future. Maybe business is down in my company now, but that won't last forever. I'll just use some of my savings to make up for the shortfall for a few months (or worse yet, borrow against a credit card), but that will be only a short-term phenomenon because, after all, this downturn can't last forever.

- *Will the benefits of the what I do with the money last longer than the time I have to pay?*

Many of the ads suggest using a home equity loan for a boat (which also generates a number of expenses, such as docking fees or a trailer to tow it). If you take out a 20 year loan, will you still be enjoying the boat after you make the last payment?

One rule to staying out of the permabroke mode is to only use money to finance undertakings that will still be of benefit to you after you make the last payment.

Using a home equity loan to finance travel when you are between jobs certainly won't fall within those parameters.

Home equity loans have helped many homeowners improve their plots in lives. Some have started businesses as a result of those loans, while others have improved their homes and helped their children through college.

Too often, however, home equity loans of all kinds have taken over-extended borrowers to a new level of financial enslavement and have actually cost some borrowers their homes.

The tone of the current ads for home equity loans is very disturbing to me. They seem to be luring people to come in and finance wants and whims rather than needs and plans. They seem to appeal to the appetite we have gained during the last boom for more and more luxuries instead of encouraging us to take stock of ways to really preserve what we have and improve our financial lives. Would you believe an actual law had to be made for lending disclosure. You should be aware of the following MICHIGAN HOUSE BILL 6121 signed 12/27/02:

"BORROWERS BILL OF RIGHTS"

1. You have the RIGHT to shop for the best loan for you, and compare the charges of different mortgage brokers and lenders.
2. You have the RIGHT to be informed about the total cost of your loan including the interest rate, points, and other fees.
3. You have the RIGHT to obtain a "Good Faith Estimate" of all loan and settlement charges before you agree to the loan or pay any fees.
4. You have the RIGHT to know what fees are nonrefundable if you decide to withdraw your loan application.
5. You have the RIGHT to ask your mortgage broker to explain exactly what the mortgage broker will do for you.
6. You have the RIGHT to know how much the mortgage broker is getting paid by you and the lender for your loan.
7. You have the RIGHT to ask questions about charges and loan terms that you do not understand.
8. You have the RIGHT to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is derived from public assistance.
9. You have the RIGHT to know the reason if your loan application is turned down.

10. You have the RIGHT to receive the HUD settlement costs booklet "Buying Your Home."

Sec. *7*. At the time a person applies for a mortgage loan, the lender shall provide the applicant the following written notice regarding the value of receiving credit counseling before taking out a mortgage loan and a list of the nearest available HUD-approved credit counseling agencies:

"CONSUMER CAUTION AND HOME OWNERSHIP COUNSELING NOTICE"

If you obtain this loan, <u>the lender will have a mortgage on your home. You could lose your home</u>, and all money you have invested in it, if you do not meet your obligations under the loan, including making all your payments. Mortgage loans rates and closing costs and fees vary based on many factors, including your particular credit and financial circumstances, your earnings history, the loan-to-value requested, and the type of property that will secure your loan. Higher rates and fees may be applicable depending on the individual circumstances of a particular consumer's application. You should shop around and compare loan rates and fees. This particular loan may have a higher rate and total points and fees than other mortgage loans. You should consider consulting a qualified independent credit counselor or other experienced financial adviser regarding the rate, fees, and provisions of this mortgage loan before you proceed. For information on contacting a qualified credit counselor, ask your lender or call the United States Department of Housing and Urban Development's counseling hotline at 1-888-466-3487 for a list of counselors.

You are not required to complete any loan agreement merely because you have received these disclosures or have signed a loan application. If you proceed with this mortgage loan, <u>you should also remember that you may face serious financial risks if you use this loan to pay off credit card debts and other debts in connection with this transaction and then subsequently incur significant new credit card charges or other debts.</u>

Property taxes and homeowner's insurance are your responsibility. Not all lenders provide escrow services for these payments. You should ask your lender about these services. Your payments on existing debts contribute to your credit ratings. You should not accept any advice to ignore your regular payments to your existing creditors."

OTHER CONSUMER PAMPLETS AVAILABLE

"Consumer Handbook on Adjustable Rate Mortgages"

"A Consumer's guide to Mortgage Closing Costs"

"A Consumer's guide to Mortgage Lock-Ins"

"A Guide to Business Credit and the Equal Credit Opportunity Act"

"When your Home is on the Line: What you should know about Home Equity Lines of Credit"

Copies of the above pamplets are available upon request from Publication Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

$ BUDGET BLUEPRINT

EXPENSE	Weekly	Per Paycheck	Monthly	Quarterly	Yearly	Goals
Shelter						
Rent or Mortgage						
Utilities						
Heat						
Property Taxes						
Water						
Garden Supplies						
Telephone						
Property Insurance						
Maintenance/Cleaning						
Garbage Collection						
Condominium Fees						
Transportation						
Car Payment						
Car Payment						
Gasoline						
Maintenance/Cleaning						
License						
Insurance						
Bus/Taxi/Tolls/Parking						
Food						
Groceries						
Delivered Goods						
Snacks						
Work Lunches						
School Lunches						
Clothing						
Personal						
Spouse						
Children						
Maintenance/Cleaning						
Entertainment						
Vacations						
Meals Out						
Movies/Plays/Music						
Spectator Sports						
Sports Equipment						
Television/Cable/Public TV						
Savings						
Credit Union (%)						
Education (%)						
Company Savings Plan (%)						
IRA (%)						
Other (%)						
Health						
Medications						
Insurance						
Doctor						
Dentist						
Exercise Classes/Equipment						
Education						
Lessons						
Tuition						
Books/Papers/Magazines						
Supplies						
Family						
Life Insurance						
Legal						
Child Care: Daily						
Occasional						
Allowances						
Gifts						
Pets: Food						
Medical						
Donations						
Church/Synagogue						
Political						
Charitable						
Other						
Personal						
Barber/Beauty Shop						
Toiletries						
Postage						
Tobacco						
Alcohol						
Other						
Installment Payments						
Credit Union (%)						
Credit Card (%)						
Credit Card (%)						
Department Store (%)						
Student Loan (%)						
Other (%)						
Other (%)						
Miscellaneous						
Union/Other Membership Dues						
Taxes: Social Security						
Income, Federal						
State						
Local						
Unreimbursed Business Expenses						
Other						
Other						
TOTAL EXPENSE						
INCOME						
Paycheck						
Paycheck						
Dividends						
Interest						
Social Security						
Pension						
Gifts						
Other						
TOTAL INCOME						

SECTION 2 – THE BASICS OF MONEY MANAGEMENT

LESSON #3:

MONEY: MAKING IT, TRACKING IT, SAVING IT, SPENDING IT

OUTLINE:

I. INTRODUCTION

II. MAKING YOUR MONEY

III. SAVING YOUR MONEY

IV. SPENDING YOUR MONEY

V. CONCLUSION

VI. LESSON EXERCISE

OBJECTIVES:

Upon completing this section, you should be able to:

- Identify your **Personal Spending Habits**
- Identify the **Leaks in Your Budget** that add up to trouble
- Develop a **Spending Plan** that works for you

Now that you have determined exactly how you want to spend your money and you've designed your plan for achieving your financial goals, this section will help you identify all your sources of income and find ways to get the most out of the money that you make. It will help you identify past and present spending patterns and find where the "leaks" are in your budget. Then you will develop a workable spending plan. You will find it both interesting and helpful to do some of the exercises that will help you work through this process.

INTRODUCTION

Have you ever noticed how much better you feel when you aren't worried about how you're going to pay your bills? Most people wonder, when they look at their bank statement each month, exactly where their hard-earned money is going. This lesson will help you develop new habits for managing your money.

First, you will learn how to accurately calculate your average monthly income. Next, you will estimate how much you *think* you spend each month to compare with what you *actually* spend. Finally, you will gather past financial records and track your current spending to get an accurate picture of how much you are actually spending each month.

This lesson contains many exercises that will help you develop the daily spending skills you need so you can stick with your financial plan. Using the exercises, you can look at the past to get a better understanding of the way you used to spend your money. Using the tracking methods described later in this lesson, you will get a better understanding of your present (current) spending habits. This will help you answer the question about where your money is going each month. Lastly, you will look at the future by using all of this information to project short-term and long-term financial goals.

MONEY: MAKING YOUR MONEY

WHAT IS A SPENDING PLAN?

Spending money is a process, not just a laundry list of who you owe and when you need to pay. Therefore, you should consider your spending plan to be a living document with a past, a present, and a future – a spending plan that improves as you learn new and better ways to manage your money, and that can change when your circumstances change. For instance, when you have achieved one of your financial goals, you may have more money each month to spend on your next goal.

Let's look at the origin of the word "budget." The word comes from the French word "bougette," which is a small bag with a drawstring. French women adopted this handy bag method of money management from ancient Roman women who used little leather pouches to divide their household coins into different categories of spending.

Today, we may not keep our money in small bags, but we still divide our money into categories of expenses. Many people today use envelopes for each item of expense they know they will have to pay at the end of the week, month, or quarter (e.g., food, rent, insurance, child care, etc.). These categories, and a spending plan based upon each of these categories, make up a budget.

COMPONENTS OF A SPENDING PLAN

Average Monthly Income

Any budget discussion must begin with an honest determination of how much money you actually have to work with each month. Do you know what your real average monthly income is?

There are two ways to look at your "monthly income" – there is "gross income" and "net income." Your "gross income" is the total you actually earned (for example, $1,000/month), and your "net income" is what's left after your employer takes out deductions for taxes, social security, Medicare, etc. This is also called your "take-home pay." In order to know how much you can actually spend, you must accurately determine your net (take-home) pay.

Exercise #1: Calculate Average Monthly Take-Home Pay

1. Find your gross income or total earnings on a payroll check stub, before any payroll deductions.

$______________________

2. Subtract deductions for federal, state, and local taxes; social security; insurance premiums; garnishments; child support; any other employee benefits; retirement or savings deductions; charitable deductions; etc.

$______________________

3. Subtract any other automatic deductions that you have authorized, like loan payments, savings plan, etc.

$______________________

4. If you are paid every week, twice a month, or bi-weekly, use one of the following formulae to convert your pay to a monthly amount.

___________ per week x 4.333 = _______________ per month

___________ bi-weekly x 2.167 = _______________ per month

___________ twice a month x 2 = _______________ per month

5. If you have any other sources of income, or if your pay varies seasonally, calculate an average over six months or a year to account for the peaks and valleys.

Add this amount to your other regular income. + $_______________

This is your ***Total Average Monthly Income $_______________***

<u>MONEY: TRACKING YOUR SPENDING</u>

Exercise #2: Estimate Your Average Monthly Spending

Consider each spending category on the left and write how much you think you spend each month on the right. You will later compare these figures with what you really spend.

1. Savings $ ____________

2. Rent/House payment $ ____________

3. Home/Household insurance $ ____________

4. Utilities (including heat, gas, water) $ ____________

5. Home maintenance $ ____________

6. Telephone/Mobile/Pager $ ____________

7. Cable TV/Satellite $ ____________

8. Groceries/Cleaning supplies $ ____________

9. Work/School lunches $ ____________

10. Meals out $ ____________

11. Clothing $ ____________

12. Laundry/Dry cleaning $ ____________

13. Auto payments $ ____________

14. Auto insurance $ ____________

15. Gasoline/Oil/Tires/Repairs $ ____________

16. Bus/Train/Parking $ ____________

17. Medical & Dental expense $ ____________

18. Medical & Dental insurance $ ____________

19. Recreation & Entertainment $ ____________

20. Tax payments (IRS, state, property, etc.) $ ____________

21. Child care expense $ ____________

22. Child support/Support of others $ ____________

23. Charitable contributions $ ____________

24. Other loan payments $ ____________

25. Tuition/Books $ ____________

26. School loans $ ____________

27. Gifts $ ____________

28. Personal grooming $ ____________

29. Cigarettes/Tobacco/Alcohol $ ____________

30. Bank service charges $ ____________

31. Books/Newspapers/Magazines $ ____________

32. Hobbies/Club dues $ ____________

33. Vacation/Travel $ ____________

34. Miscellaneous expenses $ ____________

TOTAL $ ____________

TRACK YOUR ACTUAL MONTHLY SPENDING

The objective in tracking your actual spending is to get a very clear picture of exactly where you have been spending your money. To do this, you need to gather your records from the past year and organize them into expense categories: fixed expenses, periodic expenses, and variable expenses (see the following pages for definitions of these terms). Here are some of the kinds of records and reminders you might collect and examine to help you determine the exact figures for your past spending habits:

- Canceled checks
- Check stubs
- Check registers
- Receipts
- Calendars
- Diaries
- Pocket Notebooks
- Bills
- Invoices
- Statements

After you have collected these records, set up a folder for each of your expense categories. Gather these receipts and statements and put each of them into the appropriate folder, depending on whether they are for fixed, periodic, or variable expenses.

It is a good idea while you are organizing your records to start a financial calendar. This is a calendar that you use only to keep track of when your bills are due, how much is due, and to keep other notes (such as what you may still owe). By keeping a financial calendar in the same place with your other financial records, you will have all of your financial information in one place.

Remember to track cash payments or money orders. If you didn't keep a record of payments you made in cash, spend a few minutes to try to remember them and write this information in the appropriate folder. Don't forget to use your memory!

Accurately looking into the past is a way to discover how you've spent your money so you can decide if you need to spend it differently in the future.

EXPENSES

FIXED EXPENSES

These are the major, set expenses you must pay every month like rent, mortgage, car or truck payments, child support, etc. These payments are the same each month.

Record your fixed expenses on the **MONTHLY MONEY TRACKER WORKSHEET** found on in figure 3-2. Fixed expenses such as utilities often vary from month to month depending upon the weather. To get an average, look back at your utility bills for at least one year, add up the total you have spent, and then divide that number by 12 to get the *average amount you spend per month.*

PERIODIC EXPENSES

Periodic expenses are expenses you pay regularly, but not necessarily every month. These include medical expenses, house and car insurance, property and income taxes, car repairs, etc. To determine how much you spend on a specific periodic expense on a monthly basis, gather all of your receipts for that category during the past year and divide the total by 12.

Many people forget to include their periodic expenses when they prepare their budgets because these are usually payments they don't make every month. Remember that they are still "regular" payments because they must be made in certain amounts at certain times. The best way to make sure you stay current on your periodic expenses is to follow these steps:

1. Include them in your spending category.

2. Make a note on your financial calendar of when and how much must be paid in that spending category.

3. Put the monthly portion of the total amount you will have to pay into a savings account so that you will have the total payment available on the due date.

