Learn Now or Pay Later!

Second Edition

Young Adult Financial Education Program

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Education For Financial Wellness

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Education For Financial Wellness

Money management skills are more important today than ever. Many middle class Americans with good incomes are living from paycheck to paycheck. Our college students increasingly find themselves buried in credit card debt. How could this happen in an educated society?

In school we learned about all kinds of things: math, science, history, and art to name a few. When we graduated from high school or college, our teachers told us that we were ready for the "real world." For the most part, they were right. But there was one critical piece of the puzzle that was missing. Most of us were never taught the one skill that can make our lives much easier: money management. In our world of easy credit, self-directed retirement plans and even electronic paychecks, today's consumer is faced with a variety of financial issues that did not exist fifteen years ago. Throw in the intense competition for our money through an unending blizzard of television commercials, billboards, and magazine ads for everything from health care to mortgages to Hawaiian vacations, and the sheer volume of financial choices can be overwhelming.

At GoodPayer.com, we are dedicated to helping everyone find their way to financial security. Whether you are having a financial difficulty or want to learn the steps you can take to avoid one, you will find helpful information here to assist you. We understand the financial issues and decisions you face, and we are here to help. You will find information that can help people of all ages and all financial circumstances make informed financial decisions. Visit us today at www.goodpayer.com.

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An Introduction

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Introducing Learn Now or Pay Later

What is the meaning of credit? In the dictionary, credit is defined as:

- Belief or confidence in the truth of something. (being credible)
- A reputation for sound character or quality; standing, good name.
- Trustworthiness, financial solvency, the ability to meet financial obligations.

From these definitions, it is clear that the way we manage our credit establishes our financial reputation. In this life of ours, one of the few things you truly own is your reputation. If you have a poor reputation in life, you are perceived as having poor character and the respect your peers may have for you is diminished, which can inhibit future social growth. If you have a poor financial reputation you will be charged higher interest rates, which inhibits future financial growth.

> **FACT**
>
> **Most young adults do not have any formal education regarding credit and often emulate their parents' logic toward money.**

One of the most important mathematical equations you will learn in your life is **Choices + Decisions = Consequences**. The social choices you make, combined with the decisions from those choices, equal the consequences to your reputation. In the same way, the financial choices and decisions you make equal the consequences to your future.

Choices + Decisions = Consequences

Let's examine this further. If you choose to make late payments to satisfy your financial obligations, you will earn a poor credit rating. You'll receive this poor rating because you made the decision not to manage your credit wisely. To illustrate the consequences of your actions we'll use a mortgage as an example, because it's probably the most expensive and important loan you will get in your life. A mortgage is a long-term, secured loan from a bank or other financial institution granted for the purpose of buying a home. A typical mortgage loan takes 30 years to repay. The house and/or property act as the collateral for the loan. If the consumer fails to make payments, the lending institution can take the property, which is the collateral, and sell it to get their money back.

By maintaining good credit you will be able to get a better interest rate on loans, including mortgages. Interest is the fee a lender charges for the privilege of borrowing money. If you have good credit, you will earn a lower interest rate. If you have bad credit, you will get a higher rate and pay back much more money than you borrowed.

$200,000 Mortgage Example

At **7%** interest, which is a rate that would be charged to a borrower with a **good** credit rating, over 30 years you would pay back **$479,022**.

At **11%** interest, which is a rate that would be charged to a borrower with a **poor** credit rating, over 30 years you would pay back **$685,665**.

FACT

Some states allow interest rates to exceed 30%.

In our example, the difference of just 4% in interest rates results in an additional $206,643 being paid over the life of the loan, nearly $7,000 more per year. If you don't manage your credit wisely, your impaired borrowing privileges will undermine your ability to plan for your family's future.

$200,000 Mortgage Example (Monthly Difference)

At **7%,** your monthly payment will be **$1,330**.
At **11%,** your monthly payment will be **$1,904**.

The difference in interest affects your monthly payment, as well. In this example, the **11%** borrower pays an additional **$574** per month, every month, for thirty years. If you invested this $574 a month in the stock market, which has an historic return of 11%, you would have earned **$1,609,220** in 30 years. Not only does poor credit management cost you more in higher interest rates, it prevents you from putting your money to work for you.

Our "Learn Now or Pay Later" Young Adults Guide is designed to help you understand what the future holds for you regarding personal finance. The information in this book will allow you to successfully navigate through the many financial decisions that you'll need to make in order to live a successful life.

The Economy

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The Economy

For most of us, trying to understand the economy is as much fun as giving your cat a bath while wearing a short sleeve shirt, however, the role the economy plays in our financial life is an important one. The economy affects prices for goods and services, as well as the interest rates we earn on investments and pay for credit. So, without further ado, the economy.

There is a limited amount of everything on this planet. Since there is not necessarily enough of everything for all of us, our challenge is to find ways to efficiently use our resources. The role of the economy is to allocate scarce resources among different people. In order to achieve this, a society must determine ***what*** is produced, ***how*** the items are produced, and ***for whom*** they are produced.

FACT

The economy in the United States is based on Capitalism.

Types of Economies

There are essentially two types of economies: market economies and command economies. In a market economy, individuals and industries make the major decisions on the ***what, how*** and ***for whom****.* Industries produce the goods and services (***what***) that gain them the highest profits by using methods that are the least costly (***how***). Consumers determine the allocation of goods and service by the way they spend their wages *(**for whom**).* In a command economy, the government makes the decisions on the ***what****,* ***how*** and ***for whom***. The government owns all of the resources, directs the operation of industry, employs most of the workers and decides how the overall output of the economy will be distributed among the people.

Our Economy

At one time, the economies of the world fit into either of these two economic categories quite nicely. As you might imagine, in our complex society this is no longer the case. The United States economy is based on both command and market economic principles and is referred to as a **mixed economy**. In a mixed economy, most of the decisions are made in markets. A market works as a mechanism by which buyers and sellers interact to determine prices and quantities for products. A market can be a physical place, like a grocery store, or it can also be completely electronic, like the NASDAQ Stock Exchange. Let's take a look at how markets take care of ***what, how*** and ***for whom***.

We, the consumers, decide ***what*** goods and services are produced by the way we spend our earnings. Take computers, for example. Almost all of us have access to one, either at home or in the workplace. Industries saw the overwhelming demand there was for these products, so they beefed up their operations in order to make the supply meet the demand. We, as consumers, decided that we needed computers, so industry met *what* we wanted.

How items are produced is determined by industry and competition. Companies are driven by profits - the difference between total sales and total costs. In relation to the *how* of the economy, industry strives to keep costs at a minimum by using the most efficient methods of production, thus creating greater profits.

FACT

The orderliness of the market system was outlined in The Wealth of Nations (1776) by Adam Smith.

For whom items are produced is determined by average wage rates, rental incomes, interest rates and profits. As consumers, we have what are called *dollar votes*. Every time you spend your money, you are, in effect voting on items that are produced in our economy. If you are simply a wage earner, your dollar votes are based solely on your income. You would command more dollar votes if you not only were a wage earner, but also received rental income and received dividends from interest, since you'd have more money to spend. The more money you spend, the greater your influence on the marketplace. As we have noted previously about the relationship of industry and profits, the greater the number of dollar votes consumers have, the greater the potential for profits industry has as those consumers cast their dollar votes.

Another key element that determines what is produced and the price it sells for is the relationship between **supply and demand**. Remember that the role of the economy is to allocate scarce resources among different people.

- If more consumers demand a good or service, the price for that good or service will generally go up. If fewer consumers demand a good or service, the price for that good or service will generally go down.

- If there is a plentiful supply of a good or service, the price for that good or service will generally be low. If there is a scarce supply of a good or service, the price for that good or service will tend to be high.

FACT

Money is essentially a means for payment. In an economy it becomes the lubricant that facilitates exchange.

For example, in winter, when gas supplies are high and people are driving less (less demand), gas prices are generally lower. In the summer, when demand is high (people are driving more), the prices generally go up.

Now that we have seen the market's role in the economy, let's take a look at the role the government plays. One obligation of the government is to attempt to correct market failures. An example of such a failure would be inadequate competition, or a monopoly, which occurs when a producer of a good or service is the sole supplier of that particular good or service. In this type of atmosphere, the markets would have no effect on pricing. Due to the lack of competition, the monopoly would set the market price for its product without the competitive forces that would ordinarily keep that price as low as possible. It is the government's responsibility to protect consumers and foster competition by preventing companies from monopolizing any segment of the marketplace.

The government also manages the overall pace of economic activity, seeking to maintain high levels of employment and stable prices. It has two main tools for achieving these objectives: **fiscal policy**, through which it determines the appropriate level of taxes and spending; and **monetary policy**, through which it manages the supply of money.

One aspect of **fiscal policy** is transfer payments. Transfer payments are payments the government makes to persons to supplement their income, such as aid to families with dependent children, unemployment compensation, and some pensions. These payments help people afford the basic necessities of life, thus allowing them to participate in the economic system.

FACT

The Federal Reserve System was created in 1913.

Monetary policy is the method by which the government controls the supply of money to the economy. The responsibility for monetary policy falls upon the Federal Reserve Bank, also known as "The Fed". The Federal Reserve Bank is the central bank of the United States, but it is not really a true government institution. The Fed is not funded by tax dollars and its decisions are not subject to the approval of the President or either house of Congress.

The Federal Reserve Board's decisions influence the money supply and credit conditions in order to accomplish several goals: to promote steady prices and full employment, to maintain the stability of the financial system, and to facilitate sustainable economic growth. Other Federal Reserve duties include helping to regulate the banking industry and making sure consumers have access to the information they need in order to participate in the financial system.

Buying and Selling Treasury and Federal Agency Securities on the Open Market

If the Fed feels that lower interest rates will benefit the economy, they will buy large amounts of Treasury Bonds and other government securities. By purchasing these securities, they inject large amounts of cash into the economy. They make money more plentiful. As with other goods, when money becomes plentiful, it becomes less expensive. By contrast, if the Fed wants to increase interest rates, they sell large amounts of securities and the money that is paid by the buyers is taken out of circulation. Money becomes scarce and, therefore, more costly to borrow.

Changing Reserve Requirements for Banks

Banks are required to keep a percentage of their clients' deposits on reserve to facilitate orderly withdrawals. If the Fed increases the reserve requirement, it increases the amount of money kept out of circulation, which will push interest rates higher. If the Fed decreases reserve requirements, rates tend to fall.

Changing the Discount Rate

The Discount Rate is the rate that is charged to banks that borrow directly from the Fed. These are very short-term loans, usually overnight, meant to cover shortfalls in reserve requirements. When banks need to borrow money to supplement their reserves, they will generally borrow from each other. Banks will typically borrow directly from the Fed as a last resort.

How the Fed Affects You

Changes in the money supply affect a host of variables. It does take some time for a change in the money supply to affect the entire economy. Most consumers do not feel the results of monetary policy changes for about 8–18 months, depending on economic conditions at the time. Any changes in the money supply will influence the amount of credit that is available, the interest rates charged, prices, employment, exchange rates, and consumer spending. The following points describe how decisions at the Fed affect you:

- The moves the Fed makes influence how much interest you will earn on a savings account, CD, or money market fund.

- Changes in monetary policy often have an affect on stock prices, which may affect your retirement plan.

- Monetary policy influences interest rates on auto loans and credit cards.

- Rates in the bond markets are influenced, which in turn will influence the interest you pay when applying for a mortgage. If you have an adjustable rate mortgage, Fed policy may even cause your monthly payment to change.

- The Fed can affect your job situation. Changes in interest rates influence when businesses expand and hire, or cut costs and fire.

What This All Means

By studying the economy, you have the ability to understand how prices and interest rates are set. This allows you to make decisions on when to purchase a home or car and how to invest your savings. This helps to better prepare for your future by securing lower interest rates on loans and maximizing your investments.

Everything you need to know about credit!

(and other helpful stuff)

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The Cost of Credit

Just about everyone in America has heard of credit cards, but not everyone understands exactly what they are or how they work. A credit card is a powerful and sometimes dangerous tool. As a young adult, you may have already begun to receive solicitations from banks trying to get you to sign up for their products. Why? Because statistics prove that people generally stay loyal to the first credit card for which they were approved. It makes sense. The credit card company gives you a taste of financial freedom and you appreciate it.

