FACILITATOR'S GUIDE

FINANCIAL EDUCATION: PRINCIPLES AND PRACTICES

Related Videos

- Budgets in Place
  http://www.tv411.org/math/basic-math/video-budgets-place
- Credit Card Interest
  http://www.tv411.org/finance/earning-spending/video-credit-card-interest
- Rent to Own
  http://www.tv411.org/finance/earning-spending/video-rent-own

Financial Education: Principles and Practices was created by TV411, Education Development Center, Inc.

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TO THE FACILITATOR:

Welcome to *Financial Education: Principles and Practices.* This curriculum is designed to help individuals make a new start in managing their finances. It introduces some essential strategies for money management, such as developing a realistic spending plan and understanding the true cost of credit. It also provides an overview of some basic financial topics, such as savings instruments, insurance, and credit.

BEFORE THE SESSION:

In preparation for teaching a lesson, we suggest that you:

Read the Facilitator's Guide and the *Financial Education* magazine thoroughly.

Make sure you can define all terms in the glossary of the *Financial Education* magazine.

Check out the videos streamed on TV411.org that are noted in this guide. They may be useful for a whole-class presentation or for individual viewing.

Prepare anecdotes from real-world experiences to illustrate special scenarios, generate discussion, and maintain participant interest.

Make sure that you have the necessary equipment and internet connection to stream the video presentation.

TEACHING STRATEGIES:

The workshop design includes the following facilitator prompts:

Brainstorm Facilitator asks questions and writes and refines responses on the blackboard or a flipchart. Brainstorming will elicit non-sensitive personal experiences of the participants (such as warning signs of debt).

Discussion Facilitator generates conversation and provides information and illustrative anecdotes in his/her own words on the topic.

Activity Facilitator initiates an activity that enables participants to practice discrete skills related to the topic. Activities are based on a corresponding worksheet or fact sheet in the magazine. Some activities are done in the workshop; others are to be completed by the participants at home.

Tips Facilitator offers tips on the topic.

TEACHING TIPS:

- Define relevant vocabulary in context as terms come up in discussion and refer participants to the glossary at the back of the magazine.
- Do not offer legal advice. If participants ask questions about bankruptcy issues, refer them to their lawyer, trustee, or reputable community organizations.
- Make no assumptions about what your group knows/doesn't know. Adult learners have varying backgrounds and experiences. Before you explain a term or idea, try to get the answer from participants first. Gently correct any errors or misunderstandings.
- Be positive and supportive. Help participants understand that you're offering the tools they need to use credit wisely.

Vocabulary

SMART
Short-term goal
Long-term goal

I. Setting Financial Goals

- Participants formulate short- and/or long-term financial goals that are "SMART": Specific, Measurable, Attainable, Realistic, and Timed.

Discussion: What are the benefits of setting financial goals? [provides focus and motivation; establishes control and commitment; enables you to track progress (e.g., which goals did I meet? which remain? which need to be adjusted?); helps you spend your time, money and energy on what's most important; etc.]

In your experience, what are some of the differences between financial goals that you've reached and goals that you haven't reached? [Try to elicit answers that point to setting a SMART goal.]

Activity: Give participants a few moments to think of one financial goal. Then question them about the SMART components of their goal, e.g., did you include a monetary figure in your goal? a deadline? can you realistically achieve your goal by that time? etc. You will likely discover that participants' goals are too general. From here, explain that most successful goals have certain characteristics. Refer participants to the worksheet "Setting a SMART Financial Goal."

Use a financial goal shared by all participants (i.e., to save more money) to model the SMART process as outlined in the magazine. Differentiate between short- and long-term goals. Use the blackboard or flipchart to illustrate how to set a SMART goal, either by restating the goal with increasing detail or by writing it once and editing it as you go. For example:

Starting goal: To save more money.
Specific: I will save money for tuition for a computer-training course.
Measurable: I will save $300 for tuition.
Attainable: I will save $25 from each semimonthly paycheck, for a monthly total of $50.
Realistic: Yes. I have enough money to save the $50, as well as pay my other expenses and set aside money for emergencies.
Timed: Six months.
Final goal: To save $300 to pay for a computer-training course by setting aside $25 from each bimonthly paycheck for six months.

