Consumer Finance Education

DEBT
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Budgeting Basics

I didn't know… Being **unaware** of your spending habits and their possible consequences is a common mistake that many people make. This can be because you may not have had all the tools required to effectively assess your financial situation. This course is designed to help change that for you.

- **In or out to lunch** Every day of your life, and frequently, multiple times throughout your day, you are required to make some sort of decision that is related to your finances. For example, you may choose whether or not you go out to lunch somewhere or whether or not you are going to brown bag it.

- **Small purchases add up** Seemingly simple decisions like the example above can affect your financial life. Even though they may be relatively small purchases, unless you keep track these types of "small" purchases, you may not realize that they could actually be the root of your existing or potential financial problems.

Equip yourself with a budget …You should have a budget, regardless of how much or how little money you make. Make sure you write it down. Sometimes this alone can be a eye opening experience. Whether your fiscal responsibilities are great or small you need to be well equipped to make financial decisions and to be sure that you are appropriately spending your money on things you *need*. (Not just *want*)

Truth and consequence of "it's not that bad"… Maybe you have a credit card with a "not so high" balance, that you pay on it "when you can" and you still go out and spend $50 at your favorite store every time you get paid. Be aware of *what* your spending and how often your *treating yourself*.

Maybe it's Simple … Perhaps you've really wanted something like a car or new tires for the car you already have. Sometimes the only thing standing in your way of getting them are the small purchases like your daily cup of coffee and you don't even realize it.

Make a change… You are going to go over an example budget that is easy and more rewarding than you can imagine. By the end of this course, you will have the confidence and the know-how to take a realistic look at your financial situation and:

- Learn whether or not you need to change your spending habits
- Learn methods that create new saving habits
- Learn how soon you can reach your financial goals.

Setting Goals

What Goals?... Now, it is said that you may be able to reach your financial goals, assuming that you have some, but what if you stopped and said "What goals!?" If you did, well, let's start with that first.

Decide what you want... If you don't actually have any financial goals let's start this course with something that could be fun and helpful to you and your family: deciding what you need or want to work towards financially.

You and your family should sit down together and either individually or collaboratively come up with a list of at least one of each of these types of goals you would like to work towards.

1. **Immediate Goals**: this will be something that costs **$500 or less**. You will have to make this goal based on the amount of $500 or less and then once you establish your budget you will be able to decide how long it will take you to reach it. Since the amount is relatively low this can be something that your family either wants or needs, like a day trip, new clothes or a microwave.

   You will want to first consider any needs that your family has and if these are met, or are at least *mostly* met then you may feel free to consider a want the family has. If your family's needs are not met but exceed $500 then wait and we'll put those in for the short or long term goals.

2. **Short–term goals:** The next goal will be a short-term goal of **$500 to $2,000.** Again, your budget will determine how soon this goal may be met. Keep in mind it may be sooner than you expect once you have set-up your budget. For this price range you may choose any number of things ranging from saving up $2,000 cash for emergency use, to buy a computer or perhaps go on a family vacation.

   Whatever you decide, show how this can be good for everyone in your family, if you want to pay off a loan tell the kids that this will let you pick a "fun" goal next time and to start planning for what they want. Make sure to properly prioritize here. *For example, if the kids want to go to a theme park tell them you can do that after the goal is met, why add another expense?*

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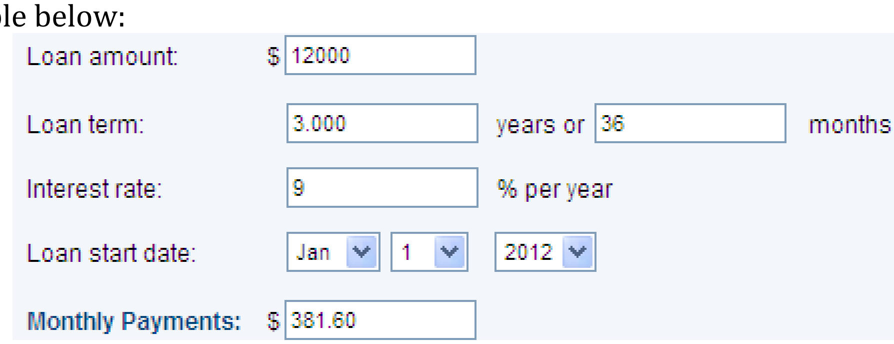
3. **Long-term goals**: Your next kind of goal will be a long-term goal that is over **$2,000**. Perhaps it is purchasing a new home, a new car, or setting up a retirement fund. If you can't immediately think of something that is in this price range, (because you already have the examples shown here) move one of your short-term goals to this level.

   The important thing …is not to overwhelm your list of goals by setting too many goals for your family, too soon. Focus on one or two things at a time. This will give you a sense of accomplishment and encourage you to take on bigger and better goals in the future. Consider this your route to "financial empowerment" so to speak.

Be specific… When you are writing out your goals, you don't want to be vague about them. If you decide your long-term goal is going to be purchasing a new car, write down what type of car you anticipate getting and how much you have to spend on it.

Do research… You do not want to be vague and simply put "get a new car." Be specific. Research the purchase price and interest rates for loans. You may reach $4,000 for a down payment or purchase and technically you could finance or buy a car for that, but will you really be getting what you want or need?

Determine what you need …These are things to consider when you're writing the goals out. If you are a family of four or five that needs a van or SUV, write out for example: (2001-2005) Dodge Minivan: $12,000. Use any free loan calculator from the Internet to determine how much it will cost if you finance your purchase such as the sample below:



Keep in mind… when planning on major purchases such as a car or a home; you are not likely going to be able to save up the entire amount. You will want to outline how much you want to save toward the purchase for a down payment.

Determine how much you can afford… When deciding on how much you will be able to afford for the payment, consider what you are able to save each month towards the goal, and whether or not you will be able to continue to afford that amount plus any increase to that if your payments might be higher than what you were saving.

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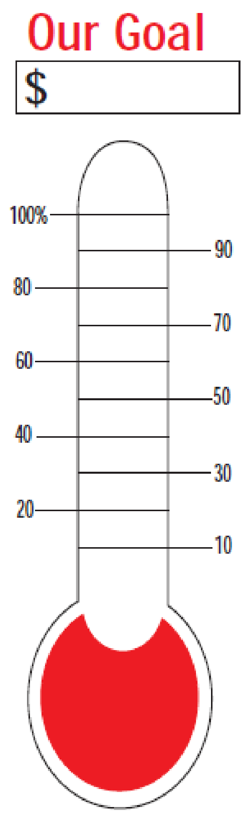
Be Realistic …If you found yourself struggling to get your decided amount saved each month, then you definitely will not want to agree to a payment that is *more* than what you were saving.

Goal Charts… Make sure to write each of the decided upon goals down on a paper and place it somewhere that you will see frequently. An excellent idea would be to make a chart for your goals that will show your progress towards the goal like the sample below:



Subtle Reminders… Or perhaps you don't have a family who needs to see it regularly but you want to. Another good idea is to write your goals on business card sized card that you can put in your wallet. Put it with your money or your debit card. Title the card *Wants or Needs* and then list your goals on it.

This card would serve as a reminder to you to stop and reconsider your purchases prior to doing so and think about whether the purchase would be bringing you closer or further from your goals.

Share your goals with others… Share your goals with people who will encourage you! If you have people in your life who are usually negative and who might discourage you for any reason, avoid telling them your goals.

Get support from others… Tell the people who will be positive about your goals and encourage you to meet them. It is always nice to have someone behind you when you are trying something new. Even though actually meeting your goal will be up to you in the end, it can't hurt to have people who are standing behind you.

Keep Confidence… Hopefully you will find that between setting your budget (which we will be doing next) and setting your goals, you will start to realize that your financial situation is not as hopeless as you may have thought it was.

Or if you were confident in your financial status, you may realize that you can do more with your money and work towards larger, more rewarding goals.

Write your goals down… Writing down your goals is key. Make sure you do this. Also, if you are a detailed and organized person you may wish to start planning your way towards your goals right now; writing down an amount to save each day or week and anticipating when you will be able to achieve them.

Keep it simple… Know that the simpler you keep things, the more likely you are to stick with them, so for now write your overall goals down. Once your budget is set up you will be able to decide how much you can set aside for working towards your goal each week or month.

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Preparing Your Budget

Budgeting Tools …Now you are going to go over all the tools you will need to set up an effective format for a budget. You should be willing to commit to staying within the budget each month and reviewing it each month as needed.

Framework for success… Your budget will be the key to your financial success. It will help you clearly identify all the areas that you are spending money on and where you should cut back or perhaps where you can afford more leeway. Having a budget will lay everything out clearly for you so you know exactly how much money you have to work with each month.

The first step of creating an accurate budget will be to determine your **net monthly income.**

After taxes …Your net monthly income is the amount of money you get after your taxes and any other deductions are taken from your check each payday.

Paid weekly:
For example, if you make $10 per hour and work 40 hours per week your gross income amount is $400.00.

When figuring out how much this is, combine the total of your checks for the month and be sure to not include any over-time pay or any other money that you cannot count on receiving every month so you don't fall short of meeting your budget.

The math:

$400.00 gross wages [hourly wage x hours worked]
– $36.00 in taxes/deductions
$364.00 net weekly income

$364.00 net weekly income
x 4 checks per month
$1,456.00 net monthly income

For example, if you make $10.00 per hour and work 40 hours per week your gross income is $400.00 per week. Every two weeks your gross income, at that rate is double or $400.00 x 2 weeks = $800.00.

When figuring out how much this is, combine the total of your checks for the month and be sure to not include any over-time pay or any other money that you cannot count on receiving every month so you don't fall short of meeting your budget.

The math:

$800.00 gross wages [hourly wage x hours worked]
– $72.00 in taxes/deductions
$728.00 net biweekly income

$728.00 net biweekly income
x 2 checks per month
$1,456.00 net monthly income

The above process of figuring out **net monthly income** should be done for each person who earns money in the household that is used to pay bills.

> *So, if your teenager has a job at the local grocery store that he uses to pay for his own activities, do not include this in your family's net monthly income.*

Done yet?... Consider whether your job is your only source of income.
If it is, then you are done and this is your **net monthly income**.

Not done? Other sources of income: You may have other sources of regular income *[regular income is defined as income that you will receive regularly every month]* examples that you can include in this number are:

- ✓ Social Security
- ✓ Disability
- ✓ Pension
- ✓ Interest income
- ✓ Child support
- ✓ Rental income

Include any of these types of regular income you receive each month with your **net monthly income**. If you receive additional income from another source other than these listed, but for some reason you do not get these funds on a regular basis, *(maybe your Aunt Jean sends you a check for $25 every few months)* do <u>not</u> include this in your budget. You can put these irregular incomes towards your savings.

The new math: paid biweekly

$800.00 gross wages [hourly wage x hours worked]
<u>– $72.00 in taxes/deductions</u>
$728.00 net biweekly income

$728.00 net biweekly income
<u>x 2 checks per month</u>
$1,456.00 subtotal net monthly income
<u>+ $218.00 per month Child Support</u>
$**1,674.00 net monthly income**

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Separating Your Monthly Expenses

Categorizing your expenses …After you have figured out what your **net monthly income** is your next step is to gather all of your bills together and split them into three categories. When looking at your bills you should notice that you have bills that may be classified as:

- Fixed (always the same)
- Variable (changes every month)
- Periodic (once in a while)

It will be important to separate them appropriately to create your budget.

Fixed Expenses

Fixed expenses… are bills that you pay each month that are (or, for the most part always) always the same amount each month. For example the following will likely be fixed expenses that you may pay each month.

