

Volume

1

FREEDOM DEBT MANAGEMENT, INC.

Financial Literacy Course

Your Money

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Course 1: Financial Basics

Lesson A: Wise Use of Credit

Credit is money that is available to consumers for purchasing goods and/or services. It is extended to consumers on the premise that the money will be repaid with interest. Credit is a financial tool that can establish credibility and if used correctly, can increase your purchasing power.

The Three C's of Credit

Lenders evaluate credit and loan applications based on the Three C's of Credit. These refer to Character, Capital, and Capacity.

Character

Are you likely to repay the loan?

Capital

Do you have something of value that can be pledged to repay the loan should income become unavailable?

Capacity

Do you have the financial means to repay the loan?

Types of Credit

Unsecured Credit is extended based upon a consumer's ability to repay the loan. There is no collateral needed for this type of credit so it often carries a higher interest rate.

Secured Credit is any purchase backed by collateral. Some item of equal or greater value is pledged to the lender. If the consumer fails to repay the loan, the lender can repossess and sell the item to recover monies owed.

Installment Credit is a loan that must be repaid over a specific period of time. Some examples of this type of credit are car loans and mortgages. Installment loans can be secured or unsecured.

Non- Installment Credit is repaid by a specified date usually without an interest charge. A utility bill is an example of this type of credit.

Most credit card accounts would be considered unsecured. Revolving credit accounts can be used for purchases until the credit limit is reached. There is a specified minimum payment due each month on the remaining balance. If a consumer wants to “free up” some of the available credit, they would have to pay the remaining balance down below the established credit limit.

Types of Loans

There are several loans available to consumers today. Each loan has its own characteristics. Some are listed below:

Business Loans
Personal Loans
Real Estate Loans
Debt Consolidation Loans
Lines of Credit
Interim Financing
Service Loans
Life Insurance Loans
Margin Loans
Retirement Loans
Government Guaranteed Student Loans
Government Guaranteed FHA Home Mortgage Loans
Government Guaranteed Small Business Administration Loans
Mortgages

How Much Loan can I afford?

The 20-10 Rule

The 20 refers to: Do not borrow more than 20% of your yearly net (after taxes) income

The 10 refers to: Your monthly payments should not exceed 10% of your monthly net (after taxes) income

Advantages and Disadvantages

There are many advantages and disadvantages to using credit.

Advantages:

- Increased Purchasing Power
- Decreased use of cash
- Creates record of purchases
- More convenient than writing checks

Disadvantages:

- Items cost more (interest and fees)
- Increases impulse spending

By not using credit wisely you are likely to experience more disadvantages.

Exercise

Using the Three C's of Credit complete the following questionnaire to determine if you are likely to be approved for a loan.

Character

Have you established credit in the past? _____

Have you paid your bills on time? _____

Do you have a good credit score? _____

Can you provide character references? _____

Have you been at your residence for more than a year? _____

How long have you been at your present job? _____

Capital

Do you own property? _____

Do you have a savings account? _____

Do you have investments to use as collateral? _____

Capacity

Do you have a steady Job? _____

What is your annual (yearly) net (after taxes) salary? _____

What is your monthly net income? _____

What are your current monthly living expenses? _____

What is the total amount of your debts? _____

Do you have any dependents? _____

Review your answers and using your judgment, determine if you would approve yourself for a loan. If you determine that you are eligible, calculate how much you can afford to borrow using the 20-10 Rule.

Quiz

- | | | |
|----------------------------------------------------------------------------------------------|------|-------|
| 1. Your home can be used as collateral for a secured loan. | True | False |
| 2. The Three C's of Credit refer to Capital, Character, and Collateral. | True | False |
| 3. A mortgage is an example of non-installment credit. | True | False |
| 4. Unsecured credit carries a higher interest rate because there is more risk involved. | True | False |
| 5. One of the disadvantages to credit is it may increase impulse spending. | True | False |
| 6. A credit card is an example of unsecured debt. | True | False |
| 7. Capacity refers to a consumer's ability to repay a loan. | True | False |
| 8. In the 20-10 rule the 20 refers to monthly payments should not exceed 20% of your income. | True | False |
| 9. Secured credit is backed by collateral. | True | False |
| 10. Installment credit is paid over a specific period of time usually without interest. | True | False |

Lesson B: Cost of Borrowing

What to Consider

When making the decision to borrow money be sure to do the following:

- Identify which sources are available which lend money
- Evaluate loan terms
- Calculate the total cost of the loan
- Know your current debt limit.

Borrowing Sources

There are many available sources from which you can obtain a loan. Banks, savings and loan companies, credit unions, and credit card companies are some of your options. There are several unscrupulous lenders who have poor lending practices and very high interest rates. The best way to avoid these types of lenders is to know the **Loan Terms** before you sign the agreement. Below are some of the terms that are commonly used.

Terms of the Loan

Down Payment is the amount of money required up front.

Length Time to Repay is the length of time it will take to repay the loan in full.

Interest Rate (APR) is the cost of borrowing money, expressed as a percentage, usually over a period of one year.

Finance Charge is the cost of the loan represented by a dollar amount.

Cost of Borrowing

The cost of credit varies depending on the lenders method used to calculate the finance charge. There are four common methods of calculating finance charge:

Average Daily Balance

The balance is totaled for each day in the billing period and any credits (payments) made to the account are subtracted from your account the same day. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the average daily balance.

Adjusted Balance

The balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period.

Previous Balance

The amount owed at the end of the previous billing period. Payments, credits, and new purchases during the current billing period are not included.

Two-Cycle Balance

The interest on your average daily balance is calculated using both the purchases made during the current month and those made the previous month even if those purchases have been paid off.

Types of Interest Rates**Fixed Rates**

An interest rate that does not change for the life of the loan

Variable Rates

Some creditors offer variable rate plans. This is particularly popular in mortgages. The interest rate is tied in to an underlying index. Some indexes used are; Prime Rate, Treasury Bill Rate, or Federal Reserve Funds/Discount rate. A common method of calculation is: $\text{Index} + \text{Margin} = \text{Variable Rate}$.

Shop Around

It's always best to shop for the best deal when considering a credit card account. When shopping compare factors such as Annual Percentage Rate (APR), Grace Period, Fees, and balance computation methods. Be sure to read the agreement carefully and know the total cost of credit. Also, know the features of each account such as credit limit, special services, and how widely the card is accepted.

Predatory Lending

Beware of predatory lenders. These lenders charge very high fees for the credit or services that are provided. Generally, these lenders target consumers with troubled credit histories who may not be eligible for traditional credit. Below are some examples of predatory lenders.

Pawnshops charge very high interest on the value of collateral.

Rent-to-Own programs offer an opportunity to obtain electronics, furniture, and appliances with a small weekly fee. However, the amount paid for the item usually far exceeds the cost.

Check-cashing outlets charge high fees (sometimes 2 or 3 percent) just to have a paycheck or government check cashed.

Rapid Refund Services provide “instant refunds” when you pay to have your federal tax return prepared. These refunds come with interest rates as high as 120 percent!

Check-deferral services (payday loans) allow consumers to get a cash advance on their next paycheck. However, these short-term loans are very expensive. A \$200 two week advance may cost over \$30 (with annual costs exceeding \$900). A consumer found out the hard way how expensive payday loans could be. He wrote a check (that was never supposed to be cashed) for \$500 to a payday lender. He was to pay off the loan in two weeks and pay a service fee of \$3 for each \$100 borrowed. When he was unable to repay the loan with interest, the whole procedure was replayed two weeks later, and again, and again. A year later, he owed the lender \$3,600 and he was still unable to pay.

Exercise

Review the chart below, calculate the cost of credit for each offer and consider the balance computation method. Which offer is more favorable?

Offer	Balance Computation Method	Loan Amount	APR	Total Fees
1	Previous Balance	\$5000	19.99%	Late Fee: \$35 Setup Fee: \$100
2	Adjusted Balance	\$5000	5%	Late Fee: \$25 Over-Limit Fee: \$20
3	Average Daily Balance	\$5000	24.99%	Late Fee: \$30
4	Two Cycle Balance	\$5000	9.99%	Setup Fee: \$200 Late Fee: \$30 Over-limit Fee: \$25
5	Average Daily Balance	\$5000	11.99%	Late Fee: \$35 Over-Limit Fee: \$30

Calculating Finance Charge

Loan Amount x APR (will equal the total amount of interest for the year) ÷ 12 (will equal monthly interest)

Example:

$$5000 \times 19.99\% (.1999) = 999.50 \text{ (yearly)} \div 12 = 83.29 \text{ (monthly periodic interest)}$$

Fees

Lenders can charge a variety of fees for services provided and penalties for late payments or exceeding your credit limit. Be sure to include any set up fee amounts when calculating the cost of the loan.

Late and over-limit fees can be avoided and should be. Proper record keeping, money management and on time bill paying keep you safe from these types of fees.

Of the loan terms listed in above table, which loan would be the most favorable?

