

Chapter 1

Welcome to **Innovo**: Your chance to reconstruct your finances after bankruptcy. My name is Tony Leahy and I'm the director of consumer education and training services, also known as CENTS. CENTS is a non-profit organization, formed to help you build and protect your finances, and that's why we created this program. We want to congratulate you on your fresh start. And just so you know about my perspective and CENTS' perspective, there are two reasons why people file for bankruptcy. The first reason is something unexpected happens: A medical issue, a death in the family, a divorce, a job loss. If you were good with your money and one of those things happen to you this program may serve as just a review for you. Maybe you'll learn a thing or two but you can also use it as a checklist for money management skills that you already practice. If you filed bankruptcy because of a lack of money management skills then this is the perfect program for you. We're going to give you a step-by-step process to take control and manage your money. So let's get started. Please note: there is at least one code word in each section that will appear in the screen. It will look like this. When you see a codeword, write it down. Make sure you spell it correctly. At the end of each section you will be asked to type in the codeword. If you get the codeword wrong you will be required to view the section again. For example, the codeword is cents. You would type in cents, c-e-n-t-s, when the program asks for the codeword. Please note that the words "codeword is" are not part of the codeword. Again, the codeword for our example is cents. The codeword is not case sensitive so it does not matter if you type it in all lower case letters, all capital letters, or a combination. All that matters is that you spell it correctly. There will be at least one different codeword for each section of this video. So watch and have your pen or pencil ready. Of course you can pause the program, or replay a section from the beginning. This program does not render legal, tax, investment, financial, or other professional advice or services. If you require such advice or services, please consult a competent professional.

Chapter 2: Thinking Traps

If you didn't learn about money management in school, or your parents didn't teach you, a big part of your money habits are a result of what you've been taught. By commercials, advertisers, marketers, and the entertainment media. An 18 year old will have already watched 10 million discreet advertising messages in his or her lifetime. Whether you know it or not you've been taught conspicuous consumption, live for today, buy now, or even better live for today and use our credit card or loan to do it. Conspicuous consumption: it's the soundtrack music of your life. It's always there. If you don't think advertising works, ask yourself why so much is spent on it. So from here on out think about how marketing or advertising may be affecting you. Are you going to do what they want you to do or are you going to do what's good for your money and what's good for your financial situation. Bankruptcy filers should be aware that if you haven't already you're going to be receiving several offers of credit in the mail for credit cards or auto loans. Your bankruptcy is public record and there are companies that target bankruptcy filers with these offers of high interest credit; that is expensive credit. For those of you in a bankruptcy that prohibits you from taking out offers of credit such as a chapter 13, do not break your plans rules. Check with your trustee or lawyer if you are not sure. Even if your bankruptcy doesn't prohibit you from taking an offer of credit, be careful. How

does money management make you feel? I'm guessing one of two ways. First, you know maybe a little worked up, just a tad anxious, nervous, maybe even angry. Or the other path, resisting, you know you're tuning out. Either response is ok; money is one of those emotional topics, taboo to talk about. This program is going to help you take on money management. Money management starts right here. How you think about money, how you think about money is vital. We're going to about some money management think traps that prevent you from being good with your money. We've already touched on the first one. Who's doing your thinking? Are you letting the marketers and advertisers to set your agenda, you know what you want? Or are you defining what you what. Are you defining your goals and self worth, or are you letting them. You decide what's important to you. You decide what you want. Money definitely plays a part in our lives. No doubt about it. But your financial situation doesn't have to define your life. There's relationships, family, the human family, the planet. Of course I can't afford to not think about money. The bills, they got to get paid. But I used to avoid thinking about money management. And that's the next money management thinking trap. A common money management thinking trap is to just throw up your hands. I can't do it. There's too much to learn. Money management is too complicated. I don't understand math. I don't make enough money. For money management to work you do have to have some kind of consistent income to move out of chaos. That's a starting point. Earning an income. If you are having trouble with this we list some references in our resources section. Another thinking trap is an all or nothing approach. I am either going to learn all about money management or not do anything. And this of course is a viscous circle. There's so much to learn it's too much. We'll give you the essentials and you can go through it at your own pace. You'll get there. You don't want to be too negative: You know it will never work out so why try? Or too optimistic: Oh it's going to be great so why bother? You want to be somewhere in the middle. Both of those are thinking traps. Take on money management like you would any subject you want to learn about. Commit to it. It's a process you don't have to learn about it all in one day. Money management may sometimes be a challenge, and something to work on. But if you commit and give it your best shot, it can't hurt you, it can only help money management can bring financial peace, it can't prevent bad things from happening in life, but you can rest with the fact that you are as prepared as you can be if something goes wrong. There's another thinking trap related to optimism in the future. Now of course be optimistic about things getting better in the future. But when you make financial commitments, when you borrow money, base that on your actual current situation. When you borrow money, base it on what's going on now. And then if the goal or dream or wish does come true, you can celebrate that much more at that time. It's so much better than making a financial commitment based on a dream or a goal, and then life changes and your goal or dream doesn't happen and you're over your head. There's a thinking trap related to the past and negativity too. If you beat yourself up too much or others, you won't be able to move forward. So acknowledge and move on. Renew. Here's two thinking traps related to time. I'm too old, nothing can be done right now. Not true. You can always do something. Start now. Another thinking trap is I'm too young. I don't need to get started on this right away. You will be very thankful if you take on money management right now. There's a thinking trap related to credit cards and loans. And that thinking trap is not realizing how much that card or that loan is costing you, how much debt you have. How long it will

take to pay off and what it will cost in total to pay it off. Perhaps you only think about the minimum payment or the lowest monthly payment you can make. We'll talk about changing that. There are several money management thinking traps. Not saving, not knowing where you're spending your money, spending more than you're making. Here's a common money management thinking trap: I would be a good money manager but: then fill in the blank. So, I would be a good money manager but I live in a rural area. I would be a good money manager but I live in the city. I would be a good money manager but I'm single. I would be a good money manager but I'm married. Assess how you think about money and see if you're creating any money management thinking traps. My final money thinking trap is to think you don't have any thinking traps. What's the saying, 90% of a problem is knowing you have one. You can't spot a thinking trap if you don't honestly assess yourself. Assess how you think about money. Think about how you think about money in your decisions. Decisions you made in the past, and now. As you go through your day, assess how you think about your money choices, and how you make spending and borrowing decisions. Don't beat yourself up, don't dwell. Assess honestly. Acknowledge any thinking traps. Move forward. You can challenge yourself to challenge any thinking trap. That's the start, identifying a money management thinking trap. Then you can work on changing it.

Chapter 2: Essential Mindsets

Just as money management thinking traps prevent us from being good with our money there are ways to think about money that are helpful. And those are money management mindsets. Before I get into those, I'm going to talk about some more ways that you shouldn't think about money management this way. When people hear money management, they think that they should feel guilty every time that they spend money, or they should feel anxious about money all the time. That's not what we're going for. The goal is for you to feel secure and at peace with your finances because you know you have money there to spend and you know you're spending your money the right way. And we're going to get there. So you spend within a limit that you set. And you keep track of that limit. You don't spend more than you make and you make fully informed spending and borrowing choices. You're paying off debt, and or building for the future. But you also have some money for fun. Does that sound good? Stay positive. Don't get overwhelmed. We'll get there. Ok on to the essential money management mindsets. We're going to talk about concepts first, and then we're going to get in to more specifics in how you can implement these mindsets into your life. Advertisers want you to put on the blinders and think about what they're trying to sell you. I'm saying take off the blinders and look at the big picture of your financial situation. How do you do that? I call it the thin red line. Imagine a thin red line running horizontally. Below the line is debt, things that are pulling your finances down. Above the line is wealth, assets, getting ahead. The idea is for you to make decisions that lead to you getting above the line. That reduces the debt you have below the line. You could look at your financial decisions, what you're spending and borrowing with this view. Are your spending and borrowing choices putting you below the line? Or are they putting you above the line. I'm not saying that all debt is bad; some can help you get above the line. But debt is very expensive and can trap you below the line. So you have to make a very careful analysis for any debt you take on. Even that debt that supposedly puts you above the line. We're going to talk

specifically about how to do this later in the program. For now the point is to think about the thin red line: the big picture of your financial situation when you are making a financial decision. Rather than having limited tunnel vision the marketers want you to have. I want to reiterate the thin red line is not how you look at your life. It is just how you look at your financial decisions. It doesn't have to be all about maximizing wealth. You can look at things through different lenses. You can follow your passion, your calling, but if you have too much debt you may not be able to follow your passion. The second money management mindset is to look at the big picture of your spending and earning. Think of a box. The box is your income. What goes in the box is your spending. You don't want to spend more than you make, you don't want the box to overflow. When you spend more than you make, that creates debt. And debt can be very very costly and take a long time to pay back. If your spending fits within the box then that's a good thing. That means you're not spending more than you're making. But don't stop there. Think about how you're spending your money. The third money management concept is to think about how much of your money is going toward certain expenses. Think of a pie chart. The pie chart represents your total income or the money you make. The slices are what you're spending your money on. The idea behind this concept is that you have balanced spending. That means you're spending money in a sustainable way that allows you to cover your needs, build for the future, and live a little. Looking at how much you're spending on certain expenses, the pie slices, will help you see if you are overspending on a particular expense or pie slice. Which would mean you are taking from another area. That is not balanced spending. The idea here is that you know there's a need for money balance you're not spending too much money on one particular slice. You know you're not spending too much on your needs or too much on your wants, and you're definitely putting away money for your future. The idea behind the fourth money management concept is you want to have financial goals and plans. Think about those and write them out. Put them on a timeline, make them specific. So the next money management mindset is that you make a fully informed decision. So you're thinking about the thin red line. You're thinking about the box, are you spending more than you're making. You're thinking about the pie slices. How you're money is divided up. You're thinking about your financial goals and plans. Within that context, you know that financial framework you make a fully informed decision. Money management is a front loaded process. That means its a little bit more work in the beginning but then it gets easier and easier. And I'm talking hours not days. You can make major end roads with just one or two hours. And then it's an hour a week. I'm going to show you exactly how to get there.

Chapter 3: FAQ's About Income

Ok, so lets dive in to one of those money management concepts. The big picture of your earning and spending. The box. When you spend mre than you make that creates debt. But how do you make sure you're not spending more than you're making? You budget. What's a budget? A budget is a simple mathematical equation: income minus expenses within a definite period of time. Budgets happen on a monthly basis because that's how most bills tend to cycle. Rent, mortgage, what have you. So when we talk about budgeting we're going to talk on a monthly basis. Why do we budget? Like I said the number one reason you budget is so you don't spend more than you make. The second

reason you budget is so you spend your money the way you want to spend it. I've got the perfect budget for you if you don't know how much you're spending or if you're spending more than you're making. It's the "take control" budget. This budget is going to help you know where you're spending your money and it's going to help you plan so you don't spend more than you make. Ok download the "take control" budget from the folders section on your computer. Ok, you've downloaded the "take control" budget. You have it in front of you. Lets go through it. Let's talk about income. When most people talk about income they talk about gross income. What they're paid before taxes and deductions are taken out. When you're told about your wages or salary, you're told about your gross income. The money you have before taxes are taken out. You don't want to make spending or budgeting decisions based on this because you don't have that money to spend. You want to make your budgeting and spending decisions based on the money you have available to spend. We're going to start with your net income. You have gross income, what you're paid before taxes and deductions are taken out. And you have net income, what you actually have to spend after taxes and deductions have been taken out of your paycheck. This is also called take-home pay. Because we're making a monthly budget, lets start with your monthly net income. Or how much money you have available to spend every month after taxes and deductions are taken out of your paycheck. Look at your pay stub or ask your employer how much you make on a monthly basis after taxes and deductions are taken out of your paycheck. Lets work on the "take control" budget worksheet. On the budget template, write your monthly net income. For chapter 13 bankruptcy filers, your budget must be consistent with your bankruptcy schedule and confirmed plan. Make sure you know and fulfill your responsibilities so that you do not endanger your bankruptcy. Make sure you maintain trustee and mortgage payments and notify your attorney or trustee about changed circumstances during the plan. As you can see there is a separate section for you to list your deductions. Deductions are taken out of your paycheck by your employer for your benefits such as retirement, other savings or medical, dental, and eye insurance. Or other insurance such as life or disability. You are paying for these items because the money is coming from your paycheck. It is important for you to know how much you are paying for these items, and that's why I want you to list how much is being deducted or taken out of your paycheck if any, on a monthly basis for these items. If you don't know if you're paying for any of these items or how much, you should find out. Look at your pay stub or ask your human resources department. If your employer pays for your benefits or part of your benefits do not list anything your employer contributes here. Only write what you contribute. What comes out of your paycheck. If your employer pays for some or all of these items list that in the employer 'contributions' box, which is below the 'your deductions' box. As you can also see we listed employer contributions as well. These are for benefits your employer pays for. List the monthly amount your employer pays for any of your benefits: retirement, other savings, medical, dental, eye, life, and disability insurance. Only list the monthly amount your employer pays here. Do not list what you pay. List what you pay in the 'your deductions' box.