- Your mortgage or rent
- Storage fees
- Student loans
- Insurance(s)
- Car payments
- Alarm service
- Cable television service
- Internet service
- Telephone(s)

Variable Expenses

Variable expenses… are things that you spend money on each month and the total you spend tends to vary from month to month. These items are things that need to be included in your budget regardless of the fact that they vary. Typical variable expenses are:

- Household maintenance
- Basic clothing
- Groceries
- Car maintenance
- Fuel
- Electricity
- Gas
- Water

Other variable expenses… may also be called discretionary expenses. A discretionary expense can be recurring or non-recurring expenses for nonessential items or services. Examples of these types of expenses are:

- Entertainment
- Some clothing
- Union dues
- Memberships
- Childcare
- Dining out

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> ***Discretionary vs. variable*** *The cost of basic clothing is variable because this cost depends on clothes you may need to replace, or clothes you need to buy because you have moved to a new climate. An expensive leather coat is a discretionary expense because a less expensive coat would keep you just as warm.*

The myth… Some people think that if it's not a fixed number it does not need to be included in the budget, this could not be further from the truth. Quite frequently it is the variable expenses that people need to keep track of and analyze the most.

Periodic Expenses

Periodic expenses… These are expenses that you do not make every month. You perhaps pay these every few months, or once a year such as

- Car maintenance
- Vehicle tags
- Driver's licenses
- Life insurance
- Back to school supplies
- Dining out
- Annual checkups
- Holiday and birthday gifts

How to calculate them… These periodic expenses should be included in your monthly budget by dividing these costs over each month.

Set aside money… Consider the amount you pay to renew your tag every year for your car and divide it by 12 months. You will need to set money aside for this amount of money each month making it much easier to pay for when it comes due.

Instead of having to come up with $70 all at once for your car tag it will be much easier to pay this expense after you have put aside $5.83 per month.

The math

$70 per license tag per year / 12 months = $5.83 per month

Scrubbing the budget… After going over all of your expenses you may already have a better idea of how much of your money may be classified as fixed, variable or periodic expenses.

Perhaps you are aware now of some changes you can make in each area. If you don't see any problem areas you may either not have them, or you haven't discovered them yet. You may uncover issues later when you track your daily spending.

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Don't worry *A budget is a plan that can and should be changed to suit your situation (You may make less money or get a raise; you must change your budget then). Remember to build flexibility in a budget so that you can be prepared for anything.*

What You Owe

List of debts… You will want to list all of your expenses. Use a piece of notebook paper and our sample as a guide; or whatever you are comfortable with.

Unsecured Debts

Please list and provide details concerning your outstanding consumer credit cards, store cards and unsecured personal loans.

Creditor	Phone	Account Number	Current Balance	Present APR (%)	Minimum Payment Due
1	( )___-_____				
2	( )___-_____				
3	( )___-_____				
4	( )___-_____				
5	( )___-_____				
6	( )___-_____				
7	( )___-_____				
8	( )___-_____				
9	( )___-_____				
10	( )___-_____				
11	( )___-_____				
12	( )___-_____				
13	( )___-_____				
14	( )___-_____				
15	( )___-_____				
16	( )___-_____				

Include everything with a balance… Examples of what to list as creditors are:

- Credit card(s)
- Personal loan(s)
- Mortgage(s)
- Car loan(s)
- Boat loan(s)
- Recreational vehicle loan(s)
- Back taxes
- Loan(s) to friends and family
- Other outstanding debt(s) on the list.

Don't skip anything …Be sure to fill this form out as much as possible, if you are not aware of your current balance(s), look at your statements. This information will help you to decide how to split up your payments amongst your creditors.

Paying more than minimums… You should strive to pay something beyond the minimum payment each month. This will help you to build a positive credit history and will get you closer to paying off your balance(s) each month.

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Record it and file it …After you have completed your list it is a good idea to keep it for your records. Include the account numbers and phone numbers for the companies in case a card is ever lost or stolen.

No statement…*Not receiving a statement does not make a bill go away for a month. If you do not receive a statement for any reason, you can refer to your list to call and get your bill paid.*

Debt Relief or Debt Shock… Once you figure out your total debt, you will likely have one of two reactions. The number may be smaller than you thought and you will be relieved, or it may be considerably larger than you had anticipated, causing you to panic.

Do not panic …once you set up your budget you will find you will be able to get a handle on your debt and begin making regular monthly payments.

Filling out the Budget Form

Let's fill out your budget. Here is a sample monthly budget. You can use this sample as a guide while you get out a notebook and create your own.

Use what you are most comfortable with and that you will be most likely to use again.

Sample Monthly Budget	
My Net Income:	
My Spouse's Net Income:	
Retirement/Pension Income:	
Social Security Income:	
Child Support Income:	
Food Stamps:	
Other Regular Income:	
Net Monthly Income:	
Rent(s):	
Mortgage(s):	
Car Payment 1st:	
Car Payment 2nd:	
Home Owner Assoc. Fees:	
Elec./Water/Garbage/Gas:	
Gas/Car Maintenance /Repair:	
Car Insurance/Licenses:	
Insurance (Life, Health, Dental):	
Alimony/Child Support:	
Tithe:	
Cable TV/Movie Rental/Rec.:	
Telephone/Cellular/Pager:	
Food:	
Property Taxes/Insurance:	
Medical/Dental/Optical:	
Child Care/Diapers/Formula:	
Loan:	
Credit Card:	
Other:	
Total Monthly Expenses:	
Income minus expenses:	

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Enter Your Fixed Expenses …The first items you want to fill in on the form are, the numbers that you know for certain these are net monthly income and fixed expenses. Here are examples of fixed expenses:

- Your mortgage or rent
- Storage fees
- Student loans
- Insurance(s)
- Car payments
- Alarm service
- Cable television service
- Internet service
- Telephone(s)

Enter Your Variable Expenses… After your fixed expenses are filled in you will want to fill in your variable and discretionary expenses.

Tip: *Use last month's expenses as a guide, especially if last month's expenses are close to what you usually pay. You may need to track your expenses for a month or so before you will be able to keep an accurate budget, how to track your expenses will be discussed later.*

Here are examples of variable and discretionary expenses:

- Household maintenance
- Basic clothing
- Groceries
- Car maintenance
- Fuel
- Electricity
- Gas
- Water
- Entertainment
- Clothing
- Union dues
- Memberships
- Childcare

For now though, fill in approximate numbers in all the areas you are unsure about such as childcare and clothing.

Budgets should be flexible, and will likely change with your lifestyle, for example, you may you have a child who leaves home or comes back again and you will have to adjust your budget for events like these.

Enter Your Periodic Expenses

The next thing to fill in is your periodic expenses. Here are examples of periodic expenses:

- Car maintenance
- Vehicle tags
- Driving licenses
- Life insurance
- Back to school supplies
- Annual check ups
- Holiday and birthday gifts
- Dining out

Coffee Math People often make the mistake of not adding in savings to their budget. They often account for their daily "cup of Joe," before they put anything on the "savings" line.

This is a mistake however, because even if you spend only $2.00 per work day on a cup of coffee, that is $10 a week or $40 a month that you could put in to your savings account instead. After a year, that would be **$480** saved simply from cutting back on a $2 a day spending habit.

Saving 10% ideally you should try to save 10% of your take-home pay. If you are unable to do this, you will want to decide on an amount that you will be able to save each month. Even $5.00 will add up over time.

What's left at the end of the month? ….Look at how much money you have left over at the end of the month if you can't take a percentage from the top of your pay check. If it is too hard to guess at an amount that you will be able to stick to, save whatever you can from your check.

It adds up… Make sure save something with each check, even if it's only a small amount. After a while, that will add up and you will see it is not nothing.

Savings=Empowerment …Put something in savings, even if it's as little as $5 for the month. That will empower you when you are able to exceed that each month as well. Remember your goals and don't forget to reward yourself.

Need to scrub the budget again?… Once you have your income and then your expenses filled out and you notice you are spending each month more than you are bringing in you will have to reconsider your expenses.

Don't rely on credit… If you are upside down at the end of the month, you have a few options to consider. You cannot rely on credit to cover the differences at the end of the month. This is a terrible habit to get into and will likely lead to a pattern of poor use of credit.

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Cut the nonessentials… You will need to look at your expenses and see what you can cut back on. There are several ideas that you can use to save money, such as:

- Eat at home
- Make your own coffee
- Eliminating pay cable channels
- Pack your lunch for work
- Buy generic
- Buy in bulk
- Keep only one phone
- Borrow from the library
- Use grocery bags for trash
- Purchase items on sale
- Avoid impulse buying
- Price check before you buy
- Avoid ATM and their fees
- Know your bank balance
- Pay your bills on time
- Don't go grocery shopping hungry or with kids
- Make a list before you shop
- Bottle your own water
- Avoid vending machines
- Keep your car well maintained
- Don't buy a new car
- Ride your bike to work
- Carpool
- Go to matinees
- Don't over cool or over heat your home
- Stay away from lavish friends
- Use coupons
- Have family babysit

Consider a second job …Notice that the cutting back areas tend to be under variable expenses. You will want to look at these expenses first to see what you can cut. If you cannot think of anything that you can really cut back on, you may need to consider ways to bring in more income. Even if it means getting a second job, you should make ends meet.

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Track Your Daily Spending

Hands on Learning …This section serves to inspire you to really look at your daily spending and decide what you can cut back on and to get out the calculator and see how quickly that your spending will add up.

Stick to it… Here are two ways you can go about tracking your daily spending. The important thing is to pick a method that you will stick to. Commit for one week. Later, you can commit to longer if needed.

Now or later… You can decide to either keep track throughout the day at the time you spend it or you can tally everything up when you get home at the end of the day.

Keep your receipts for everything so that you don't forget to add something to your list.

In the now… If you're going to keep track of things throughout the day find a small, pocket sized notebook and keep it with you, in your purse or pocket, and every time you purchase, *anything at all,* make sure to write it down.

This includes that can of soda that you buy on your break for a dollar. If you buy lunch, write down how much you spent on that. If you stop on your way home for a snack, don't forget that either.

Too cool for a notebook… If toting a little notebook around with you seems like too much use a piece of paper, folded up in your pocket and write things down on it. Either way you choose, make sure you stick to it. Don't leave anything out! The smallest expenses can add up quickly, especially if those are the ones that you spend on regularly without even thinking about.

Pattern finding …If you see something that you're buying everyday like soda or candy; consider buying it in bulk or from the grocery store and bringing it with you everyday instead of buying it in a vending machine.

Be a price detective... What do you buy frequently? What price is it? Multiply its price by 5 to see how much you are spending on the daily item(s) per week.

The math

Yummy Candy Bar $1.25 x 5 = 6.25 per week

Now, multiply your weekly expense by four to see what you're spending per month on your daily treat.

The math

Yummy Candy Bar $1.25 x 5 = 6.25 per week x 4 = $25 per month

Finally, multiply your monthly expense again by twelve and to find out what your daily expenses are costing you over a year.

The math

Yummy Candy Bar $1.25 x 5 = 6.25 per week x 4 = $25 per month x 12 = $300 a year

Does your tummy ache yet?... This number will probably surprise you and encourage you to either cut back or perhaps to buy whatever items you are buying each day ahead of time at the grocery store where you will likely be able to get more of them for less money.

Were you surprised?... Either way, tracking how much you spend or what you spend money on each day may be a surprising thing for you.

Spend Thrift... If you do not notice any regular spending habits when you do this, then wonderful! You may not have a money pit that you're throwing your money into on a regular basis, but if you do at all, you will find it through your tracking.

No patterns after week one... If you want to continue to track your spending beyond that first week, continue to track for another week, or maybe even one whole month to be sure that you are really examining closely what you spend money on.

Weekends Count ...You must count the weekend days, too. Some people buy a notebook and only use 5 pages and think they are done. Be sure and track at least one weekend as well. During the weekends you have more time to do the things you want to do, and keeping track of the money you spend during this time is crucial.

Watch your free time spending... You may not be over-spending during the week, but you may make up for it on the weekend by any number of things like eating out, shopping or going to the movies. If you "splurge" every weekend, this is a problem for your financial situation.

