



Presents

**Helpful Common  
Sense Budgeting,  
Credit, And Money  
Management All In One!**

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# **The Right Track**

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# The Right Track

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### The Right Track

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# Forward

The Right Track offers an excellent foundation for all federal employees to get on the right track financially. This book is a resource that encourages the reader to return again and again in order to gain new insights on how to become focused on the difficult task of financial clarity. I attribute a lot of our readers success is because of the information that is granted throughout this book. Federal Employees, after reading and following the information, are loaded with more knowledge and confidence not to make the same mistakes as before. They currently enjoy a lifestyle of less stress and personal satisfaction from their accomplishments.



John Sanders

Director

National Association For Employee Benefits

# Train Station

## Introduction

Welcome to the Right Track! As you may have guessed we, the authors, are using a railroad theme throughout this guide. The reason is two fold. First of all, we like trains, always have, and always will! Secondly, an example of what the railroad can do, shows what is possible through steady perseverance and growth. If it were not for the development and refinement of trains the United States of America could not have become the nation that it is.



Throughout this manual we will discuss the fundamentals of credit, becoming familiar with a budget, debt, and other items of importance in everyday life. Personal finances have risen year-after-year since we began using credit, instead of cash, as a primary method of exchange. We do not intend to tell the same old stories you heard from your parents, only reinforce them!

The following pages if embraced in the spirit offered will seek to make you more aware or knowledgeable of your personal situation.

# Locomotive



The locomotive moves the rail cars down the track. It is comfortable traveling at 80 miles per hour or slowly creeping at two miles per hour. It can work nearly 24 hours per day and 365 days per year, with proper maintenance. A large diesel engine turns an electric generator which power electric motors which move the train.

The above example is very similar to a financial plan. There are a lot of moving parts in a plan. A properly fashioned plan will work without much supervision and only occasional review or adjustment. But, left unattended you will either have an engine broken down, or not to surprising derailment.

## Your financial plan

### Do I need financial planning?

**A financial plan does not require a college degree, you do not have to be a financial wizard, and it does not require lawyers, accountants, or professional advisors to get started. The most important item is a *willingness* to devote time, and some effort to the development of a plan, combined with an honest desire to make it work.**

Financially successful individuals do not guard the secret to the development of their wealth. Most would attribute their success to a strict adherence to a financial plan. This Financial Plan when established had certain goals and plans they followed to achieve their goals. Most did not start with thousands of dollars to invest. In reality, most ONLY started with nothing more than a simple financial plan!

- Financial planning can help you;
- build a sizable estate
- help fight inflation
- ever increasing taxes
- financial security for the future
- peace of mind in knowing your family is protected in the event of your premature death or an unfortunate disability.

### How do I start a financial plan?

Truly, one of the most difficult aspects of financial planning is just getting started. Unlike death, retirement, and taxes, financial planning is not a hard fact of life and it is easy to put off until a rainy day! However, death, retirement, and taxes are three of the most important reasons why you should not delay in starting your plan. Aside from the paper work required, there are two difficult aspects of

financial planning;

- The first is honesty - you must be honest with yourself. Since this will be a plan developed for you and by you - it will be your plan. You may fool only yourself by being overly optimistic or exceedingly pessimistic.
- Another thing to consider, you must realize that a financial plan is not a magic cure-all; you will not get wealthy overnight and you must adjust your plan from time to time as uncertainties turn into realities.

Once the above items are accepted, you are ready to get down to the development of a financial plan. One of the best methods we know for starting a plan is to follow a step-by-step process. Not surprisingly worksheets are provided at the end of this chapter.

### **Personal data**

Use the worksheet to develop a simple list outlining personal information on you. It has space for recording such items as names, ages, dates, places of birth, social security numbers, employment information, and present address if not living at home, as well as any other personal data that comes to mind.

Why is this important? Well, much of this information is required when completing a job application or a credit application. If recorded in one area, it will be readily available, and there will be no need for confusion. Additionally, it gets you started with familiar information and it provides a reference point for someone else to help with your application or estate planning.

### **Important people**

Flip back to the worksheet and begin the development of a record of people having an important role in your personal affairs. This should include your doctor, lawyer, minister, insurance agent, stockbroker and guardians for your children. Once again, the purpose is to document basic information for reference purposes.



### **Balance sheet**

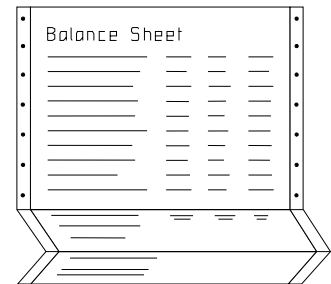
The balance sheet will list the value of items you own (assets) and the amounts owed to others (liabilities). Some of these values will be easy to determine, such as cash in the bank or balance of a loan while others will require a degree of guessing, such as the value of your home and furniture. (Refer to the worksheets in the appendix.) The following list will help with this process.

**Assets:** Cash in checking and savings accounts.

- Cash value of life insurance policies.
- Cash value of any savings bonds.
- Market value of stocks, bonds, mutual funds, etc.
- Market value of your home and other real estate.
- Market value of automobiles, boats, campers, etc.
- Market value of jewelry, furs, art, etc.
- Market value of art, stamps, collections, etc.
- Market value of furniture and appliances.
- Market value of other major assets.

**Liabilities:** Automobile, furniture and other personal loans.

- Balance of the mortgage payable on your home.
- Amounts owed on charge and credit cards.
- Amounts owed on any bank or insurance loans.
- Property taxes owed if you pay them separately.
- Income taxes owed if you pay them separately.
- Any other liabilities or amounts owed.



After completing this list, subtract the total liabilities from the total assets. This will indicate your family's "Net Worth." This is the amount (your net worth) that financial planning is designed to increase and protect. The balance sheet also will provide a convenient measuring device for comparison against future balance sheets so that you can determine the success of your efforts in following your financial plan.

## Budget

The next step in the financial planning process is to develop an *operating budget* - a plan which itemizes your income and expenses. Your budget can be prepared for any length of time. It is usually best to start with a one-month period. Then, once you feel comfortable with the process, you can develop a budget covering three months. Ultimately, you should prepare an annual budget that is broken into twelve monthly segments.

Take your time and be honest with yourself. Don't forget things like gifts, vacations, and auto repairs. We will use the information written in a future chapter. So begin the process now. (Worksheets available at the end of this chapter.)

**Items of income**

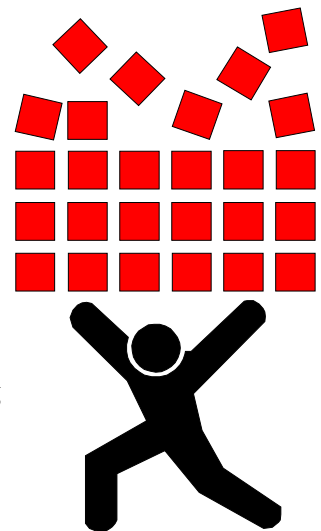
- a. Your monthly employment income (take home salary, wages, etc.). If you have additional income which tends to fluctuate (i.e. commissions, tips, etc.), your estimates should be fairly conservative. Amounts earned over the conservative estimate can be handled later.
- b. Income to be received from savings accounts, dividends, bonds, and other investment items.
- c. Income from all other sources such as VA pensions or benefits, social security assistance payments, and annuity payments.

**Fixed items of expense**

- a. A cardinal rule of personal financial management is "pay yourself first." Regardless of how small the amount, a regular savings program is essential for the success of your financial plan.
- b. Mortgage or rent payments, car payments, utility bills.
- c. Installment payments for various loans, charge cards and insurance premiums.
- d. An allowance for monthly food bills, clothing requirements, doctor bills, and recurring household expenses.
- e. Taxes - if you are self employed, include the direct payments to the IRS.
- f. All other regular expense items that occur each month and over which you exercise little control. Such as buying cokes, putting money in vending machines, buying one package of cigarettes, instead of a carton.

**Variable items of expense**

- a. Personal allowance.
- b. Recreational and vacation activities.
- c. Household expenses and repairs.
- d. Other expenses over which you may exercise control including gifts and charitable contributions.



When making this record, leave a few blank spaces after each major category for items you might have overlooked. They can be added later as you remember them. When the list is complete, you will have a starting point for your initial financial planning decisions. If your income is more than your expenses, you are in a very fortunate position. You can take immediate steps to build your estate by increasing monthly savings, buying additional insurance, and similar actions.

However, if your expenses exceed your income, you will need to take action to either reduce your expenses or increase your income. Some initiatives that you can take to bring your budget into line include:

- a. A credit or debt counseling program to reduce monthly loan payments.
- b. A part time job.
- c. Reduction or elimination of vacations, restaurants and other variable expenses.
- d. Bargain price purchasing. Be careful to avoid buying an item because the price has been reduced 10% and then carrying the balance on an 18% charge account!

### Financial goals

Now that you realize you have an estate (your balance sheet) and you know how much you can spend to build that estate (your budget), it is time to set a few realistic goals. Most likely, you are not the only one who wants to be financially successful, but **you are the only one who can do it.** It takes **dedicated time, planning, and setting goals** to pace yourself along the way.

When setting goals, make sure they are realistic and quantified. Set specific milestones that you can reach. As an example; having \$1,000 of savings in two years, \$2,000 in three years, etc. Reaching a milestone you have planned and worked toward is a very rewarding experience. It is very important to put your goals, as well as your projected milestones in writing. These goals can and often do change. A common thread among the most successful people in the world is that they had written goals! You will realize the value of this function when you reach that first goal and like the little engine that said, "I think I can! I think I can!" You can proudly say to yourself, "I knew I could do it!"

### Action plan

Once you have determined assets, liabilities, debt, income, and goals your next step is to develop a plan of action. You might consider a sequence of actions, such as:

- Step one - Develop an adequate life insurance program for you. A sound program will not cost a fortune and can avoid severe family hardships if you die before reaching your financial goals.
- Step two - Build an emergency savings account having a balance of at least three month's pay, and use it only for true emergencies. Then rebuild this fund again, as soon as you are able.
- Step three - Establish a solvent financial situation where day-to-day financial needs can be taken care of without creating a financial crisis or stress on your budget.
- Step four - Develop a sound and continuing program of savings and investments. This program should start with high quality (low risk) investment items. You will have plenty of time for more speculative ventures when your financial plan is well developed and provides the security you and your family need for the future.

### **Implement your plan**

Now is the time to pull into the station and put your plan into action! This process will give you confidence in your ability to control your personal affairs and will help ensure your security.

### **Follow up**

We often forget about the followup phase. Every three months dust off this manual and review the information entered. Pat yourself on the back, if you are on-track. If things have *hit* a derailment, modify the budget, action plan, or other item needing changes. Remember that a financial plan can be modified. It is NOT sunk in concrete. It is the framework for a strong financial future.

# Personal data worksheet

## Enter the personal data on yourself

Full name:	Social Security Number:
Place of birth:	Date of birth:
Present address:	
Permanent home address (if different):	
Employer:	Years of employment:
Other pertinent information:	

## Personal data on your spouse (if not married, skip)

Full name:	Social Security Number:
Place of birth:	Date of birth:
Present address:	
Permanent home address (if different):	
Employer:	Years of employment:
Other pertinent information:	

## Personal data on your dependents

<i>Dependent's name</i>	<i>Relationship</i>	<i>Date of birth</i>	<i>Social Security Number</i>
1.			
2.			
3.			
4.			
5.			