FACT

Credit card companies spend millions of dollars to have exclusive rights at college campuses to market to students.

Using credit is **not** something that should be taken lightly. Sure, we understand the feeling of getting your first credit card. You feel powerful. First, you complete the application and send it in to the credit card company. Several weeks later, you receive an envelope from the credit card company. You become excited as you feel the envelope to see if there is a card inside. Sure enough, there is. You automatically think, "Man, I'm going to get that stereo, that plasma TV, upgrade my PC." All of the wonderful things you've ever wanted seem to be within your grasp. This is the time to put the brakes on. The decisions you make when using your credit **WILL** impact the rest of your life (we will discuss this in more detail later on).

I'd Buy That For a Dollar (If it Wasn't So Expensive)

So how exactly does credit card debt get so out of control? It has to do with the way your credit card payments are structured. Every purchase you make results in the credit card being charged the amount of the purchase. You are then billed the amount of your charges, plus interest. For example, if you charged $2,000 on your credit card at an interest rate of 18%, and paid back only the minimum payment each month, it would take you 18.5 years to repay the credit card company. Over those 18 years, you would repay the bank $5,668 dollars for your $2,000 worth of charges. In this case, the privilege of borrowing cost you $3,668 dollars. So, not only did you repay each dollar you borrowed, you paid an additional $2.83 to borrow each of those dollars.

Credit Card Payment

Monthly Payment of $41.00.

Interest	Principal
$30.00	**$11.00**
71%	**29%**
of your payment.	**of your payment.**

The amounts above are based on a $2,000 balance, an 18% interest rate and a minimum payment equal to 2% of the balance.

The example above depicts the breakdown of a typical credit card payment. It shows that if a consumer makes a minimum payment of 2% on a balance of $2,000, 71% of the payment is applied toward the interest, or privilege, of the borrowed money. Only 29% of the payment is applied to the principal, or actual borrowed amount.

This happens because of the repayment structure of most credit cards. When you make a payment, that payment is made up of principal and interest. The principal is the amount of money you borrowed, and the interest is calculated from that.

The interest is described to you, the consumer, as the Annual Percentage Rate or APR. This is the percentage that the bank charges you in interest, or privilege. The APR can be charged to the consumer in different ways. A card may carry a Variable Interest Rate, which is a rate that can change or vary. This is dependent upon other economic variables, as the company's interest rate is linked to **indexes**. One of the most common indexes used is the Prime Rate, which is the interest rate charged by banks to their best customers. Many institutions quote the prime rate listed in the Wall Street Journal. The interest rates assigned to consumer loans are often based on the prime rate, plus a certain percentage. This percentage represents the lender's assessment of the risk in lending, plus its profit margin.

Another way interest can be calculated is by means of a Fixed Rate. This rate is established at the beginning of the loan and does not change unless the terms of the loan are not followed, for example, if you make a late payment or exceed your credit limit. Every credit card has a limit on the amount of money you can charge. This is established when you apply for the credit card. The lender takes into consideration your credit score, your work history, the other credit obligations you have and your salary. Based on that information, the credit card company will establish the limit of money they are willing to lend you.

Ah! To be Young and Marketable

As a young adult, you are surrounded by temptations to spend your money: pizza, new CDs, DVDs, clothes, dating, and so on. If you don't have the cash on hand, you look to your plastic savior, the credit card. Every time you use your card, the amount you charge is deducted from the limit the bank has established for you. Let's take a look at one month's spending. (OK, math is coming up, but don't be scared). Let's say you order five pizzas throughout the month, at a cost of $60. You get some

FACT

The average household credit card balance in America is over $8,000.

downtime and decide you want to watch the Austin Powers trilogy (yeah, baby!), so you pick up the DVD set, costing you $40. Your favorite band put out a new CD for $20. They happen to be in town on tour and your broke buddies talk you into charging four tickets on your card for $120. Of course, when (or "if") they pay you back, that cash is spent on everything else but your debt. You also need a new outfit for the show: $60. In total, you've charged $300.

Unfortunately, you're not going to repay just $300. The bank is going to charge you interest on the money you spent. That's right, spent. Just because the money didn't come out of your pocket when you bought this stuff, it will when you have to repay it. By doing simple math, let's see how much it will really cost you. Take the $300 (balance), multiply it by 18% (interest rate), and divide it by 12 (months in the year) or: 300 x .18 = 54÷12 = 4.50. The bank is charging you $4.50 to borrow money from them. The minimum monthly payment in this example would be around $15. If you're the average person, that's all you send.

Seems like that $4.50 is nothing, and right now it's probably not. So, you continue with your spending on the card and before you know it, you have over a $1,000 balance. Now your monthly payment is $40 and you're paying the bank $15 in interest. Still not too bad, right? Wrong! Continuing to use your credit card for unnecessary purchases will build up some big balances. Let's say you have three cards instead of just one (the average American carries 15 or so.)

Bank	Balance	Interest Rate	Minimum Payment	Dollars in Interest
Towne Bank	$1,300.00	15%	$52.00	$16.25
Shelby Card	$1,700.00	18%	$68.00	$25.50
Granby Bank	$1,200.00	16%	$48.00	$16.00
TOTAL	***$4,200.00***		***$168.00***	***$57.75***

As you can see in the previous example, that $4.50 in interest can quickly grow to $57.75. At this point, you're working mostly to pay the bank interest charges. Remember, the bank charges you interest on the money you spent. Out of the $168 you send the banks, only $110.25 is being applied to the purchases you made; $57.75 goes to the bank. Just how much does interest really cost you? Remember that Austin Powers trilogy that cost you $40? With interest, it winds up costing you $108. For all you math haters, that's $68 paid to the bank so you could borrow $40.

You may be saying to yourself, "Self, that doesn't seem like a lot of money!" Sure, when you're using one or two cards with relatively low credit limits. However, try to imagine when you're in your 30's and you have a couple of cards with higher credit limits. Let's take a look at an example of this scenario, shall we?

Bank	Balance	Interest Rate	Minimum Payment	Dollars in Interest
Towne Bank	$10,350.00	15%	$259.00	$129.38
Shelby Card	$4,300.00	18%	$108.00	$64.50
Granby Bank	$7,000.00	16%	$176.00	$93.33
TOTAL	***$21,650.00***		***$543.00***	***$287.21***

As you can see above, you would be paying $287.21 to the banks in interest. That's $287.21 for the **privilege** of borrowing money. For most people, that is a monthly car payment. Now, if you send only the minimum monthly payment each month, without ever charging again, take a look at what it would actually cost you to pay off the accounts listed above.

Bank	Repayment Amount	Cost in Interest to You
Towne Bank	$20,101.00	$9,751.00
Shelby Card	$9,836.00	$5,536.00
Granby Bank	$14,344.00	$7,344.0
TOTAL	***$44,281.00***	***$22,631.00***

Now you may be saying to yourself, “Self, credit cards cost a lot of money to use!” They do! In this example, you would pay over $22,000 in interest to the banks. That money could do more good in your pocket than in some bank’s vault.

Interest is only one way that banks make money. They charge fees, as well. Let’s say your bill comes and you don’t have the money to pay immediately, so you’re a little late with your payment. BAM! Your bank charges you a $35 late fee. Oh yes, it’s true; banks do charge late fees. Overlimit fees, too, often the same amount as the late fee. So if you’re late with your payment and your late fee makes you go over the limit, that’s $70 coming out of your pocket, on top of whatever interest you paid that month. Credit cards sure are neat, aren’t they?

The Nuts and Bolts of Credit Cards

When you apply for a credit card, you are going to notice a great deal of fine print. This itty-bitty writing tells you all about the fees and the interest you will be charged. The following not-so-itty-bitty writing explains the itty-bitty writing you will be seeing.

Annual Percentage Rate (APR) for Purchases

Variable Rate: The rate varies based on financial indexes such as the Prime Rate. This means that your rate can change each month, depending on whatever happens to be influencing the domestic or world economy at that time.

Fixed Rate: The rate is fixed, meaning that the issuer will stick to the rate they're charging you each month, no matter what changes may occur with financial indexes. Card issuers can still change this rate, but they're required by law to give you advanced notice so you may cancel your card. Also, be aware that some cards may *appear* to have "fixed rates," yet when you read the fine print you find that these fixed rates will automatically *increase* if you make late payments on this or any other card you have, or if you are near the credit limit.

Many cards start with low introductory or teaser rates that eventually move to a higher rate. Make certain you know what that higher rate is and when it takes effect.

FACT

The first credit card appeared in 1951.

Other APRs

Cash Advance APR: When you use your credit card to get cash from an ATM, it may have a different APR than your ordinary purchases. Typically, you will be charged a higher rate for cash advances. Unlike purchases, you may begin to accrue interest immediately on cash advances.

Penalty Rate APR: If you make payments late, your APR can change. This penalty differs with each creditor. For instance, some creditors have a one-strike penalty policy. Pay late or go over the limit once and your interest rate will increase. Others have a tiered system. This means that if you have an introductory rate and pay late during the introductory period, your rate increases. If you pay late twice in a six-month period, the rate increases to the creditor's maximum.

Other Fun Stuff

Grace Period: A grace period is the period of time between when you make a purchase and when your payment is considered due. A grace period means that if you pay your balance on time and in full, you will not pay for any finance charges (except for a cash advance, which may accrue interest immediately). If you have carried over a balance from the previous month, you may not get a grace period. Not all credit cards have a grace period.

Annual Fee: This is a fee the creditor charges for the use of their credit card. It is typically charged once a year and is billed directly to your card.

Transaction Fee: Some creditors charge fees for different types of transactions, such as wire transfers, purchasing foreign currency, money orders, traveler's checks, cash advances, and balance transfers. This is typically a percentage of the amount of the transaction.

Other Fees

Most credit card issuers charge fees if customers violate the terms of their agreement. Essentially, they encourage good financial behavior by penalizing bad behavior. You will be charged for any late payments or whenever you go over the limit. These charges average $35 to $40 each.

FACT

In 1994 the average late fee was $11. Today it is $40. That is a 263% increase.

How creditors see you!

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Education For Financial Wellness

Credit Reports

Your credit report is like your report card. It is a record that contains information showing your credit history for every charge you've made. Instead of your parents reviewing your grades, people who are trying to gauge your financial reputation review these reports to see if they should extend financing to you, and if so, under what terms.

> **FACT**
>
> **If your insurance company sees that you have bad credit, they may cancel your policy.**

Over the past decade or so, the use of these reports has changed. Not only are they now used to see how you manage your credit, insurance companies have begun using them to determine premiums. Many employers also review reports to establish the character of their job candidates.

There are three major credit bureaus, TransUnion, Equifax, and Experian, and each maintains separate credit files on you. This is because different creditors report to different bureaus. It is important that you are able to navigate your way through your report to know what it says.

Types of Reports

The following are the two types of credit reports:

- **Consumer Version**: Consumers are the only individuals who have access to this version. A consumer version of a credit report lists all inquiries, including promotional inquiries, account numbers, and account management inquiries.

- **Business Version**: The business version is an abbreviated version of the consumer version. This is the credit report that lenders see. The business version does not contain promotional inquiries, account numbers, or account management inquiries.

Contents of a Credit Report

The following are the four primary categories of information contained in each type of credit report:

- Personal information
- Credit history
- Public records
- Inquiries

Personal Information

- Full name
- Current and previous addresses
- Social Security number
- Telephone number
- Date of birth
- Current and previous employers

FACT

You should review your credit reports once a year for accuracy.

Credit History

A credit report's credit history section shows how you have paid your credit accounts in the past and is used as a guide to determine whether you are likely to pay accounts on time in the future. A credit report's credit history section generally includes a listing of the credit accounts from the last ten years.