Quiz

- | | | |
|----------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. It is a good practice in borrowing to know the terms of the loan agreement. | True | False |
| 2. There are several balance computation methods. | True | False |
| 3. Predatory lenders target consumers who would not normally qualify for traditional credit offers. | True | False |
| 4. The method of finance charge calculation that considers charges from the previous month is Average Daily Balance. | True | False |
| 5. You can determine the true cost of credit by calculating finance charge and including any set up fees. | True | False |
| 6. Late fees can be avoided. | True | False |
| 7. A down payment is a balloon payment required at the end of a loan. | True | False |
| 8. Rapid refund services can be an expensive way to borrow money. | True | False |
| 9. The two cycle balance method calculates your balance using purchases made in the current month only. | True | False |
| 10. Variable interest rates do not change over time. | True | False |

Lesson C: Credit Scoring

FICO Score

Five parts to your FICO Score

Payment history (35% of your FICO score)

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

How much you owe (30% of your FICO score)

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

Length of credit history (15% of your FICO score)

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

New Credit (10% of your FICO score)

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

Other factors (10% of your FICO score)

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

What is a good Score?

Score range from 300 -850

A good score falls in the mid-700s. You will get the best interest rate assuming a FICO score above 680. Score above 720 and the rates get better. If you get above 750 you'd see another improvement in the points.

Score below 600 would indicate that you are a high risk consumer and generally would disqualify you for a low interest rate.

Exercise

The first step to improving your FICO Score is to know where you stand. Go to www.myfico.com and request your score.

Use the following chart to determine what interest rate you would qualify for.

your FICO® score is	Your interest rate is	...and your monthly payment is
760 - 850	6.28%	\$1,334
700 - 759	6.5%	\$1,365
680 - 699	6.68%	\$1,391
660 - 679	6.89%	\$1,421
640 - 659	7.32%	\$1,484
620 - 639	7.87%	\$1,565

Provided courtesy of myfico.com

Quiz

1. If you have a score below 600 you are more likely to have a high interest rate. True False
2. Length of credit history is 25% of your credit score. True False
3. Making timely and consistent payments is the best way to improve your score. True False
4. Maxing out your credit card balances won't hurt your score. True False
5. Having a healthy mix of credit types can increase your score. True False

Lesson D: Understanding Credit Reports

What Credit Reports Contain

Personal Information

Your name, address, social security number, date of birth, employment and salary information. These factors are not used in scoring.

Trade Lines

These are your credit accounts. Creditors report each account that has been established with them. The type of account, date account was opened, credit limit or loan amount, balance and payment history are reported in this section.

Inquiries

This section lists any company that has accessed your credit report within the last two years. Both voluntary (initiated by you) and involuntary (requested by a third party).

Public Record and Collections Items

Information that's collected from state and county courts, collections accounts, bankruptcies, foreclosures, wage attachments, liens and judgments are also included in this section.

Who Can See a Credit Report?

Financial institutions can view your report when you apply for a loan. Landlords can access it when you apply for a lease. Employers may use it when they are considering you for employment or a promotion. The Fair Credit Reporting act limits who can view your report and for what reasons. View the act at www.ftc.gov.

How Do I Read My Credit Report?

The different credit bureaus' reports look different. You will have a key or explanation with the report. It's important to study it and see what is in the report. You will want to take special notice of the inquiries, too many of these can work against you. Be sure that each inquiry is authorized. Since the different Credit Bureaus use special codes, its best to visit each site individually and learn what the codes mean.

How is Credit Gauged?

It depends on the type of loan a consumer is seeking. For example, a mortgage broker will give more weight to different credit factors than a credit card issuer.

Mortgages: By some lenders standards, borrowers with FICO scores above 660 are likely to have an "acceptable" credit reputation and their loan files need only a basic review. The credit risk is "uncertain" for those with scores between 620 and 660, with a thorough review of the borrower's entire credit history. A score below 620 indicates "high risk" with an unacceptable credit reputation that could make traditional financing difficult to obtain.

Credit cards: Credit card lenders place additional weight on credit card-related information, such as how many times a person missed revolving credit payments.

Auto lenders: Auto scores, on the other hand, focus on "deal characteristics" in much the same way the mortgage scores do. Lenders generally take into account factors such as the amount a customer puts down, as well as a borrower's debt-to-income ratio, length of time at one job and the like. As with credit card lending, information about past performance on similar types of loans is weighted, so a previously missed car payment might be more important than an overdue Visa bill.

Exercise

To view a sample Equifax credit reports go to www.equifax.com

To view a sample Trans Union credit reports go to www.transunion.com

To view a sample Experian credit reports go to www.experian.com

Quiz

- | | | |
|-----------------------------------------------------------------------------------------------------------|------|-------|
| 1. The three major credit bureaus are Experian, Equifax, and Trans Union. | True | False |
| 2. Your public record information is included in your credit report. | True | False |
| 3. Voluntary inquiries are requested by a third party. | True | False |
| 4. All credit bureaus use the same standard codes on credit reports. | True | False |
| 5. Auto lenders take into consideration how well you've maintained previous auto loans. | True | False |
| 6. A judgment is a matter of public record and can be reported on your credit report. | True | False |
| 7. An automobile trade-in is an example of a trade line. | True | False |
| 8. It is illegal for your address to be listed on your credit report. | True | False |
| 9. Credit card companies place additional weight on credit card related information. | True | False |
| 10. The trade line section of your credit report indicates your open lines of credit and payment history. | True | False |

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Course 2: Your Situation

Lesson A: Debt Load

Common Question's

What is a “debt load?” What is a safe amount of credit for me to carry? How do creditors find out what my debt load is?

Debt to Income Ratio

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

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

Example: Bob's Home Loan

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

Debt \$ 500
Income \$2,000

If Bob decided to apply for a home loan, his lender would look at both his non-housing debt and her total monthly debt which includes his housing payments. They call these his “ratios.” His income is \$2,000, his non-housing debt is \$500, and he is applying for a mortgage loan that would cost his \$350/month. This makes his total debt \$850, including housing payments. Now his housing plus other debt ratio is 42.5%. This debt is generally too high for most mortgage loans, and Bob will have to pay off some of his other debts to qualify for a mortgage loan.

Debt \$ 850
Income \$2,000

28/36 Rule

A conservative rule of thumb for mortgage debt is the **“28/36 Rule”**. This means that your non-housing debt shouldn't exceed 28% of your gross (your total) income and your total debt — consumer debt plus housing debt — shouldn't exceed 36% of your gross income.

Other Considerations

In determining your own debt load limit you can use a rule of thumb such as the 28/36 rule, but you must also consider:

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

Remember that your debt spends your future income. And you have less money now to do things you want to do because you must pay for items you've already bought, and in many cases, already discarded.

Begin the habit of regular savings. It's much cheaper to save for an item first than to buy it on credit. Keep your future debt load reasonable.

Exercise

Do a monthly debt load analysis by listing your income and expenses.

Income	Expenses
Salary _____	Housing _____
Investments _____	Transportation _____
Other _____	Food _____
_____	Utilities _____
_____	Clothing _____
_____	Health/Medical _____
_____	Recreation _____
_____	Other _____
_____	_____
Total	Total
Income: _____	Expenses: _____
Total Expenses/Total Income = Debt Load: _____	

List some ways you can decrease your debt load

Quiz

- | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. Lenders review your income and expenses prior to approving your loan application. | True | False |
| 2. If you divide your monthly debt payments by your total monthly income, you will get your monthly debt/income ratio including housing cost. | True | False |
| 3. Using the 28/36 rule, your non-housing debt shouldn't exceed 36% of your gross income. | True | False |
| 4. When determining your debt load limit you should consider the stability of your income. | True | False |
| 5. It is cheaper to save for an item first then to buy on credit. | True | False |

Lesson B: Credit Repair

If Your Turned Down for Credit

A creditor may make a decision to deny your credit application based on a variety of reasons. If at least part of that decision was reliant on a credit bureau report, they must tell you this in writing including the name and address of the credit bureau used in the decision making process.

You can then write to the credit bureau stating that you were denied credit, insurance, employment (or whatever is appropriate) and that you want a copy of the report. If you request it within 60 days after you were turned down for credit, (based on that bureau's report) by law the bureau must provide a free report.

Getting a copy of your credit report

Late payments or missed payments can work against you the next time you want credit. Getting turned down for credit could be the result of something on your credit bureau report.

You want to make sure that the information on file is complete and accurate. Statistics show that over 75% of credit reports contain some type of error. More than half of the errors involved personal information. To obtain a copy of your credit report, contact the three major credit bureaus:

Equifax

www.equifax.com

TransUnion

www.transunion.com

Experian

www.experian.com

Correcting Mistakes

If you find inaccuracies on your report, you'll want to be sure it's corrected. You can usually find instructions for disputing those mistakes on the last page of the bureau report. It's a good idea to have the proof as well (receipts and documents to back up your claim).

Credit Repair

It is not advisable to use credit repair agencies. Most of these companies have been found to not be legitimate and have used deceptive or misleading practices. Many claim to be able to remove accurate information from your credit report. The truth is no one can accomplish this. If the information on your report is accurate, it will not be removed. The information reported can remain for up to seven years with the following exceptions:

- A Chapter 7 or dismissed Chapter 13 bankruptcy will be reported for ten years.
- Information based on an employment application for a job with a salary of more than \$20K annually has no time limitation.
- Lawsuits or judgments can be reported for up to seven years or until the statute of limitations runs out, whichever is longer.