The example on the next page illustrates the impact of periodic expenses.

Example: Monthly Expense for Car Insurance

Dee's car insurance costs $1,200/year. She can't afford to pay the entire premium at once, so she has been making quarterly payments of $300 each.

How much should Dee budget each month for her car insurance, even though she doesn't have to pay it each month?

$1,200/12 = $100/month

How does Dee make sure she has $300 each time her quarterly payment is due? She puts $100 each month into her savings account (where it will earn interest), or into her "car insurance" envelope. Every three months Dee will have $300 to send to her insurance company.

You can go through the same exercise for all of your other periodic expenses, and then enter the average amount spent on each of them each month on your **MONTHLY MONEY TRACKER WORKSHEET.**

VARIABLE EXPENSES

Your variable expenses may or may not be necessary to your basic needs, but they show how much you actually consume. These are usually the best areas to cut back spending. They include clothing, eating out, long distance phone calls, cable, newspapers, entertainment, etc. You will find a list of these kinds of expenses on the **WEEKLY MONEY TRACKER SPENDING WORKSHEET**. You can use this worksheet to track variable expenses over the next month.

To determine how much you spend in each category, you need to track these expenses day by day, week by week, ***for at least a month***.

Make at least four copies of the sheet, and better yet, make extra copies for all family members to use when they spend money on these items or you could underestimate these expenses. Write down every dime, nickel, and penny you spend for the next few weeks.

It may seem silly to you now to write down every penny you (and even the other members of your family) spend on every little thing, especially for four weeks. However, if you think about it, you will probably see that some weeks you tend to spend more than other weeks, and some weeks you will have expenses that you don't have in other weeks.

For instance, you may find that you spend more on eating lunches out during particularly busy weeks when you are too busy to pack a lunch. Even though that particular expense doesn't happen all the time, you do need to pick it up on your tracking worksheet because it still reflects one of your spending habits.

MONEY TRACKER FOR WEEKLY SPENDING (MONTHLY AND WEEKLY HEADINGS SHOULD MATCH) FIGURE 3-1.

Weekly Expenses	*Day 1*	*Day 2*	*Day 3*	*Day 4*	*Day 5*	*Day 6*	*Day 7*	*Total*
Groceries								
Cleaning supplies								
Work lunches								
School lunches								
Meals out								
Clothing								
Laundry/Dry cleaning								
Charitable giving								
Recreation								
Entertainment								
Video rental								
Gifts								
Personal grooming								
Cigarettes/Tobacco								
Alcohol								
Books/Newspaper								
Magazines								
Hobbies								
Vacation								
Travel								
Children's toys								
(Other categories?)								

MONTHLY MONEY TRACKER WORKSHEET FIGURE 3-2

Monthly Expenses	*Month 1*	*Month 2*	*Month 3*	*Month 4*	*Month 5*	*Month 6*	*Total*	*Avg.*

OTHER TOOLS YOU CAN USE TO TRACK YOUR SPENDING

If you can't imagine carrying a sheet of paper with you, then think about using one of these techniques:

- A 3 x 5 card to record what you spend.
- The extra blank check register that you get with your checks.
- A small business expense notebook, but to record everything, not just business expenses.

You can also record your every expense on your financial calendar. If you record your spending here, you will always be reminded of the fixed and periodic expenses that you have coming up before you spend money unnecessarily on a variable expense.

The important thing is to write down any amount of money you spend. At the end of every day, add up everything that you spent in each category. At the end of the week, total each category. After a month, total each week to get a monthly total and record this amount on the **MONTHLY MONEY TRACKER WORKSHEET**.

After you have recorded your actual daily expenditures on your Weekly Money Tracker Spending Worksheet and you have transferred the total to your Monthly Money Tracker Worksheet, your Monthly worksheet will now have all of the actual dollar amounts you spend plus all of your monthly fixed and average monthly periodic expenses you pay over the course of a year.

Now, compare this chart with the estimates you recorded at the beginning of this lesson, Exercise #2. How close were the two? Are you surprised? Does the difference between what you *thought* you spend and what you *really* spend now tell you where all the money goes?

MONEY: SAVING YOUR MONEY

Any good financial plan includes two types of savings plans:

1. The first type of savings account is the "set-aside" account that we discussed earlier when we described Dee's method for "saving" to make her quarterly car insurance payment (see previous example). A set-aside account serves two purposes:
   - It provides a safe place to set the money aside that you know you will need for future payments.
   - It makes that money work for you by earning interest.
2. The second type of savings plan is one that you decide to start for the purpose of accumulating the money you need to achieve your financial goals – whether you want to retire, buy a house, buy a car, or take a luxury vacation. This type of account is also a "nest egg" account. It provides a certain degree of comfort that money will be available if some unexpected expense should occur in the future.

You may think that you can't possibly save any money, especially now. But any successful financial plan includes a regular savings plan, no matter how small.

Getting into the habit of saving is just as important as how much you save. You may only be able to save a small amount at first – even if it's the difference between eating lunch out every day or packing your lunch.

If you develop the habit of finding those small ways to save now and put those savings into a separate account for a "rainy day," you will find that after your financial situation is more stable – and you are able to save a little bit more each week – you will be in the habit of saving… You will already have an account with a savings history (we will talk more about the importance of "savings history" in Lesson 6).

Remember, if you can find a way to save just $20 per week, every week for a year, you will have saved $1,040 after one year! After five years you will have saved $5,200!

MONEY: SPENDING YOUR MONEY – WISELY

YOUR REAL AVERAGE MONTHLY SPENDING AND YOUR MONTHLY SPENDING PLAN

To establish your own custom spending plan, you should have your initial estimates and records of fixed, periodic, and variable expenses. Remember, your plan should allow for you to save the right amount of money each month in anticipation of those periodic expenses that you know you will have to pay. The average monthly amount of these expenses is the amount that should be put into your set-aside savings plan.

Now that you have an accurate picture of your spending, ask yourself if the amount you spend is greater than or less than your average monthly income. If you spend more than you make, you must look at those categories where you can spend less on the same item or eliminate it altogether. If you make more than you spend, *save the extra money* and invest it for your future!

At this point, you are ready to examine your spending record carefully for the holes and leaks. You may be surprised at the amount of money you have put into a "miscellaneous" category. These are expenses that you could not categorize. Since they didn't fit into your fixed or periodic expenses that tend to be those that are most critical, you should examine these miscellaneous expenditures to determine whether or not they are even necessary. If these are expenses that you anticipate having every month and you can't eliminate them, then you should create a category specifically for these expenses in your "fixed expenses" spending plan. Once your spending plan is established, make it your own. Make it a habit to follow this plan and ***stick with it***.

CONCLUSIONS:

Searching through old financial records, tracking every cent you spend, planning a budget, and working with a budget are not easy to do. If you have worked through these steps and have made a commitment to a life of financial responsibility, you will be rewarded when you achieve your financial goals. It may take a couple of months or years, but if you really put your mind to it, you will find a way to save money and use it for things that are most important to you.

Just hang in there. Worthwhile things take time to achieve.

LESSON EXERCISE

Write about your plans or ideas to save money. Explain why you are saving money and what you expect to happen if you follow those plans.

____

____

____

____

SECTION 2 – THE BASICS OF MONEY MANAGEMENT

LESSON #4:

SMART SHOPPING

OUTLINE:

OBJECTIVES:

Upon completing this section, you should be able to:

- Understand and identify **basic advertising techniques** and **appeals**.
- Understand and identify **deceptive** or **questionable advertising techniques**.
- Give examples of commonly-seen **misleading advertisements** and identify the deceptive or questionable appeals and techniques used in each.
- Discriminate between **facts** and **unsupported claims** in print advertisements and in television commercials.
- Be a smart shopper, a wise consumer, and **avoid impulse shopping**.

Now that you have identified your financial goals and developed your plan to achieve them, you will want to learn the art of smart shopping. You can acquire the skills to become a wise consumer and avoid the impulse shopping that can wreck your financial plan. After you finish this lesson, you will be better able to spot misleading advertisements and evaluate the difference between facts and unsupported claims in print advertisements and in television commercials. You will then be a smart shopper!

COMMON ADVERTISING TECHNIQUES

Advertising techniques are designed to attract your interest in a specific product or service. They are designed to appeal to your emotions, wants, or needs, and inspire or motivate you to act on the suggestions you see or hear (by spending your money).

Advertising techniques can be purely informational, but more often they can exploit the "information" they present. It is very important for you to be able to tell the difference between facts (information that can be proved) and opinions, beliefs, or even wishful thinking.

SOME SPECIFIC ADVERTISING TECHNIQUES

Information

The presentation of simple, direct information.

Status

The product is associated with those who have status and who are successful. This technique entices you to buy more car or house than you can really afford. The product is shown with people who enjoy and understand the "finer things in life."

It attempts to appeal to your desire to be like someone else, someone with more money, or greater influence, or power, or social status.

Peer Approval

This ad technique uses friendship and social popularity. Not using the product implies that you will not be popular or influential.

Hero Endorsement

The product is shown with a well-known person. It attempts to convince you that if you just bought this product, you could be like or accepted by someone that everyone else likes, accepts, or admires.

Physical Attraction

The product is supposed to increase your sexual appeal. You are led to believe that you need to have this product to attract romance, find love, or be admired. It is intended to make you feel unattractive the way you are.

Join the Gang

Everyone else uses this product. Everybody accepts it. You should, too.

Entertainment

This technique promotes entertainment or temporary distraction. It masks long-term satisfaction with feelings of temporary enjoyment.

Intelligence

"Smart" people who can't be fooled by gimmicks. This technique implies that if you don't use this product, you are not smart or are somehow being duped.

Independence

Indicates that people who think and act for themselves use this product.

Dangling Comparatives

This is a tricky one. "Works better in poor driving conditions!" Who says it works better – and better than what?

Catch Phrases and Slogans

The emphasis of this advertisement is on a catchy phrase, slogan, or tune that distracts your attention from the true facts.

Activity #1: What Appeals To You?

Collect examples of ads you like and dislike, also paying attention to TV commercials. Pay particular attention to facts versus unsupported claims in ads.

When you've reviewed a number of different ads, write in your answers to these questions:

- *What do you like about the print ads? Why?*
- *What do you dislike about the print ads? Why?*

- *What do you like about the TV commercials you've seen? Why?*
- *What do you dislike about the TV commercials you've seen? Why?*

COMMON SALES TECHNIQUES

Advertisers use sales techniques to get you to buy a product or service once you have been tempted by the advertising messages.

COME-ONS

- **Sales** – Are they bargains or are they seconds and left-overs?
- **Coupons** – If you have to buy the coupon books, are they REALLY a bargain?
- **Rebates** – Will you remember to send in the rebate coupon?
- **Package Deals** – Do you need EVERYTHING in the package, or are you paying for some items you wouldn't normally buy?
- **Loss-Leaders** – Are you lured into the store by a 15-cent discount and find yourself buying other items that you hadn't intended to buy?
- **Premiums** – Get a free "_______" with every purchase of $50 or more.
- **Contests** – What is your real chance of winning? Is it worth the time it takes you to enter or the cost of entry? Do you really need it? Could you get it for the same price by shopping smart?

PUFFING

- The ad or salesperson claims the product is "the best" and ***exaggerates*** the value of the product. The sales person may appear to be excited, but he/she is really just a cheering section for the advertiser – not for you.

HIGH PRESSURE

- **Repetitions** - It's you! It's you! It's really you!
- **Deadlines** – One day only! Once in a lifetime! From 6 a.m. to 9 p.m. only!
- **Limited Offers** – While supplies last!
- **Inside Groups and Clubs** – Only a select few are invited.

PRODUCT ENHANCEMENT

- **Guarantees** – Abundant use of statements such as "lifetime guarantee" and "satisfaction guaranteed or your money back."
- **Beautiful People or Celebrities** – I want to be just like him or her!
- **Having Fun** – You will have fun if you use this product.
- **Editing out the Failures** – 6 out of 10 got better… what about the other 4?

EMOTIONAL APPEAL

- **Fear** – Are you REALLY safe without it? Are you more protected if you buy it? What is your real risk?
- **Pride** - Yes! That is who I want to be!
- **Guilt** – Your mother would want you to buy this.
- **Grief** – Then you see a plain wooden casket…
- **Sex Appeal** – Everyone will envy the new you.
- **Anger** – Are you tired of being ripped off?
- **Confusion -** Don't confuse me with facts!

APPEAL TO CHILDREN

- Things the children want for themselves. Examples: toys, clothes, sporting goods, food, games, books and tapes, and all ***Name Brands***!
- ***Getting the kids to influence*** the family. Examples: what to eat and where to eat. These usually feature a playground, hero mugs, and toys.

TRAVEL FRAUD

- Offers are accompanied by certificates for "free" or very low-cost travel.
- Offers only vaguely describe the services and/or accommodations.

DECEPTION

- **Pros and Cons** – All Pro, no Cons.
- **Little White Lies** – Statements that aren't quite true.
- **Selling Air** – Have you ever noticed how little cereal there really is in those big boxes?
- **Sunny Side Up** – The lean meat shows on the top of the roast, the fat is on the bottom.
- **Down Sizes** – Ever notice that a "one pound can" of coffee really only contains twelve ounces?
- **The Fine Print** – Have you ever read the words on the bottom of the ad or contract?
- **Add-Ons** – Oops! It comes as a package and you also have to purchase these other items.
- **Plus Tax, Shipping, and Handling** – It was a mail order bargain until you added all of these.
- **Batteries Not Included** – You may have bought it on sale but how much does it really cost after you add on the cost of the extras needed to make it work.
- **Unproven Scientific Claims** – "Nine out of ten" may sound good, but many such claims cannot be proven.
- **Free or "Premiums"** – Nothing is ever entirely free.
- **"Zero Percent Interest"** – Repeat, nothing is free, especially purchases paid out over time.
- **Bait And Switch** – "We're out of the item we advertised right now, but we DO have this more expensive product available now."

- **Incomplete Products** – Where's the power cord? Printer cable?
- **Misrepresentation** – Uses a name similar to a nationally-recognized brand.

NEGATIVE OPTION

- Merchandise arrives automatically unless the consumer takes steps to stop shipment and billing. Often used by book, video, and record clubs.

HEALTH FRAUD

- Promises of overnight medical cures and treatments. Products "are developed after years of research" and "proven to provide immediate positive results."
- Testimonials are provided by "medical experts" and "satisfied customers."

SWINDLES

- **The Hook** – Plays on your greed to get more.
- **A Huge Savings** – Ask yourself HOW can they sell it so cheap?
- **Huge Return On Investment** – A useful rule of thumb is the greater the gain, the higher the risk… always!
- **Emergencies** – Price gouging in a crisis. For example, out-of-town contractors flock into town after a hurricane and do poor, slipshod work because they don't intend to stay after the job is done.