Each entry includes information, such as

- Account number
- Creditor's name
- Amount borrowed
- Amount owed
- Credit limit
- Date when the account was opened, updated, or closed

- Timeliness of payments
- Late payments (these are noted as a negative activity)

Public Records

A credit report's public records section includes

- Tax liens
- Bankruptcies, and
- Court judgments (including child support judgments)

Inquiries

A credit report's inquiries section includes a listing of creditors or authorized users who have requested a copy of your credit report. The following are the three types of inquiries:

- **Normal Inquiries**: Lenders are given permission to view your report to determine if you are a good candidate for lending.

- **Promotional Inquiries**: Creditors review the credit bureaus' databases based on a set of parameters and receive mailing address information for individuals matching their criteria. They are not viewing reports, they just want to give people who meet their parameters a firm offer of credit.

- **Account Management Inquiries**: Creditors who have permission to review the credit reports of their account holders may do so on a periodic basis. Many creditors have permission to do this as one of the terms of the lending contract.

The Fair Credit Reporting Act (FCRA) protects consumers from being penalized for inquiries that they did not initiate or request. Therefore, promotional and account management inquiries are excluded from the business version of credit reports.

A credit report does NOT include information regarding the following:

- Race
- Gender
- Religion
- Sexual orientation
- National origin
- Medical history
- Checking or savings accounts
- Personal lifestyle
- Political preferences
- Criminal record

Reviewing Reports

The best way to know what is contained in your credit report is to review it carefully. It is recommended that you review each of your three credit reports (TransUnion, Equifax, and Experian) at least once a year to make sure there are no errors.

FACT

Over 40% of consumers' credit reports have errors on them.

The information on each report may vary from one bureau to another. This is because not all creditors report their information to every credit bureau.

The following information is required when ordering credit reports:

- Social Security number
- Date of birth
- Current and previous addresses for the past five years
- Maiden name (if applicable)

There may be a fee for ordering reports. Some states have laws that require credit bureaus to provide one or two free reports every year to their residents. Credit reports are also free for consumers who have recently been turned down for credit. The consumer must ask the bureau that produced the credit report for a copy within a specified period of time, usually 60 days.

Correcting Errors

Credit reports should be accurate, and it is very important to make sure that they are. If there are errors or outdated information on a credit report, it could hurt your chances of getting a new loan and cost you money because creditors will likely charge you higher interest rates if you're approved. Each bureau initiates an investigation of any credit information disputed by a consumer. It is recommended that while a dispute is being investigated, the consumer does not apply for credit.

Investigations are usually concluded within 30 days of the date the bureau received it. If additional information is needed for the investigation, the credit bureau will contact you and let you know what is needed to continue to process the dispute.

As part of its investigation, the bureau will check with the creditor whose information is being questioned. If the bureau finds that the information in the credit report is inaccurate, the creditor must notify the other major credit bureaus of the error so that they can correct their information.

If the disputed information cannot be verified within a 30-day time frame, the disputed item is deleted from the credit report or updated as requested. However, if the disputed information is subsequently verified, it will be reinserted into the report and you will be notified.

A revised report, reflecting the results of the investigation, is sent to the consumer at the conclusion of the investigation.

Credit Bureau Contact Information

Equifax:	(800) 685-1111
Experian:	(888) 397-3742
TransUnion:	(800) 888-4213

Credit Scores

If your credit report were like your report card, your credit score would be your grade point average. Credit scores are the numerical translation of your credit report. It takes all of your information, like how many lines of credit you have and how you have managed them, and assigns an overall number. This number is between 300 and 850 (the higher the better) and tells a lender how likely you are to repay a loan on time.

With the introduction of credit scores several years ago, the transition to being referred to simply as a number (your credit score) began. Your "number" can hold you back from getting a job, an apartment, and even increase your insurance premiums. Now more than ever, it is important to keep your credit in good standing.

FACT

The lower your credit score, the higher the interest rates you will be charged.

There are different types of credit scores. The most commonly used is the scoring system from Fair Isaac Company, commonly known as a FICO score. Under the FICO system, there are five major categories that make up a credit score.

Payment History (35% of Score): This keeps track of whether you have been making your payments on time.

Amounts Owed (30% of Score): This looks at what is owed to whom.

Length of Credit History (15% of Score): A longer, positive credit history will increase a score.

New Credit (10% of Score): Opening several new accounts or having many inquiries into your credit history in a short period of time will affect your chances of qualifying for credit.

Types of Credit Used (10% of Score): If you have a lot of lenders who are classified as "D" or Subprime lenders, you may be placed in a high-risk category, even if your payment history is perfect.

Having a low credit score can spell **T-R-O-U-B-L-E**! Landlords, employers, and even insurance companies check your score. If your score is low, it can hurt you. Not only are you likely to be assigned higher interest rates, you could be denied an apartment, not get that job, and pay higher insurance premiums. Look at it like this: the lower your score, the more things you are taking away from yourself. Bet you didn't realize that your credit score can affect your whole life!

FACT

The Fair Isaac Company developed the FICO Score System.

Increasing Your Credit Score

It's important to realize that if your score is low, it won't stay like that forever. A score is a "snapshot" of your credit history at any point in time. It changes as new information is added to your credit history, and it can improve if you manage your credit responsibly.

We know that credit scores are made up of five parts. Let's see what you can do within each of these parts to improve your overall score.

Payment History

Pay your bills on time. Delinquent payments and collections can have a major negative impact on your score.

If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your score.

Be aware that paying off a collection account will not remove it from your credit report. It will stay on your report for seven to ten years.

Amounts Owed

Keep balances low on credit cards. High outstanding debt can affect a score.

Pay off debt rather than move it around. The best way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.

Don't close unused credit cards as a short-term strategy to raise your score.

Don't open a number of new credit cards that you don't need. This approach could backfire and actually lower your score.

FACT

Your credit score is established six months after you have begun using credit.

Length of Credit History

If you have been managing credit for a short time, don't open a lot of new accounts too rapidly. New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information.

New Credit

Re-establish your credit history if you have had problems in the past. Opening new accounts responsibly and paying them off on time will raise your score in the long term.

Types of Credit Used

Apply for and open new credit accounts only as needed.

Have credit cards - but manage them responsibly. In general, having credit cards and installment loans (and making timely payments) will raise your score. Someone with no credit cards, for example, tends to be a higher risk than someone who has managed credit cards responsibly.

Debt-to-Income Ratio

A debt-to-income ratio is often used to see if you are carrying a "safe" amount of credit. Creditors look at a debt-to-income ratio to compare your income with your expenses. This tells them whether you have too much debt. The debt-to-income ratio is figured monthly and shows either how good, or how bad, your financial situation is.

The debt-to-income ratio is represented as a percentage. It is a representation of your monthly debt payments vs. your gross monthly income.

FACT

Debt-to-income ratio is only one of the factors used to obtain financing.

The first step in calculating your debt-to-income ratio is to figure out your gross monthly income (before taxes). Include income from additional sources as well, such as scholarships, loans, and cash from your parents.

Next, list the current minimum payments on all credit cards and loans. Be sure to include:

- car payments and other installment loan payments
- bank/credit union loans
- credit lines

The debt-to-income ratio is: monthly debt payments ÷ gross monthly income

Example: Monthly debt payments = \$700, **Gross monthly income** = \$3,200.

Debt-to-income ratio = 700 ÷ 3200 = .218 **Note**: To get a percentage, multiply 0.218 by 100. This would be 21.8%. Round up to 22%.

Generally, the lower a debt-to-income ratio is, the better the consumer's financial condition. The following are examples of the different percentages:

Note: All answers are providing that the consumer's FICO score is above 700.

10% or less: Should not have trouble getting loans. May qualify for lower rates.

11%–20%: Again, should not have trouble getting loans. Time to scale back on spending.

21%–35%: Although the consumer may not have trouble getting new credit cards, they are spending too much of their monthly income on debt repayment.

36%–50%: They may still qualify for certain loans, but it will be at higher rates. It is time to develop a plan to get out of debt.

More than 50%: Very difficult to qualify for financing. If you do qualify, it will be at the highest interest rates allowed.

Good vs. Bad Debt-to-Income Ratio Example

Let's take a look at two consumers making the same income and how their debts would affect their debt-to-income ratios.

Consumer A: Income is $3,500 a month, monthly debt payments are $650.00.
Math: 650/3500 = **18%** debt-to-income ratio. **Good.**

Consumer B: Income is $3,500 a month, monthly debt payments are $1350.00.
Math: 1,350/3500 = **38%** debt-to-income ratio. **Bad.**

Next, we are going to see that when FICO scores are used in conjunction with debt-to-income ratios, the interest rates you'll be charged are affected.

FICO Score / Debt-to-Income Ratio Example

One of the first big-ticket items you will buy is a car. Let's take a look at the effects of a good FICO score and low debt-to-income ratio versus a low FICO score and high debt-to-income ratio. For the purpose of this example, we will be using a car valued at $20,000.

FICO Score	Debt-to Income Ratio	Interest Rate	Monthly Payment	Total Interest Paid
720 to 850 **(High)**	18% **(Low)**	5%	$460.59	$2,108.19
500 to 589 **(Low)**	38% **(High)**	19%	$598.00	$8,704.14

As you can see, by having a low FICO score combined with a high debt-to-income ratio, you would have to pay $137.41 more per month and over $6,500 more in interest for the same car. **Crazy, but true!**

Budgeting: Getting to know your cash.

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Budgeting

The one true way to get a handle on the money you have is to create a budget. Being a young adult, you probably don't have piles of cash lying around, so planning on how to use the little you have is **VERY** important. The last thing you need is to run out of cash and start relying on credit to live.

First things first: you want to understand how your money is being spent. Make an **Initial Budget** to get an idea of your current spending habits. First, list all sources of income such as scholarships, loans, money from summer jobs, and cash from your parents. Next, list your expenses, such as tuition, books, and groceries. You may need to make best-guess estimates on your expenses if you don't have all your receipts handy. Having an understanding of your money is very important. This helps you to see what is necessary, and what is not.

In the future, keep a notepad with you and jot down **EVERYTHING** you spend cash on. Do this for about a month or so to create a good picture of where your money is going. From here you can get rid of those unnecessary expenses, such as 100 bucks a month on pizza.

FACT

You should review your budget every three months and make adjustments if needed.

Now you can make an **Adjusted Budget** and see the progress you've made. Be sure to periodically review your budget and your spending. Things change, so it is important to be aware of where your money is going at all times.

Also, building savings is **IMPORTANT**! How do you start saving? It's really simple: pay yourself first. All this means is that when you have money, put some into savings **BEFORE** spending any of it. The earlier you save, the more interest you will earn. Even if you save as little as $25 a month, you'll be on the road to financial independence. This is because of a little thing called

Compound Interest, and it is a very powerful tool for making your money grow. Compound interest is interest earned on interest you've already received. The following is an example:

If you put $1,000 in a savings account that pays 5% interest, at the end of the year you will have received $50.00 in interest. Now you have $1,050 (1000 x 5%=50).

In the second year, you'll earn 5% on $1,050, or $52.50. Notice that this time your money grew faster. You made $50 in the first year, and $52.50 in the second. This is how compounding works. The longer the money stays in the savings account, the faster it will continue to grow.

Why do you want to save? Let's say you're driving along one day and, **POW**, your transmission goes. If your cards are maxed out, where are you going to get the cash to give your friendly neighborhood mechanic to fix your '86 Cavalier? Savings! You NEED to build an emergency fund for, well, emergencies.

Budget Worksheet

Income

Job	_________	Groceries	_________
Parents	_________	Car Payment	_________
Student Loans*	_________	Insurance	_________
Scholarships*	_________	Gasoline	_________
Financial Aid*	_________	Entertainment	_________
TOTAL:	_________	Eating Out	_________
		Internet	_________
Expenses		Savings	_________
Rent	_________	Credit Cards	_________
Utilities	_________	**TOTAL:**	_________
Phone	_________		

***Amount remaining after tuition and books are paid for.**

A Work in Progress

We have talked about budgets, so let's actually take a look at one in progress.