Chapter 3: Expenses Introduction

The first thing you'll want to do is list your monthly net income on the "take control" budget form. If you have more than one job do this for all your jobs. Add up the monthly

net income for all your jobs and list the total as monthly net income on the “take control” budget. If your income varies, you know if you have commissions or tips or contract jobs, you want to know what you have to budget with. You need to know how much money you have to work with. The idea is to make sure you can cover all of your expenses, even in the bad month or season. You’ll know more about how much money you need to make to cover your expenses when we talk about expenses in the next section. For now, you’ll want to know how much you earn. Keep a record. That way you can average the last 3 months, or 6 months, or even a year while keeping in mind the slow times. You may need to save money from the good times to cover the slow times. The “take control” budget will help you do that. You may make money from other sources. Child support, alimony, social security. Add that total to your income, and put that in your monthly after tax income total. You want to list all that money that you make on a monthly basis after taxes. You want to list the total amount you have available to spend on a monthly basis. So list that total on your “take control” budget under monthly net income. The budget can work if you have varying income, but for a budget to truly work you need to have some kind of regular steady income. You have to be able to cover your expenses; going through this process will help you learn what your regular expenses are and how much you need to earn to cover them. If you’re part of a couple I would recommend working on this exercise together, to get on the same page. Money of course can be an emotional topic. Be proactive and move forward. Rest on the fact that you’re going to make your financial situation better by going through this process. If you want to go through a rough draft version of this exercise, I’ll help you get there. The goal is to be as accurate as you can be so it would be better for you to fill in the form with accurate answers. However, going through with rough draft numbers may help you get started. As long as you treat it as a draft and not rely on the numbers as accurate, and you take the time to go through your budgeting process again with more accurate numbers. So if you are antsy to get the ball rolling write your annual gross income. Take out 20% for taxes. That’s a ballpark estimate to keep you moving through this exercise but realize your actual taxes may vary depending on where you live, your marital status, if you have kids, and your income. So take your gross annual income and reduce it by 20%. To figure out what 20% of your gross annual income is, multiply your gross annual income by .20. Then subtract that number from your gross annual income. Finally divide by 12. For example, let’s say my gross annual income is \$50,000. I’d first take out 20% for taxes. Again taxes vary so this is a very rough estimate. I take my salary of \$50,000 and multiply it by .20. $50,000 * .20$ is 10,000. So 20% of \$50,000 is \$10,000. I need to subtract that \$10,000 from \$50,000. $50,000 - 10,000$ is \$40,000. My very rough estimate after tax annual income is \$40,000. I need to divide this by 12 to get my estimated monthly after tax income. $40,000$ divided by 12 is \$3,333.00. That is your monthly after tax income. We didn’t take out deductions yet, you’re not done. Stay with me while I talk about wage earners. If you are a wage earner paid hourly and you want to get the ball rolling take what you’re paid an hour and multiply it by the number of hours you regularly work in one month. Let’s say I make \$10 an hour and I normally work 40 hours a week. $10 * 40 = 400$. \$400 a week * 4 weeks in a month is \$1600. So my monthly gross income is \$1600. Let’s take out 20% for taxes. Again, this is a very rough tax estimate just to have you work through this exercise. You’ll want to find your exact tax information soon so you can make sure you’re making correct calculations. But to start, start with the rough estimate first. Take out 20% from

your monthly gross income. Multiply your monthly gross income by .20. Subtract that answer from your monthly gross income to get the rough estimate of your monthly after tax income. Using our example of a monthly gross income of \$1600: $\$1600 \times .20 = \320 . $\$1600 - \320 is \$1280. \$1280 is the estimated monthly after tax income. But you want monthly net income. You still have to take out deductions. Ok, so now those of you with a salary and those of you with wages have your estimated monthly after tax income. Now from that total, subtract the monthly deductions your employer takes out from your paycheck for benefits such as your health insurance, medical, dental, eye care, retirement, or other savings or other insurance, such as disability and life. Let's say my employer deducts \$200 from my paycheck for health insurance, I would subtract that from my monthly after tax income. So $\$1280 - \200 is \$1080. If you don't know your deductions you can plow ahead, again if you treat the exercise as a draft that needs to be updated with more accurate numbers later

Chapter 3: Monthly Housing Total

Just as it's vital to know what your income is, it's vital to know where you're spending your money and how much you're spending. So now we're going to talk about that. Before we dive into expenses, I want to give you some different ways to think about them. First there are fixed expenses and there are variable expenses. Fixed expenses stay the same. Like rent in a lease or a fixed mortgage. They're good because you can plan around them; you know what they'll be. Variable expenses vary and are bad for planning. They can be small one month and large the next. Dinners out are an example of that. The idea in budgeting is to try and fix every expense. That means you set a definite limit on them. Now I know you can't control the price of gasoline but try to set an amount so you can do some planning. Just as there are fixed and variable expenses, there are regular and periodic expenses. Regular expenses happen every month and we anticipate them. They're good for financial planning. Periodic expenses get us in trouble because they don't happen all the time and they surprise us. Holidays and birthdays are big periodic expenses that get people in trouble. Same with vacations. What happens when you don't plan for these in your budget? You go outside of your budget and use a credit card or some other costly mode of credit. The idea is to anticipate those periodic expenses and have them come from your budget. Save for Christmas for a few months, birthdays every month, save for vacation.

Chapter 3: Monthly Transportation Total

Take a look at the budget form. We've separated your expenses into 5 major categories: housing, transportation, savings, debt, and all other spending. Let's take a look at the first major category, housing. As you can see on the budget form, I've listed specific expenses under housing. Go down the form and fill in the monthly amount you spend for each of the listed expenses in the housing category. Rent or mortgage, home equity line of credit or second mortgage, property taxes, and homeowners or renters insurance. Remember we're listing the monthly amount you spend on each expense. If you pay for any of those items once a year only, take the total you pay and divide it by 12. For example, let's say I pay \$1200 a year in property taxes. $\$1200$ divided by 12 is \$100. So I write \$100 in the property taxes category. Now add up all of your monthly housing expenses you just listed. So rent or mortgage plus home equity line of credit or second mortgage plus

property taxes plus homeowners or renters insurance. Add those up to get your monthly housing expense total. Ok we're progressing. We're seeing where your money is going and how much you're spending. We're going to analyze this in a little bit.

Chapter 3: Monthly Savings Total

The second major category is transportation. As you can see in the budget form I've listed specific expenses under transportation. Go down the form and fill in the monthly amount you spend for each of the listed expenses in the transportation category. Auto payment, auto insurance, gasoline average, maintenance, other transportation costs such as parking or public transportation. Remember you write the monthly amount you spend on each category. Next, add up all your monthly transportation costs. Add your auto payment plus your auto insurance plus the gasoline average plus maintenance plus other transportation costs. Add those up to get your transportation total.

Chapter 3: Monthly Paying Off Debt

We're going to get in to savings a little bit. It has many levels. The first level is: if you can save until you can pay for something in cash, you won't have to pay interest and fees, like you would on a loan. So that saves you money. The second part about savings is: if you can save until you have just a little but for an emergency fund. That way if something goes wrong like if the car breaks down or something like that you can pay out of your savings fund and not have to use a credit card or some other costly mode of credit. The third level of savings is: to save enough money to get you by for 6 months or so if you lost your income. That's a security fund. The next level of savings is: to save and invest for your retirement. Social security won't be enough to live off of so you need to save additional money for your golden years. Another level of savings is: saving for a dream such as a house. As you can see on the budget form, I've listed some specific savings expenses. Go down the form and fill in the monthly amount you contribute to: a regular or traditional savings account, a retirement account, and any other savings account such as a college savings account plan. If you contribute a lump sum once a year to any of these accounts, divide it by 12 and write that amount in the savings category. Again, we are recording your monthly contributions. Only write what you contribute. If your employer contributes to your retirement or other savings, do not list that here. List that amount in the employer contributions box on the budget form. Now, add up all your monthly savings amounts. The monthly amount you put in your regular or traditional savings account plus the monthly amount you put in your retirement account plus the monthly amount you put in any other savings account. The result is your monthly savings total.

Chapter 3: Monthly Other Spending Max

Our fourth major category is debt. Lets talk about debt for a bit. If a lot of your money is going to debt its hard to cover your other expenses. It's hard to save and build for the future if you are stuck paying off the past. Debt is costly. If you have \$5000 of credit card debt with an APR of 21% and you only pay the monthly minimum payment of 2% of your outstanding balance, it will take you over 50 years and you will pay off a total of \$37,198 to pay off the 5000. It will cost you more and take you longer if you continue to buy items with the card and/or your interest rate rises. That's how costly debt can be.

Debt can also be dangerous. If something goes wrong such as a job loss or a health problem, the more debt you have, the harder it will be to weather the storm and get back on your feet. Debt is stressful for this reason as well. That's why it's important to prevent it or make a plan to pay it off. This is part of that process. As you can see in the budget form I've listed several debt expenses under the debt category. Go through each expense and write the monthly amount you pay for your credit card, if you have more than one put the total of all your monthly credit card payments here, student loan payment, other debt payments not listed elsewhere in this budget. Your mortgage home equity line of credit or second mortgage and auto payments are debts but I had you list those payments elsewhere in this budget. However, if you are paying extra on your mortgage, home equity line of credit or second mortgage, list the monthly extra amount you are paying on those items here. I'll call that monthly extra mortgage, home equity line of credit or second mortgage payment. For example, if your regular mortgage payment is \$1500 a month and you're paying \$1700 a month, you would list \$200 here. That's the extra amount your are paying: the difference between \$1700 and \$1500. Add up your monthly debt total, or what is the monthly amount you spend on items 1-4. Again, this is your monthly debt total. You're going to use this total later in the program so have it handy. While we are on the topic of debt, we are going to make a debt list so you can determine if you don't know already how much debt you have. It's our debt list. As you can see in the debt list we list the debts that we have already talked about but we ask for additional important information so you can become familiar with your debt. We have a list for different types of debt: credit cards, personal loans, payday loans, mortgages, second mortgage or home equity line of credit, auto debt, student loans, and medical debt. As the form shows for each type of debt list who you owe, (so you know the bank, institution or person you owe), the total amount you owe, the interest rate, whether it's an installment loan that has a definite period of time like a three year auto loan or a 30 year mortgage, the payment due date, and the monthly payment. Keep this form handy; we'll refer to this as your debt list, not to be confused with your monthly debt total, which we figured previously.

Chapter 4: Guideline Percentages Introduction

Not spending more than you're making is a vital first step. But that's not it. You also want to think about how you're spending your money. The goal is not to just win the battle of not spending more than you make every month. The idea is to rise above the chaos by spending your money in a balanced way for a lifetime of financial stability. To allow you to cover for your needs, save for emergency, build for the future, and live a little. Remember the pie chart of slices? You want to think about where your money is going, and how much of your after tax income is going into each category. How much of your monthly net income are you spending on your housing, transportation, savings, debt, and all your other spending? What percent of your monthly net income are you spending on these categories? And how much should you be spending on them. I'm going to give you some general guideline percentages for each of the major 5 categories. And then we're going to figure out the specific percentage you were spending on each major category. Before I get in to the guideline percentages, I want to be clear that these are general guidelines as opposed to absolute rules. You should not take these guideline percentages as absolute rules, nor should you think they are written for your specific

financial goals and situation. I don't want you to just blindly follow the guidelines and think that's all you have to do. You have to do the work to determine what guidelines are right for you and your particular financial situation and goals. You'll get to that point as you learn more about your financial situation and you make and assess your financial goals. This program will help you get there. The idea behind the guideline percentages is that there is a rational amount of your monthly net income that should go into each of the 5 major expense categories. Housing, transportation, savings, debt, and other spending. For an extreme example, if you are spending 90% of your monthly net income on housing, how are you covering the other categories with the remaining 10% of your income? Though the guidelines may not fit everyone, they do provide guidance. Just as I don't want you to blindly follow them, I also don't want you to just ignore them. For now let's use these general guidelines as a discussion starter. Though there is some wiggle room, the more you go beyond a guideline, the more dangerous territory you get into. It's like going out on a branch; the further you go, the more likely it is the branch might break.

Chapter 4: Monthly Housing Percentage

Let's start with the housing guideline percentage and then I'll show you how to find your percentage. The general guideline is you should spend no more than 35% of your monthly net income on your monthly housing expenses. And by housing expenses I mean all the specific expenses we listed under the major category of housing. Why 35%? The general idea is that there is a rational amount of your money that should be put toward housing. If you are spending a large percentage of your income on housing, you may be neglecting other areas. Which would mean you do not have a balanced spending plan. Why do you want balanced spending? So you can take care of what you need to, build for the future by saving and paying off debt, and leave some room to live a little. If too large of a percentage is going towards housing you won't be able to have this balance. A large percentage spent on housing may also leave you financially vulnerable. For the most part your housing is a fixed expense. Which means if something goes wrong in life such as a job loss or a health problem, it's harder to make cuts in your housing expense without losing your house. The higher your housing percentage is the harder it will be to weather the storm. Keeping your housing expense at 35% or lower gives you a greater chance to overcome the challenge. Keeping your housing percentage at 35% or lower gives you the greatest chance for your balanced spending and financial stability. This housing guideline and any of these guidelines won't prevent life from happening and they aren't a guarantee, but thinking about your percentages will put you in a better position to have balanced spending and take on a challenge when life happens. How do you figure out the current percentage of your monthly net income you are spending on housing? Use a calculator and plug in your numbers to the following a formula. Again this is to calculate the percentage of your monthly net income you are spending on housing. Take your monthly housing total and divide by your monthly net income, multiply by 100 and hit the equals sign. The answer is the percentage of your monthly net income you are spending on housing. I'll go through an example. Lets say my monthly housing total is \$1000 and my monthly net income is \$3000. I'll say it exactly as you can type it in to your calculator. Monthly housing total of \$1000 divided by monthly net income of \$3000. Then multiply by 100, and hit the equals sign. The housing percentage for this

example is 33%. Do not become discouraged if your percentage is over the guideline, do not let the guideline become money management thinking traps that overwhelm you or discourage you from taking control of your finances. These guidelines are conversation starters. Use them as motivation, as sources of knowledge to help your overall financial situation that help serve as a context or framework for your financial goals and plans. Again, I don't want you to think you're doomed if you do not meet the guidelines exactly. There's not one formula that can be applied to everyone. But that also doesn't mean I want you to completely disregard the guidelines either. The idea is to be aware of your percentages and do the best you can. I want to make one more point. If you are a renter with home-owning aspirations, or you have another financial goal or need, you may consider lowering your housing percentage. That will give you more money to put in your savings or another area. We'll talk about strategies for change later for both homeowners and renters but for now, let's look at your other percentages and learn more about your current financial situation.

