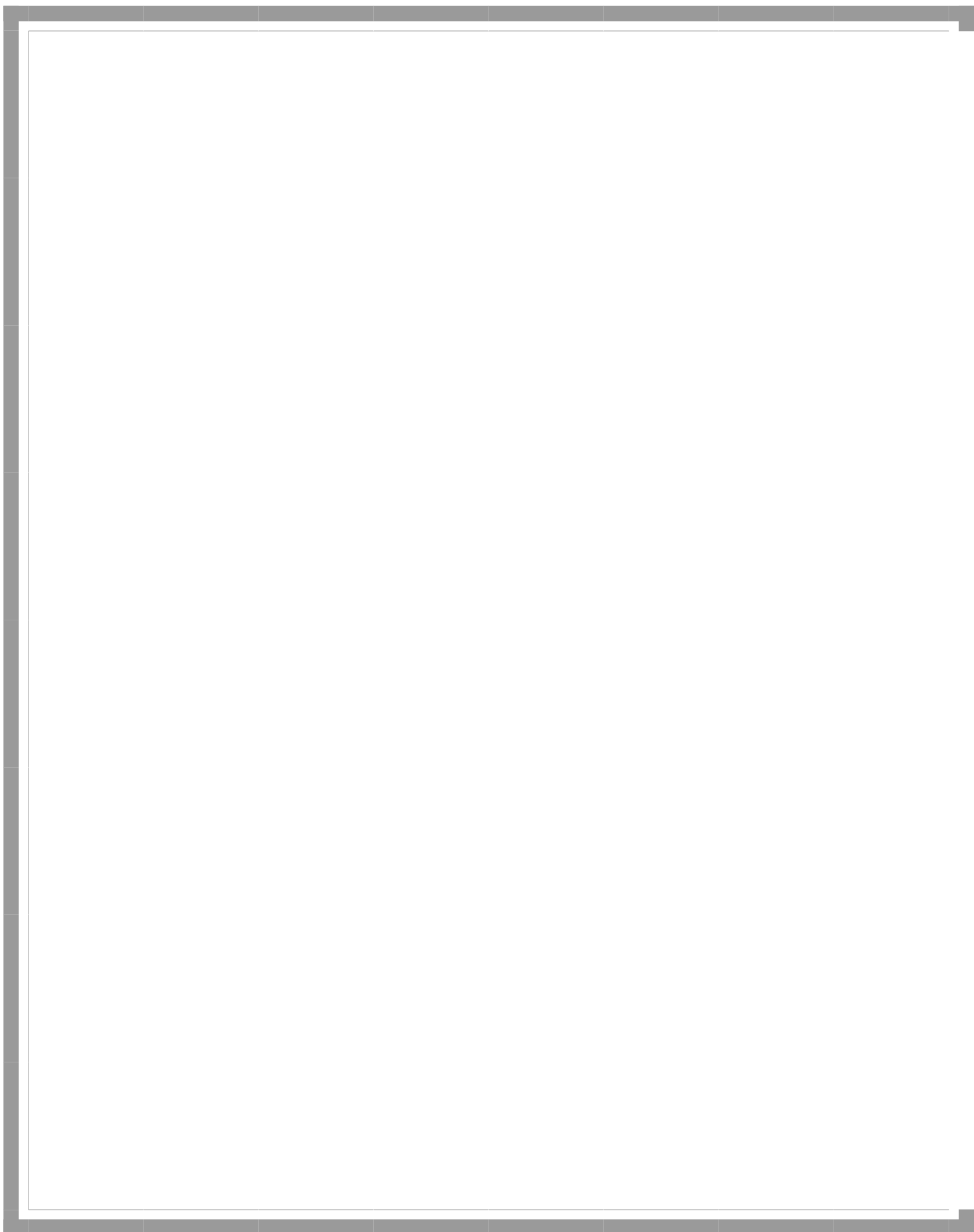


CONSUMER EDUCATION AND TRAINING SERVICES

I N N O V O



**RECONSTRUCTING AND RETHINKING
MONEY MANAGEMENT
AFTER BANKRUPTCY**



CONSUMER EDUCATION AND TRAINING SERVICES

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**RECONSTRUCTING AND RETHINKING
MONEY MANAGEMENT
AFTER BANKRUPTCY**

INNOVO:

Reconstructing and Rethinking
Money Management After Bankruptcy

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CHAPTER ONE

INTRODUCTION



Welcome to INNOVO

INNOVO—a Latin word that means *renewal*—is a class specifically designed *for you*: individuals who have filed personal bankruptcy—either Chapter 7 or Chapter 13. Each person who files for bankruptcy makes that choice based on his or her unique circumstances. You may have been an excellent money manager; however, an unforeseen event such as illness or divorce may have turned your world upside down. On the other hand, your bankruptcy may have been a result of too many bad choices you made regarding spending and debt.

No matter what brought you to this point, **INNOVO** is your guide to reconstructing your money management and rethinking debt and credit after your bankruptcy. For some of you, this course may serve as a checkpoint as to the best practices you've always performed. For others, these skills can put you on a new path to ensuring better control and achieving success with your personal finances.

INNOVO is built upon a proven maxim for successful adult learning:

Skills + practice = competencies

Throughout the class and this student workbook, you'll examine and practice key financial management competencies such as:

- Determining your true net income
- Constructing a comprehensive budget
- Calculating the ratio of an expense to your net income
- Strategizing ways to control and/or cut expenses
- Identifying different types of debt
- Determining a debt's demand on your current and future income
- Qualifying—after bankruptcy—the role that credit files and FICO Scores have in your re-establishment of credit capacity

Upon completing this course, you'll have:

- Examined the most effective money management practices
- Initiated a comprehensive budget process and expense tracking system
- Developed FINANCIAL ACTION PLANS you can implement *today*

Sometimes people say all life's problems could be cured if only money grew on trees. **INNOVO** is the seed you can plant and cultivate to grow a tree of knowledge that will provide you many skills—skills that will protect and grow the money you work so hard to earn.

CENTS — Seattle, Washington

T A B L E O F

I N N O V O

CHAPTER ONE: INTRODUCTION

Welcome to INNOVO	1
Table of Contents	2-3

CHAPTER TWO: NOW

Reconstructing your money management after bankruptcy

INTRODUCTION	5
The benefits of a budget mindset	6
Money management thinking traps	7
Design your financial plan	8
Build a successful budget	9
THE 12-PART INNOVO BUDGET PROCESS	10
The INNOVO budget process timeline	11
PART 1 – Determine your monthly net income	12-13
PART 2 – Identify your monthly expenses	14-17
PART 3 – Fix the amounts of all your expenses	18-19
PART 4 – Determine your rough margin	20-21
PART 5 – Assess your rough draft budget	22-23
PART 6 – Cut expenses to improve your margin	24-25
PART 7 – Use a general ledger	26-27
PART 8 – Review your general ledger	28-29
PART 9 – Analyze your working budget	30-31
PART 10 – Calculate your expense ratios	32-33
PART 11 – Modify your working budget	34-35
PART 12 – Ensure your budget's success	36-37
MANAGE A SUCCESSFUL BUDGET	38
Keep financial records	38
Pay on or ahead of due dates	39
Increase your income	40
Comparison shop your expenses	41
Examine your insurance coverage	42
Identify needs vs. wants	43
Have an emergency budget	44
Access community resources	45
SET FINANCIAL GOALS	46

I N N O V O

CHAPTER THREE: WHEN

Rethinking your debt and credit opportunities after bankruptcy

INTRODUCTION	47
Placing borrowing in perspective	48
THE 6-STEP SMART BORROWING PROCESS	49
STEP 1 – Speak the language of borrowing	50
STEP 2 – Understand the costs of credit & borrowing	51
STEP 3 – Determine your capacity to borrow	52-53
Ratios in perspective:	54
○ How much is too much?	54
○ What are healthy ratios?	54
○ Guidelines for debt-to-income ratios	55
STEP 4 – Assess your borrowing choices	56
○ Is there good vs. bad debt?	56
○ Defining debt in absolute terms	57
○ Sources & types of credit and loans	58
STEP 5 – Comparison shop your borrowing	59
STEP 6 – Protect yourself against credit scams	60-61
BE IN FINANCIAL CONTROL	
Don't get trapped by the minimum payment myth	62-63
Know the TOP 10 debt warning signs	64
Consider alternatives to credit	65
YOUR CREDIT FILES & FICO SCORES	
Credit files: the record of your financial behaviors	66
FICO scores: the basis for your costs of credit	67
Build a record of your positive financial behaviors	68
When and how to obtain your information	69
CHAPTER FOUR: SUMMARY	
Your perspective, competencies and financial plans	71
CHAPTER FIVE: RESOURCES	
Information about consumer protection laws	74
How to obtain free copies of your credit files	75
Contact information for Fair Isaac FICO scores	75
Contact information for the 3 credit reporting agencies	76
The credit file dispute process	77
CHAPTER SIX: TEMPLATES	
Budget, General Ledger & Expense Account templates	79-90

C O N T E N T S

CHAPTER TWO



NOW: RECONSTRUCTING YOUR MONEY MANAGEMENT AFTER BANKRUPTCY

INNOVO means “to renew.”

If you’ve always been an excellent money manager, consider this course as an opportunity to reaffirm best practices.

On the other hand, if managing money has sometimes been a challenge, then this course will *renew* your confidence about being a success with your personal finances.

Remember ...

Life isn’t about finding yourself.

Life is about creating yourself.

—George Bernard Shaw

With INNOVO, you’ll create in yourself a successful money manager.

THE BENEFITS OF A BUDGET MINDSET

For many, many people, managing their personal finances can be a challenge. Statistics say that conflict over money is the number one stress upon relationships. Sometimes the challenge is due to a lack of knowledge. Sometimes, frankly, it's just due to a lack of enough money. However, in most cases—even in the toughest situations—creating a budget mindset can help you reduce stress and better utilize the financial resources you do possess.

A budget mindset *DOES NOT* require that you pinch every penny and spend 24 hours a day thinking about your finances. No! Adopting a budget mindset is an attitude you take on to be in control of your income and spending.

When you adopt a budget mindset, you can lower your stress and gain a command of your situation.



A budget mindset means you are committed to:

- Designing your financial plan
- Building and managing a budget
- Understanding your net income
- Planning and monitoring all your expenses
- Tracking your progress with repaying debts

When you adopt a budget mindset, you become committed to making money management a part of your routine. The routine might be a 10-minute session each day or a specific, scheduled time each week—perhaps 30 minutes—to monitor, record and make positive decisions for and about your money.

Consider how much time you spend in order to earn your income—how much time you devote to hobbies, TV, shopping or just commuting each day. Consider, right now, how much time do you normally devote to managing your money.

MONEY MANAGEMENT THINKING TRAPS

Having hope and being positive are excellent personal qualities. But, when it comes to managing—and planning—for your financial opportunities, a dose of conservatism can be very beneficial.

Money management thinking traps occur when you make absolute choices based upon tentative options. When you say to yourself statements like, “Soon I’ll find a better paying job” or “It’ll all work out,” you’re setting yourself up for pain *IF* the wish doesn’t come true.



Avoiding money management thinking traps means you’ll stay ahead of your needs. You won’t be forever running to catch up when a plan or hope doesn’t come to pass.

Other dangerous thinking traps involve negative self-talk. When you say, “I will never be good at money management” or “I just don’t understand money talk,” you are closing the door on your own capacity. Have faith, use the INNOVO tools, and you will find yourself mastering competencies in no time.

Think back: Have you engaged in any money management thinking traps? Were there occasions when you knew you were making choices based on a hope and not a fact? If so, write down the thinking trap you will stop using—one step you’ll make toward stronger control over your finances.

I will no longer suffer the following thinking trap:

DESIGN YOUR FINANCIAL PLAN

When you adopt a budget mindset and abandon any money management thinking traps, you are in the perfect position to begin designing your personal financial plan.

Designing a financial plan may sound like a pretty complex assignment. But in reality, it's more about engagement than it is about process. Building a plan—with goals and action steps to achieve your goals—puts you in an active role.



It's positive to think and work toward your goals. On the other hand, consider how many unnecessary costs or lost opportunities you may experience by not being active with your money. Also, your financial plan can be a powerful source of motivation. Knowing your choices are leading to a goal can certainly help you stay on course.

Your financial plan may involve one main goal, or it could encompass an array of small ambitions. No matter how large or small your goals or ambitions, having a financial plan is a valuable tool for:

- Prioritizing your spending
- Identifying needs vs. wants
- Creating a critical mindset for making financial decisions

Throughout INNOVO, you'll examine a variety of concepts that all work together toward your financial empowerment. The more financial knowledge you have, the more power you control. And with knowledge and power, you can achieve even the loftiest of plans.