Exercise

1. Visit the FTC website to view a sample copy of a dispute letter.
<http://www.ftc.gov/bcp/online/pubs/credit/bbcr.htm>
2. The Fair and Accurate Credit Transactions Act, which became law in December 2003, will provide consumers with a free credit report each year from the three major bureaus (e.g., Experian, TransUnion and Equifax). Get more information on free credit reports at <http://www.freecreditreport.com>.
3. Find out how credit scoring helps you.
<http://www.myfico.com/myfico/CreditCentral/ScoringHelps.aspx>
4. Learn what a FICO score considers.
<http://www.myfico.com/myfico/CreditCentral/ScoringWorks/FICOIgnores.aspx>
5. Check your report for accuracy. If you need to dispute anything, do it now.
6. Find out what the Fair Credit Report Act says, in Section 605, Requirements relating to information contained in consumer reports. You'll find the entire Fair Credit Reporting Act on the FTC's Website <http://www.ftc.gov/os/statutes/fcra.htm> from there, look into Section 605.

Quiz

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 1. If you are denied credit you are entitled to a free copy of your credit report within 60 days. | True False |
| 2. 25% of credit reports contain some kind of error. | True False |
| 3. Making late payments lowers your credit score. | True False |
| 4. The three major credit bureaus are Experian, Equifax, and Trans Union. | True False |
| 5. Most credit repair agencies have been found to be legitimate. | True False |
| 6. All information on your credit report will remain for 10 years. | True False |
| 7. A dismissed Chapter 13 bankruptcy will be reported for 10 years. | True False |
| 8. If a lender denies your credit application they must notify you in writing explaining why you were denied. | True False |
| 9. If you are denied employment based on the information in your credit report, you are entitled to a free copy of the report. | True False |
| 10. The Fair and accurate transactions act will provide consumers with one free credit report per year from the three major credit reporting agencies. | True False |

Lesson C: How Did I Get Into This Situation

Sources of Debt

Let's start with some of the common reasons why consumers get into debt.

Easy Access to Credit

Credit card offers are targeted to nearly every type of consumer. These offers generally give the illusion that a consumer will get something for nothing.

Easy Access to Money

Having a credit card handy will give you immediate access to cash via a cash advance. These advances often come with very high interest rates.

Consumer Culture

The media plays a major role in influencing spending patterns.

Changing Technology

As technology changes, consumers are sold on the premise that they must have the latest and greatest of everything.

Lack of Financial Literacy

Many consumers do not understand the aspects of personal finance. Without this knowledge, these individuals fail to evaluate credit card offers properly, calculate the total cost of loans, and make important decisions that effect personal credit.

Financial Setbacks

These include loss of income, medical emergency, death in the family, or other unexpected cost. These setbacks should be covered by savings. However, today's statistics show that consumers are not saving.

Overspending

Statistics show that 1/3 of consumer bankruptcies filed cited overspending as the culprit.

Debt Warning Signs

The following are signs that you may be in too much debt:

1. You don't have any savings.
2. You make minimum payments on your credit cards.
3. You use credit cards for things you normally buy with cash, such as groceries.
4. You use increasing amounts of your total income to pay off debts.
5. You have more than two or three major credit cards.
6. After you pay your credit card bill, you increase your balance by the same amount (or more) the following month.
7. You're at or near your credit limit on your credit cards.
8. You count on the float in order to pay your bills, writing a check hoping that you'll be able to cover it by the time it clears your bank.
9. You're unsure of the total amount you owe on all your debts.
10. You take out cash advances on your credit card to pay other bills.
11. You've tried to make a purchase with your credit card and have been declined.
12. You've been denied credit.
13. You bounce checks.
14. You get calls from collectors.
15. You lie to your spouse or other family member about your spending or hide credit card statements from family members.

How to Get Out of Debt

You have many options to resolve your debt. The route you choose will depend on your individual circumstances. Below are some possible ways to eliminate debt.

Consumer Workouts

These occur when the consumer contacts the lender directly and attempts to negotiate an agreed upon arrangement for payment. This may be difficult for some consumers who have seriously delinquent accounts. If this is your case, you can seek the assistance of a credit counselor for help with a viable workout both the consumer and the creditor can agree upon.

Debt Consolidation Loans

Debt consolidation loans give consumers the ability to pay off their high-interest accounts typically through lowered monthly payments. However, the term of the loan agreement is usually longer and may be at a higher interest rate. Since a consumer must “credit qualify” for this type of loan, severe credit delinquencies will not make this a viable option.

Home Equity Loans

Consumers have the option to pay off debt using home equity. This could be beneficial if you are committed to paying off the debt by making consistent payments. However, if you have had past credit problems, this may not be the best option. Using home equity to pay off credit cards is like trading unsecured debt for secured debt. If you default on this type of loan you are at risk of losing your home.

Balance Transfers

This is the option least recommended. Taking your unpaid balance(s) and transferring them to 0% card can be tricky. Often times the 0% rate is introductory for a period of six to twelve months. Once the introductory period expires, your rate can go up as high as 29%. Also, this rate generally applies to the transferred balance only. New purchases may have a much higher rate.

Credit (Budget) Counseling

Consumers who are experiencing budgeting problems can benefit from credit (budget) counseling. Credit Counselors can assist you with developing a spending plan and encourage you to stay on track. They may also contact your creditors to negotiate easier payment terms on your behalf.

Debt Negotiation (Settlements)

This may be a good option for consumers with seriously past due accounts and wants to avoid bankruptcy. There may be a period of increased collections activity and further damage to your credit report while settlement arrangements are being negotiated. If most your accounts are not charged off, this option is not recommended.

Bankruptcy (The Last Resort)

Although most people view bankruptcy as a cure all to a bad situation, it is not. Bankruptcy can be a costly procedure that can cause serious damage to your credit score. Moreover, several of your debts may not be discharged in a bankruptcy filing. Below is a listing of the three types of bankruptcies.

Chapter 7

This bankruptcy absolves the consumer from any debt filed under it. It allows an individual to discharge all unsecured debt. However, the consumer's property can be liquidated under the terms of the law. Once the bankruptcy is discharged you will not be responsible for any debt filed under it. A Chapter 7 bankruptcy remains on a consumer report for 10 years.

Chapter 13

This bankruptcy is designed for consumers who desire to reorganize their debts while seeking court protection during the negotiation with their creditors. Chapter 13 is recommended for consumers with a small amount of debt. Under this bankruptcy, you will arrange to pay back all or part of your debts over a 3-5 year period of time. A discharged Chapter 13 bankruptcy will remain on your consumer report for 7 years. If the bankruptcy is dismissed (meaning you did not follow through) it will remain for a period of 10 years.

Chapter 11

This type of bankruptcy is similar to a Chapter 13 however it is structured for business reorganization.

Debts That Will Not Be Discharged

- Taxes
- Student Loans
- Debts from a Prior Bankruptcy
- Spousal or Child Support
- Criminal Fines and Penalties
- Liability from Driving While Intoxicated
- Debts arising out of willful or malicious conduct
- Credit charges made within 40 days of filing
- Money owed to an individual as a result of intention harm done to them
- Any possession converted to exemplary assets within 90 days of filing.

Exercise

1. Start a log. List every cent that comes into and goes out of your pocket. With each dollar spent and check written, ask yourself the following questions:
 - Is this purchase in line with my values and goals in my life?
 - Is this something I really need and want?
 - How will my life be affected if I don't buy this?
 - How will I feel about this purchase in a month? A year?
 - Do I know my current credit card balance?
 - If I charge this, can I pay off this month's bill?
2. Do this process for 60 days. Calculate the expenses you were able to eliminate after the first month.
3. Re-evaluate the purchases at the end of the 60 days. Do you still answer the questions the same way?
4. Has your definition of need changed from the previous month? Does the money you spend correspond to your life values?
5. List some money messages or "sayings" you learned from your parents, grandparents, aunts, uncles, teachers and other significant people.
6. Were you taught that money would make you a better person? How do you feel that money would make you a better person?
7. How were decisions made at home involving money (such as a new car, clothes, education and presents)?
8. In recent buying decisions which words best describe your behavior?
 - Impulsive
 - Compulsive
 - Procrastination
 - Agonizing
 - Decisive
 - Desperate
 - Avoidance
 - Security
 - Personal Reward
 - Other _____
9. Watch your favorite TV program and list the ways the main characters relate to money and make decisions involving money.
10. What messages about your personal worth do you get from ads and commercials?

Quiz

- | | | |
|---------------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. One of the common reasons consumers get into debt is a lack of financial literacy. | True | False |
| 2. If you're paying overdraft fees to your bank this is a sign that you are in too much debt. | True | False |
| 3. For a consumer who lacks basic money management skills, a home equity loan is the great way to pay off unsecured debt. | True | False |
| 4. A Chapter 13 bankruptcy absolves a consumer from all debt filed under it. | True | False |
| 5. Overspending is major contributing factor to financial problems. | True | False |
| 6. The media plays a major role in the increase of consumer debt. | True | False |
| 7. Statistics show that 1/3 of consumer bankruptcies filed are the result of overspending. | True | False |
| 8. If you are consistently at or near your established credit limits you may be in financial trouble. | True | False |
| 9. It is important to know the terms of a 0% balance transfer agreement. | True | False |
| 10. A child support liability can be included in a Chapter 13 bankruptcy. | True | False |



Course 3: Goals

Lesson A: Establishing Goals

According to some estimates, less than 5 percent of the population has clearly defined financial goals. Yet setting financial goals is the first step to developing an effective spending plan. Goals are the road map to financial freedom. When effective goals are set you're affirming to yourself that you have control over your future.