# List of important people worksheet

<i>Individual</i>	<i>Name and address</i>	<i>Telephone</i>
Family Doctor		
Family Doctor		
Clergyman		
Insurance agent		
Tax advisor/Accountant		
Lawyer		
Executor, Husband's		
Executor, Wife's		
Children's guardians:		
Child:		
Child:		
Child:		
Child:		

## *Immediate relatives*

Husband's Father:		
Husband's Mother:		
Wife's Father:		
Wife's Mother:		
Married children:		
Grandchildren:		

# Balance sheet

<b>Assets</b>		<b>Liabilities</b>	
<b>Cash on hand</b>	\$	<b>Automobile loans</b>	
Checking account balances		Vehicle:	\$
Account number:	\$	Vehicle:	\$
Account number:	\$	Vehicle:	\$
<b>Savings account balances</b>		<b>Amount Owed On Mortgages</b>	
Account number:	\$	Personal residence 1 <sup>st</sup> mortgage:	\$
Account number:	\$	Personal residence 2nd mortgage:	\$
		Other:	
<b>Cash value of life insurance policies</b>		<b>Bank loans</b>	
Policy number:	\$	Loan for:	\$
Policy number:	\$	Loan for:	\$
<b>Cash value of bonds owned</b>		<b>Finance company loans</b>	
<b>Cash value of stock owned</b>		Loan for:	\$
Type of stock		Loan for:	\$
<b>Cash value of Mutual Funds owned</b>		<b>Charge account balances owed</b>	
Fund:	\$	Store:	\$
Fund:	\$	Store:	\$
Fund:	\$	Store:	\$
<b>Cash value of other liquid assets</b>		<b>Credit card balances owed</b>	
Explain:	\$	Company:	\$
Explain:	\$	Company:	\$
Explain:	\$	Company:	\$
<b>Fair value of real estate</b>		<b>Insurance Loans</b>	
Personal residence:	\$	Policy:	\$
Other:	\$	Policy:	\$
<b>Fair market value of vehicles</b>		<b>Taxes owed</b>	
Vehicle:	\$	Federal Income Tax:	\$
Vehicle:	\$	State Income Tax:	\$
Vehicle:	\$	Property tax:	\$
		Other:	\$
<b>Fair market value of other assets</b>		Other Debts (Explain)	
Furniture:	\$		\$
Jewelry:	\$		\$
Other:	\$		
Other:	\$		
Other:	\$		
<b>TOTAL ASSETS:</b>	<b>\$</b>	<b>TOTAL LIABILITIES:</b>	<b>\$</b>
		<i>Net worth computation</i>	
		<i>Total assets (From column 1)</i>	<b>\$</b>
		<i>Less: Total liabilities</i>	<b>\$</b>
		<b>Net Worth:</b>	<b>\$</b>

# Budget worksheet

## INCOME ITEMS

Source of income	Preliminary	Revised	Revised
<b>Salary, Wages, Commissions, Tips, Etc.</b>			
Husband's	\$	\$	\$
Wife's	\$	\$	\$
<b>Interest earned on Savings Accounts</b>			
Name of institution:	\$	\$	\$
Name of institution:	\$	\$	\$
<b>Interest earned on bonds</b>			
From:	\$	\$	\$
From:	\$	\$	\$
<b>Dividend income</b>			
From:	\$	\$	\$
From:	\$	\$	\$
<b>Other investment income</b>			
From:	\$	\$	\$
From:	\$	\$	\$
<b>Social Security benefits</b>	\$	\$	\$
<b>Veteran's Administration benefits</b>	\$	\$	\$
<b>Pensions and/or annuities being received</b>	\$	\$	\$
<b>Other income</b>			
From:	\$	\$	\$
From:	\$	\$	\$
From:	\$	\$	\$
From:	\$	\$	\$
<b>TOTAL INCOME:</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**EXPENSE ITEMS**

*Fixed Expenses*

<b>Source of expense</b>	<b>Preliminary</b>	<b>Revised</b>	<b>Revised</b>
<b>Mortgage payment or rent</b>			
Personal residence:	\$	\$	\$
Other:	\$	\$	\$
<b>Car payments</b>			
Vehicle:	\$	\$	\$
Vehicle:	\$	\$	\$
<b>Utilities</b>			
Electric:	\$	\$	\$
Telephone:	\$	\$	\$
Cell phone:	\$	\$	\$
Water/Sewer/Trash:	\$	\$	\$
Natural gas/Heating oil:	\$	\$	\$
Cable:	\$	\$	\$
Internet:	\$	\$	\$
<b>Loans/Credit cards</b>			
For:	\$	\$	\$
For:	\$	\$	\$
<b>Insurance premiums</b>			
Automobile:	\$	\$	\$
Health:	\$	\$	\$
Home	\$	\$	\$
Life:	\$	\$	\$
<b>Allowances for</b>			
Food:	\$	\$	\$
Clothing:	\$	\$	\$
Medical:	\$	\$	\$
Savings:	\$	\$	\$

Source of expense	Preliminary	Revised	Revised
<b>Taxes</b>			
Income:	\$	\$	\$
Property:	\$	\$	\$
School:	\$	\$	\$
County hospital:	\$	\$	\$
Community College:	\$	\$	\$
Other:	\$	\$	\$
Other:	\$	\$	\$
<b>TOTAL FIXED EXPENSES</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**VARIABLE EXPENSES**

Source of expense	Preliminary	Revised	Revised
<b>Personal allowances for</b>			
Husband:	\$	\$	\$
Wife:	\$	\$	\$
Children:	\$	\$	\$
<b>Entertainment/Recreation</b>	\$	\$	\$
<b>Household expenses/Repairs</b>	\$	\$	\$
<b>Other expenses</b>			
For:	\$	\$	\$
For:	\$	\$	\$
For:	\$	\$	\$
For:	\$	\$	\$
<b>TOTAL VARIABLE EXPENSES</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**TOTAL EXPENSES**

(Fixed + Variable)	\$	\$	\$
--------------------	----	----	----

**Income/Expense Summary:**

Total income	\$	\$	\$
Less total expenses (from above)	\$	\$	\$
Surplus (deficit)	\$	\$	\$

# Financial goals worksheet

*Narrative explanation of financial goals*

*Savings  
account*

*Life  
insurance*

*Other  
investments*

Goal for one year from today:

---

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---

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Goal for two years from today:

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Goal for three years from today:

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Goal for five years from today:

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---

---



## What is most important to me?

Every individual or family makes choices on what is most important to them. The goal here is to develop a list of what is important in your household. Number the items in order of importance, beginning with 1. Place a 0 if you do not spend money on one of them.

It is important to note that there is no **right** or **wrong** answers. It is important for you and your family to have a written standard as what is important. Many time no standard exist and money, in limited supplies, is often wasted.

Housing:	_____	Alcohol/drugs:	_____
Food:	_____	Christmas gifts:	_____
Boat/snowmobile:	_____	School expenses:	_____
Gas/electricity:	_____	My spending money:	_____
Subscriptions/clubs:	_____	Hobbies:	_____
Gas to work:	_____	Insurance (life):	_____
Car insurance:	_____	Medical insurance:	_____
Tithe:	_____	IRA-retirement:	_____
Cigarettes:	_____	Investments:	_____
Hunting/fishing:	_____	Child support:	_____
Garbage service:	_____	Videos:	_____
Eating out:	_____	Prescriptions:	_____
Christian (tithes):	_____	Save for car/repairs:	_____
Education:	_____	Save for own home:	_____
License plates:	_____	Birthday gifts:	_____
Paying creditors:	_____	Medical expenses:	_____
Baby-sitters:	_____	Garage sales/auctions others:	_____
Lottery:	_____	Save for emergencies others:	_____
Vacations:	_____	Home parties other:	_____
Cable TV:	_____		
Clothes for kids:	_____		
Clothes for adults:	_____		
Save for college:	_____		
Barber/beauty shop:	_____		
Laundry/dry cleaners:	_____		

# Boxcar

Well, what can we say about the boxcar? How about there are plenty of them! They are used to move furniture, appliances, cereal, and really any type of freight from one point to another. We all like seeing the different kinds of boxcars as a train goes by. Big ones, little ones, brown ones, black ones, blue ones, red ones, and yellow ones.



Credit is similar to the boxcar. We use it to acquire different things; houses, cars, vacations, swimming pools, and the list can go on. Like the many boxcars Americans generally maintain too much credit.

## Using credit

Credit is what expands your purchasing power. It should be used within your budgeting guidelines to take the bite out of purchases. Today, we are living in a credit driven society. If you have a history of misused credit, or have never established any credit, then this important tool is not available for your use. This manual will attempt to provide pointers in correcting these situations.

### What is credit and how does it work?

In short, some lenders trust that a borrower will honor the debt, and they get back in accordance with their agreement. In essence, a creditor is someone who is willing to place his faith in you. The word creditor grew from the Latin word "credere," which means to put faith or trust in.

In today's world the extension of credit is still based on trust, it has been depersonalized by the overwhelming use of credit cards. An agreement between two individuals, is concluded by the traditional shaking of hands. This is almost a thing of the past. Still, the debtor's responsibility is to repay the lender.

Credit has assumed a greatly expanded role in the lives of most Americans, and buying on credit can be both a blessing and curse for many individuals. Unfortunately, for many people, living beyond their means is accepted as a way of life. Many people tend not only to spend next month's earnings before they earn it, but even next year's.

Most people aren't willing to wait until they have the cash to purchase the necessities of life. When a person buys on credit, the added cost of having what they want, and having it now, is called interest charges. This is even more apparent when purchasing a home, appliances, and other high dollar items. Initially, the convenience of having what we desired seems to outweigh the inconvenience of the

purchase price, plus the interest, at the time of a purchase. But, when a person finally realizes that they have dangerously extended themselves, it's often too late to place good judgment over credit convenience.

If you happen to be one of these people, don't feel alone! There are millions of people who have trouble because they have over used their credit. You may also see that a bad credit rating isn't always the borrower's fault. However, when it knowingly is, there is no one else to blame. The individual responsible is the one who signed the credit card slip.

Most Americans feel helpless when they discover or admit they are in financial trouble, or that something is wrong with their credit rating. Most Americans seem to have limited knowledge about the mechanics and procedures required to obtain, maintain, establish or re-establish a good credit standing.

### **Why is good credit absolutely essential ?**

In today's world it is difficult to live the American dream without good credit. Credit can buy a person both time and opportunities. How many people, for example, can afford to take the time to save enough cash to purchase a new home or an automobile? Credit also can help a person take advantage of business and investment opportunities that would not be obtainable otherwise.

Our American society has shifted to credit for making its purchases. Economists may have theorized what the overall effects will be resulting from the current buy now and pay later way of living, but no one knows for certain. One thing is certain, it has spelled disaster for many people. For countless others the journey towards financial problems has just begun.

### **Establish or re-establish your credit?**

It is very unusual to have no credit history at all. The only way to do this is to pay cash for everything. Getting ahead in this credit society is hard for those who have been denied access to the credit system.

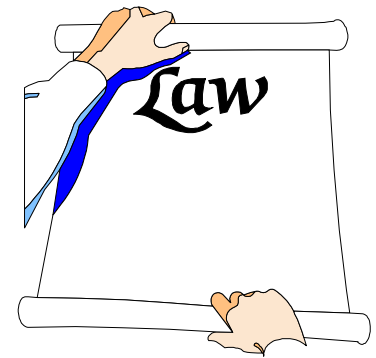
If you apply for a loan and have no credit history, the lender has to place his trust in you enough to believe that you will pay back a loan. He has no references to support your credit worthiness. The lender is taking a bigger risk in this kind of a situation, and will act accordingly. As an example, if you are over 25 years of age and have no previous credit history, then red flags will go up in the lender's mind.

Why hasn't someone trusted this person before? What could this person be hiding? These certain questions will be the demise of almost any possible loan.

If you have had, or currently have, a bad credit history, then you must now prove to the lender that you have changed your ways. Maybe, your bad credit is or was due to circumstances beyond your control.

### Steps to establish or re-establishing your credit

- Open a checking account. Assuming you keep your account correctly you can use this account as a good reference. After a few months, ask for a bank charge card.
- Check into getting a loan using savings account funds as collateral. If you don't have the savings account, borrow money for (the small amount, say \$200) from a friend or relative. Then pay them back as soon as you get the loan. Pay all this small note on a short (three-month) term. Then repeat the process in larger amounts.
- Apply for a credit line at a local retailer. This will be easier to get than a bank loan or travel card. Start by asking for a small credit limit. After you have gotten your credit worthiness established, increase the credit limit.
- Apply for a department store or oil company credit card. These are the easiest to qualify for.
- Get a secured credit card. After keeping your account current for a year ask them to refund your deposit.
- You might have good credit that you have forgotten about. Think back, and find past creditors that reflect good paying habits.
- Go to an appliance or department store and make a large purchase. Pay 50 percent of up front and ask them to carry the balance for a specific amount of time. If you are refused credit, find out why. This could be an easily corrected mistake, find it, and apply again.