Budget Worksheet (Initial Monthly Budget)

Income

Job	$300.00
Parents	$150.00
Student Loans*	$430.00
Scholarships*	$0.00
Financial Aid*	$0.00
TOTAL:	**$880.00**

Expenses

Rent	$250.00
Utilities	$80.00
Phone	$30.00
Groceries	$100.00
Car Payment	$0.00
Insurance	$130.00
Gasoline	$40.00
Entertainment	$100.00
Eating Out	$50.00
Internet	$20.00
Savings	$0.00
Credit Cards	$60.00
TOTAL:	**$860.00**

***Amount remaining after tuition and books are paid for.**

We see here that the student, we'll call him John, has about $20 left over each month, with no savings. Should something happen, he is going to be in trouble. What can he change to ease his financial strain? Here are some changes that can be made.

Groceries: Though clipping coupons is thought to be for the cheap at heart, that is not the case. If John starts to clip coupons and gets a store savings card, he could save about $20 a month.

Entertainment: While we all need to blow off some steam, at times you must be frugal. Cutting back the "socializing" from seven to six nights a week could save John a little dough, perhaps $30 a month.

Eating Out: Pizza is the poor man's feast; however, those Raman noodle things are pretty cheap. John can cut out about $25 here.

Internet: There are discount on-line providers that charge about $10 a month, saving John $10 off his current bill.

Budget Worksheet (Adjusted Budget)

Income

Job	$300.00
Parents	$150.00
Student Loans*	$430.00
Scholarships*	$0.00
Financial Aid*	$0.00
TOTAL:	**$880.00**

Expenses

Rent	$250.00
Utilities	$80.00
Phone	$30.00
Groceries	$80.00
Car Payment	$0.00
Insurance	$130.00
Gasoline	$40.00
Entertainment	$70.00
Eating Out	$25.00
Internet	$10.00
Savings	$50.00
Credit Cards	$60.00
TOTAL:	**$825.00**

***Amount remaining after tuition and books are paid for.**

With the changes in his budget, John is able to put $50 into savings and has $35 left over each month. He can apply that to his credit card payment or put it into savings. See, budgeting is not so bad.

A Plan in Motion

Establishing the discipline early in life to budget your money will help you in the future when your financial life changes dramatically. As we grow older, our needs and priorities change. To show you the expenses that you may have when you're all grown up, we'll take a look at an example of an adult budget on the following pages. We will look at this individual's Initial Budget (we'll call her Sally), analyze her situation, restructure her spending, and review her Adjusted Budget.

All Grown Up and Ready to Spend

When establishing a budget, spending can generally be separated into five categories: housing, debt, travel, savings, and other. Each category should take up a certain percentage of income. These percentages are as follows: **Home**:35%, **Travel**: 15%, **Debt**: 15%, **Savings**:10%, **Other**: 25%.

Budgeting Worksheet (Initial Budget)

Home

Mortgage/Rent/Housing	$700
Property Tax	$0
Home Owner/Renter Insurance	$0
Gas/Electric/Oil	$100
Water	$0
Garbage	$0
Phone	$70
Internet Access	$35
Cable/Satellite	$70
Furniture/Appliances	$0
Maintenance	$0
Groceries	$200
TOTAL (Home)	***$1,175***

Travel

Car payment	$250
Insurance	$175
Gasoline	$45
Maintenance	$0
Registration	$0
Tolls	$50
Parking	$0
Bus/Subway/Train	$0
TOTAL (Travel)	***$520***

Debt

Credit Cards	$375
Student Loans	$175
Other	$0
TOTAL (Debt)	***$550***

Savings

Savings Amount	***$0***

Other

Restaurants	$140
Take Out	$70
Coffee/Tea	$80
Snacks	$25
Alcohol	$0
Clothing	$40
Shoes	$0
Dry Cleaning	$84
Movies	$80
Concerts	$0
Publications	$0
Hobbies	$0
Haircuts	$40
Makeup	$0
Hygiene	$60
Physicians/Hospital	$0
Dentists	$0
Medication	$0
Therapy	$0
Gym	$60
Tobacco	$0
Cell Phone	$60
Day Care	$0
Tithing/Giving	$0
TOTAL (Other)	***$739***

	Totals	**% of Budget**
Home	***$1,175***	***39%***
Travel	***$520***	***17%***
Debt	***$550***	***18%***
Savings	***$0***	***0%***
Other	***$739***	***25%***

TOTAL Net Income: $3,000.00

TOTAL Expenses: $2,984.00

Discretionary Income: $16.00

Budget Review

Home Section:

- Enrolls in utility budget plans that distribute their costs evenly over the year. ***Saves $40.***

- Enrolls in a monthly calling plan from the phone company. ***Saves $20.***

- Downgrades their high-speed Internet service. ***Saves $15.***

- Downgrades their cable service to a basic package. ***Saves $25.***

- Cuts coupons, gets a shopping savings card, and purchases generic products. ***Saves $50.***

Travel Section:

- Increases their insurance deductible. ***Saves $25.***

- Signs up for an electronic toll collection system that offers a discount. ***Saves $12.50.***

Debt Section:

Credit card debt totals approximately $10,000, spread over three cards (MGNA: 18% interest, $3,500 balance; SityBanc: 13% interest, $2,000 balance; Bleet: 9% interest, $4,500 balance). The decisions made do not automatically reduce the payment; however, they will save money in interest costs down the road.

- Moves the balance from the MGNA card to one with a lower rate.

- Contacts SityBanc and asks for an interest rate reduction. They reduce it by two percentage points because they have a good repayment history.

Savings Section:

Because they made changes in their budget, they are able to increase their monthly savings to the recommended 10%.

Other Section:

- Stops going to restaurants. ***Saves $140.***

- Although they like getting take-out three times a month, they cut back to once a month. ***Saves $50.***

- They buy a coffeemaker and they bring a thermos to work, allowing them to cut back on their Muco Grande coffee runs. ***Saves $80.***

- They cut out the snacks. ***Saves $25.***

- Picks up the dry cleaning sheets they can use in their dryer. ***Saves $42.***

- Joins a video rental club that allows unlimited rentals for $25 a month and cuts out going to the movies. ***Saves $55.***

- Joins a gym that has a lower membership fee. ***Saves $40.***

- Shops around for a better cell phone plan. ***Saves $20.***

Let's take a look at the Adjusted Budget.

Budgeting Worksheet (Adjusted Budget)

Home

Mortgage/Rent/Housing	$700
Property Tax	$0
Home Owner/Renter Insurance	$0
Gas/Electric/Oil	$60
Water	$0
Garbage	$0
Phone	$50
Internet Access	$20
Cable/Satellite	$45
Furniture/Appliances	$0
Maintenance	$0
Groceries	$150
TOTAL (Home)	***$1,025***

Travel

Car payment	$250
Insurance	$150
Gasoline	$45
Maintenance	$0
Registration	$0
Tolls	$37.50
Parking	$0
Bus/Subway/Train	$0
TOTAL (Travel)	***$482.50***

Debt

Credit Cards	$375
Student Loans	$175
Other	$0
TOTAL (Debt)	***$550***

Savings

Savings Amount	***$300***

Other

Restaurants	$0
Take Out	$20
Coffee/Tea	$0
Snacks	$0
Alcohol	$0
Clothing	$40
Shoes	$0
Dry Cleaning	$42
Movies	$25
Concerts	$0
Publications	$0
Hobbies	$0
Haircuts	$40
Makeup	$0
Hygiene	$60
Physicians/Hospital	$0
Dentists	$0
Medication	$0
Therapy	$0
Gym	$20
Tobacco	$0
Cell Phone	$40
Day Care	$0
Tithing/Giving	$0
TOTAL (Other)	***$287***

	Totals	**% of Budget**
Home	***$1,025***	***34%***
Travel	***$482.50***	***16%***
Debt	***$550***	***18%***
Savings	***$300***	***10%***
Other	***$287***	***9.5%***

TOTAL Net Income: $3,000.00

TOTAL Expenses: $2,644.50

Discretionary Income: $355.50

Checking Accounts: Following your green.

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Education For Financial Wellness

Checking Accounts

A checking account is a valuable tool to use in your day-to-day financial operations, but failing to keep track of your transactions can lead to some big headaches. A checking account allows you to deposit funds and withdraw the available money on demand, typically by writing a check. A check is a document instructing a bank to pay money from a checking account to a specific person or establishment. There are different types of accounts available to consumers. They are as follows:

Basic Checking: This account is for people who use a checking account for little more than paying bills and daily expenses, and who do not maintain a high balance. Some basic accounts require direct deposit or a low minimum balance to avoid fees.

Some banks have different types of basic accounts, so you should get answers to the following questions:

- Do they require direct deposit or a minimum balance?
- Do they charge a monthly fee for services?
- Do they charge a fee for each check you write over a certain limit?

Interest-Bearing Account: This account pays interest on the money you have in it. It usually requires a minimum balance to open, with an even higher balance to maintain in order to avoid fees. Interest is paid monthly, at the end of your statement cycle. Be aware that the fees for falling below the minimum balance may be more than any interest you might earn.

Joint Checking Account: This account is owned by two or more people, usually sharing a household and expenses. Each co-owner has equal access to the account.

Express Account: Designed for people who prefer to bank by ATM, telephone, or personal computer. Because you do not spend much time working with bank employees, express accounts usually offer the following:

- Unlimited check writing
- Low minimum balance requirements
- Low or no monthly fees

When you do visit a bank branch, you can expect to pay a fee to talk to a teller on either a per-visit or monthly basis.

Lifeline: Lifeline checking accounts are designed for low-income bank customers. Lifeline accounts have the following:

- Low minimum deposit and balance requirements
- Low monthly fees, ranging from $0 to $3, depending on the bank
- Limits on the number of checks per month that you can write

Certain states have laws requiring banks to offer Lifeline accounts. Currently, those states are IL, MA, MN, NJ, NY, RI, and VT. In these states, the rules and regulations for Lifeline accounts are determined by state laws.

"No-Frills" Checking Account: Many banks offer special checking deals if you are 55 or older, or a student. The benefits may include:

- Free personal checks
- Free cashier's or travelers checks
- Wider ATM use
- Better rates on loans and credit cards

"Free Checking" Account: "Free Checking" accounts typically require you to maintain a minimum balance in your account, but certain fees, like ATM and per-check fees, are eliminated. This reduced fee structure can be an attractive checking alternative for some people. However, it is important that you maintain the minimum balance or your account will no longer be "free" and you will be charged fees.

NOW and Super NOW Accounts: A NOW account (Negotiable Order of Withdrawal) is both a "Free Checking" and an interest-bearing account offered by a savings and loan or "thrift" institution. Typically, the minimum balance on a NOW account exceeds that of a "Free Checking" account and, if your balance falls below the minimum, you could pay a high fee. A Super NOW Account has a higher interest rate and a higher minimum balance than the NOW Account.

Picking a Financial Institution

For most people, picking a financial institution is as simple as choosing one that is located near where they live. It is important to understand that all banks are not created equal and that the services offered differ between institutions. You have to be sure that the services offered fit with both your long term and short term goals.

The following are other things you need to consider when looking for a bank:

- Look for the FDIC symbol. Institutions that are insured by the Federal Deposit Insurance Corporation will protect your deposits up to $100,000. You can find FDIC stickers on the doors and teller windows of insured financial institutions.

- Consider putting all of your accounts at one financial institution. Why? Many financial institutions use the combined balance of all your accounts in calculating monthly account service charges. You could save money if you consolidate to one account.

- Use the web to do your research. Checking out the websites of potential financial institutions is a quick and easy way to find out about services, types of accounts, and rates.

For your convenience, you can use the Banking Institution Questionnaire below to help you research available banks and keep track of the services and rates they offer. Feel free to make copies and use one for each institution you visit so that you can compare them and see which bank is best suited to fit your needs.

Institution Name: _________________________

What type(s) of account(s) do you need?

____ Savings

____ Basic Checking

____ Interest-Bearing Checking Account

____ Joint Checking Account

____ Express Checking Account

____ Lifeline

____ "No-Frills" Checking Account

____ "Free Checking" Account

____ NOW Account

____ Super NOW Account

____ Other ____________________________

Are the types of accounts you need offered at this institution?

____ Yes ____ No

What are the Minimum Balance Requirements, if any?

Savings: _________ Checking: _________

Can you maintain these minimums?

____ Yes ____ No

What types of fees does the institution charge?