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Keeping Good Financial Records

Record keeping… is a necessary thing for every household. If you have any bills that you pay on a regular basis that you need to keep track of them. A record keeping system really should be set up so that you have adequate records of account activity should you need to refer to them for any reason.

Storage Solutions: Drawers, Boxes, Safes you can keep track of your bills however you wish, depending on how much space you need, you can use a simple filing box. If you have a filing drawer with a lock, that would be ideal so that you can secure your financial records, or if you have a safe large enough to keep them in you can also use that. Keep enough room to grow.

Classification of your bills… You can set up your recording system however you want, but there are some files that are standard among most filing systems. You will likely want to create a "Bills Due" file. You need to remember where you put them bills and make it easy enough to get them when they need to be paid.

When you get a bill, immediately open it and find the due date and write it on the outside of the envelope if you want to save the envelope, otherwise circle it on the bill due date on the bill. Maybe make a note of the due dates on your calendar or schedule so that you do not forget.

Another standard file will be your "Bills Paid" file. Once you pay your bills place them in this file, and make sure you make a note on the bill of the date you paid it.

Category, Name or Month… Once your bills are paid choose how you will store them. For example, you may separate them by category, by name or by month. Whatever you prefer, choose a method that will be easy for you to remember, easy for you to do and easy for you to find later.

Documents you should have in your records:

- Bank Statements
- Credit Card Statements
- Your Budget
- Your list of Creditors
- Tax Information
- Home and Property Records
- Medical Records
- Insurance Records

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- Receipts for Large Purchases
- Automobile Records
- Warranties for Purchases
- Retirement Information
- Personal Family Records
- Pay stubs
- Car Service Receipts

No one is born with it ….Knowing how to keep a good financial records system will likely become easier and more organized with time. The longer you maintain your records the more efficient you will become at keeping things organized for your household. This will hopefully make you feel more confident about your financial life, and will help you remember if you have paid all your bills for this month, in case you have ever forgotten in the past.

You may consider using software to help you organize your bills; and consider paying your bills online to save time and money on postage.

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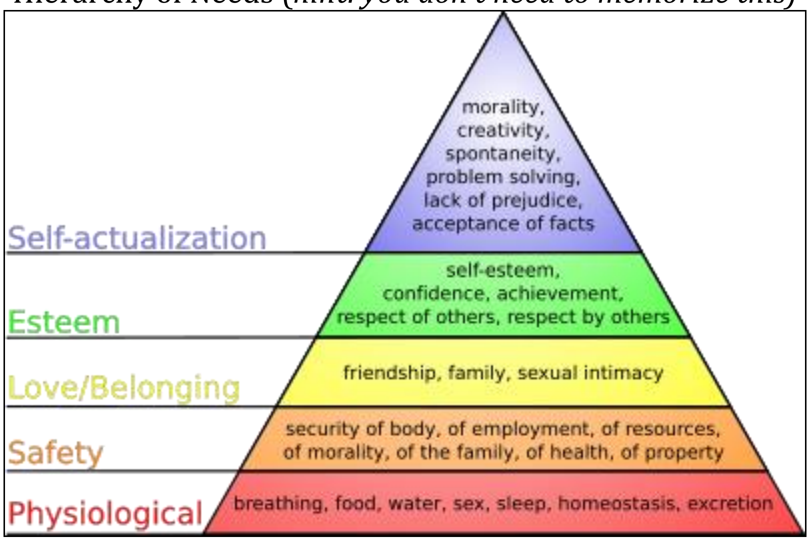
Wants verses Needs

Now that you have a good records system in place, and your budget is set-up you will need to know basic know-how's for making purchases for your home and family.

There is a difference?... When considering any purchase you will always want to consider carefully whether what you are about to purchase is something that your family actually *needs* for some part of your life or the home, or is this item something that you simply *want*?

Hierarchy of Needs (*hint: you don't need to memorize this)*



Stumped… If, when you think about the difference between whether something is a want or a need and you are unsure of the answer; ask yourself, *could you function normally without it.* If not, it is likely a need, if you can live without it, it's likely a want. Be realistic, you may need a purse or wallet to hold your money but you don't need a designer one… *refer back to your budget's discretionary expenses.*

Remember… when you were setting up your financial goals, you were instructed to consider the *needs* that your family has first, and then to move on to the *wants* of your family.

Necessary items …Things that are necessary are what should be your first priority. Once you have fulfilled the present needs of your family you can consider saving up for the things that your family wants or things you would like to do such as take a vacation.

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Comparison-Shopping

Savvy shopper… Another key when making decisions regarding any large purchases for your family is the skill of comparison-shopping. Have you ever purchased something and then gone to another shop and seen the same item for a considerably lower price? *Do your homework before making large purchases.*

Consider the budget… Whenever you are in need of something for your home, decide first about how much you are able or willing to spend on that item and then base your decision on that. This will help you stick to your budget better.

Features, features, and features Remember, the price point you set is the *maximum*, meaning you can, and perhaps *should*, spend less than that, if you can. This does not mean for you to get anything less than you need, only try not to get anything more than you need either.

Internet Comparison Shopping… If you have access to the Internet, that is the easiest way to start. Go to the website of the store you will have to go to in order to purchase the needed item. Then visit the site of another store of the same type, one of it's major competitors. If you do not have Internet then you can call stores, be prepared to know the specific item that you need; meaning what model and brand. If you would prefer, you may visit a couple different stores to compare items, and this would also allow you to speak with an associate face-to-face.

Compare apples for apples… If you call one store and ask what their cheapest washing machine is they may have one for one a low price and the next store you call may be a higher price, but you have to find out the make and model because by only comparing prices, the first store would be the cheapest option, but this doesn't mean that you would be getting the same thing for the money.

Ask for a discount… You should tell the associate that you are comparison-shopping and that you found the same item at ABC Washers for $250. He or she may be able to sell you the same item for the lower the price to get your business. *You don't know until you ask.*

Be flexible… If they don't have the same item, they still may also be able to help you narrow your product search, get you the same features you need for a comparable product or even get you a discount because they don't have what you asked for.

Make it a habit… The decision is up to you for how you would like to comparison-shop, but make sure you do this for everything you purchase, especially any large purchases you make. Some people do this for nearly every purchase they make once they see how much money they can save by looking at all their options. This is a good habit to get into.

How many is too many… Some people want to know how many stores they need to go to or contact to be comparison-shopping. This is up to you, you can look at two if that makes you comfortable or you can look at every store in your area that has this product. It is up to you. Be reasonable, if you are driving around town you are spending time and fuel money. Watch the budget here.

Don't want the bother… You may initially think this is a hassle for you, but hopefully after you comparison-shop for one or two items you will see the benefit of it and will be encouraged to do so in the future.

It adds up… Remember, even if you only save a small amount, that is more money that you can put towards your goals and help you get closer to getting something you *want,* now that you have taken care of one of your *needs.*

Think about this, if someone took $20 out of your pocket would you want it back? What if you spent $20 more for a product then you needed to by not comparing.

Good Places to Start Comparing… Perhaps a good place for you to start comparison-shopping will be with insurance for yourself, your car, or your home, even if you are currently insured.

Insurance

There are many types of insurance that should be maintained by most people. In fact in some situations it is illegal if you do not maintain insurance for your vehicles for example.

Read the paperwork… When purchasing insurance you will want to carefully read over any contracts before you sign them. The contract will clearly outline your coverage (on the declarations page) and any limitations for you, and it is very important that you be familiar with these.

Get a copy …Anytime you sign a contract you should receive a copy of it, so if anyone at any time does not offer you a copy of it; be sure to request one to keep for your records so that you may refer to it if you have any questions or concerns about your coverage.

Consider the deductible… Also, with most types of insurance you will need to consider your deductible and your premium, the premium is how much you pay for the insurance policy and the deductible is what you will have to pay out of pocket in the event you need to make a claim on your insurance, after an accident for instance.

Commonly, the higher your deductible is, the lower your cost is… Do not overestimate how much you will be able to pay though for your deductible, to you get a lower premium. When you speak with an insurance agent they will discuss all of this with you and ask about your financial situation.

Getting a fair rate and fair deductible… The insurance agent should be able to make a recommendation to you as to what your deductible and premiums should be based on what you are covering, what is required. You can tell your insurance agent what deductible you are comfortable with when you are picking out your policy.

Car Insurance

State Law… Some states require that if you own or lease a car, that you legally maintain at least a certain level of liability coverage for the vehicle. This is known as liability insurance.

Liability insurance… covers the other driver should they be injured in an accident. It also covers their car or other property. Without liability insurance you would responsible for paying for accident: damages, medical costs and other costs out of your own pocket.

License suspension… If you are ever pulled over or involved in an accident and are found to be without this type of insurance you could face serious legal consequences such as the revocation of your license or vehicle.

Outweighing the cost …The cost of maintaining this insurance is absolutely less than the cost you could incur through legal issues if you do not have this insurance and are caught driving without it.

Without liability insurance after an accident you may pay additional costs in compensation for whatever property was damaged, lost wages or in medical bills for any injured persons.

Additional coverage… Beyond the legally required liability insurance you may choose to have additional coverage options. There is collision insurance as well as comprehensive insurance.

Collision… The collision insurance, appropriately, covers any damages sustained to your car in the event of an accident or if your car becomes damaged.

Comprehensive insurance… this insurance covers any damage to your car that is a result of something other than an accident. This could be anything from vandalism to damage from a storm. *If you don't have this coverage and your car is damaged beyond its ability to be driven, consider whether it would be more affordable for you to replace your car or to pay for the coverage cost over a year.*

Full coverage… If you have all of the above, this is known as "full coverage" and is of course, the best option, if you can afford it. In some situations, if you finance a car you will be required to maintain full coverage. If this is the case, your lender will notify you of this. *You will likely be required to maintain full coverage until the balance of your loan falls below $2,000*.

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Compare rates… Contact various insurance agencies and get a rate quote from each of them to see which company can provide you with the most coverage for the least amount of money.

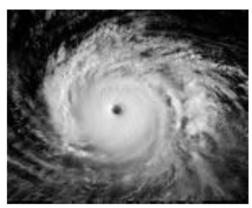
Variables to costs… Your insurance rates are going to be affected by a number of things such as your driving record, your age, where you live, how far you drive to work and what type of car you insure.

Discounts… There are discounts available in some situations, the biggest discount available is for multiple items being covered by the same agent. As in your house and car insurance will be less if written by the same agency.

Be prepared to see a reflectively higher rate in your insurance when considering purchasing a higher quality, higher cost car.

Homeowner's Insurance

For homeowners… As a homeowner with a mortgage on your home, you will be required to maintain homeowner's insurance. This insurance will protect you and your lien holder from paying all of the fees for major losses or damages against your home and property in the event of a catastrophe.



Mortgage insurance… Do not confuse homeowner's insurance with mortgage insurance. Mortgage insurance is something separate that is generally added right into your mortgage payment.

Money saving tip… It protects your lender from any losses if you were to fail to pay them. Once you have built up **20% equity** in your home you should contact your lender to see how to cancel the mortgage insurance, as this would decrease your payment.

The math

Available equity is calculated by determining your mortgage balance divided by your home's worth; then subtracting the percentage from 100.

Ex. $80,000 / $100,000 = .80; 100-.80 = .20 or 20% equity

If you owe $80,000 for example and your home is worth $100,000 then 80 percent of your mortgage is still due. Then Take 100% and subtract the percentage still due in this case it would be 100% - 80% = 20% equity.

Flood zone… Depending on where your home is located you may be required to maintain flood insurance. If your home is located in a "flood zone" that is when you will be required to have the flood insurance.

If you have not yet purchased a home when you are looking for one to purchase, find out if the home's location is considered a flood zone, and if it is, be prepared to purchase and maintain this additional insurance policy.