Values

Our values are what we hold dear, what we represent. Each day our values influence our financial decisions: the goods and services that we buy and use, the goals that we set, and how we use our time. When you understand what your values are, you will find it is easier to set goals that you can achieve.

What are Goals?

You may have goals that are only mental. That's all right. All of us have some goals in our minds only. However, when you write down your goals, you are forced to think about if the goal is something that you need or want. It also helps you identify the time and financial resources needed to accomplish the goal.

- Goals state what you want to do or achieve
Financial goals help you to determine where you want to go with your money.
- Goals should be an extension of your values
Goals must relate your beliefs to be rewarding and satisfying
- Goals need to be specific
Goals must be written in terms that are measurable

Short Term Goals

Short Term goals can usually be completed in four years or less. Some examples of these goals are; paying down credit card debt or a down payment for a home or car. Short Term goals often require a strategy for accomplishment and can often be broken down in to smaller more achievable goals.

Long Term Goals

Long term goals relate to what you want to accomplish in five or more years. Long-term goals require more resources for achievement. There may be conflict between short and long term goals. Short Term goals often serve as bridges for moving you from where you are to where you want to be. However, if your short term goals are not related to the achievement of long-term goals, progress toward reaching long-term goals may be slowed or even stopped. To achieve long-term goals, you may find it necessary to give up something you would like to have now. This may require eliminating some short-term goals.

Conflicts

To help resolve conflicts that may arise examine each goal by asking these questions:

- Is this a goal that must or should be reached?
- Does the goal contribute to what you want to do as an individual or a family?
- Will the goal help you achieve what you really want?
- Is this a goal that could be delayed?
- Is the goal important to the wellbeing of yourself or the whole family?
- Is the goal so important it must be reached even though it would prevent reaching other goals?
- Can the goal be achieved using the resources you have?
- Is this a realistic goal?

Planning

Planning brings your future into the present. Remember, if you are serious about achieving your goals, you will want to work on only two or three goals at a time. You will need to develop a plan for reaching your top two or three goals. A successful plan for reaching a goal will include four basic parts:

1. Your plan should be a specific, measurable statement of the goal.
2. When you want to have the goal completed.
3. The resources that you will need.
4. The specific steps you will have to take to reach the goal.

To achieve your goals you must start now. The keys to achieving your goals are motivation, commitment and discipline. No one but you can put your plan into action.

- You must be committed to achieving your goals
- You must practice discipline
- You must be willing to defer things that would be nice now for the things that you really want later.

Plan Flexibility

Making your plan flexible will enable your plan to withstand any unforeseen events that may occur. Monitor your plan on a regular basis and adjust your goals as needed. Once a goal is achieved, move on to the next one. Establishing and achieving your goals takes self motivation, commitment and discipline. A goal only has value when you act on it.

Exercise

Use this goal worksheet to establish a written record of your goals. Be sure to set realistic target dates and cost/resources needed. Use the “what needs to be done” section to document the smaller goals that will lead to the achievement of the main goal.

Goal: _____		
Target Date: _____		
Cost/Resources Needed: _____		
What Needs to be Done	Who Will Do it	By When (Date)
_____	_____	_____
_____	_____	_____
_____	_____	_____

Goal: _____		
Target Date: _____		
Cost/Resources Needed: _____		
What Needs to be Done	Who Will Do it	By When (Date)
_____	_____	_____
_____	_____	_____
_____	_____	_____

Quiz

- | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. Goals must be related to your beliefs and values to be rewarding and satisfying. | True | False |
| 2. Long Term goals can be completed in 4 years or less. | True | False |
| 3. Goals should be specific and measurable | True | False |
| 4. Establishing and achieving your goals takes self motivation, commitment, and discipline. | True | False |
| 5. Your goals have value even if you do not act on it. | True | False |
| 6. Goals can often be broken down into smaller more accomplishable goals. | True | False |
| 7. Goals must be realistic to be accomplishable. | True | False |
| 8. It's important to identify the resources required to accomplish goals. | True | False |
| 9. Successful goal accomplishment requires the consumer to be willing to defer things wanted now for more important things needed in the future. | True | False |
| 10. It's not important to set target dates for goals. | True | False |

Lesson B: Wants Vs. Needs

Wants vs. Needs

It is important that consumers understand the difference between wants and needs. A need is something that is required for health and safety. Examples of needs are food, shelter and clothing. Wants are things that are desirable or of interest. Wants are not necessary for your survival. Examples of wants are designer clothes, luxury cars, and big screen televisions. At times there can be a fine line between needs and wants. An example would be, you need a new car but you don't need a new \$50,000 car.

Exercise

In this exercises list some the items you would like to purchase in the near future. Determine if they are needs or wants. Remember, needs are items that are necessary for your survival.

ITEMS	NEED OR WANT

Your needs should always take priority over your wants. Generally, you goals should be centered on your needs. **A word of advice, budget for needs and save for your wants.**

Quiz

1. Purchasing a new home is an example of a need. True False
2. Purchasing a pair of designer jeans is an example a need. True False
3. Purchasing groceries is an example of a basic necessity. True False
4. Spending on extravagant meals in gourmet restaurants is an example of a want. True False
5. Understanding the difference between wants and needs help you to establish better goals. True False

Lesson C: Spending Plans

A spending plan, also known as a budget, is a financial tool that enables you to take control of your money. With a realistic plan, you can refocus your efforts towards setting realistic goals and establish guidelines for achieving those goals. The spending plan is also an effective way to prepare for emergencies and unanticipated expenses. Once you have your plan in order, you can begin to use it to measure your goal achievement progress.

Getting Organized

The most common way to start a spending plan is to get organized. This is where you will gather the facts and lay all of your financial details on the table. Getting organized simply means gathering all of your financial documents and grouping them into two categories, **Income** and **Expenses**.

Income

We will start with the income category. Income is sub categorized into two types, **Gross Income (before taxes)** and **Net Income (after taxes)**. Medical insurance, 401k or 503b contributions, IRA contributions, Flexible Spending accounts and 529 plan contributions may also be deducted from your gross income. **We will work with your net income for this plan.** This would be considered your “take home pay”.

Expenses

Once you have determined what money is coming into your household, you must then understand what is being paid out on a monthly basis. These pay out's are known as expenses.

Categorizing Expenses

It is important to categorize your expenses into as many categories as possible. If too many expenses end up in the “other expenses” category it will be difficult to properly analyze where your money is going. Expenses can be divided into three main categories, **Fixed Committed Expenses, Variable Committed Expenses, and Discretionary Expenses.**

Fixed Mandatory Expenses

These are **necessary** expenses with fixed monthly payments. When developing your spending plan, these items take precedence over any other budget item

Variable Mandatory Expenses

These are also **necessary** expenses with payments that vary from one month to the next. When developing your spending plan these expenses are second to fixed committed expenses

Discretionary Expenses

These are expenses that aren't strictly necessary for your survival. In your spending plan these expenses have minimal importance and can be reduced to ensure that more important expenses are met

Income vs. Expenses

Determining what you make and what you spend is part of the process. It's also important to know that you are making the best uses of your cash resources. A common way to test this is to subtract your expenses from your income. If you are left with a negative number, "budget trimming" is needed. This is where you determine what discretionary items can be trimmed to create a more positive cash flow. This also will indicate if your expenses exceed your income in which case you will need to take one of two steps. Increase income or reduce expenses. This information is conducive in realizing the achievement of your financial goals.

Increasing Income

Income can be increased by getting a second job or picking up extra hours at your existing job. Another great way to increase income is to open a small weekend or home based business. There are many ways that income can be increased; it's a matter of how creative you are at identifying available resources.

Reducing Expenses

One method of reducing expenses is known as "budget trimming". This highly effective method involves a complete review of your discretionary expenses. Most of your discretionary expenses can be reduced or eliminated completely. You may also look for ways to trim your committed expenses as well. Ideas such as getting a roommate to decrease rental cost or minimizing utility usage to decrease monthly bills are also great strategies.

Budget Guidelines

Budget guidelines will help you determine if you are living within your means in certain expense groups. These guidelines are percentages of your income that are viewed as acceptable. Lenders also use budget guidelines when deciding to approve credit applications. Below is a listing of standard budget guidelines commonly used by lenders:

- Housing 35%: This includes monthly payments such as mortgage or rent, taxes, repairs, improvements, insurance and utilities.
- Transportation 20%: This includes monthly payments such as gas, oil, repairs, insurance, parking and public transportation.
- Debt 15%: This includes monthly payments such as credit cards, personal loans, student loans and other debt repayments.
- Other expenses 20%: This includes monthly payments such as food, insurance, prescriptions, medical bills, clothing and personal items.
- Investments and Savings 10%: This includes stocks, bonds, cash reserves, collectibles, etc...

Exercise

Identify your monthly income and expenses using this worksheet.