Monthly Maintenance Fees: _________

(NSF) Bounced Check Fees: _________

Telephone Center Fees: _________

ATM Fees: _________

Overdraft Fees: _________

Are you comfortable with these fees?

____ Yes ____ No

When do you plan to do most of your banking?

____ Regular Business Hours ____ Evenings

____ Weekends

Does the institution accommodate your schedule?

____ Yes ____ No

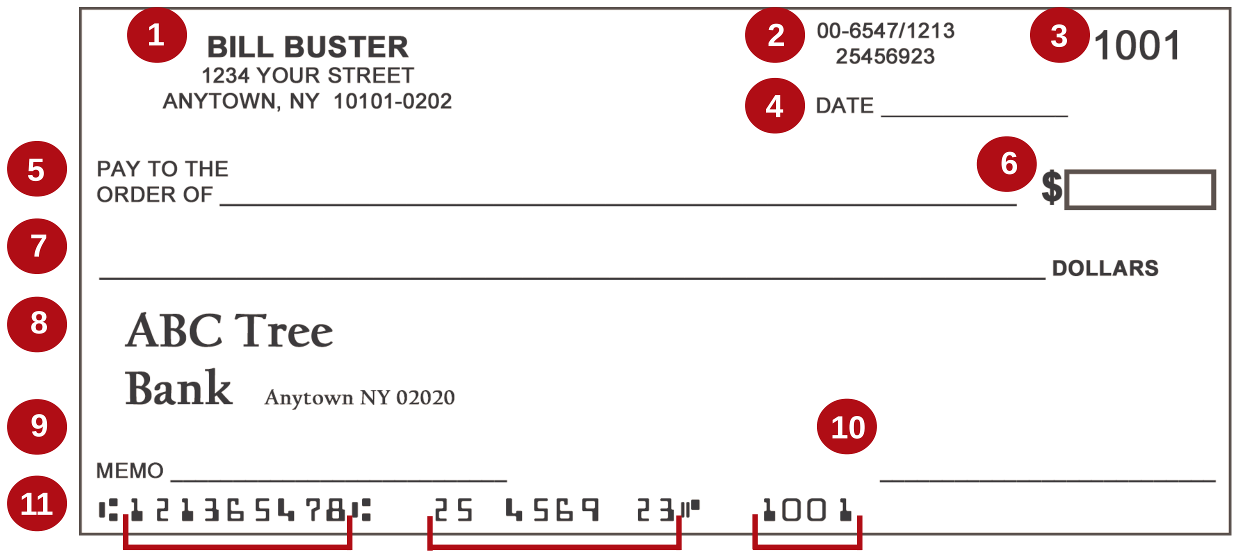
Do you plan on using the internet for banking?

____ Yes ____ No

Does the institution offer online banking?

____ Yes ____ No

Writing a Check



1. **Personal Information**: Your name and address. Some banks allow you to have your Social Security number printed here as well; however, it is not recommended.

2. **Bank Transit Number**: Information about your bank and your account.

3. **Check Number**: The number of the check you are completing.

4. **Date**: The date you are writing the check.

5. **Pay to the Order of**: You would enter the name of the company or individual the check is intended to pay.

6. **Dollar Amount (Numerals)**: Write in the dollar amount of the check in numerals. Do not leave any empty spaces in the box so others may not add additional information.

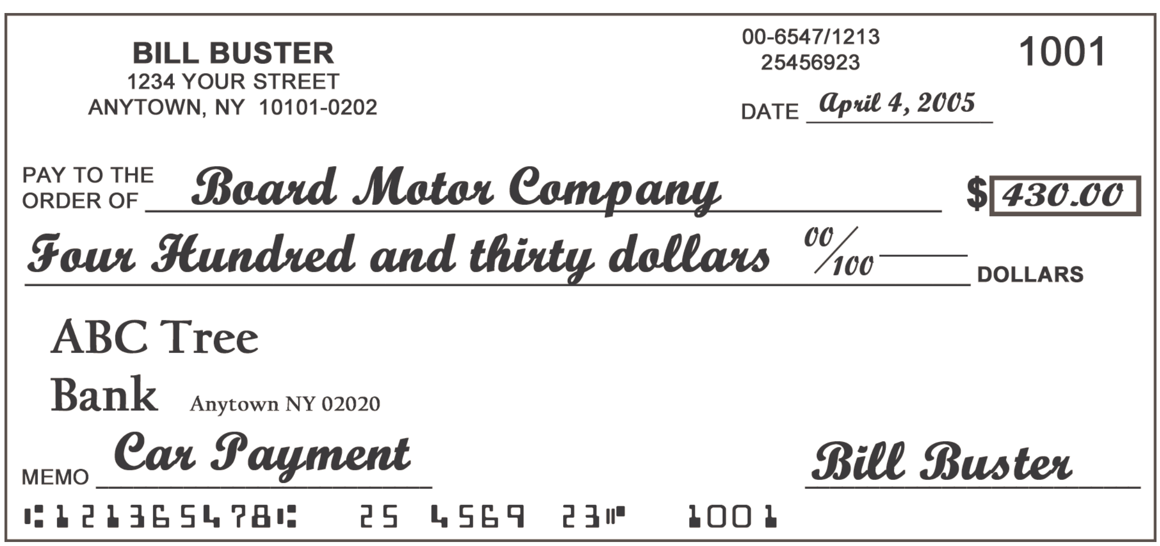
7. **Dollar Amount (Words)**: Write in the dollar amount of the check in words. Start at the far left side of the line. Follow the dollar amount by the word “and” then write the cents over the number 100. Draw a line from the end of the 100 to the end of the line.

8. **Bank Name**: The name of your institution and its location.

9. **Memo**: Write in what the check payment is for.

10. **Signature**: Sign your name as it appears at the top of the check. Do not sign the check until you intend to use it.

11. **Bank Information**: The order of these numbers varies; however, the first nine numbers should be the bank routing number, followed by your account number, and ending with the number of the check you are writing. They are printed in a special magnetic ink for the bank clearinghouses to read.



Tips for Writing a Check

- Only write checks when you have enough money in your account to cover them. Do not write a check on a promise from a friend or rely on a paycheck to be deposited in time to cover your check. If you do not have the money in the account, do not write the check.

- Write your checks legibly.

- Write the check amount as far to the left as you can. This prevents others from adding in numbers, making the amount of the check larger than you intended.

- Always use a pen to write checks.

- Do not erase mistakes on a check. Either write "Void" across the check or write "Void" next to its number in the check register and tear up the check.

- Do not sign blank checks. They can easily be stolen or used by someone else.

- Print the correct date on your checks.

- Always keep your checks in a safe place. Your checks are another form of money. They can be stolen and used by other people, just like cash. If your checks are ever lost or stolen, contact your financial institution immediately.

- Destroy voided or unused checks and deposit slips. There is a line of computer numbers at the bottom of every check called an MICR code.

Counterfeiters can use this information to fraudulently use your account. To prevent fraud, thoroughly tear up or shred all checks and deposit slips.

- Record every transaction. Keep track of when you use your debit card, the amount of money you take out of the ATM, and any other withdrawals. They add up quickly. It only takes a few minutes and can prevent overdrafts and additional fees.

- Use all of the columns in your check register so that you can easily identify transactions.

- Keep a running balance in your checkbook. If you do not calculate your balance right away, you run the risk of spending more money than you have or dropping below your minimum balance, resulting in additional fees.

How Your Check Gets Paid

The Check Clearing for the 21st Century Act, which went into effect in October of 2004, changes the way consumer's checks are paid. In the past, banks or check clearinghouses would exchange millions of checks to get each one to the appropriate institution for payment. This process typically took five business days to complete. With "Check 21" banks have the ability to make electronic images of your checks as a substitute for paper. This eliminates the exchange of paper checks, thus reducing the processing time to about 24 hours.

Using Your Check Register

1	2	3	4		5	6	7		8	
NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT		CODE	FEE	DEPOSIT/CREDIT		BALANCE	

To keep track of the money in your checking account, add every transaction into your check register. To ensure that your balance does not get away from you, enter each transaction **IMMEDIATELY**.

1. **Number**: If you are writing a check, the number would go here. If not, leave blank. The check number is located in the upper right-hand corner of your check.

2. **Date**: The date you wrote the check, made a deposit, used your debit card, and so forth.

3. **Description of Transaction**: Write what the transaction was for (the Payee, Deposit, ATM Use).

4. **Payment / Debit**: Record the amount of the check, or withdrawal. This will be subtracted from your balance.

5. **Code**: Fill in the type of transaction you are making if you are not writing a check. When you receive your statement each month, place a check mark here if the transaction is listed.

   Codes: **D** - Deposit, **ATM** - Automatic Teller Machine, **DC** - Debit Card, **TT** - Telephone Transfer, **T** - Tax Deductible, **AP** - Automatic Payment, **O** - Other

6. **Fee**: Record the fee, if any, for the transaction. This will be subtracted from your balance.

7. **Deposit / Credit**: Record the amount of any deposits or credits to your account. This will be added to your balance.

8. **Balance**: Write down the amount in your account after subtractions (payment) or additions (deposit).

NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT		CODE	FEE	DEPOSIT/CREDIT		BALANCE	
									600	00
1001	4/4	Car Payment	430	00					170	00

	NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT		CODE	FEE	DEPOSIT/CREDIT		BALANCE	
1										600	00
2	1001	4/4	Car Payment	430	00					170	00
3		4/5	Withdrawal	100	00	Atm	1-			69	00
4		4/7	Deposit			D		756	94	825	94
5		4/10	Supermarket	58	73	DC				767	21
6	1002	4/11	ABC Bank Credit Card	125	00					642	21

We have seen how to use a register for a single entry, now let us review how to use the register for ongoing transactions.

1. This is your beginning balance: **$600.00**

2. You sent check number **1001** on **April 4** for your **Car Payment**. The amount of this transaction was **$430.00**. To come up with your new balance, you would **subtract** the **$430.00** payment from your beginning balance of **$600.00 (600 - 430 = 170)**. Your new balance would be **$170.00**.

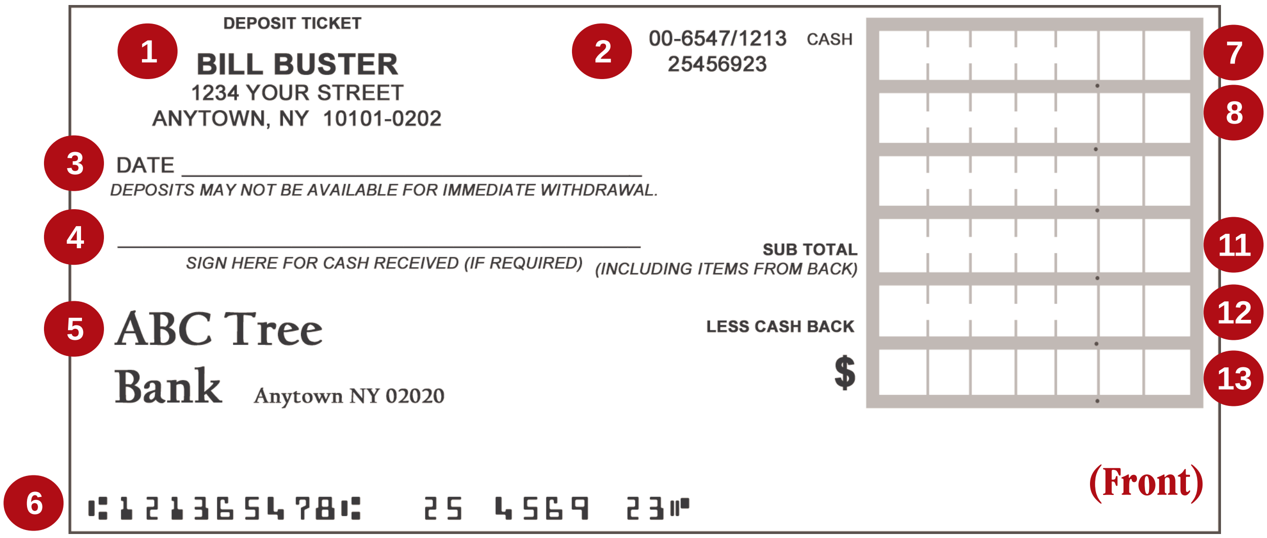
3. On **April 5** you made a **Withdrawal**. The amount of this transaction was **$100.00**. You used an **ATM** and there was a fee of **$1.00**. To come up with your new balance, you would **subtract** the **$100.00** withdrawal and the **$1.00** fee from your balance from the previous line, which is **$170.00 (170 - 100 - 1 = 69)**. Your new balance would be **$69.00**.