Note that savings strategies will be covered in the next part of the workshop.

Discussion: What should you do when you don't meet a goal? [Evaluate the goal: Was it too ambitious? too general? too hard to keep track of? out of line with your resources and needs? etc. Then, redefine it, making it even more SMART.]

Tip

A single long-term goal can include several short-term goals; long-term goals require discipline and commitment over an extended period of time.

II. De veloping a Monthly Spending and Savings Plan

- Participants differentiate between net and gross income.
- Participants learn how to track and categorize expenses.
- Participants acquire tools for developing and sticking to a budget (spending and savings plan).

Discussion: Ask how many paricipants have a household budget or spending and savings plan. Does it help them keep track of their income and expenses? Explain that a spending and savings plan tells you how much you have, how you're spending it, and whether you need to spend less (or make more) to meet your financial goals. Monitoring your expenses and spending habits closely is the first step to controlling your financial future.

Activity: Distribute "Make a Plan" and "Monthly Spending and Savings Plan" worksheets. Go over the terms and procedures on the following pages.

Vocabulary

Actual expenses
Budget
Comparison shopping
Fixed expenses
Gross income
Monthly average
Net income
Payroll deductions
Periodic expenses
Planned expenses
Spending and savings plan
Variable expenses

Income and Expenses

Note that the template includes only a few income and expense categories to get participants started; the rest are to be filled in at home.

Discussion: Differentiate between gross and net income and specify that the latter is important in a spending and savings plan. Stress that an effective plan starts with an accurate calculation of monthly income and direct participants' attention to this portion of the "Monthly Spending and Savings Plan." List possible sources of income. Note that participants with variable income will have to calculate a monthly average. [See activity below.]

Brainstorm: Types of expenses. Categorize participants' responses in three columns on the blackboard or flipchart, and at the end, label columns "fixed," "periodic," and "variable." Define these terms and refer to the list of expenses in "Make a Plan."

Tracking

Discussion: Explain that there are two parts of the process of tracking spending:

1. Making an initial estimate, based on past records, of how much you and your family spend. Enter an estimate for each category under "Planned." If these amounts add up to more than your total income, you will need to cut back on spending and adjust the figures accordingly.

2. Managing spending on a monthly basis. Over the next month, you will enter your family's total monthly spending in each category under "Actual." If you are spending more than you planned, you will need to trim your expenses to meet your goals.

Emphasize that a workable plan is an accurate one and that both "planned" and "actual" amounts must be based on records, receipts, canceled checks, and bills. Elicit ideas for tracking expenses (recording expenditures and payment due dates in a diary or calendar, keeping a detailed checkbook register, reviewing your credit card statements, etc.) and organizing receipts (using accordion or file folders, envelopes, etc.). Note that in an age when debit cards and ATMs make cash available 24-7, it's especially important to keep track of how you're spending your withdrawals.

Activity: Refer to "Daily Tracker for Variable Expenses" worksheet and review the process for tracking variable expenses day by day, for at least one month. Acknowledge that tracking expenses for a full month will be a challenge, but that it's worth doing, since spending, especially on expenses such as transportation and eating out, can fluctuate from one week to the next. Note that they'll need to track expenses for a full month, not just four weeks.

Tip

A spending and savings plan is a work in progress, so don't worry if yours doesn't come out right at first. Each month when yo sit down to see how you spent your money, you'll find expense categories without enough mony and others with too much. Based on these findings, refine our estimates until you have a true picture of your spending patterns. You may also decide that although you kept within your allowances, you did not save as much as you wanted and you will need to trim expenses even more.

Tip

If you're feeling overwhelmed by the number of expenses, begin by tracking one or two for the first month to get into the habit. Ultimately, however, you'll have to track all your expenses to get a complete picture of your spending.