Activity #2: Fraudulent or Misleading Advertisements

Test your advertising "street smarts" by completing this activity:

1. Collect several print ads that you think are fraudulent or misleading.

2. List the fraudulent or misleading sales and/or advertising techniques used in each of these ads (there is often more than one technique used).

BUYING FEVER — A.K.A. IMPULSE BUYING

Some common items for which we catch "the fever" (or buy on an impulse) are houses, cars, clothes, travel, and hobby and recreational equipment.

You know you've got "the fever" when you tend to – or want to – overlook weaknesses and defects in products or services or when a product occupies your thoughts until you get it.

HOW DO YOU CURE "BUYING FEVER?"

- Remind yourself you don't have to buy today.
- Commit to shop and compare at other stores.
- Negotiate for the best deal.
- Remember that the salesperson is working for the seller, not for you.
- Walk away. Take your time. Sleep on it.

Remember: ***Never buy anything – especially a large, important purchase – on the spur of the moment.***

Activity #3: The Worst Purchase I Ever Made…

Complete this activity to examine just why made your most regretted purchase.

1. What's the worst purchase you've ever made in your life? What went wrong? How did you make such a bad deal?

2. List some reasons why you've spent your money in the past on things that, looking back, were not that great a deal.

3. Why do you know now that they weren't such a good deal?

4. Looking back on some of those purchases, do you feel like you should have known better?

SMART SHOPPING

HOW CAN YOU BE A SMART CONSUMER?

Plan ahead and stick to your plan of what to buy, when to buy, and where to buy. Go shopping only when you have a specific purchase to make that fits within your budget and is part of your overall financial plan. Go through each of these steps first:

1. **Plan at Home.** This is where good buying begins. Keep the following in mind:

- What you have.
- What you need.
- When you really need it.
- How the item will be used.
- What size, color, quantity, and quality you want.
- The price you want to pay.

2. **Make a Shopping List.** Organize your list by the location of stores and the location of things within the store. This will save backtracking, prevent forgetting something, and help you avoid buying something you don't need.

3. **Decide on Quality.** When you decide the type and quality you want in an item, consider:

- How you will use the article.
- How long you will use it.
- How you will care for it.
- How it looks.
- Can you get the same quality somewhere else for less?

GUARANTEES

A guarantee is only as good as the people who give it. Know the "if's, and's, or but's" connected with any guarantee.

- Understand terms of the guarantee.
- Make sure the manufacturer can back it up.

Read the guarantee carefully. What does it cover? How long will it be in force? Is the whole item included, or just a part of it? Who is making the guarantee? Remember, keep the receipt, as a dated receipt will help you make a claim.

Think several times before you buy an additional service warranty. What is the possibility the unit will need a repair that costs as much as the "warranty" during the next three years?

Note: The sellers of a warranty expect to make money. They figure the odds are in their favor that they will get to keep your money and NOT have to do the work. This generally means the odds are in your favor if you don't buy the additional warranty.

SALES

Sales are held for many reasons: to make room for new goods, to sell surplus or shop-worn goods, to get you into the store, and to introduce new products.

However, the best sales are usually held by established stores because they want to keep your good will and your business.

When You Buy at Sales

- Consider the time, energy, and expenses of getting to the sale.
- Shop at the start of the sale for the best selection.
- Be sure the sale price is an actual reduction from the regular price.
- Watch for imperfect or damaged articles.
- Check styles. Items likely to go out of style may be poor buys.
- Remember, nothing is a bargain unless you need it.

YOUR RESPONSIBILITY AS A SHOPPER

BE AN INFORMED SHOPPER

- Report your wants, likes, and dislikes to dealers and manufacturers so they can serve you better.
- Praise and buy from dealers who sell better goods and services at reasonable prices.
- Avoid hasty buying which causes unnecessary returns.
- Pay bills promptly.
- Inform proper agencies of dishonesty, fraud, or violations of the law.

AVOID IMPULSE BUYING

Decide what you will buy ***before*** you get to a store. Spur-of-the-moment decisions can wreck your family spending plan. To avoid impulse buying:

- Have a spending plan and stick with it.
- Include in your spending plan the amount you can spend "just for fun."
- Just walk away or hang up the phone if you know the purchase isn't in your plan.
- Make a list and stick to it.
- Shop for food yourself or train others in the family to shop wisely.
- Ask questions such as, "When will I use it?" and, "Where will I store it?"
- Make a rule to "sleep on" a major purchase. The offer should be just as good the next day.
- Don't shop on payday, when you're tired, or for food when you're hungry.
- Take your time. Try not to shop when you have to hurry.

CLIPPING COUPONS (AGAIN):

Clipping coupons can have big payoffs when you begin to figure it out. I spent five minutes to save $4. That's an hourly rate of $48 non-taxed. If you spend 30 minutes doing the coupons and going through the flyers and then save $25 at the store, that's $50 an hour.

Granted, most efforts at savings don't pay off at the $50 an hour rate, but once you have these money saving habits down, they pay off big.

The more I thought about it, the more I began to realize how much those habits can lead to financial freedom, especially if you are very intentional about what you do with the money saved.

Of course, you can go to the other extreme. It doesn't really make a lot of sense to drive five miles because they have milk on sale for ten cents a half gallon less than your corner store. Still, applying some of those money-saving habits and then making good use of what you save can have a profound influence on your financial life.

Of course different money-saving habits will work for different individuals and families depending on geography, circumstances, and interests.

TIPS TO GET YOU STARTED

- **Buy gently used when it makes sense** – The amazon.com marketplace and half.com act as online consignment stores for books, movies, software, and the like. Often you can find like-new items without having to spend too much time as both sites are well organized. Used cars make sense for people who don't drive a lot and you can find some real bargains on gently used furniture in the classifieds and consignment stores.
- **Use grocery coupons** – Once you get a system down, you can use a rotation system to slash your food dollar. You can buy non-perishables when they are on sale and then use a coupon. If your

schedule allows you to go to the store in the morning, you can also buy surplus meat or milk, which is perfectly good, but value priced. These tools can save up to 50% off your grocery bill.

- **Use online auctions for gift type items** – If you think ahead and realize that Aunt Franny loves Hummel figurines and doesn't have a particular one, you can save yourself money and hassle by going on eBay.com or another auction and finding it rather than going to a mall the day before and buying a scarf that ends up not being her color.
- **Go to closeout stores** – You can do remarkably well for clothing, housewares, and lots of other items in closeout stores such as Big Lots, TJ Maxx, Marshall's, and Burlington Coat Factory. The selection of merchandise can be remarkably current. If you haven't been to one of these stores lately, check them out.
- **Use your daily newspaper to identify sales** – Here in Michigan, JCPenny, Marshalls, and Sears may have sales almost every weekend. Catch them and you can save a bundle on current merchandise.
- **Check out the dollar stores** – Stores like the 99 Cent Store and Dollar Tree are becoming a larger part of the landscape. Here you can find a lot of closeout merchandise for a dollar. Often they are current products that merely are experiencing a change in labeling. Today, when I was out wandering around, I stopped by Dollar Tree and saw pickle relish at a great price. Since I use that relish a lot in the macaroni salad that I make for bar-b-que's and potlucks, I grabbed several jars. This is also a great source for videotapes, snack products, juices, and the like. Just be careful about expiration dates.

Once you develop and start to use your own array of savings habits, one key step is to be very intentional about what to do with the money you save. Let's say you get inspired and start saving $200 a month. What would be good use of that money. Again, that depends on your circumstances, but here are some ideas:

- **Get out of debt** – Debt is the enemy of financial freedom and credit card debt is the worst. If you are enslaved to the card companies, check out some of the other articles on this site for more ideas.
- **Develop a cash reserve** – If you don't have a cash reserve for when the clutch on the car blows, this would be a great use for the money you save. Start by putting it in the back of some drawer if you need to, and then start a savings account when you have enough. This way you won't have to borrow when you have an unexpected need for money.

<u>CONCLUSIONS:</u>

REMEMBER:

- **YOU DON'T HAVE TO BUY IT TODAY!**
- **NO ONE CAN MAKE YOU BUY ANYTHING!**
- **STICK TO YOUR PLAN!**

LESSON EXERCISE – Home purchase

Match the word with the definition by drawing a line between them.

1. down payment	A. Lawyer
2. closing costs	B. Charges
3. attorney	C. Usually 5 percent of the sales price
4. fees	D. includes money for taxes, insurance, and attorney fees
5. sales price	E. the amount the seler gets for the home

SECTION 3 – THE BASICS OF CREDIT MANAGEMENT

LESSON #5:

THE WISE USE OF CREDIT

OUTLINE:

I. INTRODUCTION

II. WHAT IS CREDIT?

A. Kinds of Credit

B. Types of Loans

C. Borrowing Strategies

III. COST OF CREDIT

A. Terms of a Loan

B. The Real Cost of Credit

IV. DEBT LOAD

A. Debt-to-Income Ratio

B. Other Considerations

V. CONCLUSION

VI. LESSON EXERCISE

OBJECTIVES:

Upon completing this section, you should be able to:

- Identify and compare the different **kinds of credit**.
- Identify the sources and **institutions that lend money**.
- Evaluate the **terms and cost of a loan**.
- Understand the **use of credit**.

In this lesson, we will briefly explore the subject of using credit. You will learn about the different kinds of credit and identify the sources of credit and institutions that lend money. You will also find important information about how to evaluate the terms and cost of a loan.

INTRODUCTION

Credit is using tomorrow's money to pay for something you get today.

Because our society is becoming more and more credit-based, it is important that you understand how to use credit properly so that you will always have access to the most affordable terms of financing for all of the things that you may need to pay for over time.

On the other hand, some of you may never want to use credit again! However, chances are you'll probably need some type of loan in the future. If so, then it will be important to make sure that you are educated about the wise use of credit so that you will be able to make the wisest choices, such as:

- Do you really need credit?
- If so, what kind of credit do you need?
- Who will you get credit from?
- Will you be able to pay for it?
- How much is too much?
- Will buying an item on credit make you happy if you don't need it and can't afford it?

WHAT IS CREDIT?

Credit is a promise to repay a debt for goods or services after you have received them. With credit, you receive the goods or services now, but pay for them later.

Between the time you receive the goods or services and the time you pay for them, you owe a debt. Your promise to pay the debt is usually stated in a contract that is enforceable in a court of law.

Before you get involved with credit again, take the time to review some of the basics.

KINDS OF CREDIT

Long Term Credit

Mortgages, car loans, and other installment loans that are repaid over months or years are generally considered long-term debts. How much the loan will cost you over the long-term is based on the terms of the loan.

Short Term Credit

One type of short-term credit (called single-payment credit) is used to purchase items or services that are to be paid for in a single payment within a given period of time, usually with no interest charge. If the full balance isn't paid within the given time period, you are charged a fee or interest on the balance. Utility bills are examples of this kind of credit.

Other short-term credit is usually paid for in installments of equal payments that include the original amount you borrowed plus interest. Short-term credit may have terms ranging from six months to five years.

Secured Credit

Secured debt requires something of value to be pledged to the lender if the debt is not repaid (this is called collateral). Home mortgages and car loans are examples of secured debt. They are also examples of what is known as closed-end credit, which calls for a payment of a fixed amount for a predetermined period of time. The interest rate may be "fixed" or "variable."

Unsecured Credit

Unsecured debt is based solely on the trustworthiness of the borrower. If nothing of value is pledged as collateral for the debt, the lender depends on the borrower to repay. The lender's risk is greater if an unsecured loan is not repaid because no collateral was pledged for the loan. Therefore, these debts carry a higher interest rate.

Most credit card debts are unsecured. Credit card debt is a type of "open-end" credit, and the cost of the credit may vary depending on the Annual Percentage Rate (APR) and other finance charges.

With a revolving account such as a credit card account, additional credit is extended to pay for the cost of items and services until the borrower's limit or maximum dollar amount has been reached. A minimum payment is required each month to be paid on the balance owing. The difference between your credit limit and the actual amount you owe is your "available credit."

TYPES OF LOANS

Most loans come under one of the categories we just discussed, but the fact that they have unique names indicates that each loan is slightly different from all the rest.

Business loans

Real estate loans

Lines of credit

Service loans

Margin loans

Personal or signature loans

Debt consolidation loans

Interim financing

Life insurance loans

Retirement loans

Government guaranteed student loans

Government guaranteed FHA home mortgage loans

Government guaranteed Small Business Administration loans

If you must use credit, be sure you use the type of credit that best fits your purpose.

Read the fine print. Make sure that you understand what kind of credit is being offered to you. If you don't understand all of the terms of your credit agreement – how long you have to repay, when your payments are due and for exactly how much, whether you have pledged collateral or not in return for the credit – don't sign the agreement. Don't be afraid to ask the loan officer as many questions as you need until you completely understand the loan terms and what is expected of you.

BORROWING STRATEGIES

Consider these important factors when borrowing money:

- Identify a variety of sources and institutions that lend money.
- Evaluate the terms of a loan.
- Know how to calculate the cost of credit.
- Determine your own debt limit.

Where Can I Borrow Money?

Most consumer credit comes from banks, savings and loan institutions, credit unions, finance companies, and credit card companies.

In addition, people often borrow from relatives or other individuals who may or may not be good credit sources. Often, individuals who loan money, but don't have a permanent place of business, may offer you loans that charge more than the legal interest rate. BEWARE! Wherever you borrow money, be sure to get a signed contract and ***always read the fine print.***

COST OF CREDIT

WHAT ARE THE TERMS OF THE LOAN?

Down payment

How much cash up front is required?

Term

How long do you have to repay the loan?

Interest rate

What are the finance or additional charges? The interest rate (the APR) is the percentage cost of credit on a yearly basis. This is key to comparing costs. The Truth In Lending Act doesn't set interest rates or other charges, but it does require that the lender disclose the terms of the credit plan so that you can "comparison shop" for credit. Other charges, such as annual membership fees, points, and transaction charges, are not included in the APR.

Interest Rate Example:

Suppose you borrow $100 for one year and pay a finance charge of $10. If you can keep the entire $100 for a whole year and then pay back $110 at the end of the year, you are paying an APR of 10%. But if you repay the $100 and

finance charge (a total of $110) in twelve equal monthly installments, you don't really get to use $100 for the whole year. In fact, you get to use less and less of that $100 each month. In this case, the $10 charge for credit amounts to an APR of 18%. More clearly, in the first month you pay 9.33 dollars back so now you only have $101 to use, then with interest of $1 you now have to pay a little more than 9.33. and so on.

