

# Smart With Your Money Workbook: Your Guide to a Stronger Financial Future

By DebtWave Credit Counseling, Inc.

**Introduction**

The Smart With Your Money (S.W.Y.M) Program Workbook is a beginner's guide to financial literacy. After reading the workbook, we strongly believe you will develop the skills to live a stronger financial future.

DebtWave Credit Counseling, Inc. is a nonprofit organization dedicated to educate people of all ages and financial backgrounds through seminars, community events, one on one counseling, and written literature such as this workbook. Since 2002, we have educated thousands of individuals by helping them set financial goals, budget for the present and future and ultimately build wealth.

Should you have any questions regarding this workbook, please contact our Education Department at (888) 686-4040 option 6. An online version of this workbook is available at [www.debtwave.org](http://www.debtwave.org).

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## Getting Started

Name:

Client ID: (DMP Clients only)

### Defining Wealth

One day, the father of a very wealthy family took his son on a trip to the country with the express purpose of showing him how poor people live. They spent a couple of days and nights on the farm of what the father considered a poor family.

On their return from their trip, the father asked his son, "How was the trip?"

"It was great, Dad."

"Did you see how poor people live?" the father asked.

"Oh yeah," said the son.

"So, tell me, what did you learn from the trip?" asked the father.

The son answered:

"I saw that we have one dog and they had four. We have a pool that reaches to the middle of our garden and they have a creek that has no end. We have imported lanterns in our garden and they have the stars at night. Our patio reaches to the front yard and they have the whole horizon. We have a small piece of land to live on and they have fields that go beyond our sight. We have servants who serve us, but they serve others. We buy our food, but they grow theirs. We have walls around our property to protect us, they have friends to protect them."

The boy's father was speechless.

Then his son added, "Thanks, Dad for showing me how poor we are."

There's a popular proverb you've probably heard before, "beauty is in the eye of the beholder." Well, the same can be said about wealth. Each person has their own definition of what being wealthy means. One might perceive having \$500 in a savings account as wealthy while another considers having \$50,000 in a savings account wealthy. One might need to have an expensive four bedroom home to be considered wealthy, where another person simply considers having no debt wealthy.

According to Merriam-Webster dictionary, wealth can be defined as *an abundance of valuable material possessions or resources*.<sup>\*</sup> But how do YOU define wealth?

\*Definition – Merriam-Webster.com

One of the most important things to do when managing your finances is to define what wealth means to you. The first question that should be asked is; what level of wealth is required for you to live the lifestyle you wish to enjoy? Retire comfortably by a certain age? Pay for your children’s college education? Purchase a home? Live debt free? Simply pay bills on time?

In the following space, write your personal definition of financial wealth:

**Now that you have defined what wealth means to you, how do you acquire it?**

Building wealth requires having the right information to plan and make good choices. The first lesson is to understand the meaning of **assets**, **liabilities** and **net worth**.

**Defining Asset**

An **asset** is anything tangible or intangible that is capable of being owned or controlled that generally increases in value or provides a return. Examples include:

- Home
- Car
- Savings account
- Cash
- Stocks and bonds
- Retirement plan
- Gold/Silver (Jewelry, flatware, etc.)
- Boat

Some possessions such as your car, clothes and big-screen TV are considered assets, but most do not increase in value. Did you know a new car typically loses 15 percent to 20 percent of its value each year? <sup>\*\*</sup>

\*\*bankrate.com/brm/news/auto/20011226a.asp

## Defining Liability

A **liability**, also known as debt, is money you owe. Examples include:

- Home loan
- Credit card debt
- Car loan
- Medical bills
- Student loans
- Past due or late taxes
- Past due utility bills

## Defining Net Worth

**Net worth** is the difference between your assets (what you own) and your liabilities (what you owe). Your net worth is one of the most common ways to measure your wealth. It is recommended to calculate your net worth every six months so you can track your progress.

Assets – Liabilities = Net Worth

**Example:**

| <u>Assets</u>                          | <u>Amount</u>    | <u>Liabilities</u>                    | <u>Amount</u>    |
|--|------------------|---------------------------------------|------------------|
| Cash                                   | \$500            | Home Loan                             | \$178,000        |
| Stocks, bonds, other investments, etc. | \$5,000          | Home Equity Loan                      | \$20,000         |
| Retirement plan (IRA, 401(k), etc.     | \$18,000         | Car loan balance                      | \$9,400          |
| Market value of home                   | \$180,000        | Credit Card debt (four card balances) | \$14,550         |
| Savings                                | \$1,000          | Student loan(s)                       | \$6,500          |
| <u>Other assets</u>                    |                  | Personal loan                         | \$2,100          |
| Car – market value                     | \$11,000         |                                       |                  |
| Jewelry                                | \$9,000          |                                       |                  |
| <u>Total Assets</u>                    | <u>\$224,000</u> | <u>Total Liabilities</u>              | <u>\$223,550</u> |

|                  |              |
|------------------|--------------|
| <u>Net Worth</u> | <u>\$450</u> |
|------------------|--------------|

Assets = \$224,000 - Liabilities = \$223,550 = Net Worth \$450

Let's list your Assets and Liabilities to determine your Net Worth:

| <b>Assets</b>            | <b>Balance</b> |
|--------------------------|----------------|
| Value of Home            |                |
| Value of Car(s)          |                |
| Value of Motorcycle/Boat |                |
| 401K                     |                |
| IRA                      |                |
| Other Retirement         |                |
| Personal Assets          |                |
| Stocks & Bonds           |                |
| Other                    |                |
| Other                    |                |
| Other                    |                |
| Other                    |                |
| <b>TOTAL</b>             |                |

| <b>Liabilities</b>                    | <b>Balance</b> |
|---------------------------------------|----------------|
| Owed on Home                          |                |
| Owed on Car                           |                |
| Owed on Motorcycle/Boat               |                |
| Home Equity Loan                      |                |
| Student Loan                          |                |
| Total CC Debt (USE CC Debt Worksheet) |                |
| Medical Bills                         |                |
| Other                                 |                |
| Other                                 |                |
| <b>TOTAL</b>                          |                |

|                        |  |
|------------------------|--|
| <b>Total Net Worth</b> |  |
|------------------------|--|



## Setting Goals

### Setting long-term and short-term goals

Most people who have built wealth didn't do so overnight. They acquired it by setting goals and actively working to achieve them. These goals are split between short-term goals (up to three years) and long-term goals (three + years).

Short-term goals are goals that you want to attain sooner rather than later, whereas, long-term goals can be things that are aspirations, as well as planning for the distant future, such as retirement.

When preparing your goals:

- Be realistic
- Establish obtainable time frames
- Devise a plan
- Be flexible; goals can change



#### SMART WITH YOUR MONEY TIP #304:

"A GOAL IS JUST A WISH UNTIL IT IS WRITTEN DOWN." —ANONYMOUS

Example: Bob is 35 years old and has set various goals to attain by the time he reaches certain ages.

Bob's short-term goals:

1. Pay off credit card debt in the amount of \$10,000 at the age of 38.
2. Increase net worth \$5,000 by age 37.
3. Save \$2,000 for son's team trip to Cooperstown by age 36.

Bob's long-term goals:

1. Have enough money in retirement to receive \$5,000 a month at the age of 60.
2. Save \$20,000 by age 47 to help with college tuition for son.
3. Pay home mortgage off by retirement at age 60.

The important thing to remember is these goals are yours and/or your family's goals. You have to do what is best for you and your family. Remember that "life" happens, circumstances change, so you may need to be flexible with these goals or, at least, move the goals up or down the list as needed. The list can be as long or short as needed, but be careful to not put too much on your plate.

In the space provided, list your top goals.

**My short-term goals (0-3 years):**

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

**My long-term goals (3+ years):**

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

Now, it's up to you to meet these goals.

**Savings**

"If you really want it that badly, you need to save your money." This is a common statement that most of us heard from a parent or guardian growing up. Saving is not always the easiest thing to do depending on each personal situation, but it is doable for everyone. Below are a few suggestions to get you started so you can save for a rainy day as well as your future:

- **Set a goal.** Since you're just getting started, make your initial goal attainable, the simple act of setting a goal gives you something to shoot for. Once you reach that amount, see if you can dig a little deeper and keep going. Most experts suggest creating an emergency fund of approximately \$1,000 kept in a standard savings account. This is a great first goal to set for yourself if you don't have an emergency fund in place already.
- **Save for specific needs.** Once you have your emergency fund in place, you may want to begin saving for upcoming needs such as a car, house or a vacation. Some people even have different accounts for each purpose so they can see how close they're getting to obtaining the item.
- **Start small.** Put 10 percent of take-home from each paycheck into an interest-bearing account. At the end of a year, you'll have a little more than one month's salary in your savings (aside from your emergency fund), and it's likely that you'll never miss the money from your paycheck.
- **Have the designated amount automatically deposited into your savings account.** You can't spend what you don't have, so remove temptation by deducting the money before you receive it.
- **Pretend it never happened.** When you get a raise or a monetary gift, use this as a chance to add extra to your credit card payments to pay them down faster. If all credit cards are paid off, put it straight into savings. After all, you were likely getting by before you had that money, so you'll likely be fine without it. If you get an income tax refund,

consider this lump sum as the seed money to begin your three-to-six month's income savings account.

- **Commit to leaving the money in the savings account.** Many people regularly deposit money into savings only to pull it right back out. Define what constitutes an emergency, and don't touch the money unless it meets the definition.
- **Shop around for the best rate.** If your local financial institutions are not offering good interest rates on savings accounts, search online. Many sites provide you with rate comparisons and minimum deposits for online banks. You'll want your emergency fund money in an FDIC-insured liquid account, so avoid making any long-term commitment such as a Certificate of Deposit, as you will be penalized for early withdrawal.
- **Examine all spending categories.** If you could carve \$10 out of 15 different spending categories, you'd have \$150 each month to go into your savings account. That means that in 12 months you'd have built up a cushion of \$1,800 which should see you through most short-term emergencies.
- **Include all family members.** A joint effort yields a greater result. You can make a game out of saving and have a prize for the person who saves the most each week. Or, set a family goal and reward everyone with a pizza party or another event that will serve as motivation to keep going.
- **Expect the unexpected.** Increase your emergency fund and build a cash cushion worth three to six months of living expenses. If you don't have an emergency fund, loss of income, broken furnace or damaged car can seriously upset your finances.

## Budgeting

There are many people that hear the word budget and immediately cringe. Establishing a working budget is not as painful as you think.

By choosing to budget, you can achieve your financial goals. You can pay off your debt, send your children to college, buy a beautiful home and save money for retirement or a rainy day. Through budgeting, saving and investing, and by avoiding or limiting the amount of debt you incur, your goals will become a reality.

When you take a vacation, what is the first thing that you do before you go on that vacation? You plan, right? You either book your flight or print directions if you are driving. Planning helps us maximize our vacation time so that we get to maximize the pleasure we get from the vacation. Why is it then that we plan for leisure, but we tend to avoid planning our financial future? A budget acts as a plan to help us achieve our financial goals which can be as or even more satisfying than even the best of vacations.

It is crucial to have a budget or spending plan in place. Credit card debt is the end result of spending money that you don't have. Establishing and sticking to a spending plan, will prevent you from spending money you don't have. It will also allow you to:

- Understand where your money goes

- Ensure you don't spend more than you make
- Find uses for your money that will increase your wealth

To develop a working budget or spending plan, you need to:

- Calculate your monthly income before and after taxes and other deductions (retirement and health insurance if applicable)
- Determine how much you spend on recurring monthly expenditures (bills)
- Determine how much you spend on day-to-day by tracking your daily expenses.

**Step 1: Calculate Gross and Net Income**

**Gross income** is defined as earnings before taxes and deductions. If you know your annual salary, simply divide that number by 12 to get your monthly gross income.