Lesson 2: MONEY MANAGEMENT II

Activity: Calculating monthly averages. Explain that the process for estimating periodic and fixed expenses is not difficult. Some expenses, such as cable, are billed monthly; estimates for these expenses can be based on a single bill. For those that are billed less often, such as insurance, you'll need to calculate a monthly average. Show how this is done on the blackboard or flipchart.

Trimming

Activity: Refer participants again to "Monthly Spending and Savings Plan" worksheet. Explain the next step in money management—subtracting the actual from planned expenses to determine under- or overspending.

Brainstorm: What's the difference between "needs" vs. "wants?" Elicit examples of each.

Discussion: Tell the story of a man who bought two sodas a day at work from a vending machine for $1.50 a can. By the end of the month, he had spent $60! He eventually realized that he could cut this expense by two thirds—a savings of $40—by buying the soda by the case and taking it to work.

Brainstorm: If you're spending too much, how do you cut back on both needs and wants? [packing a lunch, comparison shopping, using coupons, not carrying credit cards in your wallet, resisting nonessential purchases, taking advantage of free entertainment, etc.]

Bonus Video: Encourage students to watch the Budgets in Place video at http://www.tv411.org/math/basic-math/video-budgets-place and to check out the related web lessons.

Tip

If you don't have six months' or a year's worth of bills on hand, work with the ones you do have. If your figures are off base, recalculate the averages when you've collected more bills.

Tip

Set aside the monthly portion of the total amount needed for periodic expenses so that you'll be ready when the total payment is due. To avoid paying periodic expenses late, mark the due dates on a calendar.

Tip

Keep good financial records.They will help keep you on track to reach your financial goals. Records to keep include pay stubs, W-2 forms, credit card and bank statements, home and property records, insurance records, and receipts for large purchases and donations. Store them for a minimum of three years in a safe place.

III. Creating a Safety Net and Saving for the Future

- Participants recognize the value of saving for periodic expenses and short- and long-term financial goals.
- Participants review savings and investment options.
- Participants review the different types of insurance.

Discussion: Refer participants again to the "Monthly Spending and Savings Plan" worksheet. Point out "Savings" under "Fixed Expenses." Explain the two types of savings: 1. a "set-aside" account for periodic payments and anticipated expenses, such as roof repair, and emergencies, such as a root canal; and 2. a "nest egg" account to meet your long-term financial goals.

Activity: Guide participants through the "Savings Choices" worksheet. Discuss which tools are appropriate for which types of savings goals, based on interest, risk, and availability of funds.

Brainstorm: Types of insurance and how insurance offsets potential and catastrophic financial losses. [auto, life, disability, property, medical, etc.] Guide participants through the "The Facts on Insurance" worksheets.

Discussion: Acknowledge how difficult it is to pay for something that you may never need to use and how tempting it is to skip insurance and hope for the best. Also note that auto insurance is required by law.

Vocabulary

CD (certificate of deposit)
Checking account
Deductible
Fine print
Interest
Insurance
Premium
Risk
Savings account
Service charge

Tip

Pay yourself first. This means figuring out how much you need to set aside to meet your savings goals and adding this money to your spending and savings plan before you pay your other bills.

Tip

If you're having trouble just making ends meet, start small. The habit of saving is as important as how much you save. Return to the story of the man with the expensive soda habit. Saving $40/month adds up to almost $500/year. If he puts that money regularly in a savings account with interest, he'll end up with more than when he started.

Tip

Insurance policies are notoriously tricky, so read the fine print. For example, make sure that your homeowners insurance will protect you in case of wind *and* flood damage. Also, be sure that it provides you with replacement cost, not market value coverage, if affordable.

I. Warning: Signs of Debt Trouble

- Participants identify the warning signs of debt trouble.
- Participants identify steps to take if debt is increasing.
- Participants review the pitfalls of debt consolidation companies.

Brainstorm: What are the warning signs that a person is getting into more debt than he or she can handle? Write responses on the blackboard or flipchart.