BUILD A SUCCESSFUL BUDGET

The term budget gets used as a noun: “Do you have a budget?” Likewise, the word is used as a verb: “Did you budget for *THAT*?” Regardless of how flexible the term is, there is no flexibility about using incorrect numbers when you are building a successful budget.

The 12-part INNOVO budget process will guide you to identifying the correct numbers you’ll need to have a successful budget:

- Net monthly income
- All monthly expenses

Your budget functions as a tool. It is a picture of how much money you have versus how much you will spend for a given period of time. When you achieve a working budget, you’ll be in control of all the following:



Always spending within your means—your actual net income

Influence your gap—margin—between income and expenses

Choose the percentages—ratios—that each expense demands of your income

Make active decisions that help you achieve your financial goals

Your budget will help you establish order, refine your situation and make concrete steps toward your financial goals. And, as with any tool, practice will perfect your skills. Don’t hurry; be diligent and patient as you smooth the edges and polish the shine of your financial picture.

**THE 12 - PART
INNOVO BUDGET PROCESS**

The INNOVO budget process follows a pattern:



The 12 parts work as an ongoing sequence that becomes refined—and improved—each time you move the process along. Independently, the parts are skills for your money management. Together, they form the walls of your financial home and the shelter for your financial plans.

1	Determine your monthly net income	BUILD
2	Identify your monthly expenses	
3	Fix the amounts of all your expenses	
4	Determine your rough margin	ASSESS
5	Assess your rough draft budget	
6	Cut expenses to improve your margin	MODIFY
7	Use a general ledger	BUILD
8	Review your general ledger	ASSESS
9	Analyze your working budget	
10	Calculate your expense ratios	
11	Modify your working budget	MODIFY
12	Ensure your budget's success	BUILD

THE INNOVO BUDGET TIMELINE

Developing your INNOVO budget is an ongoing process—not a one-time task. First, you will **build** a rough draft budget. Second, you will **assess** and refine your numbers to create a margin that aligns to your financial plan. The refined version we call a working budget. Third, you will **modify** your working budget as changes occur to your income, expenses or margin.

Together, in class, we will examine and discuss the first six parts of the INNOVO budget process. Within 30 minutes, you will have a functional, rough draft budget. Going forward—assessing and modifying your budget, and updating your general ledger—will be a quick and positive exercise you can do **in less than 10 minutes per day**. Remember, your budget mindset will make money management an opportunity for control and not a stressful task.

In Chapter 6 you will find a variety of INNOVO templates. One budget form has expense categories pre-printed, another is blank for you to customize to your world. You can follow the INNOVO budget process using these templates *OR* you can use word processing programs.

No matter which form you use,
**SUCCESS WILL COME WITH
PRACTICE AND IMPLEMENTATION
of the 12-part INNOVO process.**

DETERMINE YOUR MONTHLY NET INCOME

1

Income is the first half of your INNOVO budget. Identifying the correct portion of your income—*your MONTHLY NET INCOME*—is essential to building a successful budget.

2

3

GROSS INCOME—This is the amount of money **you EARN** either as an hourly wage or as a salary. It is the amount of your income **BEFORE** payroll deductions are made.

4

5

NET INCOME—This is the actual amount of money you have available after payroll deductions. The difference between GROSS and NET income *can be a significant reduction*. If you make spending decisions (or borrowing commitments) based on GROSS INCOME, you are going to **BUST YOUR BUDGET!**

6

7

**You can only spend and pay
with the actual amount of your NET INCOME.**

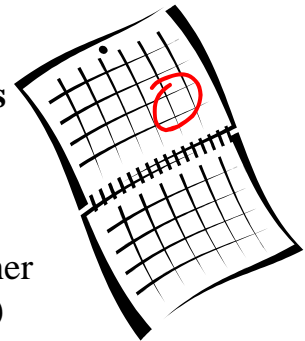
8

Determine your monthly net income: THE REAL MONEY

9

Grab your calendar. Since you're building a MONTHLY BUDGET, **identify the number of times you'll be paid during the month at hand.**

Do you get paid weekly, every other week or on a specific day—like the 10th and 25th? Circle each of those days on your calendar. (If you are paid every other week, some months you will receive three paychecks.)



10

11

12

Grab your last few paychecks: Look at the **net pay** numbers. Determine what your average net pay per paycheck has been. Do you anticipate this staying constant? If so, use that average amount for each of your pay periods.

Add up your average net incomes for all the paydays this month: This is the first number you'll write on your INNOVO budget sheet. This amount is the key number in your budget.

THE THINKING TRAP OF GROSS INCOME

Michael left the Human Resources office of F. P. Industries feeling excited about his new job—and his new salary. What a relief! Since his bankruptcy, Michael wanted to get money back on his side, under control. A bigger salary would sure help.

On the way home, Michael ran some numbers that sounded very good:

His salary would be	\$ 3,600.00	per month.
From that, he'd pay this Trustee payment	\$ 425.00	
Rent	\$ 595.00	
Car loan & insurance	\$ 472.00	
Phone, cable & stuff	\$ 100.00	

By his estimates—after expenses—Michael would have an “extra” \$ 2,000 each month. Yeah, finally, he'd have some money back on his side.

One month later:

First payday at F. P. Industries. Michael was thrilled to get his pay envelope from Human Resources. But that thrill changed to shock when he tore open the envelope and saw that his check was for only \$2,700.00. Where did \$900.00 go? That's \$900.00 of his “extra” money that wasn't in his paycheck.

Michael had fallen victim to the myth of **Gross Income**. He made spending plans based on the wrong number.

His **NET INCOME** has to be the number that will start and drive his budget.

F.P. INDUSTRIES Check # 17246	
ACTIVITY	3-15
SALARY	3,600.00
FICA	- 270.00
FED WITHHOLDING	- 540.00
MEDICAL INSURANCE	- 58.20
STATE L&I	- 11.60
TOTAL DEDUCTIONS	= 879.80
NET PAY	\$2,720.20

F. P. INDUSTRIES	CHECK # 17246
1929 Sunny Avenue	
Seattle, WA 98103	DATE: <u>March 15, 2006</u>
Pay to: MICHAEL INNOVO	\$2,720.20***
Pay: <u>Two thousand seven hundred twenty dollars and 20/100</u>	
Gigantic Bank 700 Fifth Avenue Seattle, WA 98101	
Paycheck _____	

This is why PART ONE of the INNOVO budget process is
DETERMINE YOUR MONTHLY NET INCOME

IDENTIFY YOUR MONTHLY EXPENSES

1

2

Expenses are the second half of your INNOVO budget. Identifying where your money goes—for which expenses—provides you with concrete facts you can use to assess and modify your budget. And when you modify, you move closer to attaining your financial goals.

3

4

FACT: Everything you spend your money on is an expense. No judging or questions. If it is important to you, then it will have a place on your INNOVO budget form—within your SPENDING LIMITS.

5

Identify monthly expenses: WHO & WHEN

6

Your INNOVO budget form: In Chapter 6 of this workbook, you will find a variety of budget templates to help jump-start your process. One form has a list of common budget expenses. Another is blank, ready to be individualized to your situation.

7

8

Start with your bills: Many of your expenses will relate to services or accounts you maintain. Use the statements you receive to help identify your regular expenses. List each expense (mortgage, phone, electricity) on a separate line of your budget sheet. Make certain to write down the payment due date—it's VERY IMPORTANT. (See page 41 for facts about paying on or ahead of payment due dates.)

9

10

Think about the basics: Write down an expense category—one per line on your budget form—for all your basic expenses. Basics are items like food, clothing and medicine. Also, remember to always have a category for savings (even if you can't always contribute) and a line for your Chapter 13 Trustee payment, if applicable.

11

12

Consider your daily activities: A major quantity of your expenses—and the money that goes there—are for items not related to a bill or a basic need. No. Most money goes for daily items or purchases.

BEGINNING THE INNOVO PROCESS

Michael was committed to getting a handle on his money management. He had determined his net income and now he wanted to know where all his money was going. It wasn't being saved, but it was definitely being spent each and every month.

Michael took out a blank INNOVO budget sheet. He wrote in his NET MONTHLY INCOME at the top of the page. Then Michael started writing down all the regular expenses he could link to bills. He listed his Chapter 13 payment, rent, electricity, auto loan and insurance.

For each expense that related to a bill, Michael noted the monthly due date. Then he thought about regular activities. He added expense categories—line items—for medical expenses, dining out and entertainment.

Though Michael knew that his list was only a rough draft, he was happy to be starting his budgeting process.

FOR THE MONTH OF		
NET INCOME	\$2720	
EXPENSE FOR	DUE DATE	
SAVINGS		
FOOD		
Chpt 13 Pymt	1 st	
Rent	5 th	
Electricity	20 th	
Telephone	16 th	
Internet access	16 th	
Cable television	30 th	
Auto loan	9 th	
Auto insurance	25 th	
Medical – Rx		
Dining out		
Entertainment		

Don't forget about BUDGET BUSTERS: As you build your list of expenses, remember to make room for occasional or seasonal expenses like gifts, holidays and vacations. Because these types of expenses are tied to the calendar, you have a perfect opportunity to plan ahead for these costs.

HOW MANY EXPENSES SHOULD YOU IDENTIFY?

Your first list of expenses may be very short—it's just a start. In the following parts of the INNOVO budget process, you'll find solid steps for identifying overlooked expenses and including them into your modified working budget.

Reconstructing your money management after bankruptcy

IDENTIFYING YOUR EXPENSES:

As you build your budget, keep the following guidelines in mind:

- **Make many copies of the INNOVO budget template. You'll use AT LEAST one sheet per month**
- **List the expense categories for which you regularly spend money**
- **Always have one expense category for FOOD and another for savings**
- **Build your list of expense for the scope and circumstances of YOUR LIFE**
- **Don't include expenses for items that don't apply to you**

EXPENSE CATEGORIES:



FOOD & DINING OUT

Make your best guess as to how much you spend per pay period. Later, use your money general ledger to identify the real amount.

SAVINGS

Even if you can't put money into savings every payday, keep the expense category on your budget as a reminder and a goal.



HOUSING EXPENSES

Housing costs include far more expenses than merely rent or your mortgage payment. You'll want to **track each type of expense separately** to determine its ratio as a portion of your debt.



IF YOU ARE RENTING A HOME

Rent

Renter's insurance

Electricity

IF YOU ARE BUYING A HOME

Mortgage

Homeowner's insurance

Property taxes

Electricity

Heating oil / Natural gas

Sewer and water

Garbage and recycling

Public utilities

Yard care / property maintenance

Reconstructing your money management after bankruptcy

TRANSPORTATION



Movement—other than walking—costs money. Track all your expenses for transportation:

Car payment
Insurance
Gas & oil
Regular maintenance
Tax & license
Parking & cleaning

And don't forget—

Public transportation

CHILDREN

The costs for your children's needs and wants must be included in your budget.

Child-care
School supplies
Toys & craft materials
After-school programs
Sports programs / camps
Hobbies and activities

And you may have expenses for:

Transportation (bus or car)
School tuition
Tutors



CLOTHING & LAUNDRY



Depending on your world, you may be buying for yourself or an entire family. The same goes for the costs to wash and care for clothing.

Clothes & shoes
Laundry & dry cleaning
Work uniforms
School or sports uniforms

HEALTH CARE

Consider everything from your personal hygiene products to co-pays and more.

Prescriptions
Co-pays
Direct payments
for medical insurance



ENTERTAINMENT

How do you decompress? Don't deny yourself entertainment—just set a limit.

Movies / video rentals
Cable TV
Vacations
Hobbies



COMMUNICATIONS

Talk may be cheap, but the costs to communicate can be very high.

Basic phone
Long-distance service
Cell phone
Internet access

What are other expenses in your world?

<hr/> <hr/> <hr/> <hr/>

FIX THE AMOUNTS OF ALL YOUR EXPENSES

1

2

3

Identifying **WHERE** and **WHEN** you spend your money is important. But, determining exactly **HOW MUCH** of your money **YOU** are willing to spend on any expense empowers you to be in control of your budget result—your margin between income and expenses. And having control over expenses is what will help you obtain your financial goals.

4

Two types of expenses: **FIXED vs. VARIABLE**

5

FIXED EXPENSES – Payments that require a consistent amount from your budget each and every month. For example: mortgage or car loan payments, insurance, childcare and sometimes utilities.

6

VARIABLE EXPENSES – An expense that consumes as much of your money as you're willing—or able—to spend. Examples: food, clothing and entertainment.

7

Understanding the difference between fixed and variable expenses is a vital step to being in control of your budget results. Without control, money will find its first use and *other expenses will suffer* when there isn't enough money to meet all your needs and commitments. A budget promotes order, planning and control. **When spending isn't controlled, chaos and stress can occur very quickly.**

8

9

10

The importance of fixing all expenses: **CREATING A MARGIN**

11

Monthly net income—
a fixed amount:

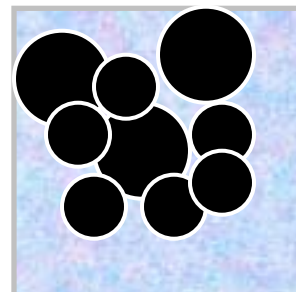


Hopefully your net income each month is stable—in essence it's a fixed amount.