Renter's insurance… If you have not purchased a home, you are likely renting. Renter's insurance provides replacement value or market or used value for your possessions within the apartment in the event of:

- Fire or Lightning
- Windstorm
- Smoke
- Vandalism
- Malicious Mischief
- Theft
- Accidental Discharge of Water
- Nine other common loss types

How to compare coverage types… Replacement value pays you the full amount to replace an item; actual cash value is the cost you paid for something minus depreciation or wear and tear. Replacement value is likely going to pay out more in the event of a claim.

It's not always the landlord's responsibility… Most people mistakenly think that it is the landlord's responsibility to have renter's insurance. In most cases the landlord has insurance on the building and not on your possessions. Find out before it's too late.

Without renters insurance you would have to re-buy everything you need to live, all over again. Is it in your budget to repurchase all of these items at once?

- Furniture
- Clothing
- A television or entertainment system
- A computer
- An iPod
- Musical or sporting equipment
- Jewelry
- Kitchenware
- Drapes, sheets and towels

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Life insurance… is another type of insurance, which you may want to seriously consider if you have a family who depends on <u>your income</u> to pay the bills. Life insurance will provide funds for your family in the event of your death as well as cover the costs of your funeral.

There are two types… Term life insurance and Whole life insurance, you may want to discuss your situation with an insurance agent and to help you determine which type is more appropriate for you.

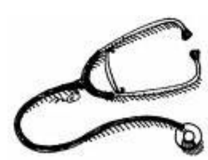
With term life insurance… you pay your annual premium, and in return the insurer guarantees that it will pay your beneficiaries the face amount of the policy upon your death.

With whole life insurance …it could get complicated. In a nutshell, it provides a basic death benefit the way term life does, and it also builds up what is referred to as "cash value." Cash value is a savings feature that you can withdraw or borrow against.

Medical Insurance

Medical Insurance is something that everyone should maintain if at all possible. If you have a full-time job your employer probably offers medical insurance to you, which you should seriously consider getting.

Employer… medical insurance plans are most likely considerably cheaper to get than it will be to try to maintain it on your own as an individual or a family.



Fast Debt… Anyone who has ever been to the doctor's office, and especially the hospital emergency room, is well aware that these visits are extremely expensive and frequently as one visit to the emergency room can leave people in a terrible amount of debt without medical insurance.

When considering the fact that one emergency could possibly ruin you financially, medical insurance may be worth it simply for the peace of mind that it may offer you.

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Saving for Emergencies

When you set up your budget you selected an amount for what you wanted to save each month towards your goals. You should also consider setting up a "for emergencies" savings account, which would actually be saved for *emergencies only*.

Examples of 10 financial emergencies:

1. Your car breaks down
2. An emergency room trip
3. A major appliance breaks
4. Flood or termites
5. You lose your job
6. You lose a source of income
7. A family member dies
8. Your insurance increases
9. An unexpected pregnancy
10. Theft

Reduce your stress… As we all know, these types of unexpected events always seem to be the most expensive ones. It is likely true that because we are not prepared for them; they seem that much more stressful.

What's the point?... If you are able to set up a savings account for emergencies, it will make any situations that arise that much more bearable. A lot of people make the mistake of thinking, "I'd only be able to put $100 into savings right now, what's the point?"

Look at it this way, when you have to deal with your car being broken down at some point right after you've paid your bills and you're anxiously awaiting your next paycheck, that $100 will seem like a big help.

Fact, *if you put away $10 each week, and you can get through a year without spending on an emergency you will have saved $520 in your emergency account.*

Emergency savings… should be separate savings apart from goal savings keeping in mind that in a true crisis, you would always be able to use your "goal" money as additional emergency funds.

Credit Cards

Credit cards are a great source of stress for many Americans today. You should use smart judgment when doing anything that involves the use of credit.

The wise use of credit… can be beneficial to you. You will be able to purchase things with credit that you may not have been able to afford if you had to pay for the entire purchase price upfront such as a car, home, computer or television.

Poor use of credit… can put you in a bad situation financially. If you use more credit than you can reasonably keep up with you may find yourself in a considerable to severe amount of debt. Your credit score could suffer.

The cost of poor credit… Later in your life you will have to work hard to get your score higher to prove that you can use credit wisely and that you are a trustworthy borrower. Having poor credit will likely subject you to higher interest rates for loans and credit cards.

It is important to understand how important the wise use of credit can be to your life financially. Conversely, you must also understand, perhaps with even more clarity, the fact that your poor decisions regarding the use of credit can stay with you for years.

Be honest and realistic… When making any decisions regarding taking out a loan, opening a credit card account, etc. you must be honest and realistic with yourself as to whether or not you will be able to make your payments on time each month. If you are able to do this, you will see the results through a good credit score and your ability to get a loan at a good rate.

Tool kit If you have made poor decisions, you may experience trouble obtaining a loan or in other areas of your life. The next section will cover the information you will need when making decisions regarding credit and will provide you some information you can use to properly use credit to your advantage.

Types of Credit Available

You use credit in some form whether we realize it or not. If you pay any regular monthly bills for a service, this is actually a type of credit. There are several types of credit available.

> ***Buy now pay later*** *When you are using credit this means that you have agreed to get some sort of good or service now but are not required to pay until later, often you are charged for this convenience.*

Service Credit

Service credit involves you paying for a service of some sort, at a later date. Generally, this is what is used for your utility bills, phone bill, etc. With service credit you may be charged a penalty fee if you are unable to pay your bill on time.

Service credit does not always include a credit check for you to qualify and may not be reported to one of the three major credit bureaus.

Examples of service credit include:
- Electric (or gas) company
- Cable company
- Water company

Revolving Credit

Credit limit …Revolving credit is credit that means that you agree to borrow *up to* a specific amount (this is known as your "credit limit.") You will be required to make monthly payments on the borrowed amount if it is not paid in full.

Reusable… As you pay-down the balance, the credit becomes available to you again; this is why it's considered a "revolving" line of credit. As soon as you pay back what you borrowed, and you may borrow it again.

Minimum payments… There are generally minimum payments required on revolving credit accounts. These minimums payments must be made each month that you do not pay your balance in full.

Examples of revolving credit include:
- Major credit cards
- Home equity lines of credit
- Department store credit cards

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Secured and Unsecured Loans

Secured loans

Defined A loan is considered “secured” when there is some type of property or collateral involved that could be repossessed which the loan was given to pay for.

Examples of secured loans include a home mortgage or a car loan.

Repossession of property …If you, the borrower, were to stop paying the lender, the lender has the right to repossess that property that was “secured” by the loan.

Unsecured loans

Defined… A loan is considered “unsecure” when there is no property that could be used as collateral in the event you stop paying for it.

Read the agreement *…Most credit cards are considered unsecured loans. However, not all credit cards are unsecured. On some occasions the items you purchased with a credit card are secured on that account. It is important to read the credit card terms when signing the contract to know the difference.*

Other examples of unsecured loans are

- Payday advance loan
- Medical loans

Collection Agency… Unsecured loans may assess a stiff financial penalty when left unpaid. If the period of nonpayment continues your unsecured loans your account will likely be sent to a debt collection agency.

Installment Credit

Based on time… Installment credit allows you to borrow a specific amount of money for a certain amount of time. You will be required to have repaid the loan by the end of the agreed upon length of the loan.

You are required to make monthly payments for installment credit. With each payment you will be paying down the balance, including any fees. Unlike a revolving line of credit, the moneys that you borrow will not become available to you again with each payment.

Examples of a common installment credit include:

- Mortgage loans
- Car loans
- Personal loans

How Much Credit Costs

An Agreement The use of credit is an agreement between you and your creditor.

Who is a creditor… Your creditor is any bank, store, service provider or other lender that provides you the means, or credit, to buy now and pay later.

What are terms …The agreement you enter with your creditor has rules you must follow. The rules might be referred to as terms and conditions. Read them.

Depending on the creditor there may be a variety of fees and charges associated with your offer for credit.

It is incredibly important to carefully read through the paperwork you are required to sign and to be sure you clearly understand it.

A few important things you should know about your agreement:

- When you are required to pay your bill
- How much you are required to pay
- What the fees are
- When the fees are assessed

Remember that lenders are out to make money from you, so making sure you are aware of your terms will help to ensure that you avoid excess fees.

Here are your most common fees and charges that you will generally pay, or could be charged, for a credit card.

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Fees and Charges

This is the percentage of interest that you will pay on the balance of your credit card each month.

- **Late Fees**
  This fee will be added to your account in the event that your payment is late.

- **Over Limit Fee**
  This is the fee that you will be charged if your balance exceeds the "credit limit" that is attached to your account.

- **Cash Advance Fees**
  Anytime you take out cash from your credit card account you will be charged a high interest fee for this. You may want to think twice about doing it because the charge usually is around 20%.

- **Balance Transfer Fee**
  You may transfer the balance from one card to another (you may find one with a lower interest rate), but if you do this there is a fee for that process, be sure and find out what the fee is before you do this, to make sure it will be worth it.

- **Annual Fees**
  A lot of credit cards have an annual fee, usually a flat-rate fee that you will have to pay just to have this type of card. Generally, the cards that have an annual fee have considerable benefits such as a good airline miles program, cash back or points program, etc.

- **Program Fees**
  For the aforementioned "programs" such as mileage, or points programs there can be an additional fee to participate in these programs. Be sure to look through your contract carefully to see what these fees are.

- **Additional Cardholder Fees**
  This is the fee you may have to pay if you add another name to your account, as someone who is authorized to use your credit card.

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Interest Rates

The interest rate… for your credit card is the most important thing to consider when deciding which credit card to use. The rates vary from company to company and the way they calculate your interest could vary as well.

Calculating interest… There are different methods credit card companies use to calculate your interest. The method that the company uses makes a considerable difference on how much you will be paying.

What the jargon means… Read through the differences here so that when you are choosing a credit card you will know what to expect to pay for interest when the technical jargon *(jargon is the language, especially the vocabulary, peculiar to a particular trade, profession, or group)* reads that they charge interest based on a "two cycle average daily balance", for example.

Average Daily Balance

The most common method… used to calculate interest among credit card companies is where the interest is based on your "average daily balance", also known as the ADB.

The formula for average daily balance… Your average daily balance is calculated by adding up your balance at the end of each day then dividing it by the total number of days in the billing period.

The math,

$30, 600 Total Daily Balance(s) / 31 days = $987.10 Average Daily Balance

The average daily balance is what you are charged interest on. Keeping this in mind, it would benefit you to make earlier payments, so that you can bring down your average balance by the end of the month, resulting in the lowest charge for that month.

Two Cycle Average Daily Balance

This method calculates your average daily balance for the current and previous billing cycles. Essentially your interest is being charged on the average balance for the past two months. You will likely pay more in interest from this method, so you probably want to use a good deal of caution before signing up for a credit card that calculates interest this way.

The math,

$20,000 Total Daily Balance(s) July + $30, 600 Total Daily Balance(s) August = $50,600 / 61 days = $829.51 Average Daily Balance

Appropriate Use of Credit

How to use it… When using any type of credit you need to be sure you are aware of how to use it appropriately, and in a way that will somehow benefit your life, not make things harder on you.

Discuss it… Before using your credit, you need to sit down with anyone else whom your financial decisions may affect and discuss your options thoroughly.

Get out the budget… When you have a discussion about your credit you will want a copy of your budget on hand. Your budget will show you where your money is going and whether or not you can to pay a credit card bill or loan on an item.

Don't be misled… You must look carefully at your budget, consider whether this month was a normal month or not. When making your decision about whether you can take on extra financial burdens, make sure you are taking everything into account.

Ask yourself the important questions… Did you receive a bonus this month making it seem like you have more money to work with? Next month, will you be back to not having much left over at the end of the month? Are you considering taking money out of the savings category in order to make the payments on a loan, or credit card account?

Don't steal from your savings… If you are even considering taking money from savings to enter into a new recurring debt, STOP! Does it make sense, to cut your savings and increase your spending? If you really have to take the loan consider a different area of the budget to cut from.