Possible responses:

Bouncing checks.
Having no or too little savings.
Not knowing how much you owe.
Making minimum payments on credit cards.
Skipping some bills to pay others.
Taking cash advances on your credit card to pay other bills.
Using credit cards for things you used to buy with cash, such as groceries.
Using increasing amounts of your total income to pay off debts.
Increasing your balance by the same amount (or more) the month after you've paid your credit card bill.
Reaching the credit limit on your credit cards.
Borrowing from one card to pay the other.
Relying on "float" in order to pay your bills; for example, you write a check in the hope that you'll be able to cover it by the time it clears the bank.
Being denied when you try to make a purchase with a credit card.
Being denied credit.
Getting calls or notices from debt collection agencies.
Lying about or hiding what you're spending to family and friends.

Vocabulary

Assets
Debt consolidation
Fine print
Float

Lesson 4: WISE USE OF CREDIT I

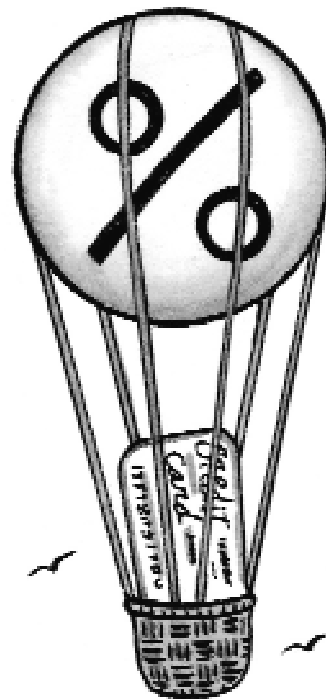
Brainstorm: Affirm that participants should never to take on long-term debt they can't afford. Ask them to name three basic options available to people who realize their debt is getting out of hand. Write responses on the flipchart and elicit examples of how to accomplish each:

- Increase income (e.g., get a second job, sell assets)
- Cut spending (e.g., track expenses, figure out which ones you can reduce, make a realistic spending and savings plan and stick to it)
- Talk to creditors (e.g., negotiate a payback plan or explore options such as lowering or temporarily suspending the interest rate)

Discussion: Note that nowhere in the above list does it mention "take on more debt." Some people think they can solve their problems by turning to debt consolidation companies that promise easy fixes. But consolidating debts into one big loan could actually cost more money. Before signing for a debt consolidation loan, READ THE FINE PRINT: understand the interest and fees charged for the debt consolidation service. Then, DO THE MATH: compare the costs of the consolidated loan with the total payments you're making now to your various creditors. A consumer might save money by being better organized and negotiating with creditors independently.

Tip

The bottom line is: Always know what you're paying for credit. It's never free.



II. Credit and Its Costs

- Participants recognize how to assess the true cost of credit.
- Participants identify different types of credit and loans.
- Participants recognize types of high-cost and predatory loans.

Discussion: Ask participants if they know another word for credit [debt, loan, borrowing money]. Write on the blackboard or flipchart: getting credit is borrowing money.

Note that when you borrow money, you'll be charged something for the service. What you always need to know is the true cost of that credit: what you'll have to pay back on top of the loan amount.

Make sure participants can distinguish between "needs vs. wants." Whenever you borrow money, for whatever reason, make sure the choice is worth the money and the time it will take to pay off the loan. Before you borrow, ask yourself: Do I really need this? Do I need this now? Or, can I save up for it and pay in cash? Acknowledge that sometimes you may genuinely have no alternative: if that's the case, make sure you understand all the terms and costs of borrowing.

Brainstorm: Different forms of credit. Include long-term loans, such as mortgages; consumer installment loans, such as car loans; and credit cards. Differentiate between secured credit (a loan requiring collateral) and unsecured credit (a loan without collateral).

Discussion: Refer participants to "The Facts on Credit" worksheet. Note that all forms of credit share these features:

- Loan terms: the interest rate charged, penalties, down payments required, and any other fees. Differentiate between different types of interest: fixed, variable, compound. Note types of penalties and types of fees (service charges, late charges, etc.) to be on the lookout for. The lower the interest rate and fees and the more lenient the terms, the better the deal.
- Length of loan: the time, in weeks, months, or years, it takes to repay the loan. The more time, the more interest you'll pay.