After you have calculated your gross income, the next step is to calculate your earnings after taxes and deductions, also known as **net income**. Calculating net income will provide a clear picture of how much of your money is going to taxes and other deductions. The best way to calculate this number is to view your pay stub from your most recent paycheck. Use the calculations below to figure out your monthly income:

If paid bi-weekly: multiply net income listed on your paycheck by 2.167

If paid weekly: multiply net income listed on your paycheck by 4.33

If paid semi-monthly: multiply net income listed on your paycheck by 2

**List your monthly income below:**

|  |  |
|--|--|
| Gross Income*  |  |
| Net Income (After Taxes & Deductions)                |  |
| Spouse/Partner Net Income (After Taxes & Deductions) |  |
| Part time income                                     |  |
| Social Security                                      |  |
| Disability   |  |
| Retirement   |  |
| Pension  |  |
| Military   |  |
| Annuity  |  |
| Child Support  |  |
| Alimony  |  |
| Rental Income  |  |
| Food Stamps  |  |
| Other  |  |
| Other  |  |
| Other  |  |
| Other  |  |
| <b>Total Income</b>                                  |  |

\*Total monthly income before taxes and other deductions

## **Step 2: Compile Primary Expenses**

Next, create a list of ALL of your monthly expenses, but prioritize them. Write a number next to each one starting with #1 as the most important. Essential categories such as housing, food, car payment and utilities should be at the top. (Page 15 will allow you to input all of your monthly expenses).

## **Step 3: List Secondary Expenses**

Secondary expenses such as entertainment, magazine subscriptions and travel should be near the bottom of your priority list.

## **Types of Expenses**

**Monthly Fixed Expenses** are nearly the same every month and include the following categories:

- Rent/mortgage
- Car payments
- Child care/child support
- Cable TV and Internet
- Car insurance (sometimes can be periodic expense)
- Medical insurance (sometimes can be periodic expense)
- Life insurance (sometimes can be periodic expense)

**Monthly Variable Expenses** occur monthly, but the amount varies:

- Food
- Payments on variable interest rate debt
- Cell phone bills/landline phones (Depending on plan, they can be fixed expenses)
- Electric/gas
- Heating oil
- Laundry/dry cleaning

**Periodic Expenses** occur regularly, but not necessarily monthly. These expenses can present the greatest difficulty when creating a budget. The best way to handle some of these is to calculate the annual total then divide it by 12 in order to calculate the monthly expense.

- Home/car repairs
- Medical co-payments
- Car registration
- Gifts
- Traveling
- Hobbies (movies, golfing, etc.)
- Clothing

## Tracking Daily Expenses

Do you ever wonder where all of your money is going? Have you noticed there's nothing left in your bank account at the end of the month? If so, you are not alone. Most Americans don't take the time to pay attention to all of their monthly expenses.

You probably know how much you are spending on monthly fixed expenses, but do you have an idea on how much you spend dining out or on clothing? What about gifts or your hobbies? There are many little forgotten expenses that can make a significant dent in our budget.

Most experts give the same advice to anybody who is having budgeting difficulties: keep a daily journal of all of your monthly expenses. It doesn't sound fun to update your journal every time you buy a 75 cent soda from the vending machine at work, but you'll be surprised to see how the little things add up. The main concept behind this exercise is promoting awareness – knowing where your money is going. Self-awareness will lead to self-motivation. Imagine that you discover at the end of the month that you spent a total of \$80 just to get your favorite cup of coffee every day. Wouldn't that motivate you to cut back on that expense?

### Sample Daily Expenses Chart

| DATE | CATEGORY                     | NAME                     | AMOUNT   |
|------|------------------------------|--------------------------|----------|
| 1/26 | Clothing/Jewelry/Accessories | Fun Clothing             | \$32.78  |
| 1/26 | Food/Groceries               | Coffee Beans<br>Java Hut | \$5.36   |
| 1/27 | Food/Groceries               | Ray's                    | \$182.23 |
| 1/27 | Pet Care                     | Poochy's                 | \$89.00  |
| 1/27 | Food/Groceries               | Coffee Beans<br>Java Hut | \$3.68   |

**\*To download your own electronic monthly spending plan chart go to [debtwave.com/our\\_program/budget\\_spending.aspx](http://debtwave.com/our_program/budget_spending.aspx)**

## Budget Categories

It's important when totaling your monthly expenses to itemize each category. This will help highlight any areas you could possibly make changes or cut back. The categories below are the traditional expenses. You can create extra categories based on your situation and lifestyle. They also can be added or subtracted as circumstances change.



### **SMART WITH YOUR MONEY TIP #31:**

LIMIT YOURSELF TO ONE TRIP TO THE GROCERY STORE PER WEEK. THIS WILL CUT DOWN ON IMPULSE PURCHASES.

List your monthly expenses below:

| <b>Expenses</b>                        | <b>Current Expenses</b> | <b>Priority Number</b> |
|--|-------------------------|------------------------|
| Mortgage                               |                         |                        |
| 2nd Mortgage                           |                         |                        |
| Rent                                   |                         |                        |
| Car Payment                            |                         |                        |
| 2nd Car Payment                        |                         |                        |
| Car Misc. (Gas, Repairs, Registration) |                         |                        |
| Transportation                         |                         |                        |
| Food/Groceries                         |                         |                        |
| Toiletries                             |                         |                        |
| Day Care/Babysitting                   |                         |                        |
| Education (Tuition, Tutors, textbooks) |                         |                        |
| Clothing/Jewelry/Accessories           |                         |                        |
| Charitable Donations                   |                         |                        |
| Laundry/Dry Cleaning                   |                         |                        |
| Gifts (Birthdays, Holidays, Parties)   |                         |                        |
| Cell Phone                             |                         |                        |
| Entertainment (Hobbies, Movies, etc)   |                         |                        |
| Travel                                 |                         |                        |
| Newspaper/Books/Mags                   |                         |                        |
| Memberships (Gym, Clubs)               |                         |                        |
| Alcohol/Tobacco                        |                         |                        |
| Pet Care                               |                         |                        |
| Personal Care (Haircut, Nails, Makeup) |                         |                        |
| Savings/Invest./Retirement             |                         |                        |
| Other:                                 |                         |                        |
| Other:                                 |                         |                        |
| Other:                                 |                         |                        |
| <b>Household Expenses Total</b>        |                         |                        |
| Gas/Oil                                |                         |                        |
| Electricity                            |                         |                        |
| Telephone                              |                         |                        |
| Water/Sewage                           |                         |                        |
| Cable                                  |                         |                        |
| Internet                               |                         |                        |
| <b>Utilities Total</b>                 |                         |                        |
| Life Insurance                         |                         |                        |
| Auto Insurance                         |                         |                        |
| Medical/Health Insurance               |                         |                        |
| Medication                             |                         |                        |
| Other:                                 |                         |                        |
| <b>Insurance Total</b>                 |                         |                        |
| Unsecured Debt Payments                |                         |                        |
| Student Loan Payments                  |                         |                        |
| <b>Debt Payments Total</b>             |                         |                        |

## Wants vs. Needs

Now that you have written down all of your monthly expenses, it's important to understand the difference between your needs and your wants. Needs are items necessary to survive. Most of our needs are the same. We all need shelter (rent or mortgage), transportation, utilities, food and clothing. On the other hand, wants are luxury items. They are discretionary expenses — things you might want but don't need to live. Examples of wants include eating out, going to happy hour, jewelry, cable television, cell phone ring tones and trips to the specialty coffee shop. The cost of wants is completely within your control and you can choose not to spend money on these activities and things.

### List five things you know you can cut out or spend less on: (Wants)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

Toward the end of this workbook, we'll list your current expenses again and give you the opportunity to list amounts that you can cut back on for each category. This will help show the bottom line savings from making minor changes to various categories.



#### **SMART WITH YOUR MONEY TIP #88:**

SORRY COFFEE LOVERS! TRY TO AVOID COFFEE SHOPS. \$5 A DAY ON COFFEE AND A SNACK ADDS UP TO \$150 PER MONTH! YOU CAN BUY THE SAME ITEMS AT THE GROCERY STORE AND MAKE THEM AT HOME FOR AT LEAST A QUARTER OF THE PRICE.



## Managing Your Credit Card Debt

In today's world, it's challenging to survive without credit. Essential items such as houses and cars are difficult to obtain without some financial assistance. In order to receive a car loan or a mortgage, you need to have previous credit. One of the ways to build your credit is to apply for and use a credit card.

However; it is essential to use credit cards correctly. Here are the basic rules:

- Don't pay an annual fee (unless the rewards offset the fee)
- Pay your bill on time
- Pay your bill in full each month. Don't carry balances over each month.
- Don't charge anything that you won't be able to pay off at the end of the month
- Limit the number of charges you make monthly (perhaps one or two). Try to use cash as often as possible since the average person spends 15 percent less when using cash instead of a credit card.

### The Pros and Cons of Credit Cards

Pros:

- Security from theft (insured)
- Source of funds in an emergency
- Can help build credit history
- Cash back/reward programs (as long as the rewards offset the fees)
- Convenience

Cons:

- Costs and fees
- Potential for overspending
- Terms and conditions of contracts are difficult to understand
- Target for scams and fraud
- Inability to pay will result in a poor credit history

The bottom line is credit cards need to be used with the intent and plan to pay them off. They should not be used for everyday essentials and spending.

### Power of the APR™

A lower APR (Annual Percentage Rate) can save you thousands of dollars if you carry a balance on a credit card. The best way to understand this is to first understand the following financial terms and formulas:

**Annual Percentage Rate:** the interest rate for the entire year (APR)

**Yearly Finance Charge:** total debt (balance) multiplied by APR

**Monthly Finance Charge:** yearly finance charge divided by 12

Below is a grid showing two different credit card accounts. They have different balances and different APRs.

|           | Total Debt | APR    | Yearly Finance Charges                | Monthly Finance Charges  |
|-----------|------------|--------|---------------------------------------|--------------------------|
| Example 1 | \$12,721   | 28.99% | \$3,688 ( $\$12,721 \times 28.99\%$ ) | \$307 ( $\$3,688 / 12$ ) |
| Example 2 | \$25,442   | 6.99%  | \$1,778 ( $\$25,442 \times 6.99\%$ )  | \$148 ( $\$1,778 / 12$ ) |

With example 1, you will notice the balance is significantly smaller than the balance in example 2. Both have different APRs. Even though the balance in example 1 is smaller, it has larger yearly and monthly finance charges. The higher the monthly finance charges are, the more difficult it is to pay off the debt. This is a result of the high APR.

Now, let's switch the APRs on those two accounts. Using the formulas listed above, calculate the yearly finance charges and monthly finance charges for Examples 3 and 4 below:

|           | Total Debt | APR    | Yearly Finance Charges | Monthly Finance Charges |
|-----------|------------|--------|------------------------|-------------------------|
| Example 3 | \$12,721   | 6.99%  |                        |                         |
| Example 4 | \$25,442   | 28.99% |                        |                         |

If you had a 6.99% APR on the \$12,721, you would save about \$\_\_\_\_\_ per month on finance charges than if you had the 28.99% APR. (Compare monthly finance charges on Example 1 with Example 3).



#### **SMART WITH YOUR MONEY TIP #51:**

BEWARE OF THE NO INTEREST AND NO PAYMENTS FOR 12 OR 24 MONTHS THAT SOME DEPARTMENT STORES OFFER. IF YOU DON'T PAY OFF THE BALANCE WITHIN THE TIME FRAME, YOU WILL LIKELY GET HIT WITH HEFTY FINANCE CHARGES. PLAN ON PAYING THESE OFF IN THREE-TO-SIX MONTHS, IF POSSIBLE.