In order to create a margin between income and expenses, control has to happen over the money going out.

12

If expenses are variable—
consuming other expenses



Reconstructing your money management after bankruptcy

FIXING EXPENSE AMOUNTS

Michael began to fix his monthly expenses. Some were easy. Expenses like his rent, auto loan and cable were always the same. Then he pondered what amounts he should fix for each of his other expenses.

He wanted to set numbers that were realistic. More importantly, he wanted to determine numbers that he could stick to.

Michael went through each expense category and assigned a definite amount to each category. The amounts for some expenses he kind of knew; basing the amount on a daily average—for example, coffee. For other expenses . . . he made his best guess.

Michael knew he'd modify the numbers later in his budget process.

FOR THE MONTH OF		
NET INCOME	\$2720	
EXPENSE FOR	DUE DATE	
SAVINGS		
FOOD		
Chpt 13 Pymt	1 st	425.00
Rent	5 th	595.00
Electricity	20 th	85.00
Telephone	16 th	32.00
Internet access	16 th	22.00
Cable television	30 th	45.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		35.00
Dining out		100.00
Entertainment		50.00
Clothes		50.00
Coffee		40.00



When expense are fixed—
create a margin between income and expenses

When expenses aren't fixed, they can consume money that **SHOULD** have gone for other expenses.

When expense amounts are left unchecked—variable—there is no way to determine your margin at the end of each month.



When you determine just how much you are willing to spend on each expense, you can project and plan for a particular result—a budget margin **IN YOUR FAVOR!**

REMEMBER: As you move along in the INNOVO budget process, you'll have plenty of chances to change—**increase or decrease—the amounts you fix. This is a starting point.**

DETERMINE YOUR ROUGH MARGIN

1

2

3

4

5

6

7

8

9

10

11

12

As promised, this is a building process. Now it's your opportunity to assemble the first three parts and determine your rough margin.

Let's review: **PARTS 1, 2 & 3**

1. Determine your monthly net income

The success of your budget is based on your use of valid, honest numbers. Determining your monthly net income empowers you to make spending (and borrowing) choices based upon your actual cash income.

Remember: If what you spend is more than what you truly earn, your net income, you are creating debt.

2. Identify your monthly expenses

A majority of the INNOVO budget process regards expenses. Income—for most people—is a rhythmic event happening on a regular schedule. But expenses are happening all the time, even when you sleep, if you think about rent or mortgage as a 24-hour expense.

Remember: The more expenses you can identify, the more accurate your budget will be. Your budget can always be modified to catch—or discard—your expense categories.

3. Fix the amounts of all your expenses

The checkout aisle at the supermarket is called the “impulse aisle” for a reason. There are a million places to spend money. But, money CAN ONLY BE SPENT ONCE.

Remember: Fixing the amounts of your expenses ensures you are in control of your spending.

4 DETERMINE YOUR ROUGH MARGIN

Add up all your fixed expense amounts. Then subtract that total from your monthly net income—the number at the top of your INNOVO budget template. The difference between total net income and total expenses is your rough margin—rough now but soon to be very smooth and exact.

MICHAEL'S ROUGH MARGIN

Michael was ready to build his initial budget. He knew to start with ONLY his MONTHLY net income. He'd listed all the invoiced and regular expenses he could identify. And for the non-invoiced expenses—things like clothes or coffee—he determined a fixed amount that he believed would be a proper test of his need for each expense.

Michael wrote down his anticipated net income for the month: \$2,720.00.

Then, Michael wrote down the amount for each expense based on his regular cost or the amount he'd determined—fixed—to spend for that month.

Next, he added all his expenses to get an expense total.

When all the numbers were in place, Michael did the math:

Net income	\$2,720.00
Total Expenses	\$2,251.00
Margin	\$469.00

Okay. Michael had a number but what did it mean? Was it good or enough?

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1 st	425.00
Rent	5 th	595.00
Electricity	20 th	85.00
Telephone	16 th	32.00
Internet access	16 th	22.00
Cable television	30 th	45.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		35.00
Dining out		100.00
Entertainment		50.00
Clothes		50.00
Coffee		40.00
TOTAL EXPENSES		(2,251.00)
INCOME MINUS EXPENSES = MARGIN OF		\$469.00

Your rough margin: WHEN YOU SEE THE RESULT

Relax ... take a deep breath; *let it out*. The result you see on your INITIAL BUDGET is ONLY A STARTING POINT. **Don't give up** if your math ends with a negative number—you have lots of opportunities to make positive changes. There are more important parts to the INNOVO budget process just 'round the page.

ASSESS YOUR ROUGH DRAFT BUDGET

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Congratulate yourself! YOU HAVE A ROUGH DRAFT BUDGET!
You've laid the foundation for developing your working budget.

Assess your rough draft margin: IS THE MARGIN OKAY?

Your margin represents the difference between your monthly net income and your identified expenses. The number will fall into one of the three categories:

If your result is a positive number

(there is money left over),
you have a budget SURPLUS.

A SURPLUS can be used for:

- ✓ Increasing your savings
- ✓ Paying off/Paying down debt



If your result is zero
(income and expenses are equal),
you're at a BREAK-EVEN budget.

BREAKING EVEN is VERY risky!

One emergency expense and



If your result is a negative number
(more expenses than income),
you have a budget DEFICIT.

A DEFICIT means you must:

- ✓ Re-examine your spending
- ✓ Evaluate your income

DEFICITS must be



Reconstructing your money management after bankruptcy

MICHAEL'S MARGIN

The paper said Michael had a pretty healthy margin between his income and expenses. But, *if that was true*, why was he always flat broke right before each payday?

Michael looked at the numbers and wondered how he could have a larger margin. He examined his expenses and considered ways to either cut or limit each category. His focus was on having some ACTUAL extra money at the end of each month. And knowing he probably wasn't identifying all his expenses, he decided to make some room right now.

Michael decided to modify his budget.

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1 st	425.00
Rent	5 th	595.00
Electricity	20 th	85.00
Telephone	16 th	32.00
Internet access	16 th	22.00
Cable television	30 th	45.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		35.00
Dining out		100.00
Entertainment		50.00
Clothes		50.00
Coffee		40.00
TOTAL EXPENSES		(2,251.00)
INCOME MINUS EXPENSES = MARGIN OF		\$469.00

Your margin: **THE GOALS**

Your first goal is to have a positive number, a surplus.

If you have a deficit (a negative number) or you break even, you need to cut expenses. The next part of the INNOVO budget process shows you how to cut expenses.

Remember: We still have to turn this rough draft budget into a working budget by checking our numbers.

CUT EXPENSES TO IMPROVE YOUR MARGIN

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Face to face with your rough budget margin, you have the power to make choices. And those choices should all be based on achieving your financial goals.



If your rough margin is a positive number—a surplus—then you're in a great position. Cuts in expenses will only help you increase your margin. At break-even or if you're in a deficit, you can make choices to impact your budget's bottom line.

Cutting expenses: **THREE LEVELS**

BIG TICKET ITEMS: As we said on page 6, having a budget mindset isn't about penny-pinching. The same applies to cutting expenses. **Highlight the five largest expenses on your rough budget.** Are there options to reduce those large costs? Remember, even a small percentage reduction in a large expense can equal a good savings.

Think about comparison-shopping your services (see page 41) or finding less expensive living arrangements.

VALUE ASSESSING: Once you have a fixed number on paper, consider IF that expense is worth that much money. Since you can only spend your money one time, question if the expense is worth that money. (In part 10, you'll learn how to calculate a ratio/percentage for each expense.)

Value assessing can be seen as opportunity cost: If you gave up one expense, what opportunity could you have with the same money for something else? You have the power to make those choices when you fix expense amounts.

Reconstructing your money management after bankruptcy

MICHAEL'S CUTS

Michael took a long look at his budget. Where could he make some changes to positively impact his margin?

1st Big-ticket items:

Michael looked at his five largest expenses. He did some comparison-shopping of his car insurance costs. To his surprise, he found two companies that would give him the same coverage for \$18.00 less a month.

2nd Value assessing:

Michael pondered his cable expense. Was the junk he watched worth \$45.00 a month? He canceled cable and his Internet access for a savings of \$67.00

3rd Choice spending:

Michael lowered his fixed amounts for coffee, clothes and entertainment.

FOR THE MONTH OF NOVEMBER			
NET INCOME		\$2,720	
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS	
SAVINGS		50.00	
FOOD		250.00	
Chpt 13 Pymt	1st	425.00	425.00
Rent	5th	595.00	595.00
Electricity	20th	85.00	75.00
Telephone	16th	32.00	32.00
Internet access	16th	22.00	0
Cable television	30th	45.00	0
Auto loan	9th	345.00	345.00
Auto insurance	25th	127.00	109.00
Medical – Rx		35.00	35.00
Dining out		100.00	75.00
Entertainment		50.00	40.00
Clothes		50.00	40.00
Coffee		40.00	20.00
TOTAL EXPENSES		(2,251.00)	(2,091.00)
INCOME MINUS EXPENSES		\$629.00	
= MARGIN OF			

BOTTOM LINE: Michael lowered his expenses and increased his margin by **\$160.00**.

CHOICE SPENDING:

For categories in your budget that are purely your choice (see page 43 regarding needs vs. wants), you have ultimate authority to limit—or eliminate—the cost. Make those choices based on achieving the margin you need and the financial goals you have.

USE A GENERAL LEDGER

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Your budget form is the cornerstone of your INNOVO money management. And your margin between income and expenses is your economic opportunity to achieve your goals. So, we need to ensure that your budget and your margin are as accurate as possible.

Use a general ledger: **FIND YOUR OVERLOOKED EXPENSES**

Whether on paper or inside your computer, the function of a general ledger is simple: It is a comprehensive list of **ALL YOUR DAILY** expenses and your **NET INCOME**.

THE VALUES – A simple general ledger is an insurance policy for the accuracy of your budget. When you manage your general ledger you will:

- **Know at a glance how much money you truly have available**—no more bouncing checks or coming up short of cash.
- **Achieve a comprehensive list of your financial activities**—no more guessing where the money went.
- **Identify all your overlooked expenses**—reviewing your general ledger helps you find other expense categories that didn't make it onto your rough draft budget

THE COMMITMENT – Consistency is the key to a successful system. And besides, if you let too many days go by, there will be too much work to do!

- **Set aside 5 to 10 minutes each day** to record your expenses and/or income for that day
- **Always keep your balance column current**
- **Keep important receipts** (see page 38 regarding record keeping)
- **Watch for overlooked expenses**

REVIEW YOUR GENERAL LEDGER

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Your general ledger works in collaboration with your budget.

It supports your budget but can never replace your budget.

Review your general ledger: **OFTEN**



Whether on a daily, weekly or monthly basis, you must review your general ledger to identify overlooked expenses. Use a highlighter pen and run each page top to bottom. Keep your budget form at hand to verify that you have a category for every expense activity you've recorded.

UPDATE – Don't be worried that your budget form **MIGHT** grow to two pages. The more detail, the better. Each time you find a new, overlooked expense, add it to your budget **AND** assign a fixed amount for that expense.

Remember: No expense can be left as variable.

VALIDATE – As you'll see in Part 12, there are many ways to check your work and keep your budget on track. Your general ledger is a great resource for monitoring your spending. Keep a highlighter pen handy. Look for entries in your general ledger and add up their total. You can quickly compare this to the **FIXED** amount in your budget to know if you're on track, behind or—oops—ahead of what you agreed to spend.

EXPAND THE TRACKING – You can also go one step further and create individual Expense Account Sheets that track your spending per category. For example, you can have one page that tracks all your monthly spending on rent, cable TV, dining out or clothes. This extra step is very handy for determining the expense categories ratios of your net income (see Part 10 for this important calculation).

FINDING OVERLOOKED EXPENSES

Michael was shocked! He couldn't believe—though he saw in bold black ink—how much money he spent each and every day.

In just the first three days that he recorded his spending in his general ledger, he identified two expense categories he'd completely forgotten to include in his initial budget:

- Movie rentals
- Parking

Michael added the two expense categories to his budget sheet. If he kept tracking his spending, he'd find all his overlooked expenses.

Then Michael wondered about his margin. Now he could see how all the money disappeared.

These facts would help him make some important decisions about his expenses.