Vocabulary:

APR
Collateral
Consumer installment loan
Credit card
Down payment
Home loan
Interest (fixed, variable, compound)
Mortgage
Predatory lending (payday loans, pawnshop loans, and other types of credit scams)
Secured loan
Unsecured loan

Lesson 5: WISE USE OF CREDIT II

Video

"Rent-to-Own," which illustrates what "cost of credit" means.

Introduce the "Rent-to-Own" video (http://www.tv411.org/finance/earning-spending/video-rent-own) by saying that the clip will illustrate what is meant by the cost of a loan. Play video. Afterwards, ask participants if the main character, "Question Man," made the right decision. Explain the math behind his choice, as discussed below.

Distribute "The Real Cost of Credit" worksheet. Focus attention on the advertisement for a washing machine. The cash price (or loan) is $650; the terms are $22 a week; the time is 24 months.

Activity: Using the blackboard or flipchart, walk participants through the math. Refer them to "The Real Cost of Credit" worksheet and invite them to help you plug in the numbers in Part A.

1. Translate months into weeks (24 months = 2 years = 104 weeks @ 52 weeks/year).
2. Multiply the total weeks by the weekly payment ($22 x 104 weeks = $2288).
3. Subtract the cash price ($650) from the final payment figure ($2288). The difference—$1638—is the interest paid on the loan.

Ask if anyone can guess what the interest rate is on this loan? [about 168%.][1]

Note that in rent-to-own deals, the company may have the right to repossess the item if you miss a single payment.

Refer to the graph in the worksheet. Note the amount it would cost to charge the washer to a credit card and the time it would take to pay it off if you paid only the $15 minimum, at 17.99% APR, each month. What if you paid $30 a month at the same APR? What if you paid $95 each month (the amount you'd pay with the rent-to-own deal)?

Note that saving for the washer would save time and money, even if you factor in a few months more of spending money at the laundromat.

Discussion: Remind everyone to steer clear of credit traps, or predatory loans, whose interest rates (as in the "Rent-to-Own" scenario) are exorbitant. Give examples, such as payday loans (available on the internet, too), tax refund loans, pawnshop loans, auto pawn or title loans, cash advance loans. Interest rates on these types of predatory loans have been found to range from 240% to 600%.

Tip

Remember that loans are a product, like TV sets. You can comparison shop for one with lower interest and better terms. The key is reading the fine print and doing the math.

[1] Principal Amount: $650.00
Payment amount: $95.00 per month
Interest rate: 167.803%
Interest compounding: Monthly
Total payments: $2,280.02
Total interest: $1,630.02

III. Evaluating Credit Card Deals

- Participants assess the true cost of credit by reading the fine print in credit card offers and understanding the terms.

Discussion: Elicit from participants the two main components of a loan: terms (interest, penalties, and other fees) and the time it takes to pay back the loan.

Ask how many participants think of credit cards as "loans." [Many may describe it as a convenience, but in fact, credit cards are the most common cause of financial difficulties.]

Briefly talk about the types of credit cards [bank cards, store cards, etc.]. Ask how many participants are aware of the various terms in credit card agreements—such as APR, penalties, and the other fees that with vigilance can be avoided.

Activity: Initiate an activity on reading the fine print in credit card brochures. Distribute the "Pick a Card" worksheet.

- On the flipchart, make three columns. Label the two columns to the right "Handy" and "Lucky." **As participants answer the following questions, put a check mark under the appropriate credit card:**

- Which has the lowest APR? [In the first column, write "APR." Handy gets teh check mark.]

  See if participants are aware that Handy's introductory rate of 0.00% rises to 13.99% after 6 months, making it equal to the Lucky Credit Card.

  Briefly review how compound interest works: it is interest calculated on both the principal (the amount of the loan) and the accumulated interest.

  Note that there are default APRs and explain when they apply. Differentiate them from universal default provisions.

- Is the interest for a cash advance the same as the APR? [No, it's higher.]