## Hidden APRs and Fees

Even if you qualify for a low APR, be sure to read the fine print. Often times there are different or hidden rates that can be triggered. It's important to understand all the terms and conditions of your card. Here are some common fine print terms and conditions that are missed or overlooked\*:

- Know what the APR will be after the low introductory rate expires, which is often anywhere from 90 days to one year.
- Check out the default APR in case you fail to make a payment on time. Even a one day late payment can cause the APR to rise significantly. Failure to pay your existing credit cards on time can also affect the interest rate you will pay on new cards you apply for.
- Make sure you know the APR for cash advances you may take out on your credit card. Cash advance APRs are usually in the high 20's.
- Checks issued from credit card companies often have higher APRs than purchases made directly onto credit cards.
- If you routinely carry a balance on your credit card, pay closer attention to how your interest is calculated. The most common method for consumers is the "average daily balance" approach, where you would have a 15 to 30 day "grace period" to pay before incurring charges on the daily average for that period.

\*creditcards.lovetoknow.com



### **SMART WITH YOUR MONEY TIP #19:**

AVOID TAKING CASH ADVANCES ON YOUR CREDIT CARDS IF YOU CAN'T PAY IT OFF IMMEDIATELY.  
MOST INTEREST RATES ON CASH ADVANCES ARE USUALLY WELL OVER 24 PERCENT.

## The Consequences of Paying Only the Minimum Payment

It is a common mistake to get used to paying only the minimum amount that is due on your credit card bill. A small monthly payment may seem manageable in your monthly budget; however, the payment may not look so appealing when you understand the true cost of making that minimum payment.

A minimum payment is typically determined by the percentage of your entire balance. The percentage amount is usually about 2 to 3 percent, but can vary depending on the card. Keep in mind that the minimum payment goes toward the interest as well as the principal on the account.

Example: Manuel purchases a \$5,000 home entertainment system and charges it to his department store card. His APR is 24 percent and the creditor requires that he pays 3 percent of the balance as the minimum payment.

**Q:** How long would it take Manuel to pay off the balance making minimum payments? What would the total cost be?

**A:** 326 months, or just over 27 years. \$9,555.53 in interest, bringing the total cost of the home entertainment system to \$14,555.53 (nearly three times the initial cost).

On the contrary, if Manuel made fixed payments of \$150 (meaning he always paid this amount regardless of the balance or minimum payment), it would be paid off in less than 5 years. The total cost would be about \$8,322.09. It's still more than half of the original \$5,000, but it's nearly half the cost if he paid the minimum payment.

Below are some charts to show the difference between the two different methods:

Making Minimum Payments during the first year

|          | <u>Payment</u> | <u>Interest</u> | <u>Principal</u> | <u>Balance</u> |
|----------|----------------|-----------------|------------------|----------------|
| Month 1  | \$150.00       | \$100.00        | \$50.00          | \$ 4,950.00    |
| Month 2  | \$148.50       | \$99.00         | \$49.50          | \$ 4,900.50    |
| Month 3  | \$147.02       | \$98.01         | \$49.01          | \$ 4,851.50    |
| Month 4  | \$145.54       | \$97.03         | \$48.51          | \$ 4,802.98    |
| Month 5  | \$144.09       | \$96.06         | \$48.03          | \$ 4,754.95    |
| Month 6  | \$142.65       | \$95.10         | \$47.55          | \$ 4,707.40    |
| Month 7  | \$141.22       | \$94.15         | \$47.07          | \$ 4,660.33    |
| Month 8  | \$139.81       | \$93.21         | \$46.60          | \$ 4,613.72    |
| Month 9  | \$138.41       | \$92.27         | \$46.14          | \$ 4,567.59    |
| Month 10 | \$137.03       | \$91.35         | \$45.68          | \$ 4,521.91    |
| Month 11 | \$135.66       | \$90.44         | \$45.22          | \$ 4,476.69    |
| Month 12 | \$134.30       | \$89.53         | \$44.77          | \$ 4,431.92    |

Notice how the payment decreases each month along with the amount going to the principal balance. This makes it difficult for Manuel to make a dent to the balance.



**SMART WITH YOUR MONEY TIP #220:**

"A BANK IS A PLACE WHERE THEY LEND YOU AN UMBRELLA IN FAIR WEATHER AND ASK FOR IT BACK WHEN IT BEGINS TO RAIN." – ROBERT FROST

### Making Fixed Payments during the first year

|          | Payment  | Interest | Principal | Balance     |
|----------|----------|----------|-----------|-------------|
| Month 1  | \$150.00 | \$100.00 | \$50.00   | \$ 4,950.00 |
| Month 2  | \$150.00 | \$99.00  | \$51.00   | \$ 4,899.00 |
| Month 3  | \$150.00 | \$97.98  | \$52.02   | \$ 4,846.98 |
| Month 4  | \$150.00 | \$96.94  | \$53.06   | \$ 4,793.92 |
| Month 5  | \$150.00 | \$95.88  | \$54.12   | \$ 4,739.80 |
| Month 6  | \$150.00 | \$94.80  | \$55.20   | \$ 4,684.59 |
| Month 7  | \$150.00 | \$93.69  | \$56.31   | \$ 4,628.29 |
| Month 8  | \$150.00 | \$92.57  | \$57.43   | \$ 4,570.85 |
| Month 9  | \$150.00 | \$91.42  | \$58.58   | \$ 4,512.27 |
| Month 10 | \$150.00 | \$90.25  | \$59.75   | \$ 4,452.51 |
| Month 11 | \$150.00 | \$89.05  | \$60.95   | \$ 4,391.56 |
| Month 12 | \$150.00 | \$87.83  | \$62.17   | \$ 4,329.40 |

Notice how the payment stays the same and because of that the amount going to the principal increases. This allows the debt to get paid off much quicker. So far there's only a \$100 difference in the balance between the two methods after month 12, but the big savings will come later. Let fast forward four more years to see the savings.

### Making Minimum Payments on the fifth year

|          | Payment | Interest | Principal | Balance     |
|----------|---------|----------|-----------|-------------|
| Month 49 | \$92.59 | \$61.73  | \$30.86   | \$ 3,055.59 |
| Month 50 | \$91.67 | \$61.11  | \$30.56   | \$ 3,025.03 |
| Month 51 | \$90.75 | \$60.50  | \$30.25   | \$ 2,994.78 |
| Month 52 | \$89.84 | \$59.90  | \$29.95   | \$ 2,964.83 |
| Month 53 | \$88.94 | \$59.30  | \$29.65   | \$ 2,935.18 |
| Month 54 | \$88.06 | \$58.70  | \$29.35   | \$ 2,905.83 |
| Month 55 | \$87.17 | \$58.12  | \$29.06   | \$ 2,876.77 |
| Month 56 | \$86.30 | \$57.54  | \$28.77   | \$ 2,848.01 |
| Month 57 | \$85.44 | \$56.96  | \$28.48   | \$ 2,819.53 |
| Month 58 | \$84.59 | \$56.39  | \$28.20   | \$ 2,791.33 |
| Month 59 | \$83.74 | \$55.83  | \$27.91   | \$ 2,763.42 |
| Month 60 | \$82.90 | \$55.27  | \$27.63   | \$ 2,735.78 |

Notice how the minimum payment continues to decrease to nearly half of what it was 4 years ago. While the extra cash flow is nice to have, there's still a balance of over \$2,700 left to be paid. The amount going to the principal is also nearly half of what it was over 4 years ago.

Making Fixed Payments on the fifth year

|          | Payment  | Interest | Principal | Balance   |
|----------|----------|----------|-----------|-----------|
| Month 49 | \$150.00 | \$20.65  | \$129.35  | \$ 902.97 |
| Month 50 | \$150.00 | \$18.06  | \$131.94  | \$ 771.03 |
| Month 51 | \$150.00 | \$15.42  | \$134.58  | \$ 636.45 |
| Month 52 | \$150.00 | \$12.73  | \$137.27  | \$ 499.18 |
| Month 53 | \$150.00 | \$9.98   | \$140.02  | \$ 359.16 |
| Month 54 | \$150.00 | \$7.18   | \$142.82  | \$ 216.35 |
| Month 55 | \$150.00 | \$4.33   | \$145.67  | \$ 70.67  |
| Month 56 | \$72.09  | \$1.41   | \$70.68   | \$ (0.00) |
| Month 57 | DEBT     | FREE!    |           |           |
| Month 58 |          |          |           |           |
| Month 59 |          |          |           |           |
| Month 60 |          |          |           |           |

Notice how the payment is still at \$150. The monthly interest is decreasing rapidly and the amount going to the principal continues to increase. Now that Manuel is debt free at month 56, he has an extra \$150 in his monthly cash flow. Time to start saving that money!

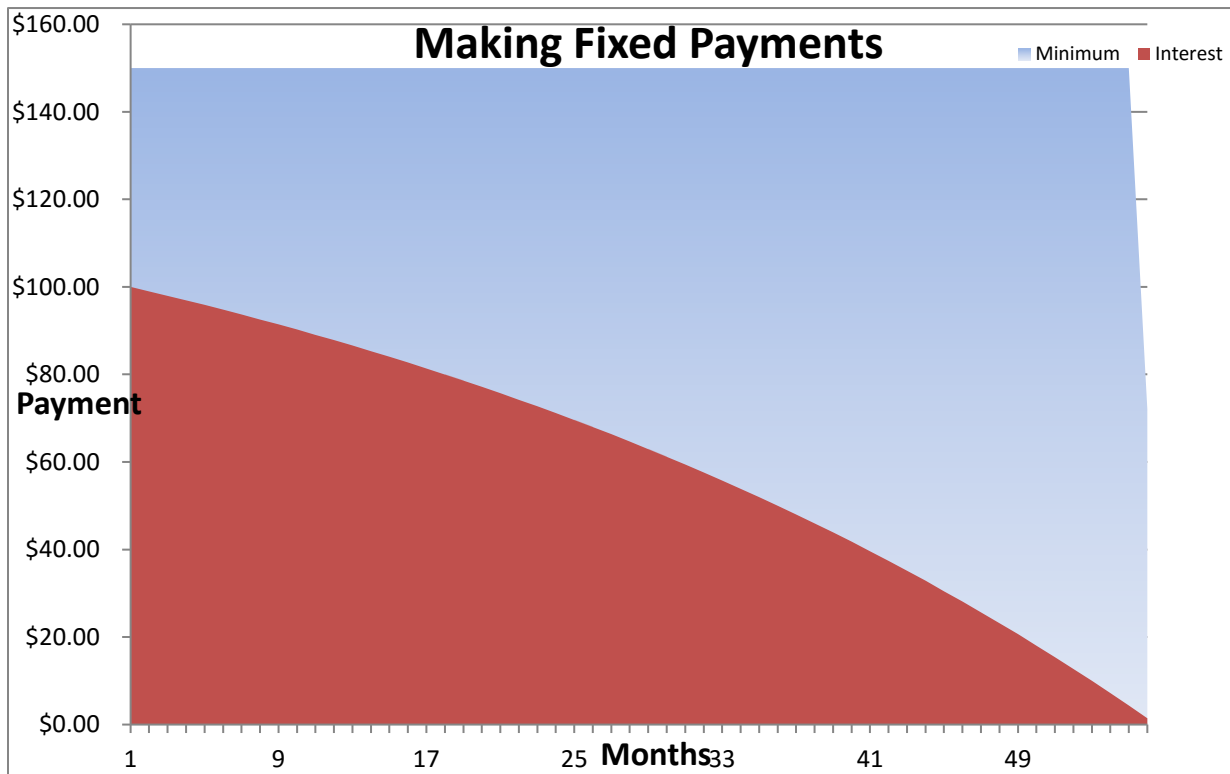
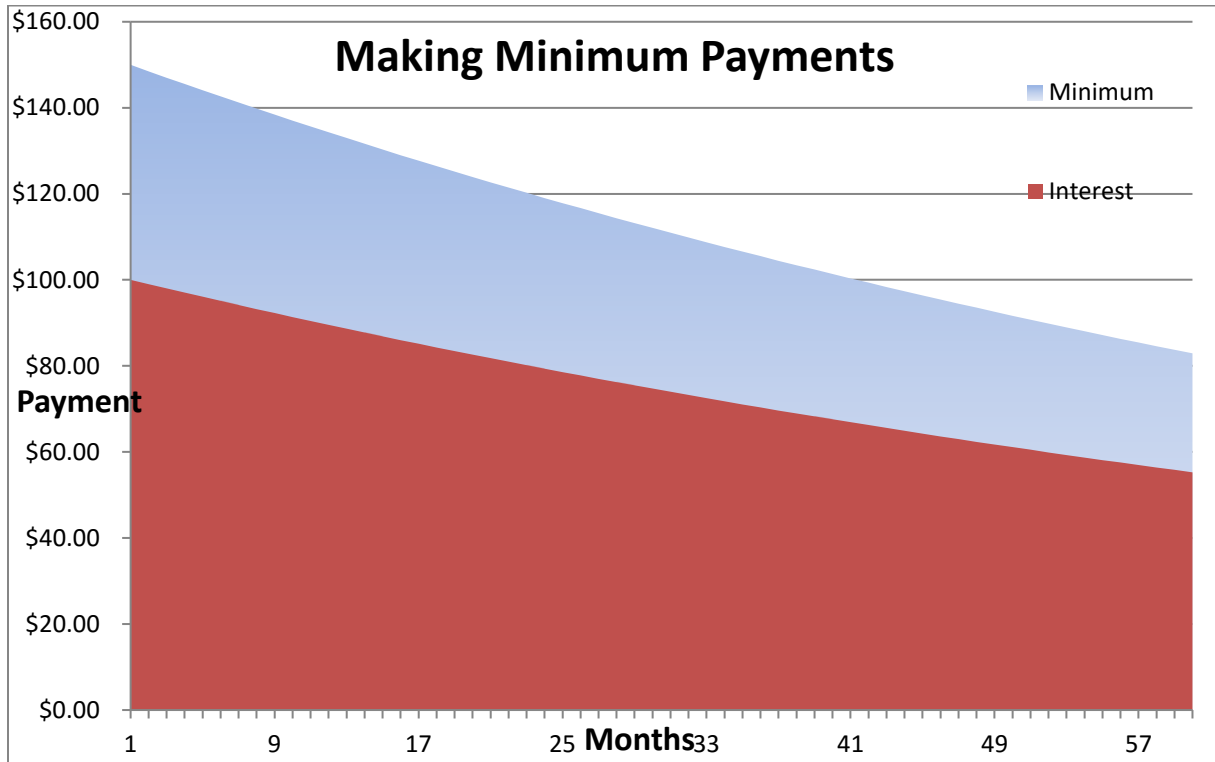
Keep in mind that all of these calculations are accurate only if there are no further charges or fees on the account.