ACTIVITY	AMOUNT	BALANCE
Opening balance		132.00
● 3/1 Bus	-1.50	130.50
3/1 Coffee	-3.00	127.50
3/1 Lunch out	-10.00	117.50
3/2 Gas	-10.00	107.50
3/2 Movie rental	-4.29	103.21
3/2 Groceries	-7.99	95.22
3/3 PAYDAY	+ 2720.00	2815.22
3/3 Chapter 13 pymt	-425.00	2390.22
3/3 Rent	-625.00	1765.22
3/3 Coffee	-3.25	1761.97
3/4 Parking	- 7.00	1754.97
3/4 Dinner	- 28.50	1726.47
●		



ANALYZE YOUR WORKING BUDGET

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Time and your efforts march forward. When you build your budget and use your general ledger for ONE MONTH, you'll find yourself facing absolute facts to help you refine your working budget.

Values of analysis:

Using and reviewing your general ledger will help you:

- Once again, identify overlooked expenses
- Validate the actual amounts spent compared to the amounts you
FIXED on your budget sheet
- Monitor the frequency you spend on each type of expense

Also, as you collect and input the actual numbers that reflect your true spending, you will be able to calculate a more accurate MARGIN. For your margin to have value, it must be an actual indication—as close as possible—to the real money you'll have available after all expenses have been paid



ANALYZING MICHAEL'S WORKING BUDGET

What a difference a month and some good record keeping make. Michael had been very diligent in using his general ledger EVERY DAY. He wrote down every expense he had—no matter how small it might have been.

At the end of the month, with a highlighter in hand, Michael went back through his general ledger and added up expense amounts for EACH CATEGORY on his budget sheet.

He was shocked to find most of his spending exceeded his "FIXED" amounts.

His costs for **telephone** and **cable TV** were higher than he'd assumed because he forgot to include taxes.

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1 st	425.00
Rent	5 th	595.00
Electricity	20 th	85.00
Telephone	16 th	39.00
Internet access	16 th	22.00
Cable television	30 th	48.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		65.00
Dining out		213.00
Entertainment		150.00
Clothes		119.00
Coffee		57.00
TOTAL EXPENSES		(2,590.00)
INCOME MINUS EXPENSES = MARGIN OF		\$130.00

For other expenses, he just spent more than he'd intended to. Expenses such as **medical, dining out, entertainment, clothes** and **coffee** went way above the amounts he'd anticipated to spend.

The bottom line: Michael's MARGIN had dropped by **\$339.00**, to only **\$130.00**.

Even though he'd FIXED amounts and kept track of his spending, he realized he needed help to stay on track and help to make his budget succeed.

Now Michael had hard facts to use when calculating the amounts each of his expenses took from his net monthly income. He was ready to calculate expense ratios.

CALCULATE YOUR EXPENSE RATIOS

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A ratio is a percentage. Regarding your budget, an expense ratio is the percentage of your monthly net income that is being spent—by choice or need—on any one expense. Percentages are excellent guides to keeping your personal finances in a healthy balance. (Please see Chapter 3, page 55, for an examination of other important ratios.)



Percentages help to keep things in perspective and provide a great visual for your decision-making.

Calculating ratios: **SIMPLE MATH / POWERFUL TOOL**

When calculating a ratio, be sure to use numbers from the same time frame. If you're going to determine the ratio of your **monthly mortgage payment**, it must be calculated against your **monthly net income**. Or, at the end of a year, you can add up everything you spent on an expense—say cable TV—and calculate that against your total net income for the entire year.

Follow this method to calculate an expense ratio:
Key into your calculator

EXPENSE AMOUNT	DIVIDED BY	NET INCOME	TIMES 100	EQUALS RATIO
RENT \$ 750. ⁰⁰	/	\$2140. ⁰⁰	X 100	= 35%

THE RATIO OF MICHAEL’S RENT EXPENSE

Michael wrote out his latest rent check, this time for \$625.00. His rent had just increased by \$30.00 a month. He took a moment to consider how much his housing was costing him as a percentage of his monthly net income.

Michael used the following method to calculate the ratio (percentage) of his housing to his monthly net income:

$$\$625.00 \text{ divided by } \$2720.00 \times 100 = .2297$$

Michael moved the decimal point over two places to the right and rounded up.

His rent was taking **23%** of his monthly net income—almost one-quarter of his money.

Michael wondered if he could find a less expensive living arrangement to decrease this expense and its ratio of his net monthly income.

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1 st	425.00
Rent	5 th	625.00
Electricity	20 th	85.00
Telephone	16 th	32.00
Internet access	16 th	22.00
Cable television	30 th	45.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		35.00
Dining out		100.00

The value of ratios: **CRITICAL ANALYSIS**

Once you’ve calculated the ratio of an expense, YOU CAN DECIDE:

Should that much of my money go for that expense?

If your analysis says, “NO,” you can change the ratio by changing the amount of the expense. As a contrast, you can devote less money to one expense and more to another. For example, more to debt repayment and less to entertainment.

You will want to think of your financial goals and plans when making your expense decisions. Don’t forget to analyze your major expenses, even if reducing them will “hurt.”

See page 54 for information on Healthy Ratios.

MODIFY YOUR WORKING BUDGET

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At this point, you have **built** and **assessed** your working budget. Now, with the knowledge you gained through calculating and analyzing your expense ratios (the percentage of your income taken up by an expense), you can **modify** your working budget by changing the fixed expenses in your budget.

A working budget helps you:

- Keep your expenses lower than your income
- Analyze how you're spending your money

Change your working budget when:

- You have left out an expense (add in the category and fix the amount)
- You have changes in your net income
- You want to change where you are spending your money

Failing to adjust your budget periodically as your circumstances change is a Budget Buster. Set aside the time and make money management a part of your routine. That's how to achieve your financial goals.

Remember: Building, assessing and modifying your working budget is an ongoing process that changes with your circumstances and financial goals and plans.

MICHAEL MODIFIES HIS WORKING BUDGET

For over one month, Michael had diligently been building, assessing and modifying his INNOVO budget.

He was able to start from the basic level of identifying his actual monthly net income and move his way through each part of the INNOVO process to arrive at the most accurate, true indication of his monthly spending and remainder—his MARGIN.

Knowing how to calculate expense ratios, Michael wanted to begin examining his spending choices and see where he could put money that better served his long-term needs.

Michael still needed a little help to stay on track. The last part of the INNOVO budget process would provide him with three ways to ensure his budget and spending achieved his financial goals.

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1st	425.00
Rent	5th	595.00
Electricity	20th	85.00
Telephone	16th	39.00
Internet access	16th	22.00
Cable television	30th	48.00
Auto loan	9th	345.00
Auto insurance	25th	127.00
Medical – Rx		65.00
Dining out		213.00
Entertainment		150.00
Clothes		119.00
Coffee		57.00
TOTAL EXPENSES		(2,590.00)
INCOME MINUS EXPENSES = MARGIN OF		\$130.00

ENSURE YOUR BUDGET'S SUCCESS

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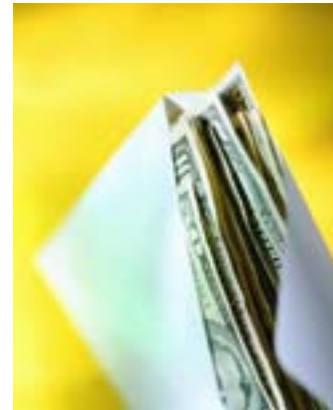
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You've created a working budget with the perfect numbers to fit your life and goals. Now comes a vital part of the budgeting process: Making sure you stick with the amounts you've fixed. Below, we show you three options to "check your work."

THE ENVELOPE METHOD

This is a simple and simply perfect way to ensure you're on track with your fixed expenses. On payday, get cash for all your at-hand expenses. These are expenses like food, dining out, clothing, gas, etc. Expenses paid with checks or online—like utility bills or loan payments—don't fit into this system. You're using the envelopes as a mini-bank for the money you assign to each expense.



Example: DINING OUT

YOU choose to fix \$110.00 for dining out this month. On payday you get \$110.00 in cash and insert it into an envelope labeled, yes, "Dining Out." Each time you dine out, the costs of that meal come out of the envelope.

On the 1 st	Lunch	- \$ 6.50
3 rd	Lunch	- \$ 7.20
9 th	Dinner	- \$ 21.85
14 th	Lunch	- \$ 8.10

Remaining in the dining out envelope **\$ 66.35**

With the envelope method you have a visual—and cold hard cash evidence—showing how much is still available to be spent. Seeing the cash will help to decide when (how fast) you want to use your money each month.

YOUR GENERAL LEDGER

When you are using your General Ledger on a daily basis, you have a COMPLETE record of all your spending—all your expenses. Reviewing your general ledger can help you validate IF the amount you fixed for an expense is being maintained or exceeded.

DATE	ACTIVITY	AMOUNT
<i>Total of cash and available funds in checking</i>		
8-3	Groceries	27.38
8-4	Electricity bill	116.00
8-4	Insurance bill	59.71
8-5	Gasoline	22.43
8-6	Movie rental	4.86
8-9	Groceries	31.96
8-10	Gasoline	10.68
8-11	Dinner out	27.63

Example: **GAS**

Grab a highlighter pen and your general ledger. Search out entries—activities written on your general ledger—for gasoline. Highlight the amounts and then add up the costs expended.

Is the amount in line with what you're fixed for the month? If you continue to purchase (spend) at that rate will you have enough to last the month? Do you need to watch your spending OR increase the fixed amount in the coming months?

A SPECIFIC LEDGER

Most expense accounts illustrate an increasing total—the growing record of your spending on a given expense. A SPECIFIC LEDGER helps you visualize the DECREASING funds you have for a given expense.

EXPENSE FOR: Clothing			
DATE	DETAILS	SPENT	BALANCE
FIXED AMOUNT FOR THIS EXPENSE			\$ 110.00
4-6	Shirt	\$ 22.35	87.65
4-11	Shoes	\$ 31.95	55.70
4-16	T-shirt	\$ 11.82	43.88
4-19	Jeans	\$ 27.63	16.25

Example: **CLOTHING**

For each expense on your budget form, use a single sheet of paper to track your progress to the fixed amount. Make four columns on the sheet:

DATE / DETAILS / SPENT / BALANCE (how much you have)

At the top of the “Balance” column write down the amount YOU have fixed to spend that month. Every time you have an expense, note it on the sheet and subtract the amount from the balance. At a glance you can see exactly how much money still remains for that expense. When you're at zero, you're done spending on that expense that month. Or next month you need to adjust your fixed amount.

MANAGE A SUCCESSFUL BUDGET



Keep financial records

Your INNOVO budget is the principal document in your financial portfolio—but it's only one part of a clear and quick picture of your financial situation. In addition to your monthly working budget forms, you'll want to maintain the following:

- A current general ledger of ALL your income & spending
- Expense accounts for each of your budget categories
- Receipts (along with warranty information) for all major purchases and for those items that can be deductions on your federal income taxes
- Each year's tax return, schedules, instructions and receipts
- Monthly bank account statements

Monitoring debt repayment:

It is essential that your money management system have an inventory of your debt commitments. Both as monitor and motivator, you should keep a list of the important facts about your debts.



Use the following format to record and track all your debts.

For each and EVERY debt, track the following:

The loan number	The Annual Percentage Rate (APR) of interest	The regular payment due date	The regular payment amount	The current outstanding balance

MANAGE A SUCCESSFUL BUDGET



Pay on or ahead of due dates

Your INNOVO budget includes a column for “*Payment Due Date.*” Paying on or ahead of (billed) due dates is a very important part of managing a successful budget.

When you miss payment due dates, it costs you money and can place your financial situation in jeopardy. If you pay late, you will receive late fees and higher (penalty) interest rates, and you may lose services you need and depend on.



The costs you’ll have when you make late payments are only half the problem. The other impact is negative remarks on your credit files and reductions in your FICO® score because of late or missed payments. In chapter 3 of INNOVO, you’ll learn a great deal about what makes up, influences and impacts your credit files and FICO® score. As a general rule, **always keep the following thought in mind:**

*Paying on or ahead of due dates
is the best way to demonstrate
your positive financial behaviors.*

MANAGE A SUCCESSFUL BUDGET



Increase your income

Throughout this chapter, we've paid a lot of attention to your ability to impact expenses. Pushing down the amount of your expenses is certainly one way to create a larger margin between what comes in and what must go out. But to be fully engaged with your money management—and budget mindful—means looking at income as an area for improvement.

IF you've done absolutely everything to cut and lower your expenses BUT there still isn't enough, assessing income is essential.

- **Can you market your skills for more money?**
- **Are jobs paying more at another company?**
- **Is a part-time position an option?**



Indeed, you can impact spending much faster than you can make a change to your income. But sometimes it will take pushes and pulls in both directions to reach your financial goals.

Remember net income:

When you acquire a new position (or salary), always remember—*per part one of the INNOVO budget process*—that you must determine your new **NET MONTHLY INCOME** in order to successfully modify your working budget.