- Which card charges the lower rate for cash advances? [In the left column, write "cash advance." Lucky at 18.99% gets the check mark. Handy charges three percentage points more. Note that it's smart to avoid cash advances except for an emergency, because the interest rates are exorbitant.]

- Which card has a universal default provision? [In the left column, write "universal default provision." Lucky gets the check mark.]

Vocabulary

Adjusted daily balance
Annual fee
Average daily balance
Balance
Compound interest
Default
Free period/grace period
Introductory rate
Finance charge
Fine print
Late charge
Minimum payment
Over-limit fee
Penalties
Principal
Universal default provision
Transaction fee

- Define and compare grace periods. Which card has a more generous grace period? [In the first column, write "grace period" and check off Handy, at 25 days—as long as you've paid your balance in full! Lucky starts charging interest after only 20 days.]

- Compare the annual fees. Which card charges a lower one? [In the first column, write "annual fee" and check off Lucky, which charges none. Handy charges $25.]

- Define and compare late fees. Which card has lower ones? [In the first column, write "late fee" and check off Handy. Though they're about the same, Lucky charges $5 more for balances of $100 to $1,000.]

- Define and compare over-limit fees. Which card has lower ones? [In the first column, write "over-limit fee" and check off Handy, which charges $15 on balances up to $1,000; thereafter $35. Lucky charges a flat $35.]

The point of the exercise is to illustrate that borrowers should always read the fine print and know the terms of the loan: what fees and penalties apply under which conditions, such as going over the limit, taking a cash advance, etc. Note that the credit card terms are subject to change and consumers should keep up with the changes.

Discuss: Many people, epecially those who have experienced a bankruptcy, are targeted by predatory credit card lenders. You can protect yourself by "opting out" of credit card offers. The Fair and Accurate Credit Transaction Act requires banks that mail pre-screened credit card applications to include a bold type notice on page 1 explaining how to get off their mailing list for two years or permanently. Call 1-888-5OPTOUT or visit www.optoutprescreen.com to opt out. Even if you opt out permanently, you can opt in again if you change your mind. To stop receiving credit card solicitations by phone, visit the National Do Not Call Registry at www.donotcall.gov.

Remind participants that even if the credit card company says they qualify for a card, it doesn't mean they can afford to use it. Refer participants to "Can you Afford It?" worksheet. Review the process for calculating debt-to-income ratio.

Bonus Video: Encourage students to watch the Credit Card Interest video at http://www.tv411.org/finance/earning-spending/video-credit-card-interest and to check out the related web lessons.

Tip

While you're learning new financial habits, consider limiting yourself to a single credit card so you can track your charges easily. It's like having your own debt consolidation plan. Try to pay the monthly balance in full. If you can't do that, pay at least 10% of the balance, as long as it's above the minimum payment, so that you're paying off a portion of the principal each month.

Tip

Don't let the "convenience" of a credit card lead you to break your spending and savings plan. Use cash for small purchases, such as meals, to manage your funds better.

Tip

When you've got one card under control, you may consider whether there may be benefits to obtaining one or two more. Three cards in good standing can help document your creditworthiness. However, these should be non-store credit cards, such as MasterCard, Visa and American Express. Store cards may charge the highest interest and encourage unnecessary purchases.

IV. Credit Ratings

- Participants learn the basics of a credit report, review how to dispute and repair credit reports, and find out how to obtain a free report once a year.

Discussion: Ask around the room to see who can explain the meaning of "credit report."

Activity: Refer participants to "To Your Credit" worksheet. Note the information a credit report contains. [personal information, such as name, birth date, social security number, recent home addresses, employment history; payment history on credit accounts; a list of creditors who have recently requested copies of your report; public records, such as bankruptcy, foreclosure, and court judgments] Note that credit reports **do not** contain information on race, religion, medical history, political affiliations, checking/savings accounts, or criminal records.