Chapter 4: Monthly Transportation Percentage

Lets move on to the transportation guideline percentage. The general guideline is you should spend no more than 15% of your monthly net income on transportation. By transportation I mean all the specific expenses we included in chapter 3's transportation section. And realize that 15% is a maximum, not the specific recommended percentage. The less you spend on transportation, the more you can stabilize your financial situation in other areas such as housing, savings, or paying off debt. Since automobiles go down in value, your money will go further in other areas. Let's figure out your percentage of monthly net income you are spending on transportation. Take your monthly transportation total from chapter three. That's your monthly payments for your auto loan, auto insurance, gasoline average, maintenance, and other transportation costs such as parking or public transportation. Take the total of all of those and divide it by your monthly net income. Then multiply by 100 and hit the equals sign. The answer is the percentage of your monthly net income taken up by monthly transportation expenses. For example, let's say my monthly transportation total is \$450 and my monthly net income is \$3500. To find my percentage I take my monthly transportation total of \$450 divided by my monthly net income of \$3500, multiply by 100 and hit the equals sign for a percentage of 12.85. You're gaining more knowledge about your financial situation. We're going to talk about strategies for change later. For now lets keep learning about your current percentages.

Chapter 4: Monthly Savings Percentage

The general guideline percentage for our third major category, savings, is you should put at least 10% of your monthly net income towards savings. Unlike the transportation percentage, which is a maximum, the 10% savings percentage here is a minimum. Putting more towards savings will only help you. You save money so you can pay for purchases in cash. I realize it may not be realistic to pay for big purchases such as a house, car, or education in cash, but you should pay for your smaller purchases in cash. That way you are not paying money for interest and fees. That saves you money. Another reason to save is for emergencies. If the car breaks down you can pay for repairs out of your savings fund rather than running up a debt to cover the cost. The debt may

take a long time and cost a lot more money to pay off. The third reason you save is for security. If you lose your job or can't work for a while, the more money you have saved, the longer you're going to be able to weather the storm until you're back on your feet. The fourth reason you save is for retirement. So you can better enjoy your golden years. A plan for retirement is a must for any financial stability plan. The fifth reason you save is for a financial goal such as a house or another dream. Let's calculate your monthly savings percentage. We previously calculated your monthly savings total in chapter 3. Take that total and divide it by your monthly net income. Then multiply it by 100 and hit the equals sign. The answer is your monthly savings percentage. For example let's say my monthly savings total is \$100 and my monthly net income is \$1000. I take \$100, my monthly savings total, divide it by \$1000, my monthly net income, multiply this by 100 and hit the equals sign for a percentage of 10. Calculating your savings percentage may be easy for some of you. 0 divided by 0 is 0. If that's the case with you or you're not up to 10% yet don't be discouraged. These percentages are to provide motivation, not become money management thinking traps. Finding your percentages and going through this process is going to help you get there. You are doing something about it by doing this work.

Chapter 4: Monthly Debt Percentage

This percentage guideline for debt is a relatively new thing. It's for generation debt. Acknowledging that debt has eeked its way into our lives. A generation or so ago there would not have been a debt percentage outside of your house or maybe your car. So we're in to new territory. Like we said in chapter 3's debt section, let's start by talking about debt other than your housing debt, mortgage or second mortgage, and transportation debt, because those debts are listed in other sections. That leaves us with consumer debt like credit cards and personal loans. I want to be very clear about this. Just because there's a percentage guideline for debt, you should not take this as permission to run up debt. The more debt you take on the less stable your financial situation will be. That's a fact. We talk about why in chapter 7, Smart Borrowing. But I'll touch on it here too. Debt is costly. It takes from your other money and ends up costing more than the price of what you bought. That's how \$5000 in credit card purchases can end up costing over \$37,000. Debt steals from your future. How can you save for the future when you are stuck paying off the past. Debt is dangerous. It leaves you vulnerable. If something goes down in your life: a job loss or a health problem. Not only did debt prevent you from building a security fund to weather such a storm, it is now an extra cost you'll face. If you didn't build up debt you'd be able to get back on your feet faster, because you would've been able to build up a savings fund and you wouldn't have debt to pay back. If you don't have debt that means you can put money you would spend on debt in to your other categories. However if you have debt you must have a plan to pay it off. Know the longer you take to pay off the debt the more it will cost you. The debt guideline percentage comes with that in mind. The debt guideline percentage is 15%. So 15% of your monthly net income can go toward paying off debt. But this guideline comes with some important distinctions. The 15% guideline is for you to pay off your consumer debts like credit cards faster so you can build towards the future. It does not mean that you fill 15% with minimum payment or the longest allowable payment plan. The point of the 15% guideline percentage is to help you pay your consumer debts off faster. The

faster the better. For the 15% guideline percentage to have any meaning you have to know how much total debt you have and how long it will take to pay off. That's why in the debt section of chapter 3, I had you write out your total debts and interest rates in addition to your total monthly payment. If you're paying 15% of your monthly net income toward debt, and it's not helping you pay off your debt faster, you may have to do some percentage swapping. And we talk about this later in the chapter. Let's figure the percentage of your monthly net income going toward debt. Take your monthly debt total that you calculated in chapter 3, divide it by your monthly net income, then multiply by 100, and hit the equals sign. The answer will be your percentage. We touch on the strategies to pay off debt later in the program. For those who have already paid off debt or have low consumer debt, I'm not saying to start paying off your housing or auto debt with 15% of your monthly net income. You want to make sure you are saving enough for retirement before you do that. We talk more about financial planning in chapter 5. If you are able to pay off your high interest consumer debt, just think you'll have 15% of your income that you can transfer to another category.

Chapter 4: Monthly Other Spending Percentage

Ok, our fifth and final major category, all other spending. Again, this is for all your other spending not listed in the other 4 major categories: housing, transportation, savings, and debt. In chapter 3 you calculated your monthly all other spending maximum. So you know your limit to not spend more than you make. Your all other spending category covers your needs and your wants, the things you need to spend money on and the things you want to spend money on. Knowing the difference between needs and wants is a very important distinction. When you assess your budget and your spending it is helpful to think of your expenses in your life and categorize them as a need or a want. To help ask yourself if you would continue to spend money on the expense if you lost your job. Could you live in safety without it? Do you really need it? That will help you know which expense are needs and which are wants. It's an important distinction. The goal of this budget is not to cut out your wants entirely. Not at all. In fact, my goal for your budget is for it to contain some guilt free spending on wants. As long as there's a limit and as long as you stick to that limit. Of course, there are times when one may have to cut down on or temporarily cut out spending on wants. But spending on wants, whatever they may be is part of the balanced spending plan. So what's the guideline percentage? The guideline percentage for all other spending is 25%. All your other spending, both your needs and your wants should fit within that 25%. Let's calculate what percentage of your monthly net income is taken up by your all other spending. In chapter 3 I had you calculate your monthly all other spending maximum. To figure out the percentage let's assume you're spending the maximum. So take your all other spending maximum that you figured out in chapter 3 and divide it by your monthly net income. Multiply it by 100 and hit the equals sign and your answer is your percentage. For example let's say I'm spending \$250 in my all other spending category and my monthly net income is \$1000. I would take \$250 which is what I'm spending in my all other spending category, divide it by \$1000 which is my monthly net income, multiply it by 100 and hit the equals sign. In this example I'm spending exactly 25% of my monthly net income on all my other spending.

Chapter 4: General Ledger

While we're on your all other spending category I'm going to show you how to identify your specific expenses in your all other spending category. So you can see exactly what you're spending your money on and how much you are spending. I'll call it a general ledger. Again it's going to help you see what particular expenses you're spending your money on and how much. This is what I want you to do. You can do this on the computer or write it out. Press pause and download the general ledger form. Ok as you can see the general ledger has four major categories: date, activity, amount, and balance. Your balance is the amount in your checking account. Just make sure you accounted for checks or withdrawals or debit purchases that have not yet cleared. If you don't account for those then you may overdraw your account and be charged costly fees. The first thing I want you to do is to write your checking account balance under balance on the general ledger. If you don't have a checking account, we talk about those in chapter 6 as money tools. Ok here's how you use a general ledger. Any time you spend money rite it in your general ledger. Write the date, what you spent the money on, you now the activity, how much it costs which is the amount, and how it affects your checking account balance, or in other words how much money you have left to spend. Lets say I have \$1000 in my account. I put that in the balance column of the ledger. Let's say today is July 1st and I bought a cup of coffee. So I'd write the date: July 1st, the activity: which was buying coffee, the amount: it was \$2, and subtract that \$2 from my balance of \$1000. So $\$1000 - \$2 = \$998$. I would do that every time I spend money. Soon I'll be able to see my expenses and how much I'm spending on them. This knowledge will help me determine what I can cut down on. Another point when using the general ledger, make sure you make note of when and how much you get paid as well. Whether it's a paycheck or child support or another payment, write it in your ledger. Just make sure you write the net amount of what you are paid which is what you have to spend and of course add it to your balance rather than subtract. So lets say I got paid on July 1st after I bought the coffee. I take the amount I got paid: let's say my net payment was \$1500, I'd write the date: July 1st, the activity: I'd put work paycheck, amount: I'd write \$1500, again that's the net amount, and I would add this to my balance. So $\$998 + \$1500 = \$2498$. So my new balance is \$2498. I'd continue to record every time I spend and earn money, this will help me identify expenses and how much I'm spending on them. The general ledger will also help me record how much I'm making, and how much I have in my account to spend. That way I can make sure I always have enough in my account to cover my expenses. That's how you have a positive cash flow. For now, lets keep assessing your financial situation.

Chapter 4: New Housing total

Now you know the general percentage guidelines, the total you were spending in each of the five major categories, and what percent you are currently in each category. Let's go through each of the five major categories and calculate the total amount you spend in that category to meet the guideline percentage. Lets start with housing. Remember the guideline is 35%. To calculate what you should spend on housing in order for you to spend 35%, take your monthly net income and multiply it by .35. So lets say my monthly net income is \$3000. $\$3000 * .35$ is \$1050. So in this example, my housing total should be \$1050 to meet the 35% guideline. I may choose to spend lower or higher depending on my financial situation and goals but that is the maximum amount I can spend if I want to

stay within the 35% guideline. If you're looking to save money reducing your housing expenses can be a good place to start because that's usually where a lot of your money is going. A key lesson in money management is to save dollars, not just pennies. That means while it may be necessary to clip coupons and watch your small spending don't forget about the big-ticket expenses that are taking up most of your money. That's where the biggest savings will be. Housing is usually one of those big-ticket items. You may be able to save a lot of money there. What cuts can you make in your housing expenses? Can you move to a smaller place, a less expensive neighborhood? If you're a homeowner can you take on a tenant? If you're a renter can you find a roommate? Ask yourself the hard questions. Get creative. You may be able to save a lot of money. For homeowners, you may be able to save on insurance. Of course, you want to make sure you are not losing any vital protections. You may also be able to refinance. Just make sure you make a fully informed choice. We provide some refinance points in chapter 7, smart borrowing.

Chapter 4: New Transportation Total

15% is the transportation percentage. To calculate what this percentage is, in terms of dollars for you, take your monthly net income and multiply it by .15. The answer will show you the dollar amount that is 15% of your monthly net income. For example suppose my monthly net income is \$3000. $\$3000 \times .15$ is \$450. Or in other words 15% of \$3000 is \$450. That is my transportation maximum. To make cuts in your transportation spending, assess whether you can downsize to a more practical vehicle, can you save money on gas, ride public transportation, carpool, or bike more often.

Chapter 4: New Debt Total

10% is the savings percentage. To find out what 10% of your monthly net income is multiply your monthly net income by .10. Suppose my monthly net income is \$3000. $\$3000 \times .10$ is \$300. So my minimum monthly savings should be \$300 a month according to the guideline. If you are having trouble saving at least 10% of your monthly net income, you can discover what category is taking away from your future. Look at your four other major categories, housing, transportation, debt, and all other spending. If you are over the guidelines in any of those areas that's where your savings is going. The goal is to change your percentages to obtain balanced spending.

Chapter 4: New Other Spending Total

The general debt percentage is 15%. To calculate what 15% of your monthly net income is, multiply your monthly net income by .15. For example, suppose my monthly net income is \$3000. $\$3000 \times .15$ is \$450. Or in other words 15% of \$3000 is \$450. After you pay off your debt you will have 15% of your monthly net income that you can put into other major categories according to your financial goals and situation. In my example that would be \$450 I can save every month.

Chapter 4: Specific Ledger

The all your other spending percentage is 25%. To calculate what 25% of your monthly net income is, take your monthly net income and multiply it by .25. For example suppose my monthly net income is \$3000. $\$3000 \times .25$ is \$750. Which is my all other spending maximum. To control your spending in this category it helps to know what you're

spending your money on and how much you're spending. Previously we talked about a general ledger. Now I want to show you a specific ledger to help you stick to your limit.