More Income… Realize that the decisions you make now will affect your future. If you have gotten a raise at work or a second job then perhaps you can afford the new bill otherwise may want to wait on that new credit card.

Using credit wisely… can be a smart financial decision for you. If you make regular payments on your credit accounts it will help you to maintain a good credit history. Doing this will be giving yourself a "good reputation" or good credit history, as a borrower.

Good credit …will make it much easier to get a decent loan with a competitive interest rate. Not only will this "good borrower behavior" be good for your credit score, you will also help yourself stay out of debt.

Healthy tip… Staying out of debt keeps your stress factor down.

Simple rule: Do not spend money you do not have. Whatever it is you are planning to purchase, that you cannot make the payments to pay off within a couple months; chances are you probably do not need to purchase it until then either.

Ask yourself… "How much do I have in your savings account?"
"Can I cover the entire, or majority of the cost with what's in my savings?"

Saving pays off… It is absolutely imperative that you consider what you *need.* There are always things we *want* in our life but this does not mean that we should put ourselves into debt to get them. Save up for a while first, and then you will get what you want without paying for it for years to come.

When is the right time to use credit… So, right now if you're thinking, okay, so I can't use credit to get things I want, when can I use credit? The answer would be to get something you need.

Convenience factor… You will have to consider how much you or your family *needs* this thing. For example, if your dishwashing machine has broken think about whether this is something that needs to be replaced immediately, or if you could wash your dishes by hand for a little while; while you're saving up the money to buy a new one instead of having to finance it and pay interest?

Money verses credit… If however your oven or stove breaks, this will mean you will stop cooking at home so you'll probably be more inclined to eat out, the cost of that would possibly be higher than the interest you will be charged to purchase and finance the new oven earlier than later.

These are the types of decisions should be well thought out. So that it is unlikely to have a lingering effect on your financial situation.

No skeletons… Always, *always* consider and reconsider your options before making your final decision. This will ensure that you are still not making payments on your dishwasher five years down the road. Or worse, you don't even remember what you are making payments on years later. A sale price is not really a "*sale*" when you are paying high interest rates and still making payments years later.

Wise credit use… So, what is considered "*appropriate*" use of credit? It is any time that you use credit wisely. This includes all the purchases you make after long consideration, where you *know* you will be able to make the payments that are required, on time, and eventually, in full.

Shopping spree not included… Wise credit use does not include going on a shopping spree with your credit cards and justifying it by saying that you are able to make a payment each month, when you really only mean the timely monthly minimum payment.

Drama… *Shopping sprees on credit cards are generally something that should be avoided…please leave roles like this to actors and actresses in movies with fake money and no real consequences to their actions.*

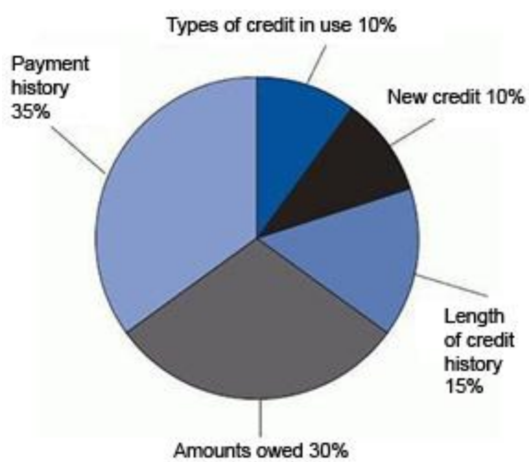
Sum it up… Simply live by the rule of not spending money you don't have, and carefully considering your major purchases, especially the ones that are going to involve financing. Always making your monthly payments, the minimums *at the very* *least* but striving to always pay off your balances in full. These activities are what would be considered the wise use of credit.

A Number to Know: Your Credit Score

Throughout your life you are going to have to get credit checks whenever you take out a loan, rent an apartment or apply for a new credit card for example.

How do I check my credit? So, if you're thinking "Okay, I've heard of credit checks but what exactly does this mean?" then let's go over it.

Good credit ... Remember that using credit wisely can be a smart financial decision for you. If you make regular payments on your credit accounts it will help you to maintain a good credit history. Doing this will be giving yourself a "good reputation" or good credit history, as a borrower.

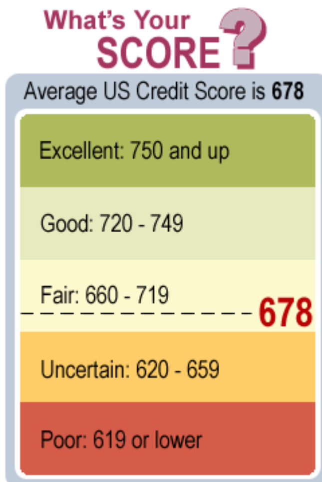


Classic FICO score: five components with scoring weights

Good payment history ...has a positive effect on your credit score. Your payment history is the largest percentage of your credit score followed by amounts owed, length of credit history, and tied your type of credits in use and your new credit.

Every line of credit you have open, each credit card, car loan, mortgage, etc. makes regular reports to the three major credit reporting agencies on your activity as a borrower.

If you miss payments, or are late, they can report that. If you make your regular payments in full each month, they can report that as well. Either way, they are regularly reporting on your activity. As you can imagine, the more reliable you are the higher your credit score should be.



Credit Score Range… The credit score range is from no credit to 850; the higher your score, the better. Everyone has three credit scores; one from each of the three major credit-reporting agencies. The three major credit bureaus are Experian, Equifax, and Transunion.

Triple credit score… If you are applying for a mortgage or other loan and your loan officer is talking about your triple credit score and only saying one number, this is because they use the middle of your three scores.

Get your free credit report… As you can imagine your credit score is a very important number to keep track of, and you as a consumer have rights that allow you to do this on a regular basis. As a result of the Fair and Accurate Credit Transactions Act, each legal resident is entitled to one free copy of their credit report from each of the three agencies each year.

If you space them out over the year could get one report every four months or you could review all three credit reports once a year at the same time. Either way you decide to do this, it is strongly recommended that you do review them each year.

Check for errors… Reviewing your credit report each year you will ensure that there are no inaccuracies on your report and you will be able to monitor your score seeing what kind of consequences (or benefits) the financial decisions you are making are having on your score.

Why is it so important to have a high credit score? …Plain and simple: a higher credit score can save you money! When you go to apply for a mortgage for a home, or perhaps you have already experienced this, they base your interest rate on your credit score.

Lower interest rate …If you have a high credit score, you will be eligible for a lower interest rate. If, on the other hand your credit score is lower you may risk having to pay very high interest rate, or you may not be eligible a loan.

Watch your credit… This is why it is so important to monitor your credit score. If you do this every year, or every four months, you will be able to see if your score decreases or increases. You can learn what you need to change or continue to "save" your credit score, to prevent future troubles.

Additionally, your credit score may be used to determine prices for your auto and homeowner's insurance. The credit reporting agencies also generate an "insurance score" for consumers, which is not yet available for each consumer to personally review, but is used by insurance companies.

Risk… Studies have shown that your credit score is an accurate predictor of risk. So if you have a low credit score you will be considered "high risk" and your insurance premiums will likely reflect that.

Credit and employment… Some employers may wish to review your credit report. This is very common in financial institutions as a means to review your financial responsibility. Typically, you have to give your permission for them to do.

Credit follows you… Credit scores really do affect major aspects of your life so it is important that you monitor your score and try to keep it as high as possible. Keeping good credit will ensure that you are not paying too high of interest on loans and that you get a fair rate on any insurances. There are innumerable benefits to having a high credit score, not the very least of which will be your peace of mind.

Reviewing Your Credit Report

The report… Okay, so you've ordered your credit report and are looking at it, now what? You want to carefully go over everything on your credit report and make sure that everything on it is accurate.

Inaccuracies… are not something that happens frequently but if they do, you want to make sure you notice them and get them taken care of as soon as possible.

Notify the agency in writing… If you do happen to notice something on your report that is not true you will want to notify whichever reporting agency you obtained the report from in writing of the inaccuracy.

Explain it… Draft a letter to them detailing the inaccuracy. If you have a theory for why that is showing up, explain it, explain why it is not true, and request that it be investigated.

According to law…, the reporting agency will have to investigate your claim, but if they find it to be accurate it will remain on your report. Do not waste time (yours and theirs) hoping you will be able to "clean up" your credit report by disputing every negative thing on it if it is true.

It is highly unlikely that something accurate will be removed from your credit report. If it is true and accurate, it should not be removed.

Depending on which state you live in… the information will be on your report for *years* and this is why it is so important to make good decisions financially because poor choices will stay on your credit report for a long time. Try to avoid this with by following the simple rule: *Don't spend money you do not have!*

How to increase your score… If you get a copy of your credit report and everything on it looks accurate, then great! Now focus on your score and what you may need to do, if anything, to increase it. There are several things you can do to increase your credit score in an attempt to pay for past mistakes.

- **Make regular, on- time payments** the first place to start will be with the lines of credit you may already have opened. If you do have credit accounts open begin making your *regular* payments *on-time*. Paying early will decrease the interest you pay at the end of the month too. Try your best to pay the highest amount you are able to.

- **Pay more than minimums** Do not continue making minimum monthly payments if this is what you have been doing. If you do this you will only be paying interest and finance charges and it will take you *years* to pay off your balance even if it is not very high.

- **Dispute errors** The older and smaller a collection account, the more likely you will be successful at getting errors removed. Be persistent.

- **Pay down your credit cards** Paying off your installment loans (mortgage, auto, student, etc.) can help your scores, but typically not as dramatically as paying down -- or paying off -- revolving accounts such as credit cards.

- **Use your cards lightly…** Racking up big balances can hurt your scores, regardless of whether you pay your bills in full each month

- **Check your limits…** Your scores might be artificially depressed if your lender is showing a lower limit than you've actually got. Most credit-card issuers will quickly update this information if you ask.

- **Use an old card**…The older your credit history, the better. If you have stopped using your oldest cards, the issuers may stop updating those accounts at the credit bureaus. Or if you don't intend to use it again, close it with the creditor. It looks better on your credit score if you, the consumer, close the account instead of the creditor doing it.

- **Ask for support** If you've been a good customer, a creditor might agree to simply erase that one late payment from your credit history.

So, now you're ready to order your free copy of your credit report and start reviewing it, right? Okay contact www.annualcreditreport.com or call #877-322-8228 and Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281

Equifax
PO Box 740241
Atlanta, GA 30374
www.equifax.com
1-800-685-1111

Experian
PO Box 2002
Allen, TX 75013
www.experian.com
1-888-397-3742

Transunion
Consumer Disclosure Center
PO Box 1000
Chester, PA 19022
www.tuc.com
1-800-888-4213

Consumer Information

The Federal Reserve's new rules for credit card companies mean new credit card protections for you. Here are some key changes you should expect from your credit card company beginning on February 22, 2010:

What your credit card company has to tell you

When they plan to increase your rate or other fees. Your credit card company must send you a notice 45 days before they can

- increase your interest rate;
- change certain fees (such as annual fees, cash advance fees, and late fees) that apply to your account; or
- make other significant changes to the terms of your card.

If your credit card company is going to make changes to the terms of your card, it must give you the option to cancel the card before certain fee increases take effect. If you take that option, however, your credit card company may close your account and increase your monthly payment, subject to certain limitations.

For example, they can require you to pay the balance off in five years, or they can double the percentage of your balance used to calculate your minimum payment (which will result in faster repayment than under the terms of your account).

The company does **not** have to send you a 45-day advance notice if

- you have a variable interest rate tied to an index; if the index goes up, the company does not have to provide notice before your rate goes up;
- your introductory rate expires and reverts to the previously disclosed "go-to" rate;
- your rate increases because you are in a workout agreement and you haven't made your payments as agreed.