**SMART WITH YOUR MONEY TIP #80:**

TAKE ALL YOUR CREDIT CARDS OUT OF YOUR WALLET AND PLACE THEM INTO A BOWL OF WATER. NOW PLACE THE BOWL INTO THE FREEZER FOR AT LEAST ONE DAY. IF YOU REALLY NEED TO USE THE CREDIT CARDS, TAKE THE BOWL OUT OF THE FREEZER AND WATCH THE ICE MELT. THIS WILL GIVE YOU PLENTY OF TIME TO RETHINK YOUR DECISION OF NEEDING TO USE THEM.

The two charts below show the difference in monthly payments and interest for the first five years:



## Game Plan for Paying Off Your Debt

If you are carrying balances on your credit cards, here is a game plan to get out debt on your own, possibly saving you thousands of dollars.

**Get Organized.** The first step is to get organized. If you have acquired debt, take a look at all the details from your credit card statements and enter them into a spreadsheet or use the Credit Card Debt Worksheet in this workbook. Enter the following information on each account: creditor name, account type (credit card, department store, loan, collections account, old utility bill, etc.) total balance, credit limit, APR, current payment and monthly finance charge. Now add up each category. The results may be damaging to your ego, but it should motivate you to make a change, stop using the cards and get out of debt.

**Stop charging.** This one is obvious, but unfortunately, it is the one people usually fail to do. In order to get out of a hole, you need to stop digging. In this case, the credit cards are the shovels that can only get you deeper in debt. If you don't have the self-discipline to stop using them, you may need to cut up them all up with a pair of scissors. Use your emergency fund for emergencies, not a credit card.

**Lower your interest rates.** Call your credit card companies, tell them you're considering switching to another company (via balance transfer) and ask them to lower your rate. If you've paid regularly, they are likely to negotiate. Be persistent. If they say no on the first call, try again one week later. Speak with a manager if necessary.

**Don't fall into the minimum trap.** As shown in pervious pages, if you only pay the minimum due on credit card bills, you will barely cover the interest. It will take you years to pay off your balance and you could end up spending thousands of dollars more than the original amount you charged.

**Cancel any credit card insurance.** Occasionally, credit card issuers will encourage you to buy credit card insurance. It isn't necessary to opt-in for this type of insurance. Your liability for unauthorized use of your cards is limited to \$50. Realistically, few issuers actually attempt to collect that from their cardholders. Just make sure that you report any fraudulent charges within 24 hours.



### **SMART WITH YOUR MONEY TIP #154:**

ARE YOU CONSIDERING FILING BANKRUPTCY? IT SHOULD ALWAYS BE VIEWED AS THE LAST ALTERNATIVE TO MANAGING YOUR DEBT. BE SURE YOUR BANKRUPTCY LAWYER IS LOOKING AFTER YOUR BEST INTEREST AND NOT HIS OR HER BEST INTEREST. ALSO, UNDERSTAND THE DIFFERENCE BETWEEN CHAPTER 7 AND CHAPTER 13 BANKRUPTCY.



**Use a payoff strategy that works best for you.** There are two schools of thought when it comes to deciding which credit cards to pay off first. The first one is to work on paying off your lowest balance accounts first (DebtWave recommends). This plan works best for people who are results oriented and are motivated by instant gratification. You'll want to make the minimum payments on all other accounts while sending any additional funds to the lowest balance account. The other plan is to pay off the account with the highest interest rate first. The theory is to attack the account that charges the most interest while paying at least the minimum due on all your other debt. The difficulty with this method is that rates change frequently and the priority list could constantly be changing as well. Regardless of the plan you decide to use, once an account is paid off, roll that portion of the payment over to the next account. This means your overall payment (combined with all accounts) always remains the same (fixed payment) unless you decide to increase it.

**Try not to borrow.** It may be convenient to borrow more money to pay off debt, but that means you are simply shifting your debt from one company to another (aka "robbing Peter to pay Paul"). It is never recommended to borrow or withdraw money from your 401(k) to pay off debt. After all, this money is intended for your retirement in your later years not to pay off your current debt. If you withdraw funds early, you will pay severe penalties. The penalty fees are typically 10 to 15 percent plus your normal income tax deductions. This can cut your retirement fund nearly in half! Borrowing against your home is another scary move. You are turning unsecured debt into secured debt. Now if you default on these payments, the lenders can come after your home. However, the good news with borrowing against your home is that it will likely be at a lower rate than your current APRs on your credit cards which will result in a lower payment. Balance transfers are another common method of borrowing. This makes sense if your overall interest rate decreases and the fees are minimal. Be sure to read the fine print and understand the loan terms before signing any agreements. If you feel have to borrow money, just be sure to take care of the root of the debt problem - paying it off in a timely fashion.

**Consider dividing credit card payments in half and pay that amount twice a month.** Interest is calculated based on the average daily balance of your account for the entire month. By making a payment every couple weeks you are reducing that average balance and therefore reducing the finance charges assessed, as opposed to waiting until the end of the month to make a single payment. As an added benefit, splitting your payment into two separate payments helps your monthly budget as you will not have to come up with an entire payment once during the month. Be sure the full minimum monthly payment posts by the due date within the same billing cycle. Otherwise, you may be penalized for making a late payment.

**Find part-time work.** This may be a drag, but sometimes this is the only option to generate cash flow over and above your normal monthly earnings. Working a full-time job and then leaving for your part-time job makes for a long day. However, it also gives you more ammunition for shooting down your debt.

**Get help as soon as you need it.** If you find yourself unable to handle your debt on your own, contact a professional. A great place to start is with a certified nonprofit consumer credit counseling company licensed in your state. Any nonprofit credit counselor who is honest shouldn't pressure you, tell you to stop paying your creditors or recommend a debt management program before evaluating your overall financial situation. The credit counseling company should also charge reasonable fees and be upfront about them.



#### **IS THERE GOOD DEBT AND BAD DEBT?**

BELIEVE IT OR NOT, THERE IS GOOD DEBT AND BAD DEBT. GOOD DEBT INCLUDES STUDENT LOANS AND HISTORICALLY, HOMES. IT SHOWS LENDERS YOU ARE INVESTING IN YOUR FUTURE. IF IT'S NECESSARY TO GET A STUDENT LOAN, BE SURE TO GET A LOAN FROM A REPUTABLE PLACE AND SHOP AROUND FOR THE LOWEST INTEREST RATE AND LOWEST MONTHLY PAYMENT. THIS WILL SAVE YOU THOUSANDS OF DOLLARS. HOMES ARE CONSIDERED GOOD DEBT OR AN INVESTMENT BECAUSE HOMES TEND TO INCREASE IN VALUE GIVING YOU EQUITY IN THE PROPERTY.

Let's make a list of your Unsecured Debt.

**Credit Card Debt Worksheet**

|    | <u>Creditor Name</u> | <u>Account Type</u> | <u>Total Balance</u> | <u>Credit Limit</u> | <u>APR</u> | <u>Current Payment</u> | <u>Monthly Finance Charge</u> |
|----|----------------------|---------------------|----------------------|---------------------|------------|------------------------|-------------------------------|
| 1  |                      |                     |                      |                     |            |                        |                               |
| 2  |                      |                     |                      |                     |            |                        |                               |
| 3  |                      |                     |                      |                     |            |                        |                               |
| 4  |                      |                     |                      |                     |            |                        |                               |
| 5  |                      |                     |                      |                     |            |                        |                               |
| 6  |                      |                     |                      |                     |            |                        |                               |
| 7  |                      |                     |                      |                     |            |                        |                               |
| 8  |                      |                     |                      |                     |            |                        |                               |
| 9  |                      |                     |                      |                     |            |                        |                               |
| 10 |                      |                     |                      |                     |            |                        |                               |
| 11 |                      |                     |                      |                     |            |                        |                               |
| 12 |                      |                     |                      |                     |            |                        |                               |
| 13 |                      |                     |                      |                     |            |                        |                               |
| 14 |                      |                     |                      |                     |            |                        |                               |
| 15 |                      |                     |                      |                     |            |                        |                               |
| 16 |                      |                     |                      |                     |            |                        |                               |
| 17 |                      |                     |                      |                     |            |                        |                               |
| 18 |                      |                     |                      |                     |            |                        |                               |
| 19 |                      |                     |                      |                     |            |                        |                               |
| 20 |                      |                     |                      |                     |            |                        |                               |
|    | <b>Total</b>         |                     |                      |                     |            |                        |                               |

## Loans: What You Need to Know Before Seeking a Loan

Almost everyone needs to borrow money to buy a home, repair it or make major purchases. Understanding the facts about loans can be difficult and confusing. When, you hear, read or see on television “Need money? Bad credit? No credit? No problem!” followed by promises of easy money, watch out! A loan from such a source could end up being a costly mistake. If you agree to such a loan and then fall behind in your payments, you can ruin your credit. You can also lose your cash savings, car, home furnishings or even your home! Most lenders value their customers and want to give them the best possible loan options. If you need to borrow money and your credit is good you may qualify for a loan with reasonable interest rates. Just make sure that the loan is for only the amount you need, is from a source you can trust and has a monthly payment you can afford.

### **Predatory Lending: What to look out for**

Most lenders are trustworthy; however, some lenders are not. Some lenders will direct borrowers away from loans with affordable interest rates and offer loans that carry very high interest rates, questionable fees and unnecessary charges. These practices are considered predatory lending. A predatory lender may be a large company with a name you know or it may be a small company or a loan broker you’ve never heard of. But predatory lenders have many of the same traits. They offer loans based solely on the equity in a home, not on the borrower’s ability to repay the loan; charge unusually high interest rates for loans; add excessive points to a loan without lowering the interest rate; include excessive fees and tack on unnecessary costs, such as prepaid single-premium credit life insurance.