### Credit and divorce

Money problems are the major factor of divorce today in America. Mary and Bill recently divorced. Their divorce decree stated that Bill would pay the balances on their three joint credit card accounts. Months later, after Bill neglected to pay off these accounts, all three creditors contacted Mary for payment. She referred them to the divorce decree, insisting that she was not responsible for the accounts. The creditors correctly stated that they were not parties to the decree and that Mary was still legally responsible for paying off the couple's joint accounts. Mary later found out that the late payments appeared on her credit report.

## If you divorce

If you're considering divorce or separation, pay special attention to the status of your credit accounts. If you maintain joint accounts during this time, it's important to make regular payments so your credit report won't suffer. As long as there's an outstanding balance on a joint account, you and your spouse are responsible for it.

If you divorce, you may want to close joint accounts or accounts in which your former spouse was an authorized user. Or ask the creditor to convert these accounts to individual accounts.

By law, a creditor cannot close a joint account because of a change in marital status, but they can do so at the request of either spouse. A creditor, however, does not have to change joint accounts to individual accounts. The creditor can require you to reapply for credit on an individual basis and then, based on your new application, extend or deny you credit. In the case of a mortgage or home equity loan, a lender is likely to require refinancing to remove a spouse from the obligation.

## Individual or joint account

**Individual Account:** Your income, assets, and credit history are considered by the creditor. Whether you are married or single, you alone are responsible for paying off the debt. The account will appear on your credit report, and may appear on the credit report of any "authorized" user. However, if you live in a community property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin), you and your spouse may be responsible for debts incurred during the marriage, and the individual debts of one spouse may appear on the credit report of the other.

**Advantages/disadvantages:** If you're not employed outside the home, work part-time, or have a low-paying job, it may be difficult to demonstrate a strong financial picture without your spouse's income. But if you open an account in your name and are responsible, no one can negatively affect your credit report.

**Joint account:** Your income, financial assets, and credit history - and your spouse's - are considerations for a joint account. No matter who handles the household bills, you and your spouse are responsible for seeing that debts are paid. A creditor who reports the credit history of a joint account to credit bureaus must report it in both names (if the account was opened after June 1, 1977).

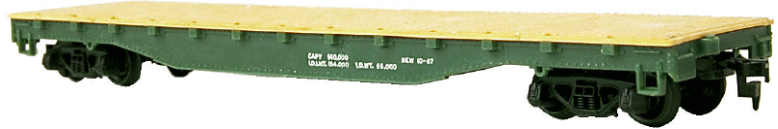
**Advantages/disadvantages:** An application combining the financial resources of two people may present a stronger case to a creditor who is granting a loan or credit card. But because two people applied together for the credit, each is responsible for the debt. This is true even if a divorce decree assigns separate debt obligations to each spouse. Former spouses who run up bills and don't pay them can hurt their ex-partner's credit histories on jointly-held accounts.

**Account "users"**

If you open an individual account, you may authorize another person to use it. If you name your spouse as the authorized user, a creditor who reports the credit history to a credit bureau must report it in your spouse's name as well as in your's (if the account was opened after June 1, 1977). A creditor also may report the credit history in the name of any other authorized user.

**Advantages/disadvantages:** User accounts often are opened for convenience. They benefit people who might not qualify for credit on their own, such as students or homemakers. While these people may use the account, you - not they - are contractually liable for paying the debt.

# Flat car



The flat car is used to move stuff around. A crane can place items onto the flat car from above. Vehicles and large crates can be loaded onto a flat car. If overloaded the excess just falls off the side and to the ground. It's function and use is never questioned.

A budget is similar to the flat car. Expenses and incomes are placed on it. A lot or little money can be transacted in a budget. Any budgetary excesses will simply show up in the red and can be addressed quickly.

## Budgeting

The purpose of this chapter is to teach the concepts and habits of budgeting.

The first step that a consumer should take is to prepare a household budget.

The goal in a household budget is to make sure that your monthly living expenses do not exceed your monthly income.

### What is a budget?

A budget is simply a money plan. With it, you can organize and control your monthly expenses, you can set and realize desired goals, and decide in advance how your money will work for you.

### How to build a budget

One of the easiest ways to fall into debt is to not know how much you're spending. Follow this simple budgeting guide and you will take a crucial step towards freedom from debt.

## Seven benefits of budgeting

So what benefits, specifically, can you expect if you set up a budget? Naturally, the answer to this question will be different for everyone. But here are some of the most common benefits that people see when they start a budget:

1. Know what is going on. Personal budgeting allows you to know exactly how much money you have. Furthermore, a budget is a self-education tool that shows you how your funds are allocated, how they are working for you, what your plans are for them, and how far along you are toward reaching your goals. That leads us to our next benefit:
2. Control. A budget is the key to enabling you to take charge of your finances. With a budget, you have the tools to decide exactly what is going to happen to your hard-earned money, and when. You can be in control of your money, instead of having your money limit what you do. This bears repeating: ***you can be in control of your money***, instead of letting it control you!
3. Organization. Even in its simplest form, a budget systematizes, or divides funds into categories of expenditures and savings. Beyond that, however, budgets can provide further organization by automatically providing records of all your monetary transactions. They can also provide the foundation for a simple filing system to organize bills, receipts, and financial statements.
4. Communication. If you are married, have a family, or share money with anyone, having a budget that you both (or all) create together is a key to resolving personal differences about money handling. The budget is a communication tool to discuss the priorities for where your money should be spent, as well as enabling all involved parties to "run" the system.
5. Take advantage of opportunities. Knowing the exact state of your personal monetary affairs, and being in control of them, allows you to take advantage of opportunities that you might otherwise miss. Have you ever wondered if you could afford something? With a budget, you will never have to wonder again, you will know.
6. Extra time. All your financial transactions are automatically organized for tax time, for creditor questions, in fact, for any query which may come up regarding how and when you spent money. Being armed with such information sure saves time digging through old records.
7. Extra money. This might well be everyone's favorite benefit. A budget will almost certainly produce extra money for you to do with as you wish. Hidden fees and lost interest paid to outsiders can be eliminated forever. Unnecessary expenditures, once identified, can be stripped out. Savings, even small ones, can be accumulated and made to work for you.

## What is the importance of a budget?

A budget is important for overall life planning. Consider this, a building contractor would never start work on a new house without a blueprint. Boeing Aircraft would never begin construction on a new aircraft without a detailed set of design specifications.

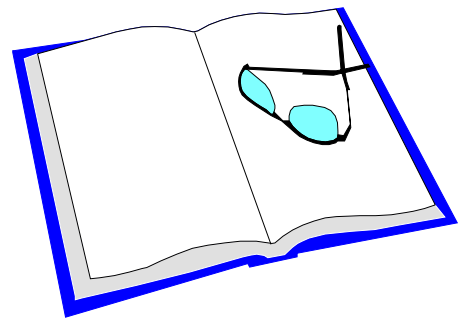
A point to remember about budgeting is planning. Proper planning is crucial to produce a desired result.

You may have filled out a budget worksheet from the appendix, if you haven't you should do so now.

If you are like most of us, you were probably estimating your expenses. The budget is a powerful tool that allows you to see exactly where your hard-earned salary goes every month. Just setting aside a few hours every month to review your budget can prevent the embarrassment of a bounced check. You don't even need to wait until the end of the month to start budget-building: read on, and you can start the very next time you dip into your wallet!

### A budget can be as simple as it is powerful

In its simplest sense a budget is used to save money up front for both known and unknown expenses. Known expenses include your monthly bills. The unknown expenses could include auto repair expenses or family emergencies.



The best lesson you can learn at this point is the power of compound interest, described below. Give yourself the gift of starting off right, and planning for your financial future from the beginning. Now is truly the best time to get your spending plan in place so you can make the most intelligent investment decisions with the money you allocate to savings.

Even if you aren't at the "beginning" of your financial life, the importance of this lesson still stands. Starting today is better than starting tomorrow. Starting this week is better than starting next week. And this year is so much better than next!

## Record your monthly expenses

If you usually throw away bills and pay stubs, that's one habit that has to change! Yes, they're useful for figuring out your budget, but you might also need them to dispute an error. Save bills/stubs in another safe place. Start saving all your receipts in a big jar or shoe box for the month.

Carry a small notebook or index cards with you to keep track of the purchases where you don't get a receipt. Even if it's only a penny, record the amount spent, item purchased, and the date. The idea here is that you also want records of your SMALLEST purchases, the ones you make in cash or change. You can save these records in the receipt jar/box too.

<i>\$0.95 coffee</i>	<i>03/02/03</i>
<i>\$1.12 muffins</i>	<i>03/03/03</i>
<i>\$10.00 gasoline</i>	<i>03/03/03</i>
<i>\$1.50 newspaper</i>	<i>03/04/03</i>

Use your checkbook to record all ATM withdrawals as well as deposits and checks, as they happen. Get used to bringing your checkbook and a pen with you so you can quickly jot down transactions. Don't plan on remembering to fill in your records later -- the longer you wait, the more likely you'll forget.

Keep track of your finances from today on for about a month, write down everything you buy or spend. Then you're ready for the next step - figuring out your budget.

### **The envelope method**

This system has been around for a long time and has been used by many people. The idea behind this method is to use envelopes to divide your pay into categories, with each category targeted toward a specific expense. To use this system, you would obtain a stack of envelopes, and decide what expenses you wanted to budget for: for example, car payments, telephone bills, monthly rent, and so on. Then, one envelope would be allocated for each expense, and you would write the amount of the expense on the front of the envelope. Come pay-day, you would put the appropriate amount in each envelope. The money would then stay in the envelopes until the time came to pay the corresponding bill, at which point the funds would be taken out and used.

The basic ideas behind this system are good ones: money is reserved "up front" for expenses and discipline is enforced in following an established budget. The major problem with this method, of course, is that it was designed for a time when most transactions were handled in cash. People received pay envelopes containing bills and coins, and the folding green stuff exchanged hands for most purchases and payments.

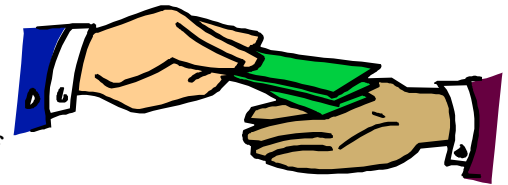
In today's world of checks, credit cards, and electronic banking, such a system is a nightmare. You would spend an enormous amount of time making cash withdrawals and deposits. Safety is another concern. Can't you just picture someone breaking into your home to find a collection of delicious, money-filled envelopes to choose from? Even worse is the fact that money sitting around in envelopes isn't working for you. Instead of just laying there, gathering dust, you want those funds out there making more money.

### **Where does the money go?**

Gather together the receipts, records, bills, pay stubs, ATM/checking records, paper, pencils and a calculator. You can use the charts at the back of this book to organize and record your budget calculations.

Fill in the amounts for each category on the budget sheet. If you pay any of these expenses more or less often than once a month, use the handy budget sheet to figure out your monthly expenses.

Even if you only make one big payment a year, it's important to consider that amount in terms of monthly expenses so that you will have enough saved to eventually pay that bill on time. Also, if you have some expenses that don't occur on a fixed schedule, you will have to estimate the monthly amount. For example, you probably make donations from time to time. If you have good record of your expenses from last year, then figure out the total amount you spent on charities (religious or otherwise) and divide that number by 12 to get your monthly expense.



Using your records, figure out the monthly expenses for your **FIXED** and **VARIABLE LIVING**, **DISCRETIONARY**, and **ESCROW EXPENSES**. Most of the budget categories are self-explanatory, and not all will apply to you. Add categories that you don't feel are included in our sample budget. Also, you may want to separate some categories into more specific spending areas. **PERSONAL EXPENSES** -- for example, includes hair care, toiletries, and cosmetics - to name just a few. If hair care is a considerable expense for you, such as hair-cuts, then make hair care a supported category from personal expenses so that you can keep track of that amount.