MANAGE A SUCCESSFUL BUDGET



Comparison-shop your expenses

You can gain big advantages in your budget by merely taking the time to do some comparison-shopping. We live in an economy that promotes competition. Great, so let businesses compete for your money, not just collect it!

Comparison-shopping begins by defining like items. Does this new company offer a product or service that's as good or better than what you currently have? Most often, people think about comparison-shopping between two grocery stores: INNOVO wants you to examine every type of expense.



Comparison-shopping for services

Take for example the money you may be spending on insurance coverage for your home, car or life. When the policy values are the same and the coverage is the same *but* the prices are different, there's a great option for comparison-shopping to reduce an expense and change the bottom line of your budget.

Consider the following example:

Homeowner's insurance: \$300,000 policy	Company A	Company B
Monthly payment	\$189.00	\$106.00
One year's payment	\$2,268.00	\$1,272.00
Savings first year	\$996.00	
Five year's payments	\$11,340.00	\$6,360.00
Savings over five years	\$4,980.00	

An almost \$5,000 savings—worth comparison-shopping?

MANAGE A SUCCESSFUL BUDGET



Examine your insurance coverage

Throughout INNOVO, much attention has been given to controlling and/or eliminating expenses. So it's fair to ask, "Why have insurance?" From the INNOVO point of view, insurance is taken as a hedge—a protection—against events that could bust your budget. Consider the margin of your budget: How much extra cash do you have at the end of each month? Is it enough to absorb the cost of a major car repair or the costs of an extended hospital stay? An appropriate insurance premium payment now could save you from major financial hardship down the road.

Types of insurance that can help you prevent busting your budget include Auto, Home, Life, Health, Renter's, Disability or Long-term Care insurance.

Appropriate coverage

It may sound obvious, but only ensure items to their value—and never for less. If you have an auto—and an auto loan—the amount of your replacement insurance must equal the value of the car/loan, or you'll be paying off the difference yourself. Likewise, don't over-insure because most insurance companies will only reimburse to the actual value of the asset.

Comparison-shop your insurance

Like everything in your budget, be diligent to comparison-shop for your insurance. Be sure to compare like amounts of coverage.



MANAGE A SUCCESSFUL BUDGET



Identify needs vs. wants

Once you've achieved a comprehensive, working budget, you are in a position to do some important identification. You can identify which of your expenses are **NEEDS** versus **WANTS**. What makes one expense a need and another a want? Fundamentally, the distinction depends on the importance of that expense to you and your livelihood. INNOVO defines the two categories as follows:

NEEDS—Things you must have to keep home and health together, such as expenses for food, housing, medicine and child-care in order to continue working.

WANTS—The extra things in life that round out the corners of rough days, like cable TV, dining out or vacations.



What equals a need in your world might be a want for someone else—and vice versa. What's important is that you understand the difference between the two types of expenses because **IF** something unexpected occurs—a health problem or job loss—you can quickly react by reducing money for wants and assigning more funds to your needs.

An additional financial management tool is to develop an emergency budget. This version of your working budget is an excellent resource to understand your actual basis of cost for funding a savings account (see *page 44*).

MANAGE A SUCCESSFUL BUDGET



Have an emergency budget

After you identify which of your expenses are NEEDS vs. WANTS (see page 43), you have the facts necessary to create an emergency budget. Consider this activity like a financial contingency plan—a plan in place *IF* you were to have a reduction (or gap) in your monthly net income.

Your emergency budget identifies just the needs in your working budget.

Highlight your costs for NEEDS. Find the total costs of those expenses.

The cost of your monthly NEEDS is the amount you should have in your savings to sustain yourself **for every month** you might be without income. A great achievement is to have six months' worth of NEEDS expenses safely tucked away in savings.

Review and modify your emergency budget to keep it in line with your working budget.

FOR THE MONTH OF NOVEMBER		
NET INCOME		\$2,720
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS
SAVINGS		50.00
FOOD		250.00
Chpt 13 Pymt	1 st	425.00
Rent	5 th	595.00
Electricity	20 th	85.00
Telephone	16 th	32.00
Internet access	16 th	22.00
Cable television	30 th	45.00
Auto loan	9 th	345.00
Auto insurance	25 th	127.00
Medical – Rx		35.00
Dining out		100.00
Entertainment		50.00
Clothes		50.00
Coffee		40.00
Child-care	3 rd	116.00
Movie rental		24.00
NORMAL TOTAL EXPENSES EQUAL		\$ 2,391.00
IN AN EMERGENCY ESSENTIAL EXPENSES WOULD EQUAL		\$ 2,010.00

MANAGE A SUCCESSFUL BUDGET



Access community resources

If bankruptcy has left you in a dire situation, don't forget about the range of resources you'll find in your community. There are many public, private and faith-based organizations that can help you obtain basic needs as you regain your way.

Consult your local phone book for information about the following:

- Food banks
- Public health offices
- Low-cost dental services provided by technical/ community colleges
- Crisis clinic hotlines
- Free or low-cost counseling services offered at universities and colleges
- Job training and career tracking resources provided by state employment offices
- WIC (Women and Infant Children) programs that provide vouchers for basic food items



Don't hesitate to reach out for help in times of change and challenge.

Reconstructing your money management after bankruptcy

**S E T
F I N A N C I A L
G O A L S**

In the **SHORT-TERM**—*during the next 12 months*—I wish to achieve the following **financial goals:**

In the **MEDIUM-TERM**—over the next 24 months—I wish to achieve the following **financial goals:**



In the **LONG-TERM**—over the next five years—I wish to achieve the following **financial goals:**

CHAPTER THREE



WHEN: RETHINKING YOUR DEBT & CREDIT OPPORTUNITIES AFTER BANKRUPTCY

INTRODUCTION

We closed the last chapter with a revisit to your financial goals and a plan to encourage you to think about the big picture. Your budget also provided a snapshot of your overall financial situation. Looking at the big picture in such a way demonstrates that one spending choice affects all your other spending choices. So a spending choice affects your overall situation and, thus, your wealth. The goal is to look beyond the immediate want and make decisions with your overall financial situation, or wealth, in mind. How does this spending choice affect my budget? How does it affect my wealth? Is there a better choice I can make?

In this chapter, we apply that line of thinking to borrowing because borrowing costs money. So it should be looked at as a spending choice. Can you afford a particular borrowing decision? How does it affect your overall financial situation now and in the future? Should you be spending that money elsewhere? Look beyond the short-term want and see how it affects your long-term wealth. In today's consumer society, this is difficult to do because we are all bombarded with advertisements to do just the opposite: to only think about how great it would be to have your short term want. We will give you critical thinking tools to help you make decisions that benefit you.

Consumers have more opportunities to borrow money than ever before. In other words, it has never been easier to get over your head in debt. This means that you, not the lenders, must determine your borrowing limits. Lenders will gladly loan you more money because the more you borrow, the more you will pay them to borrow it. That's good for the lenders, but it may not be good for your financial situation. We will give you some things to think about when making that assessment. We call it the Smart Borrowing process. First, let's put borrowing in perspective after bankruptcy.

PLACING BORROWING IN PERSPECTIVE:

Never say *never*—even about, someday, borrowing again. No matter what brought you to the point of bankruptcy, moving forward you may find yourself in the need—or, yes, the desire—to become a borrower once again. Having filed bankruptcy doesn't mean you can't borrow ever again; there may be an appropriate time and place. However, your bankruptcy will be a major factor impacting your future finance opportunities. Caution, consideration and EDUCATION are your best tools to mitigate the bankruptcy shadow.



In this section, you'll examine some of the most important concepts about your money management after bankruptcy. You'll consider questions about determining your capacity to borrow and how to calculate if the amount is reasonable for your budget.

You'll explore examples of borrowing costs and repayment plans, learning how to avoid ever again the pitfalls of only paying “minimum monthly payments.”

Most importantly, you'll be given firm examples of the types of marketing YOU WILL receive after filing bankruptcy. Yes, you'll need to begin demonstrating your positive financial behaviors, but be aware that every offer that arrives in your hands may not be the means to gain that recognition.

THE SMART BORROWING PROCESS

THE SIX-STEP SMART BORROWING PROCESS

When you are ready to re-enter the world of consumer finance—credit and borrowing—these **SIX STEPS** will empower you to make positive choices. Remember: your budget and financial plan/goals should be the key factors that guide you to a borrowing choice: Never take on debt just because you've been “approved.”

STEP 1 –

Speak the language of borrowing

STEP 2 –

Understand the cost of credit and borrowing

STEP 3 –

Determine your capacity to borrow

STEP 4 –

Assess your borrowing choice

STEP 5 –

Comparison-shop your borrowing

STEP 6 –

Protect yourself against credit scams

THE SMART BORROWING PROCESS

STEP 1 – Speak the language of borrowing

Being in control of your borrowing starts with understanding basic financial terms.

PRINCIPAL

Principal is the actual amount of money you owe for an item or items you've purchased through a borrowing commitment. If you charge \$800 on your credit card, that's the principal balance of the account. If you take out an auto loan for a car that costs \$19,000, that's the principal balance you'll be paying off. A Smart Borrower never loses sight of the principal balance—it's the big commitment.

INTEREST RATE

Interest is the price you pay, beyond the principal balance, for being allowed to pay the principal balance of a loan over time. Interest is stated as a percentage of the principal balance and is usually calculated on an annual basis. Interest is either a fixed value—never changing over the life of the loan—or it can be adjustable—moving up or down based upon agreed upon terms.

ANNUAL PERCENTAGE RATE

The Annual Percentage Rate (APR) refers to the total cost of your financing, including interest plus any other charges. Sometimes lenders will advertise a low interest rate to attract borrowers but then add other finance charges, resulting in a much higher overall cost to the consumer. To make sure the consumer is not fooled by such a tactic, lenders are required to add up all the charges and recalculate them in the form of the APR. This is a much more important number than the stated interest rate!

FEES

Fees are payments you make to a lender for its services. Lenders may charge processing fees at the outset of a loan commitment, as well as ongoing fees or penalties. Examples are annual fees and late payment penalties. Any ongoing fees that are not paid in full when accrued will be added to the principal balance, so you will pay interest on those fees as well. A *Smart Borrower* will always inquire about and monitor the application of fees on her accounts.

TERM OF THE LOAN

The loan term is the length of time and number of payments the lender schedules for you to pay back the principal and interest. Fundamentally, the longer you have to pay off the balance, the more money you will pay in interest. A Smart Borrower must always understand the importance of the loan term to each borrowing choice.

THE SMART BORROWING PROCESS

STEP 2 – Understand the cost of credit and borrowing

There are many costs involved with a borrowing choice. A smart borrower will understand and consider all of the following.

Interest Rate and Term of a loan

As stated on the previous page, Interest is the money you will pay in addition to the cash—PRINCIPAL—you owe on any loan. Term is the length of time you'll have to repay a debt. A Smart Borrower will always seek the lowest interest rate and shortest term in order to minimize these direct costs of borrowed money.

Impact (ratio) of the monthly loan cost on your budget

A loan payment must be a rational portion of your net monthly income. Smart borrowers will always calculate the ratio of a loan payment—*see pages 52-55*—to determine if their budget can afford the financial commitment.

Total monthly costs to use or maintain your purchase

Supporting the loan payment is only part of being a smart borrower. You need to list ALL the costs to use and maintain the asset you've purchased—for example, a home or auto. If the mortgage payment leaves you with no money to pay for heat, phone or furniture, how can you truly enjoy your home? Your budget must be expanded to encompass ALL the costs. Likewise, you'll want to calculate the total cost ratio for housing or your auto, not merely the loan payment amount.

Opportunity Costs

It may sound overly simplistic, but . . . money can only be spent once. Always consider the other opportunities that the money could have. Too much spent on one choice eliminates your option to acquire other assets.

THE SMART BORROWING PROCESS

STEP 3 – Determine your capacity to borrow

YOUR MARGIN (BETWEEN INCOME & EXPENSES) IS YOUR FIRST MEASURE

Your budget will show you your margin. If you have little or no margin, taking on any additional commitments, like a borrowing choice that requires regular payments, is a recipe for disaster. If, on the other hand, you have steady net income with money left over after expenses, you have a positive margin (a surplus) with which to borrow now and repay over time. Of course, if your borrowing choice would push you back to little or no margin, you want to think extra hard whether you can afford this commitment.

YOUR DEBT-TO-INCOME RATIO PROVIDES A GUIDELINE

In the last chapter, you learned how to determine what percentage of your monthly budget and yearly income were taken up by an expense. Here, we do the same thing with debt. Your debt-to-income ratio can involve any (or all) of the following calculations:

- The payment amount for a debt compared to monthly net income
- The total of all monthly debt payments compared to monthly net income
- The total of all outstanding debt (principal) compared to net annual income

Calculating your debt-to-income ratio is very similar to calculating the ratio of an expense to your net income.