With or without these extra charges, you may find it difficult or even impossible to repay the loan. If you fall behind in your payments, more charges may be added. The lender may also suggest that you refinance the loan to lower your monthly payment, but the unpaid payments may be added to the new loan amount, costing you a lot more money over time. Then the loan becomes even more difficult to repay. If you can’t make the payments, you could lose the items you purchased or used to secure the loan.

Most often, the victims of predatory lenders are low and middle income persons, minorities and the elderly. But anyone, including you, can be misled by a predatory lender. You may want to consolidate credit card debt or buy your first home. If you already own your own home, you may want to make repairs to it. Your reasons for a loan may be justified, but if you agree to a bad loan, you could lose your home!

Here is an example showing what can happen if you jump into a loan without reading the fine print:

*Like most couples, the Jones’ had always dreamed of buying their first home. They were in their mid-30s and had a household income of \$48,000 per year. They had experienced some credit problems in the past, but had paid their bills on time for the last three years. However, they were still concerned that their previous credit problems would make it difficult for them to qualify for a mortgage at a regular bank or credit union. They were happy to get a letter from*

XYZ credit that offered “easy” mortgages for everybody. After talking to the folks at XYZ, the Jones’ felt confident that they were getting a great deal. They were so excited at the prospect of home ownership they didn’t check with other lenders to see if they could get a more favorable terms and interest rate. Instead they jumped right in with XYZ. They were also thrilled with how getting the mortgage was EASY! They received a \$120,000 adjustable-rate mortgage, at an interest rate of 14 percent with 6 points. Also, as a condition of the XYZ Credit, they had to purchase mortgage insurance for \$800. If they had shopped around, the Jones’ would have realized that they could have qualified for a better loan, a fixed-rate mortgage at 6 percent with 2 points and no mortgage insurance. The XYZ loan officer had said to trust him and, unfortunately, that’s just what the Jones’ did. At the end of the first year, the mortgage interest rate went up 2 percentage points to 16 percent and their mortgage payment increased by \$145 a month! The Jones’ quickly fell behind in their payments. They tried to get help, but it was too late. They were going to have to short sale or lose their home to foreclosure.

### How to get the best loan possible

Shop around for the best loan for your situation. Look for loans where you feel most comfortable, such as a bank or a credit union. To confirm current interest rates, look in the business or real estate section of your local newspaper or online version. Call more than one bank, credit union, or mortgage company. The chart below shows how various interest rates for a 30-year, fixed-rate mortgage can affect your monthly loan payment.

| Loan Amount | Interest Rates |       |       |       |        |        |        |        |        |        |        |        |
|-------------|----------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
|             | 4%             | 5%    | 6%    | 7%    | 8%     | 9%     | 10%    | 11%    | 12%    | 13%    | 14%    | 15%    |
| \$20,000    | \$96           | \$108 | \$120 | \$133 | \$147  | \$161  | \$176  | \$190  | \$206  | \$221  | \$237  | \$253  |
| \$30,000    | \$144          | \$161 | \$180 | \$200 | \$220  | \$241  | \$263  | \$286  | \$309  | \$332  | \$355  | \$379  |
| \$40,000    | \$191          | \$215 | \$240 | \$266 | \$294  | \$322  | \$351  | \$381  | \$411  | \$442  | \$474  | \$506  |
| \$50,000    | \$239          | \$269 | \$300 | \$333 | \$367  | \$402  | \$439  | \$476  | \$514  | \$553  | \$592  | \$632  |
| \$60,000    | \$287          | \$322 | \$360 | \$399 | \$440  | \$483  | \$527  | \$571  | \$617  | \$664  | \$711  | \$759  |
| \$70,000    | \$335          | \$376 | \$420 | \$466 | \$514  | \$563  | \$614  | \$667  | \$720  | \$774  | \$829  | \$885  |
| \$80,000    | \$382          | \$430 | \$480 | \$532 | \$587  | \$644  | \$702  | \$762  | \$823  | \$885  | \$948  | \$1012 |
| \$90,000    | \$430          | \$484 | \$540 | \$599 | \$660  | \$724  | \$790  | \$857  | \$926  | \$996  | \$1066 | \$1138 |
| \$100,000   | \$478          | \$537 | \$600 | \$665 | \$734  | \$805  | \$878  | \$952  | \$1029 | \$1106 | \$1185 | \$1264 |
| \$110,000   | \$526          | \$591 | \$660 | \$732 | \$807  | \$885  | \$965  | \$1048 | \$1131 | \$1217 | \$1303 | \$1391 |
| \$120,000   | \$573          | \$645 | \$719 | \$798 | \$881  | \$966  | \$1053 | \$1143 | \$1234 | \$1327 | \$1422 | \$1517 |
| \$130,000   | \$621          | \$698 | \$779 | \$865 | \$954  | \$1046 | \$1141 | \$1238 | \$1337 | \$1438 | \$1540 | \$1644 |
| \$140,000   | \$669          | \$752 | \$839 | \$931 | \$1027 | \$1126 | \$1229 | \$1333 | \$1440 | \$1549 | \$1659 | \$1770 |
| \$150,000   | \$717          | \$806 | \$899 | \$998 | \$1101 | \$1207 | \$1316 | \$1428 | \$1543 | \$1659 | \$1777 | \$1897 |

 Loan amount
  Interest Rates
  Monthly Payment

**Take out a loan that you can afford to pay back.**

You may be encouraged to borrow more than you need because on paper you can “afford it.” So before deciding on a loan, be clear about how you will use the money and how you plan to pay it back. If you are already in debt and having problems making your payments, you shouldn’t borrow more money. Instead, try to negotiate a payment plan with your current lender(s).

**Understand all the terms and the total cost of the loan.**

Review the complete payment schedule. Be sure to find out the total amount you will pay over the term of the loan. Above all, beware of loans with one large balloon payment at the end. If you have difficulty making the final payment when it is due, you may have to refinance the loan to make the balloon payment. If your original loan does not guarantee a new loan with reasonable rates, the refinanced loan can cost you even more because of additional points and fees.

**Make sure that the loan fees are reasonable.**

In most cases, loan fees should not exceed 5 percent of the loan amount unless you are paying more for a lower interest rate. For example, if the loan amount is \$100,000, the loan fees should not exceed \$5,000 ( $\$100,000 \times .05 = \$5,000$ ). However, there are some situations that may cause the loan fees to be higher. If you’re not sure, ask a trusted adviser such as a nonprofit housing counselor.

**Read every word of the loan document.**

Don’t accept loan terms just because the lender says they are standard. Make sure you understand the reason and effect of every loan term before you sign the documents.

**Do not be pressured!**

But if you do get pressured into signing for a loan you can’t afford, act fast. You have a legal right to cancel, or rescind, a loan contract when your home is used as security for a home-equity loan. But you must generally cancel the loan in writing within three business days of signing the loan documents and may lose your initial down payment.

 **SMART WITH YOUR MONEY TIP #156:**

IF YOU HAVE POOR CREDIT, CONSIDER GETTING A SECURED CREDIT CARD TO RE-ESTABLISH YOUR CREDIT. YOU'LL NEED TO PUT A DEPOSIT DOWN IN THE RANGE OF \$500-\$1000 AND USUALLY PAY A FEE. BUT UNLIKE A PRE-PAID CREDIT CARDS, YOUR PAYMENTS WILL GET REPORTED TO THE CREDIT BUREAUS. THIS WILL HELP BUILD YOUR PAYMENT AND CREDIT HISTORY.

## Credit Reports and Scores

### What is a Credit Report?

A credit report is a record of all your credit history. A credit report shows how much debt you have, if you have made payments on time, or if you have not paid back some loans at all. Credit reports do **not** show information about your race, religion, medical history, personal lifestyle, political preferences, criminal record or any other information unrelated to credit.

A typical credit report includes four types of information:

**Identifying information:** Your name, current and previous addresses, telephone number, Social Security number, date of birth and current and previous employers. This information comes from credit applications you filled out.

**Negative accounts:** such as late payments, skipped payments, accounts turned over to a collection agency, and repossessions appear here. This information comes from companies you do business with. If you have no negative information this section will not appear.

**Credit information (Trade Lines):** Specific details about your credit cards, student loans, and other loans. This information includes the date opened, credit limit or loan amount, balance, and monthly payment. The report also shows your payment history during the past several years, and the names of anyone else responsible for paying the account, such as a spouse or a co-signer.

**Public record information:** Bankruptcy records, foreclosures, tax liens for unpaid taxes, monetary court judgments (such as lawsuits), and, in some states, overdue child support. This information comes from public records.

**Inquiries:** Names of people or businesses who obtained a copy of your credit report as well as your history of applying for credit. Names of companies that have reviewed your report for credit offers. However, these names will not be given to creditors who request a copy of your report. Creditors only see the inquiries you initiate (applying for any new credit).

### Important Tip:

As a security precaution, your social security number should not be displayed in full. Some credit reporting agencies may only list the last four digits automatically, and some may ask you to opt-in to this feature. Always choose to conceal your social security number.

**Which of these bills/payments get reported on your credit report each month?**

|                     |     |    |
|---------------------|-----|----|
| 1. Mortgage         | Yes | No |
| 2. Rent             | Yes | No |
| 3. Credit Card      | Yes | No |
| 4. Cell Phone       | Yes | No |
| 5. Cable Bill       | Yes | No |
| 6. Student Loan     | Yes | No |
| 7. Car Payment      | Yes | No |
| 8. Electricity Bill | Yes | No |

1. Yes 2. No 3. Yes 4. No 5. No 6. Yes 7. Yes 8. No

 **SMART WITH YOUR MONEY QUESTION:**

**Q:** DOES MY SPOUSE'S INFORMATION APPEAR ON MY CREDIT REPORT?

**A:** IN MOST CASES, YOUR CREDIT REPORT WILL CONTAIN ONLY YOUR CREDIT AND LOAN ACCOUNTS, EVEN AFTER YOU GET MARRIED. THE EXCEPTION IS JOINT ACCOUNTS SHARED BETWEEN YOU AND YOUR SPOUSE. IN THOSE CASES, THE ACCOUNT HISTORY WILL BE REPORTED ON YOUR CREDIT REPORT AND YOUR SPOUSE'S, REGARDLESS OF WHO PAYS THE BILL. SIMILARLY, IF ONE SPOUSE IS AN AUTHORIZED USER ON THE OTHER SPOUSE'S ACCOUNT OR ONE SPOUSE CO-SIGNS ANOTHER'S ACCOUNT; THE ACCOUNT HISTORY WILL BE REPORTED ON BOTH CREDIT REPORTS.

**Getting Your Credit Report**

There are a few different ways to obtain your credit report. The first and most affordable way is through [AnnualCreditReport.com](http://AnnualCreditReport.com). This service is free as you are entitled under federal law to get your credit report once every 365 days from Experian, Equifax and TransUnion. Your credit score will not be included with this report but can be provided for a small fee. You can also contact the three credit bureaus directly to get a credit report. They will charge fees, but you may be eligible to receive a discounted or additional free credit report if you meet one of the following conditions:

- Your request for credit, insurance, employment or rental housing was denied based on information from your credit report, and you contact them within 60 days of the denial.
- "Adverse action" was taken against you based on information in your credit report (for example, your interest rate was raised or your credit limit was decreased). The name of the credit reporting agency that provided your credit report and how to contact the agency for a copy will be provided by the company that declined your credit application or took adverse action.



- You reside in a state where laws require credit reporting agencies to provide their residents with a free or discounted report each year even if they are not denied credit.
- You certify in writing that you are unemployed and seeking employment or receive public welfare assistance.
- You have reason to believe your credit file contains inaccuracies resulting from fraud.