Monthly Income		Monthly Expenses	
Your Pay	\$	Rent or Mortgage	\$
Spouse's Pay	\$	Utilities (Phone, gas, electric, cable, etc.)	\$
Bonuses	\$	Insurance (home, auto, life, health club, etc.)	\$
Commissions	\$	Food	\$
Tips	\$	Incidental Home (paper products, non-food items, etc.)	\$
Interest Received	\$	Clothing	\$
Investment Earnings	\$	Auto (gas, tolls, maintenance)	\$
Rental Income	\$	Debt Payments (auto, credit cards, store cards, etc.)	\$
Pension Income	\$	Child Care	\$
Social Security Income	\$	Health (medical, dental, eye, etc./not covered by insurance)	\$
Alimony Received	\$	Taxes (not taken out of paycheck)	\$
Child Support Received	\$	Gifts (charities, church, holidays, birthdays, etc.)	\$
Other Income	\$	Entertainment (movies, vacation, videos, etc.)	\$
	\$	Personal Allowances	\$
	\$	Other Expenses	\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
Totals	\$		\$

If your expenses exceed your income you will need to trim your budget or look for ways to increase your income.

Quiz

- | | | |
|-----------------------------------------------------------------------------------------|------|-------|
| 1. A budget is a spending plan. | True | False |
| 2. Spending plans increase awareness of your cash flow. | True | False |
| 3. Getting organized is gathering all of your income and expense information. | True | False |
| 4. Net income is your earning before taxes. | True | False |
| 5. Using budget guidelines helps you to determine if you're spending within your means. | True | False |
| 6. Discretionary expenses are not necessary for your survival. | True | False |
| 7. Budget trimming is a way to increase your overall expenses. | True | False |
| 8. Getting a second job is a way to increase income. | True | False |
| 9. A spending plan is way to control where you money goes. | True | False |
| 10. It's important that you categorize your expenses. | True | False |

Lesson C: Savings

Saving money is an important part of building your financial future. This course will give you some tips to help you get started. It will also show you how your money can grow when you save. Paying yourself first means that when you get a paycheck, you first put away the money you want to save for your goals. There are many reasons to save money. Some of the benefits of paying yourself first include:

- You can establish an emergency fund
- You can have funds available for large ticket items such as a home purchase
- You can improve your standard of living

Types of Savings Accounts

With **passbook accounts** the depositor receives a booklet in which deposits, withdrawals and interest are recorded. The average interest rate on these accounts is likely to be lower at banks and savings and loans than credit unions. Funds are easily accessible. These are often referred to as "regular" savings accounts. These accounts usually earn interest. Generally, statements are not generated for this type of account.

Statement accounts are very similar to passbook accounts, except that the depositor receives a monthly statement instead of a passbook. Funds are also easily accessible, often through a 24-hour automated teller machine (ATM). Expect the same interest rate as a passbook account. Statement accounts are interest bearing checking accounts, which combine the benefits of checking and savings. The depositor earns interest on any unused money in his/her account.

Money Market accounts are a combination of checking and savings accounts. The interest rate paid is built on a complex structure that varies with the size of the balance and the current level of market interest rates. The average yield (rate of return) is higher than regular passbook or statement savings accounts. You can access your money from an ATM, a teller, or by writing up to three checks per month. This type of account provides immediate access to your money, but usually requires a minimum balance of \$1,000 to \$2500 with a limited number of checks that can be written each month.

Certificates of Deposit offer the benefits of being simple, with no risk, no fees, and have higher interest than a passbook or statement account. On this type of account the financial institution pays a fixed amount of interest for a fixed amount of money during a fixed amount of time. The trade-off for the higher return is that you have restricted access to your money. There is usually a withdrawal penalty if you cash in the account before the expiration date of the certificate of deposit. This penalty can be higher than the interest earned. If you think you might need the money before the time period expires don't use this method!

Choosing the Right Savings Account

Not all savings accounts are created equal. In fact, not all passbook, money market, or any other type account will offer the same services and dollar yield. Yes, you can shop around for a savings account that is right for you. As always, you'll first need to think about which account is right for you. When and how often you need to access the account will be key factors. Then, you'll want to look at the interest rates offered by the variety of banks and credit unions. But don't let that be your only deciding factor. Also, check the benefits you receive with the account. Some will have fees, charges

and even penalties based on minimum balance requirements or number of transactions. Some accounts require a certain balance prior to paying interest. On some money market accounts a financial institution may pay a higher interest amount for a higher balance - you'll want to know what the cutoff balance is for the higher rate. Most calculate interest on a daily basis, and some use the average of all daily balances.

Interest Compounding

Interest Compounding Example

Annual Compounding	Daily Compounding
\$1,000	\$1,000
@5% compounded annually	@5% compounded daily
\$1,000 at the end of the first day.	\$1,000.14 at the end of the first day.
	On the second day add the interest earned and compound the total amount
	\$1,000.14 @ 5% daily
\$1,050.00 (End of Year 1)	\$1,051.27 (End of Year 1)

With annual compounding, at the end of the first year you would have \$1,050. With daily compounding, at the end of the first day you would have earned \$0.14. The next day, interest is calculated on the entire amount of your original deposit of \$1,000 PLUS the previously earned interest of \$0.14. The table shows that the more frequently interest compounds, the faster it grows.

529 Savings Plans

A Section 529 Plan is a prepaid savings program for higher education. Any person can set up a plan for a child pursuing higher education. The money grows tax-deferred and is taxed at the child's rate when withdrawn for education purposes. The donor may have state income tax breaks. The savings can be applied to any college in any state. Many plans can be started with only \$25 a month. More information about state tuition programs can be found at: www.irs.gov.

Exercise

Compare accounts from different financial institutions. Look at the savings and checking accounts you have. List the type account, interest and fees. Then list any requirements. Look for 5-10 other options. Is the return on other options better than what you're getting now?

Type of Account	Interest Paid	Fees	Charges (late, over-limit, etc)	Requirements
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Quiz

- | | | |
|-----------------------------------------------------------------------------------------------------------------|------|-------|
| 1. Money Market accounts earn a rate of interest | True | False |
| 2. Statement Savings accounts offer a fixed amount of interest for a certain period of time. | True | False |
| 3. There are several types of CD products available. | True | False |
| 4. It best to shop around for the savings product that's right for you. | True | False |
| 5. An example of compounding is when earned interest is added to the balance and interest is paid again. | True | False |
| 6. 529 plans are a way to save for a child's education with possible added tax benefits. | True | False |
| 7. Comparing the interest rate on savings accounts is not a good way to determine what account is best for you. | True | False |
| 8. All savings accounts use the average daily balance calculation method before interest is paid. | True | False |
| 9. With CD's you have restricted access to your money. | True | False |
| 10. With a passbook savings account, a statement is generated monthly. | True | False |

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Course 4: Building Financial Skills

Lesson A: Money Management

Simple Interest

Simple interest is calculated on the **original principal only**. Accumulated interest from prior periods is not used in calculations for the following periods. Simple interest is normally used for a single period of less than a year, such as 30 or 60 days.

For example, if you had \$100 in a savings account that paid 6% simple interest, during the first year you would earn \$6 in interest. ($\$100 \times 6\% \times 1 = \6.00) At the end of two years, you would have earned \$12. The account would continue to grow at a rate of \$6 per year, despite the accumulated interest. In two years, your savings account would total \$112.00.

Compound Interest

Compound interest is calculated each period on the **original principal and all interest accumulated during past periods**. Although the interest may be stated as a yearly rate, the compounding periods can be yearly, semiannually, quarterly, or even continuously. In contrast, compound interest means more money for the saver

To figure compound interest, add the earned interest to the original dollar amount. Then multiply that number by the interest rate by the number of years to equal the amount earned. With compound interest, \$100 in your savings account would grow to \$112.36 at the end of two years. Here are the calculations:

Year One: $\$100 \times 6\% \times 1 = \6
 $\$100 + \$6 = \$106$ year end balance

Year Two: $\$106 \times 6\% \times 1 = \6.36
Your savings account total at the end of year two would be
 $\$112.36$
 $\$106 + \$6.36 = \$112.36$

The Rule of 72

Doubling your money is easy to figure with the rule of 72. To determine about how many years it will take to double your money, divide 72 by the interest rate. For example, if you have a 10% interest rate, divide 72 by ten. At that rate, you'll be able to double your investment in 7.2 years.

Saving vs. Investing

Saving is storing money safely, such as in a bank or money market account, for short-term needs such as upcoming expenses or emergencies. Typically, you earn a low, fixed rate of return and can withdraw your money easily.

Investing is taking a risk with a portion of your savings such as by buying stocks or bonds, in hopes of realizing higher long-term returns.

Common Investment Vehicles

Common investment options include bonds, mutual funds, stocks, real estate and retirement plans.

Bonds are basically an "IOU" certifying that you loaned money to a government or corporation and outlining the terms of repayment. Here's how it works: The buyer purchases a bond at a discount. The bond has a fixed interest rate for a fixed period of time. When the time is up, the bond is said to have "matured" and the buyer may redeem the bond for the full face value. Corporate bonds are sold by private companies to raise money. If a company goes bankrupt, bondholders have first claim to the assets, before stockholders. Municipal bonds are issued by any non-federal government. Interest paid on the bonds comes from taxes or from revenues from special projects. Earned interest on municipal bonds is exempt from Federal income tax. The safest investment you can make is U.S. government bonds. Even if the U.S. government were to go bankrupt, it is obligated to repay the bonds.