Discussion: Who has the right to see the credit report? [lenders, such as banks, mortgage companies, and credit card companies; insurance companies; government agencies, such as those charged with collecting child support or determining if you qualify for public assistance; landlords under some circumstances; and employers, but only with your permission]

- How long does negative information stay on the report? [Most negative information stays for 7 years, while some student loan information can remain for more than that; bankruptcy can remain for 10 years.]
- Who are the "Big Three" credit reporting agencies? [Equifax, Experian, TransUnion. Contact information can be found on the worksheet.]
- How can you get a credit report and how much it does it cost? [Mention that everyone's entitled to one free report each year from each of the Big Three companies. Additional copies can be obtained for free if credit has been denied in the past 60 days; if you're unemployed and will be applying for a job within the next 60 days; if you receive public assistance; and, if you think your report contains inaccurate information due to fraud. Explain how to obtain the reports for a fee in other situations.]

Vocabulary

Credit agency/credit bureau
Credit repair
Credit report
Credit score

Lesson 7: WISE USE OF CREDIT IV

Activity: Walk participants through the "Sample Credit Bureau" worksheet. Ask questions to see if participants understand the format and contents. [For example, how many credit accounts does Jane Doe have? Has Ms. Doe ever filed for bankruptcy?]

Discussion: A large number of credit reports have inaccurate information that needs to be corrected. Serious errors may result in a negative credit decision. What can consumers do to dispute and/or correct errors in their reports?

Discussion: Briefly explain a credit score. [a number representing how great or little a credit risk you are. The higher the score, the better. Scores tend to range from 300 to 850. The most common score, FICO, is supposed to be based only on information in your credit report. Note that credit scores are not provided for free; explain how to get one from a credit report agency.]

Note that, by law, your credit score cannot be affected by your race, religion, sex, age, national origin, receipt of public income or assistance, or marital status.

Explain that in the final portion of the workshop, participants will learn about various laws that protect their rights to fair credit.

Tip

You can request correction of errors on your credit report by yourself. Invite questions about any other aspects of credit reports.

Tip

Avoid credit repair agencies that promise to fix your credit report. They'll charge you a bundle and sometimes get you into legal trouble.

- Participants learn about public and non-profit resources for consumer assistance regarding credit.
- Participants review applicable consumer protection laws and regulations.

Your Rights as a Consumer

Discussion: Participants need to be aware of the laws in place to protect them should they need to rebuild.

Brainstorm: What can you do to avoid becoming a victim of identify theft? Refer participants to the section on Identity Theft in "The Facts on Credit Reports" worksheet.

Activity: Refer participants to the "Your Rights and Resources" worksheet. Review the list of laws and resources in the magazine. Also, mention any local organizations that participants might find helpful should they need to repair their credit histories.

Discussion: If you ever feel you've been treated unfairly where credit is concerned, these laws can help. So can various government agencies and community organizations. Mention reputable community-based organizations where participants might be able to get assistance regarding credit-related problems.

Vocabulary

Consumer Protection Acts
Equal Credit Opportunity Act
Fair Credit Reporting Act
Fair Debt Collection Practices Act

Glossary

Actual - refers to how much you *actually* spent or earned in each category in your spending and savings plan. Compare these amounts to how much you planned to spend or earn.

Annual fee - a fee charged once a year for the right to use a credit card.

Annual Percentage Rate (APR) - the total cost of borrowing money, including interest, fees and other charges, shown as a yearly percentage. The lower the APR, the less you will pay.

Balance - the total amount due to the credit card company each month.

Balance computation method - the way interest is calculated on credit. Some methods cost less than others:

> **Adjusted daily balance** - interest is charged on the balance after adjustments are made for payments and credits during the billing period. Interest charges are usually lower if the credit card company uses this method.
>
> **Average daily balance (excluding new purchases)** - interest is charged on the previous balance only, not counting new purchases made since the last payment.
>
> **Average daily balance (including new purchases)** - if your card has a balance due, new purchases will be charged interest.

Collateral - property or assets you own that are pledged as security to satisfy a debt.

Consumer installment loan - a short-term loan used to pay for personal items like a car or computer.

Credit - money you borrow to pay for things.

Credit agency/credit bureau - a company that compiles information about an individual's credit history from both public and private sources.