4. On **April 7** you made a **Deposit**. The amount of this transaction was **$756.94**. To come up with your new balance, you would **add** the **$756.94** deposit to your balance from the previous line, which is **$69.00 (69 + 756.94 = 825.94)**. Your new balance would be **$825.94**.

5. On **April 10** you went to the **Supermarket**. The amount of this transaction was **$58.73**. You used your **Debit Card**. To come up with your new balance, you would **subtract** the **$58.73** debit card transaction from your balance from the previous line, which is **$825.94 (825.94 - 58.73 = 767.21)**. Your new balance would be **$767.21**

6. You sent check number **1002** on **April 11** for your **ABC Bank Credit Card** payment. The amount of this transaction was **$125.00**. To come up with your new balance, you would **subtract** the **$125.00** payment from your balance from the previous line, which is **$767.21 (767.21 - 125 = 642.21)**. Your new balance would be **$642.21**.

Depositing Funds Into Your Account



1. **Personal Information**: Your name and address.

2. **Bank Transit Number**: Information about your bank and your account.

3. **Date**: The date you are making the deposit.

4. **Signature**: If you get cash back from a deposit, you would sign here.

5. **Bank Name**: The name of your institution and its location.

6. **Bank Information**: The order of these numbers varies; however, the first nine numbers should be the bank routing number, followed by your account number, and ending with the number of the check you are writing. They are printed in a special magnetic ink for the bank clearinghouses to read.

7. **Cash**: The amount of cash you are depositing.

8. **Check Entry Area**: You would write down each check you are depositing. Put each check on its own line.

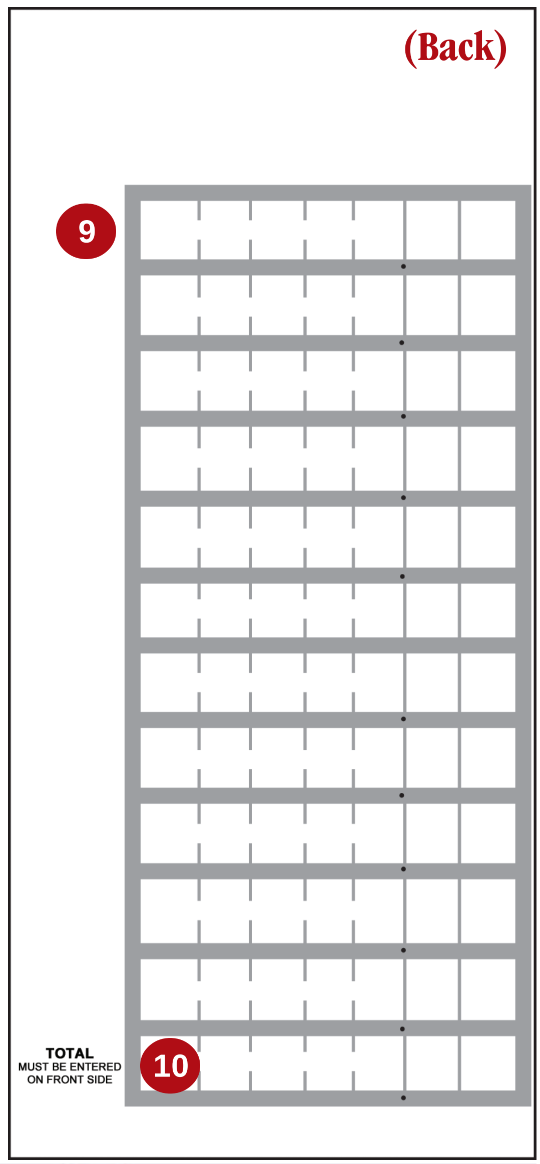
9. **Additional Check Entry**: The back of the deposit slip should have additional spaces for checks if you run out of room on the front. Put each check on its own line.

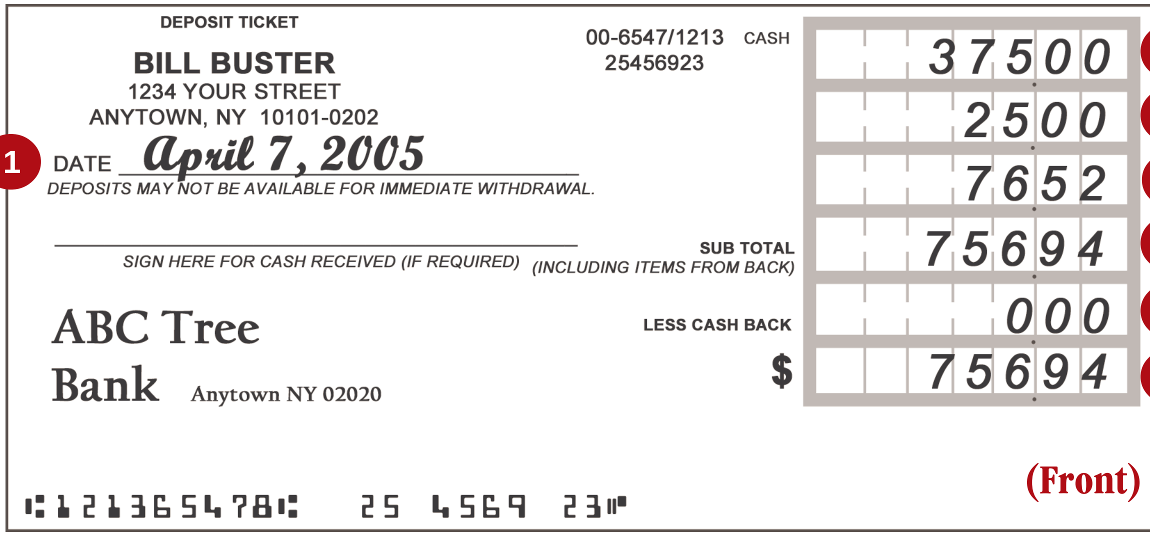
10. **Additional Check Entry Total**: Add up the checks listed on the back of the slip ONLY and write the total dollar amount here.

11. **Subtotal**: Add up all of the cash and checks and put the total dollar amount here.

12. **Less Cash Back**: If you want to deposit part of your money, and get part of your money in cash, you would write the dollar amount in cash you want here.

13. **Net Deposit**: Subtract any cash back you received from your deposit and write the remaining amount here. This is your net deposit.




DEPOSIT TICKET

BILL BUSTER
1234 YOUR STREET
ANYTOWN, NY 10101-0202

1 DATE April 7, 2005

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.

00-6547/1213
25456923

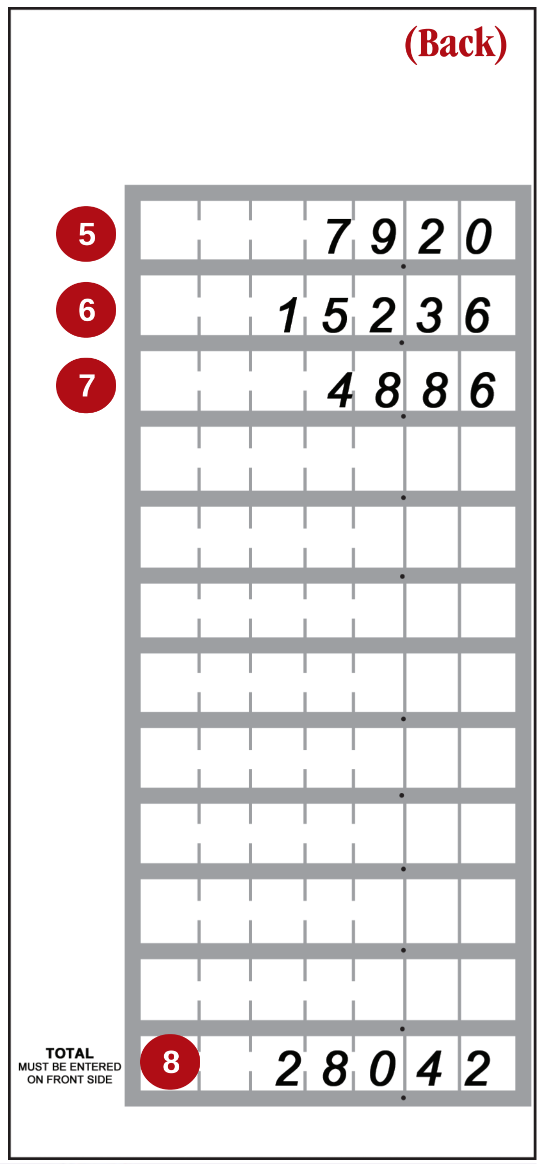
SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

ABC Tree Bank Anytown NY 02020

CASH	375.00	2
	25.00	3
	76.52	4
SUB TOTAL (INCLUDING ITEMS FROM BACK)	756.94	9
LESS CASH BACK	0.00	10
$	756.94	11

(Front)

⑆121365478⑆ 25 4569 23⑈


(Back)

5	79.20	
6	152.36	
7	48.86	
TOTAL MUST BE ENTERED ON FRONT SIDE	8	280.42

1. **Date**: The date you are making the deposit.

2. You are depositing **$375.00** in cash. Write it here.

3. You are depositing a check from your Uncle Garfunkle in the amount of **$25.00.** Write it here.

4. You are depositing a rebate check from the ACME Corp. in the amount of **$76.52**. Write it here.

5. Since you have more checks, begin to write the additional ones here. You are depositing a check from your friend Joe in the amount of **$79.20.** Write it here.

6. You are depositing a check from your tax refund in the amount of **$152.36.** Write it here.

7. You are depositing a check from your neighbor Skip in the amount of **$48.86.** Write it here.

8. Add up the checks listed on the back of the slip and list the amount here **(79.20 + 152.36 + 48.86 = 280.42)**. **$280.42** would be the amount to list.

9. Add up the cash you are depositing, the checks listed on the front of the slip, and the checks listed on the back of the slip and list the amount here. **(375 + 25 + 76.52 + 79.20 + 152.36 + 48.86 = 756.94)**. **$756.94** would be the amount to list.

10. You would write any cash back here.

11. Add up the cash you are depositing, the checks listed on the front of the slip, the checks listed on the back of the slip, subtract any cash back you want and list the amount here. **(375 + 25 + 76.52 + 79.20 + 152.36 + 48.80 - 0 = 756.94)**. **$756.94** would be your net deposit.

Endorsing a Check

1

ENDORSE HERE

Bill Buster

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE*

2

ENDORSE HERE

Pay to the order of

Sam Statement

Bill Buster

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE*

3

ENDORSE HERE

For deposit only

Bill Buster

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE
RESERVED FOR FINANCIAL INSTITUTION USE*

To deposit a check, you need to endorse it. That means you sign your name in ink on the back of the check. You must sign your name the same way it is written on the check.

There are a few different ways to endorse your check.

1. **Blank Endorsement**: Sign your name the same way it is written on the front of the check. Make certain to sign it only when you are ready to cash it or deposit the money into your account.
2. **Special Endorsement**: Do this when you want to give someone else the money. Write "pay to the order of" and that person's name below it, then sign your name underneath. Now that person is the only one who can cash the check.
3. **Restrictive Endorsement**: When you want your check to be very safe (like when you send it to your financial institution in the mail), use this kind of endorsement. Write "for deposit only" and sign underneath.