Finance Charge

The finance charge is the total dollar amount you pay to use credit. In addition to the charges imposed based on a periodic rate, it includes other costs such as interest fees, service charges, annual fees, late charges, and some credit-related insurance premiums.

Finance Charge Example:

Borrowing $100 for a year might cost you $10 in interest. If there was also a service charge of $l, the total finance charge would be $11.

1 + 1 = 3?

METHODS USED TO CALCULATE FINANCE CHARGES

The method used to calculate the balance on which you pay a finance charge makes a difference in the cost of credit.

Adjusted Balance

The adjusted balance method takes the amount you owed at the beginning of the billing period and subtracts any credits and any payments made by you during the period. New purchases are not counted.

Average Daily Balance

The average daily balance – one of the most common methods – adds your balances for each day in the billing period and divides that total by the number of days in the period. Payments and credits made during the period are subtracted and new purchases may or may not be included.

Two-Cycle Average Daily Balance

The two-cycle average daily balance method uses the average daily balances for two billing periods to calculate the finance charge. Payments and credits made will be accounted for and new purchases may or may not be included.

Previous Balance

The previous balance method bases the finance charge on the amount owed at the end of the previous billing period. In open-ended credit such as credit cards or gasoline cards, it is critical that we consider the method used to calculate our finance charges because the method will cause the amount of the finance charge to vary considerably. It's difficult to figure out the finance charges once you start using a card regularly and carry a balance on it.

SOUND CREDIT CARD ADVICE

Pay off your credit cards each month. If you can't afford to pay off your credit cards each month, make the largest payment you can afford and pay the card off before you make another purchase.

The example on the next page illustrates the value of this concept.

Example: Different Methods of Credit

Let's look at an example of how the different methods used to calculate finance charges can affect the cost of credit. Bankcard Holders of America (BHA) calculated the finance charges on one account four different ways. The account started with a zero balance the first month. The account holder then charged $1,000 and made the minimum payment. The next month, the account holder charged another $1,000 and paid off the balance due. The account's interest rate is 19.8%. The calculations resulted in these figures:

Method	***Include New Purchases?***	***Payment***
Average Daily Balance	Yes	$33.00
Average Daily Balance	No	$16.50
Two-Cycle Avg. Balance	Yes	$49.05
Two-Cycle Avg. Balance	No	$32.80

You can see by this example that the calculation method can cause the balance to vary widely. Since your finance charges are based upon your balance, you can end up paying a lot more for your credit – not because you get greater value in what you purchased, but because the calculation method takes more money OUT of your pocket.

WHAT IS THE REAL COST OF CREDIT?

Credit costs money. Shop for it just like you would for any other commodity.

Sometimes people are surprised to learn how expensive credit actually is. You understand the terms (you think), but you still can't see the difference in dollars that different terms make.

Example: Buying a Car

This example looks at the cost of a $7,500 car with $1,500 down. We're going to borrow $6,000 over time. There are several factors to consider. Here are some ways to calculate the cost of credit.

The lowest cost is available from Creditor A at an APR of 14% over 3 years. If you were looking for lower monthly payments, you could get them by paying the loan off over a longer period of time, but then you would pay more in total costs. The same loan from creditor B at 14%, but for 4 years, will add $488 to your finance charge. If the same four-year loan were available only from Creditor C, the 15% APR charge would add approximately $145 to your finance charges as compared with Creditor B.

Creditor	***Financed APR***	***Length of Loan***	***Monthly Payment***	***Total Finance Charge***	***Total Cost of Purchase***
Creditor A	14%	3 Years	$205.07	$1,383.52	$7,382.00

Creditor B	14%	4 Years	$163.96	$1,870.08	$7,870.00
Creditor C	15%	4 Years	$166.98	$2,015.00	$8,015.00

But wait! I only owed $6,000 on the car! So why am I paying $8,015 plus my $1,500 down payment for this car that is only worth $7,500? Answer: I want the car now! And what will it be worth at the end of four years when I finally pay off that note? A whole lot less than $9,515 ($8,015 plus the $1,500 down payment)! So you can see why it's important to shop for the best credit you can find.

Let's look at some more extreme examples, just to amplify the point.

Total Amount Financed	*APR*	*Length of Loan*	*Monthly Payment*	*Total Finance Charge*	*Total Cost of Purchase*
$15,000.00	25%	60	$406.25	$9,375.00	$24,375.00
$15,000.00	10%	60	$312.50	$3,750.00	$18,750.00
$12,000.00	25%	60	$325.50	$7,500.00	$19,500.00
$12,000.00	10%	60	$250.00	$3,000.00	$15,000.00
$10,000.00	25%	60	$270.83	$6,250.00	$16,250.00
$10,000.00	10%	60	$208.33	$2,500.00	$12,500.00

What a difference! Consider all the terms before you make a choice!

YOUR TOTAL DEBT LOAD

What is a "debt load?" What is a safe amount of credit for you to carry? How do creditors find out what a person's debt load is? How do I know my own debt load?

DEBT/INCOME RATIO

Before extending credit to you, lenders analyze your income and your outgo to decide for themselves whether you have too much debt. This debt/income ratio is figured with monthly amounts and reveals how good (or bad) your total financial picture is. To figure this ratio for yourself, add all of your non-housing monthly payments except for your utilities or taxes. Then compare that total with your total gross annual wages divided by 12. If you don't have fixed monthly payments on revolving debts such as credit cards, estimate your monthly payments at 4% of the total amount you owe.

When you divide your monthly debt payments by your total monthly income, you will get your monthly non-housing debt/income ratio. It's usually expressed as a percentage, so move the decimal point 2 places to the right and add the "%" sign.

.25 = 25%

Example: Dori's Home Loan

Dori is applying for a short-term, unsecured loan. Her gross monthly income is $2,000. Her monthly debt (excluding her housing payments) is $500. That means that her credit cards, gasoline cards, and car payments amount to 25% of her income. And the mortgage payment hasn't been added to that.

Debt = \$500

Income = \$2,000

If Dori decided to apply for a home loan, her lender would look at both her non-housing debt and her total monthly debt that includes her housing payments. They call these her "ratios." Her income is \$2,000, her non-housing debt is \$500, and she is applying for a mortgage loan that would cost her \$350/month. This makes her total debt \$850, including housing payments.

Now her housing plus other debt ratio is 42.5%. This debt is generally too high for most mortgage loans, and Dori will have to pay off some of her other debts to qualify for a mortgage loan.

Debt = \$850

Income = \$2,000

Rules of Thumb

A conservative rule of thumb for consumer credit is the "20-10 Rule." This means that total household debt, including your housing payments, shouldn't exceed 20% of your net household income. Remember, your net income is how much you "bring home" in your paycheck, and monthly payments on the debt shouldn't exceed 10% of net monthly income.

Another conservative rule of thumb for mortgage debt is the "28/36" rule. This means that your non-housing debt shouldn't exceed 28% of your gross (your total) income, and your total debt – consumer debt plus housing debt – shouldn't exceed 36% of your gross income.

Other Considerations

In determining your own debt load limit, you can use rules of thumb such as those previously mentioned, but you must also consider:

- The stability of your income.
- Your other regular expenses.
- Your need for cash from month to month.
- All of your personal needs and wants.
- The "smell test:" Are you comfortable with this amount of debt?
- The changes in your cash needs as you and your household grow older.

<u>CONCLUSIONS:</u>

You may need to use credit in the future. Remember, every time you borrow money – even to buy something you think is a bargain – the cost of the item that you purchase with credit goes up. It also means that unless you pay off that credit quickly, you will have less money to spend in the future than you do today. Ask yourself if it's really worth it.

The cheapest way to pay is with cash, but that means planning ahead. If you set your goals to spend money on things that mean the most to you, and you develop a realistic plan to buy that item or service, then you can start saving today for that goal. It may take longer to achieve, but it will cost you less in terms of both stress and dollars. That means that you will also have more money to spend on other goals that you have set for yourself.

LESSON EXERCISE

Calculate the effective annual borrowing rate of a retail charge account.

A customer maintains a balance in charge account at a department store throughout the year because of frequent purchases. The retailer applies an interest rate of 1.5% per month to unpaid customer balances. What is the effective rate of interest the customer is paying on the account?

A monthly rate of 1.5% produces a nominal annual interest rate of 18% (i.e. 1.5% times 12).

Formula is $S = (1 + R/m)^n$

$=(1 + 0.18/12)^{12}$

$= 1.1956$

Effective Annual Rate = 1.956 – 1 =

The customer's effective annual borrowing rate is ___________

SECTION 4 – THE BASICS OF CHAPTER 7 BANKRUPTCY

LESSON #6:

WHAT YOU NEED TO KNOW ABOUT CHAPTER 7 BANKRUPTCY

OUTLINE:

I. INTRODUCTION

II. WHAT IS CHAPTER 7 BANKRUPTCY

III. WHO'S WHO?

A. The Attorney

B. The Trustee

C. The Judge

D. The Creditors

IV. WHAT HAPPENS NEXT?

V. KINDS OF DEBT

A. Secured Debt

1. Redeeming Property
2. Reaffirming Debt

B. Unsecured Debt

VI. WHAT DEBT CAN BE DISCHARGED?

A. Voluntary Repayment

B. Non-dischargeable Debt

C. Complaint to Determine Dischargeability

VII. IMPORTANT LEGAL DOCUMENTS

A. The Automatic Stay

B. Motion for Relief from Automatic Stay

C. Complaint to Determine Discharegability of Debt

D. Motion to Dismiss

VIII. QUESTIONS & ANSWERS

VIIII. LESSON EXERCISE

OBJECTIVES:

Upon completing this section, you should be able to:

- Define **bankruptcy**.
- Identify common **types of bankruptcy**.
- Identify the **various roles** of the parties in bankruptcy.
- Describe **characteristics** of the Chapter 7 process.
- Describe the **duties and responsibilities** of Chapter 7 filers

INTRODUCTION

You may be a little overwhelmed at this moment, wondering how you ever got to this point in your life. And you may be wondering, "Where do I go from here? How do I get back on my feet?" The video you viewed, "The Basics of Chapter 7 Bankruptcy," was prepared to help you understand the Chapter 7 Bankruptcy process and to introduce you to the people who will be working with you for the next 4 to 6 months.

The second video we have prepared for this series, "The Basics of Money Management," is designed to help you get back on financial track. It introduces you to useful information and gives you tips on how to manage your money resources so that you will never have to repeat this process.

We are not offering you legal advice. Everyone's situation is different. Only your attorney can give you legal advice.

WHAT IS CHAPTER 7 BANKRUPTCY?

Let's start with a clear understanding of what Chapter 7 Bankruptcy is. When you file a Chapter 7 Bankruptcy petition, you are asking the Court to give you a "discharge" of your debts – you want relief from as much of your debt as possible. If you receive the discharge, many of your debts will be eliminated, but there are certain financial obligations that you will have to continue to pay.

There are many different types of bankruptcy, called different "chapters." Most people file either Chapter 13 or Chapter 7. Those who file Chapter 13 agree to repay some of the debt they owe, and in return they keep most of their property.

Chapter 7 Bankruptcy, which is what you have filed, is known as the "Straight Liquidation Chapter" because, in return for eliminating your debts, you agree to turn over your non-exempt property to your Chapter 7 Trustee, who will then collect and sell your non-exempt assets and pay as much as possible to your creditors. In most cases, however, there are no non-exempt assets to sell, so creditors receive nothing.

Let's explain what we mean by "exempt," because that's important. Most state legislatures have historically wanted to make sure that the property that a debtor needs to assure his or her family's future is protected in bankruptcy, such as their house, tools of trade, car, or farm animals. This property cannot be taken away by creditors, which is what "exempt" means. However, if the property is mortgaged and it's worth less than what is owed to the lender, there might not be an "exempt" part.

Exemptions are different in every state, so be sure to ask your attorney about exemptions.

WHO'S WHO

Let's first get acquainted with the people who will be involved in your case. So far, we've referred to your "attorney" and your "Trustee." Here is a little information about who they are and what they do.

THE ATTORNEY

It is your attorney's job to review your financial situation and answer your legal questions. In a "typical" Chapter 7 Bankruptcy, your attorney will probably:

- Meet with you and advise you of your rights and options in bankruptcy.
- Have someone in his or her office complete the forms and file them.
- Attend the "First Meeting of Creditors" with you – this is called the "341 Meeting."
- Represent you in the courtroom.

Some of you may not have an attorney. You may have had a petition preparer or a paralegal help you file your bankruptcy. If someone other than an attorney helped you, then you are responsible for filing all the papers and providing necessary and correct information about your property and liabilities. If you have questions about your bankruptcy case, you should call an attorney.

THE TRUSTEE

Another person you will meet is the Chapter 7 Trustee. Your Trustee is appointed by a United States Trustee – whom works for the Department of Justice. The (Chapter 7) Trustee's job is to make sure that you, and your creditors, are treated according the rules and procedures established in the United States Bankruptcy Code. The Trustee protects the rights of all parties in the case. Here are some of the things that your Trustee will do:

- Review your paperwork for accuracy and completeness.
- Ask you questions at the First Meeting of Creditors – which is also known as the "341 Meeting."
- Collect and sell your non-exempt assets and pay as much as possible to your creditors.
- Investigate your financial affairs (if needed).
- Object to any claims you make for exemptions that you are not entitled to.
- Object to your discharge, if appropriate.

Remember that the Trustee administers your case. He or she is not your attorney and cannot give you legal advice.

THE JUDGE

You will read about the "Court" and the "Judge" as we describe the process of Chapter 7 Bankruptcy. The judge will make the final decision about whether your debts are discharged based on the law. But in most cases, you will probably not see the judge unless there is a problem.

THE CREDITORS

Your creditors are the people, banks, institutions, and stores to whom you owed money when you filed for Chapter 7 Bankruptcy. Creditors don't usually know you personally, and they don't know your situation. All they know is that you owe them money for the things you bought from them, and it is their goal to collect the money you owe them. It is possible that your creditors have been trying to get you to pay your debts with phone calls and letters, or even by repossessing your property.

WHAT HAPPENS NEXT?

When you file your Chapter 7 Bankruptcy petition, your creditors are sent a Notice informing them that you have filed for Chapter 7 Bankruptcy and that they must stop trying to collect the debts you have listed. You should also get a copy of this Notice which tells you when you must appear for your First Meeting of Creditors and who the Trustee is.

After you file your bankruptcy case, your creditors are not allowed by law to write or call you about the money you owe them. This is called the "Automatic Stay," i.e., they are automatically "stayed" from contacting you. If they do contact you, tell them that you filed for Chapter 7 Bankruptcy and give them your case number. If they continue to call you, tell your attorney and he or she will help you with that situation.