Chapter 4: Increasing Income

Since we've just discussed a maximum amount, I'm going to show you a tool to help you make sure you stick to a limit. It's called a specific ledger. It's like a general ledger because you record expenses, but unlike in a general ledger, you don't record when you make money in a specific ledger. You just record your limit or maximum and your expenses so you can stick to that limit. Here's how it works. You make four categories: date, activity, amount, and limit. For limit put the monthly limit you're spending on all other spending. Let's say it's \$400. So you're allowing yourself to spend \$400 a month on your all other spending. Any time you spend money in this category write it in the specific ledger. Write the date, the activity, the amount, and subtract that amount from your limit. So let's say I went out to dinner. I went to Gorditos for \$15. I would write the date, let's say it's September 15th, I'd write the activity, Gorditos, the amount is \$15. And I'd subtract that from my limit of \$400. So $\$400 - \$15 = \$385$. I'd do this every time I spend money. And that way I can make sure I don't go over my limit. And the goal isn't just to spend up to the limit. If you save more, that's more you can put into savings or spend another time. While we're talking about a specific ledger, it can also be used on a particular expense category that's giving you trouble, such as dinners out or shopping or music. Make another specific ledger for that particular category. Let's say dinners out. Set a limit for that category, say \$100, and every time you dine out, record it in your dining out specific ledger. When you hit 0 you've spent your limit and it's time to eat at home.

Chapter 5: Introduction

You've acquired a great deal of information about your financial situation. You've figured out your monthly net income. You learned how much you are currently spending in the 5 major categories of housing, transportation, savings, debt, and all other spending. You learned about the guideline percentages for each of these categories. And what your current percentages are. You also calculated the dollar amount you should spend in each category to fall within the guideline percentages. That is a lot of useful information. You now know a lot more about your financial situation. Now, it's time to think about financial goals and plans, because your goals and plans will help you make a better budget that is truly yours. I'm sure you have several financial goals and plans. I want to outline a plan that may affect your goals and planning as well as your budgeting. Step 1 is to build a small savings fund. Step 2 is to pay off bad debt. Step 3 is about saving for the future and it has three parts. Step 3a is to create a security fund. Step 3b is to grow your savings for retirement. Step 3c is to consider saving for a house. Step 4 is advanced financial planning. This may include saving for a child's college. Paying off your house early. Saving for another dream.

Chapter 5: Small Savings Fund

This is the first step in your financial planning. Save until you have a small savings fund. Save \$500-\$1000. The idea behind this step is you'll have some money set aside for a small, unexpected expense. Say your utility bill is larger than expected or you have a

minor car repair. If you have a small savings fund you can pay for those items with cash rather than using a costly mode of credit that will put you in debt and cost you a lot more. That way you can build your finances rather than dig a debt hole.

Chapter 5: Pay Off Bad Debt

We've talked about a debt and how it can trap you. It is difficult to build for your future if you are stuck with debt from your past. Debt is expensive. If you have \$5800 in credit card debt with an APR of 27.99 and you make only minimum payments, it will cost you over \$25,000 and it will take you over 27 years to pay off. Debt also makes you vulnerable. If something goes wrong like you lose your job or have a health problem the more debt you have the harder it will be to stay financially afloat. Without debt you will be better equipped to take on a challenge and get back on your feet. Debt can also steal from your future and your present. If you are paying your hard-earned money toward interest and fees, that money could be going towards something else such as savings or investments. Attacking your debt will allow you to build for your future. Debt can feel like it's giving you more options but you have to eventually pay the piper as they say. Debt is like getting ready to run a race and then shooting yourself in the foot before you start. That's what debt can do to your finances. So how do you get out of debt? Let's start by identifying those debts. Remember the debt list you created in chapter 3, where you identified your debts and listed important facts about your debts? Take a look at that list. We organized a debt chart into categories: Credit cards, loans from family and friends, overdue or back payments on rent, mortgage, utilities, cell phone car payment etc., medical bills, or other debts. As the chart shows I want to know a few things about each debt. Who do you owe, who is the debt from, what is the interest rate, more specifically, the APR if the debt has an interest rate, the total that you owe, and your minimum monthly payment? Now you can formulate a plan to pay off those debts. Here is the attitude you should take on: After you've saved a thousand dollars for your emergency fund, all systems go towards paying off your debt. Attack it. You may want to consider the most expensive debt, your highest debt. Or you may want to pay off the debt with the largest interest rate. You may want to attack the smallest debt first just to gain a victory. Or if there's a debt that really bothers you, you know you've been wronged by the credit card company, attack that one first. The idea is to choose a debt and attack it. One by one. You eventually want to pay off all that debt that is stealing from your future. Attack it. Look at your most expensive debt. Maybe it's a credit card or payday loan, and attack. If you have a home equity line of credit consider that as well as you don't want to put your house in danger. Debts like a student loan or mortgage may be lower on the scale. We put the payments in needs, but if you can afford extra payments, put those in savings. How much should you put toward paying off your debt? The guideline allows 15% of your income to pay off debt. That's assuming you're paying it off and not just marinating your debt. You previously calculated what 15% is of your monthly net income. Take your monthly net income and multiply it by .15 and the result is 15% of your monthly net income. For example let's say I have a monthly net income of \$2000. I want to find out what is 15% of \$2000. $\$2000 * .15 = \300 . You can see how long it will take to pay off your debts by paying 15% of your monthly net income toward your debts. If you're not happy with the length of time it will take to pay off your debts using 15% of your monthly net income, you're going to have to problem solve and play with your

percentages. You may want to lower your percentages in the other categories to increase your debt payment percentages, so you can pay off your debt faster. The idea behind the guidelines is to have balanced spending. Where you're taking care of your needs, having a little fun with wants, and saving for the future. You have upset this balance by putting more percentages toward debt payments. But it allows you to pay off your debt and build for the future. It will be worth it. Do not use your retirement pension or account or IRA. Focus like a laser on paying off that debt. Consider changing the guideline percentages. Can you temporarily cut down on your wants? Maybe by 10% and put that extra 10% in to paying off your debt. Can you take another 5% from your needs to pay off debt? We talked about not using your retirement account or pension or IRA to pay off your debt. Do not borrow against your home to pay off your debt either. No second mortgage, no home equity line of credit. If you're in a debt hole you can't dig it deeper to pay it off. If you are over your head in debt, we list some options in the resource section at the end of this program. The key is to take control now and take on the challenge. Don't avoid it.

Chapter 5: Security Fund

Ok, you've created a thousand dollar emergency fund. You've paid off debt that is stealing from your future. Step 3 has three parts. Part 1, build a six-month security fund. Part 2, save for retirement. Part 3, consider saving for a house. Whether we like to think about it or not, we are all vulnerable. What if something goes wrong? A job loss, a health problem. How do we weather that storm? That's the idea behind a six-month security fund. So you have some money there if something goes wrong. A job loss, a health problem, the loss of a partner. Step 3 part 1 is to create a security fund. A security fund will enable you to weather the storm. It will allow you to keep your needs until you are on your feet again. What is the dollar amount you should save? Enough to cover your needs for six months. So take your needs total and multiply it by six. That's your goal. How do you get there? Use the 10% we designated towards savings and put it in a savings account or money market. You can calculate how long this will take you. First you'll want to know how much you're saving every month. Start with the 10% guideline. Multiply your monthly net income by .10 to see what 10% of your monthly net income is. For example, a monthly net income of \$3000*.10 is \$300. \$300 is 10% of \$3000. How long will it take you to build a security fund if you save 10% of your monthly net income? Don't forget to account for the interest rate in your savings or money market account. It will help you get there faster. If it's not fast enough for you, you'll have to play with your pie slices, your percentages. If you paid off your debt that will free up 15% of your monthly net income. See what that does for you if you put that into your savings category and you apply it towards your security fund. You may want to cut down on your other spending too, and add that to your security fund. Just remember, the goal is to get to a place where you have balanced spending. Where your needs are covered, where you have some money to spend on wants, and you are building for the future. Let's move on to retirement. Starting to save for retirement can take place while you are building your security fund. So remember this when regarding step 3. Come up with a plan that allows you to build a security fund and save for retirement.

Chapter 5: Retirement

I'm not trying to scare you, but social security will not be enough to live off of. Right now the average social security payment is about \$10,000 a year. That's just not enough to live off of. On the bright side, imagine how much you'll enjoy your golden years when you have some other money set aside. Knowing you are building for the future will give you instant piece of mind. And you'll reap the rewards when your golden years arrive. Let's create a retirement account. I know retirement seems so far away, or you may have plans to strike it rich, but plan and start now. You'll be thankful. So sign up for a retirement plan at work. If your work doesn't offer a plan create your own. Open up an IRA, an individual retirement account. If you are self-employed you can open up a sep-IRA or an individual 401k. You'll have higher limits and extra tax breaks. You can easily set up an IRA at your local bank or online financial institution. As with any choice involving money, shop around and look for the best deal. Watch out for fees and look for plans that have plenty of investment options. This is certainly not an exact science but you can try and get in the ballpark. Think about how much you currently live off of. Account for the increase in prices. When you retire, how are you going to pay for your expenses? Yes, you may receive social security but that won't be enough to cover your expenses. That's where your retirement savings comes in. How do you get there? Let's start with the 10% savings guideline. See how much that saves you. If you are over 35 and you are just getting started you should put in more. And remember, this is step 3 to be done after you have saved \$1000 for an emergency fund, and after you've paid off debt that is stealing from your future. Run the numbers. Find out what 10% of your savings total is. See how much you'd be saving if you put that away every month. Figure in a conservative interest rate. If you don't like those numbers or you're over 35, increase your percentages and also keep in mind that your income will most likely go up so you can put away more towards retirement. But the key is to start now. I acknowledge thinking about retirement, setting aside money, can be overwhelming, especially if you're just scraping by right now. The purpose of this is not to discourage you; it's to provide direction, give you something to shoot for. It's not enough to cut back spending. Save and put your money in a savings account. To truly grow your money, you're going to want to invest. Just like any decision you make involving your money you want to make a wise choice. I'm not saying you need to become a stock market expert, but you also don't want to blindly follow advice from a biased source. Again, make a fully informed decision. If you contact a professional, make sure they have appropriate credentials. Though this is not an investment seminar, I'll give you some pointers later in the program.

Chapter 5: Save for a House?

The first thing you should determine is if home ownership is right for you at this time. It's not right for everyone, and it's not right all the time. Ideally you'd be able to become a homeowner at some point. In addition to the pride of ownership, you'd have a place to live rent-free in your golden years or an asset to sell off or pass along. However, rushing to buy a house, just to buy a house and ending up with a bad home loan is not worth it. Home ownership is not a requirement to living financially healthy life. If you don't own a home and you build for your future by saving, you'll be ok. You'll get the convenience of not owning a home, and home ownership may be right for you down the line. There are many considerations that go into your decision to buy a home. Can you save for a down

payment? Can you afford the higher home costs? Including utilities and insurance and taxes. There are several books and 5-hour classes that talk about how to buy a home so I'm not going to cover everything here. I'm just going to talk about some big picture items. Some important milestones and mindsets. Your investment in your home may be the biggest investment in your life. Make sure you research what you're investing in. Make an informed analysis of the house you want. Home values don't automatically go up just because it's a home. You want to know the neighborhood, you want to research the property, inspect the house, and look at comparables. That's as far as I go into talking about the actual house. I'll let others cover that. But I want to talk further about how much it costs and how it affects your financial situation. Remember the pie chart. Your house, may, we hope, go up in value. But you don't want to be paying an irrational amount of your money toward your house. If you are paying too much toward your house, how are you saving for your future? How are you paying for other things in your life? For food and basic necessities like repair and maintenance, let alone fun? Go back to the pie chart. See what you're comfortable with. Know the higher the percentage of your income going to your house, the riskier it may be. Buy a home you can afford. That lets you have money balance. In our borrowing section later in the program I give you some pointers about the mortgage. You want to make sure you're signing a good loan. And one more thing, if you seek professional help, make sure you work with a licensed professional with appropriate credentials.

Chapter 5: Paying Off Your Home Early

Step 4 is advanced financial planning. It can have numerous parts but I'll touch on three. Paying off your house early, saving for your child's college education, and saving for another dream. Let's start with paying off your house early. If you are able to eventually do this, paying off your home early can be a great boost to your retirement plan. You can live rent free in your golden years. Your social security and retirement savings will go a lot further when you don't have to spend it on housing. If you are able to stay in your house, you can pass it along to your children or favorite charity. Think of the great return. Suppose you're paying 7% on your mortgage. Every dollar you pay earns 7% guaranteed. Unlike the interest you earn on your savings account, you don't have to pay taxes on that 7%. Depending on when you bought and the time frame for your mortgage, you may not need to do a thing. Perhaps you'll have your house paid off by the time you retire anyway. Of course the quicker you pay off your house the more money you save. That's less interest you'll be paying a loan and could save you thousands of dollars. What money should you use? Play with the percentages. If you've paid off your debt you have 15% to play with. If you build up your security fund and are building enough for retirement, perhaps you could put some more money toward paying off your house early. Just Remember, make sure your money isn't just in your house. You want to diversify. Don't put all your eggs in one basket. You want to make sure you are building enough for retirement. If you are able to pay off your mortgage faster, you'll be shocked at the amount of money you'll save.