Your Monthly Statement

Bank Statement

1 **ABC Tree Bank**
6547 My Street
Anytown, NY 02020

2 Bill Buster
1234 Your Street
Anytown, NY 10101-0202

3 **Checking Account Number:** 25456923
4 **This statement shows transactions for the period:** April 1, 2005 to April 25, 2005

5 **Activity Summary**
Deposits (+): $756.94
Checks (-): $555.00
Misc. Debits (-): $159.73
Fees (-): $0.00
Ending Balance: $642.21

6

Date	Description	Amount	Balance
	Beginning Balance		$600.00
4-5	ATM Withdrawal	$101.00	$499.00
4-7	Deposit	$756.94	$1,255.94
4-8	1001	$430.00	$825.94
4-10	Supermarket Store 89	$58.73	$767.21
4-20	1002	$125.00	$642.21

Thanks for banking with us. Our Customer Service Number is 1-800-555-5555.

1. **Bank Name**: The name of your institution and its location.
2. **Personal Information**: Your name and address.
3. **Account Information**: The type of account and the Account Number.
4. **Statement Period**: The dates that the statement covers.
5. **Activity Summary**: An overview of your credits and debits as well as the balance remaining at the end of the period.
6. **Transaction Summary**: A detailed listing of your credits and debits. Note that the dates for the checks you have written are those on which the bank processed them, not when you wrote them.

Bank Statement

ABC Tree Bank
6547 My Street
Anytown, NY 02020

Bill Buster
1234 Your Street
Anytown, NY 10101-0202

Checking Account Number: 25456923
This statement shows transactions for the period: April 1, 2005 to April 25, 2005

Activity Summary
Deposits (+): $756.94
Checks (-): $665.75
Misc. Debits (-): $310.73
Fees (-): $3.50
Ending Balance: $376.96

Date	Description	Amount	Balance
	Beginning Balance		$600.00
4-5	ATM Withdrawal	$101.00	$499.00
4-7	Deposit	$756.94	$1,255.94
4-8	1001	$430.00	$825.94
4-10	Supermarket Store 89	$58.73	$767.21
4-15	ATM Withdrawal	$151.00	$616.21
4-20	1002	$125.00	$491.21
4-20	1003	$75.00	$416.21
4-24	1005*	$35.75	$380.46
4-25	Shady Tree Checking Fee	$3.50	$376.96

*Skip in check numbers

Thanks for banking with us. Our Customer Service Number is 1-800-555-5555.

Each month you will receive a statement from your banking institution. There will usually be a difference between the statement's ending balance and your register balance. When you receive this statement, you will have to reconcile the difference to make your account balance out.

For the example above, we will be using the register located on the opposite page to reconcile the statement. We will be utilizing the back of the statement on the page following the register to show the proper way to reconcile.

NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT		CODE	FEE	DEPOSIT/CREDIT		BALANCE	
									600	00
1001	4/4	Car Payment	430	00	√				170	00
	4/5	Withdrawal	100	00	Atm √	1-			69	00
	4/7	Deposit			D √		756	94	825	94
	4/10	Supermarket	58	73	DC √				767	21
1002	4/11	ABC Bank Credit Card	125	00	√				642	21
1003	4/12	Mytown Electric	75	00	√				567	21
	4/15	Withdrawal	150	00	Atm √	1-			416	21

	NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT		CODE	FEE	DEPOSIT/CREDIT		BALANCE	
1	1004	4/16	Biggun Cable Company	72	50					343	71
	1005	4/20	Ma Bell Phone Company	35	75	√				307	96
2		4/26	Deposit			D		415	00	722	96
3		4/25	Bank Fee	3	50	√				719	46

1. You will notice that the statement skips from check 1003 to 1005. There is an asterisk (*) next to the listing of check 1005, indicating that there is a skip in the checks presented against your account for payment.

2. The deposit you made was after the statement period, therefore it is not reflected on this statement.

3. The statement indicated that the bank has deducted your monthly checking fee. You would need to enter this into your register.

Please turn the page to see how to use the reconciliation sheet provided on the reverse side of your statement.

- In your account register, check off each transaction shown on the front of this statement.
- In the appropriate space to the right, list the deposits and checks or withdrawals that are listed in your register, but not on the statement.
- Total these two columns.
- ENTER your ending balance from the front of this statement.
- ADD the total of the deposits made to your account, but not listed on the statement, to your balance.
- SUBTRACT the total of the withdrawals made from your account, but not listed on the statement.

DEPOSITS	CHECK NUMBER	CHECKS AND WITHDRAWALS
1 $415.00		
	2 1004	$72.50

3 Ending Balance:	$376.96
4 (+) Total from Deposits:	$415.00
5 Subtotal:	$791.96
6 (-) Total from Withdrawals:	$72.50
7 Balance: (Should agree with register balance)	$719.46

Thanks for banking with us. Our Customer Service Number is 1-800-555-5555.

1. You would enter the **$415.00** deposit you made after the statement period here.
2. You would enter the check that did not show on this statement here. In this example, it would be check number **1004** and the dollar amount of **$72.50**.
3. You would enter the ending balance from the front of the statement here. This is located under the Account Summary portion of the statement. In this example it would be **$376.96**.
4. You would enter the total dollar amount of your deposits not showing on the statement here. In this example it would be **$415.00**.
5. You would add the ending balance of **$376.96** and the total deposits of **$415.00** here for a total of **$791.96**.
6. You would enter the total dollar amount of your withdrawals that are not showing on your statement here. In this example it would be **$72.50**.
7. You would subtract your total dollar amount of withdrawals, **$72.50,** from the Subtotal line, **$791.96,** and get **$719.46**. This amount should be the balance that you have in your register. This will be the available balance remaining in your checking account.

Saving: The most important thing you can do!

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Education For Financial Wellness

Saving and Investing

We all know that money can be used to buy things, but did you know you could use your money to *make* money? Saving and investing allows you to build wealth and be prepared for what the future holds.

Compound Interest

Compound interest is a very powerful tool for making your money grow, and involves earning interest on interest you have already received. Let's say you put $1,000 in a savings account that pays 5% interest. At the end of the year, you will have received $50 in interest. Now you have $1,050. ($1,000 x 5% = $50). In the second year, you will earn 5% on $1050, or $52.50. Notice that your money grew faster. You made $50 in the first year, and $52.50 in the second. This is how compounding works. The longer the money stays in the savings account, the faster it will continue to grow, so it is a good idea to start a savings plan as soon as you can.

The Rule of 72

If you had $1,000 lying around, decided to put it into an account and never made another deposit, in a certain amount of time that money would double. That is the cool aspect of compound interest. By using the Rule of 72, we can see how long it will take to double your money. All you have to do is divide 72 by the interest rate the account was paying. Sounds simple, so let's check it out. If you look at an account that earns 4% on your money, you would do the math as follows: 72÷4 = 18. It would take you 18 years to double your money. Not too shabby.

FACT

If you put $10,000 in a savings account and never deposited another dime, in 40 years you would have approximately $22,080.

Risk and Return

There are many ways to save money and build wealth, some of them riskier than others. The more risk, the more potential you have to build wealth. As an example, let us compare two ways to make your money grow: a savings account and a stock. A savings account has very little risk; the money you put into it is insured by the FDIC and you have very little chance of losing your money. On this type of account, you would probably earn about 1.5% interest. Stocks, on the other hand, are very risky. There are many factors that can cause you to lose your money. Because of the high risk, over time you could probably earn an average of between 10% and 11% in interest.

FACT

With all the taxes you pay, you only keep about $0.40 of every dollar you make.

By using the Rule of 72, let us see how long it would take to double $1,000 in a savings account versus investing in a stock. In a savings account you would earn 1.5% interest, so you would do the math as follows: $72 \div 1.5 = 48$ years. Investing in a stock you would earn about 11% interest so, $72 \div 11 = 6.5$ years. As you can see, more risk definitely equals more return.

Diversify

Putting all your eggs in one basket is not a good idea. With the high risk of investments, you really do not want to put all your cash into the stock market. Why? Well, the market is volatile and no stock is a sure thing. If you put all your money here and you lose it, you'll be ruined. By spreading your money out between both low- and high-risk items, you do not risk losing everything if your investment goes bad.

The Taxman and Inflation

There are two more hurdles you must take into consideration: taxes and inflation. You will pay taxes on any interest earnings you make. These taxes are used on both the federal and state levels to fund the government. Depending on your tax bracket, you could contribute as much as 30% of your earnings to taxes.

Inflation saps the growth of your money because in inflationary periods, the value of money decreases over time. Essentially, inflation occurs when the prices of goods and services rise. Remember: prices rise because of supply and demand within our society, as we discussed in the section on economics. Historically, inflation has grown at a rate of 3% each year. Let us look at an example. Say you bought a soda today for $1. Next year that soda may cost you $1.03. In ten years that soda might cost you $1.30. This will hurt you if you are not getting a greater return on the money you have in the bank. If you were earning 2% interest, your money would be growing at a rate 1% behind inflation. If you saved the dollar for soda and were earning 2% interest on it, next year that dollar would be worth $1.02, in ten years that dollar would be worth $1.20.

When you want your money to grow, you have to be sure that the return, or interest, will be greater than the taxes you will pay and that your interest rate is always higher than the rate of inflation.

Ways to Make Your Money Grow

Savings Accounts: A deposit account that is offered by banks and credit unions. The bank lends your money to people needing loans. In return for using your money for loans, the bank pays you interest, though at a relatively low rate. You do have full access to your money and may withdraw it at any time.

Certificate of Deposit (CD): A special type of deposit account that pays a higher rate of interest than a regular savings account. The reason you are paid a higher amount is that you agree not to access the money for a specific amount of time, such as 3 months, 6 months, 1 year, and so on. If you do withdraw the money, you will pay a penalty.

Money Market Account: These accounts act like a combination of a checking and savings account. You earn interest on these accounts at a higher rate than on a standard savings account. Typically, you must maintain a minimum balance, or pay a fee if you go below it. You can write checks against the funds in this account, but there are limits as to how many.

Bond: When you buy a bond, you are lending money to a corporation or government. In return for loaning them money, you get a specified interest rate which, depending on the type of bond, is paid either at specific periods during the life of the bond or when the bond matures. These are generally long-term investments.

Mutual Funds: A mutual fund is an investment corporation that pools together investors' money to purchase stocks and bonds. The advantage offered by this type of investment is that it is diverse and not dependent on the performance of a single stock or bond. The mutual fund itself does the diversifying for you for much less of an investment than if you were buying each stock individually. A mutual fund is managed full-time by a Fund Manager who decides which stocks to buy and sell every day. Their job is to maximize the return from your investment while maintaining the appropriate risk level.

Stocks: By purchasing shares of a stock, you become part owner of the company. This does not mean you can walk in and use the executive washroom, though. If the company does well over time, the value of the stock should go up. If you sell the stock, you make a profit. Some companies pay its shareholders dividends, which are percentages of their earnings. Stocks are definitely a long-term investment.

The Earlier, the Better

Using the following example, let's look at how much money you would have by the time you retire. This example is based on your beginning a savings plan at different stages of your life. You would contribute $75 each month and earn a return of 11% on your investment (this is the historic rate of return for stocks). All figures are approximate.

Age	Years Investing	At Retirement
20	47	$1,160,223
30	37	$403,005
40	27	$136,321
50	17	$42,399

The future is uncertain. According to the actuaries (special statisticians) at the Social Security Administration, the Social Security Trust Fund should be depleted by 2042. People are living longer, and, if Social Security disappears, many are going to be in a tough spot.

The most important thing you can do to protect your future is to begin saving at a young age. As you can see in the example above, the difference in beginning to save at the age of 20 as opposed to 30 can be more than $750,000, even with a modest monthly investment. If Social Security does go away, that $750,000 would come in pretty handy, wouldn't it?

Learn now or pay later!

GOODPAYER.COM

Education For Financial Wellness

Learn Now or Pay Later? You bet!

Throughout this guide we have covered a lot of material, all of which will allow you to build a strong financial future. As you will see in the following examples, when it comes to your financial life, starting with a good base is very important. On the following pages you will see a hypothetical example of two young individuals who have the same education and opportunity to manage their financial lives. One, Sally Smith, uses sound financial principles, a good base. Her life flourishes because of the way she maintains her principles. The other, John Smith, is shaky from the start and his base crumbles as he progresses through life. Learning now will allow you to avoid paying later for bad decisions.