Credit card - a card issued by a bank or other lender, such as a store, that can be used like a short-term loan to buy products or to borrow money. Terms of the loan vary according to the type of card.

Credit repair - steps a person can take to correct errors in a credit report, resolve disputes about the report, or improve his or her credit history.

Credit report - a detailed record of the money a person has borrowed, repaid, or failed to repay.

Credit score - a rating of an individual's credit risk based on his or her credit report. Late payments, reckless credit card use, and other negative factors may contribute to a low score. Lenders may use the score to decide whether to lend money to a customer, and how much interest to charge.

Deductible - amount the insurance policyholder must pay before the insurer pays.

Default - failure to make debt payments as agreed or to comply with other conditions of a credit agreement.

Down payment - amount in cash you may have to deposit with the creditor when you borrow money for a purchase.

Finance charge - the cost of credit, including interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.

Fine print - the section of a contract or agreement, usually in small typeface, that contains important information about the terms of the agreement.

Fixed expenses - expenses that occur every month and do not change much, such as mortgage payments or rent.

Float - the amount of money or time you have between deposit and payment of a check, or between purchasing an item on credit and having to pay for it.

Free period/grace period - the number of days you have to pay your balance before you are charged interest. Most creditors allow about three weeks for you to pay your bill interest-free.

Gross income - total earnings before taxes and other deductions are taken out.

Guarantor - an individual or entity that is responsible for repaying a debt if the borrower defaults.

Interest - the fee charged for borrowing money. When you deposit money in a savings account, the bank pays you interest for the "loan." When you borrow money, you pay interest to the lender.

Fixed interest - an annual interest rate that does not change.

Variable interest - an annual interest rate that changes according to the lending agreement.

Compound interest - interest calculated on the principal in addition to the accumulated interest from past periods.

Introductory rate - a low rate of interest on a credit card or other loan that will be in effect for a limited time, and then increase.

Late charge - an extra fee or penalty you are charged for sending your payment after the due date.

Long-term goal - a goal that requires three or more years, or perhaps even a lifetime, to be accomplished.

Minimum payment - the smallest amount the credit card company will allow you to pay each month without charging you a penalty.

Monthly average - typical monthly spending. Calculated by adding up a month's worth of expenses within a category and dividing by the number of items in the catagory.

Mortgage - a contract in which the borrower pledges property to the lender to ensure payment of a home loan.

Net income - what's left of your earnings after taxes are taken out; in other words, your take-home pay.

Over-limit fee - an extra fee or penalty you are charged for going over the total amount you are allowed to charge to a credit card.

Penalty - an extra fee you are charged for violating the terms of a lending agreement.

Periodic expenses - expenses that occur less frequently than once a month, such as car and home insurance, and property taxes.

Planned - refers to the amounts of money you expect to receive and spend in each category in your spending and savings plan—these are estimates only.

Predatory lending (payday loans, pawnshop loans, auto pawn or title loans, cash advance loans, tax refund loans, rent-to-own deals, some subprime home mortgages) - credit traps in which the borrower is charged an exorbitant interest for a short-term loan. Avoid these!

Premium - the cost of an insurance policy paid on a regular basis.

Principal - the amount of a loan or investment on which interest is calculated.

Savings account - a bank account that holds your money and provides interest.

Secured loan - credit that requires something of value as collateral in case the debt isn't repaid.

Service charge - a fee charged by a bank, credit card company, or other savings and investment agency.

Short-term goal - a goal that can typically be achieved within one to three years.

SMART goal - a Specific, Measurable, Attainable, Realistic, and Timed goal.

Spending and savings plan - a budget used to track and control income, expenses, and savings. As your financial goals and circumstances change, so must your spending and savings plan.

Unsecured loan - a loan without collateral.

Universal default provision - a statement allowing a credit card company to raise a customer's APR based on unrelated debts, such as a late mortgage payment.

Variable expenses - expenses, such as groceries, entertainment, and clothing, whose exact amounts and timing are hard to predict. These expenses are the easiest to reduce when you're trying to save money.