Mutual Funds are professional managed portfolios made up of stocks, bonds and other investments. Individuals buy shares, and the fund uses the money to purchase stocks, bonds and other investments. Profits are returned to the shareholders on a monthly, quarterly or semiannual basis in the form of dividends. One advantage of mutual funds is that it allows small investors to take advantage of professional account management and diversification normally only available to larger investors. There are a wide variety of mutual funds available.

Stocks represent ownership of a corporation. Stockholders own a share of the company and are entitled to a share of the profits as well as a vote in how the company is run. Company profits may be divided among the shareholders in the form of dividends. Dividends are often paid quarterly. Larger profits can be made through an increase in the value of the stock on the open market. If the stock market goes up, the gain can be considerable. Money is easily accessible on actively traded stocks. If the market goes down, the loss can also be considerable. Selecting and managing stocks often requires study and help. There are a variety of resources available on the Internet, as well as reputable brokerage firms.

Real Estate generally offers the best protection against inflation. Investors can buy a house to live in, and later sell at a profit. Or, they can buy income property, such as an apartment, house or rental unit or commercial property. Or, they can buy land and hold it until it rises in value. The biggest disadvantage of real estate is that it cannot be easily converted to cash. This is a specialized investment that requires study and knowledge.

Retirement Plans

Retirement Plans help individuals put aside money to be used after they retire. Federal income tax is not immediately due on money put into a retirement account, or on the interest it makes. Income tax is paid as the money is withdrawn. Penalty charges apply if the money is withdrawn before retirement age, except under certain circumstances. Since income after retirement is usually lower, the tax rate is often lower. Some types of plans include: Individual Retirement Account (IRA), Roth IRA (also called IRA Plus), 401(k) and Keogh plan.

- IRA - An IRA allows a person to contribute up to \$2,000 of earnings per year. Contributions can be made in installments or in a lump sum. IRA contributions can add up fast. Here's an example. If between the ages of 22 and 30 (9 years) you contribute \$2000 per year, for a total investment of \$18,000, at an interest rate of 9%, and then at age 65, you will have \$579,471. Or, if contributions are made for 35 years, between the ages of 31-65, at \$2,000 contributed per year, for a total investment of \$70,000, then with an interest rate of 9%, you will have \$470,249.
- Roth IRA - The \$2,000 annual contribution is not tax deductible, but the earnings on the account are tax-free after five years. The funds from the Roth IRA may be withdrawn after age 59, or if the account owner is disabled, or for educational purposes, or for the purchase of a first home.
- 401 (k) - This plan allows a person to contribute to a savings plan from his or her pre-tax earnings, reducing the amount of tax that must be paid. Employers match contributions up to a certain level.
- Keogh plan - This plan allows a self-employed person to set aside up to 15% of his/her income up to \$10,000 per year.

Exercise

1. Using the Rule of 72 determine how long it will take to double your money if your interest rate is 5%, 6%, 7%, 8%, and 9%.
2. Use the Internet, or call or visit your local financial institutions to check various savings rates and options. You can search online with skills you've learned already, or try comparative Web sites such as <http://www.bankrate.com/>.
3. List 6 savings/investment options and determine which best suits your circumstances and risk comfort level.
4. Compare the returns for 5 different mutual funds and a selection of stocks.
5. Look at your own savings and investment plan for your family and see if you're satisfied with it. If not, think about what changes you would like to make.

Quiz

- | | | |
|--------------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. Simple interest is calculated each period on the original principal and all interest accumulated during past periods. | True | False |
| 2. Mutual Funds are professionally managed portfolios made up of stocks, bonds, and other investments. | True | False |
| 3. Real estate offers the best protection against inflation. | True | False |
| 4. A Keogh plan is a form of retirement plan. | True | False |
| 5. A Roth IRA is tax deductible. | True | False |

Lesson B: Checking Accounts

Comparing Checking Accounts

When deciding on checking accounts remember financial institutions offer different types of checking accounts. To determine what you need think about how you plan to use your checking account. The following questions will help you determine what you need in a checking account.

Convenience:

1. How many checks do you think you will write every month?
2. Do you want a bank that is close to your home or work?
3. What are the bank's hours of operation?
4. Will you use the ATM often?
5. Does the bank have ATMs close to where you live or work?
6. How often do you plan to visit the bank to use teller services?
7. What other bank services are important to you?

Cost:

1. How much money will you keep in your account?
2. Will you be charged for writing extra checks?
3. Are you willing to pay a monthly fee?
4. If so, how much?
5. Will you be charged to use your bank's ATM?
6. Will you be charged for using other banks' ATMs?
7. Will you be charged for using teller services?
8. Are there ways to avoid paying fees?

Checking Account Fees

Ask the bank for the fee schedule for checking accounts. Compare the costs of the various accounts you are considering. Ask the bank whether fees can be waived and how to avoid fees. Some of the fees may include:

- Monthly Service (Maintenance) Fee
- Per Check Fee
- Check Printing Fee
- ATM-Use Fee
- Overdraft Fee
- Returned Check Fee
- Stop-Payment Fee
- Phone Inquiry Fee

Types of Checking Accounts

After you determine what you need in a checking account and understand the different fees involved, you might be ready to choose the type of account you should open. The main types of checking accounts include:

Low-cost checking

Many banks offer low-cost checking for people who don't write a lot of checks. The charge is often less than \$5 per month. There might be a limit to the number of checks you can write without an additional charge.

ATM-checking

Some banks offer an ATM-checking account for you at reduced-cost or a free checking account if you do all of your banking by phone and ATM. This type of account usually requires you to use direct deposit. The bank might charge you a fee if you use the services of a teller. This type of account usually offers unlimited check writing privileges, in other words, there are no additional charges based on the number of checks you write.

Regular checking

With a regular checking account, there is often a minimum balance required to waive the monthly service fee. This type of account usually offers unlimited check writing privileges.

Interest checking

There are different interest-bearing accounts, such as the Negotiable Order of Withdraw (NOW) account and the Money Market Deposit Account (MMDA). With these accounts, you usually need to maintain a high minimum balance in order to earn interest and avoid fees. The minimum balance is often at least \$1,000.

Debit Cards

People are increasingly using debit cards. Depending on which debit brands are on the card you are using, you may have to either enter a personal identification number or sign a sales slip. Either way, the purchase amount is automatically deducted from your checking account. Since you're accessing your own money, you will not have interest charges unless you activate an overdraft line of credit. To avoid this, make sure you include what you purchase with your debit card when you are balancing your checkbook.

Recording Transactions

Every time you record a check, you should be sure to record the transaction in your check register. That way, you will always be sure of your account balance. Record in your check register any time you make a transaction including using an ATM. Also, be sure to keep a running account balance after each transaction.

Record the date of the withdrawal, the amount, and for whom the amount was intended. Record the check number if it was a check. Also record the balance after the amount is withdrawn and every deposit, including automatic payroll deposits. See the example:

Date	Check No.	Transaction	Amount	✓	Deposit Amount	Balance
						203.55
3/08	1562	Local Telephone Company	17.85			185.70
3/08	1563	Long Distance Carrier	35.42			150.28
3/09		Automatic Payroll Deposit			1000.00	1150.28
3/10		Automatic Deduction / Rent	500.00			650.28
3/10		Cash Withdrawal	100.00			550.28
3/10		Bank Service Charge	8.00			542.28
3/15		ATM Deposit			50.00	592.28

Exercise

Comparison shop checking accounts use the table below to track your comparisons.

Question	Bank A	Bank B	Bank C
Does this bank offer a free checking account?			
Is there a minimum balance requirement? What is it?			
Does the bank pay interest on account balances? How much?			
Will I be charged if I write more than 10 checks each month? How much?			
Can I choose a check design?			
Does the bank have ATMs?			
Can I use other banks' ATMs to withdraw money from my account?			
Do I have to pay ATM fees? How much?			
Does the bank offer a debit card?			
Does it cost to use my debit card? How much?			
Can I get overdraft protection? How much does it cost?			
Does the bank have online services? Is there a usage fee?			
Is the bank insured?			

Quiz

1. When comparison shopping checking accounts, it is important that you consider the total cost of the account. True False
2. If you write on 1-2 checks per month, an account that charges a fee per check would be best for you. True False
3. Some checking accounts have a monthly maintenance fee. True False
4. Money Market Deposit Accounts earn a rate of interest. True False
5. Purchases made with your debit card can be charged interest. True False
6. Debit card purchases should be recorded in your check register. True False
7. ATM checking accounts usually require direct deposit. True False
8. For consumers who don't write many checks, an account with \$4 monthly maintenance fee and a limit of 5 checks per month is the best option. True False
9. Often times, regular checking accounts offer unlimited check writing. True False
10. When deciding on a checking account it is important to first determine your needs. True False

Lesson C: Dealing with Collectors

The key to effectively dealing with collectors is communication. It is also important to know the type of collectors and what they can and cannot do. You do have rights that protect you from unfair collections practices. By knowing your rights and options the relationship between consumer and collector becomes congenial and productive.

Types of Collectors

Credit Grantors

Most original credit grantors have internal collections departments. Delinquent accounts are grouped by level of delinquency called buckets. These buckets are categorized by stages of delinquency 30, 60, 90 and 120 days of delinquency. Accounts are usually referred to an outside agency after bucket 120.