KINDS OF DEBT

There are two different types of debt that you may owe: **Secured** and **Unsecured**.

Most of your debt is probably "unsecured." These debts include most credit card bills, most medical bills, and most personal loans.

SECURED DEBT

A secured creditor is one who lends you money after you have agreed that if you don't meet your obligation to repay the loan, some of your property will be taken away from you and used to repay the lender. Most home loans, car loans, and some lines of credit are secured loans. Some stores may have a secured interest in an item that you bought on a store credit card, like your refrigerator, television, or expensive jewelry. The important thing to remember is that whenever you pledge property you buy as collateral or security for a loan, you give the lender the right to repossess or take back that property if you do not repay the loan. You must file a "**Statement of Intentions**" along with your Chapter 7 Bankruptcy petition. This document will tell your Trustee and your creditors whether you want to keep or give up the property that secures a debt.

You have several options with respect to "secured debt."

- **Return the property**

First, you can ***surrender or return the property*** to the secured creditor. If you return the property, your obligation to pay the remaining debt secured by the property will be discharged in your bankruptcy.

- **Redeeming Property**

You also have the right to ***redeem*** an item of personal property intended for personal, family, or household use by paying the secured creditor the value of the property. You can negotiate the value with your creditor. If you cannot agree on a value, you can ask the Bankruptcy Court to decide it. Upon payment of the agreed amount, you can keep the property and you will have no further obligation on that debt.

- **Continue to Pay Your Debt**

Finally, if you are current in your payments despite your bankruptcy, in some areas of the country you may be able to keep the property and continue making regular payments to the secured creditor according to your loan agreement without redeeming or reaffirming the debt. You should check with your attorney to see if this option is available in your bankruptcy case.

- **Voluntary Repayment**

There are debts that you may want to repay voluntarily. You don't have to sign a Reaffirmation Agreement to repay debt voluntarily (see below), you can just continue to repay it for as long as you can afford to, even though it may have been discharged in bankruptcy. Voluntary repayments, unlike a reaffirmation, are not legal obligations to repay.

For instance, some of your family or friends may have co-signed a loan for you. If you feel an obligation to pay that debt back so that your co-signer is not stuck with the debt, you are free to do so; however, you are under *no legal obligation* to pay back debt that has been co-signed.

REAFFIRMING DEBT

You may be asked to sign a Reaffirmation Agreement. If you are, be sure to get advice from your attorney.

If you want to sign a Reaffirmation Agreement and you do not have an attorney, you must go to court and convince the judge that it is in your best interest to pay the debt, you can afford to pay it, and that the payment of debt will not impose an undue hardship on you or your family. Remember, your debt will be discharged if you do not sign a Reaffirmation Agreement. Also remember that you can reconsider and cancel your decision to reaffirm a debt at any time prior to discharge or within 60 days after the agreement is filed with the Court, whichever is later.

WHAT DEBT CAN BE DISCHARGED?

Non-Dischargeable Debt

Some debts are not discharged by bankruptcy, which means that you will still owe them even after you receive your discharge.

Here are the kinds of debts that are not discharged:

- Most taxes
- Alimony
- Child support and property settlements

- Student loans

The goal of your filing bankruptcy is to obtain a discharge of your debts – a "fresh start." Discharge means that the debt is eliminated. In the majority of cases, the Court enters an order granting a discharge 60 days after the Meeting of Creditors. A discharge of your debts will automatically be granted unless someone specifically objects to your case. You should receive a copy of your Discharge in the mail. Keep a copy of your Discharge papers in case any of your creditors later try to collect on a debt that has been discharged in bankruptcy.

Complaint to Determine Dischargeability

In addition, some of your other debts may be subject to a "**Complaint to Determine Dischargeability**". A "Complaint to Determine Dischargeability" is a lawsuit filed by a creditor who believes that you have been dishonest, committed fraud, larceny, embezzlement, or willful injury.

For instance, if you misrepresented any of your financial information on a credit application and if the creditor gave you credit based on that information and then discovered that the information you provided was not correct, he may file a complaint in court and serve you and your attorney with a copy.

If the Court grants the creditor's Complaint against you, that debt may not be discharged and you will still have to pay it. You do have the right to contest the Complaint at a hearing before the Bankruptcy Judge, and each Complaint must be determined by the Bankruptcy Judge.

It is important to remember to contact your attorney as soon as you receive a Complaint**.** We will talk more about "Complaints to Determine Dischargeability" when we discuss important legal documents.

Remember, just because your unsecured debts are probably going to be eliminated, it doesn't mean that you can go off and have a last minute shopping spree before you file for Chapter 7 Bankruptcy!

The Court and your creditors will look closely for those kinds of debts that were made 60 days prior to filing. A creditor could file a Complaint and the Court may decide that you have acted "fraudulently" or were intentionally deceitful. If that happens, you will be held responsible for those debts or the Court may dismiss your case.

It is very important to always be completely truthful with your attorney, your Trustee, and with the Court. You have to make sure that all the information you give your Trustee and file with the Court is accurate and complete. You must attend your "341 Meeting" (your "First Meeting of Creditors") and you must cooperate in every way possible.

Make sure you let your attorney know about all of your debts, no matter how large or small. Debts that are not listed in the Bankruptcy Schedule may not be discharged or eliminated. If you forget to list a creditor, but remember the debt later, contact your attorney to determine what should be done, if anything.

IMPORTANT LEGAL DOCUMENTS

There are some very important legal documents that you must watch for, such as the "Notice of Meeting of Creditors" or the "Motion to Lift Stay."

Automatic Stay

When you filed your Chapter 7 Bankruptcy, the "Automatic Stay" went into effect.

The Automatic Stay stops almost all types of collection action against you. If a creditor feels that he is being treated unfairly, he may decide to file a Motion with the Bankruptcy Court asking for permission to proceed against you anyway.

Motion for Relief from Automatic Stay

If a creditor decides to take such action, he must serve you and your attorney with a "Motion for Relief from Automatic Stay." If you receive a Motion, call your attorney right away. If you ignore it, and the Court allows this creditor's Motion, you could lose the property in question, such as your house or car!

Complaint to Determine Dischargeability of Debt

Another important legal document that we have already talked about is "The Complaint to Determine Dischargeability of a Debt." That means that a creditor may believe that you have been dishonest, committed fraud, larceny, embezzlement, or willful injury. If you ignore it or if the Court grants it, you will remain liable for that debt.

Motion to Dismiss

Another important document is the "Motion to Dismiss." Your case may be dismissed by the judge for many different reasons, including a failure to file the correct papers. This means that you may be back where you started before you filed your bankruptcy papers. If you get served with a "Motion to Dismiss," you should immediately contact your attorney.

REVIEW

We've covered a lot of the legal and administrative aspects of your filing Chapter 7 Bankruptcy. Let's just do a quick review…

- We discussed who your attorney, Chapter 7 Trustee, and the judge are. Your attorney represents and advises you, files your paperwork, and will be at the 341 Meeting with you. Your Trustee administers and oversees your case. The judge decides disputes. You will probably only see a judge if someone objects to your case.
- Please remember that the judge and the people in the clerk's office cannot give you legal advice! Nor can the Trustee. Also remember that all important documents must be filed with the Court, not just given to your attorney or Trustee.
- You know the various kinds of creditors with whom you're dealing. Secured Creditors have an interest in your house car or other property. Unsecured Creditors include your credit card debts, personal loans, and hospital bills. Most of your unsecured debts will be eliminated. Non-dischargeable debts will not be eliminated. Non-dischargeable debts include most taxes, alimony, child support payments, and student loans.
- We've mentioned some of the motions and the legal documents that a creditor might file against you. Remember, your attorney can help you with any questions you might have regarding anything we've talked about.

- **Take note…** You've got to keep paying your regular monthly bills like telephone, rent, electricity, and water. If you don't keep paying these, you could be evicted or find that your utilities have been cut off. A Chapter 7 Bankruptcy only eliminates the debts that you owed before you filed your paperwork.

QUESTION AND ANSWERS

1. ***What are my responsibilities when filing Chapter 7 Bankruptcy?***

You have to be completely truthful with your attorney, your Trustee, and the Court. You have to make sure that all the information you give your attorney and file with the Court is accurate and complete. You must show up at your "341 Meeting" (your "First Meeting of Creditors") and you must cooperate.

2. ***Which debts should I continue to pay?***

You should continue to pay your regular monthly expenses such as rent, utility bills, and any payments for your secured property that you want to keep, like your house or car.

3. ***Can I sell any of my assets while I'm in bankruptcy?***

If you wish to sell your home or any other asset, contact your attorney first.

4. ***What if I inherit some money?***

If you inherit money or receive money through a life insurance policy within 6 months of filing for bankruptcy, you've got to report it to your Trustee.

5. ***What if I move?***

If you move before your case is finished, you must notify your attorney, your Trustee, and the Bankruptcy Court of your new address *in writing*. You can usually find a change of address form at the courthouse.

6. ***What is my life going to be like after Chapter 7 Bankruptcy?***

Bankruptcy laws were designed to give you a new financial beginning! A fresh start! Chapter 7 Bankruptcy is a way for you and your family to get back on your feet. However, you have to rebuild your financial life so that you will have a future to which to look forward.

CONCLUSIONS:

It doesn't matter if you're single, married, retired, or supporting your children by yourself. You might be the CEO of your own company, or unemployed because of downsizing. Chapter 7 Bankruptcy can happen to anyone. It can also give everybody the same opportunity to change. Make a promise to yourself that you'll learn the financial skills that will help you become more successful.

LESSON EXERCISE

Class discussion with an attorney, to determine qualifications for filing?

SECTION 4 – THE BASICS OF CHAPTER 7 BANKRUPTCY

LESSON #7:

IS THERE LIFE AFTER CHAPTER 7 BANKRUPTCY?

OUTLINE:

I. INTRODUCTION

II. THE PAST: CHAPTER 7 AND HOW IT AFFECTS YOUR CREDIT FUTURE

III. THE PRESENT

A. How to Get Your Credit Report

B. What Credit Reports Say About You and Your Payment Habits

C. Why Get a Credit Report

1. What to Look for in Your Credit Report
2. How Derogatory Information in Your Credit Report Affects You
3. How to Dispute Incorrect Information in Your Credit Report

IV. THE FUTURE: REBUILDING YOUR CREDIT-WORTHINESS

A. The Lender's Point of View

B. Credit Scoring

C. Updating Your Credit History

D. Rebuilding Your Credit History

V. CONCLUSION

VI. SUMMARY OF YOUR RIGHTS UNDER THE FAIR CREDIT REPORTING ACT

VII. LESSON EXERCISE

OBJECTIVES:

Upon completing this section, you should be able to:

- Identify **critical documents** from your Chapter 7 Bankruptcy filing.
- Identify critical elements of your **past credit history** and understand how they affect your **current credit status**.
- Understand the steps you need to take to **re-establish your credit-worthy status**.

This lesson will help you identify critical documents from your Chapter 7 Bankruptcy, especially documents that you must keep for your records. You will also be able to identify critical elements of your past credit history and understand how they affect your current credit status. Finally, you will learn the steps you need to take to re-establish your credit.

INTRODUCTION

You're probably wondering if you will ever get credit once you've been discharged in your Chapter 7 Bankruptcy. Perhaps you worry how you can get a car loan or buy a home. Remember, you won't necessarily be rejected for new credit by a lender just because your credit report shows that you filed a Chapter 7 Bankruptcy.

Creditors use their own underwriting guidelines to decide whether or not to give you credit, and they all differ. The loan officer uses these guidelines and your credit report when reviewing your credit application. Your credit file is a record of your past payment history.

Suits, collections, attachments, and bankruptcies all show up on your credit report and are all indications – in one degree or another – of credit problems.

THE PAST: CHAPTER 7 AND HOW IT AFFECTS YOUR CREDIT FUTURE

Because you have filed Chapter 7, you need to take an active role in managing your personal credit record for the next few years. Even if you don't believe that you want credit now or in the future, you may find that you need to finance a large purchase, take a long trip, rent a car, travel to another country, rent a hotel room on credit, or finance a small business. If you are like most people, you will probably need credit for one of these or some other reason in the future. Therefore, it is important to be sure that your credit history is reflected accurately on your credit report, and that you do as much as you can now to start rebuilding your credit-worthiness.

Keep All Records From Your Chapter 7 Bankruptcy Filing & Know What Documents You Need To Keep!

Do you have these important Chapter 7 documents?

The Petition, Motions, Schedules, Orders, Matrix Amendments

If not, get copies now and keep them in your ***permanent*** files for a long time, maybe even forever! ***It is important that you keep your Discharge Order.***

THE PRESENT: YOUR CREDIT REPORT

HOW TO GET YOUR CREDIT REPORT

Your credit report is a very important document that influences many different parts of your life – now and in the future. It shows how you have paid your debts in the past, as well as other information that is reviewed by a lender in deciding whether or not to grant you credit. Your credit report is also reviewed by potential employers in deciding whether or not to offer you a job, by utility companies in deciding how much to charge you for service, and even by landlords in deciding whether or not to allow you to rent a home or apartment. It is also used by some insurance companies in deciding whether or not to extend coverage to you.

You may have more than one credit report. Lenders from who, you have borrowed money in the past usually report your repayment history to more than one credit bureau. This means that your records might be on file with several credit bureaus. A good deal of other information about you besides your borrowing and repayment history is shown in your credit report – like your social security number, your past and present addresses, employers, and even information about your spouse.

There are three major credit reporting agencies in the United States called "credit repositories." Each of the "Big Three" repositories has an 800 number so that you can call to get information about ordering your own credit report. The "Big Three" credit bureaus cover the entire country. There may also be smaller credit bureaus in your area who maintain credit files of information about you as well. These are the "Big Three" credit repositories:

- **Trans Union**, also known as **TU** (1-800-862-1619)
- **Equifax Credit Information Services**, also known as **CSC** (1-800-753-1312)
- **Experian**, formerly known as **TRW** (1-800-682-7654)

Under the *Fair Credit Reporting Act* ("FCRA"), you have the right to know what is in your credit file. If you have been denied credit within the past sixty days, you can find out what is in your credit file for free. If a creditor declines your application for credit based on the information obtained from your credit bureau file, they are required to tell you the name and location of the credit bureau from which they obtained your file. If you are turned down for a loan, for insurance, by an employer, or if you suffer any other adverse circumstances, call each credit repository. Tell them that you have been denied credit and ask for a copy of your credit report.

You may also qualify for a free copy of your credit report if you are receiving welfare, if you are unemployed and plan to seek employment within the next 60 days, or if your credit report is inaccurate due to fraud.