There are also credit reporting and monitoring services where you pay a monthly fee to obtain multiple credit reports throughout the year. Be sure to understand all costs associated with using these services before entering a contract. DebtWave recommends you check your reports at least once a year.

### **About Experian, Equifax and TransUnion**

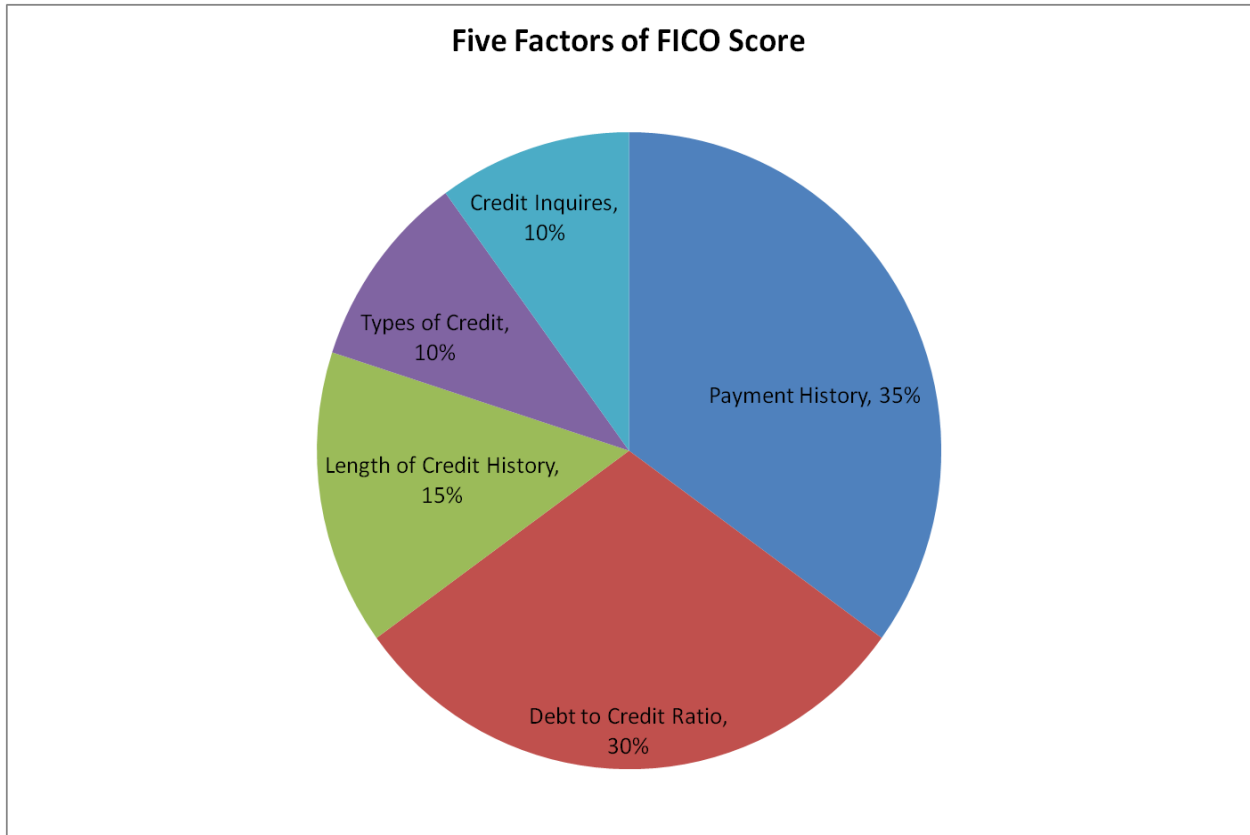
There are three credit reporting agencies in the United States: Experian, Equifax and TransUnion. A credit reporting agency gathers information from various providers and supplies credit data on individual consumers. Each credit reporting agency has its own formulas for calculating credit scores. Companies that supply your credit information to consumer reporting agencies have to follow specific credit reporting rules, as listed under the federal Fair Credit Reporting Act. Furthermore, companies have various agreements with specific credit reporting agencies. Your mortgage may be reported only with Experian, but not with Equifax or TransUnion. It is essential to run your credit with all three agencies because different information will appear on each report.

### What is a Credit Score?

A credit score is a number generated by mathematical formulas which helps lenders determine if you are a good risk for credit. FICO scores range between 300 and 850.

### What Makes up a FICO Score?

A FICO score is based on five factors:



#### Payment History (35 percent)

Your credit reports will reflect your payment history on any credit account you've had in the past 7 to 10 years. This includes, but is not limited to, credit cards, store accounts, mortgages, auto loans and student loans. If you were late recently, this will have more of an impact on your credit score than if you were late 24 months ago. Your credit report will indicate whether you are 30, 60 or 90 days or more late with a payment. A history of late payments on several accounts will cause more damage than late payments on a single account. On the other hand, if you pay your bills on time consistently, you can significantly improve your overall credit score. Not only is paying your bills on time the highest weighted element of a FICO score, but repayment of old debt is also included in this calculation. Many factors are considered including number of past due items on file, amount past due on delinquent or collection accounts and how long the account has been past due. According to FICO, past behavior is used to forecast future behavior.

### **Debt to Credit Ratio (30 percent)**

The second largest part of a FICO score is calculated by dividing your credit balances by your credit limits. Your debt to credit ratio applies to your individual accounts and the total amount of credit you carry. For example, if you carry a balance on a credit card, you do not want it to exceed 30 percent of your credit limit. Furthermore, if you have multiple lines of revolving credit, you do not want your total balances to exceed 30 percent of your total credit limits. Controlling your debt to credit ratio could help you achieve an excellent FICO score. Keep your balances low on all revolving credit. If you completed the Credit Card Debt Worksheet electronically, your percentage will appear on the summary at the end of this workbook. Be sure you included accounts with a zero balance that are still active (not closed) on your credit report.

### **Length of Credit History (15 percent)**

Your FICO score considers the age of your oldest account, the age of your newest account and an average age of all your accounts. A longer credit history is looked at more favorably than a shorter one. A longer credit history provides more information and offers a better picture of long-term financial behavior. If you decide you no longer want to have a certain credit card, do not close it. This eliminates your credit history with that card and will lower your FICO score. Simply cut it up or put it in a safe place.

### **Types of Credit (10 percent)**

One of the lesser known parts of your credit score make up is your different types of credit. Credit bureaus want to know that you have a variety of credit in different credit types. This is only 10 percent of your credit score but shouldn't be ignored, because it is one of the easier areas to control.

The major types of credit include:

- Mortgage
- Car/Student loan/personal loan (Installment credit)
- Credit Card
- Store Card

There are others like lines of credit and some odd bills that sometimes report to the credit bureaus. But you want each of the ones above to get the most out of this 10 percent.

### **Credit Inquiries (10 percent)**

A credit inquiry is a notation on your credit report that someone has requested your credit file. There are two types of inquiries on a credit report: soft inquires and hard inquires.

A soft inquiry has no impact on your credit score. These inquiries include when you or perhaps prospective employers request to see a copy of your credit report, promotional inquiries from companies asking you to apply for credit and inquiries made by current creditors who are monitoring a consumer's credit report.

On the other hand, a hard inquiry can affect your credit score. Hard inquiries are initiated by a creditor when you apply for a loan or credit card and can only be done when you grant permission to the creditor to have your credit report pulled.

Applying for lots of new credit in a short period of time is viewed as risky and can cause a drop in an individual's score. If you are shopping for a mortgage or auto loan over a short period of time, you should not experience a decrease in your score as a result of these types of inquiries.

### **Top Five Credit Misconceptions**

We have all heard the rumors from friends, family or colleagues. There are many myths about what you should and shouldn't do to your credit. Here are some urban legends so you know the truth about credit:

1. **Your score will drop if you check your credit** - Fortunately, this one is definitely not true. Checking your own report and score, as stated above, is counted as a "soft inquiry" and doesn't harm your credit at all. Only "hard inquiries" from a lender or creditor, made when you apply for credit, can bring your credit score down a few points. Worried about damaging your credit while shopping around for a loan? Multiple inquiries for the same purpose within a short amount of time (a few weeks) are grouped together into a less damaging period of inquiry.
2. **Closing old accounts is a good idea** - To close or not to close, that is the question. Many people advocate closing old and inactive accounts as a means of managing their credit. But they should think twice before closing the oldest account on their credit reports. Closing old credit accounts can lower a credit score by making the credit history appear shorter. It will also affect overall debt to credit ratio which is more heavily weighted.
3. **Once you pay off a negative record, it is removed from your credit report** - Negative records such as collection accounts, bankruptcies and late payments will remain on your credit reports for 7 to 10 years from your last payment date. Paying off the account before the end of the set term doesn't remove it from your credit report, but will cause the account to be marked as paid. It is still a good idea to pay your debts, just be aware the major change in your report will come when the negative records expire.
4. **Being a co-signer doesn't make you responsible for the account** - When you open a joint account or co-sign on a loan, you are taking on legal responsibility for the account. This means if the borrower defaults on the loan, you are responsible to pay. And your

credit report will be affected as well. The loan you co-sign will show up as a liability on your credit record, which may prevent you from obtaining credit yourself. The only way to stop this double reporting is to refinance the loan or to have the creditor officially remove you from the account.

5. **Paying off a debt will add 50 points to your credit score** - Your credit score is calculated using a complex algorithm that takes into account hundreds of factors and values. It is very hard to predict how many points you can gain by changing one factor. For a person with a high credit score, just one late payment can cause a significant drop. If a person has a low credit score, it may not cause a large drop at all. Just keep paying your bills on time, reducing your debts and removing negative inaccuracies from your credit report. Good financial behavior and time are the two most important factors for your credit score.

### **How Can You Improve Your Score?**

The best way to raise or maintain your credit score is to pay your bills on time, keep your balances low and avoid applying for credit too often which count as hard inquiries and are a negative to the score. Fix any errors (false information) that appear on your credit report. Keep in mind that your score is a reflection of your behavior over the last 7-10 years. And your behavior can not change overnight. It takes time. Be patient and make improvements to your behavior. If so, you will gradually see your score increase over time.

Your credit score can affect:

- Your ability to get a loan
- The interest rate you'll pay on loans
- Your ability to rent an apartment
- The premiums you'll pay for insurance
- Your ability to get a job

### **Disputing Errors on Your Report**

Since your credit report has such a big impact on your financial situation, it's important to put yourself in position to have an optimal score. However, unless you have experience with credit reports, they can be very confusing and intimidating. 25 percent of credit reports surveyed by the U.S. PIRG contained serious errors that could result in the denial of credit. Altogether, 79 percent of credit reports surveyed contained an error or mistake of some kind. For these reasons, it is very important that you check your report for inconsistencies. Typically, errors occur because the report is incomplete or contains information that is someone else's. Here are the top reasons for errors according to myfico.com:

- Consumer applied for credit under different names. Example: William Smith, Bill Smith, etc.
- A clerical mistake was made while entering information such as name or address from a handwritten application.

- Consumer gave an inaccurate social security number or it was misread by the person entering it into the system.
- Credit card or loan payments were mistakenly applied to the wrong account.

Once again, it is recommended that that you should check all three credit reports at least once a year. It is also recommended that you check it before you make a large purchase where financing is needed (car or home).