Take a good hard look at these examples and choose which path you would rather follow.

Learn Now ...

Sally Smith

Sally is a young adult who uses credit wisely. She realizes the importance of saving and begins at an early age by holding a part-time job while in school. Let's take a look at how her ability to budget and understand the importance of good credit affects her life.

Career

Sally lands a job within her chosen field at a starting salary of $45,000. Because of her sound money management skills, she is able to focus on her career. She is noticed for her hard work, dedication, and ambition. These traits allow her to advance her position and build to an annual salary of $100,000 per year.

Car

Sally purchases the new car she has always wanted. She is able to drive the car off the lot that day because she gets instant credit approval. The sticker price is $20,000. Because she manages credit wisely, her FICO Score is **720**. She gets an interest rate of **3.99%**. The monthly payment is **$451**. When the car is paid off in four years, she has paid **$1,671** in interest on the $20,000 loan.

With a lower payment on her car and excellent budgeting techniques, she is able to save for other purchases easily.

Home

Sally purchases her dream house. Because she manages credit wisely:

- she decides to put **$20,000** toward the purchase of the home
- she qualifies for a **$230,000** loan
- she gets an interest rate of **5.35%**
- her monthly payment is **$1,284.35**
- when the home is paid off in thirty years, she has paid **$462,367.**

She purchases $12,000 worth of furniture for her new house. She uses $6,000 from savings and finances the other $6,000. Because of her good credit, she can finance the amount at 0% for one year and pays it off within that time frame with no interest costs.

Vacation

Through a combination of wise spending, a strong savings discipline, and a lower mortgage payment, Sally is able to do more. She can put more toward retirement and even establish a vacation fund for a dream cruise to see the wonders of the world.

Retirement

Sally has more money available because she used credit wisely. She is able to put away **9%** of her income toward retirement. At retirement she has **$1,124,577** in her retirement account.

Sally has built up substantial savings over the years, as well as a good retirement fund. She is not only able to retire early, but also enjoys her golden years doing all the things she ever imagined.

... or Pay Later

John Smith

John is a young adult who **does not** use credit wisely. In school, he takes on a part-time job and uses the money he makes to buy DVDs, CDs, stereo equipment, and all sorts of other things. Let's take a look at how his inability to budget and understand the importance of good credit affects his life.

Career

John lands a job within his chosen field at the starting salary of $45,000. Because of his poor money management skills, his focus is more on his finances than on advancing his career. He becomes depressed about his finances, as almost half of all Americans are. He is noticed for his lack of productivity and absenteeism. These factors do not allow him to successfully secure promotions and he is only able to build to an annual salary of $70,000 per year.

Car

John purchases the new car he has always wanted. He has to wait days to get his car because his salesperson has a difficult time getting him financing. In the end, he eventually needs to get a cosigner to help with financing. The sticker price is $20,000. Because he **does not** manage credit wisely, his FICO Score is **550**. He gets an interest rate of **14%**. The monthly payment is **$547**. When the car is paid off in four years, he has paid **$6,234** in interest on the $20,000 loan.

Home

John cannot purchase his dream house. Because he **does not** manage credit wisely:

- he has to fill out TONS of additional paperwork and provide all sorts of financial documents to lenders
- the lender requires that he put **$10,000** toward the purchase of the home
- he has to settle for a less expensive home because he can only qualify for a **$200,000** loan
- he gets an interest rate of **11%**
- his monthly payment is **$1,904.84**
- when the home is paid off in thirty years, he has paid **$685,665.**

He purchases $12,000 worth of furniture for his new house, which he will finance. Because of his poor credit, he gets an interest rate of 21%. His monthly payment is **$371.59**. When the furniture is paid off in four years, he has paid **$5,836** in interest on the loan.

Vacation

John's financial position leaves him with very few options for a family vacation. His only true option is for a family road trip resembling *National Lampoon's Vacation*. It's a journey from one budget hotel to another.

Retirement

John has less money available because he **did not** use credit wisely. He is unable to properly save for retirement. At retirement he has **$0** in his retirement account.

John has spent much more money in interest and does not have a lot of savings. He needs to work part-time throughout retirement just to meet normal life expenses. John will fall into the **96%** of Americans who will retire financially dependent on the government, family, or charity. (U.S. Dept. of Health & Human Services)

Things you should know.

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Education For Financial Wellness

Glossary

Annual Fee: A bank charge for the use of a credit card levied each year, which is billed directly to the customer's monthly statement.

Annual Percentage Rate (APR): The interest rate reflecting the total yearly cost of the interest on a loan, expressed as a percentage rate.

Applicant: Any person who applies to a creditor for credit.

Balance Transfer: The process of moving an unpaid credit card debt from one issuer to another.

Bankruptcy: The following are the two forms of bankruptcies that can be filed by consumers and the one form that can be filed by companies:

> **Chapter 7**: The court would discharge most of the consumer's debts; however, the debtor's assets, excluding certain property exempted under federal and state laws, would be subject to liquidation to satisfy those debts. In other words, you could lose your personal property and even your home. This is reported as a bankruptcy on your credit report for seven to ten years.
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> **Chapter 11**: Reorganization proceedings, generally for business entities; the debtor maintains control of the business in Chapter 11, unless the court appoints a trustee.
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> **Chapter 13**: The bankruptcy court would restructure the repayment terms of the debtor's liabilities. The court would elect a trustee to disburse the excess income provided by the debtor to satisfy their debts. The

debtor still has to make payments to the creditors, and this is reported as a bankruptcy on their credit report for seven to ten years.

Billing Period: The period during which your charges are applied to your credit card. This is also the period used to calculate your balances and monthly finance charge.

Cash Advance: Using your credit card to obtain cash at an ATM. The cash is deducted from your credit limit, and sometimes carries a higher interest rate than purchases. Your card issuer may also charge you a fee for these transactions.

Charge Card: A card used to buy goods and services from the issuing merchant on credit, usually due in 30 days.

Charge-Off: An account that has been written off by the creditor as a "bad debt." Each creditor has different guidelines as to when they will actually charge off an account, but generally it occurs after 180 days. These accounts are reported to the credit bureaus and may stay on your credit report for a period of seven to ten years. Charged-off accounts will typically be sold to collection agencies.

Collateral: Property or any tangible assets (car, boat, jewelry, etc.) used as security to get a loan. Banks can lend money more easily if there is collateral, because they know if the consumer defaults on the loan, the lender can take the consumer's collateral.

Cosigner: Another individual who signs for a loan and assumes equal liability for the debt.

Credit Bureau (Credit Reporting Agency): A company that collects and sells information on how people handle credit. It issues credit reports that list how individuals manage their debts and make payments, how much untapped credit they have available, and whether they have applied for any loans.

Credit Limit: The maximum amount of charges a cardholder may apply to the account. The Consumer Federation of America suggests that people carry credit lines no greater than 20% of their gross household income. For example, people with a gross income of $50,000 would cap their credit lines at $10,000.

Creditor: Person or company to whom a consumer owes an outstanding debt.

Credit Rating: An evaluation by a creditor or credit bureau that reflects a debtor's past credit history based on their payment pattern.

Credit Reports: Documents that are reviewed by loan companies, banks, and other lenders, containing an individual's past credit history information, used to determine whether an applicant should be extended credit.

Debit Card: A bank card with direct access to a cardholder's account, usually a checking or savings account. The card acts like a check in that the money is withdrawn from the existing account balance. The withdrawal of funds is immediate with online debit cards and delayed a day or two with offline debit cards. Debit cards that carry the logo of either MasterCard or Visa can be used at any location that displays that network's logo.

Debtor: An individual who owes money.

Delinquent: Any account that is not paid in accordance with the payment guidelines stipulated by the creditor and agreed to by the debtor.

FICO Score: A credit score number is often called a FICO score, for Fair Isaac Company, the Minnesota-based company that developed the system on which it is based. The score is supposed to distill all the information in your credit report. Scores range from the 300s to about 850, with the vast majority of people falling in the 600s and 700s. The higher the score, the better.

Finance Charge: The charge for using a credit card, comprised of interest costs and other fees.

Grace Period: If the credit card user does not carry a balance, the grace period is the interest-free period of time a lender allows between the transaction date and the billing date. The standard grace period is usually between 20–30 days. If there is no grace period, finance charges will accrue the moment a purchase is made with the credit card. People who carry a balance on their credit cards have no grace period.

Gross Income: The amount you earn from working before taxes and other deductions are taken out.

Introductory Rate: The low rate charged by a lender for an initial period to entice borrowers to accept the credit terms. After the introductory period is over, the rate charged increases to the indexed rate or the stated interest rate. This is often called a “teaser” rate.

Judgment: A court ruling, stating that a debt is valid and must be paid. This can be used as a first step in obtaining a wage garnishment.

Late Payment Fee: A charge to a customer whose monthly payment has not been received as of the due date or stated deadline for payment, as shown on the billing statement.

Minimum Payment: The minimum amount a cardholder can pay to keep the account from going into default. Some card issuers will set a high minimum if they are uncertain of the cardholder's ability to pay. Most card issuers require a minimum payment of two percent of the outstanding balance.

Net Income: The amount of money left from your paycheck after taxes and other deductions are paid.

Overlimit Fee: A fee charged for exceeding the credit limit on the card.

Payoff: When a consumer pays an account balance in full.

Pre-Approval: A credit card offer that is "pre-approved" only means that a potential customer has passed a preliminary credit information screening.

Previous Balance: A method used by some card issuers by which finance charges are based on the amount owed at the end of the previous billing cycle.

Revolving Line of Credit: An agreement to lend a specific amount to a borrower and to allow that amount to be borrowed again once it has been repaid. Most credit cards offer revolving credit.

Secured Credit Card: A credit card that a cardholder secures with a savings deposit to ensure payment of the outstanding balance if the cardholder defaults on payments. It is primarily used by people new to credit or people trying to rebuild their poor credit ratings.

Secured Debt: A secured debt involves a specific item used as collateral to guarantee payment. If the payments cease, the creditor is entitled to the item designated as collateral.

Subprime Lender: A lender who charges a higher interest rate to compensate for potential losses from customers who may run into trouble or default. Subprime borrowers have either missed payments on a debt or have been late with payments.

Unsecured Debt: A debt that has no collateral linked to it. There is no specific item that is guaranteed. If the debt is not paid, the creditor must sue the consumer to try and collect.

Statistics

(Statistics from Nellie Mae's 2001 Credit Card Usage Analysis and 2002 National Student Loan Survey)

- 83% of undergraduate students have at least one credit card, a 24% increase since 1998.
- Median credit card balance is $1,770; a 43% increase above the median in 2000.
- 21% of undergraduates who have cards have high-level balances between $3,000 and $7,000, a 61% increase over the 2000 population.
- Graduating students have an average of $20,402 in combined education loans and credit card balances.
- Students double their average credit card debt—and triple the number of credit cards in their wallets—from the time they arrive on campus until graduation.
- After graduation, 55.5% of students felt burdened by their student loan payment.
- 54.4% of students stated that, with their current experience, they would have taken out fewer student loans.

(Statistics from ANN ARBOR, Mich., Nov. 4 (UPI) A University of Michigan researcher)

- Almost 50% of the respondents said that debt caused their stress level to be very high.
- 70% of respondents said that they think about their debt very often or constantly.
- Absenteeism and loss of productivity caused by depressed workers costs U.S. businesses as much as $24 billion a year.

Seeking Guidance

Unfortunately, many of us do not look far into the future, especially when we are young. When it comes to financial wellness, there is no better time than the present to prepare yourself for the challenges that lie ahead. A good way to start is to reach out to those around you. At times it is necessary to get advice and guidance from those who have "been there," whether they are family, a teacher or mentor.

When it comes to preparing yourself for the financial challenges you WILL face, a good place to start is with your parents. Believe it or not, they were your age once. They have made the transition from young adult to adult and have an abundance of knowledge they can provide to you. If none of these options are available to you, or you need specific advice that is beyond their experience, GoodPayer.com is always available to handle your questions.

As we mentioned earlier, the financial decisions you make now will affect you for the rest of your life. Now is the time to acquire all of the information necessary to help you achieve a bright future.

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