If you have not been denied credit recently or do not qualify for a free report for one of the above reasons, you should still order a copy of your credit report so that you can review all of the information it contains about you and correct any inaccuracies as quickly as possible.

WHAT CREDIT REPORTS SAY ABOUT YOU AND YOUR PAYMENT HABITS

Credit reports from different credit repositories do not look the same because each credit reporting agency designs its own report. Therefore, they are often difficult to read and understand. However, the FCRA requires that each repository provide instructions at the beginning of the report about how to interpret the information.

There *are* some credit reporting characteristics that you will find in each repository's reports. For example, ***all credit reports*** contain the following information**:**

Personal information about you:

- **Name** – Past, present, and aliases. (Watch out if you are a Sr., Jr., III, etc.; if you have a very common name; or if someone in your family has a name similar to yours. Make sure that the person described in the report is you. Check the following information carefully as you may have someone else's information in your file.)
- **Address** – Past and present.
- **Phone number**
- **Social Security Number**
- **Date of birth**
- **Employment information**

Account information:

- Name and type of **creditor**
- **Account number**
- Whether the account is **individual** or **joint**
- Date **opened**
- **Type** of account – installment or revolving
- Date of **last activity**
- **Highest** amount of **credit** used and current limit
- Number of **late payments** (noted in 30-day increments)
- Current **balances**
- Number of **open accounts**
- **Comments**, such as "Included in Bankruptcy," "Making Regular Payments Under Wage Earner Plan," "Account Charged Off…"
- Date the information was **verified**
- **Consumer's Comments**

Collection Accounts:

Accounts sent to collection agencies for collection.

Courthouse and Public Records:

Tax liens, foreclosures, repossessions, bankruptcies, and judgments.

Additional Information:

Legal items of public record, such as marriages, arrests, etc.

Disputed Items:

These are items in your file that you dispute with the credit grantor.

Credit Report Inquiries:

Made by you, by creditors, or by others during the past 12 months, or made by an employer during the past 24 months.

WHY GET A CREDIT REPORT?

It is a good idea to order a copy of your credit report and review it *before* you actually apply for a loan, for insurance, to rent a home, to set up utility service, or to seek employment. If you wait until a loan officer orders one for a loan application, for instance, it may be too late to dispute any inaccurate information contained in the report.

Here's why you should review your credit report *before* you apply for credit, for a job, or for insurance:

- It may contain someone else's information.
- It may show an incorrect balance.
- It may contain other inaccurate information that needs investigation.
- If you find incorrect information, you may wish to dispute it with the credit bureau.
- If your dispute is not resolved, you may wish to add a brief statement describing why you disagree with the information in your report.

WHAT TO LOOK FOR ON YOUR CREDIT REPORT

After you request your credit report – and be sure to request your reports from each of the Big Three repositories – allow 7 to 21 days to receive it. After you receive all of your reports, it is a good idea to follow these steps:

1. Determine the date all account information was reported.

2. Verify the current status of the accounts. Once a debt is discharged, verify that the credit report indicates a discharged status. ***It is important to note that payment history on a discharged account should also be removed.***

3. Verify that all accounts that were discharged by your bankruptcy plan show a ***zero*** balance.

4. If there is a written comment about bankruptcy on any creditor entry, it should show that the debt was ***included in a Chapter 7 Bankruptcy.***

WHAT IS DEROGATORY (NEGATIVE) INFORMATION?

Lenders, employers, insurers, and others may deny your application if derogatory information appears on your credit report. Derogatory information may be any one or more of the following statements:

- Paid, collection
- Paid, charge-off
- Paid was 60, 90, or 120 days late
- Charge-off
- Collection account
- Delinquent
- Current, was 60, 90, or 120 days late
- Account closed – grantors request
- SCNL (subscriber cannot locate)
- Bankruptcy – Chapter 7
- Tax liens
- Judgments
- Excessive Inquiries
- Checkpoint, Trans Alert or Caution to Potential fraud indicators

HOW WILL DEROGATORY INFORMATION AFFECT YOU?

Negative information on a credit report is any information that may cause you to be turned down for credit or reduce your chances for loan approval.

- Most negative information legally can be reported on your report for seven years.
- Bankruptcies may be reported for up to ten years.
- Chapter 7 Bankruptcy is reported for ten years *from the date of filing*.
- Tax liens remain on your record for seven years after the date they were paid.
- Some judgments may be reported for ten years. Judgments may also be renewed.

HOW TO DISPUTE INFORMATION ON YOUR REPORT

Your credit report is the history of your past performance with creditors. Therefore, if the information reported in your report is inaccurate or out of date, the information must be corrected or removed.

It is important for you to report any inaccurate information that you find on your credit report right away. Credit bureaus are required to investigate and correct inaccurate information within 30 to 45 days *from receipt of the dispute.* If they cannot verify the information that you are disputing, they must remove it from your file and upon your request, notify anyone you specify who has received the inaccurate file within the last 24 months for employment and 6 months for any other reason.

Any credit bureau that willfully fails to comply with these and other FCRA provisions with respect to any consumer is generally liable to that consumer in an amount equal to the sum of:

- Actual damage sustained by the consumer as a result of the failure or damages of not less than $100 and not more than $1,000.
- Any punitive damages that the court allows.
- The cost of the action together with reasonable attorney's fees as determined by the court in the case of any successful action to enforce any liability under this section

HOW TO DISPUTE INACCURACIES ON YOUR REPORT

1. ***Know your rights under the FCRA, the Consumer Credit Protection Act, and the Fair Debt Collection Practices Act.*** For free information explaining these laws and to receive pamphlets such as Building a Better Credit Record, Women and Credit Histories, and Credit Billing Blues, write to:

Federal Trade Commission
Public Reference
Washington, DC 20580.

2. After examining your credit report, ***write a letter to each of the credit repositories*** requesting that disputed information in the report be investigated.

3. ***Keep a record of all letters*** requesting updates and keep any other correspondence related to your credit report.

4. ***Follow up*** if corrected reports are not received after the bureau reinvestigates and determines that the information you disputed is incorrect or cannot be verified. If the reinvestigation by the bureau does not resolve your dispute, you may contact one of the following federal agencies that have the authority to enforce the FCRA:

- **Credit Reporting Agencies**

  Federal Trade Commission
  Consumer Response Center – FCRA
  Washington, DC 20580 Telephone: (202) 326-3761

- **National Banks,** federal branches/agencies of foreign banks, (the word "National" or initials "N.A." appear in or after bank's name)

  Office of the Comptroller of the Currency
  Compliance Management, Mail Stop 6-6
  Washington, DC 20219 Telephone: (800) 613-6743

- **Federal Reserve System** member banks (except national banks, and federal branches/agencies of foreign banks)

  Federal Reserve Board
  Division of Consumer & Community Affairs
  Washington, DC 20551

  Office of Thrift Supervision
  Consumer Programs
  Washington, DC 20552 Telephone (800) 842-6929

- **Federal Credit Unions** (words "Federal Credit Union" appear in institution's name)

  National Credit Union Administration
  1775 Duke Street
  Washington, DC 22314 Telephone (703) 518-6360

- **State-chartered banks** that are not members of the Federal Reserve System

  Federal Deposit Insurance Corporation
  Division of Compliance & Consumer Affairs
  Washington, DC 20429 Telephone (800) 934-FDIC

- **Air, surface, or rail common carriers** regulated by former Civil Aeronautics Board or Interstate Commerce Commission

  Department of Transportation
  Office of Financial Management
  Washington, DC 20590 Telephone (202) 366-1306

- Activities subject to the **Packers and Stockyards Act 1921**

  Department of Agriculture
  Office of Deputy Administrator – GIPSA
  Washington, DC 20250 Telephone (202) 720-7051

A SPECIAL NOTE ABOUT "CREDIT REPAIR"

There are businesses that advertise that they can "remove unfavorable remarks" and "clean up your credit report" based on loopholes in federal law.

These businesses, or "clinics," often tie up your file at the bureaus by flooding them with requests for verification of derogatory information even if it's true. What they don't tell you is that the information they removed from your report can be replaced at a later date if the creditor who is reporting that information can verify that it was accurate.

Remember that only the creditor or credit reporting agency can legally remove that information from your file before the seven-to-ten year reporting period expires. And they will only remove information reported in error.

THE FUTURE: REBUILDING YOUR CREDIT WORTHINESS

THE LENDER'S POINT OF VIEW

Lenders often evaluate you to determine how much credit to grant you – if any – based on the **"three C's: character, capacity, and capital."**

- **Character – Will you repay?** Lenders may consider factors such as the length of time you have been at your present and previous address, time at your present and previous job, references, and credit history.
- **Capacity – Can you repay?** The lender may consider income from all verifiable sources and the reliability of your job, debt to income ratio, or how your monthly income compares to your monthly debts.

  Some creditors prefer that no more than 28% of your gross income if employed or of your net income if self-employed pays for housing debt. In addition, the maximum overall "fixed" debt (including housing) is 36% of your gross income if employed or of your net income if self-employed
- **Capital – What collateral do you own?** Lenders will ask you to disclose all real estate you own, the amount of cash you have in checking and savings accounts, other investments, and any other personal property you own.

WHAT IS CREDIT SCORING?

Credit scoring is another method that some lenders use to determine whether you meet their lending criteria. Credit scoring is done by computer… It is a statistical method used to evaluate your payment history and other factors.

The lender's underwriting guidelines assign a specific score to various elements of your loan application, such as your ratios, the down-payment you put to the loan, number of credit cards you have, your payment history to other creditors, etc. They then calculate an overall score based on all of the above. If your score is high enough, they will grant you credit. If not, then they may not grant you credit.

WHAT STEPS SHOULD YOU TAKE TO UPDATE YOUR CREDIT HISTORY?

After you have gone through the process of ordering your credit report and correcting any incorrect information, you will need to focus on rebuilding your credit history. You'll need to update your existing file and start working toward establishing a strong, *new* credit history that proves you have changed poor repayment habits, if those were in fact part of your old history.

- Supply the credit bureau with any positive information that may not appear on your report.
- Make sure the status of all accounts on the report is accurately reflected.
- Close any open accounts that you're not using.
- Work with your creditors to delete derogatory information that is not yours.
- Clear up any erroneous student loan matters.
- Clear up any incorrect public record information.

WHAT YOU CAN DO TO REBUILD YOUR CREDIT AND IMPROVE YOUR SCORE

- Open a checking and savings account and begin making regular deposits, even if they are small.
- Apply for a department store or gas credit card (easier to qualify for) and pay all your bills on time, including your utilities.
- If you feel you need a credit card for identification, for travel, or for emergencies, take out a secured credit card by depositing money with the issuing bank and make charges that you pay on time (interest is generally 7-23% and some cards have no annual fee).
- If you need to buy a car, put down a high down payment and select the most economical car that fits your needs (not your wants) at a low price.
- If you are married, it is a good idea for each of the spouses to establish their own, separate credit history. The Equal Credit Opportunity Act requires that if you have had a joint account, you can request a creditor to report your individual participation and performance on that account separately.
- In the future, do not go overboard with credit. You could be turned down for new credit if you already have too much revolving credit.

A SUMMARY OF YOUR RIGHTS UNDER THE FCRA

The Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every consumer reporting agency (CRA). Most CRA's are credit bureaus that gather and sell information about you, such as where you work and live, if you pay your bills on time, and whether you've been sued, arrested, or filed for bankruptcy. They sell this information to creditors, employers, and other businesses. The FCRA gives you specific rights in dealing with CRA's, and requires them to provide you with a summary of these rights as listed below. You can find the complete text of the FCRA, 15 U.S.C. 1681 et seq., at the Federal Trade Commission's web site (http://wwwftc.gov).

- ***You must be told if information in your file has been used against you.*** Anyone who uses information from a CRA to take action against you – such as denying an application for credit, insurance, or employment – must give you the name, address, and phone number of the CRA that provided the report.
- ***You can find out what is in your file.*** A CRA must give you all the information in your file and a list of everyone who has requested it recently. However, you are not entitled to a "risk score" or a "credit score" that is based on information in your file. There is no charge for the report if your application was denied because of information supplied by the CRA and if you request the report within 60 days of receiving the denial notice. You also are entitled to one free report a year if you certify that you are unemployed and plan to seek employment within 60 days, you are on welfare, or your report is inaccurate due to fraud. Otherwise, a CRA may charge you a fee of up to $8.00.
- ***You can dispute inaccurate information with the CRA.*** If you tell a CRA that your file contains inaccurate information, the CRA must reinvestigate the items (usually within 30 days), unless your dispute is frivolous. The CRA must pass along to its source all relevant information you provided. The CRA also must supply you with written results of the investigation and a copy of your report if

it has changed. If an item is altered or deleted because you dispute it, the CRA cannot place it *back in* your file**,** *unless the source of the information verifies its accuracy and completeness* and the CRA provides you a written notice that includes the name, address and phone number of the source.

- ***Inaccurate information must be deleted.*** A CRA must remove inaccurate information from its files, usually within 30 days after you dispute its accuracy.

  The largest credit bureaus must notify other national CRA's if items are altered or deleted. However, the CRA is not required to remove data from your file that is accurate unless it is outdated or cannot be verified.

- ***You can dispute inaccurate items with the source of the information.*** If you tell anyone – such as a creditor who reports to a CRA – that you dispute something that they reported about you to a CRA, they may not then report the information to a CRA without including a notice of your dispute. In addition, once you've notified the source of the error in writing, they may not continue to report the information if it is, in fact, an error.

- ***Outdated information may not be reported.*** In most cases, a CRA may not report negative information that is more than seven years old; ten years for bankruptcies.

- ***Access to your file is limited.*** A CRA may provide information about you only to those who have a need recognized by the FCRA, usually to consider an application you have submitted to a creditor, insurer, employer, landlord, or other business.

- ***Your consent is required for reports that are provided to employers or that contain medical information.*** A CRA may not report to your employer or prospective employer about you without your written consent. A CRA may not divulge medical information about you without your permission.

- ***You can stop a CRA from including you on lists for unsolicited credit and insurance offers.*** Creditors and insurers may use file information as the basis for sending you unsolicited offers of credit or insurance. Such offers must include a toll-free number for you to call and tell the CRA if you want your name and address excluded from future lists or offers. If you notify the CRA through the toll-free number, it must keep you off the lists for two years. If you request and complete the CRA form provided for this purpose, you can have your name and address removed indefinitely.

- ***You may seek damages from violators.*** You may sue a CRA or other party in state or federal court for violations of the FCRA. If you win, the defendant may have to pay damages and reimburse you for attorney fees. If you lose and the court specifically finds that you sued in bad faith, you or your attorney may have to pay the defendant's fees.