HOW TO CALCULATE DEBT-TO-INCOME RATIO:

Debt **divided** by net income = **The ratio as a %**

THE SMART BORROWING PROCESS

EXAMPLE # 1:

Single debt payment amount compared to monthly net income

Monthly VISA bill payment	Monthly net income	Ratio of single debt payment to net income
\$182.00	\$1,825.00	= 10%

EXAMPLE # 2:

Total of monthly debt payments compared to monthly net income

Total monthly debt bill payments	Monthly net income	Ratio of multiple debt payment to net income
\$471.00	\$1,825.00	= 26%

FORMULA:
Debt divided by income
X 100 = % OR ratio



EXAMPLE # 3:

Total outstanding principal debt compared to annual net income

Total debt	Annual net income	Ratio of single debt payment to net income
\$4,729.00	\$21,900.00	= 22%

THE SMART BORROWING PROCESS

STEP 3 – Determine your capacity to borrow

RATIOS IN PERSPECTIVE

HOW MUCH IS TOO MUCH?

The quantity is a relative matter—and *the quantity matters very much.*

From your current net income, only so much of your money can go to pay for today, save for tomorrow and cancel the expenses of yesterday—your debts. If you have too much of your money committed to paying off “old” things, how can you move forward to new opportunities?

Guidelines about debt-to-income ratios are very important.



WHAT ARE HEALTHY RATIOS?

The ratio—the percentage of your total net income—that is spent on a particular expense can be an indicator of your budgetary health. Take, for example, how much of your net income is being spent on managing and paying down debt—your debt-to-income ratio. Consider the following guidelines:

THE SMART BORROWING PROCESS

GUIDELINES FOR DEBT-TO-INCOME RATIOS

<p>MORTGAGE DEBT: Minimum of Principal & Interest; Ideal: Principal, Interest, Taxes & Insurance (PITI)</p>	<p>Your mortgage relates to an asset, to something of tangible value. Nevertheless, your mortgage shouldn't be an outlandish demand on your income or you may be more house-poor (stretched to meet a huge payment) than house-proud.</p> <p>Keep mortgage expense to less than 35% of net income</p>
<p>AUTO DEBT: Monthly loan payment plus insurance payment</p>	<p>Though a car has value, in most cases the value is shrinking with each passing year. This loss in value is called depreciation.</p> <p>Keep auto loan expense to less than 15% of net income</p>
<p>CREDIT CARD DEBT:</p>	<p>Let's be really honest: credit card debt has no value—it relates to expenses you made that weren't paid for in cash. It's a debt for things—food, clothes, toys—that you've already consumed but still haven't paid off.</p> <p>Keep credit card expenses to what you can pay off in full each month—NO running balances</p>

Please remember: These ranges are guidelines. The size of your income will affect the percentages you spend on certain basic needs. The ranges do, however, let you know when you might be too far

THE SMART BORROWING PROCESS

STEP 4 – Assess your borrowing choice

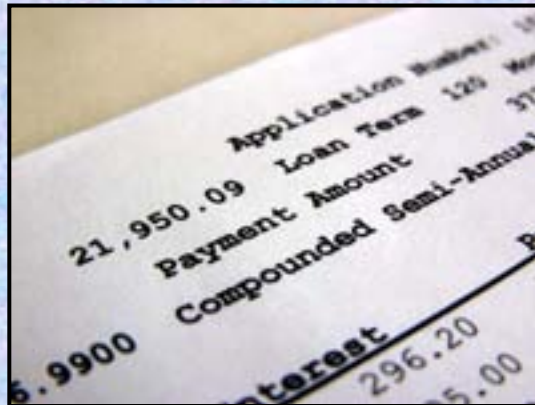
IS THERE “GOOD” VS. “BAD” DEBT?

DEBT DOES NOT HAVE TO BE A BAD THING—especially if it relates to something of value. Taking a mortgage in order to purchase real estate is a very positive step towards financial empowerment; there is equity (value) that can be gained and tax advantages for the interest you will pay. Taking on student loans in order to improve your career potential is a strong investment in your own future. Those types of debts allow you to acquire the value now and pay off the expense over time. However, items of little or no value shouldn't be paid for by creating a debt.

Frankly, most everything you could purchase with a credit card is NOT heavy on the value scale. Things like clothes, entertainment, travel or meals—though part of the value of your life—are not tangible items that could either:

- **Be sold to pay off the acquired debt**
- **Increase in value over time (though a meal might be part of an expanding waist line)**

A Smart Borrower should always consider the long-term value of a purchase when considering a long-term commitment to pay off the expense. Your financial goals and plans will be another assessment tool you can use when making borrowing decisions.



THE SMART BORROWING PROCESS

STEP 4 – Assess your borrowing choice

DEFINING DEBT IN ABSOLUTE TERMS:

Whether good, bad or ugly, debt—and the record of how you manage the repayment of a debt—can stay with you for a very, very long time.

Debt IS all the following:

- **A demand on your current and future income**
That meal you ate so long ago—and paid for with a credit card—is now eating into your net income each and every month until you pay off the entire debt.
- **A tool to gain assets now that you'll pay over time**
Mortgages allow you to purchase a home and pay off the loan over a defined period.
- **A basis on which you will pay interest and fees**
Understanding your balance and how payments are applied can help you to conquer debt more quickly.
- **A factor that impacts your credit files and FICO scores**
How much you owe—and how you've managed a debt—are major influences on your FICO credit scores.
- **A limitation on your other financial opportunities**
You can only owe so much; too much debt can prevent you from acquiring a new loan or line of credit.
- **A fact of modern consumer life—for both major and minor purchases**
Play the game to win by being educated and informed about all your borrowing choices.

Taking on a debt should be a process that involves much consideration.

The debt payment must fit comfortably into your net income and the repayment must be within your means.

THE SMART BORROWING PROCESS

SOURCES & TYPES OF CREDIT AND LOANS

In today's economy, credit and loans can be obtained from a variety of institutions: banks, credit unions, finance companies and even credit card companies. And as varied as their sources, the types of credit and loans are equally diverse.

This table provides definitions of the major types of credit.

Type of debt	
Installment	Revolving
<p>The principal amount decreases over the time period of the debt.</p> <ul style="list-style-type: none"> • Auto loan • Student loan • Home mortgage 	<p>Under a pre-set limit, the principal balance can change with each payment and/or purchase.</p> <ul style="list-style-type: none"> • Credit cards • Line of credit: <ul style="list-style-type: none"> • Home equity • Personal
Collateral	
Secured	Unsecured
<p>The debt is linked to a tangible (saleable) asset and can be taken by the creditor IF repayment fails.</p> <ul style="list-style-type: none"> • Home mortgage • Boat loan 	<p>Not linked to anything that can be claimed and sold to pay off the debt.</p> <ul style="list-style-type: none"> • Credit cards • Student loans
Interest on debt	
Tax deductible	Non-tax deductible
<p>If certain conditions are met, an individual can claim the amounts paid as an offset to adjusted gross or taxable income.</p> <ul style="list-style-type: none"> • Home loan • Student loan 	<p>An individual <u>cannot</u> claim interest paid as an offset to adjusted gross or taxable income.</p> <ul style="list-style-type: none"> • Credit cards • Auto loan

NOTE: Please consult your tax advisor or the IRS website for specific information about tax rules regarding deducting interest paid.

THE SMART BORROWING PROCESS

STEP 5 – Comparison-shop your borrowing

BE A FULLY INFORMED BORROWER

After bankruptcy, knowledge can be your most powerful tool to getting back on top of your finances. It is important that you strive to make fully informed decisions when it comes to your next borrowing opportunity. It is easy to identify the benefits of a borrowing choice—that is where the advertisers want you to focus.

You must think about the total costs of a borrowing choice and the risks the costs pose to your financial stability. You will always make *Smart Borrowing* choices when you consider the costs, options and impacts in the context of your personal financial situation. This means you must be fully aware of your income, monthly budget and financial goals.

An informed borrower will ALWAYS:

- Evaluate multiple offers
- Compare interest rates AND fees
- Read and understand the terms of any credit or borrowing agreement
- Identify the type of interest—fixed or adjustable
- Acquire written copies of documents and/or offers
- Never make a rushed decision
- Ask all the questions necessary to be fully informed

THE SMART BORROWING PROCESS

STEP 6 – Protect yourself against credit scams

YOU'VE JOINED A TARGET MARKET

You know that your bankruptcy is now part of your credit files—it's part of that record of your financial behaviors. But, are you aware that your filing is a public document and companies routinely access the latest list of filers to troll for customers? Yes, they do.

And, *yes*, you need to be aware—and armed against—the ton of mail you'll be getting from high-cost lenders and credit repair companies.



BE VERY CAUTIOUS OF THE FOLLOWING:

- **Secured VISA or MasterCard offers**

Legitimate, secured credit cards are a good way to re-establish a record of your positive financial behaviors. But, read the small print **VERY CAREFULLY**: Many of the secured credit card offers you'll receive provide nothing more than one-to-one credit limits per the dollars you deposit into their secured account. Likewise, they probably won't report your activity to the credit reporting agencies, and their cards usually come with a laundry list of fees. **ALWAYS** review the **TERMS** and **CONDITIONS** declaration for the company's list of fees.

- **Major Credit Card or Gold Card offers**

VISA and MasterCard credit cards are financial tools you can use at many retailers, restaurants and hotels. However, the offers you'll get for "Gold" or "major credit cards" demand special attention. The language and benefits of the cards will appear familiar—just like the VISA card you might have in your wallet. But, **BE AWARE**: these offers are fronts for catalogue companies that **ONLY** let you access their products with your **GOLD** card.

- **E-Z and "No credit check" loans**

Fact: Legitimate lenders need to obtain your credit score in order to offer you an appropriate loan. Firms that scream in their ads, "no credit check" are really saying, "no loan will ever be made—just loan fees will be paid by YOU."

For more information on the topic of credit card marketing scams, please see the following article from the Federal Trade Commission, or visit their publications website at:

www.ftc.gov/bcp/online/edcams/credit/coninfo_loans.htm

THE SMART BORROWING PROCESS

STEP 6 – Protect yourself against credit scams

CAREFULLY EVALUATE EVERY “NO PROBLEM” CREDIT OFFER

Very soon after your bankruptcy is filed—even before it’s fully discharged—you may find yourself receiving credit card offers that seem too good to be true. **BE VERY cautious** with any unsolicited offer that comes in the mail. Remember, you are now part of a target market—a market preyed upon by some very clever companies.

Companies will make banner headlines such as:

***Re-establish your credit!
All applications accepted!
Pre-approved up to \$5,000!
Recent bankruptcy—NO PROBLEM!***

You must review and consider any offer you receive very carefully. You need to evaluate the total costs associated with accepting any new credit product.

THE COSTS OF EASY CREDIT

One week after his Chapter 7 bankruptcy 341 hearing, Jose received in the mail a very colorful envelope that said, “SPECIAL OFFER—You’re pre-approved for a credit line *up to \$1,000.00!*” Worth a look, he thought.

The offer seemed very professional—and serious. Regardless of his bankruptcy, the offer said he could begin re-establishing his credit record and have a credit limit of up to \$1000. There was no risk, so why not apply?

Jose completed all the appropriate information and checked the box for priority processing. In less than two weeks, he had a new credit card *in his hands!* However, the reality of the new credit card account was far less attractive than the offer sheet he’d so quickly completed and sent:

1. His actual credit limit was only \$350.00—not the (up to) \$1,000.00
2. The card came with a laundry list of fees:
 - Priority processing: \$49.00
 - Annual membership fee \$99.00
 - Account set-up fee \$69.00
 - Monthly maintenance fee \$5.00

TOTAL \$222.00

Of his \$350 credit limit, \$222 was ALREADY owed in fees! Jose did think twice. He cut the card in half and wrote a concise letter informing the credit card company that he wouldn’t be accepting their offer. Yes, he wanted to re-establish his credit record, but not at such a high cost.

BE IN FINANCIAL CONTROL

DON'T GET TRAPPED IN THE

Paying **ON** or **AHEAD** of your payment due date **IS** an excellent way to demonstrate your positive financial behaviors.

Paying only the minimum monthly payment requested by a credit card company **IS A GUARANTEE** that you'll devote **YEARS** to paying off your credit card balances!

EXAMPLE:

To pay off a \$2,000 debt at 21% APR, with monthly minimum payments of \$42.00, will take

8 years & 8 months

to pay off the entire balance!