### **Errors to look for in each category**

#### Identifying Information

- Names that are not yours
- Incorrect date of birth
- Wrong Social Security number
- Unfamiliar addresses

#### Trade Lines

- Unfamiliar accounts
- Delinquencies that do not belong to you
- Late payments, charge-offs or other derogatory accounts that are older than seven years
- Closed accounts that appear on the report as open
- Bankruptcies older than 10 years
- Any debts that were discharged through bankruptcy
- Accounts that you personally closed that are reported as closed by the credit grantor

#### Inquiries

- Hard inquiries older than two years
- Hard inquiries you did not authorize

#### Public Records and Collections

- Bankruptcy older than ten years
- Bankruptcies without specific bankruptcy code (7 or 13)
- Lawsuits, liens, judgments older than seven years
- Any duplication of collection agencies on one account
- Items that are not yours

Chances are you will find at least one error, probably more, on your credit report at some point during your life. Below are details on what you should do when mistakes are found:

### **The dispute process**

In this day and age technology allows us to do things faster and more efficiently. This is no different in regard to disputing errors with the credit bureaus. The three main credit reporting

agencies (bureaus) all have links on their respective websites to dispute errors and to check the status of those disputes. Creditors are given 30 days to respond to a credit bureau investigation, but the time it takes to settle a dispute could be less. Fixing errors online can save time and aggravation. The bureaus will send you an email notice alerting you to the status of your dispute. Experian is very good at this where the other two bureaus, depending on the dispute, may ask you to make the dispute via mail in a written letter.

If you would prefer to dispute via mail, you'll want to send a dispute letter registered mail. This will give you a receipt and proof that it was received. The credit bureau contacts creditors and the creditors have 30 days to respond to the credit bureaus. The possible outcomes are the following:

- Information disputed cannot be verified and is deleted
- Information disputed is found to be incorrect and is corrected
- Information is found to be correct and remains as is.

Fixing errors on your credit report can sometimes take diligence and patience. Even though many discrepancies are fixed quickly without hassle, sometimes creditors can make it hard on the consumer, making the process difficult. One example is a creditor may attempt to verify incorrect information and/or continue to report an error already disputed. If a creditor cannot prove or does not respond to the credit bureaus inquiry within 30 days, the posting on the report has to be removed.

### **Contact creditors directly**

You can also contact your creditors directly and dispute the errors on your reports, since they are the ones that posted them in the first place. Creditors subscribe to the bureaus (although not all companies subscribe and report to all three bureaus) and have authority to change and/or delete items on the report. Disputing things on your report directly with your creditors is done much the same way as dealing with the bureaus. Write a letter identifying the account you are disputing, the reason for your dispute and the action you would like taken by the creditor (fix or delete item on report). You should inform them you will take legal action or report them to the right authorities such as the FTC (Federal Trade Commission) or Attorney General of their state if action is not taken. Various sample letters can be found on the internet.

### **Attach a consumer statement to your report**

Under the Fair Credit Reporting Act, all citizens have the right to attach a statement up to 100 words to your credit report if you wish to clarify or comment on information on your report.

Here are some example statements:

- I have no knowledge of this account. It is not mine and I have never heard of this creditor. There must be a mistake with the reporting of this account.

- I have recently moved to a new address and informed all of my creditors. By the time I received my statement my payment was late. This was an honest error and I made the payment promptly upon receiving it.
- On January 3, I was hospitalized after an accident. I was informed that my insurance would take care of the medical expenses and was not to worry. Apparently my insurance was slow to pay and the hospital sent my account to collections. On June 27, the hospital received the payment in full by my insurance company, but has refused to clear my credit report.
- I purchased merchandise from (name of company) which was defective. I returned the merchandise, but my account was never credited and company has since gone out of business.
- This account belongs to my former spouse and my name is no longer on the account.



**SMART WITH YOUR MONEY QUESTION:**

**Q: HOW LONG DO PUBLIC RECORDS STAY ON YOUR CREDIT REPORT?**

**A: THERE ARE THREE KINDS OF PUBLIC RECORDS THAT MAY APPEAR ON YOUR CREDIT REPORT: TAX LIENS, FINANCIAL JUDGMENTS AND BANKRUPTCIES.**

**UNPAID TAX LIENS CAN REMAIN FOR 15 YEARS. PAID TAX LIENS WILL REMAIN FOR SEVEN YEARS FROM THE PAID DATE, EVEN THOUGH IT MAY MEAN THE ITEM REMAINS FOR LONGER THAN 15 YEARS TOTAL.**

**FINANCIAL JUDGMENTS – IF YOU ARE SUED AND LOSE, FOR EXAMPLE – REMAIN FOR SEVEN YEARS FROM THE FILING DATE.**

**BANKRUPTCIES CAN REMAIN FOR SEVEN YEARS FROM THE FILING DATE FOR COMPLETED CHAPTER 13, OR 10 YEARS FROM THE FILING DATE FOR CHAPTER 7.**



## Credit Bureau Contact Information

### **Equifax**

P.O. Box 740241

Atlanta, GA 30374-0241

1-800-685-1111

To dispute online: [equifax.com/online-credit-dispute](http://equifax.com/online-credit-dispute)

### **Experian**

P.O. Box 2002

Allen, TX 75013

1-888-397-3742

To dispute online: [experian.com/disputes/index.html](http://experian.com/disputes/index.html)

### **TransUnion**

P.O. Box 2000

Chester, PA 19022

1-800-916-8800

To dispute online: [transunion.com/corporate/personal/creditdisputes.page](http://transunion.com/corporate/personal/creditdisputes.page)

## 14 Common Money Disorders

In Dr. Brad and Ted Klontz's book, "Mind Over Money: Overcoming The Money Disorders That Threaten Our Financial Health" the father and son duo identify 14 common money disorders. They define **money disorders** as rigid patterns of self-destructive financial behaviors that cause significant stress, anxiety, emotional distress and impairment in major areas of one's life. These money disorders are created from family dysfunction, emotional difficulties, coping strategies gone awry, profound painful childhood experiences or – most often – a combination of these factors.

The 14 common money disorders belong to one of three disorder categories: Money-Avoidance Disorders, Money Worshipping Disorders and Relational Money Disorders

**Money Avoidance Disorders** involve a systematic rejection or avoidance of money. These disorders stem from scripts that equate money with negative emotions or painful events. Most people with money avoidance disorders believe that money is the root of all evil. The disorders that belong to this category are financial denial, financial rejection, excessive risk aversion and underspending.

1. **Financial Denial** is when we minimize our money problems or try to avoid thinking about them altogether rather than face our financial reality. People with this disorder tend to fail to look at bank or credit card statements, avoid communicating with their partner about money and avoid savings or accumulating wealth. Their behavior will typically lead to late fees, overdraft charges and large amounts of debt.
2. **Financial Rejection** is when people feel guilty over having money. They commonly feel that they are unworthy or undeserving of anything good in life, including money. This is a common disorder in people when receiving death benefits (inheriting large sums of money). This rejection of money can express itself in several forms such as rapidly spending an inheritance, taking an unconscious "vow of poverty", or simply avoiding the acquisition of wealth.
3. **Underspending** is when people keep themselves emotionally poor by refusing to use and enjoy what they have. Typically, spending less than you make is considered a positive behavior. But when it's done to the extreme, it is classified as a self destructive financial behavior. Underspending is often based on irrational subconscious feelings of fear or anxiety, a sense of guilt or undeserving of good fortune, or a compulsive need to be self-sacrificing.

4. **Excessive Risk Aversion** is an irrational unwillingness to take any risks with one's money. People with this disorder typically react to any financial risk with enormous anxiety. Putting money in an FDIC-insured savings account doesn't seem safe to people with this disorder. They would rather do nothing than lose anything.

**Money Worshipping Disorders** place a disproportionate amount of importance on money: earning it, saving it and spending it. People with these money disorders typically believe that more money will lead to happiness, safety and self-worth. The six disorders in this category are hoarding, unreasonable risk taking, pathological gambling, workaholism, overspending and compulsive buying disorder.

5. **Hoarding** is an example of a positive behavior – saving – taken to unhealthy extremes. This disorder can involve hoarding money and/or objects. Those that hoard money are typically underspenders that keep themselves emotionally poor. Those that hoard objects tend to be overspenders or compulsive buyers, but they enjoy the thrill of accumulating the stockpile as opposed to the act of buying or spending. Compulsive hoarders are emotionally attached to their possessions – regardless of the financial value. The accumulated objects become stand-ins for love, affection or whatever is missing in that person's life.
6. **Unreasonable Risk Taking** is when we put our financial well-being at unnecessary risk in the pursuit of large, but unlikely, gains – like taking your rent money or your child's college fund to the racetrack. Gambling and day trading in the stock market are two common forms of risk taking. Other forms of risk taking include:
  - Spending an anticipated bonus or salary increase before you receive it.
  - Write large checks before the money is actually in the bank account hoping the bank cashes it at a later time.
7. **Pathologic Gambling** is excessive risk taking exaggerated to an especially destructive extreme. People with a pathological gambling disorder typically gamble to make themselves feel better or do it as an escape from their problems. They often hide their gambling from others and may engage in illegal acts to help fund their gambling. Approximately 2 percent of the population is considered pathological gamblers.
8. **Workaholism** is when people become so involved in work that they have little time to invest in family life, child rearing, leisure, and even sleep. As a result of this, most experience problems with their marriage, anxiety, depression, job stress, job dissatisfaction and health problems. Workaholics typically believe that more money will

make them and their family happier, prove their self-worth, and make them a valuable, capable, lovable human being. They typically feel better about themselves at work than any other part of their life. They have better-quality relationships there; feel more competent, in control, successful, comfortable and more part of things at work than anywhere else.

9. **Overspending** is when people try to achieve feelings of safety, comfort, affection and wholeness by spending excessively on themselves and others. Many overspenders report financial flashpoints where giving and receiving gifts seemed to transform a relationship. Another common flashpoint is where they experienced deprivation in their childhood – perhaps being teased for not having things or the “right” things such as clothes. Later on in life, they refuse to let their children go through the same thing so they overspend on various items for them.
10. **Compulsive Buying Disorder** is overspending taken to the extreme. People with a compulsive buying disorder are constantly consumed by money worries and to help them cope with this problem, ironically, they shop. They lose control of their spending. Shopping is like an addictive drug for them, creating an enormous high while doing it, then the hangover provides the emotional crash. This disorder can lead to excessive debt, financial strain, bankruptcy, relationship problems, divorce, problems concentrating at work, and, in some cases, legal complications. Almost 5 percent of the population has a compulsive buying disorder and of those with this disorder, 75 percent of them are women.

**Relational Money Disorders** are disorders that affect the emotional and financial lives of others, in addition to their own. These disorders are tangled up in relationships – and emotions over one’s relationships – with others. People with these disorders are often secretive or dishonest about money, even with their loved ones.

11. **Financial Infidelity** is when people deliberately and secretly keep a major secret about one’s spending or finances from one’s partner. They make purchases outside an agreed-upon budget or lie about the cost of a big-ticket item. Financial infidelity often stems from the fact that trust (non-finance related) is already absent in the relationship. A common example of financial infidelity is racking up credit card debt or taking a loan without the spouse knowing about it. Other common forms of this disorder include making risky investments and opening a separate checking or savings account without telling your spouse.

12. **Financial Incest** is when people use money to control or manipulate one's child or to satisfy some adult need. This type of incest is not sexual or physical. It's psychologically abusive and it can be extremely emotionally scarring and damaging for the child. Some examples of financial incest are:

- Using a child as a human shield when bill collectors call and coaching the child to answer the phone or door with lies about where the parents are.
- Using a child to negotiate financial situations that should be resolved between adults.
- Making a purchase that a spouse wouldn't approve of and telling a child to keep it a secret.

13. **Financial Enabling** involves an irrational need to give money to others, whether you can afford it or not, and even when it is not in the other's long-term best interest; having trouble or finding it impossible to say no to requests for money; and/or perhaps even sacrificing your own financial well-being for the sake of others. The most common example of this is a parent's continued financial support of children that should be able to take care of themselves.

14. **Financial Dependency** is when people choose to remain financially dependent on others because it protects them from having to take on their own financial education, preparedness, planning and responsibility. This disorder goes hand in hand with Financial Enabling. The Financial Enabler is the quarterback where the Financial Dependent is the wide receiver. They each feed off each other.

For more information about Dr. Brad and Ted Klontz's financial disorders, visit [www.yourmentalwealth.com](http://www.yourmentalwealth.com) or read their book "Mind Over Money: Overcoming The Money Disorders That Threaten Our Financial Health."