You may have additional rights under state law. *You may wish to contact a state or local consumer protection agency or a state attorney general to learn those rights.*

CONCLUSIONS:

Going forward, make a commitment to yourself to pay your bills on time. Late payments not only cost you money you could be spending on other things, they also ruin your credit report. If you must use credit, limit it to what you can pay back in a short period of time. Know what you can really, comfortably afford to pay for purchases with the income you have, and limit your borrowing to that amount.

Keep your borrowing to just a few lines of credit. If you can't resist temptation, cut up all the cards and close down all lines of credit. Most of all, take advantage of this fresh start. Save money. When you need credit, learn how to shop for it. Make a spending plan and follow it. Don't be distracted by someone else's plan for your money. ***Take control of your own future.***

LESSON EXERCISE

From the website www.annualcreditreport.com order your free credit report today if possible

SECTION 5 – FISCAL REVIEW

LESSON #8:

FINANCIAL RESPONSIBILITY

OUTLINE:

OBJECTIVES:

Upon completing this section, you should be able to:

- Recap and apply the lessons learned in the previous sections.
- Complete the lab: building a budget
- Identify the location of Financial Records for ease of use and accessibility
- Lab:
- Lab:
- Lab:

INTRODUCTION

Throughout this workbook you were asked to complete exercises to more familiarize yourself with the budgeting process. Each exercise was specifically designed to jumpstart the practice and see the result of how much fun budgeting can be. Not only is mastering your finances a way to reining costs but it also becomes a way to build for the future and more thoroughly plan out large purchases.

ALTERNATIVE INCOMES

Look at what you already have of the skills you already possess. Some ideal ways to earn a few extra dollars are obtain a second job, babysitting, lawn and yard work, painting and decorating, and other domestic jobs people are likely to hire out.

CONCLUSIONS:

MAKE A PROMISE TO YOURSELF THAT YOU'LL LEARN THE FINANCIAL SKILLS THAT WILL HELP YOU BECOME MORE SUCCESSFUL.

QUESTION AND ANSWERS

Is using a budget all that it is cracked up to be?

It can be and so far technology has not devised a better method.

Will I have to get a second job?

Usually not, however earning additional income here and there is something to be looked at.

LESSON EXERCISES

Review your maintained budget.

SECTION 6 – ADDITIONAL RESOURCES

ADDITIONAL RESOURCES

INTERNET

If you have access to the Internet, you can find interesting and helpful resources at many locations. Here are just a few:

American Bankruptcy Institute http://www.abiworld.org

ABI World offers daily bankruptcy news and information and a gateway to ABI On-Line, a private bankruptcy research library.

Bankruptcy Law News http://www.ljx.com/practice/bankruptcy/index.html

News, statutes, case law, legal memorandums from Law Journal Extra!

Budget Calculators:

Consumer Credit Counseling Services http://www.cccsmetro.com/spending_plan/index.htm

FamilyMoney's How Much House Can You Afford

http://www.familymoney.com/cgi/fmcalcs/qualify.cgi

Bankrate.com financial calculators http://www.bankrate.com/brm/pop_calc.asp

Brand and Price Comparison http://www.comparte.net *and* www.consumer.gov

Consumer Credit Counseling Service Agencies http://www.nfcc.org

Non-profit organization providing education and counseling services on budgeting and credit fact-to-face, by telephone, and by mail. For information on the free Consumer Credit Counseling Service in your area, call 1-800-777-PLAN.

Consumer Law http://www.consumerlawpage.com

Legal information for consumers.

Consumer Topics http://www.consumerworld.org

Cooperative Extension System http://www.reeusda.gov

Public-funded, non-formal educational system. Address issues such as basic life skills leading to job retention, saving for retirement, and personal finance education.

WEB SITES FOR MONEY MANAGEMENT

Credit Card Comparison http://www.cardtrak.com

Comparison of costs and features of credit cards.

Credit Infocenter http://www.creditinfocenter.com

Information on bankruptcy, credit card rates, credit reports, and rebuilding credit.

Credit Law http://www.FTC.gov *and* http://www.federalreserve.gov

Credit Report Information http://www.equifax.com *and*

http://www.experian.com *and* http://www.tuc.com

Debt and Credit http://www.nolo.com/ChunkDC/DC.index.html

Nolo Press articles on using credit, strategies for repaying debts, student loans, debt collection, bankruptcy, and credit repair.

Debt Management http://www.networth.quicken.com

Debt reduction planner.

Financenter.com http://www.financenter.com

On-line calculators to help with any personal financial question, including developing a spending plan, savings plan, and information on home purchasing, auto financing, and credit cards.

IBL Bankruptcy, Clerk Database http://www.bankrupt.com/clerks/15.html

Directory of U.S. bankruptcy clerk's offices and related court links from the Internet Bankruptcy Library.

Internet Law Library Bankruptcy and Debt Collection Law

http://www.law.house.gov/311.html

Collection of legislation, articles, and other resources from the U.S. House of Representatives Internet Law Library.

National Bankruptcy Review Commission http://www.nbrc.gov/

Independent commission established pursuant to the Bankruptcy Reform Act. Access fact sheets, news, and reports with an archive and links.

NCBA – Filing for Bankruptcy http://www.barlinc.org/pamphlets/bank.html

A brief outline of the processes involved in filing for bankruptcy from the North Carolina Bar Association. Also discusses Chapters 7, 12, and 13.

Savings Calculator http://www.centura.com/formulas/calc/html

A financial calculator for figuring savings.

U.S. Bankruptcy Law (Cornell) http://www.law.cornell.edu/topics/bankruptcy.html

A bankruptcy law primer.

U.S. Courts http://www.uscourts.gov

Provides answers to frequently asked questions about bankruptcy.

www.uscourts.gov/publications.html has a publication titled, "Bankruptcy Basics."

www.uscourts.gov/links.html is a link to Internet sites of courts around the U.S.

SPANISH LANGUAGE INTERNET SITES

Preguntas - Crédito http://www.home98.com/anwcredit.htm

Questions of credit, bankruptcy, and bankruptcy law.

Que Es La Quiebra http://www.quiebras.com

Provides an explanation of both Chapter 7 and Chapter 13 bankruptcy.

Sala de Debate http://www.macchi.com/cgi-local-parse.pl/page+debate.htm

A place to chat or ask questions to experts about financial situations.

BOOKS AND TAPES

We have discussed many of the issues that may affect your particular financial situation. You will find it well worth your time to explore some of the many excellent books and tapes available at your local bookstore or library. What follows is a list of the some of the books available right now that will surely include at least one book that will be very helpful to you.

Abentrod, Susan, *10 Minute Guide to Beating Debt (10 Minute Guides),* Macmillan General Reference, 1996.

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OTHER CONSUMER PAMPLETS AVAILABLE

"Consumer Handbook on Adjustable Rate Mortgages"

"A Consumer's guide to Mortgage Closing Costs"

"A Consumer's guide to Mortgage Lock-Ins"

"A guide to Business Credit and the Equal Credit Opportunity Act"

"When your Home is on the Line: What you should know about Home Equity Lines of Credit"

Copies of the above pamplets are available upon request from Publication Services, Division of Support Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

CONCLUSIONS

No matter what your current situation, with steadfast planning financial relief can be achieved.

66 WAYS TO SAVE MONEY

For most kinds of purchases, you can get valuable advice and comparisons on the Internet. Ask a librarian or friends which Internet sites they think are helpful, or you can use a search engine like Google or Yahoo. Be aware that the information you find is often biased. At many websites, the only products or sellers listed are ones that pay to advertise. Before buying anything on the Internet, check several websites and make sure you deal with reputable dealers.

Transportation

Airline Fares

1. Compare low-cost carriers with major carriers that fly to your destination. Remember, the best fares may not be out of the airport closest to you.

2. You may save by including a Saturday evening stay-over or by purchasing the ticket at least 14 days in advance. Ask which days of the week and times of the day have the lowest fare.

3. Even if you are using a travel agent, check airline and Internet travel sites, and look for special deals. If you call, always ask for the lowest fare to your destination.

Car Rental

4. Since car rental rates can vary greatly, compare total price (including taxes and surcharge) and take advantage of any special offers and membership discounts.

5. Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.

New Cars

6. You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low depreciation, financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information.

7. Having selected a model and options you are interested in, you can save hundreds of dollars by comparison shopping. Get price quotes from several dealers (over the phone or Internet) and let each know you are contacting the others.

8. Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

Used Cars

9. Before buying any used car:

   - Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices that can be found at many libraries, banks, and credit unions.

   - Have a mechanic you trust check the car, especially if the car is sold "as is."

10. Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.

Auto Leasing

11. Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments are lower because you don't actually own the car.

12. Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of- lease), and the cost of buying the car at the end of the lease. A valuable source of information about auto leasing can be found in Keys to Vehicle Leasing: A Consumer Guide, which is published by the Federal Reserve Board and Federal Trade Commission.

Gasoline

13. You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual.

14. You can save up to $100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

Car Repairs

15. Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:
    - is certified and well established;
    - has done good work for someone you know; and
    - communicates well about repair options and costs.

Insurance

Auto Insurance

16. You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage.

17. Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverage to at least $500 or, if you have an old car, dropping this coverage altogether. This can save you hundreds of dollars on insurance premiums.

18. Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance

19. You can save several hundred dollars a year on homeowner insurance and up to $50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes.

20. Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition.

21. Make certain your new policy is in effect before dropping your old one.

Life Insurance

22. If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy.

23. If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs.

24. Check the National Association of Insurance Commissioners website (www.naic.org/cis) or your local library for information on the financial soundness of insurance companies.

Banking/Credit

Checking Accounts and Debit Cards

25. You can save more than $100 a year in fees by selecting a free checking account or one with no minimum balance requirement. Request a complete list of fees that are charged on these accounts, including ATM and debit card fees.

26. See if you can get free or lower cost checking through direct deposit or agreeing to ATM only use. Be aware of charges for using an ATM not associated with your financial institution.

Savings Products

27. Before opening a savings account, find out whether the account is insured by the federal government (FDIC for banks or NCUA for credit unions). Financial institutions offer a number of products, such as mutual funds and annuities, which are not insured.

28. Once you select a type of savings account, use the telephone, newspaper, and Internet to compare rates and fees offered by different financial institutions-including those outside your city. These rates can vary a lot and, over time, can significantly affect interest earnings.

29. To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) or U.S. Savings Bonds (Series I or EE).

Credit Cards

30. To avoid late payment fees and possible interest rate increases on your credit cards, make sure you send in your payment a week to ten days before the statement due date. Late payments on one card can increase fees and interest rates on other cards.

31. You can avoid interest charges, which may be considerable, by paying off your entire bill each month. If you are unable to pay off a large balance, pay as much as you can. Try to shift the remaining balance to a credit card with a lower annual percentage rate (APR). You can find listings of credit card plans, rates, and terms on the Internet, in personal finance magazines, and in newspapers.

32. Be aware that credit cards with rebates, cash back, travel awards, or other perks may carry higher rates or fees.

Auto Loans

33. To save as much as several thousand dollars in finance charges, pay for the car in cash or make a large down payment. Always get the shortest term loan possible as this will lower your interest rate.

34. Make certain to get a rate quote (or pre-approved loan) from your bank or credit union before seeking dealer financing. You can save as much as $1000 in finance charges by shopping for the cheapest loan.

35. Make certain to consider the dollar difference between low-rate financing and a lower sale price. Remember that getting zero or low-rate financing from a dealer may prevent you from getting the rebate.

First Mortgage Loans

36. Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. For each $100,000 you borrow at a 7% annual percentage rate (APR); for example, you will pay over $75,000 less in interest on a 15-year fixed rate mortgage than you would on a 30-year fixed rate mortgage.

37. You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year $100,000 fixed-rate mortgage, just lowering the APR from 7% to 6.5% can save you more than $5,000 in interest charges over the life of the loan, and paying two points instead of three would save you an additional $1,000.

38. Check the Internet or your local newspaper for mortgage rate surveys, then call several lenders for information about their rates (APRs), points, and fees. If you choose a mortgage broker, make certain to compare their offers with those of direct lenders.

39. Be aware that the interest rate on most adjustable rate mortgages (ARMs) can vary a great deal over the lifetime of the loan. An increase of several percentage points might raise payments by hundreds of dollars a month, so ask the lender what the highest possible monthly payment might be.

Mortgage Refinancing

40. Consider refinancing your mortgage if you can get a rate that is lower than your existing mortgage rate and plan to keep the new mortgage for at least several years. Calculate precisely how much your new mortgage (including points, fees and closing costs) will cost and whether, in the long run, it will cost less than your current mortgage.

Home Equity Loans

41. Be cautious in taking out home equity loans. The loans reduce or may even eliminate the equity that you have built up in your home. (Equity is the cash you would have if you sold your house and paid off your mortgage loans.) If you are unable to make payments on home equity loans, you could lose your home.

42. Compare home equity loans offered by at least four reputable lending institutions. Consider the interest rate on the loan and the annual percentage rate (APR), which includes other costs, such as origination fees, discount points, mortgage insurance, and other fees. Ask if the rate changes, and if so, how it is calculated and how frequently, as this will affect the amount of your monthly payments.

Housing

Home Purchase

43. You can often negotiate a lower sale price by employing a buyer broker who works for you, not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed.

44. Do not purchase any house until it has been examined by a home inspector that you selected.

Renting a Place to Live

45. Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.

46. Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

Home Improvement

47. Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well-established, licensed contractors who have submitted written, fixed-price bids for the work.

48. Do not sign any contract that requires full payment before satisfactory completion of the work.

Major Appliances

49. Consult Consumer Reports, available in most public libraries, for information about specific appliance brands and models and how to evaluate them, including energy use. There are often great price and quality differences. Look for the yellow Energy Guide label on products, and especially for products that have earned the government's ENERGY STAR, which can save up to 50% in energy use.

50. Once you've selected a specific brand and model, check the Internet or yellow pages to learn what stores carry the brand. Call at least four of these stores to compare prices and ask if that's the lowest price they can offer you. This comparison shopping can save you as much as $100 or more.

Utilities

Heating and Cooling

51. A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they audit homes for free or for a reasonable charge. If they do not, ask them to refer you to a qualified professional.

52. Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to $100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

Telephone Service

53. Once a year, review your phone bills for the previous three months to see what local, local toll, long distance, and international calls you normally make. Call several phone companies which provide service in your area (including wireless and cable), to find the cheapest calling plan that meets your needs. Consider a bundled package that offers local, local toll and long distance, and possibly other services, if you heavily use all the services in the bundle.