### **Income vs. Debt**

Get out those pay stubs. Fill in the worksheets at the back of the book labeled **NET MONTHLY INCOME**. Figure out this amount by multiplying the amount of your net pay listed on your pay stub accordingly - if you're paid every week, multiply by 4, and if you're paid biweekly, multiply by 2. Your net pay is the amount left after taxes, Social Security (FICA), and benefits are removed. If these items aren't deducted from your paycheck, you will have to consult your tax records to figure out your **Net MONTHLY INCOME**.

Now look at those bills. It's time to figure out the total sum of your outstanding debts (not including mortgages). Add up the amount you are supposed to pay each month towards credit card balances, loans, car payments, store charges, medical bills, and unpaid taxes. Fill in that amount in the **TOTAL DEBT PAYMENTS** box, below **NET MONTHLY INCOME**.

Take your **TOTAL DEBT PAYMENTS** and divide that amount by **NET MONTHLY INCOME**; multiply the number you get by 100. That's your **Debt to Income Ratio** - fill this number in your sheet. This number represents the percentage of your monthly income that goes toward paying off debt. If your **DEBT TO INCOME RATIO** is greater than 20% then you probably have more debt than

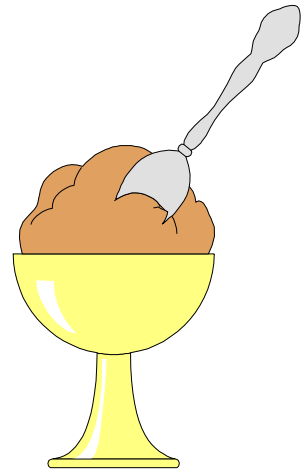
you can handle. If your ratio falls between 1--20% then you might be heading for trouble.

### **Budgets are like diets**

Have you ever tried to lose weight by dieting? Were you able to keep the weight off or did it come back? It almost surely came back. Unfortunately, diet failure stories are as common as budget failure stories. More than nine out of ten people who attempt to gain control over their money using budgeting alone, fail.

### **Savings strategies and planning goals**

- **Start Saving.** Experts suggest that you start saving 10 to 15 % of your net income each month.
- **Credit Cards.** Interest on credit cards is not deductible. Always try to pay more than the minimum payment each month, and try not to be late with your payment. Stay within your credit limit. Otherwise, you may be charged over-limit fees and late fees, these can increase your balance.
- **Mortgage payments.** If possible, try to pay extra money each month to your principal balance or make an extra mortgage payment within the year. This will cut years off your payoff time and save you thousands in interest over time.
- **Open an IRA.** Setting up a Roth IRA may be one of your best options. In a Roth IRA, you contribute after tax dollars and when you reach retirement age you can withdraw the money tax-free.
- **Enroll into a 401 K plan at work.** Try to put away a minimum of 6-10 % of your gross income into a 401 K plan each month. Find out how much your employer will match on your dollars contributed.
- **Term life insurance.** If you are paying for annual renewable term life insurance, you should consider changing to a level term life insurance policy. Shop around. Call a local insurance agency and ask them to give you a comparison of companies and their rates.
- **Money management.** It is important to know where you spend your money each month. People who keep track of their money usually spend less and save more. Keeping a budget can help you stay on your target spending.



## **Budgeting myths**

Many people never even consider starting a budget because they are afraid they will have to "give up" something. To some, a budget is like a diet that may force them to forgo a favorite treat.

**Myth #1:** You have to suffer to use a budget.

The truth is, you are following a budget whether or not you have consciously implemented one. Unfortunately, the "budget" you end up with by doing nothing is almost certainly an endless cycle of reactions, as opposed to a dynamic, proactive strategy. A reactive mode contains the double whammy of the anxiety of wondering when the money will run out, and then feeling deprived when it does. A budget will actually reduce your aggravations.

A more accurate analogy is a cluttered hall closet. You know the one, a closet you are afraid to open lest you be hit on the head by a cascade of falling junk. The one everyone puts things into, but never takes anything out of. The one that prompted a scientist at the local university to schedule an archeological dig.

Picture that closet in your mind for a moment. Now imagine taking everything out and laying it all on the floor where you can see it and study it. Then, give the closet a thorough cleaning, and perhaps install some new shelves or racks inside. Finally, put everything back in an organized, neat arrangement. Do you know what? You will have more storage room than when you started, and you did not get rid of anything.

Now, it might well be that when you have all the junk on the floor, you decide you can probably do without that old pair of shoes with the holes in the bottom, or the broken baseball bat, or the jigsaw puzzle with half the pieces missing. If you get rid of some items, you have even more room in the closet.

A budget works the same way. The very act of organizing your finances can provide extra money! During the organization process, you might discover some expenses you want to eliminate, or some smarter ways of handling payments. These choices give you more money.

**Myth #2:** You have to be in debt to budget.

Another popular misconception is that budgets are only for people who are in real financial trouble, individuals who are severely in debt or currently living way beyond their means. While it is true such circumstances require a budget overhaul (or, more likely, implementation), the truth is that everyone can benefit from budgeting.

Successful companies, operating solidly in the black and generating millions of dollars in annual revenue, all maintain budgets. Some companies have entire departments, with dozens of employees, whose sole purpose is to run the budgeting process. These companies don't do all of this because they are in financial trouble or are spending beyond their means. They do it because budgets work.

Yes, a budget can be *the right track* to financial recovery from a crisis. But it can also lead to even more organization, control, and wealth building if your current financial situation is on the upswing.

**Myth #3:** You have to spend extra hours doing paperwork.

Another common fear is that budgeting will take huge amounts of time. There is certainly an investment of time up front to get things rolling, but then minimal time, sitting down once or twice a month to go over budgets and bills to make sure you are still on track..

However, once you have your budget set up and in place, bill paying sessions turn into stress free, time-efficient moments. You've eliminated the month-in and month-out agonizing (or arguing) about priorities. You also no longer wonder where the money will come from for the next bill that crosses your desk. All of that negative energy and time will have been turned into a positive routine experience!

## Budget methods, in general

The budget worksheets are features to look for when selecting a budgeting method. If you're looking to upgrade an existing system, assess your current practices, or even design a system of your own from scratch, the following ideas will give you a head start in your evaluation and selection process.

### **The system should be fairly easy to run**

If it's too complicated, you'll give up on it quickly and end up with no system at all.

Your budgeting system should be able to be used as a communication tool with the other members of your household.

Effective money management within a marriage or family is based on good communication. Your budgeting practices must support and facilitate the communication process.

Your budget should allow you to define your goals up front, and then act as an instrument panel to guide you to success.

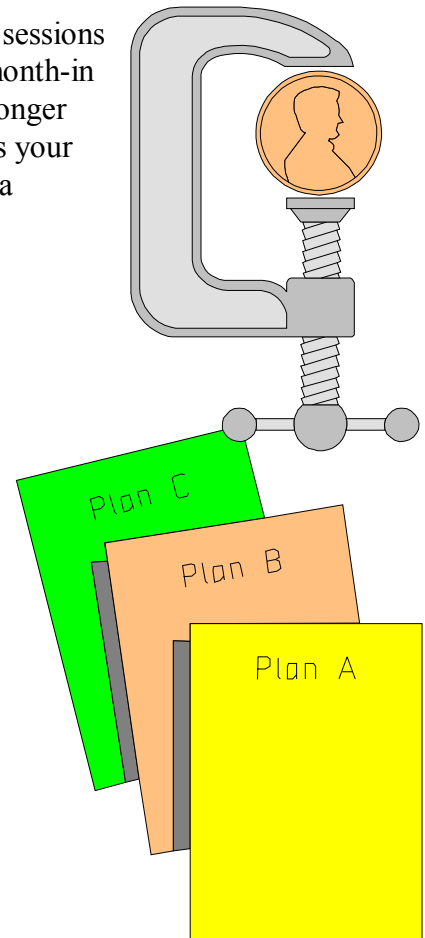
Beware of budgets that act like "rear-view mirrors", that only tell you what has happened to your money in the past. You want a proactive system that gives you the power of planning and control.

If you have a spouse, it should be very easy for either of you to understand and run the budget at any time.

Even if one person is the "primary" bill-payer, there will be times when the significant other will have to run things. The hand-off should be effortless.

### **Your budget should be customizable**

Our relationships with money are as individual as all of us are. Your budget should be a reflection of



you and your needs, dreams, and goals.

### **There should be an element of fun to the budget**

Fun or rewards built into your budget will keep it interesting and help keep you committed to it. Examples of fun elements are saving for a treat or vacation, or getting "refunds" of spending money back when you pay a check.

### **The budget should be based on organization, not penny-pinching**

Too often, people fall into the trap of thinking that the only way to get ahead is to give up things. Organization is much more effective, and a necessary first step before you can judiciously decide what to give up, or before you can decide if you even need to make any sacrifices.

The system should easily and instantly let you know how much spending money you have.

Between bills, regular payments, savings and investments, taxes, and all the other routine and not-so-routine assaults on your checkbook, it must be an easy matter to know exactly how much discretionary spending money you have at any time. This knowledge lets you take advantage of opportunities, react to emergencies, or perhaps just enjoy a comfortable evening out.

Your budgeting system should continually teach you what's going on rather than just blindly giving some "rules" to follow.

The goal of any good budgeting system should be to impart understanding. Knowledge is power.

### **When to start?**

A natural question: When is it a good time to start using a budgeting system? Or, to put it another way, when should I implement a budget? The best time to start a budget is *right now*.

As the old adage goes, there is no time like the present. Procrastination is your enemy! The sooner you begin a budgeting system, the sooner you can begin reaping all of its benefits.

In his book *The Pursuit of Wow*, Dr. Tom Peters makes an emphatic, impressive point about change: beginning new habits, acquiring new skills, pushing yourself to excellence, and adopting new lifestyles. He says:

“The first 99.9 percent of getting from here to there is the determination to do it and not to compromise, no matter what set of roadblocks those around you (including peers) erect. The last 99.9 percent (I know it adds up to more than 100 percent. that's life) is working like the devil to;

- keep your spirits up through the inevitable storms
- learn something new every day, and
- practice that something, awkward or not and no matter what, until it's become part of your nature.”

In short, if you want to have excellent money management skills, you can simply resolve right now to do just that. That decision will shape your actions, decisions, thought patterns, experiences, and successes for the rest of your life.

All that said, there are certain "triggers" that offer inviting "clean breaks" and make excellent and natural starting points for a new budget:

- A change in your marital status
- A change in the number of people living in your household. This could be things such as the birth or adoption of a new family member, a child leaving the nest, or a parent coming to live with you
- A new job, a promotion, or a raise
- A new home
- Retirement
- A major purchase, such as a car or vacation home
- January 1st (or the beginning of any month)
- The beginning of a quarter or tax period (e.g., April 15th)

With the development of any new habit. and budgeting is just that”a habit, the standard advice is to start small. Take baby steps, push yourself forward to the next one, and praise yourself for the last one. Starting with some of these "periphery" money behaviors will provide the springboard you need to dive in!

### **Spring clean...anytime of year!**

Get organized. Simple organization is the key to financial success. Gather and begin to sort all of your financial records. Create a filing system if you don't have one. Separate the important documents (stock certificates, wills, powers of attorney, etc.) from the routine statements (credit card, paycheck, utility, etc.). Make sure you know where everything is, and have it ready to access.

Balancing act. If you are not in the habit already, get your checkbook balanced and reconciled. Get it up to date and ready to go!

## Specific Budgeting Methods

### The "Wish List" method

This system can be simply described as "good intentions, bad results." The basic scenario here is that a family sits down and agrees on "spending limits" for certain categories of household expenses. "We won't spend any more than \$450 a month on groceries" they might say. All of these decisions are carefully documented on paper. That done, the list is carefully filed away, and the family goes out and begins their spending.

The problem here is there is no easy way to enforce the budget plan. When someone takes a trip to the grocery store, they have no idea how much they are "allowed" to spend. Furthermore, rarely do grocery bills come out to exactly \$450 a month. If the family spends under that amount, the extra is never seen or heard from again. If they go over budget, where does the extra money come from? Soon, the frustration of not being in control of the situation sets in, and the list is forgotten.