Chapter 5: Saving for your Child's College Education

I'll talk about sending your child to college while we're on the topic of financial planning. Here I'm only going to talk about saving or investing. The earlier you start on

this the better. The cost of college education is skyrocketing and support is not keeping pace if you have time on your hands, you can invest and build up some money. There is also a college savings plan called the 529-college savings plan. Unlike your other investments, this one has tax-free growth on investments. You maintain control over the account, meaning you decide when to distribute the money and how much to give out. You can take back the money at any time though you may have to pay a slight penalty, perhaps 10% on the earnings. You can also shift it to another child. Each state offers its own 529-plan and you should check it out. We have another program called debt-slapped that you can watch with your child to help him or her make a wise financial decision regarding college. You can find more information at www.debtslapped.com. Don't let a thinking trap prevent you from saving and building for your future. Start now. You don't need to do it all in one day. Build it slowly over time. The 'guaranteed education tuition' is Washington State's 529-plan. You can find out more information online at www.get.wa.gov or by calling 1800 955-2318.

Chapter 5: Saving for Another Goal

The next part in advanced financial planning is to save for another dream. At some point at the right time you may want to change your percentages. You want to gauge how you are doing on all other steps and parts we've mentioned. If you are ok with where you are at with those plans, you may want to start putting some money to another financial goal. Of course you don't want to short change your retirement, but see if you have enough to save for another dream. Check your percentages and see if you can apply 5% or more to another dream.

Chapter 5: Your Financial Goals and Plans

So, where are we now? You've learned a great deal about your financial situation. And we've gone over an outline of a plan to build for your future. Now it's time for you to make your own plan. A good starting goal is for you to make a budget that works for you. A budget where you don't spend more than you make and you have money balance that has the future in mind. Spend and save like there is a tomorrow. Take some time to think about your goals, and your plan to get to those goals. Remember the financial plan we went through. See what you can do to get closer to your goals. Have security, and live a little. Let's talk about goal setting and planning. You can brainstorm goals. You can have short, immediate, and long-term goals. Get specific, make definite goals and put them on a timeline. Then start getting specific and prioritizing. Start here and now. What are your immediate financial goals? Get on a budget, pay off debt, start saving, work on your money balance. What do you need to do to do that? Make a list. Break down your goal into achievable increments. Don't just say start saving. Get more specific. For example, I want to save \$1000 for my emergency fund. Put it on a timeline. I want to save \$1000 in five months. Then have a way you can measure progress. For the \$1000 saved in 5 months, I'd want to put \$200 in to savings for 5 months. That way I can measure how I'm doing on that goal. To review, Set a specific goal, put it on a specific timeline and measure your progress. There are goals you can go after right now whatever your financial situation. If there are goals outside of your financial situation, write those down too. What do you need to do to accomplish those goals? Make a timeline. Put it in to

achievable increments. Just make sure you're doing your own thinking. Don't let the advertisers think for you. It's nice to have things, but what do you really want?

Chapter 6: Insurance

Let's discuss some of the tools you should use to manage your money better. The reason you have insurance is it protects your budget. It protects your financial situation. There's a study that says the #1 cause of bankruptcy is a medical issue. You want to make sure you are properly insured so if something goes down you're covered. So make sure you have adequate health insurance. You want to make sure you are covered completely. You want auto insurance, so if you get into a wreck you don't incur budget-busting expense. Having auto insurance isn't enough. Make sure you have enough coverage. To be properly insured you'll also want to have disability insurance in case something should happen and you cannot work. Long-term care insurance is another way to protect your future. The cost of a care facility can quickly eat up your savings. If you have a home you'll definitely want to protect your investment with homeowners insurance, again making sure you have enough coverage. If you rent, you can protect yourself with renters insurance. If you have a family, you can protect them with life insurance. Insurance may not be fun to think about but it will put your mind at ease knowing that you and your family are protected. Some insurance is required by law, such as car insurance, and homeowners insurance is mandatory with most loans.

Chapter 6: Organization

Part of good money management is keeping safe, secure, and organized records. You want to keep your financial records in a file cabinet or some other secure place. Make folders and organize your financial records. File borrowing agreements, contracts, and other legal records in a manner you can easily locate them should you need them. Don't panic. Take some time and work on your organization. It doesn't have to be perfect, just take some time to work on your system. For those of you that file things electronically, make sure you make a backup or store documents on a backup hard drive as well. I want to make another mention of due dates here. Make note of your due dates. That plays a major role in improving your credit. We talk about that more later.

Chapter 6: Identity Theft

With the rise in identity theft, you want to make sure you protect your information, so you are not a victim of an identity theft scam. Opt out of pre-approved credit offers. You can call 1-888-5-opt out. That's 1-888-567-8688. You can reduce telemarketing calls by getting on the do not call registry. Donotcall.gov or call 888-382-1222. Shred those offers before you recycle them. Be very careful with your social security number. Do not give it out unless required to do so and be careful where you store it. Do not carry it in your wallet. Protect yourself online. Do not fall for a fishing scam. This is when you receive a fraudulent email that looks like it is from a legitimate source such as a bank or online merchant. They'll ask for your personal information. Do not give it in this manner. Contact the institution or business directly and talk with them. When you pay online make sure you're on a secure site. Check your bills every month and make sure there are no fraudulent charges. Finally, check your credit reports at least once a year or more if you are suspicious of any activity. Later in the resources section we talk about what to do

if you are a victim of identity theft. Know that when you go to the opt-out pre-screen registration or to get your free credit report, you will be asked for your social security number. The three credit reporting agencies and the website to go to, to get your free credit report from each of the three credit reporting agencies are listed in our credit report section later in the program. Finally if you would like more information about identity theft go to the federal trade commission's website which is listed on the screen and in the resources section of this chapter.

Chapter 6: Credit Union or Bank

If you're not already, consider working with a bank or a credit union. If you are, consider shopping for better terms. What am I talking about when I say bank with a credit union, or bank? I'm talking about opening up a checking account and a savings account. Banks and credit unions have other services as well. But let's start here. A good relationship with a bank or credit union can help qualify you for a loan. So what's the difference between a bank and a credit union? A bank has stockholders and clients. Whereas a credit union has members. It's like the difference between a business and a non-profit organization. One of the banks goals is to earn a profit to pay money to its stockholders. On the other hand a credit union does not have stockholders so it can keep costs lower and put money toward its members. However, sometimes a bank can offer better rates of return and interest rates on your savings. You'll have to compare. Sometimes you have to be an employee of a particular organization or business to be eligible to join a credit union. But often anyone can join a credit union by becoming a member. Because credit unions are smaller, they may not have some of convenience and accessibility of banks. If you travel out of the state, you probably won't find your credit union's ATM machines. Why work with a credit union or a bank? It's a good way to keep your money safe. Your savings is secured for up to \$250,000. There's a safety factor there. That is the current amount at the making of this program, but could in theory change if new legislation is passed. Ask your bank or credit union about how much of your deposits are insured. See what other protections your bank or credit union offers. For fraud, for savings, for checking, compare.

Chapter 6: Checking Account

You can open up a checking account at a bank or credit union. When you open up your checking account you put your money into, or deposit money into that account. You can then write checks from that account or make cash withdrawal with a debit card. These are convenient ways to access your money. So with either transaction the check or the withdrawal money is taken out of your account. You can put money in to your account by making a deposit at the bank or credit union or by setting up a direct deposit with your employer. That way your money is automatically deposited in to your account. That's one less errand. Regardless how you do it that money will be available for you to spend without you paying any fees. Of course you'll always want to make sure you have enough money in your checking account to cover the checks or withdrawals you're making. You should shop around for a bank or credit union that gives you the best terms. Some banks may require that you always hold a certain amount of money in your bank account or they'll charge you a fee. Always be aware of fees. After you sign up for a checking account you'll receive a box of checks in the mail. If you do not have a secure

mailbox you may want to consider having your checks or debit card sent to your bank or credit union and you pick it up in person. If you sign up for it, you will also receive a debit card in the mail. Be careful with your debit card. Here's how you use your checks: you'll use one packet of checks at a time. They'll be numbered so you can keep track of the checks you're writing. Store the extra checks you aren't using in a separate secure place. You will also receive a debit card. A debit card is different than a credit card. Money spent or withdrawn from a debit card comes out of your checking account. You're not creating debt by spending money you don't have. But of course you have to make sure you don't spend more than you have in your account. And we talk about that later. You'll also want to make sure you always keep your debit card in a safe place. To use your debit card you'll be given a pin number or you'll choose one yourself. Do not keep that number with your card. You'll want to make sure you have money in your account when writing checks or using your debit card. To do this you have to keep track of your spending and how much you have in your account. You can do this by having a check register or general ledger for the checking account. A general ledger or check register is where you record the money that you put into your account or the money that you take out of your account by writing checks, or cash withdrawal, or debit purchases. So you can see how much money you have in your account. Here is how you use a general ledger or check register. First, you check how much money you have in your account. Of course you may have checks or withdrawals that haven't cleared yet so you want to make sure that you account for any outstanding charges or checks that will reduce the amount of money you have in your account. So start with your account balance and you simply record any money you take out of your account or any money that you put in. And then you simply record any money that's taken from that account or put into that account. Your spending and your deposits. And how that affects your account balance. So let's say you have \$500 in your checking account and you write a \$100 check for groceries. Record that purchase in your general ledger or check register. This is how you do that. There's four columns or categories. Date, payee or payer, basically who got paid or who paid you, amount and type, that's the amount that was paid and whether it was a check or withdrawal, and in the fourth column is account balance. How it affects the total of your account balance. So on my example I had \$500 in my account at the time, I didn't have any checks out there or charges that took a few days to show. I wrote the \$100 check at the food co-op. I'd write the date July 1st 2008 I'd write food co-op, I'd write the amount paid, making note it was a check. I'd write the check # and then I'd subtract that amount from my account balance. So now I have an account balance of \$400. I'd continue to do this every time I spent money from that account or I put money in to the account. If I got paid. Let's say I have a direct deposit. I'd enter that as well. I'd write the date, July 5th. Who paid me, and the amount, say \$1200, and then I'd add that to my account balance. I'd continue to do this for any spending and earning. There are software programs out there that will help you do this but your check register or good old spiral notebook will do the trick. It's easy, 5-10 minutes a day. If you spend 5-10 minutes a day you'll make sure you're not spending more than you're making and you won't overdraft checks. If you're using your debit card, save the receipts. Record those transactions then shred the receipts. You want to make sure you always have money in your account. A positive cash flow. Sometimes an expense surprises it and we don't have money to cover it. We want to avoid this. You can do that by tracking your expenses and seeing how much you have

in your account. You can anticipate your spending. You've made a budget. On that budget we listed due dates. In your general ledger or check register we talked about recording money you've already spent. To ensure you have money in your account, that is a positive cash flow, you can anticipate payments you'll have to make and see how that affects your balance. You're projecting into the future with your upcoming expenses. You plan for them so they don't take you by surprise. You know when your mortgage or rent is due, maybe your student loan or other bills, you probably know when you get paid and how much, so the idea is record that in to your ledger or check register. That way you'll know you have money in the bank to pay the bills and you'll pay them on time which is an important factor in your credit. Remember the idea isn't to spend the amount left over, maybe you can save it. If you build up a savings when an unexpected expense pops up you can cover it from your savings and not mess up your cash flow. The second way to ensure a positive cash flow is to set aside some money in savings. For those unexpected expenses. If an unexpected expense pops up you can use money from that to cover it. You want to be careful about just looking at your account balance to see if you have money in your account. Sometimes a check you've written or a cash withdrawal might take a few days to show up on your account. So if you go by your account before that happens, you won't have that money available to spend. To further protect you from this you may want to have your savings account wired into your checking account. So if you spend more than you have in your checking account money is automatically drawn from your savings account to cover the transaction. You may also look into getting over draft protection where your bank temporarily covers the expense and then they take the money out of your next deposit. This saves you from paying a fee from the business you purchase from. But usually the bank or credit union will charge you a fee for this service. You want to be aware of those fees. Shop around for the bank or credit union that has the deal. If you are consistently overdrawing your account rethink you're recording system and see if you can better track your spending. A quick note about credit cards and loans. The good thing about using your checking account as your spending base is it's a self-contained system, all your spending and earning is kept in one place. Credit cards and loans take you out of the system so it's easy to spend more than you have. Be careful of this as you'll have to pay for the debt with interest. So even though credit cards can feel like they're helping you they're actually raking from the money you have available to spend. Ok, back to our checking account. You are recording your earning and spending. Every month the bank is going to send you a bank statement. The idea is to compare your recordings with what's in your bank statement. This is called reconciling your account. If you have online banking you can do this more often than monthly. When you reconcile your account, basically, you want to make sure your bank accurately reports how much you got paid and spent. So I'd verify my check for work got deposited in to my account. And whether it was the correct amount. Same with your spending. Compare what you recorded in your ledger or register with the bank statement. Look for charges in the statement that you forgot to list, or that your bank or credit union charged you because that will change how much money you have available in your account. You don't want to blindly follow the account balance your statement says either because there may be some checks or debit card uses that may not have shown up yet. That's why you compare your check register or ledger with your bank statement. You'll also want to catch charges that were applied to your account that aren't accurate or maybe aren't even

yours. Reconciling your account will help you catch these. And of course you'd want to report these right away.