How long it will take to pay off your balance. Your monthly credit card bill will include information on how long it will take you to pay off your balance if you only make minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years.

For example, suppose you owe $3,000 and your interest rate is 14.4%--your bill might look like this:

New balance	$3,000.00
Minimum payment due	$90.00
Payment due date	4/20/12

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.
Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay. . .	You will pay off the balance shown on this statement in about. . .	And you will end up paying an estimated total of. . .
Only the minimum payment	11 years	$4,745
$103	3 years	$3,712 (Savings = $1,033)

New rules regarding rates, fees, and limits

No interest rate increases for the first year. Your credit card company cannot increase your rate for the first 12 months after you open an account. There are some exceptions:

- If your card has a variable interest rate tied to an index; your rate can go up whenever the index goes up.
- If there is an introductory rate, it must be in place for at least 6 months; after that your rate can revert to the "go-to" rate the company disclosed when you got the card.
- If you are more than 60 days late in paying your bill, your rate can go up.

- If you are in a workout agreement and you don't make your payments as agreed, your rate can go up.

Increased rates apply only to new charges. If your credit card company does raise your interest rate after the first year, the new rate will apply only to new charges you make. If you have a balance, your old interest rate will apply to that balance.

Restrictions on over-the-limit transactions. You must tell your credit card company that you want it to allow transactions that will take you over your credit limit. Otherwise, if a transaction would take you over your limit, it may be turned down. If you do not opt-in to over-the-limit transactions and your credit card company allows one to go through, it cannot charge you an over-the-limit fee.

> If you opt-in to allowing transactions that take you over your credit limit, your credit card company can impose only one fee per billing cycle. You can revoke your opt-in at any time.

Caps on high-fee cards. If your credit card company requires you to pay fees (such as an annual fee or application fee), those fees cannot total more than 25% of the initial credit limit. For example, if your initial credit limit is $500, the fees for the first year cannot be more than $125. This limit does not apply to penalty fees, such as penalties for late payments.

Protections for underage consumers. If you are under 21, you will need to show that you are able to make payments, or you will need a cosigner, in order to open a credit card account.

> If you are under age 21 and have a card with a cosigner and want an increase in the credit limit, your cosigner must agree in writing to the increase.

Changes to billing and payments

Standard payment dates and times. Your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. In addition:

- Your due date should be the same date each month (for example, your payment is always due on the 15th or always due on the last day of the month).
- The payment cut-off time cannot be earlier than 5 p.m. on the due date.
- If your payment due date is on a weekend or holiday (when the company does not process payments), you will have until the following business day to pay. (For example, if the due date is Sunday the 15th, your payment will be on time if it is received by Monday the 16th before 5 p.m.).

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Payments directed to highest interest balances first. If you make more than the minimum payment on your credit card bill, your credit card company must apply the excess amount to the balance with the highest interest rate. There is an exception:

> If you made a purchase under a deferred interest plan (for example, "no interest if paid in full by March 2012"), the credit card company may let you choose to apply extra amounts to the deferred interest balance before other balances. Otherwise, for two billing cycles prior to the end of the deferred interest period, the credit card company must apply your entire payment to the deferred interest-rate balance first.

No two-cycle (double-cycle) billing. Credit card companies can only impose interest charges on balances in the current billing cycle

Community Resources… In addition to the legal protections that consumers are provided with, there are also public and non-profit resources that you can take advantage of that can assist you with various issues from housing to legal to insurance and to human services needs. The FTC, Federal Trade Commission, is a viable resource for consumer protection. Their website is www.ftc.gov.

MyMoney.gov… is the United States Government's website dedicated to teaching all Americans the basics about financial education. Whether you are planning to buy a home, balancing your checkbook, or investing in your 401k, the resources on MyMoney.gov can help you do it better. Throughout the site, you will find important information from 20 federal agencies government wide.

Debthelper.com… Our company, is a 501c3 non-profit credit counseling agency and we provide counseling to people who have questions and concerns about their financial situation. Our consultations are free as are many of our print resources.

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Using your resources wisely… There are several of these types of resources available to consumers. All of the tools a person might need in order to take control of their financial situation are readily available. It is up to you as an individual to recognize that you need assistance first and then to take advantage of it. The benefits of doing using your resources wisely will be vast.

Legally Speaking

Fair and Accurate Credit Transaction Act of 2003 (**FACTA**) The Fair and Accurate Credit Transactions Act, discussed earlier, provides you with a free copy of your credit report every year so that you may be aware what your creditors are reporting about your payment histories. There are several other similar consumer protection laws out there that were created to help consumers like you.

There are a variety of laws at both the Federal and State levels enacted to protect you the consumer.

Eliminates harassment …To name a few, there is the **Fair Debt Collection Practices Act** (FDCPA) which was designed to eliminate the abusive practices of third party collection agencies, such as, harassment via telephone or any other method. This law stipulates the hours between which these companies are allowed to call, as well as stating that they are not allowed to call a person at their place of employment.

Eliminates deception… The Fair Debt Collection Practices Act also says that collection companies are not allowed to deceive a person in order to obtain information from them. There are a variety of restrictions on collection agencies that were put into action through the enactment of this law.

Restricts the amount of time debt can be reported The Fair Credit Reporting Act (FCRA) is a Federal law that protects the collection and use of consumer information. This law stipulates how long negative information may stay on a person's credit report (average of seven years, longer for certain things such as bankruptcy)

Allows you to dispute incorrect information …The Fair Credit Reporting Act also entitles consumers to dispute information on their credit report, and that the reporting agency must investigate the dispute.

Your loan facts first The Truth in Lending Act (TILA) of 1968 is a Federal law that has been enacted to protect consumers in transactions by mandating that companies furnish full disclosure about the terms of the loan and all associated costs. This includes the annual percentage rate (APR) that the borrower will be charged, as well as any origination fees and any other charges such as finance charges. Any company who is not up-front with you or any other consumer would be in violation of this law.

Prevents abusive, unfair billing …One other big consumer protection law is the **Fair Credit Billing Act** (FCBA), this is a Federal law that was created to prevent abusive or unfair billing acts and to provide a way for people to address billing errors, mostly for open-ended credit accounts such a credit card or charge card account. Some of the billing "errors" that consumers may dispute thanks to this act are things such as:

- Charges that you did not make
- Incorrect amounts charged
- Charges that were made for goods that were not received
- Charges for goods that were damaged when received
- Calculation errors by either the credit company or the company who charged you.

How to dispute it: In order to dispute an error, you will need to send in a written complaint to the correct department of the biller. If you do not have this address in your records call the contact number for the credit card company and they will give it to you. You are recommended to send it through certified mail if mailing or some companies allow you to dispute transactions online.

The dispute letter guidelines… You must send in the dispute letter to the company within sixty (60) days of receiving the statement that had the inaccuracy on it.

What they have to do… After receiving your inquiry the company must acknowledge your dispute, and within ninety (90) days investigate the inquiry and either make the appropriate corrections to your account or send you a written explanation of why the creditor believes there was no error.

Know your rights …It is important for you, as a consumer, to understand that you have rights against any actions that are protected through the above listed laws, as well as the others that exist. Simply because you have made previous negative financial decisions, or have been the victim of them, should not mean that you should be subjected to any harassing or manipulative treatment.

Your right to fair treatment… This is not to say that the collection agencies should not try to get money from you. That is their job. However, the manner in which they do their job should not be something that could be considered "abusive." Legal actions are usually the most effective way for them to do their job, which could

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involve placing a lien on your home or repossessing property from you such as your vehicle, if they are entitled to do so.

Write it down and keep the records… If you do run into any issues with a collection agency, such as harassing calls, etc. It will be very important for you to clearly and fully document when and what time the company calls you, who is calling and what they are saying.

If you would like to see a complete listing of the consumer protection laws visit the Federal Trade Commission website at: http://www.ftc.gov/bcp/

Recognizing warning signs… So, you think you're doing well and then you notice that lately your credit card balances are increasing every month. You've started getting calls and letters from some of your lenders notifying you your payments are late and/or past due.

Have you stopped opening your statements… from your lenders and credit card accounts when you get them because you're afraid to see what your balance is up to now?

Here are some signs that you may have gotten in over your head.

Recognize that you have gotten yourself into a mess and look for ways out of it now!

Listen to yourself… If you hear your mind saying things like "well, maybe next month I'll be able to make a bigger payment." Do not hope that the situation will fix itself because in all likelihood, it will not. Truthfully, it may likely get worse.

Be on top of it… As soon as you notice you are falling behind on payments and having trouble making ends meet at the end of the month, you need to do something to help yourself out now instead of waiting until you may not have resources to do so.

Here are some more things you can do yourself:

1. **Determine the root problem…** You will want to sit down and figure out what the root cause of your problem is. You may be going through a divorce, maybe you were laid off from work. If it is a major thing like this you will likely not even have to consider where the problem is, you will already know.

If *this* is the case, sit down and open up *all*, yes all, of your bills and statements and list all of your debts.

2. **Review your budget…** After you know what your debts are, grab your most recent budget, and review this. What is your income (if your income has changed you will need to completely re-do your budget,) and is the income on the budget correct, or has it changed?

3. **Consider making cut backs…** Now look at your expenses and consider what areas you can cut back from; look first at the flexible expenses section. Can you cut back on spending enough so that you can get caught up with your bills?

4. **Actually make cut backs…** If you cannot cut back enough to completely cover your bills, this does not mean you should not bother cutting back! Still figure out your cut-backs and fill them in on your new budget, take the difference and allocate it to the payments you need to be making.

5. **Consider selling assets…** If cutting back is not going to be enough to help you pay off your obligations you will need to consider whether or not you own any assets (Assets are things you own outright and you can sell. Examples are televisions, computers, vehicles, or even your services.) Consider *all* of your assets and what you can expect to get for each one. You can list some assets for sale on public auctions on the Internet, in the newspaper or have a yard sale.

6. **Make a profit…** You may choose to sell something that will sell for a higher price than the total debts, which may be a good idea because that would leave you with a little money that could help get you through whatever was causing you to go into debt in the first place.

7. **Consider a second job…** If you cannot think of any assets you have which you can sell you may need to consider whether or not you are able to get a second job, or switch jobs completely to something that will be more profitable.

8. **Contact your creditors…** After you have considered the above options, you may want to think about contacting your creditors to see if they are willing to work with you in some way. If you contact them and are honest about your situation they may be willing to work with you to set up a payment plan, possibly lower your interest rate, etc. It never hurts to see what they may be willing to do for you.

9. **How to ask for assistance…** Do not be embarrassed to ask professionals for help. Others have done it before you; others will do it after. Some creditors,

like the utility companies, already have plans in place for assistance such as budget billing. These options allow you to maintain a more regular billing amount each month to avoid being unable to pay higher bills during summer or winter seasons.

Also, creditors would rather work with you and know that you are making an effort to pay them back instead of having to worry that they will not be getting their money from you and start collection actions, which cost them money.

10. **Keep the agreement…** If you do set up some arrangement with your creditors it will be very important to live up to this agreement, because your creditors may be less likely to work with you in the future if you do not meet your agreed upon commitments. You may also want to consider taking out a consolidation loan to get your debts paid off and help you get back on your feet. You need to do this carefully though making sure that you will be able to pay the loan off, and also ensure that whatever occurred to get you into debt would not happen again.

    Many people fall into a cycle of debt by going into debt, somehow paying it off, then going right back into it because they fail to change their spending habits.

    This is why it is so important to find the root cause of your debt. If it is because you have suffered a loss of income, you will need to adjust your lifestyle around whatever your new income is. However much you may not like doing this it is something that will be necessary to do so that you do not fall into debt again.

11. **Avoid high interest loans…** If you should find yourself in debt and with nowhere to turn for that last bit of cash at the end of the month think very long and hard about going to a payday advance company. These companies charge extremely high interest and will likely only worsen your problem.