### The "List-in-the-Pocket" method

This system is an attempt to put some control on the "wish-list" method. Instead of filing the "wish list" away, the family carries it around in pocket, purse, or wallet. Then, every time some money is spent, the amount is deducted from the appropriate category. With this technique, some feedback is available as to how things are going.

But still, there are problems. What does the family do if they need gasoline, and there is no money left in the gasoline budget? What if both husband and wife happen to stop at the grocery store while running separate errands? Do they carry separate budget lists? Do they have to spend time reconciling their lists at the end of the day?

Perhaps the biggest annoyance with this type of system is the constant attention it requires. Imagine being at a soda machine, and needing to pull out and make entries on a list before you can deposit a few coins!

### "Multi-many" forms

Have you every seen those "budget books" that are pages and pages of charts to fill out? On the one hand, the purpose of these is to get you to write down everything you spend. That, in and of itself is a good education because you'll see exactly where your money is going.

In many cases this will surprise you enough that you'll change some behaviors. But to record your every move for an extended period of time is overwhelming. Rarely does anyone continue the resolve.

The reality too, is that simply "tracking" your expenditures is not a budget. It is only half of the equation. The other half is to reserve and plan for the spending "up front." The dictionary definition of

the word "budget" is "to plan in advance, the expenditure of." It is not "simply write down what you've already done!" And furthermore, there is no reason to chart your pennies with the complexity of mapping out the night sky!

## **Budgeting tips**

- Make impulse buying difficult (leave checkbook, credit cards at home)
- Make savings an "expense" item
- Make debt repayment an "expense" item (this is what credit counselors do for you)
- Have some fun money for each family member
- Budget for a fun item (vacation, toy)
- Don't over categorize your budget (i.e. do not make too many "expense" categories)
- Don't divide couple's paychecks functionally
- Use an interest-bearing checking account, if possible
- Create an "expense" item to pay off credit card balances
- Pay off the highest interest rate cards first
- Don't use credit cards again until balance is paid off
- After a loan is paid off, keep paying the loan amount to yourself (make a vacation fund, or next car fund)
- Set aside money monthly, for bills that are due quarterly, semi-annually, or yearly
- Reconcile your budget at least once a month when reconciling your checking statement
- Make sure to mark your last reconcile point in your budget
- Try to get utilities or banks to change due dates of bills to make your work easier

Remember, just the act of identifying your expenses is extremely valuable. This is commonly referred to as "tracking" your expenses. But remember, this is only half of the budgeting equation. Tracking expenses is analogous to just looking in your "rearview mirror" for information. You have to learn to look ahead and see what is coming too!

# Tank Car

The tank car is used to store liquids. It really doesn't matter the type. Milk, Petroleum, bug killer, bleach. Also, we don't know the quantity contained in the tank car.



Our credit report is very similar to that tank car. From the outside others do not know what our credit report contains. It could have only positive information. Or, it could have negative or toxic information. Or, almost as bad - it could just be empty, no credit information at all...

## Oops, I need help

Sometimes as we travel through life we don't know we are *off track* until we are in the thick of things. At other times, we just don't care. If in the past a mess has been made of your credit we may have a solution. The following pages of information combined with the financial plan complete in chapter one will give you a pretty good idea how or if you need to improve your situation.

## Building A Better Credit Report

Newspapers, radio, TV and the Internet are filled with advertisements that offer-for a fee-to erase accurate negative information in your credit file. The scam artists who run some of these ads can't deliver. Only time, a deliberate effort, and a plan to repay your bills will improve your credit report. This publication is designed to help you understand and legally improve your credit report. This publication has five sections:

### Consumer Reporting Agencies

If you've ever applied for a credit card, a personal loan, or insurance, there's a file about you. This file contains information on where you work and live, how you pay your bills, and whether you've been sued, arrested, or filed for bankruptcy.

Companies that gather and sell this information are called Consumer Reporting Agencies (CRAs). The most common type of CRA is the credit bureau. The information CRAs sell about you to creditors, employers, insurers, and other businesses is called a consumer report.

## Frequently asked questions

Here are some questions consumers commonly ask about consumer reports and CRAs-and the answers.

**Q.** How do I find the CRA that has my report?

**A.** Contact the CRAs listed in the Yellow Pages under "credit" or "credit rating and reporting." Because more than one CRA may have a file on you, call each until you have located all the agencies maintaining your file. The three major credit bureaus are:

**Equifax**

1-800-685-1111  
www.equifax.com

**Experian**

1-888-EXPERIAN (397-3742)  
www.experian.com

**Trans Union**

1-800-916-8800  
www.transunion.com

In addition, anyone who takes action against you in response to a report supplied by a CRA-such as denying your application for credit, insurance, or employment-must give you the name, address, and telephone number of the CRA that provided the report.

**Q.** Where can I get a copy of my free annual credit report?

**A.** [www.annualcreditreport.com](http://www.annualcreditreport.com)

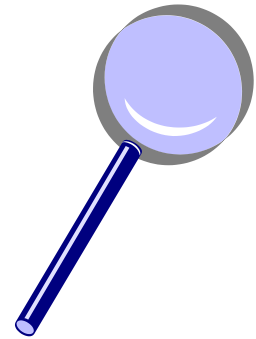
**Q.** Do I have a right to know what's in my report?

**A.** Yes, if you ask for it. The CRA must tell you everything in your report, including medical information, and in most cases, the sources of the information. The CRA also must give you a list of everyone who has requested your report within the past year-two years for employment related requests.

**Q.** Is there a charge for my report?

**A.** Sometimes. There's no charge if a company takes adverse action against you, such as denying your application for credit, insurance or employment, and you request your report within 60 days of receiving the notice of the action. The notice will give you the name, address, and phone number of the CRA. In addition, you're entitled to one free report a year if you certify in writing that (1) you're unemployed and plan to look for a job within 60 days, (2) you're on welfare, or (3) your report is inaccurate because of fraud. Otherwise, a CRA may charge you up to \$19.00 for a copy of your report.

Even if you have not been denied credit, you may want to find out what information is in your credit report. Some financial advisors suggest that you review your credit report periodically for inaccuracies or omissions. This could be especially important if you're considering a major purchase, such as buying a home or a car. Checking in advance on the accuracy of the information in your credit report could speed the credit-granting process.



- Q.** What type of information do credit bureaus collect and sell?  
**A.** Credit bureaus collect and sell four basic types of information.

#### Identification and employment information

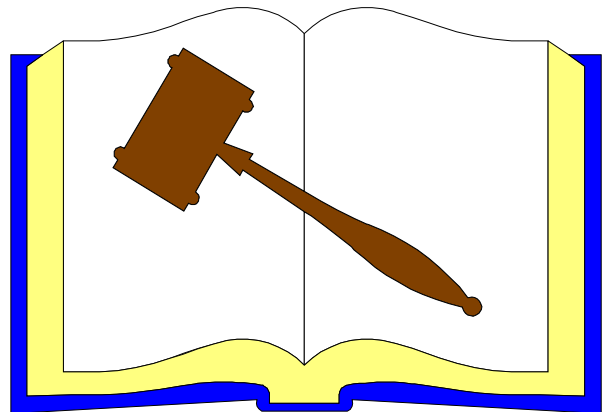
Your name, birth date, Social Security number, employer, and spouse's name are routinely noted. The CRA also may provide information about your employment history, home ownership, income, and previous address, if a creditor requests this type of information.

#### Payment history

Your accounts with different creditors are listed, showing how much credit has been extended and whether you've paid on time. Related events, such as referral of an overdue account to a collection agency, may also be noted.

#### Inquiries

CRA's must maintain a record of all creditors who have asked for your credit history within the past year, and a record of those persons or businesses requesting your credit history for employment purposes for the past two years.



#### Public record information

Events that are a matter of public record, such as bankruptcies, foreclosures, or tax liens, may appear in your report.

#### Improving your credit report

Under the law, both the CRA and the organization that provided the information to the CRA, such as a bank or credit card company, have responsibilities for correcting inaccurate or incomplete information in your report. To protect all your rights under the law, contact both the CRA and the

information provider if you have a dispute.

First, tell the CRA in writing what information you believe is inaccurate. Include copies (not originals) of documents that support your position. In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute, state the facts and explain why you dispute the information, and request deletion or correction. You may want to enclose a copy of your report with the items in question circled. Your letter may look something like the one on page 39. Send your letter by certified mail, return receipt requested, so you can document what the CRA received. Keep copies of your dispute letter and enclosures.

CRAs must reinvestigate the item(s) in question-usually within 30 days-unless they consider your dispute frivolous. They also must forward all relevant data you provide about the dispute to the information provider. After the information provider receives notice of a dispute from the CRA, it must investigate, review all relevant information provided by the CRA, and report the results to the CRA. If the information provider finds the disputed information to be inaccurate, it must notify all nationwide CRAs so that they can correct this information in your file.

Disputed information that cannot be verified must be deleted from your file.

If an item is incomplete, the CRA must complete it. For example, if your file showed that you were late making payments, but failed to show that you were no longer delinquent, the CRA must show that your payments are now current.

If your file shows an account that belongs only to another person, the CRA must delete it.

When the reinvestigation is complete, the CRA must give you the written results and a free copy of your report if the dispute results in a change. If an item is changed or removed, the CRA cannot put the disputed information back in your file unless the information provider verifies its accuracy and completeness, and the CRA gives you a written notice of its intent to reinsert the items that includes the name, address, and phone number of the provider.

If you request, the CRA must send notices of any correction to anyone who received your report in the past six months. You can have a corrected copy of your report sent to anyone who received a copy during the past two years for employment purposes. If a reinvestigation does not resolve your dispute, ask the CRA to include your statement of the dispute in your file and in future reports.

In addition to writing to the CRA, you should tell the creditor or other information provider in writing that you dispute an item. Be sure to include copies (not originals) of documents that support your position. Many providers specify an address for disputes. If the provider continues to report the disputed item to any CRA after receiving your notice, it must include a notice that you dispute the item. If you are correct-that is, if the information is not accurate-the information provider may not report it again.

### **Accurate negative information**

When negative information in your report is accurate, only the passage of time can assure its removal. Accurate negative information generally can stay on your report for seven years. There are certain exceptions:

1. Bankruptcy information may be reported for 10 years.
2. Credit information reported in response to an application for a job with a salary of more than \$75,000 has no time limit.
3. Information about criminal convictions has no time limit.
4. Credit information reported because of an application for more than \$150,000 worth of credit or life insurance has no time limit.
5. Default information concerning U.S. Government insured or guaranteed student loans can be reported for seven years after certain guarantor actions.
6. Information about a lawsuit or an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

## Credit correction letter

Date

Your Name

Your Address

Your City, State, Zip Code

Complaint Department

Name of Credit Reporting Agency

Address

City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are encircled on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing)

## **Seven-year Reporting Period**

There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the event took place.

With regard to any delinquent account placed for collection or by referral to a third-party debt collector, whichever is earlier-charged to profit and loss, or subjected to any similar action, the seven-year period is calculated from the date of the delinquency that occurred immediately before the collection activity, charge to profit and loss, or similar action. For example, assume that your payments on a loan were late in January, but that you caught up in February. You were late again in May, but caught up in July. You were again late in September, but did not catch up before the account was turned over to a collection agency in December. You made no more payments on the account, and it is charged to profit and loss in July of the following year.

Under the Fair Credit Reporting Act (FCRA), the January and May late payments each can be reported for seven years. The collection activity and the charge to profit and loss can be reported for seven years from the date of the September payment, which was the delinquency that occurred immediately before those activities.

## **Adding Accounts to Your File**

Your credit file may not reflect all your credit accounts. Although most national department store and all-purpose bank credit card accounts will be included in your file, not all creditors supply information to CRAs: Some travel, entertainment, gasoline card companies, local retailers, and credit unions are among those creditors that don't.

If you've been told that you were denied credit because of an "insufficient credit file" or "no credit file" and you have accounts with creditors that don't appear in your credit file, ask the CRA to add this information to future reports. Although they are not required to do so, many CRAs will add verifiable accounts for a fee. However, understand that if these creditors do not report to the CRA on a regular basis, the added items will not be updated in your file.