54. Check your phone bill to see if you have optional calling features or additional services, such as inside wire maintenance, that you don't need. Each option you drop could save you $40 or more each year.

55. If you make very few toll or long distance calls, avoid calling plans with monthly fees or minimums. Or consider disconnecting the service altogether and use dial around services such as 10-10 numbers or prepaid phone cards for your calls. When shopping for dial around service, look for fees, call minimum, and per minute rates. Treat prepaid cards as cash and find out if there is an expiration date.

56. If you use a cell phone, make sure your calling plan matches the pattern of calls you typically make. Understand peak calling periods, area coverage, roaming, and termination charges. Contracts offered by most carriers will provide you with a trial period of 14 days or more. Use that time to make sure the service provides coverage in all the places you will be using the phone (home, work etc.). Prepaid wireless plans tend to have higher per minute rates and fees but may be a better option if you use the phone only occasionally.

57. Before making calls when away from home, compare per minute rates and surcharges for cell phones, prepaid phone cards, and calling card plans to find how to save the most money.

58. Dial your long distance calls directly. Using an operator to place the call can cost you up to $10 extra. To save money on information calls, look the number up on the Internet, or in the directory.

Other

Food Purchased at Markets

59. You can save hundreds of dollars a year by shopping at lower-priced food stores. Convenience stores often charge the highest price.

60. You will spend less on food if you shop with a list, take advantage of sales, and purchase basic ingredients, rather than pre-packaged components or ready-made items.

61. You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

Prescription Drugs

62. Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist if a less expensive generic or an over the counter alternative is available.

63. Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

Funeral Arrangements

64. Plan ahead, making your wishes known about your funeral, memorial, or burial arrangements in writing to save your family or estate unnecessary expense.

65. For information about the least costly options, which may save you several thousand dollars, contact a local Funeral Consumer Alliance or memorial society, which are usually listed in the Yellow Pages under funeral services.

66. Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law.

The Consumer Literacy Consortium is a working group of representatives from federal and state government agencies, consumer groups, business organizations, and educational institutions that seek to develop and publicize money-saving consumer tips. Membership in the Consumer Literacy Consortium does not imply endorsement of all its messages or the products and services of other members.

American Association of Retired Persons
American Council on Consumer Interests
American Council of Life Insurers
American Express
American Financial Services Association Education Foundation
AT&T
Center for the Study of Services - Checkbook Magazine
Consumer Action
Consumer Federation of America
Credit Union National Association
Fannie Mae
Federal Citizen Information Center
Federal Reserve Board
Federal Trade Commission
MasterCard International
MCI Communications Corporation
National Association of Consumer Agency Administrators
National Foundation for Credit Counseling
Sprint
U.S.D.A Cooperative State Research, Education, and Extension Service

CONCLUSIONS:

Many options are available to those who keep in mind the methods of pinching pennies. While in the go-go days of the eighties and nineties, being frugal, received a derogatory flavor. But in today's world of excess credit and easy finance plans, showing a bit of frugality in purchasing may save you from gigantic mounds of debt.

FCIC – YOUR CREDIT SCORES

Consumer Federation of America
Fair Isaac Corporation

CREDIT SCORES ARE VITAL TO YOUR FINANCIAL HEALTH

A credit score is a number that helps lenders and others predict how likely you are to make your credit payments on time. Each score is based on the information then in your credit report.

WHY DO YOUR SCORES MATTER?

Credit scores affect whether you can get credit and what you pay for credit cards, auto loans, mortgages and other kinds of credit. For most kinds of credit scores, higher scores mean you are more likely to be approved and pay a lower interest rate on new credit.

Want to rent an apartment? Without good scores, your apartment application may be turned down by the landlord. Your scores also may determine how big a deposit you will have to pay for telephone, electricity or natural gas service.

Lenders look at your scores all the time. They look at your scores when deciding, for example, whether to change your interest rate or credit limit on a credit card, or whether to send you an offer through the mail. Having good credit scores makes your financial dealings a lot easier and can save you money in lower interest rates. That's why they are a vital part of your financial health.

Consider a couple who is looking to buy their first house.

Let's say they want a thirty-year mortgage loan and their FICO credit scores are 720. They could qualify for a mortgage with a low 5.5 percent interest rate*. But if their scores are 580, they probably would pay 8.5 percent* or more – that's at least 3 full percentage points more in interest. On a $100,000 mortgage loan, that 3 point difference will cost them $2,400 dollars a year, adding up to $72,000 dollars more over the loan's 30-year lifetime. Your credit scores do matter.

Interest rates are subject to change. These rates were offered by lenders in 2005.

WHAT IS A GOOD SCORE?

When lenders talk about "your score," they usually mean the FICO® score developed by Fair Isaac Corporation. It is today's most commonly used scoring system. FICO scores range from 300-850, and most people score in the 600s and 700s (higher FICO scores are better). Lenders buy your FICO score from three national credit reporting agencies (also called credit bureaus): Equifax, Experian and TransUnion.

In the eyes of most lenders, FICO credit scores above 700 are very good and a sign of good financial health. FICO scores below 600 indicate high risk to lenders and could lead lenders to charge you much higher rates or turn down your credit application.

NOT JUST ONE SCORE

There are many types of credit scores. They are developed by independent companies, credit reporting agencies, and even some lenders. As a rule, the higher the score, the better.

Each credit reporting agency calculates your score and each score may be different because the credit history each agency has about you may be different. Lenders may make a credit card or auto loan decision based on a single agency's score, although others such as mortgage lenders often will look at all three scores.

Your credit score changes when your information changes at that credit reporting agency. This is good news! It means you can improve a poor score over time by improving how you handle credit.

Many insurance companies use something similar when setting your insurance rates, called a "credit-based insurance score." You may be able to improve your insurance score by improving how you handle credit, which in turn may lower your premium payments on auto or homeowners insurance.

Some credit scores offered to consumers are just estimates and are different from the credit risk scores lenders actually use, although they may appear similar. Consumer reporting agencies and other companies sometimes use an estimated score to illustrate a consumer's general level of credit risk. How might you tell whether a score is estimated? Ask the company if the score is used by most lenders. If it isn't, it is likely to be an estimated score.

FIVE PARTS TO YOUR FICO CREDIT SCORES

As a rule, credit scores analyze the credit-related information on your credit report. How they do this varies. Since FICO scores are frequently used, here is how these scores assess what is on your credit report.

1. **Your payment history** – about 35% of a FICO score.

   Have you paid your credit accounts on time? Late payments, bankruptcies, and other negative items can hurt your credit score. But a solid record of on-time payments helps your score.

2. **How much you owe** – about 30% of a FICO score.

   FICO scores look at the amounts you owe on all your accounts, the number of accounts with balances, and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

3. **Length of your credit history** – about 15% of a FICO score.

   A longer credit history will increase your score. However, you can get a high score with a short credit history if the rest of your credit report shows responsible credit management.

4. **New credit** – about 10% of a FICO score.

   If you have recently applied for or opened new credit accounts, your credit score will weigh this fact against the rest of your credit history. FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. If you need a loan, do your rate shopping within a focused period of time, such as 30 days, to avoid lowering your FICO score.

5. **Other factors** – about 10% of a FICO score.

   Several minor factors also can influence your score. For example, having a mix of credit types on your credit report – credit cards, installment loans such as a mortgage or auto loan, and personal lines of credit – is normal for people with longer credit histories and can add slightly to their scores.

WHAT'S NOT IN YOUR SCORES

By law, credit scores may not consider your race, color, religion, national origin, sex and marital status, and whether you receive public assistance or exercise any consumer right under the federal Equal Credit Opportunity Act or the Fair Credit Reporting Act.

LEARN YOUR SCORES SOON

It's now easy to get your credit scores to check your financial health. Different sources provide credit scores to consumers via the Internet, telephone or U.S. Mail. For most scores, you will need to pay a small amount. You also will be asked to prove your identity to make sure your financial information isn't given to the wrong person. Here are recommended places you can get your scores:

Annual Credit Report Service
Congress recently established this outlet to make it easier for consumers to get their credit reports and credit scores from the three national credit reporting agencies.

Web: www.annualcreditreport.com
Phone: 1-877-322-8228

U.S. Mail:
Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281

The price for credit scores is being determined by the Federal Trade Commission. One free credit report per year from each credit reporting agency. Each credit reporting agency offers a different type of credit score to consumers. FICO score via:

Equifax 300-850
Experian score 330-830
TransUnion score 150-934

Myfico.com
The consumer Internet site of Fair Isaac Corporation that developed the FICO score.

Web: www.myfico.com
$14.95 for one FICO score and credit report.
$44.85 for all three FICO scores and credit reports from the three credit reporting agencies (2005 pricing). This score is most often used by lenders. It lets you see how prospective lenders would evaluate your credit history. FICO score from Equifax, Experian, and/or Trans Union 300-850

Individual Credit Reporting Agencies:

Equifax
Web: www.equifax.com
Phone: 1-800-685-1111

Experian
Web: www.experian.com
Phone: 1-866-200-6020

TransUnion
Web: www.transunion.com
Phone: 1-800-888-4213

Prices for credit scores with credit reports vary from $14.95 to $34.95 (2005 pricing). Each credit reporting agency offers a different type of credit score to consumers. FICO score via:

Equifax 300-850

Experian score 330-830
TransUnion score 150-934

MORTGAGE LENDERS

Credit Score is free when applying for mortgage or home equity loan. This score will likely be the actual score used to evaluate your application. Ask your lender to be sure. FICO score from Equifax, Experian, or Trans Union 300-850

EXAMPLES:

Meet Vera, A Single Mother

Behavior of Action	Change in Score	Vera's Current FICO Score
March 2004 Vera and husband Dave have been married for 10 years. They have one daughter, April, age 4. Financially they are making payments on time for two car loans, one mortgage, and four credit cards that have low balances. But sadly, their marriage has deteriorated and they agree to divorce. In the settlement Vera retains custody of April. Dave takes one of the cars and responsibility for its loan. He also takes two of their four credit cards, and agrees to pay 50 percent of the monthly mortgage payments.	–	780
May Dave struggles financially following the divorce and runs up his two credit cards to nearly their limit. Vera doesn't realize her name is still on the card accounts Dave is using.	-80	700
July Dave continues to struggle and misses payments on both cards. Both cards still are nearly maxed out.	-100	600
August Vera gets a call from her bank about the missed payments. Once she understands what has happened, she contacts Dave and asks him to roll over the balances on both cards to a new card that he opens in his name only, which he does. Paying off the two accounts improves her score.	+80	680
February 2005 Vera continues to manage her money carefully, paying her bills on time and keeping her two card balances low. Meanwhile the two missed payments get older on her credit file and have less impact to her score. Dave lands a better job and makes his part of the mortgage payments on time.	+40	720
March Vera's car breaks down. Since she relies on it to get to work and to take April to preschool, she has no choice but to have it repaired. To pay the garage she maxes out one of her credit cards.	-80	640
April Since Vera needs a reliable car, she asks her bank about auto loan rates. They tell her that her credit score is too low to qualify her for their best rate. Since money is tight, she waits to buy a car.	–	640

Behavior of Action	Change in Score	Vera's Current FICO Score
July Vera has steadily paid down her high credit card balance and monitored her score. When her score has improved, Vera applies and is approved for an excellent rate on an auto loan. She buys a used car and feels good about how she has managed her credit. + 40680	+40	680

Now Meet Don and Doris

Behavior of Action	Change in Score	Vera's Current FICO Score
March 2004 Don and Doris are married and in their 50s. They have twin sons who graduated from college a year ago, have good jobs and live in different states. Don and Doris have been managing their money carefully for 30 years. They are making payments on a mortgage, three credit cards with large balances, and a $50,000 bank loan that paid for their sons' college. Now that their sons are on their own financially, Don and Doris focus on paying down their credit card balances by making larger monthly payments and using their cards sparingly.	–	690
March 2005 After a year of steady payments, their credit card balances are significantly lower. They continue to manage their credit well and haven't opened any new accounts.	+50	740
June The couple decides to go on an extended vacation, taking leaves of absence from the jobs to so they can tour the U.S. in a motor home. They buy their motor home with help from a new bank loan at a favorable rate, thanks to their good credit scores, but opening the new loan lowers their scores a bit. Since their plans will keep them on the road for three months, they put one of their sons in charge of paying their monthly bills.	-20	720
September They have a wonderful vacation. When they return, they find they had neglected to tell their son about the bank loan. He didn't open the invoices they received from the bank thinking they were monthly account statements. Now their bank loan payment is 60 days late.	-75	645
October Doris calls the bank, explains the mix-up and sends in the overdue payments immediately. A couple of weeks later their bank conveys their new account information to the credit reporting agencies, where it is available to influence their credit scores.	+20	665
April 2006 After six more months of on-time payments, their credit scores have steadily improved. Although the late payment will remain on their credit reports for seven years, it will impact their scores less as time passes. Don and Doris are on track once again to regain their good FICO credit	+30	695

Behavior of Action	Change in Score	Vera's Current FICO Score
scores in the 700s.		

* Don and Doris have separate FICO score, but in this example, they would rise and fall together.

HELPFUL TIPS

1. When you get your credit scores, make sure you also learn the highest and lowest scores possible, as well as the most important factors that influenced your scores. These factors can give you an idea of how you can improve your scores.
2. Getting your own credit scores or credit reports won't affect your scores, as long as you order them from one of the sources we list here.
3. Review your credit reports for accuracy. Mistakes and omissions on your credit reports probably will affect your credit scores. If you spot an error, contact the credit reporting agency and the creditor whose information is wrong.
4. If you have questions or problems with your credit scores, contact the company that provided them to you.

BOOSTING YOUR SCORES

Your credit scores change when new information is reported by your creditors. So your scores will improve over time when you manage your credit responsibly.

Here are some general ways to improve your credit scores:

- Pay your bills on time. Delinquent payments and collections can really hurt your score.
- Keep balances low on credit cards. High debt levels can hurt your score.
- Pay off debt rather than moving it between credit cards. The most effective way to improve your score in this area is to pay down your revolving credit.
- Apply for and open new credit accounts only when you need them.
- Check your credit report regularly for accuracy and contact the creditor and credit reporting agency to correct any errors.
- If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your score.

Improving your credit scores can help you:

- Lower your interest rates.
- Speed up credit approvals.
- Reduce deposits required by utilities.
- Get approved for apartments.
- Get better credit card, auto loan and mortgage offers.

CONCLUSIONS:

Research what your credit score is very closely typically on annual basis. New laws now allow free credit reports to consumers on each year from the three major bureaus. If you are denied credit then the report is free immediately, upon written request to the individual bureau specified by the lending facility.