## About DebtWave Credit Counseling, Inc.

### Mission and Vision

Our mission is to educate the public on the proper use of credit through budget management, to offer sound counseling, and to assist clients in reducing and eliminating debt.

We deliver services at the highest standards of professionalism so that your transition to better financial health is both pleasant and personal.

### Credit Counseling Sessions

A credit counseling session is a great way to begin your journey of paying off your debt. If you have a lot of credit card debt, are current with your credit card payments but struggle to pay the minimum amounts (or less), have high interest rates (above 15%), and want to truly get out of debt, then speaking to a Certified Credit Counselor is a great first step to take control of your debt.

### Budgeting/Spending Evaluation

A budget or spending plan is one of the most powerful tools to help you achieve control of your finances. Considering that the average American spends about 110 percent of their monthly income each month, most people aren't using a spending plan. This is the main reasons the average credit card debt per household is a little over \$15,000\*. Whether you are looking to revise a current spending plan or would like to create one from scratch, our counselors will help you map out a plan that is effective and easy to implement.

\*Calculated by dividing the total revolving debt in the U.S. (\$852.6 billion as of March 2010 data, as listed in the Federal Reserve's May 2010 report on consumer credit) by the estimated number of households carrying credit card debt (54 million) CreditCards.com

### Credit Report Evaluation

Since your credit report has such a big impact on your financial situation, it's important to put yourself in position to have an optimal score. However, unless you have experience with credit reports, they can be very confusing and intimidating. 25 percent of credit reports surveyed by the US PIRG contained serious errors that could result in the denial of credit. Altogether, 79 percent of credit reports surveyed contained an error or mistake of some kind.\* DebtWave's counselors will help you understand your credit report and give you tips on what can be done to improve your credit score.

\*U.S. Public Interest Research Group

### Our Debt Management Program

Our Debt Management Program is ideal for someone with a lot of credit card or unsecured debt, is current with their payments, and has high interest rates. Our program provides you with lower interest rates, one convenient monthly payment to creditors, and the ability to become debt-free within three to five years.

If you want to get out of debt, we can show you the light at the end of the tunnel!

### **DebtWave Credentials**

- Established in 2002
- Accredited member of the Better Business Bureau
- 501 (c)(3) nonprofit organization
- ISO certified since 2003
- Counselors and Customer Service Representatives are certified credit counselors through the Center for Financial Certifications ([www.fincert.org](http://www.fincert.org))

#### **DebtWave Credit Counseling, Inc.**

9325 Sky Park Court #260  
San Diego, CA 92123

Toll Free: (888) 686-4040 option 6

Fax: (858) 751-2601

Email: [info@debtwave.org](mailto:info@debtwave.org)

Website: [www.debtwave.org](http://www.debtwave.org)

## Common Financial Terms

**Acceleration Clause** A stipulation in a loan contract stating that the entire balance becomes due immediately if other contract conditions are not met.

**Accrued Interest** Interest that has been earned but not received or recorded.

**Amortization** Liquidation of a debt by making periodic payments over a set period, at the end of which the balance is zero.

**Annuity** A series of equal payments made at regular intervals, with interest compounded at a specified rate.

**Appreciation** An increase in the value or price.

**Asset** Anything an individual or business owns that has commercial or exchange value.

**Auto Debit** The deduction from a checking or savings account of funds that are automatically transferred to a creditor each month. Some lenders offer interest rate discounts if loan payments are set up on auto debit at the beginning of the loan.

**Balance** The amount owed on a loan or credit card or the amount in a savings or investment account.

**Balance Sheet** A financial statement showing a “snapshot” of the assets, liabilities and net worth of an individual or organization on a given date.

**Balloon Loan:** This is a short-term loan with low monthly payments that are not enough to pay off the entire loan amount, so a balloon, or lump-sum payment, is due at the end of the loan term. This type of loan may have a provision to refinance when the balloon payment is due.

**Bankruptcy** A legal proceeding declaring that an individual is unable to pay debts. Chapters 7 and 13 of the federal bankruptcy code govern personal bankruptcy.

**Beneficiary** The person designated to receive the proceeds of a life insurance policy.

**Budget** An itemized summary of probable income and expenses for a given period.

**Capital** Cash or other resources accumulated and available for use in producing wealth.

**Cash Flow** Money coming to an individual or business less money being paid out during a given period.

**Certificate of Deposit (CD)** A Type of savings account that earns a fixed interest rate over a specified period of time.



**Closing (or settlement):** A meeting at which the sale of a property is finalized. The buyer pays the mortgage, and closing costs are also paid.

**Closing Costs:** Fees required by the lender at closing. The fees can vary among lending institutions, but may include the application fee, origination fee, points, appraisal fee, title search, title insurance, etc. If you are unsure about any of the fees, ask for clarification.

**Collateral** Assets pledged to secure a loan.

**Common Stock** A kind of ownership in a corporation that entitles the investor to share any profits remaining after all other obligations have been met.

**Compound Interest** Interest computed on the sum of the original principal and accrued interest.

**Credit** The granting of money or something else of value in exchange for a promise of future repayment.

**Credit Card** A plastic card from a financial services company that allows cardholders to buy goods and services on credit.

**Credit Report** A loan and bill payment history, kept by a credit reporting company and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid.

**Credit reporting company** An organization that compiles credit information on individuals and businesses and makes it available for a fee.

**Credit Score** A number generated by a statistical model that objectively predicts the likelihood that a debt will be repaid on time.

**Credit Union** A cooperative organization that provides financial services to its members. Much like a bank.

**Creditor** A person, financial institution or other business that lends money.

**Debit** Charges to an account.

**Debit Card** A plastic card similar to a credit card that allows money to be withdrawn or the cost of purchases paid directly from the holder's bank account.

**Debt** Money owed; also known as a *liability*.

**Debt service** Periodic payment of the principal and interest on a loan.

**Deductible** The amount of loss paid by an insurance policyholder. The deductible may be expressed as a specified dollar amount or a percent of the claim amount.

**Delinquency** The failure to make timely payments under a loan or other credit agreement.

**Direct Deposit** The electronic transfer of a payment from a company to an individual's checking or savings account. Many employers offer direct deposit of paychecks.

**Diversification** The distribution of investments among several companies to lessen the risk of loss.

**Dividend** A share of profits paid to a stockholder.

**Equity** Ownership interest in an asset after liabilities are deducted.

**Face Value** The principal amount of a bond, which will be paid off at maturity.

**Fair Market Value** The price a willing buyer will pay and a willing seller will accept for real or personal property.

**Federal Deposit Insurance Corp.**

**(FDIC)** A federally chartered corporation that insures bank deposits up to \$250,000.

**Fee:** Any charge added to a loan.

**Finance Company** A company that makes loans to individuals.

**Financing fee** The fee a lender charges to originate a loan. The fee is based on a percentage of the loan amount; one point is equivalent to 1 percent.

**Flexible spending account** An employer-sponsored account that allows employees to save pretax dollars to cover qualified medical or dependent care expenses.

**Foreclosure** The legal process used to force the payment of debt secured by collateral whereby the property is sold to satisfy the debt.

**401(k) plan** A tax-deferred investment and savings plan that serves as a personal retirement fund for employees.

**Health savings account** A tax-advantaged personal savings account, set up to be used exclusively for medical expenses; must be paired with a high deductible health insurance policy.

**High-deductible health plan** A health insurance policy that requires the policyholder to pay more out-of-pocket medical expenses but usually has lower premiums than traditional health insurance plans.

**Home-equity loan:** A loan based on the equity that a borrower has in his or her home.

**Individual development account (IDA)**

A type of savings account, offered in some communities, for people whose income is below a certain level.

**Individual retirement account (IRA)** A retirement plan, offered by banks, brokerage firms, mutual funds and insurance companies, to which individuals can contribute each year on a tax-deferred basis.

**Inflation** A sustained increase in the prices of goods and services.

**Installment plan** A plan requiring a borrower to make payments at specified intervals over the life of a loan.

**Insurance premium** The amount of money required for coverage under a specific insurance policy for a given period of time. Depending on the policy agreement, the premium may be paid monthly, quarterly, semiannually or annually.

**Interest** A fee for the use of money over time. It is an expense to the borrower and revenue to the lender. Also, money earned on a savings account.

**Interest rate** The percentage charged for a loan, usually a percentage of the amount lent. Also, the percentage paid on a savings or like accounts.

**Investing** The act of using money to make more money.

**Investor** An organization, corporation, individual or other entity that acquires an ownership position in an investment, assuming risk of loss in exchange for anticipated returns.

**Leverage** The ability to use a small amount of money to attract other funds, including loans, grants and equity investments.

**Liability** Money an individual or organization owes; same as debt. Also, a kind of insurance for the policyholder's legal obligation to pay for either bodily injury or property damage caused to another party.

**Lien** A creditor's claim against a property, which may entitle the creditor to seize the property if a debt is not repaid.

**Liquidity** The ease with which an investment can be converted into cash.

**Load** The fee a brokerage firm charges an investor for handling transactions.

**Loan** A sum of money lent at interest.

**Management fee** The fee paid to a company for managing an investment portfolio.

**Market value** The amount a seller can expect to receive on the open market for merchandise, services or securities.

**Maturity** The time when a note, bond or other investment option comes due for payment to investors.

**Money Market Account** A type of savings account offered by a financial institution.

**Mortgage** A temporary and conditional pledge of property to a creditor as security for the repayment of a debt.

**Municipal bond** A bond issued by cities, counties, states and local governmental agencies to finance public projects, such as construction of bridges, schools and highways.

**Mutual fund** A pool of money managed by an investment company.

**Net Worth** The difference between the total assets and total liabilities of an individual.

**Par value** The nominal, or face, value of a stock or bond, expressed as a specific amount on the security.

**Points (or loan discount points):** A one-time charge by a lender to lower the interest rate on a loan. Each point is equal to 1 percent of the loan amount. For example, one point on a \$100,000 mortgage would cost \$1,000.

**Predatory lending** Targeting loans to seniors, low-income and other people to take advantage of their financial status or lack of financial knowledge.

**Prepayment penalty:** A penalty some lenders charge for paying a loan off early. Check to see if a loan has a penalty and how long it will be in effect. If you plan to make payments before they are due, or think you might sell your home before the loan is paid off, a penalty could be costly to you.

**Pretax** A person's salary before state and federal income taxes are calculated.

**Prime rate** The lowest interest rate on bank loans, offered to preferred borrowers.

**Principal** The unpaid balance on a loan, not including interest; the amount of money invested.

**Promissory note** A written promise on a financial instrument to repay the money plus interest.

**Qualified plan** A tax-deferred retirement plan for the self-employed.

**Refinancing** The process of paying off one loan with the proceeds from a new loan secured by the same home or property.

**Return** The profit made on an investment.

**Revenue bond** A type of municipal bond backed by revenue from the project the bond finances.

**Risk** The possibility of loss on an investment.

**Savings account** A service depository institutions offer whereby people can deposit their money for future use and earn interest.

**Stock option** The right to buy or sell a corporation's stock at a predetermined price or calculable formula; sometimes used as part of employee compensation.

**Stockholder** A person who owns stock in a company and is eligible to share in profits and losses; same as *shareholder*.

**Tax-deferred** Phrase referring to money that is not subject to income tax until it is withdrawn from an account, such as an individual retirement account or a 401(k) account.

**Term** The period from when a loan is made until it is fully repaid.

**Terms** Provisions specified in a loan agreement.

**Treasury bill** A short-term investment issued by the U.S. government for a year or less.

**Treasury bond** A government security with a term of more than 10 years; interest is paid semiannually.

**Treasury Inflation-Protected Security (TIPS)** A Treasury bond or note that is tied to inflation so that the principal amount of the investment increases or decreases according to the annual inflation rate.

**Treasury Note** A government security with a maturity that can range from two to 10 years; interest is paid every six months.

**U.S. savings bond** A nontransferable, registered bond issued by the U.S. government in denominations of \$50 to \$10,000.