## **Dealing with debt**

- Are you having trouble paying your bills?
- Are creditors harassing you?
- Are your accounts being turned over to debt collectors?
- Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is in financial hot water, consider these options: realistic budgeting, credit counseling from a reputable organization, debt consolidation, or bankruptcy. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

## **Self-help**

### **Contacting your creditors**

Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.



### **Dealing with debt collectors**

The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m. or, after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to stop further contact.

### **Credit counseling**

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. These programs are established to help consumers about to fall behind in their payments. Credit counseling programs provide;

- Lower monthly payments
- Lower interest charges
- Elimination of late fees
- Elimination of over the limit fees
- Showing of credit accounts in a 'current' status
- Elimination of collection calls

Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for-or use-any

additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take you to complete the plan. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You still are responsible for paying any creditors whose debts are not included in the plan. You are responsible for reviewing monthly statements from your creditors to make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

A debt repayment plan does not erase your negative credit history. Accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been late or missed altogether, or that there are write-offs or other concessions. A demonstrated pattern of timely consecutive payments, however, will help you get credit in the future.

### **Debt consolidation**

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before taking this on. These loans require your home as collateral. If you can't make the payments-or if the payments are late-you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

### **Bankruptcy**

Personal bankruptcy generally is considered the debt management tool of **last resort** because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes get a job. However, it is a legal procedure that offers a fresh start for people who can't satisfy their debts. Individuals who follow the bankruptcy rules receive a discharge-a court order that says they do not have to repay certain debts.

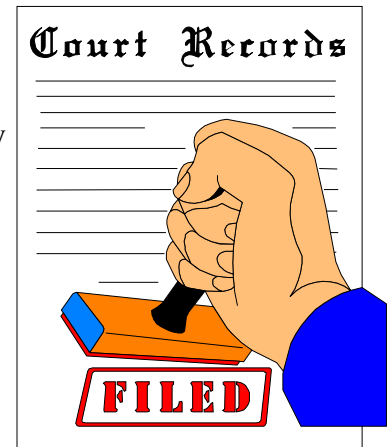
There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. The current fees for seeking bankruptcy relief are: Chapter 7 - \$299,

Chapter 13 - \$274.00. This is current as of April 9<sup>th</sup>, 2006. Attorney fees are additional and can vary widely. The consequences of bankruptcy are significant and require careful consideration.

**Chapter 13** allows you, if you have a regular income and limited debt, to keep property, such as a mortgaged house or car, that you otherwise might lose. In Chapter 13, the court approves a repayment plan that allows you to pay off a default during a period of three to five years, rather than surrender any property.

**Chapter 7** known as straight bankruptcy, involves liquidating all assets that are not exempt. Exempt property may include cars, work-related tools and basic household furnishings. Some property may be sold by a court-appointed official-a trustee-or turned over to creditors. You can receive a discharge of your debts under Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.



## **Avoiding scams**

Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. Be cautious. Before you do business with any company, check it out with your local consumer protection agency or the Better Business Bureau in the company's location.

### **Ads promising debt relief may be offering bankruptcy**

Consumer debt is at an all-time high. What's more, a record number of consumers-nearly 1.5 million in 2001 are filing for bankruptcy. Whether your debt dilemma is the result of an illness, unemployment, or overspending, it can seem overwhelming. In your effort to get solvent, be on the alert for advertisements that offer seemingly quick fixes. While the ads pitch the promise of debt relief, they rarely say relief may be spelled b-a-n-k-r-u-p-t-c-y. And although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort. The reason: it has a long-term negative impact on your creditworthiness. A bankruptcy stays on your credit report for 10 years, and can hinder your ability to get credit, a job, insurance, or even a place to live.

The Federal Trade Commission (FTC) cautions consumers to read between the lines when faced with ads in newspapers, magazines, or even telephone directories that say:

- "Consolidate your bills into one monthly payment without borrowing."
- "STOP credit harassment, foreclosures, repossessions, tax levies and garnishments."
- "Keep Your Property."
- "Wipe out your debts! Consolidate your bills! How? By using the protection and assistance provided by federal law. For once, let the law work for you!"



You'll find out later that such phrases often involve bankruptcy proceedings, which can hurt your credit and cost you attorneys' fees.

### **Advance-fee loan scams**

These scams often target consumers with credit problems or consumers who have difficulty getting credit. In exchange for an up-front fee, these companies guarantee that applicants will get the credit they want-usually a credit card or a personal loan.

The up-front fee may range from \$100 to several hundred dollars. Resist the temptation to follow up on advance-fee loan guarantees. They may be illegal. Many legitimate creditors offer extensions of credit, such as credit cards, loans, and mortgages, through telemarketing and require an application fee or appraisal fee in advance. But legitimate creditors never guarantee in advance that you'll get the loan. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or receive payment until you've received the loan.

### **Recognizing an advance-fee loan scam**

There are many fraudulent loan brokers and other individuals misrepresenting the availability of credit and credit terms. One of their favorite strategies is the "advance-fee" loan scam. That's where they claim to guarantee that they can get a loan or other type of credit for you-but you must pay a fee before you apply.

Ads for advance-fee loans often appear in the classified ad section of local and national newspapers and magazines. They also may appear in mailings, radio spots, and on local cable stations. Often, these ads feature "900" numbers, which result in charges on your phone bill. In addition, these companies often use delivery systems other than the U.S. Postal Service, such as overnight or courier services, to avoid detection and prosecution by postal authorities.

Don't confuse a legitimate credit offer with an advance-fee loan scam. An offer for credit from a bank, savings and loan, or mortgage broker generally requires your verbal or written acceptance of the loan or credit offer. The offer usually is subject to a check of your credit report after you apply to make sure you meet their credit standards. You are usually not required to pay a fee in order to get the credit.

Be suspicious of anyone who calls you on the phone and says they can guarantee you will get a loan if you pay in advance. Hang up. It's against the law.

### **Protecting yourself**

Here are some points to keep in mind before you respond to ads that promise easy credit, regardless of your credit history:

Most legitimate lenders will not "guarantee" that you will get a loan or a credit card before you apply, especially if you have bad credit, or a bankruptcy.

It is an accepted and common practice for reputable lenders to require payment for a credit report or appraisal. You also may have to pay a processing or application fee.



Never give your credit card account number, bank account information, or Social Security number out over the telephone unless you are familiar with the company and know why the information is necessary.

### **The scam**

Every day, companies nationwide appeal to consumers with poor credit histories. They promise, for a fee, to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job. The truth is, they can't deliver. After you pay them hundreds or thousands of dollars in up-front fees, these companies do nothing to improve your credit report; many simply vanish with your money.

### **The warning signs**

If you decide to respond to a credit repair offer, beware of companies that:

- want you to pay for credit repair services before any services are provided;
- do not tell you your legal rights and what you can do-yourself-for free;
- recommend that you not contact a credit bureau directly;
- suggest that you try to invent a "new" credit report by applying for an Employer Identification Number to use instead of your Social Security number; or
- advise you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

**You could be charged and prosecuted** for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. It's a federal crime to make false statements on a loan or

credit application, to misrepresent your Social Security number, and to obtain an Employer Identification Number from the Internal Revenue Service under false pretenses.

### **If you are a victim - where to complain**

If you've had a problem with any of the scams described here, contact your local consumer protection agency, state Attorney General (AG), or Better Business Bureau. Many AGs have toll-free consumer hotlines. Check with your local directory assistance.

### **Credit repair: help yourself first**

- "Credit Problems? NO problem ..."
- "We can erase your bad credit—100% guaranteed."
- "We can remove bankruptcies, judgments, liens, and bad loans from your credit file, FOREVER!"
- "Create a new credit identity—legally."

Do yourself a favor and save some money, too. Don't believe these statements. Newspapers, radio, TV, and the Internet are filled with ads that offer—for a fee—to erase accurate negative information in your credit file so you can get a credit card, auto loan, home mortgage, or even a job. The scam artists who run these ads can't deliver. Only time, a deliberate effort, and a personal debt repayment plan will improve your credit.

The companies that advertise credit repair services appeal to consumers with poor credit histories. Not only can't they provide you with a clean credit report, they may be encouraging you to violate federal law. If they ask you to make false statements on a loan or credit application, misrepresent your Social Security number, or advise you to get an Employer Identification Number from the Internal Revenue Service under false pretenses, you will be committing fraud.

The truth is you can help yourself to re-build a better credit report. Start by contacting your creditors when you realize that you are unable to make payments. If you need help working out a payment plan and a budget, contact your local credit counseling service. There are non-profit groups in every state that offer credit guidance to consumers. These services are available at little or no cost. Also, check with your employer, credit union, or housing authority for no-cost credit counseling programs. In addition, you have specific rights under the Fair Credit Reporting Act:

You are entitled to a free copy of your credit report if you've been denied credit, insurance or employment and request the report within 60 days of notice, or if you can prove that:

- you're unemployed and plan to look for a job within 60 days
- you're on welfare
- your report is inaccurate because of fraud
- If your application for credit, insurance, or employment is denied because of inaccurate or incomplete credit information, the company to which you applied must give you the name and

- address of the reporting credit bureau.
- There is no charge to dispute mistakes or outdated information on your credit report. Ask the credit bureau for a dispute form and submit it with any supporting documentation.

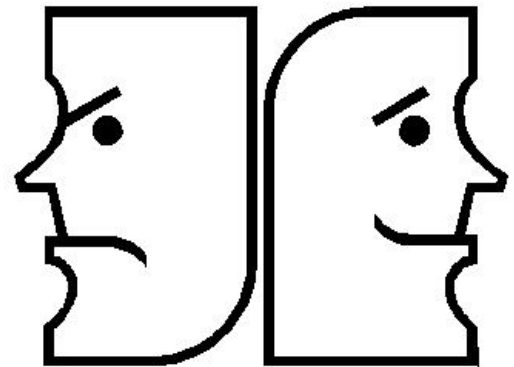
Other facts you should know:

- Bankruptcy information can be reported for 10 years.
- Information about a lawsuit or judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.
- Information reported because of an application for a job with a salary of more than \$75,000 has no time limit.
- Information reported because of an application for more than \$150,000 worth of credit or life insurance has no time limit.

## **File segregation**

### **New ID is a bad Idea**

If you have filed for bankruptcy, you may be the target of a credit repair scheme called "file segregation." In this scheme, you are promised a chance to hide unfavorable credit information by establishing a new credit identity. That may sound perfect, especially if you're afraid that you won't get any credit as long as bankruptcy appears on your credit report.



The problem: "File segregation" is illegal. If you use it, you could face fines or even a prison sentence.

### **The pitch: a new credit identity**

If you have filed for bankruptcy, you may receive a letter from a credit repair company that warns you about your inability to get credit cards, personal loans, or any other types of credit for 10 years. For a fee, the company promises to help you hide your bankruptcy and establish a new credit identity to use when you apply for credit. These companies also make pitches in classified ads, on radio and TV, and even over the Internet.

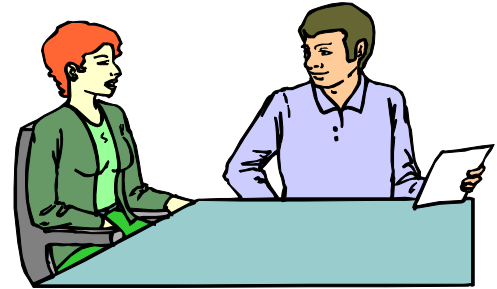
If you pay the fee and sign up for the service, you may be directed to apply for an Employer Identification Number (EIN) from the Internal Revenue Service (IRS). Typically, EINs — which resemble Social Security numbers — are used by businesses to report financial information to the IRS and the Social Security Administration.

After you receive your EIN, the credit repair service will tell you to use it in place of your Social

Security number when you apply for credit. They'll also tell you to use a new mailing address and some credit references.

**The catch: false claims**

To convince you to establish a new credit identity, the credit repair service is likely to make a variety of false claims. Listen carefully; these false claims, along with the pitch for getting a new credit identity, should alert you to the possibility of fraud. You'll probably hear:



**Claim 1:** You will not be able to get credit for 10 years (the period of time bankruptcy information may stay on your credit report).

Each creditor has its own criteria for granting credit. While one may reject your application because of a bankruptcy, another may grant you credit shortly after you filed for bankruptcy. And, given a new reliable payment record, your chances of getting credit will probably increase as time passes.