In 8 years and 8 months, you'll have paid finance charges of

\$2,337.81

PLUS the original

\$2,000.00

principal debt, for a total of:

\$4,337.81

REPAYING ONLY MINIMUM MONTHLY PAYMENTS

Your balance is: **\$2,000.00**
 Your APR is: **21%** (1.75% per month)
 Required minimum monthly payment: **\$42.00**

Date	Activity	Amount	Outstanding balance
1-1	Outstanding balance		\$2,000.00
1-05	Finance charges	+ 35.00	\$2,035.00
1-15	Your minimum payment	- 42.00	\$1,993.00
2-05	Finance charges	+ 34.88	\$2,027.88
2-15	Your minimum payment	- 42.00	\$1,985.88
3-05	Finance charges	+ 34.75	\$2,020.63
3-15	Your minimum payment	- 42.00	\$1,978.63
4-05	Finance charges	+ 34.62	\$2,013.25
4-15	Your minimum payment	- 42.00	\$1,971.25
5-05	Finance charges	+ 34.50	\$2,005.75
5-15	Your minimum payment	- 42.00	\$1,963.75
6-05	Finance charges	+ 34.37	\$1,998.12
6-15	Your minimum payment	- 42.00	\$1,956.12
7-05	Finance charges	+ 34.23	\$1,990.35

Chiseling away at your debt . . . piece by tiny piece

In six months:

Finance charges = **\$242.35**

6 minimum payments = **\$252.00**

TOTAL reduction to your actual DEBT = \$9.65

BE IN FINANCIAL CONTROL

MYTH OF MINIMUM PAYMENTS

PAYING MORE THAN THE REQUESTED MINIMUM MONTHLY PAYMENTS

Your balance is: **\$2,000**
 Your APR is: **21%** (1.75% per month)
 Required minimum monthly payment: **\$42**
 Additional money paid each month: **\$300**

Date	Activity	Amount	Outstanding balance
1-1	Outstanding balance		\$2,000.00
1-05	Finance charges	+ 35.00	\$2,035.00
1-15	Your minimum payment	- 42.00	\$1,693.00
	Extra money paid to debt	- 300.00	
2-05	Finance charges	+ 29.63	\$1,722.63
2-15	Your minimum payment	- 40.00	\$1,382.63
	Extra money paid to debt	- 300.00	
3-05	Finance charges	+ 24.20	\$1,406.83
3-15	Your minimum payment	- 36.00	\$1,070.83
	Extra money paid to debt	- 300.00	
4-05	Finance charges	+ 18.74	\$1,089.57
4-15	Your minimum payment	- 32.00	\$ 757.57
	Extra money paid to debt	- 300.00	
5-05	Finance charges	+ 13.26	\$ 770.83
5-15	Your minimum payment	- 28.00	\$ 442.83
	Extra money paid to debt	- 300.00	
6-05	Finance charges	+ 7.75	\$450.58
6-15	Your minimum payment	- 25.00	\$125.58
	Extra money paid to debt	- 300.00	
7-05	Finance charges	+ 2.20	\$127.78
7-15	Your minimum payment	- 22.00	\$0.00
	Extra money paid to debt	- 105.78	

When you add extra money to your payment, you:

- ❖ Reduce your actual debt balance
- ❖ Cut the amount you pay in finance charges
- ❖ Improve your credit score by lowering your overall level of outstanding debt

EXAMPLE:

Imagine paying off a \$2000 debt at 21%. An extra \$300 was paid each month for six months and \$105.78 was paid in the seventh month.

Total finance charges: **\$130.78**

Principal Repaid **\$2,000.00**

TOTAL \$2,130.78

BE IN FINANCIAL CONTROL

KNOW THE TOP 10 DEBT WARNING SIGNS

- 1 Your debt-to-income ratios are too high
- 2 Your balances are rising
- 3 You are only paying the minimum payments
- 4 You have several credit cards that are at their credit limits
- 5 You are receiving late and over-the-limit fees
- 6 You don't know how much you owe and don't want to know (you're not opening your mail)
- 7 You are receiving phone calls about unpaid bills
- 8 You are living off your credit cards
- 9 You are getting deeper into debt AND your using payday loans or cash advances to keep current
- 10 You're constantly seeking new credit card offers

Can you think of other
debt warning signs?

BE IN FINANCIAL CONTROL

CONSIDER ALTERNATIVES TO CREDIT:

It may seem like everything from cars to furniture, homes to jewelry is sold through some form of consumer credit. Yes, credit is a consistent offer from retailers and suppliers **BECAUSE** it is a secondary source of income. When you finance your purchase, you are committing to pay off the **ORIGINAL PURCHASE PRICE** along with **INTEREST CHARGES** for the time you take to payoff the debt.

But **YOU HAVE ALTERNATIVES!** Instead of paying additional interest/finance charges to purchase goods or services, you have the power to **WAIT**. You can save your own money and make a purchase when you are able to buy with cold, hard cash. When you commit to saving your own money for future purchases—be they in the short- or long-term future—you are gaining in two ways:

- **You can GAIN VALUE** through placing your money into an interest-earning account at a bank or credit union
- **You AVOID PAYING** interest or finance charges when you pay for goods and/or services without using consumer credit.

However, if you need to purchase now, this chapter identifies key concepts you need to keep in mind when shopping for and using consumer credit.

CREDIT FILES:

THE RECORD OF YOUR FINANCIAL BEHAVIORS

Plain and simple: Your access to, *and the cost of* consumer credit, is **DIRECTLY RELATED** to your past performance managing debt—either revolving or installment.

Filing bankruptcy places a negative reference on your credit files that will stay in place for 10 years. Your FICO® credit score will be lowered due to your bankruptcy. Until the bankruptcy references are lifted from your credit files, your access to “prime,” unsecured credit is fundamentally not possible. Any new credit you seek will be priced at a higher level than someone with clear or only slightly damaged credit.

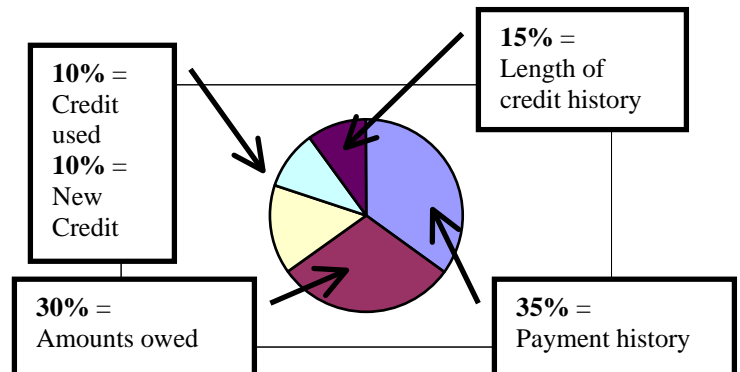
Nevertheless, at some point you may choose to take on new debt, so it is essential that you possess an absolute knowledge of how your financial behaviors regarding the management and repayment of your financial obligations *WILL* influence your credit record.

The basic facts about CREDIT FILES:

Your credit files will list the commitments you’ve made with banks, department stores and public agencies—anyone with whom you’ve had a relationship to pay off a balance over time. For each financial commitment, your credit report will note facts about the original balance, the length of the borrowing relationship, if you ever paid late, if you exceeded a revolving credit limit and whether the account is still open or has been closed. Generally, your payment records for things like rent or utilities aren’t reported to the Credit Reporting Agencies *unless* you fall way behind and the accounts are turned over to a third-party collection firm.

The basic facts about FICO® CREDIT SCORES:

Credit files are the record of your financial behaviors and those records are the ingredients that go into your FICO® credit score. To determine your FICO® score, the Fair Isaac Corporation applies a mathematical formula that considers the following:



After filing bankruptcy, your credit files are saturated with notes and remarks about which accounts you had discharged and which might be a part of your Chapter 13 repayment plan. Moving forward, you’ll need to understand the cost differences you’ll pay for interest, have a strategy for re-establishing a record of your positive financial behaviors **AND** protect yourself against credit marketing scams.

FICO® SCORES:

THE BASIS FOR YOUR COSTS OF CREDIT

As said earlier in this chapter, your bankruptcy filing has negatively impacted your credit files and FICO® scores. FICO® scores affect the cost of borrowed money:

Higher scores = lower costs

Lower scores = higher costs

FICO® credit scores are forever in flux—impacted by all the factors of your active credit files. Once you begin to re-establish your credit record, you must focus on maintaining positive financial behaviors. For example:

- Always make your payments ON OR AHEAD of their due dates
- Maintain revolving credit accounts at less than 75% of their credit limits
(But the best level for credit card debt is 0%!)
- Don't randomly shop for credit—be strategic about the source and quantity of credit inquiries you authorize

FICO® scores have a dramatic impact on the short-, medium- and long-terms costs of credit. Consider the following examples:

HOW FICO® SCORES IMPACT COST OF CREDIT		
FICO® SCORE	690	590
APR RATE	8%	11%
Auto loan & term	\$28,400 for 48 months	
MONTHLY PAYMENT	\$694.33	\$734.01
DIFFERENCE OF \$39.68 per month		
INTEREST PAID IN THE FIRST 12 MONTHS OF THE LOAN	\$2,045.24	\$2,828.48
DIFFERENCE OF \$783.24 over 12 months		
INTEREST PAID IN THE FULL 48 MONTHS OF THE LOAN	\$4,879.70	\$6,832.62
DIFFERENCE OF \$1,952.92 over 48 months		

CREDIT FILES:

BUILD A RECORD OF YOUR POSITIVE FINANCIAL BEHAVIORS

For some people who arrived at their financial breaking point—their bankruptcy—because of out-of-control debt, it's understandable that their mantra might be:

Credit—never again!

That's not a bad state to reside in, for a while. However, unless you intend to live the rest of your life managing your finances exclusively using cash, eventually you will need to begin making inroads back into the world of consumer credit.

As you make your way back, keep in mind that actions are what will affect your credit rating. Make certain that any credit commitment you take on will be reported to the three reporting companies—Experian, Equifax and Transunion. In addition, to illustrate your positive financial behaviors, comply with the following best practices:

- **Always make your payments ON or AHEAD OF THE DUE DATE**
- **Don't exceed 75% of your credit limit on revolving accounts**
- **Do not randomly solicit credit—"let's see if they approve me." Too many inquiries and too many open credit lines can push down your score**

Getting back in the game:

The reality is, you *CAN* get credit after—almost immediately after—your bankruptcy. And it'll cost you—dearly. Low-cost or no-cost ways to begin re-establishing records of your positive financial behaviors include the following:

- **SECURED CREDIT CARDS**—Shop aggressively for these products. Costs and rates will vary widely.
- **LARGE, SUPERSTORE RETAILERS**—Many of the nationwide discount retail stores will consider approving new customers with recent bankruptcies. The credit limit may only be \$100.00, but this is a zero-cost option to kick-start your credit reporting.

Remember: Don't apply for the retailer's VISA or MasterCard program; only apply for the company-specific charge account.

- **CREDIT UNIONS**—Unlike commercial banks, credit unions often have more progressive attitudes toward helping their members rebuild after bankruptcy.



CREDIT FILES & FICO[®] SCORES:

WHEN AND HOW TO OBTAIN YOUR INFORMATION

*PLEASE BRACE YOURSELF FOR THE FOLLOWING
VERY BLUNT AND HONEST STATEMENT*

RIGHT NOW, whether you're discharging a Chapter 7 or fulfilling a Chapter 13 repayment plan, evaluating your credit files or checking your FICO[®] score *should be* at the absolute bottom of your to-do list. Frankly, let the dust settle for a while. It is going to take months before your bankruptcy filing is fully registered on your three credit files. In the meantime, your primary goal is to maintain consistent repayments on any non-dischargeable debts.

Sorry ... but that had to be said.

Once the dust has settled:

Eventually—six to nine months after your bankruptcy discharge—you will need to obtain copies of your three credit files. You, like all citizens, can receive one free copy of each of your three credit files by processing your request through this secure, Internet website: (*See Chapter 5, page 75, for more information about this program.*)

www.annualcreditreport.com

You'll want to compare your credit files against your bankruptcy filing. Make certain the agencies have labeled only those accounts included in your filing as part of your bankruptcy. Also, confirm that the balance column is a zero. If not, you can dispute the listing of an outstanding balance per that account. (*See page 77 for details.*)

To purchase your FICO[®] credit scores (from the Fair Isaac Corporation), go directly to their secure Internet website:

www.myfico.com

In the meantime, remain focused on being hyper-consistent about paying your outstanding debts ON OR AHEAD OF TIME. That diligence will do the most to begin repairing your credit record.

BE VERY CAUTIOUS:

- **DO NOT** click on Web banners offering, "free credit reports." ONLY use the Web sites shown above or in the Resources chapter of this text.
- **AVOID** "Credit Repair" companies. You can dispute any legitimate error on your credit files (*See page 75 for details.*)

RETHINKING YOUR DEBT AND CREDIT OPPORTUNITIES AFTER BANKRUPTCY

CHAPTER FOUR

SUMMARY



Consider your perspective

INNOVO embraces a forward-focused perspective. Bankruptcy is now a fact in your life and facts are things we choose to accept or ignore. The perspective you take on this event in your life will affect all your other opportunities.