    It may seem very easy and convenient but payday advance companies can be frequently found to charge interest rates between 200% and 400%! This means if you get a loan of just $200 you will end up paying $600 back to the company! So, that $200 advance could end up costing you $400!

Time to Look for Professional Help

Debt management credit counseling verses debt settlement and what they offer you; you will learn about three financial professional options in this section: Debt Management Plans, 60/60 Settlement Plans provided by debt management credit counseling companies and debt settlement offered by debt settlement companies; and you will learn the difference between the two types of companies.

Profit vs. Non-profit… There are several different types of counseling companies out there, and there are many who are non-profit some for profit. You should choose non-profit as they will often be able to provide credit analysis and consultations for free.

What happens during a consultation… Generally, during this consultation a credit counselor will go over your finances with you, help you prepare a budget and present you with a written plan to help get you debt-free.

Option 1: Debt management plans… a credit counselor may recommend a debt management plan for you. Under these plans the following may happen:

- ✓ You will make one monthly payment to them which will be disbursed to your various creditors
- ✓ A debt management plan will generally be able to include your credit card debts as well as any other non-secured debts you have
- ✓ Allow you to consolidate your unsecured credit cards, and other unsecured debts into one monthly payment
- ✓ In most cases your monthly payments would be reduced.
- ✓ Many creditors provide voluntary concessions such as interest rate reduction and will bring your account back to a current status. Keep in mind each creditor is different and the actual concessions will vary significantly from creditor to creditor
- ✓ You will still be responsible for negotiating terms with your secured creditors not on a debt management plan
- ✓ Work with your creditors for you to get your interest rates lowered and consolidate your payments
- ✓ Allow you to pay off your balances faster than if you continued to pay the high interest on your cards.
- ✓ You will still be responsible for the entire debt

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A debt management plan will work with unsecured debts such as:

- Credit Cards
- Department Store Cards
- Gasoline Cards
- Personal loans unsecured by assets

A Debt Management Plan cannot work with secured debts or other debts such as:

- House Payments
- Car Payments
- Charged-off accounts
- Lawsuits and Judgments
- Child Support and Alimony
- Student Loans
- Past-Due Taxes
- Utility Company Bills
- Liens
- Debt secured by assets

Option 2: 60/60 settlement plans a credit counseling agency can also offer you a modified type of Debt Management Plan that is called a 60/60 Settlement Plan. This is not common.

What is a 60/60 plan a 60/60 Settlement Plan allows you to settle 60% of your unsecured debt and pay it over 60 months. This 60% proposal does not guarantee acceptance at that rate and the unsecured creditor may counter with an amount they would accept that is higher than the 60% proposal over 60 months.

60 months is 5 years This $600 would be paid over 60 months. Keep in mind that not all unsecured creditors accept a 60/60 plan. Secured debts like your house and car do not qualify for a 60/60 plan. If you are accepted on a plan you should receive a copy of your plan in writing.

Also, remember that while creditors may reduce interest rates, in a Debt Management Plan or in a 60/60 Settlement Plan most creditors do not eliminate the interest entirely.

Option 3: Debt Settlement ... Debt settlement companies will tell you that they will be able to "settle" your debts for less than you owe, often saying they can settle your debt for about 40%-60% of your total balance.

While it may be possible the percentage settled does not take into consideration the exorbitant company fees or the negative impact this process will assuredly have on your credit score.

Remember the old saying: if it sounds too good to be true, it probably is.

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How debt settlement could work… a debt settlement company would recommend that you stop payments to your creditors and pay the settlement company each month instead. Remember, they will control the money that you pay them.

What about your credit… during the time you are paying your debt settlement company instead of your creditors you would, in theory, be building up an acceptable payoff amount to offer the creditors. After months, and sometimes years, you spend paying the settlement company instead of your creditors your debt is not being paid and your credit suffers. *You may even be surprised to find out that a greater portion of your monthly payment to the settlement company is going to them first before you ever even build up an acceptable payoff amount.*

You should know the jargon Be aware that debt settlement and debt management credit counseling is NOT the same thing. Debt settlement is generally a poor choice as they negatively impact your credit score. Generally speaking, you may want to stay far away from the debt settlement companies for this reason.

Family and friendly advice… You should also be careful about taking advice from friends and family. While they may mean well, they may not have been in the exact situation you are in or have enough experience to help you. It is always best to consult a professional credit counseling agency when you find you have fallen into debt.

Consider the source, if you would not ask a mechanic for medical advice then why not use the correct debt professional for a professional debt diagnosis. Free advice is only free when the consequence of you taking the advice actually saves you money.

How to choose a professional… When you are choosing a debt management credit counseling agency you will want to consider things like whether the agency is accredited and whether the counselors are trained and certified professional finance counselors.

The **Federal Trade Commission (FTC)** maintains a web page designed to assist you to find a professional agency at www.ftc.gov. The Executive Office of the United States Trustees maintains a list of approved credit counseling agencies.

Comparison shop for fees, services and payment options… After you find a list of counseling agencies you will want to find out what the company charges for consultations.

If after your consultation you decide to use their services for a debt management program, or any other contract for that matter, be sure and find out what you can expect to pay for these services before you agree to them and what methods they allow you to pay them.

What you get with a debt management company… Legitimate debt management or credit counseling organizations will also offer you significant educational resources and budgeting assistance.

The main objective of their credit counseling is to provide you with as much relief as possible from your existing debts and provide you with a budgeting mechanism to realistically deal with your other debts. They are designed to help you take a serious look at your payment behavior and to assist you to permanently modify it for the now and for the future.

Keep in mind credit counseling is one option, an option that may or may not be helpful in your particular case. No matter how good an agency is, if you don't have enough money to pay the renegotiated amounts, or if your assets substantially secure your debts then a debt management plan may not be the right option for you.

The Last Resort: Bankruptcy

After you have carefully considered the alternatives and consequences of bankruptcy for you and your family, then bankruptcy might be the option for you. Keep in mind; in no way should bankruptcy be the first option for you. It should be a last resort once all other options have been exhausted.

Look for a free consultation from a professional… It is always recommended that you speak to an attorney to so you can determine if bankruptcy is the best option for you. Shop around and speak to a few attorneys that offer the first consultation free.

It is Federal… Bankruptcy is a federal court process designed to help consumers and businesses eliminate their debts or repay them under the protection of the bankruptcy court. Bankruptcies can generally be described as "liquidations" or "reorganizations."

Two most common forms of personal bankruptcy Chapter 7 Bankruptcy is the referred to as "liquidation". Your property is sold (or liquidated) to pay off as much of your debt as possible. Chapter 13 is a type of "reorganization" bankruptcy where you repay your debts over three to five years.

Chapter 7

Liquidation bankruptcy is called Chapter 7, and it can be filed by individuals (a "consumer" Chapter 7 bankruptcy) or businesses (a "business" Chapter 7 bankruptcy). A Chapter 7 bankruptcy typically lasts three to six months.

In a liquidation bankruptcy, some of your property may be sold to pay down your debt. In return, most or all of your unsecured debts (that is, debts for which collateral has not been pledged, like credit cards for example) will be erased.

Exempt property …You get to keep any property that is classified as "exempt" under the state or federal laws available to you (such as your clothes, one car, and household furnishings).
If you owe money on a secured debt (for example, a car loan, where the car is pledged as a guarantee of payment), you may have a choice of

1. Allowing the creditor to repossess the property
2. Continuing your payments on the property under the contract (if the lender agrees)
3. Paying the creditor a lump sum amount equal to the current replacement value of the property.

Some types of secured debts can be eliminated in Chapter 7 bankruptcy.

Not everyone can file for Chapter 7 bankruptcy. For example, if your disposable income is sufficient, after subtracting certain allowed expenses and monthly payments for certain debts (including child support and debts that secure property), to fund a Chapter 13 repayment plan, you won't be allowed to use Chapter 7.

Not for all debts… Bankruptcy doesn't work on some kinds of debts. Though bankruptcy can eliminate many kinds of debts, such as credit card debt, medical bills, and unsecured loans; there are many types of debts, such as: child support and spousal support obligations, student loans and most tax debts. These cannot be wiped out in bankruptcy.

Chapter 13

Wage earner bankruptcy Chapter 13 bankruptcy is also known as "wage earner" bankruptcy because, in order to file for Chapter 13, you must have a reliable source of income that you can use to repay some portion of your debt.

Do you qualify? To qualify for Chapter 13 you must meet several requirements. Two requirements are that your secured debts must be less than $922,975 and your unsecured debts must be less than $307,675.

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Repayment plan… When you file for Chapter 13 bankruptcy you (or you with the assistance of your attorney) will propose a realistic repayment plan that details how you are going to pay back your debts over the next three to five years.

The minimum amount you'll have to repay depends on how much you earn, how much you owe, and how much your unsecured creditors would have received if you'd filed for Chapter 7.

Foreclosure and repossession avoidance… If you have secured debts, Chapter 13 gives you an option to make up missed payments to avoid repossession or foreclosure. You can include these past due amounts in your repayment plan and make them up over time.

Two other types of reorganization bankruptcy you may have heard of are Chapter 11 and Chapter 12.

Chapter 11 bankruptcy… is the type of bankruptcy used by financially struggling businesses to reorganize their affairs. It is also available to individuals. As it is expensive and time-consuming, it is typically used only by those who have debts that exceed the Chapter 13 bankruptcy limits or who own substantial nonexempt assets (such as several pieces of real estate).

Family Farm Chapter 12 bankruptcy is almost identical to Chapter 13 bankruptcy. A difference is to be eligible for Chapter 12 bankruptcy, at least 80% of your debts must arise from the operation of a family farm.

Chapter 12 has higher debt ceilings to accommodate the large debts that may come with operating a farm, and it offers the debtor more power to eliminate certain types of liens. Only a few hundred people file for Chapter 12 each year, while hundreds of thousands file for Chapter 13. You will likely need an attorney or bankruptcy preparer to file for Chapter 12.

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What Bankruptcy Can Do

Clean your slate… Bankruptcy can wipe out credit card debt and other unsecured debts. It is characteristically successful at wiping out credit card debt. Unless you have a special "secured" credit card, your credit card balance is an unsecured debt -- that is, the creditor does not have a lien on any of your property and cannot repossess any items if you fail to pay the debt. This is precisely the kind of debt that bankruptcy is designed to eliminate.

Repay less… If you file for Chapter 13 rather than Chapter 7, you may have to pay back some portion of your unsecured debts. However, unsecured debts that remain once your repayment plan is complete will be discharged.

Stop harassment… Bankruptcy has been used to stop creditor harassment and collection activities. While bankruptcy can stop creditor harassment, if the "harassment"' is simply phone calls and letters, there are simpler ways to stop these rather than bankruptcy. If the harassment is more serious; such as, the creditor is about to repossess your car or foreclose your mortgage; bankruptcy could help.

Bankruptcy and Liens Bankruptcy will eliminate certain kinds of liens. *A lien is a creditor's right to take some or all of your property.* A bankruptcy court's discharge of your debts wipes out your direct obligation to pay your creditors, but if the creditor has a lien on your property, the lien will survive -- unless you invoke certain procedures during your bankruptcy case. If the creditor has taken you to court and slapped a judgment lien on your property, you may be able to remove it.

What Bankruptcy Can NOT Do

Your property can be taken back …Bankruptcy will not prevent a secured creditor from repossessing property. A bankruptcy discharge eliminates debts, not liens. So, if you have a secured debt *(a debt where the creditor has a lien on your property and* *can repossess it if you don't pay the debt)* a bankruptcy can eliminate the debt, but it does not prevent the creditor from repossessing the property.

After a repossession… bankruptcy <u>does</u> prevent the creditor from coming after you for additional money if the sale of the item did not generate enough cash to pay off the amount owed.