**Claim 2:** The company or "file segregation" program is affiliated with the federal government.

The federal government does not support or work with companies that offer such programs.

**Claim 3:** The "file segregation" program is legal.

It is a federal crime to make any false statements on a loan or credit application. The credit repair company may advise you to do just that. It is a federal crime to misrepresent your Social Security number. It also is a federal crime to obtain an EIN from the IRS under false pretenses. Further, you could be charged with mail or wire fraud if you use the mail or the telephone to apply for credit and provide false information. Worse yet, file segregation likely would constitute civil fraud under many state laws.

## What's a Credit Counselor?

Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget, let alone save money for retirement? If this sounds familiar, you may want to consider the services of a credit counseling agency. Usually nonprofit, these agencies work with you to solve your financial problems — sometimes for free. Credit counseling agencies may offer educational materials and workshops, or help you develop a budget. Many agencies offer services nationwide through local offices or the Internet. Look under "credit counseling" in your telephone directory or your Internet search engine.

## Debt repayment plans

If your financial difficulties arise from too much debt or an inability to repay your debts, a credit counseling agency may work out a Debt Repayment Plan for you. In these plans, you deposit money each month with the credit counseling agency. Your deposits are used to pay your creditors according to a payment schedule the counselor develops with you.

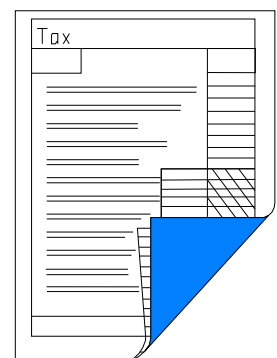
As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program. A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Some credit counseling agencies charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. A bankruptcy can stay on your report for ten years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been missed, or that there are write-offs or other concessions. But a demonstrated pattern of timely payments should help you get credit in the future.

## Secured and unsecured debt

Your debts are either secured or unsecured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, the lender can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset. Examples include most credit card debt, bills for medical care, signature loans and debts for other types of services. Debt repayment plans usually cover only your unsecured debt. If your secured debts are not included in the plan, you must continue to make payments to these creditors directly.

When you borrow money to buy a car, the lender generally holds the title to the car until the debt is paid in full. Most automobile financing agreements allow the lender to repossess your car if you stop making payments. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If not, the lender may sell the car, perhaps for less than what you still owe. You still are responsible for the difference. If you fall behind with your car payments, consider working with the holder of the title of your car to sell it yourself. Pay off the debt to avoid repossession and a negative entry on your credit report.



If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders will work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, you may have to pay extra toward the past due total. Lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly payments. Ask about any fees charged for these changes, and consider how much they add to the total cost of your loan.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner having trouble making mortgage payments. Call the local office of the Department of Housing and Urban Development (HUD) or the housing authority in your state, city, or county for help in finding a housing counseling agency near you.

### **Choosing an agency: questions to ask**

If you want to work with a credit counseling agency, interview several. Here are some questions to ask. Check with your state Attorney General, local consumer protection agency and the Better Business Bureau to find out if consumers have filed complaints about the provider you are considering. Any reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If not, consider that a red flag and go elsewhere for help.

### **Services and fees**

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees and/or licenses your agency? Is your agency audited?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?

- What assurance do I have that information about me (including my address and phone number) will be kept confidential?

### **Repayment plan**

- How much do I have to owe to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put in a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?
- What if I can't maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

## **Credit laws**

### **Fair and Accurate Credit Transactions Act**

This legislation will provides consumers, companies, consumer reporting agencies, and regulators with important new tools that expand access to credit and other financial services for all Americans, enhance the accuracy of consumers' financial information, and help fight identity theft. These reforms make permanent the uniform national standards of our credit markets, and institute new, strong consumer protection and free credit reports

Background: The Fair and Accurate Credit Transactions Act of 2003 will accomplish the following key Administration priorities to help ensure that all Americans, of every income level and background, are able to build good credit and confront the problem of identify theft and receive free credit reports.

Ensuring that lenders make decisions on loans based on full and fair credit histories, and not on discriminatory stereotypes. In 1996, uniform national standards were established to set clear rules on what credit agencies were entitled to include in individual credit reports, and now more than a million Americans have credit as a result. This legislation makes those national standards permanent.

- Improving the quality of credit information, and protecting consumers against identity theft. A) Giving every consumer the right to their credit report free of charge every year. Consumers will be able to review a free report every year for unauthorized activity, including activity that might be the result of identity theft.
- Helping prevent identity theft before it occurs by requiring merchants to leave all but the last five digits of a credit card number off store receipts. This law will make sure that slips of paper that most people throw away do not contain their credit card number, a key to their financial identities.
- Creating a national system of fraud detection to make identity thieves more likely to be caught. Previously, victims would have to make phone calls to all of their credit card companies and three major credit rating agencies to alert them to the crime. Now consumers will only need to make one call to receive advice, set off a nationwide fraud alert, and protect their credit standing.
- Establishing a nationwide system of fraud alerts for consumers to place on their credit files. Credit reporting agencies that receive such alerts from customers will now be obliged to follow procedures to ensure that any future requests are by the true consumer, not an identity thief posing as the consumer. The law also will enable active duty military personnel to place special alerts on their files when they are deployed overseas.
- Requiring regulators to devise a list of red flag indicators of identity theft, drawn from the patterns and practices of identity thieves. Regulators will be required to evaluate the use of these red flag indicators in their compliance examinations of financial institutions, and impose fines where disregard of red flags has resulted in losses to customers.
- Requiring lenders and credit agencies to take action before a victim even knows a crime has occurred. With oversight by bank regulators, the credit agencies will draw up a set of guidelines to identify patterns common to identity theft, and develop methods to stop identity theft before it can cause major damage

### **The Fair Credit Reporting Act (FCRA)**

The FCRA is designed to promote accuracy and ensure the privacy of information used in consumer reports. Recent amendments to the Act expand your rights and place additional requirements on CRAs. Businesses that supply information about you to CRAs and those that use consumer reports also have new responsibilities under the law.

## **The Credit Repair Organizations Act**

By law, credit repair organizations must give you a copy of the "Consumer Credit File Rights Under State and Federal Law" before you sign a contract. They also must give you a written contract that spells out your rights and obligations. Read these documents before signing the contract. The law contains specific consumer protections. For example, a credit repair company cannot:

- make false claims about their services;
- charge you until they have completed the promised services; or
- perform any services until they have your signature on a written contract and have completed a three-day waiting period. During this time, you can cancel the contract without paying any fees.

Your contract must specify:

- the payment for services, including their total cost;
- a detailed description of the services to be performed;
- how long it will take to achieve the results;
- any guarantees they offer; and
- the company's name and business address.

## **Rights under the Credit Repair Organizations Act**

Under the law, you also have the right to sue in federal court. The law allows you to seek either your actual losses or the amount you paid the company — whichever is more. You also can seek "punitive" damages: sums of money to punish the company for violating the law. The law also allows class actions in federal court: cases where groups of consumers join together in one lawsuit. If you win, the other side has to pay your attorney's fees.

Many states have laws regulating credit repair companies, and may be helpful if you've lost money to credit repair scams.

# Caboose

The trusted old caboose. For many years signaled the end of the train. Many a time we wait to see the fireman sitting high in the caboose and wave.



This chapter like the caboose signals the end. We have included some miscellaneous loose ends which didn't fit nicely in any of the other chapters. Some areas are money saving tips, others may offer a direct application in your life.

## Miscellaneous

## Transportation

There are many way to cut the cost of transportation. In the areas listed below, as in all the areas, the biggest savings are often made when you are not in a hurry.

### Airline fares

You may lower the price of a round trip air fare by as much as two-thirds by making certain your trip includes a Saturday evening stay over, and by purchasing the ticket in advance. To make certain you have a cheap fare, even if you use a travel agent, contact all the airlines that fly where you want to go and ask what the lowest fare to your destination is. Be flexible, if possible. Consider using lowfare carriers or alternative airports and keep an eye out for fare wars.

### Car rental

Since car rental rates can vary greatly, shop around for the best basic rates. Ask about any additional charges (extra driver, gas, drop-off fees) and special offers. Rental car companies offer various insurance and waiver options. Check with your automobile insurance agent and credit card company in advance to avoid duplicating any coverage you may already have.

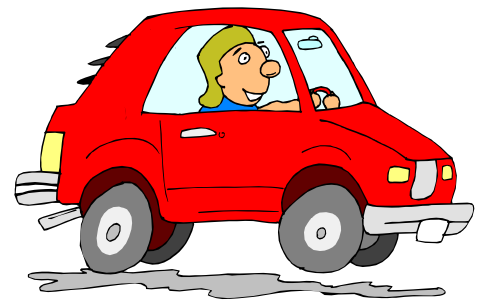
## New cars

You can save thousands of dollars over the lifetime of a car by selecting a model that combines a low purchase price with low financing, insurance, gasoline, maintenance, and repair costs. Ask your local librarian for new car guides that contain this information. Having selected a model, you can save hundreds of dollars by comparison shopping. Call at least five dealers for price quotes and let each know that you are calling others. Remember there is no "cooling off" period on new car sales. Once you have signed a contract, you are obligated to buy the car.

## Used cars

Before buying any used car:

- Compare the seller's asking price with the average retail price in a "bluebook" or other guide to car prices found at many libraries, banks, and credit unions.
- Have a mechanic you trust check the car, especially if the car is sold "as is."
- Consider purchasing a used car from an individual you know and trust. They are more likely than other sellers to charge a lower price and point out any problems with the car.



## Auto leasing

Don't decide to lease a car just because the payments are lower than on a traditional auto loan. The leasing payments may be lower because you don't own the car at the end of the lease.

Leasing a car is very complicated. When shopping, consider the price of the car (known as the capitalized cost), your trade-in allowance, any down payment, monthly payments, various fees (excess mileage, excess "wear and tear," end-of-lease), and the cost of buying the car at the end of the lease. Keys to Vehicle Leasing: A Consumer Guide, published by the Federal Reserve Board and Federal Trade Commission, is a valuable source of information about auto leasing.

## Gasoline

You can save hundreds of dollars a year by comparing prices at different stations, pumping gas yourself, and using the lowest-octane called for in your owner's manual. You can save up to \$100 a year on gas by keeping your engine tuned and your tires inflated to their proper pressure.

## **Car repairs**

Consumers lose billions of dollars each year on unneeded or poorly done car repairs. The most important step that you can take to save money on these repairs is to find a skilled, honest mechanic. Before you need repairs, look for a mechanic who:  
is certified and well established;

- has done good work for someone you know; and
- communicates well about repair options and costs.

## **Auto insurance**

You can save several hundred dollars a year by purchasing auto insurance from a licensed, low-price insurer. Call your state insurance department for a publication showing typical prices charged by different companies. Then call at least four of the lowest-priced, licensed insurers to learn what they would charge you for the same coverage. Talk to your agent or insurer about raising your deductibles on collision and comprehensive coverages to at least \$500 or, if you have an old car, dropping these coverages altogether. Taking these steps can save you hundreds of dollars a year. Make certain that your new policy is in effect before dropping your old one.

Homeowner/Renter Insurance, you can save several hundred dollars a year on homeowner insurance and up to \$50 a year on renter insurance by purchasing insurance from a low-price, licensed insurer. Ask your state insurance department for a publication showing typical prices charged by different licensed companies. Then call at least four of the lowest priced insurers to learn what they would charge you. If such a publication is not available, it is even more important to call at least four insurers for price quotes. Make certain you purchase enough coverage to replace the house and its contents. "Replacement" on the house means rebuilding to its current condition. Make certain your new policy is in effect before dropping your old one.

# **Financial**

The Internet has made the financial area much easier to comparison shop. However; it can never replace the brief case carrying salesman. Sure the salesman makes a commission for selling you a product, but have you ever looked a computer in the eye?

## **Life insurance**

If you want insurance protection only, and not a savings and investment product, buy a term life insurance policy. If you want to buy a whole life, universal life, or other cash value policy, plan to hold it for at least 15 years. Canceling these policies after only a few years can more than double your life insurance costs. Check your public library for information about the financial soundness of insurance companies and the prices they charge.