CENTS encourages you to consider the energy you need to move forward—energy that can't be tapped if you are too dedicated to events of the past. You should still be very aware of all the forces and factors that led you to file for bankruptcy. However, once you've made that inventory, developing a perspective on renewal—INNOVO—will empower you to rebuild your financial circumstances.

Rank your competencies

As mentioned in the introduction to INNOVO, your reasons for filing bankruptcy may have had nothing to do with a lack of money management skills. Or, perhaps a lack of skills was the contributing factor to why you stumbled with your money management. Regardless, after bankruptcy, you face obstacles and challenges that require careful attention in order to regain your financial potential.

Take a moment to look back over the concepts in INNOVO. Ask yourself—honestly—which money management concepts you believe you do or don't practice. Celebrate your strengths and embrace the opportunity to learn new skills—to gain new competencies.

Implement your financial action plans

Construct, critique and—most importantly—implement your financial action plans. By making simple but solid steps forward, you are on a path to financial renewal. Cultivate the competencies of effective money management and you'll find that you will grow a financial future that is tall, strong and branches toward many positive opportunities.

Believe in yourself as you work to regain your financial footing.

CENTS — Seattle, Washington

RETHINKING YOUR DEBT AND CREDIT OPPORTUNITIES AFTER BANKRUPTCY

CHAPTER FIVE

RESOURCES:



In this chapter, you'll find these resources:

- **Information about consumer protection laws and regulations**
- **How to obtain federally mandated, free copies of your credit reports**
- **Contact information for Fair Isaac FICO[®] scores**
- **Contact information for the three credit reporting agencies**
- **Information about the credit file dispute process**

R E S O U R C E S

ACCESSING INFORMATION ABOUT CONSUMER PROTECTION LAWS AND REGULATIONS

The following agency websites will provide you with a wealth of information regarding Consumer Protection Laws and Regulations.

Federal Trade Commission:

www.ftc.gov/ftc/consumer.htm

Consumer Response Center
877-382-4357
Federal Trade Commission
CRC-240
Washington, D.C. 20580

Federal Trade Commission publications on CONSUMER CREDIT LAWS and REGULATIONS

www.ftc.gov/bcp/online/edcams/credit

Washington State Department of Financial Institutions:

www.dfi.wa.gov

800-372-8303 (Within Washington State)
360-902-8700
Department of Financial Institutions
P.O. Box 41200
Olympia, WA 98504

RESOURCES

HOW TO OBTAIN FEDERALLY MANDATED, FREE COPIES OF YOUR CREDIT REPORTS

A 2004 amendment to the federal
Fair Credit Reporting Act
requires each of the three nationwide consumer credit
reporting companies—Equifax, Experian and TransUnion —
to provide consumers with one free copy of their credit report
once every 12 months.

To access this program call:

1-877-322-8228

or visit the following secure website.

www.annualcreditreport.com

This is the only authorized, online source for obtaining free copies of your credit files
directly from the consumer credit reporting agencies.

***Beware of other sites that may look and sound
similar.***

For more information about this program, please visit:

www.ftc.gov/bcp/online/edcams/freereports

CONTACT INFORMATION FOR FAIR ISAAC — FICO

To purchase reports that indicate your FICO scores—one per credit report—contact the
Fair Isaac company
at their secure website:

myFICO®

www.myfico.com

CONTACT INFORMATION FOR THE THREE CREDIT REPORTING AGENCIES

To contact one of the three major credit reporting agencies, go directly to their secure websites or call their customer service department.

The logo for Equifax, featuring the word "EQUIFAX" in a bold, red, sans-serif font. The letter "Q" is stylized with a thick, curved stroke that loops back under the letter.

www.equifax.com

800-685-1111

The logo for Experian, featuring the word "experian" in a blue, serif font. A red diagonal line is positioned above the letter "i".

www.experian.com

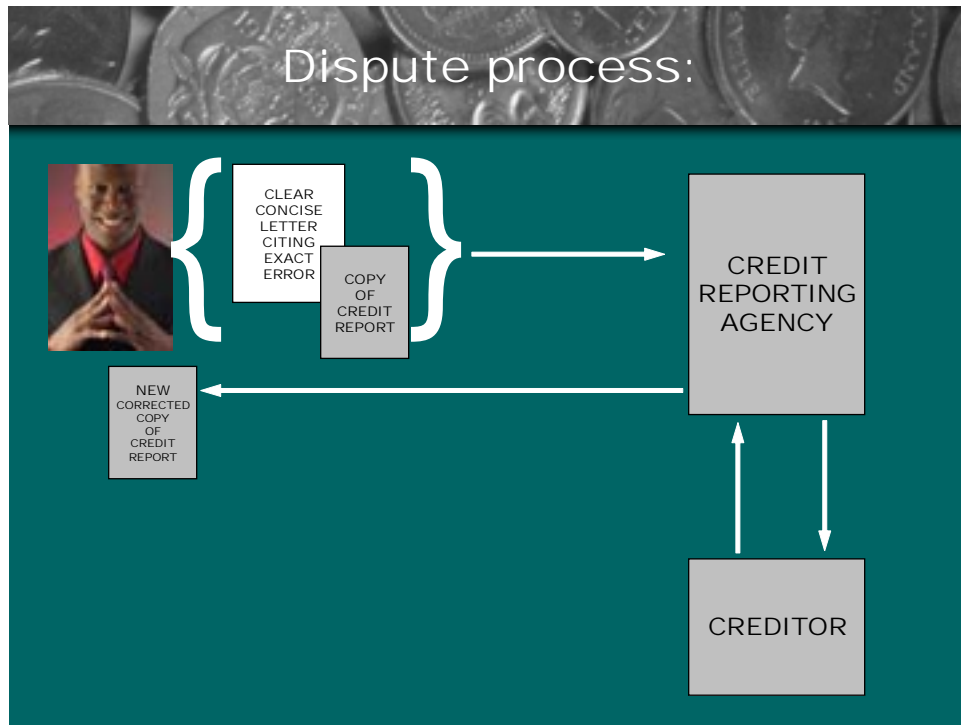
888-397-3742

The logo for TransUnion, featuring the word "TransUnion" in a green, sans-serif font. The letter "U" is stylized with a dotted pattern above it.

www.transunion.com

800-888-4213

THE STEPS OF THE CREDIT DISPUTE PROCESS



- 1. Consumer writes to the credit reporting agency citing the error and including a copy of the report page/item.**
- 2. Upon receipt, the CRA has 30 days to initiate a dispute inquiry with the creditor who placed the item on the report.**
- 3. Creditor has 30 days to respond. If they validate the issue, the CRA will retain the item.**
- 4. If the creditor DOES NOT respond, the CRA should delete the item and issue a new, updated report to the consumer.**

CHAPTER SIX

TEMPLATES



In this chapter, you'll find INNOVO budget and money management templates for:

- **A rough and a refined budget**
- **A monthly budget sheet**
- **A general ledger sheet**
- **A specific ledger sheet**

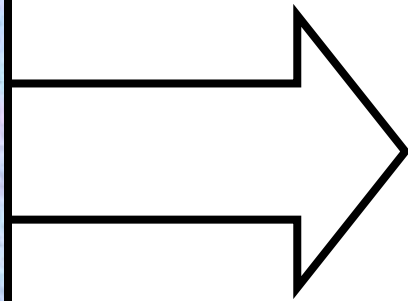
INNOVO BUDGET SHEET

Use the budget sheet to create and refine your ROUGH BUDGET:

Building your budget is a process—moving from rough to refined numbers.

Use this template to indicate your monthly net income and your first list of expense amounts, and to determine your rough margin.

Use the far left column to refine your expense amounts to adjust your budget margin.



I N N O V O B U D G E T S H E E T

FOR THE MONTH OF: _____		
MONTHLY NET INCOME =	\$ _____ .00	
EXPENSE FOR	DUE DATE	EXPENSE AMOUNTS ↓
BUILD YOUR BUDGET	FIRST: ROUGH NUMBERS	SECOND: REFINED NUMBERS
SAVINGS—SELF-FINANCING FUNDS		
FOOD / GROCERIES		
CHAPTER 13 PAYMENT		
HOUSING PAYMENT		
HOUSING INSURANCE		
PROPERTY TAX		
ELECTRICITY		
HEATING OIL		
SEWER / WATER		
GARBAGE & RECYCLING		
TELEPHONE		
INTERNET ACCESS		
CABLE TELEVISION		
AUTO PAYMENT (1 ST VEHICLE)		
AUTO INSURANCE (1 ST VEHICLE)		
AUTO PAYMENT (2 ND VEHICLE)		
AUTO INSURANCE (2 ND VEHICLE)		
GASOLINE		
AUTO MAINTENANCE		
PARKING		
PERSONAL LOANS		
EDUCATION		
MEDICAL EXPENSES		
LIFE INSURANCE		
CHILD CARE		
ALIMONY		
ENTERTAINMENT		
DINNG OUT		
CLOTHING		
GIFTS (Birthday or special event)		
VACATIONS (Hotel, meals, activities)		
CHARITY		
TOTAL OF EXPENSES		
INCOME MINUS EXPENSES = MARGIN OF:	\$	\$

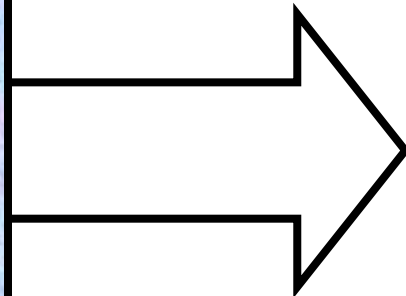
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Use the far left column to refine your expense amounts to adjust your budget margin.



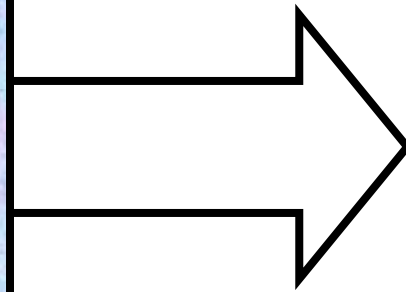
INNOVO BUDGET SHEET

Using the INNOVO budget sheet:

You must build your budget each and every month so it provides a valid summary of your finances.

Add or delete expense categories as appropriate; always indicate your current, monthly net income.

Your BUDGET SHEET works in collaboration with your GENERAL LEDGER and your set of EXPENSE ACCOUNT sheets.



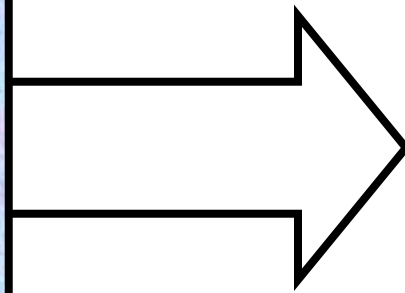
I N N O V O G E N E R A L L E D G E R

Using a GENERAL LEDGER:

A GENERAL LEDGER is a comprehensive record of all your financial activities—income, spending. It provides a running balance of your available funds.

Update your GENERAL LEDGER on a daily basis.

The expenses that you document on your GENERAL LEDGER help you expand and refine your monthly budgets.



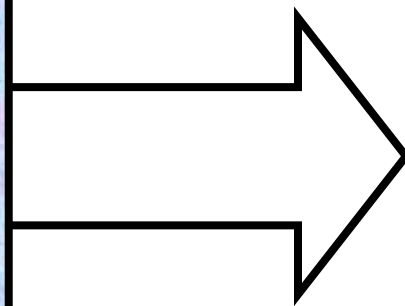
I N N O V O S P E C I F I C L E D G E R

Using a SPECIFIC LEDGER:

A SPECIFIC LEDGER is used to track your total spending and to check the amount you FIXED for each expense item on your BUDGET.

On the top line, write the amount you FIXED for the expense. Each time you spend for that item, deduct the amount in the Balance column.

Using a SPECIFIC LEDGER helps you validate if the amount you FIXED is on- or off-target from your actual spending.



CENTS COURSEWARE CATALOG



INNOVO

Reconstructing and Rethinking Money Management After Bankruptcy

A tailored course for bankruptcy filers. Course approved by the Office of the United States Trustee for personal financial management training.

Multimedia presentation:

- Student workbooks
- DVD program of class content

SMART BORROWING

A consumer guide for making smart borrowing choices.



A comprehensive course for borrowers of any kind. Smart Borrowing explains how to evaluate borrowing choices and determine when and how debt can fit into your budget, and it provides lists of borrowing best practices.

Multimedia presentation:

- Student workbooks
- Companion DVD program

For further information OR to order any of these courses, contact:

CENTS
1200 Fifth Avenue
Suite 600
Seattle, WA 98101
206-267-7017

www.centsprogram.com

INNOVO



**1200 5TH AVENUE – SUITE 600
SEATTLE, WA 98101**

2 0 6 - 2 6 7 - 7 0 1 7

www.centsprogram.com