Child Support and Alimony Bankruptcy will not eliminate child support or alimony obligations. Child support and alimony obligations survive bankruptcy -- you will continue to owe these debts in full, just as if you had never filed for bankruptcy. Under a Chapter 13, your plan will have to include repayment of these debts in full.

Student loans… Bankruptcy will not wipe out student loans. Student loans can be discharged in bankruptcy only on in a rare showing of "extreme hardship" This standard is tough to meet. You must be able to show not only that you cannot afford to pay your loans now, but also that you have very little likelihood of ever being able to repay them.

Uncle Sam… Bankruptcy will not eliminate most tax debts. Eliminating tax debt in bankruptcy is not easy, but it is possible in some rare cases. There are many requirements to be met.

Fraudulent debt… Bankruptcy will not eliminate other debts such as fraudulent debts: these are any debts that the court finds was obtained fraudulently or illegally.

For example, if you ran up debt on a credit card shortly before filing bankruptcy these would be non-dischargeable; or, if you lied on a loan application to obtain funds; or if you use dischargeable debt to pay off non-dischargeable debt. This is tricky here's an example: you cannot take a cash advance on a credit card to pay off last year's taxes, so you can write it off in bankruptcy. They will find out.

Life after Bankruptcy

Credit card offers… you may be surprised by the amount of offers for credit you receive after a bankruptcy. This is because credit card companies know that in most cases you will not be able to file for bankruptcy protection again for the next 8 years. This lowers their risk of not being able to collect on what you owe.

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What should you think about before getting an unsecured credit card?

1. Don't apply for a credit card until you are ready.
2. Avoid accepting many offers and avoid accepting a credit card to get a discount at a store.
3. Remember that creditors are looking for people who run up big balances because those people pay the most interest.
4. Look for lower late payment charges and lower penalty rates of interest.
5. Avoid cards with high late fees or higher penalty interest rates.
6. Don't accept a credit card because you qualify for a high credit limit.
7. Beware of temporary "teaser" rates. *These offer low rates now and change to higher rates later.*
8. If your rate is variable, understand how and when it will change.
9. Be aware of all other terms can add to your cost such as annual fees, over-the-limit fees, account set-up fees, cash advance fees, and the method of calculating balances.
10. Get a card with a grace period and learn the billing method and due date.
11. Always read the disclosures and the credit contract and keep a copy for your records

Secured Credit Cards: Another type of credit marketed as a good way to reestablish credit involves "secured" credit cards. These are cards where the balances are secured by a bank deposit.

The secured card allows you a credit limit up to the amount you have on deposit in a particular bank account. If you can't make the payments, you lose the money in the account. They may be useful to establish that you can make regular monthly payments on a credit card after you have had trouble in the past.

Since many consumers are offered unsecured credit card even after previous financial problems or bankruptcy, there is less reason to consider allowing a creditor to use your bank deposits as collateral. It is preferable not to tie up your bank account.

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Conclusion

Even if you have had some financial difficulties in the past, remember it is in the past. Your financial situation is continually changing, and hopefully for the better.

Remember, that any error you make, there is always some way that you may correct it by taking actions. This can all be done with a budget, reasonable goals, and a growing savings account.

As long as you commit to change, and are willing to take the time to do so, debt and a low credit score can be a thing of the past for you and your family.

Thank you for taking our course… Please remember to complete our evaluation.

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Budgeting Basics Quiz (Page 2-24)

1. A budget will:

a. Let you identify all the areas where you are spending money on and where you should cut back or perhaps even give more financial leeway.
b. Make it harder to reach your financial goals
c. Show only one source of income
d. None of the above

2. Your net *monthly* income is:

a. Income before taxes and deductions
b. Income after taxes and deductions
c. Income before taxes and deductions, including overtime bonuses
d. Income after taxes and deductions, including overtime bonuses

3. Other sources of income besides employment are:

a. Social Security
b. Disability
c. Pensions
d. All of the above

4. Three types of expenses include:

a. Fixed, flexible, and credit cards
b. Credit cards, mortgages, and other loans
c. Fixed, variable, and periodic
d. Cash, credit cards, and loans

5. Ideally, how much of your take home pay should you try to save?

a. 5%
b. 10%
c. 15%
d. 20%

6. If you are having troubles making ends meet, which is not a good option?

a. Get a second job
b. Use a credit card to pay bills
c. Cut back on some of your expenses
d. All of the above are good options

7. The ideal place to keep your financial records would be:

a. In a safe or filing box with a lock.
b. On your fridge
c. In the glove box of your car
d. On a bulletin board

8. Items that you may want to keep in your financial records include:

a. Bank statements
b. Credit Card Information
c. Warranties for purchases
d. All of the above

9. Comparison shopping is:

a. Finding out your options regarding prices offered by different stores prior to making the purchase
b. Purchasing the first item you see
c. NOT a good idea
d. None of the above

10. The price point you set when comparison shopping is:

a. The least you want to spend
b. The maximum you want to spend, and does not mean you should spend that much
c. The exact amount you want to spend
d. Irrelevant, you are going to spend how much you want anyway

Insurance & Saving for Emergencies Quiz (Pages 25-30)

1. When purchasing any type of insurance you should:
  a. Read the contract thoroughly
  b. Request a copy of the contract for your records
  c. Familiarize yourself with the coverage you are registering for
  d. All of the above

2. With respect to car insurance,
  a. The lower your deductible, the lower your premium
  b. The higher your deductible, the higher your premium
  c. The higher your deductible, the lower your premium
  d. Your premium has nothing to do with your deductible

3. Liability Insurance
  a. Covers the other driver should they be injured in an accident
  b. Covers the other driver's car or property should it be damaged
  c. Both a and b
  d. None of the above

4. Collision insurance does not cover:
  a. Damages sustained to your car in an accident
  b. A collision or a rollover of your vehicle
  c. Vandalism of your car
  d. None of the above, collision insurance covers all of those

5. Comprehensive insurance does not cover:
  a. Damages to the car other than an accident
  b. Vandalism
  c. Damage from a storm
  d. A head on collision

6. If you have both comprehensive and collision insurance, this is called:
  a. Full coverage
  b. Double insured
  c. Financers insurance
  d. None of the above

7. Homeowners insurance:
  a. Protects the lender from any losses
  b. Protects the homeowner from any losses
  c. Protects both you and the lender from losses
  d. Protects no one from losses

8. Life insurance will:
  a. Assist your family in the event of your death
  b. Pay for your funeral costs
  c. All of the above
  d. None of the above

9. Medical insurance is:
  a. Generally cheaper through an employer
  b. Is required

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c. Is not really necessary, since medical expenses are minimal
d. Will not give you peace of mind

10. A "For Emergencies" Savings Account

a. Is the same as your "goal" Savings account
b. Requires a minimum deposit of $100
c. Is for emergencies ONLY and will help relieve stress in an emergency situation
d. Can be used for emergency shopping sprees

Credit Cards Quiz (Pages 31-46)

1. **Revolving credit means that:**
    a. You can borrow up to a specific amount, make monthly payments, and as you pay down the balance, that money is available again
    b. You are paying for some sort of service that revolves around your whole life
    c. You borrow the money for a specific amount of time, but as you pay off the balance, the money will not become available to you again
    d. Your life revolves around only using credit, no cash is ever used
2. **A secured loan:**
    a. Involves a property that may be repossessed or foreclosed on
    b. Includes car loans and mortgages
    c. Both a & b
    d. None of the above
3. **An unsecured loan:**
    a. Involves a property that may be repossessed or foreclosed on
    b. Is when there is no property that may be used as collateral when payment ceases
    c. Both a & b
    d. None of the above
4. **When taking out a cash advance with your credit card:**
    a. You will be charged the same interest fee as if you were to just use your card
    b. You should not think twice about it
    c. You may be charged somewhere around 20% to take out the cash
    d. It is normally a good idea especially when you are out of cash
5. **The interest rate on a card:**
    a. Is one of the most important things to consider when choosing a card
    b. Varies greatly from company to company
    c. Is calculated in two ways (Average Daily Balance & Two Cycle Average Daily Balance)
    d. All of the above
6. **The average daily balance**
    a. Calculates your interest for the current and previous billing cycle
    b. Is the least common form of calculating interest
    c. Bases your interest on your average daily balance
    d. Is the least beneficial to the consumer
7. **The 3 Major Credit Bureaus are:**
    a. Experian, Equifax, and Transunion
    b. American Express, MasterCard, Visa
    c. Experian, American Express, MasterCard
    d. Transunion, Visa, American Express
8. **The credit score range is:**
    a. From 100-1000

b. From 200-600
c. 300-850
d. 500-2000

9. **Thanks to the Fair and Accurate Credit Transactions Act:**
   a. You are entitled to a free credit report three times a year
   b. You are entitled to a free credit report once a month
   c. You are entitled to a free credit report once every 12 months
   d. You are entitled to a free credit report for the rest of your life
10. **The higher your credit score:**
   a. The lower your interest rate
   b. The higher your interest rate
   c. Is irrelevant, since it does not affect your credit score
   d. None of the above

Consumer Information & Bankruptcy Quiz (47-End)

1. The Fair Credit Reporting Act:

a. Stipulates how long negative information may stay on a credit report
b. Entitles consumers to dispute information on their credit report
c. Protects the collection and use of consumer information
d. All of the above

2. The Fair Billing Act

a. Prevents abusive or unfair billing acts
b. Provides a way for consumers to address billing errors
c. Requires you to send a written complaint of the billing error
d. All of the above

3. Which of the following is NOT a warning sign of excessive debt?

a. You've started getting creditor calls
b. You have stopped opening your statements and bills because you are afraid of the balance
c. You are making all of your payments on time and are paying more than the minimum balance
d. You are getting letters from creditors saying that your payments are late or past due

4. A payday advance loan

a. Charges extremely high interests, often in excess of 200%
b. Is an excellent option to consider if you are falling behind on your payments
c. Will help you alleviate your debt problems
d. All of the above

5. A debt management plan:

a. Will settle your debt
b. Is a good idea for people with no debt
c. Will consolidate your debts into one payment with a low interest
d. All of the above

6. What should you consider when choosing a counseling agency?

a. If the agency is accredited
b. Whether the counselors are trained and certified
c. What the company charges
d. All of the above

7. Debt Settlement is:

a. An excellent alternative to a Debt Management Plan
b. Is often a poor choice and will affect your credit score negatively
c. Will charge very low and reasonable fees
d. Will always positively affect your credit score

8. Bankruptcy:

a. Should only be considered as a last resort
b. Is the first option you should have
c. Helps only businesses

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d. All of the above

9. Chapter 7 Bankruptcy:

a. Is known as reorganization bankruptcy
b. Is known as liquidation bankruptcy
c. Lasts on your credit report for 8 years
d. Lasts on your credit report for 7 years

10. Chapter 13 bankruptcy

a. Is known as reorganization bankruptcy
b. Is known as liquidation bankruptcy
c. Lasts on your credit report for 8 years
d. Lasts on your credit report for 10 years

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BUDGETING BASIC'S QUIZ- (pages 2-24)

1. A
2. B
3. D
4. C
5. B
6. B
7. A
8. D
9. A
10. B

CREDIT CARDS – (31-46)

1. A
2. C
3. B
4. C
5. D
6. C
7. A
8. C
9. C
10. A

INSURANCE- (pages 25-30)

1. D
2. C
3. C
4. C
5. D
6. A
7. C
8. C
9. A
10. C

BANKRUPTCY- (47-END)

1. D
2. D
3. C
4. A
5. C
6. D
7. B
8. A
9. B
10. A

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Goals were explained clearly.	❑yes ❑no
Course topics were relevant to my life.	❑yes ❑no
Learning materials were helpful.	❑yes ❑no
Course Content was easy to understand.	❑yes ❑no
I learned something I can use.	❑yes ❑no
I will use a budget at home.	❑yes ❑no
I would recommend/forward this course to a friend	❑yes ❑no

Please complete:

CID:____

Name: ______________________________ Date:__________