Chapter 6: Checking Account

Another good reason to use a bank or a credit union is a savings account. You can put your money into savings and earn interest on it. A side note about interest. Interest is a percentage added on to your money. To know how much interest you'll earn, you'll want to know the interest rate. The interest rate is the amount of money that will be added on to your savings over time. If you save \$1000 with a 4% interest rate you'll earn \$40 dollars in one year for just letting your money sit there. The more you save the more money you make. If you have \$10,000 in a savings account with 4% interest you'll earn \$400 in interest in one year. So the more you save and the larger the interest rate is, the more you'll earn. Another factor is how long you save the money. Of course you can make more with higher interest rates, but banks and credit unions have relatively low interest rates because the risk is so low. So a savings account at a bank may not have a higher interest rate or rate of return as a stock investment, but you have relatively little risk in saving your money in a savings account. I'm not saying stay away from the stock market. If you do enter the stock market tread carefully and know it's a risk. Of course you can do things to minimize your risk. We discuss more of this in our investment section in this chapter. So the more money you save and the larger the interest rate, the more money you'll earn. Here's one more factor. The longer you save the money, the more you'll earn. Because the money that you earn will become part of the total and you will earn interest on that new larger total. This is called compound interest and it can really make a huge interest over time. We talk about borrowing in the next chapter but know this. Just as interest and compound interest can work for you, when you save, it can work against you when you borrow money. There are different types of savings accounts. First there's your standard savings account. This is different than a checking account. You won't receive a checkbook or a debit card for your savings account. The idea is for you to put away your money, save it, and let the interest rate grow. You do have access to your money and you could put it into your checking account or withdraw it. Some savings accounts have limits on the frequency with which you can withdraw your funds. You'll want to clarify this. Generally, your traditional savings account gives you the most amount of access to your savings. Say compared to a certificate of deposit or investment plan. Of course the interest rate or rate of return is lowest in a regular savings account. It's a good place to save money if you need access to it. Another type of savings is a certificate of deposit, or CD for short. Generally, you can put your money in a CD for one year or for as many as 5 years. You choose the amount of time when you set up a CD. Generally the longer the amount of time you choose the more interest you'll make. For example. A 5-year CD will earn you more interest than a 1-year CD. Be aware when you sign up for a CD you cannot access the money you put into it without a penalty until the CD term is complete. For example, if I signed up for a 5-year CD, I cannot access that money for five years unless I pay a penalty. You will want to know what that penalty is before you move forward with a plan. Even the longer CDs can have a lower rate of return than the stock market. But of course there's always risk in the stock market. It can go up or down. One common CD savings technique is called the CD ladder. Lets say you take \$2000 or whatever amount and divide it by four, you know in quarters. So one fourth

you'll put in a one year CD, another quarter is a two-year CD, another quarter a three-year CD, and the final quarter a four-year CD. That way you'll earn more money on the longer CDs, and have access to 25% of your money each year. And then if you're able you can roll that money back into additional CDs. If you're computer friendly, you may want to consider online banking. That way you can check your account more conveniently and frequently. You have access to your account information online with a user name and password. Of course you want to keep your ID and password safe and follow the safe Internet practices. As we talk about in our identity theft section, don't blindly respond to emails that seem like they're from your credit union or bank. Contact those institutions directly. Now you have some questions to ask and terms to compare. Do some comparison shopping. Do they have fees for a checking account, overdraft protection? What are the fees for that? What savings plans do they have? What is the rate of return for each plan? Does the bank charge you to withdraw money? To come in, in person? What about bank branches? Do you need a lot? ATM machines? Will your credit union let you use another credit union's cash machine? What let's you save more of your money? What works for you?

Chapter 6: Investing

To grow your money for your other dreams, you'll want to invest. Just like any other money choice, you'll want to make a smart decision. I'm not saying you need to become a stock market expert but you also don't want to blindly follow advice from a biased source. Again, make a fully informed decision. If you contact a professional make sure they have appropriate credentials. Though this is not an investment seminar, I'll give you some pointers. First let me tell you my goal and my perspective. My goal for you is to make sensible long-term investments. Money for your retirement or other dreams. No get rich quick scams. Be careful of those programs. Though some investments have a higher payoff they may also be riskier. The idea is to grow your money over time. Not gamble on some high growth, high risk investment and be wiped out. The stock market is the best place for long term investing. Let me repeat the key phrase. Long term investing. The stock market is risky. It goes up and down. But over time it has gone up. The key is you have to be able to leave your money in the market long enough for it to build. Again, the market goes up and down but over time it has gone up. Generally in investment and stocks as measured by the benchmark *Standard & Poor's* index has never lost money for any thirty-year period. The stocks may have gone down at some point, but by the end of the thirty-year period the stocks made money. Even stocks bought before weathering the great depression recovered by the late 1950's. So think long term. And only invest money you don't need immediate access to. For money you need immediate access to, you may want to put it into a traditional bank savings account or a short term CD. Of course you have to be careful about which particular stock you buy. Diversify your investments. Don't put all your eggs in one basket. If you invest in one company and that company fails, you're wiped out. The idea is to slowly and steadily grow your wealth. You won't get rich over night but you won't get wiped out either. Diversification, getting different stocks, is the best possible return for the least amount of risk. Shop well; make sure you know what you're paying for. There are brokerage fees and other charges that can be taken from your money. Just like you comparison shop for something you buy at the store, compare fees. So you don't have to spend a lot of time researching or paying

someone else to research, consider an index fund. Also called an index mutual fund. These can have low overhead, meaning not a lot of fees, and you get an instant, no hassle diversification. Of course you'll still have to research which index fund you put your money into. How do you choose an index fund? Look for an index fund that has low annual fees and includes a lot of different stocks. The most popular index funds are based on the *Standard & Poor's 500* index. You can get more diversification with slightly higher fees by considering a total stock market index fund. You can also opt for an index fund that includes stocks of companies based outside of the US, which gives you even more diversification. Where should you buy an index fund? Look for a place that has the lowest amount of overhead fees. You can get an index fund through your retirement account or a stand-alone investment. A discount brokerage may be a good place to start. You can find one online. Shop around. Hunt for the lowest fees. Make a fully informed choice. If you're shopping through your work, look for an index fund and just sign up for it. If there is no index fund on the list look for the most diversified lowest cost mutual fund and ask your work to add an index fund for next year.

Chapter 7: Cost of Credit and Loans

We're giving borrowing its own section because so it's so important. Borrowing can be used to make money through equity in a house or a better job with education and training. But you can use a lot of money with borrowing too. By getting in over your head in debt. By not understanding the terms of the loan. Or the true cost. Any time you make a borrowing decision even if it's for something that goes up in value like a mortgage or an education that may lead to a better job, it needs to be part of strategic choice. Remember the thinking trap about credit cards and loans. Credit cards and loans are not budget helpers. Instead they come out of your budget and give you less money to spend. If you borrow a lot of money you could end up paying that off for a long time and pay out a lot more money than what you spent. When you borrow money you have to pay back what you borrowed and then some. You have to pay for borrowing the money. Let's say you have \$5000 in credit card debt with an APR of 21%. You don't buy anything else, that's it. You pay the minimum monthly payment of 2% of your outstanding balance, you with me? It will cost you \$37,198 to pay off the \$5000 and it will take you over 50 years. That's how expensive debt can be and that's how long it can take. There are various ways to borrow money. A credit card, a payday loan, a personal loan, an auto loan, mortgage, second mortgage, home equity line of credit, or refinancing your house.

Chapter 7: Speak the Language

Let's speak that language of borrowing by going over some essential terms. You've probably heard the terms principal and interest. Principal is the cost of the item you are borrowing. So if you finance a purchase of a \$10,000 car that's the principal. Or a \$250,000 house that's the principle. Or let's say someone uses a credit card to buy a computer for \$2000 the principal would be \$2000. Unfortunately, if you have to borrow money to make one of those purchases we just talked about, or any other purchase it could cost you a lot more. You have to pay for what you borrowed, and then some. Interest is one of those costs. It's one of the costs of borrowing money to make a purchase. Interest is added on to your loan. So you pay back the loan with interest and other costs. To figure out how much interest you'll pay you'll want to know the interest rate. The

percentage of interest that will be added on to your loan. You want the percentage to be lower because that's less added on to your loan. If 12% is about average for a credit card, 5% is better, and 2% is better than that. Think of it like a reverse sale. In a sale you want the percentage to be higher. 50% off is good, 80% off is better. With interest on a loan it's how low can you go. Now interest isn't just tacked on to the bill, it's added on over time. Depending on how long you take to pay off the bill. To get a clear picture of how much a loan will cost you on an annual basis, you'll want to know the APR. That's annual percentage rate. It's an annualized look at the cost of credit taking in to account interest and fees. We'll talk about fees in a bit but APR is a term of art. It's a standardized why to talk about interest, to speak the same language. I know it sounds strange but if you ask a lender for an interest rate, this will be different than the APR. The APR includes interest and fees. So if you get the interest rate ask for the APR as well. Lets go back to the figures I mentioned. Our credit card example. He purchased a \$2000 computer with his credit card. That's the principal and his starting debt. The card had an APR of 17%. He only paid minimum monthly payments of 2% of his total debt. To pay off the \$2000 he'll have to pay off a total of \$6018. So a \$2000 computer purchase turned into a \$6000 purchase. That's \$4000 in interest. Double the price of the computer. And by the way, that's paying over 27 years. Even a small change in interest can make a huge difference in the cost of a loan. If we change the APR of our credit card example from 17% to 21% APR the total amount paid to pay off the \$2000 computer would be over \$13,000. That's over \$11,000 in interest and almost triple the interest of a card with the APR of 17%. The larger the loan and the longer the loan is the more difference a change in interest makes. For a 30-year fixed mortgage, a change in 1% can mean thousands and thousand of dollars over the life of the loan. There is another very important piece of information you'll want to know about your loan. Is the interest rate fixed, which means it stays the same or is it variable, which means it can go up or down? If you get a variable interest rate and it goes up, you may not be able to afford the payment. You want to be aware of the fees you're going to be charged when you take on a loan. Some fees are standard, some fees may be over-priced, and some fees may not even be necessary. Here's an example of how much fees can cost. Jimmy took out a loan for a credit card for up to \$1000. Any time you hear the terms "up to" or "as low as" you may not get those terms. It's bait and switch. So Jimmy gets his card in the mail. It's for \$300. A lot less than the \$1000 he thought he was getting. It came with a laundry list of fees. There was a priority-processing fee for \$50, an origination fee for \$50, a membership fee for \$50 and an annual fee for \$50. That's \$200 total on fees. Insult to injury, this \$200 is subtracted from his \$300 credit limit. So he just paid \$200 to get a \$100 credit limit. He didn't know it worked like this so he spent more than the \$100 credit limit and he had another fee tacked on. You should know the length of time of your loan or credit. How long are you going to be paying off your credit or loan? If it doesn't have a set time period like a credit card, it's a revolving loan, which means it can go on and on. That's how you can take over 50 years and pay over \$60,000 to pay off \$8000 in credit card debt. Make a plan to pay it off. You should be aware of certain terms and conditions. You should be aware if your loan has a pre-payment penalty, which means you pay a penalty if you pay off the loan early. You should also be aware of balloon payments. This is where you have a very large payment at the end of a loan that you may not be able to afford. Now's a good time to go over some borrowing fundamentals. We've established that borrowing costs money.

That's the first fundamental. The second is: the more money you borrow, the more it will cost you. Because you're paying interest and fees on a larger amount of money. The third borrowing fundamental is: the longer you take to pay back the loan, the more it will cost you. Because you pay interest and fees over a longer period of time.

Chapter 7: Make a Wise Choice

So we know borrowing costs money. Well, if it costs money it should be looked at like a spending choice. And how do we look at spending choices? We assess whether we can afford them. We look at the cost, the price, and ask if you can afford it. I'm going to break down just how to do that. One thing not to do is to just assume you can afford a loan simply because you are approved for it. You are ahead of the game if you assess whether you can truly afford a borrowing choice. The problem is some people's decisions about whether they can afford a loan is based solely on the monthly payment. Of course you'll want to make sure you can afford the monthly payment but there are so many other considerations. The monthly payment is only one of those. If you seek a loan or let yourself be talked into a loan based on a monthly payment more likely than not you're pay more than you should. It's like the guy who pays \$200 every month to pay off his credit card. What if he pays that for 30 years? Let's go through the process of how to make a smart borrowing choice. First, think about the big picture of your financial situation. You will be taking on a debt with your borrowing choice. How does it affect your debt vs. your wealth? If you are borrowing for something that goes down in value, limit how much you borrow and try to pay it off quicker. That way you won't go deeper in debt. Limit it as much as you can by borrowing less money and paying it off quicker to keep you from going further under the line. Remember, you only have so much money to spend. You want to spend your money in the best places. Be intentional. The same with borrowing. You can only borrow so much money, and the more auto loan debt and the more credit card debt you have, the less you'll have to borrow for a house. Make sure you don't have any borrowing thinking traps. Are you making decisions based on your actual situation as they are right now? Are you looking at the borrowing as an expense as an expense you'll have to pay back? Are you looking at the full cost or only the monthly payment? Does the item you are borrowing money to buy help your financial situation? Your thin red line? Or do you just really want it? Have the marketers got you?

Chapter 7: Know the Full Cost

Even if you are borrowing money for something that you hope goes up in value like a house, or something you hope will lead to more money like education or a business venture, it doesn't mean all bets are off and you can borrow as much as you want. You still have to make a careful analysis. Thoughts like 'it will all work out' or 'I'll strike it rich then pay it off' or 'I'll worry about it later' are all borrowing traps. Know the interest rate, the APR and any fees you're being charged. That will help you determine the cost of the loan. What will the loan cost you when you pay it off in full. That's an important figure. Especially when you start to compare different loan costs with different lengths of the loan and different interest rates. For a car loan what's the difference if I pay off this loan in three years vs. seven years. Or for a house, 20 or 25 years vs. 30. You'll see the thousands of dollars you can save by shortening the length of the loan or getting a lower interest rate. Just like you shop for a car or house, shop for a loan. Don't just go to the

first person who offers you a loan. Try a bank, credit union, try a mortgage broker. Get 5 different quotes.