Collections Agencies

Collections agencies are given the authorization by the credit grantor to collect money owed on a commission basis. Generally, a percentage of the total debt collected is retained by the agency. If the collections agency owns the debt (purchased from the credit grantor) they have the right to implement legal action against the consumer.

Attorneys

Attorneys have special means for tracking consumers and confiscating delinquent payments. They can obtain information from voter registration records, credit bureaus, utility companies, post offices, family and friends, landlords, or former employers. Following the course of the law attorneys can take legal actions against a consumer by filing a lawsuit.

What Collectors Cannot Do

Per the Fair Debt Collections Practices Act, collections agencies are limited to what they can do. Below is a listing.

- Give misleading or false information about the debt to others.
- Call after 9:00pm or before 8:00am with the consumer's time zone.
- Interrupt the work routine of a consumer's employment.
- Make excessive calls to a consumer's home or work as a method of harassment.
- Send a letter that may appear to be an official governmental document.
- Threaten a client or family member in a physical manner.
- Imply that physical damage may occur to a consumer's property.
- Deposit a post dated check before the date on the check.
- Misrepresent themselves as a government agency or law practice.
- Continue harassing a client after being notified in writing to cease.

Wage Garnishment

A wage garnishment is a legal procedure in which a portion of your paycheck can be withheld for the payment of a debt. Rules vary by state, but generally the limit for what can be garnished would be: 25% (or 1/4) of your net disposable income, or 30 times the federal hourly minimum wage. However, there are Claims of Exemption. Some claims could be granted if all of the following apply to you:

1. Your family is living in the state.
2. All the money you earn is needed to provide necessities.
3. Debt was for a necessity (food, housing or medical care.)
4. Garnishment has already been started.

You cannot be fired from your job for any one garnishment. This is enforced by the Secretary of Labor through the Wage and Hour Division of the U.S. Department of Labor.

Wage Assignment

Wage assignment does not have the legal force from a court as wage garnishment does. It is a legal agreement between a lender and a debtor that permits the lender to collect part of the debtor's wages from an employer if the debtor fails to make regular payments. The employer is not legally compelled to honor a wage assignment arrangement. If you don't have a job, the lender can get a court order to "attach" or seize some of your property to pay off the debt. This will also vary by state, and the lender's policies on attaching property.

Repossession

Your creditor can take your car if you default. They cannot, however, use physical force or threats of force to do so. In other words, they cannot commit a breach of the peace. **THEY ARE NOT ENTITLED TO KEEP OR SELL ANY OF THE PERSONAL PROPERTY IN THE CAR**, such as your backpack, briefcase, or purse. Improvements to the car, such as a stereo or a luggage rack, could be kept by the creditor or sold to pay back part of the debt. You do have the right to buy back your car by paying the full amount owed, plus repossession expenses. This is usually very expensive, so be sure you talk to your creditor before you get to the point of repossession.

What many people do not realize is that you are still responsible for the amount of the debt if the creditor cannot sell the car for the amount owed plus some costs. The "deficiency balance" is the amount of debt that you still owe after the creditor has sold your car. This can sometimes be a very large sum of money.

Exercise

Prepare yourself for a bill collector:

Consider all of the available sources of money that you have. List them below.

_____	_____
_____	_____
_____	_____

Call the collectors before they call you.

Go through all your bills and determine which are past due. Make a list of due dates and amount owed. If you are going to have trouble paying any of them, call your creditors and try to work out an arrangement.

Creditor	Amount	Due Date

Determine if you are going to be able to pay them

Be prepared and in control.

Quiz

1. Collectors can call you after 7:00am or before 10:00pm. True False
2. Collections agencies must follow the Fair Debt Collections Practices Act. True False
3. Attorneys can file a suit against you for the amount owed and cost. True False
4. The regulations for wage garnishment vary per state. True False
5. Collections agencies cannot deposit a post dated check before the date on the check. True False

Lesson D: Insurance

There are three basic types of insurance that are important to consider when developing goals and spending plans. These are **auto, home and life** insurance policies.

Auto

Liability Insurance

Liability coverage is the foundation of any auto insurance policy, and is required in most states. If you are at fault in an accident, your liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident including your legal bills.

Liability insurance does have coverage limits. These limits are usually represented by a set of three numbers. An example would be 25/30/10. This means \$25,000 in bodily injury coverage per person, \$30,000 in bodily injury coverage per accident, and \$10,000 in property damage coverage per accident.

Collision and comprehensive coverage's

If you cause an accident, collision coverage will pay to repair your vehicle. You usually can't collect any more than the actual cash value of your car, which is not the same as the car's replacement cost. Collision coverage is normally the most expensive component of auto insurance.

Medical payments, PIP and No-Fault coverage's

Medical payment coverage will pay for you and your passengers' medical expenses after an accident. These expenses can arise from accidents while you are driving your car, someone else's car and injuries you or your family members incur when you're pedestrians

Different states have different minimum coverage requirements. Contact your state's department of transportation for more information.

Home Insurance

When considering home insurance it is important that you buy the right policy. You need the proper level of protection plus special provisions for valuables such as jewelry, your computer equipment and other possessions. You may also need additional coverage for earthquakes or flooding.

There are several basic types of home insurance policies:

HO-1

- Basic homeowners policy
 - Covers your house and possessions against 11 different perils.

HO-2

- Broad homeowners policy
 - Covers house and contents against 17 different perils, with premiums running about 5 percent to 10 percent more than an HO-1 policy.

HO-3

- Special homeowners policy
 - Covers all perils except those specifically excluded by the policy. Cost about 10% - 15% more than an HO-1 policy.

HO-4

- Renters Policy
 - Covers 17 named perils and included liability coverage. It covers personal property inside of the dwelling. It does not insure the dwelling itself.

HO-5

- Exclusive homeowners policy
 - Covers damage from practically everything except earthquakes, wars and floods.

HO-6

- For owners of co-ops or condominiums
 - Provides personal property coverage, liability coverage and specific coverage of improvements to the owner's unit. Insurance provided by the owner's association normally covers most of the actual structure.

HO-8

- Policy for older homes
 - Covers the same perils as HO-1 but pays only for repair costs or actual cash value, since replacement cost could make the policy costly.

HO-A

- Covers your home and possessions against named perils only, for actual cash value.

HO-B

- Covers the dwelling for all perils unless excluded against all risks and contents against named perils. The house is covered for replacement cost up to policy limits, while contents are covered for actual cash value unless you buy additional replacement cost for coverage.

HO-C

- Covers house and contents against all risks not specifically excluded by the policy. Again, the house is insured for replacement cost up to policy limits, while contents are covered for actual cash value unless you buy additional coverage.

Life Insurance

The first step in life insurance planning is to analyze your life insurance needs. Before purchasing life insurance you should consider the standard of living you want to maintain for your dependents or survivors upon your death.

There are several policy choices:

Term Life Insurance

Term life insurance provides death benefit protection without any savings, investment or “cash value” components for the term of the coverage period.

Cash Value Life Insurance

Cash value life insurance provides more death benefits and an expanded purpose into that of a long term savings account.

Whole Life

Whole life insurance has a cash value account that grows over time. It provides a level death benefit and level premiums throughout your life.

Universal Life

This policy is more flexible than whole or life. You may increase or reduce the amount of the death benefit while the policy is in force.

Variable Life

Variable life offers a death benefit and a true investment account feature. The insurance company invests your premiums into a fund. The amount of your death benefit is reliant on how well your money was invested.

Exercise

Review your goal sheet, assets and spending plan and determine which types of insurance coverage you will need. Ask yourself these questions: do I have a home? do I drive a car? upon my death do I plan to leave money or property to my family or survivors?

Now I want you to consider any coverage that you may already have?

Do you have enough coverage?

If you have little or no coverage in any of the three basic insurance areas (**auto, homeowners or life**), you may need to re-evaluate your spending and goal plans. Having enough insurance coverage should be a priority.

Quiz

- | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| 1. Liability insurance covers collision damage to your vehicle. | True | False |
| 2. An HO-5 homeowner's policy covers floods and earthquakes. | True | False |
| 3. A Universal Life insurance policy is flexible in that the death benefit can be increased or reduced. | True | False |
| 4. HO-1 policy is often referred to as a basic homeowner's policy. | True | False |
| 5. In this liability coverage limit example 20/35/20, the 35 means that you are covered up to \$35,000 in property damage per accident. | True | False |

Lesson D: Credit Counseling

Credit Counseling Services

Certified Credit Counselors review your current financial situation. They implement strategies to assist consumers in the problem solving process. Analyzing your budget and spending patterns is an essential step to financial success. Credit Counselors are well versed in this area. They are very helpful at identifying way to better manage your personal finances.

If you and your counselor determine that there isn't enough money for you to make minimum payments, they can contact your creditors to negotiate lower payment terms and interest rates. Many creditors agree to the terms and place the consumer on a plan that will eliminate the debt over a certain period of time. This is commonly referred to as a debt management plan. Some creditors prefer to work with credit counseling agencies directly because credit counselors address problems with all creditors as opposed to just one in particular.

Once a payment plan has been established between you, your credit counseling agency, and your creditors, you will make your payments to the agency and payments are disbursed to your creditors. Generally, your creditors will not contact you while you are paying as agreed through the plan.