## **Checking**

You can save more than \$100 a year in fees by selecting a checking account with a low (or no) minimum balance requirement that you can, and do, meet. Request a list of these and other fees that are charged on these accounts. Banking institutions often will drop or lower checking fees if paychecks are directly deposited by your employer. Direct deposit offers the additional advantages of convenience, security, and immediate access to your money.

## **Savings and investment products**

Before opening a savings or investment account with a bank or other financial institution, find out whether the account is insured by the federal government (FDIC or NCUA). An increasing number of products offered by these institutions, including mutual stock funds and annuities, are not insured. To earn the highest return on savings (annual percentage yield) with little or no risk, consider certificates of deposit (CDs) and treasury bills or notes. Once you select a type of savings or investment product, compare rates and fees offered by different institutions. These rates can vary a lot and, over time, can significantly affect interest earnings.

## **Credit cards**

You can save as much as a thousand dollars or more each year in lower credit card interest charges by paying off your entire bill each month. If you are unable to pay off a large balance, pay as much as you can and switch to a credit card with a low annual percentage rate (APR). For a modest fee, Card Trak (800-344-7714) will send you a list of low-rate cards. You can obtain a list of low-rate cards by accessing "[www.cardweb.com](http://www.cardweb.com)" on the Internet.

## **Auto loans**

If you have significant savings earning a low interest rate, consider making a large down payment or even paying for the car in cash. This could save you as much as several thousand dollars in finance charges. You can save as much as hundreds of dollars in finance charges by shopping for the cheapest loan. Contact several banks, your credit union, and the auto manufacturer's own finance company.



## **First mortgage loans**

Although your monthly payment may be higher, you can save tens of thousands of dollars in interest charges by shopping for the shortest-term mortgage you can afford. On a \$100,000 fixed-rate loan at 8% annual percentage rate (APR), for example, you will pay \$90,000 less in interest on a 15-year mortgage than on a 30-year mortgage.

You can save thousands of dollars in interest charges by shopping for the lowest-rate mortgage with the fewest points. On a 15-year, \$100,000 fixed-rate mortgage, just lowering the APR from 8.5% to 8.0% can save you more than \$5,000 in interest charges. On this mortgage, paying two points instead of three would save you an additional \$1,000.

If your local newspaper does not periodically run mortgage rate surveys, call at least six lenders for information about their rates (APRs), points, and fees. Then ask an accountant to compute precisely how much each mortgage option will cost and its tax implications.

Be aware that the interest rate on most adjustable rate mortgage loans (ARMs) can vary a great deal over the lifetime of the mortgage. An increase of several percentage points might raise payments by hundreds of dollars per month.

### **Mortgage refinancing**

Consider refinancing your mortgage if you can get a rate that is at least one percentage point lower than your existing mortgage rate and plan to keep the new mortgage for several years or more. Ask an accountant to calculate precisely how much your new mortgage (including up-front fees) will cost and whether, in the long run, it will cost less than your current mortgage.

## **Home Equity Loans**

Be cautious in taking out home equity loans. These loans reduce the equity that you have built up in your home. If you are unable to make payments, you could lose your home.

Compare home equity loans offered by at least four banking institutions. In comparing these loans, consider not only the annual percentage rate (APR) but also points, closing costs, other fees, and the index for any variable rate changes.

## **Real Estate**

The American dream. Some folks have only dreamed of home buying, it has never been easier to acquire a place of your own.

### **Home purchase**

You can often negotiate a lower sale price by employing a buyer broker who works for you not the seller. If the buyer broker or the broker's firm also lists properties, there may be a conflict of interest, so ask them to tell you if they are showing you a property that they have listed. Do not purchase any house until it has been examined by a home inspector that you selected.

## Renting a place to live

Do not limit your rental housing search to classified ads or referrals from friends and acquaintances. Select buildings where you would like to live and contact their building manager or owner to see if anything is available.



Remember that signing a lease probably obligates you to make all monthly payments for the term of the agreement.

## Home improvement

Home repairs often cost thousands of dollars and are the subject of frequent complaints. Select from among several well established, licensed contractors who have submitted written, fixed-price bids for the work. Do not sign any contract that requires full payment before satisfactory completion of the work.

## Major appliances

Consult Consumer Reports, available in most public libraries, for information about specific brands and how to evaluate them, including energy use. There are often great price and quality differences among brands. Once you've selected a brand, check the phone book to learn what stores carry this brand, then call at least four of these stores for the prices of specific models. After each store has given you a quote, ask if that's the lowest price they can offer you. This comparison shopping can save you as much as \$100 or more.

# Utilities

Some states now offer competitive electrical service similar to shopping for long distance service. This might be a good thing. But most of us do not have it yet! It is better to focus on reducing than comparison.

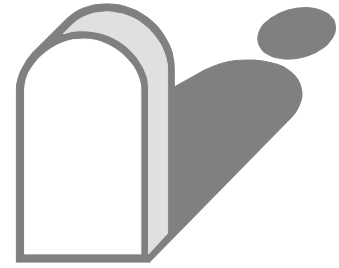
## Electricity

To save as much as hundreds of dollars a year on electricity, make certain that any new appliances you purchase, especially air conditioners and furnaces, are energy-efficient. Information on the energy efficiency of major appliances is found on Energy Guide Labels required by federal law.

Enrolling in load management programs and off-hour rate programs offered by your electric utility may save you up to \$100 a year in electricity costs. Call your electric utility for information about these cost-saving programs.

## Home heating

A home energy audit can identify ways to save up to hundreds of dollars a year on home heating (and air conditioning). Ask your electric or gas utility if they can do this audit for free or for a reasonable charge. If they cannot, ask them to refer you to a qualified professional.



## Local telephone service

Check with your phone company to see whether a flat rate or measured service plan will save you the most money. Check your local phone bill to see if you have optional services that you don't really need or use. Each option you drop could save you \$40 or more each year.

## Long distance telephone service

Long distance calls made during evenings, at night, or on weekends can cost significantly less than weekday calls. If you make more than a few long distance calls each month, consider subscribing to a calling plan. Call several long distance companies to see which one has the least expensive plan for the calls you make. Whenever possible, dial your long distance calls directly. Using the operator to complete a call can cost you an extra \$6.

## Other stuff

From food to funerals you can still save. Be careful and look around is the wisest advice.

### Food purchased at markets

You can save hundreds of dollars a year by shopping at the lower-priced food stores. Convenience stores often charge the highest prices. You will spend less on food if you shop with a list. You can save hundreds of dollars a year by comparing price-per-ounce or other unit prices on shelf labels. Stock up on those items with low per-unit costs.

### Prescription drugs

Since brand name drugs are usually much more expensive than their generic equivalents, ask your physician and pharmacist for generic drugs whenever appropriate. Since pharmacies may charge widely different prices for the same medicine, call several. When taking a drug for a long time, also consider calling mail-order pharmacies, which often charge lower prices.

## Funeral arrangements

Make your wishes known about your funeral, memorial, or burial arrangements in writing. Be cautious about prepaying because there may be risks involved. For information about the least costly options, which could save you several thousand dollars, contact a local memorial society, which is usually listed in the Yellow Pages under funeral services. Before selecting a funeral home, call several and ask for prices of specific goods and services, or visit them to obtain an itemized price list. You are entitled to this information by law and, by using it to comparison shop, you can save hundreds of dollars.

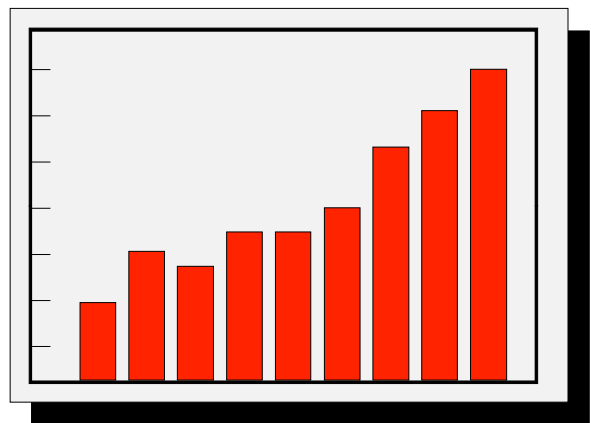
## The time value of money and compounding

To illustrate the power of compound interest, let's compare a hypothetical example of two savers, one who starts the process early, and the other who waits awhile. The first person begins saving at age 21. She invests \$100 every month for only ten years, and stops the process on her 31st birthday. At that point, her total investment is \$12,000, and she lets it sit, earning interest, until retirement at age 65.

The second person waits until age 35 to begin saving for retirement. She also puts away \$100 every month, but continues to do so up until age 65. So her total investment is \$36,000. Like the first person, she never touches a penny of the investment until her retirement.

So who ends up with more money? Intuition might say that the second person, who invested more (\$36,000 instead of \$12,000) would end up ahead. But the earlier investor has time and compound interest on her side. Assuming an annual return of 8%, compounded monthly, the first investor would end up with \$300,053, while the second would only have \$150,030. In other words, the first person would invest \$24,000 less than the second, but would end up with \$150,023 more!

The best lesson you can learn at this point is the power of compound interest, described below. Give yourself the gift of starting off right, and planning for your financial future from the beginning. Now is truly the best time to get your spending plan in place so you can make the most intelligent investment decisions with the money you allocate to savings.



Even if you aren't at the "beginning" of your financial life, the importance of this lesson still stands. Starting today is better than starting tomorrow. Starting this week is better than starting next week. And this year is so much better than next!

Let's look at a few more examples to drive this point home. Suppose that the first person, instead of stopping their investment at age 31, had continued investing \$100 every month until retirement at age 65? There, her total investment of \$52,800 would result in a nest egg of nearly a half million dollars: \$489,120!

Now, take the example to the extreme. Let's pretend you just had a new baby, and wanted to ensure a golden retirement for her or him. When your baby is born, you begin depositing \$100 every month into an investment account. You continue to do that until the child's 6th birthday, at which point you stop. You leave the money in the account and never touch it. Again assuming the 8% interest rate, when the child retires at age 65, your investment of \$7,200 would have grown to over a million dollars \$1,107,869!

Naturally, these are hypothetical examples and the results of your own investments may earn more or less than the amounts given. Also, taxes will have to be paid either on the interest as it is earned, or, if the investments are in a tax-deferred account, when the money is withdrawn. Those facts notwithstanding, the point is still worth noting. Starting today is better than starting tomorrow. Starting this week is better than starting next.

Aside from starting early, another major variable in the retirement savings process is the amount you save every month. Obviously, the more you put away, the larger your savings, and the faster your investment will grow.

With a carefully constructed budget, you will have an excellent understanding of your monthly income and expenditures. That knowledge will translate directly into how much you can afford for your retirement savings. Meet with a financial or investment analyst, or the Personnel or Compensation office at your place of employment, and begin your program. Make the savings a permanent part of your budget. Years from now, you will be so glad you did!

## What others say about The Right Track:



*“I was quickly able to understand the concepts presented in **The Right Track** and implemented them. I can see a change in my daily financial picture. This is finally a tool that I can live with.”*

Nancy Harper - The Right Track User

*“The Right Track allowed me to quickly develop a plan of attack for my financial road to recovery”*

Edwina Bridges - The Right Track User

*“I’ve taught many classes and topics over the last 30 years. The Right Track is one of the most useful and needed topics for the lives of our youth. The use of this subject matter in schools today could truly change the level of financial literacy in America.”*

Mary Lou Sanders - Instructor and Teacher

*“I am a professional Credit Counselor and Debt Manager. **The Right Track** is a tool that meets the specific need that I have dreamed of for the last 5 years. The points addressed are specifically the ones needed to help a person with financial problems to get up righted quickly. It does take effort and discipline on the part of the user, but the results are excellent.”*

Ron Rothermel - Credit Counselor

*“As a Credit Counselor and Seminar Trainer I have seen the impact **The Right Track** has made in the lives of its users. Many have commented on the hope that an easy-to-understand and east-to-use tool will assist them in the everyday task on money management.”*

Betty Stephenson - Credit Counselor and Trainer