Chapter 7: Money Mindsets

Does the borrowing choice upset your money balance between your needs, your wants, and savings? Run the numbers. Take a look at it. Make sure you're including all the related costs of your borrowing choice to make sure you can truly afford it. For a car, you want to include insurance, gasoline, maintenance. Run the numbers with those things in mind. For a house, you'll have higher utility costs so you'll want to consider those as well. You of course want to make sure you can fit all of those into your monthly budget. If you did not figure these costs into your balance of money, run the numbers on those to see your money balance. But don't just stop with the monthly payment. You want to see how this borrowing choice affects your overall financial situation. How much debt will this put you in? How long will it take to pay off? No matter what you are borrowing money for make a careful analysis. How much debt are you going into? How long will that debt take to pay off in full? How much of that debt payment takes up of your income? Think back to the pie chart, a slice of debt. If striking it rich and paying it off later is your plan, consider what happens if your plan changes. Does the borrowing choice fit in to your plan? Does it fulfill your top needed priority? Is it where your money should be going? Think about it before you do it.

Chapter 7: Credit Cards

Let's talk about specific borrowing choices. Credit cards: think about why you're using your credit card. Are you using it for emergencies or convenience? Do you think it's a budget helper? Are you looking at the true cost of your credit card use? Yes you may be gaining rewards or points. But how much are you paying in interest and fees? I'm not saying you should go through your terms and conditions with a microscope. But you should know a few things. If you already have your credit card, you should know how much debt you're in. What's your balance? If you're shopping for a credit card you should know the interest rate. Know the due dates. Know the credit limit. Know there are different APRs for different credit card transactions such as purchases, balance transfers, and cash withdrawals. Know your APR. You should also be aware of any fees you will be charged. This is an important note about credit card APRs. Remember how we said there's a difference between fixed and variable interest rates? Well for credit cards there's no difference. Even fixed interest rates can change. Credit card companies can change your interest rates if you're late with a payment or you go over the credit limit. Here's the deal, credit cards can change your interest rate for any reason whatsoever as long as they give you 15 days notice. So credit card interest rate is effectively variable. Know that if you have credit card debt, they could change your interest and give you a lot more debt just like that. So know if you run up a debt, the cost of that debt can skyrocket with an increase in your interest. That may put you in a hole. Other things you should know: know your due date. Sometimes your due dates can change and if you're late with a payment you'll get a late fee and your interest rate can go up. You may consider calling your credit card company and setting your due date. Be aware of when yours is for many reasons. You don't want to pay a late fee. If you're late your interest rate may jump up. Or, if you are late, it can negatively affect your credit. We'll talk about credit in a little

bit. Know your credit limit so you can stay within your limit. If you go over your limit you are hit with an over the credit fee and your interest rate can go up. Thereby making your debt go higher just like that. You want to do more than stay under the limit. Here's an important consideration for credit card users. If you carry a balance over 25% of your available credit, that can hurt your credit rating. So if you have a credit card with a \$1000 limit, you should use no more than \$250. And the 25% recommendation can change, which is another reason to keep your balance at 0. It helps your credit and it saves you money. You should also make sure you don't have too much available credit. So don't sign up for a bunch of credit cards; that can hurt your credit rating. We elaborate on ways to improve your credit later. One other thing you should be aware of; if you are late with one payment on one card your other cards may increase your interest rate, even if you pay on time with them. It's called universal default. You should be aware of double-cycle billing. In a nutshell with double-cycle billing interest is charged on debt that's already paid. You should know how your credit card charges debt. The final thing is you should have an actual plan to pay the money back. How long will it take you to completely pay back, and how long will it take. Don't wait to make this calculation, or you risk being over your head in debt.

Chapter 7: Personal and Payday Loans

You should know how much money you're borrowing. Know the interest rate, the APR. If you are taking out a loan and you know you can't pay it off by the due date, stop and figure out when you will be able to pay off the loan. If you are not paying it off in full, if you continue making the amount of payments you are making, how long will it take you to pay off the loan? And how much will that cost you in total when you have paid it off? Better yet, before that happens figure out how you can pay it off in total. How much will you have to pay every month? How long will it take you? To save money on any loan, the quicker you pay it off, the more you save.

Chapter 7: Auto Loans

I'm just going to touch on some big picture items to think about when you buy a car. Know this, you buy a car at most every 5 or so years. The auto sellers and lenders do it daily. They've perfected the deal. They know how much they need to make it profitable. And the auto sellers, the more money you spend the more they make. So know you are dealing with very experienced players when you buy a car. Think of the thin red line. The car goes down in value the minute you drive it off the lot. So you want to limit the amount you spend on it. But be careful about spending too much. Don't just negotiate on the monthly payment. Of course you should be aware of the monthly payment, and make sure it fits into your budget. Make sure you cannot only pay for the car payment, but insurance, gasoline and maintenance. Don't start from your monthly payment. Start from the price of the car. What is the car worth? Be careful of add-ons. If you're considering a warranty see how it affects the total cost of the car in the long term, not just the monthly payment. Does it fit in to your plan? Make informed choices. Be careful of losing sight of a financial choice. You want a nice car but don't be blind to your finances. What makes best sense for you? Your thin red line of financial goals and plans, stick to it. You can always walk away. Don't be pressured. The more someone tries to pressure you the more shady the deal probably is. Walk away. Shop the loan. You looked at different cars, do

the same with your loan to save yourself money. Don't just get a loan from the dealer. Try a bank, try a credit union. Get 5 quotes, thousands of dollars are at stake. Here's another thing you should know. Go to a bank or a credit union and get pre-approved for a loan. If you do this at the dealer, they may not give you the credit you qualify for. So go to a bank or credit union first. Then you compare that with the dealer's financing.

Chapter 7: Mortgages

Previously in the savings section we talked about the decision to buy a house and how to prepare to do that. Here, I'm only going to talk about the loan. The mortgage. You want to shop the loan. Just like you shop for the house. Shop the mortgage. Get several quotes. Try different areas, try a bank, try a credit union, and try a broker. Look for the best terms. Your home may be the biggest investment of your life so proceed with caution. The idea is to secure your future, not make someone else rich. Try different places. A credit union, a bank, a mortgage company, a mortgage broker. It is up to you to make sure you receive the best loan you qualify for. How do you do this? Check your credit so you know how good it is. Don't rely on someone else telling you if it's good or not. Get several quotes like we said. Know the annual interest rate of your loan. Brokers or lenders must quote you the annual interest rate. This is different than the term of art annual percentage rate, or APR. Which includes certain fees in its percentage, get both, just compare apples to apples. Compare annual interest rate in this offer to annual interest rate in that offer. Or APR in this one to APR in that one. You'll also want to be aware of other terms and conditions in your loan in addition to interest rates. Fees, points, prepayment penalties, and balloon payments. Do your own homework. Check your credit report and make corrections. Remove information that should not be there. We talk further about credit reports and scores later. Know the average market mortgage rate, which you can get in the newspaper or online at www.freddiemac.com. Compare the interest rate your lender gives you with the annual market rate. Again, you can get the annual market rate in the newspaper or online. The interest rate you get should not be much higher unless you have really bad credit. Another reason to do your homework. You'll know if you have bad credit or not. If need be, you can clean it up before you make a move. Be point aware. What's a point? One point is a fee of 1% of the entire loan. So if the entire loan is \$100,000 one point is \$1000. Be wary of paying too many points. Shop around. Get a good faith estimate of closing costs, origination costs, and other fees of the loan. Get these figures and shop around. Be aware of large fees or lenders who won't give you helpful figures. Can you trust them? Remember when we talked about fixed and variable interest rates? If the interest rate is low, it may be a good idea to lock it down by getting a fixed mortgage. Be careful of an adjustable rate mortgage that is fixed for 5 years then moves up. They can be good if you're going to move, but not so good if you're planning to stay longer. Your interest rate can go up and you may not be able to cover the cost. Of course the interest rate may go down. However, if the interest rate is reasonable you may like the piece of mind of locking it down. That's the safest way to do it. Locking down the interest rate into a fixed mortgage. Be aware of balloon payments. A balloon payment is a large payment that will become due in the future in addition to your monthly payment. If you can't afford it you could lose the house and a lot of money. Also, be aware of pre-payment penalties. A pre-payment penalty is a fee, sometimes large, that you have to pay for paying off your loan early. This can limit your ability to

sell your home, refinance, or pay off your loan early. I hope we've established a need to be diligent to make sure you get the best loan you qualify for. Know what you are signing. You should know if you have to take out private mortgage insurance or PMI. Usually you have to take out PMI when you can't put at least 20% down. If Private mortgage insurance or PMI is required, you'll want to ask what the cost is. And use this as a factor when you compare your quote from lenders. Consider having a real estate attorney read your contract. It will be worth the few hundred dollars. They will be your advocate. They will also equal the playing field. The lenders do these transactions daily. You do not. But your real estate attorney does. Put him or her in your corner. As always, you want to be a good consumer. Make fully informed choices. Be aware of your thin red line, your pie slices, and your personal financial goals and plans.

Chapter 7: Mortgage Refinance

Your house is probably your biggest investment, so be very careful of any financial decision you make with it. Here are some factors to consider when refinancing your house. Do your homework. Check your credit reports. Remove information that should not be there. We talk further about credit reports and scores in that section. Find out how much you owe on your current mortgage. What is your balance? Also if you have a home equity line of credit or a second mortgage, you should know how much you owe. Be aware of other debts you owe as well. Credit card, auto loan, student loan, personal loans. You should know how much money you owe. Get a ballpark figure of how much your house is worth. Check out comparables in your neighborhood. Talk to a real estate agent. Eventually you'll have to get an official appraisal but a ballpark is good for now. Know the average market mortgage rate, which you can get in the newspaper or online. This will sound like a broken record but shop your mortgage, get 5 quotes; don't just go to the first person that offers you a loan. It is up to you to make sure you get the best loan you qualify for. Know your credit, do your homework, shop around. Do not take on more debt. Don't increase the amount of your mortgage. Don't cash out or tap in to your equity. You tap into your equity when you sell your house; anything else is just borrowing more money increasing the amount you have to pay back. And increasing your risk to pay it back because you are now paying more. Know the annual interest rate of your loan. Brokers or lenders must quote you the annual interest rate. This is different than the term of art annual percentage rate, or APR, which includes certain fees in its percentage. Just compare apples to apples. Compare annual interest rate in this offer to annual interest rate in that offer. Or APR in this one to APR in that one. Go with the best one for you, being aware of course of other terms and conditions in your loan. Compare the interest rate your lender gives you with the annual market mortgage rate. Again, you can get the annual market rate in the newspaper or online. The rate you receive should not be much higher unless you have really bad credit. Another reason to do your homework. You'll know if you have bad credit or not. If need be, you can clean it up before you make a move. Be point aware. What's a point? One point is a fee of 1% of the entire loan. So if the entire loan is \$100,000 one point is \$1000. Be wary of paying too many points. Shop around. Get a good faith estimate of closing costs, origination costs, and any other fees. Get these figures and shop around. Be aware of large fees or lenders who won't give you helpful figures. Can you trust them with this large amount of money? Remember when we talked about fixed and variable interest rates? If interest rates are low,

it may be a good idea to lock them down by fixing your loan. Be careful of an adjustable rate mortgage that is fixed for 5 years then moves up. They can be good if you're truly going to move, but not if you plan to stay longer, you may not be able to afford the house if the interest rate increases, or you may have to pay for a costly refinance. Of course the interest rate may go down. However, if the interest rate is reasonable you may like the piece of mind of locking it down into a fixed mortgage. Be aware of balloon payments. A balloon payment is a large payment that will become due in the future in addition to your monthly payments. If you can't afford it you could lose the house and a lot of money. Also, be aware of pre-payment penalties. A pre-payment penalty is a fee, sometimes large, that you have to pay for paying off your loan early. This can limit your ability to sell your home, refinance, or pay off your loan early. I hope we've established a need to be diligent to make sure you get the best loan you qualify for. Know what you are signing. You should know if you have to take out private mortgage insurance. It is usually required when you buy or refinance a home without 20% of the purchase price. Shop around and see if a lender will waive this requirement. If you build up some equity and have good credit they may do it even if you haven't reached the 20% mark. If PMI is required, you'll want to ask what the cost is. And use this as a factor when you compare your quote from other lenders. Consider having a real estate attorney read your contract. It will be worth the money. They will be your advocate. They will also equal the playing field. The lenders do these transactions daily. You don't. Your real estate attorney does. Put him or her in your corner. As always, be a good consumer. Make a fully informed decision. Be aware of your thin red line, your pie slices, and your personal financial goals and plans. Finally, how long do you plan to stay in your house? This is the place where most refinance decisions start. You can see how much the refinance will cost you and how long it will take you to make your money back. If you plan to move before you make back your cost, the refinance may not make sense. I want your costs to be as low as possible and I want them to be necessary.

Chapter 7: Student Loan

For those parents who are helping their kids finance their college education or trying to get them to think about making a sound financial decision, CENTS has developed a program just for you. It's called debt-slapped. More information can be found at www.debtslapped.org. You can check it out too to help you know what points to rise with your child. Start with this: taking on too much debt in college is like getting ready to run a race and then shooting yourself in the foot before you start.