Consumer Resources

Savings and Checking Accounts

Interest Rates
Bank Rate
www.bankrate.com

Deposit Insurance
FDIC
www.fdic.gov

Credit Unions
National Credit Union Association
www.ncua.gov

Credit Reports

Equifax
800-685-1111
www.equifax.com

Experian
888-397-3742
www.experian.com

TransUnion
800-916-8800
www.transunion.com

Fair Credit Reporting Act
www.ftc.gov/os/statutes/fcra.htm

Billing

Fair Credit Billing Act
<http://www.ftc.gov/bcp/online/pubs/credit/fcb.htm>

Getting Credit

Equal Credit Opportunity Act
<http://www.ftc.gov/bcp/online/pubs/credit/ecoa.htm>

Truth in Lending Act
<http://www.occ.treas.gov/handbook/til.pdf>

Collections

Fair Debt Collections Practices Act
<http://www.ftc.gov/os/statutes/fdcpa/fdcpact.htm>

Consumer Law

National Consumer Law Center
<http://www.consumerlaw.org/>

Identity Theft

877-438-4998
www.consumer.gov/idtheft.com

Glossary

Bounced Check

A "bounced" check is one that a financial institution has refused to cash or pay. It might be because the account was closed, or there were insufficient funds to cover the amount of the check. Non-sufficient funds (NSF) are one reason for a bounced check. It is estimated that 90% of bounced checks are due to consumers' math errors in balancing their checkbook.

Cash

Money in the form of paper and coins (i.e., U.S. dollars and cents). In banking, the act of paying a check.

Certificate of Deposit

A savings account in which an individual promises to deposit the money for a set period of time, for which the financial institution pays higher interest than a regular savings account.

Chapter 7

Commonly referred to as a "straight bankruptcy." In Chapter 7 bankruptcy all unsecured debt, such as credit card debt, is canceled. Secured debts must be paid or the collateral (a car, for example) is surrendered to the financial institution. In some states, it may be possible to retain such possessions as work-related tools and basic household goods.

Chapter 11

This chapter is a reorganization chapter where a debtor seeks to rehabilitate and reorganize its financial structure. This plan is normally used by businesses but can be filed by an individual debtor. A company can "remain in possession of their business". In other words, the company can continue to run, but must have a court-approved repayment plan for all non-exempt debt.

Chapter 13

"Reorganization" bankruptcy. This procedure involves an adjustment of debt for a person or business with a regular income. Levels of secured and unsecured debt must be below certain limits. All debts are consolidated and reduced to one monthly payment based on disposable income. The filer may keep property such as a car, home or business.

Check

A written document instructing a financial institution to pay money from the writer's account.

Check Card

A card enhanced with ATM and point-of-sale features that can be used to purchase goods and services electronically. The card replaces cash or checks. Transactions are deducted from the cardholder's checking account either immediately or within one to three days. Depending upon the type of card, a check card may require a signature or entering a PIN number into special equipment.

Checking Account

An account for which the holder can write checks. Sometimes fees are charged if minimum requirements aren't met.

Clear

A check "clears" when its amount is debited (subtracted) from the payer's account and credited (added) to the payee's account.

Collateral

Anything that a financial institution accepts as security against the debtor's not repaying a loan. If the debtor fails to repay the loan, the financial institution is allowed to take the collateral. Collateral is most commonly in the form of real estate (i.e. a home) or property, like a car.

Commercial Bank

Non-governmental financial institutions. Sometimes called full-service banks because they provide a wide range of services, such as checking and savings accounts, credit and loan arrangements, and safety deposit box rentals. Commercial banks often sell and redeem U.S. Savings bonds.

Compound Interest

Interest calculated not only on the original principal but also on the interest already accrued.

Credit

In business, buying or borrowing on the promise to repay at a later date. In any credit arrangement, there is a creditor (a person, financial institution, store, or company to whom money is owed) and a debtor (the person who owes the money). In bookkeeping, a sum of money due to an individual or institution.

Credit Bureau

A credit reporting agency that checks credit information and keeps files on people who apply for and use credit.

Credit Card

A plastic card that gives access to a line of credit. Users are limited in how much they can charge, but they are not required to repay the full amount each month. Instead the balance (or "revolve") accrues interest with only a minimum payment due.

Credit Line

The maximum dollar amount that can be charged on a specific card account.

Credit Rating

A financial institution's evaluation of whether a person is suitable to receive credit. Credit ratings are based on an individual's character, capacity to repay and capital.

Credit Report

A report on a consumer's level of indebtedness and bill paying behavior. Information for the report is submitted to credit reporting agencies (or credit bureaus) from an individual's creditors. The agencies compile the report and release it to lenders and others with the consumer's permission.

Credit Union

A member-owned financial institution, either state or federally chartered.

Currency

Money - anything used as a common medium of exchange. In practice, currency means cash, particularly paper money. Bankers often use the phrase "coin and currency" to refer to cents and dollars.

Debit

A bookkeeping term for a sum of money owed by an individual or institution; a charge deducted from an account.

Debit Card

See check card.

Demand Deposit Account

A type of checking account.

Deposit Slip

An itemized slip showing the exact amount of paper money, coin, and checks being deposited to a particular account.

Depositor

An individual or company who puts money in an account.

Direct Deposit

Earnings (or government payments) automatically deposited into accounts, saving time, effort and money.

Finance Charge

This term covers the total cost of credit. It includes interest, and all other charges established by the issuing financial institution as a condition of credit. Charges may include: service fees, late fees, transaction fees and other miscellaneous charges.

Fixed Rates

An interest rate that doesn't change. The APR is usually a fixed rate.

Grace Period

The period before interest begins to accrue on new purchases.

Identify Theft

A form of fraud in which a consumer's financial information is illegally acquired for the purpose of making unauthorized purchases and transactions with their credit cards, or with funds from their checking or savings accounts.

Interest

The fee paid for the use of money. Interest may be paid, for example, by an individual to a financial institution for credit card use, or by a financial institution to an individual for credit card use, or by a financial institution to an individual for holding a savings account; interest is expressed in terms of annual percentage rate (APR).

Interest Calculation Method

The way interest is calculated on a credit card balance. It can be charged by the day or month and includes interest on the unpaid balance.

Interest Rate

The percent, per unit of time, of the total sum borrowed that is charged by a bank or financial institution for the use of their money, 15 percent per year, for example. Credit card interest may be computed by the year, by the month, or by the day.

Introductory Rates

Credit cards use the introductory rate as a special promotional offer. After a period of time, the rate usually returns to the standard rate.

Joint Account

A savings or checking account established in the names of more than one person (e.g., parent/child, wife/husband).

Liabilities

In a financial sense, money owed to individuals, businesses or institutions.

Line of Credit

An authorized amount of credit given to an individual, business or institution.

Minimum Payment

The minimum dollar amount that must be paid each month, usually 2 to 3 percent of the amount owed based on the average daily balance.

Money

Anything generally recognized as a medium of exchange.

Mortgage

A long-term loan obtained by individuals to buy a home that legally transfers ownership from the debtor to the creditor until the debt is paid.

Overdraft

A check written for more money than is currently in the account. If the financial institution refuses to cash the check, it is said to have "bounced".

Passbook

A booklet given by the financial institution to the depositor to record deposits, withdrawals, and interest earned on a savings account.

Payee

An individual or company to whom a check is written; one who receives money as payment.

Payer

An individual or company who writes a check; one who gives money as payment.

Payment Schedule

Credit cards often have a choice between partial payments with a minimum due or full payment, where the full balance is expected.

Periodic Rate

A variable interest rate that may increase or decrease during each calendar quarter and affect both the finance charges and the minimum payment due on a credit card.

Prime Rate

An index rate that is used to determine the APR in a variable interest rate account. The interest rate given to a consumer or business is often based on the prime rate plus a risk factor. This risk factor is calculated by evaluating several items (i.e., credit score, payment history, financial strength, etc.)

Principal

The original amount of money borrowed, deposited, or invested before interest accrues.

Purchasing Card

A credit card used by companies to make purchases of \$5,000 or less. It eliminates the need for purchase orders. Orders are placed directly with a participating supplier and charged to the purchasing card.

Refinance

To revise a loan agreement to make the terms of payment more suitable to a borrower's present income and ability to repay. Refinancing usually provides a lower interest rate and lower monthly payments.

Savings Account

An account that accrues interest in exchange for its use of the money on deposit. The depositor is usually allowed an unlimited number of deposits and withdrawals.

Savings and Loan Association

State-chartered or federally-chartered financial institution that accepts deposits from the public and invests those funds primarily in residential mortgage loans.

Secured Card

A credit card that is secured by an amount deposited in a designated savings account. The credit limit usually equals the amount of the security deposit. If balances are not paid, the deposit will be used to cover the debt.

Service fee

A monthly fee a financial institution charges for handling a checking account.

Stop Payment

A request made to a financial institution not to pay a specific check. If requested soon enough, the check will not be debited from the payer's account. Normally there is a charge for this service.

Terms

The period of time and the interest rate arranged between creditor and debtor to repay a loan.

Truth-In-Lending Act

A federal law that requires lenders to disclose the costs and terms of borrowing money for a loan or credit card.

Variable Rate

An interest rate that can change periodically.

Withdrawal

An amount of money taken out of an account.

QUIZ ANSWER KEY

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