Chapter 7: Business

This is definitely not a business start-up seminar, I'm only going to plug the wise borrowing decision making process we talked about. Do your homework. Be a good consumer. Make a fully informed decision. Perform a careful analysis of your business and your loan. Watch out for wild income projections or wishful thinking. You don't just want to risk. If you have to risk you want to make a smart calculated risk. How much money do you need? What is the interest rate? Is it variable? What will your monthly payments be? How much money will you pay in total to pay off the loan? Be wary of any risk that involves your security. Your home, your retirement, your future. Remember to

develop a proper business plan to assess financial requirements including licensing and permitting requirements.

Chapter 8: Overview

Let's talk about the credit reporting and scoring system. Your credit reports and score play a factor in the quality of the loan you will receive. Meaning the better the credit you have, the less interest you'll have to pay on the loan. There are other important factors such as income, assets, debt, and the size of your down payment. Let's talk more about the credit reporting and scoring system. When you use credit or take out a loan, that is credit history. Your credit history is compiled by one of the three credit reporting businesses into a credit report. Each credit report may contain different information. Your credit report contains your loan and credit accounts. Where you borrowed money and how much. Did you make your payments on time? Was your bill sent to collections? Did you file bankruptcy? All of that is in your credit reports. The information in your credit reports is calculated into a proprietary formula and the result is your credit score. Lenders look at your credit reports and scores when deciding whether to loan you money. How much, and on what terms. Meaning how much interest and fees you'll have to pay. The better the credit you have the less interest and fees you'll have to pay. And you'll have access to more money. There are other factors in a loan or credit decisions as well. Lenders also look at your income, debt, and assets.

Chapter 8: Credit Report

When you take out a loan or sign up for a credit card or finance a purchase that's credit history. Your credit history is filed into a credit report. There are three different credit reporting business: Experian, Transunion, and Equifax. Unfortunately because creditors don't report to all three credit-reporting businesses each one may have a different credit report on you. So Experian's credit report may be different from Transunion, which may be different from Equifax. You can get a merged credit report of all three credit reports once a year or you can get one every four months from one of the three credit reporting bureaus and keep cycling it that way. To get your free credit report, go to www.annualcreditreport.com. Or call 1-877-322-8228. This is the only official way to get your free credit report. You're also entitled to a free credit report if you get denied credit. This is how you get your credit report: after you call or go online you'll have to verify your identity. I would recommend looking at your credit reports once a year and before any major borrowing choice. If there is negative incorrect information on your credit report it's going to have a negative affect on your credit score. So you want negative incorrect information taken out. As far as negative correct information, time will heal that. I also recommend checking your credit report before a major borrowing choice. If something's happened to your credit, it's better to discover it early than to discover it after you lose out on a home or a car purchase. Your credit report has personal information on it: your name, your address. It has public information: have you filed for bankruptcy, have you been convicted of a felony. It also has your account information: where have you borrowed money? How much do you owe? Were you timely with your payments? Were you sent to collections? There's also a section on your credit report for inquiries: who ran your credit and for what. Look for these common mistakes when you're checking out your credit report: you have the right by law to make the following

corrections: bankruptcies older than 10 years should not be on your credit report. Other negative information older than 7 years should not be on your credit report. Credit inquiries older than 2 years should be removed. You want to make sure that your credit card, mortgage, and auto loan accounts that are in good standing are listed. If any other closed accounts are listed as open, close them. This is by no means an exhaustive list so if you find something else wrong, correct it. When you find an error on your credit report you're going to write the credit bureau you received the report from and dispute the error. We have the contact information of the three credit reporting agencies listed in the resource section of this program. You will dispute the item in writing. They will then notify the creditor of the dispute and the creditor has 30 days to respond. The credit bureau will change the credit report if the creditor cannot verify the listing. You'll want to read more about the dispute process of the particular credit bureau you are working with. If it's an important item you may want to seek legal help to correct the credit report. You have legal rights in this area, so I'd encourage you to enforce them. Did you know 1 in 4 credit reports contains serious enough errors to lead to a worse loan because of the mistake. Also, did you know landlords, employers, and insurance companies can look at your credit reports? People have lost housing and job opportunities and had their insurance raised because of their credit reports. There may be a problem with how your debts are listed in your credit report after bankruptcy. All debts discharged in your bankruptcy case should show a 0 balance and be noted as having been included in the bankruptcy. A common problem is your credit reports may not be updated after your bankruptcy to change the reporting of discharged debt from being listed as charged off or showing a balance owed to being listed as included in your bankruptcy and having 0 balance owed. Nearly two thirds of credit reports involving debts discharged through chapter 7 bankruptcy proceeding contained these types of errors. Again your credit report should list the discharged debt as included in bankruptcy and the balance owed should be 0 or no balance. The failure to update this information can have significant negative impact on your credit score and your ability to receive a fresh start. Check your credit report shortly after the bankruptcy discharge is received to ensure that debts discharged in bankruptcy are correctly reported and not listed as having a balance owed. File disputes with the credit reporting agency that list the incorrect information.

Chapter 8: Credit Scores

Credit scores range from 250-850. The higher the score the better. That means less interest and less fees and more access to money. How do you improve your credit? Fair Isaac Corporation, which create the Fico scores, says making your payments on time makes up 35% of your score. For negative marks on your credit like late payments, here are three considerations: 1. How recent were you late? The more recent you made a mistake the more negatively it will affect your score. The more time passes the less negative power the late payment will have. A late payment can only stay in your credit report for 7 years. The second consideration is frequency? How often were you late with your payments? Someone who was late once will fair better than someone who was late 10 times. The third consideration is the severity of the mistake. Were you late 30 days or 90? We know timely payments make up 35% of your score. Fair Isaac says debt payments make up 30% of your score. So the more debt you have the more it can affect your score. If you owe too much money and are using a big percentage of your available

credit that will be a negative mark. They want to see your installment debts, your house or your car going down, and they want to see that you're not using a lot of your credit. A guideline in the credit map is to use no more than 25% of your available credit. So if you have a credit card with a \$10,000 limit you should carry no more than \$2500. This guideline can change which is another reason to keep your debts at 0. Credit utilization is another factor. Let's say you have two credit cards, each with a credit limit of \$5000. For a total credit limit of \$10,000. If you've maxed out one of those credit cards at \$5000 you're using 50% of your available credit. Now, let's say you decide to cancel the card that you're not using. Now, you have one credit card with a limit of \$5000 and you've maxed that credit card out. But your credit utilization went from 50% to 100% because you're using all of your available credit. So in credit score land it doesn't always help your score to close an account or lower your limit. It's important to know the rules of the credit scoring game but make decisions based on your life and money management. If that card is going to be a temptation, cut it up. Generally, the longer you've had credit the better. The length of your credit relationships makes up 15% of your credit score. This considers the age of your oldest account. Another reason in credit score land not to cancel a card you've had for a while. But again if the card is a temptation or dings you with a lot of interest, I'd move on. The scoring system also takes into consideration the average age of all your accounts. Inquiries and applications of credit make up 10% of your credit score. The idea is that if you are applying for credit cards and having lenders run your card just to see it, this could negatively affect your score. Especially with applying for credit cards, because you could actually get several credit cards. The scoring system isn't as harsh for running your credit for mortgages and auto loans as long as you shop within a concentrated period of time, such as two weeks. The Fico formula ignores all mortgage and auto related inquiries for the past 30 days. The reasoning is consumers want to shop for the best credit and usually can't actually purchase several houses or cars. You should know it does not negatively affect your score when you look up your own credit through one of the three credit reporting agencies. A mix of credit and loans makes up 10% of your credit score. Fair Isaac wants you to have a mix of installment loans, like a mortgage, or a car loan, and credit such as a credit card or a home equity line of credit. Don't become credit report obsessed. Put your energy instead into making positive financial decisions. That way you're using a budget and you're not going into debt and you're making your payments on time. Those are major factors in your credit score anyway, so by using money management you're going to automatically improve your credit. If you are on a budget and have money balance you won't go into debt. You'll have your finance organized and you'll make payments on time. That's the two biggest factors in your credit score anyway. Be aware of how credit score land works but let sound money management trump that every time.

Chapter 9: I May Have a Financial Problem

In this section we talk about resources and referrals if you have a money challenge. This is a list of financial problem warning signs: you don't open up your mail because you do not want to know. You are receiving phone calls about bills. You don't know how much you owe. Your debt is growing. You have maxed out a credit card or cards. You are only making minimum payments. You are choosing the longest time to pay back your loans. You don't know how long it's going to take for you to pay back your credit card. You're

using a credit card or loans to pay for living expenses. If any of these fits you may have a financial problem or may be on your way to a financial problem. If you are worried about a financial problem, assess what the problem could be. Are you concerned about your job? A medical issue? Don't make the problem worse by taking on more debt. Make an emergency budget. Start cutting your wants. See what needs you could live without. If something goes wrong, you have an action plan. For chapter 13 bankruptcy filers be sure to monitor notices, or the lack there of, from servicers about interest and term changes, and look for unauthorized fees and costs. For all bankruptcy filers be careful of reaffirming a debt. Make a wise choice.

Chapter 9: I Do Have a Financial Problem

If something does indeed go wrong, take action right away. The more time you deny it or stall, the worse the problem can get. There is a way out. Start by getting a grip on the problem. How much do you owe? What is the issue? Contact your creditors and let them know the situation. Prioritize your bills and pay the ones that matter the most first. Don't let a collection agency influence your decision. Seek help from an unbiased source. Bill collectors are not unbiased so don't take their advice. Watch out for those who try to take advantage of others who are in a financial bind. Stay away from borrowing if you can. Seek help from trusted family members or friends. And of course you should only borrow for a need. Negotiate. Maybe your creditors will want to get paid something rather than nothing. Of course, you'll want to get any agreements in writing, and you'll want to know how it affects your credit. For those with a money challenge there are three basic paths. First is to budget your way out of it. This is the hardest to do but it will affect your credit the least. So what cuts can you make in your spending or increasing your income, to take on the money challenge. Just make sure that you are really too far over your head. Could you make radical changes to clear up the issue? How long would it take and what would it take? If you are just too far over your head then try one of our next two options. The second option is to seek help from a qualified legitimate credit counselor. Be careful of too good to be true promises. This field has been full of scandal so be careful who you work with. Here are some questions to ask: is the credit counseling organization affiliated? There's the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling agencies. How are they funded? Do they receive money from credit card companies and creditors and does this affect their advice to you? Would they advise you to take actions in your best interest? What do the regulators say about them? Call the better business bureau or your state attorney general's office. Don't use this as your only guide, because those that have been scammed may be too embarrassed to make a complaint. Ask the organization about its services. Be critical. It doesn't matter if it's a non-profit; you still have to research the organization. If they say credit counseling will have no negative impact on your credit, or they promise to settle your debts for less than what you owe without affecting your credit, walk away. They are not being honest. What are the fees involved? Be careful of high fees. Shop around. But make sure you don't just go for the lowest price. Take all these factors in to consideration. When, and how much will creditors get paid. Be very wary of any credit counseling organization that says you'll pay less than you owe without it affecting your credit. This is not true. When and how much will creditors get paid? Some credit counselors were set up to help clients that didn't make the payments to the creditors for

the client. This ended up further damaging the consumer's credit. The third option is to seek advice from a bankruptcy attorney. If the first option doesn't work, budgeting your way out of the financial challenge, I would explore options two and three at the same time. Bankruptcy may allow you to get a fresh start. You'll be able to discharge your unsecured debts such as your credit card debt, medical bills, etc. You will not be able to remove or discharge every debt however. Student loans are very difficult to discharge. You can't discharge child support. Debts like these are called non-dischargeable debts. There are two basic types of bankruptcy. Chapter 7 bankruptcy where you may have to give up some of your assets to pay off your debts. In reality most chapter 7 filers don't have any assets or if they do they are exempt so they don't have to be used to pay off debts. Dischargeable debts are wiped out. Like I said, the non-dischargeable debts are not wiped out. You can further research what is a dischargeable debt and what of your assets are exempt. A bankruptcy attorney is your best source of accurate information. Chapter 13 bankruptcy is another type of personal bankruptcy. In chapter 13 bankruptcy you are put on a 3-5 year repayment plan and you repay most or all of your debt over that period of time. As you can imagine bankruptcy does have negative consequences to your credit. It's definitely a black mark and it stays there for 10 years. However, some people's credit is already destroyed and bankruptcy will help him or her rebuild it with a fresh start. It's a personal choice. You should know you can only file once every 8 years so you want to make sure you are truly at your financial low point to file. No more bills or loans on your record. Though the bankruptcy will be on your record for 10 years you can still rebuild your credit and you will still have your access to credit. Of course credit and loan offers will not have the best terms, which means higher interest and fees. I think you should know all your options, be fully informed, and make a decision that allows you to rebuild. We have a list of resources and referrals in the folders section of this chapter. Take a look at it. We have a resource page in this chapter that you can see helpful resources and referral sources. We also have a flyer from the FTC about questions to ask a potential credit counseling organization.

Chapter 10: Yes We Can

I want to thank you for taking this course. I hope you found it helpful. I hope you utilize your fresh start and begin anew. I'll leave you with this: part of being a fully informed consumer is to be an active citizen. Check out some of the consumer organizations we listed in the resources section of this chapter. Think about getting involved. Your voice is important and needed

*Produced by CENTS
Centsprogram.org
Cents
Consumer Education and Training Services*