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.

web: TV411.ORG
email: TV411@EDC.ORG

Special thanks to the following individuals and organizations who contributed their time and expertise in the development of the *Financial Education: Principles and Practices* curriculum:

Karen Gross, Susan Block-Lieb, Keith Walsh
Coalition for Consumer Bankruptcy Debtor Education

The Honorable John C. Ninfo, II
The Credit Abuse Resistance Education (C.A.R.E) Program

Lawrence A. Friedman
eCAST Settlement Corporation/Bear Stearns

Lee Bowman
Federal Deposit Insurance Corporation (FDIC)

Rick Dobson, Tommye White
Money Management International (MMI)

Sarah Ludwig, Claudia Wilner
Neighborhood Economic Development Advocacy Project (NEDAP)

Marion "Al" Olson, Jr., Sandi Martin
Trustees' Education Network (TEN)

Lance Palmer
University of Georgia

Melyssa Barrett, Rosetta Jones
Visa, U.S.A., Inc.

U.S. Department of Justice, Executive Office for U.S. Trustees
Steven D. Dillingham, Acting Principal Deputy Director
Patricia D. Santos, Project Manager

Financial Education: Principles and Practices was created by
TV411, Education Development Center, Inc.
Alex Quinn, Project Director
Lora Myers, Curriculum Director
Jennifer Dorsen, Curriculum Writer
Tamar Kupiec, Curriculum Writer
Laura Perry, Curriculum Writer, Copy Editor
Shelley Ruchti, Production Manager
Kyle Cheseborough
Iliana Delgado
Edith Love
Laura Breeden
Vivian Guilfoy
R studio T, NYC, Art Direction and Design

WELCOME TO FINANCIAL EDUCATION: PRINCIPLES AND PRACTICES

This magazine introduces some basic strategies for money management, such as developing a realistic spending plan and understanding the true cost of credit. It also provides an overview of related financial topics such as savings instruments, insurance, and credit. The best money management plan is the one that best helps you reach your financial goals. We hope this magazine will help you develop a plan that works for you.

WHAT'S INSIDE:

SETTING A "SMART" FINANCIAL GOAL

If you know exactly what you want to achieve and precisely how and when you're going to do it, you're much more likely to succeed. Setting a financial goal that is Specific, Measurable, Attainable, Realistic and Timed (SMART) is the first step forward.

To get started, jot down a goal. (Having trouble? Imagine you had some extra money. How could you best use it? Is there a debt you'd like to repay, an opportunity you wish you had or a future event you'd like to plan for?)

____

Next, make it SMART by following these five instructions:

Specific: State exactly how you will use the money. (For example, make a down payment on a house.)

____

Measurable: Include an exact dollar amount.

____

Attainable: Figure out how the goal can be reached by breaking it down into small amounts that work with your needs and resources. (For example, how much can you reasonably save each month?)

____

Realistic: Stop and think. Is your goal realistic? Why or why not?

____

Timed: State when the goal will be reached. (Again, do the math and make sure your target date is realistic.)

____

Finally, restate the goal so that it includes the SMART information.

____

____

____

____

MAKE A PLAN

A monthly spending and savings plan, or budget, will tell you how much you have to spend, where you're spending it and what changes you need to make in order to meet your spending and savings goals. Customize it to meet your needs and resources—your plan won't look like anyone else's. Remember, a spending and savings plan is flexible. When your life changes, it will too.

A Quick Look at How to Use a Monthly Spending and Savings Plan

Using the form on pages 4 and 5:

1. Estimate all monthly income and enter under "Planned."
2. Estimate all monthly expenses and enter under "Planned."
3. Track all income and spending each month. At the end of the month, enter the totals for each category under "Actual."
4. At the end of every month, fill in the "Difference" column by subtracting the actual amounts from the planned ones to see exactly where you've over- or under-spent and whether or not all your expected income came in.
5. Evaluate and revise your plan. In a few months, you'll see where your money's going. Are you spending too much and saving too little? If so, where could you trim expenses?

Three Kinds of Expenses

There are three kind of expenses: Fixed, Periodic and Variable. These categories can help you plan for and track every expense, no matter how small or infrequent. The success of your spending and savings plan depends on being thorough.

Fixed expenses occur every month and do not change much. For many people, these may be fixed expenses:

Rent/Mortgage	Water	Internet
Car Payments	Telephone	Cable
Day Care/Elder Care	Cell Phone	Health Insurance
Loan Payments	Savings	Retirement Contributions

Periodic expenses occur less frequently than once a month. For most people, these are usually periodic expenses:

Life Insurance	Property Taxes/Insurance	Tuition
Car Insurance	Quarterly Taxes	

Variable expenses change from month to month. For many people, these may be variable expenses:

Medical Expenses	Car Repairs	Laundry
Groceries	Transportation	Personal Care
Meals Out	Home Maintenance	Books/Newspapers/ Magazines
Gas	Household Furnishings	Travel/Vacations
Oil	Clothing	Entertainment
Electricity	Pets	

Tip

Keep good financial records. It will help keep you on track with reaching your financial goals. Records you should keep include pay stubs, W-2 forms, credit card and bank statements, home and property records, medical records, insurance records, and receipts for large purchases and donations. Records should be kept for a minimum of three years. Remember to store your records in a safe place.

Which Category?

Not everyone's expenses can be categorized the same way. For example, if you buy a monthly train pass, transportation is a fixed expense; if you're paying for gas and tolls, it's variable. Use these categories in a way that makes sense to you. And remember, every category may have expenses that can be trimmed.

For Fixed and Periodic Expenses

1. **To calculate average monthly spending for fixed expenses that change, add up six months of expenses and divide by six.**
2. **For periodic expenses, add up a full year's worth and divide by 12.**

MONTHLY SPENDING AND SAVINGS PLAN

Use this form to create your own monthly spending and savings plan. Fill in any expenses listed on page 3 that apply to you and any other expenses not listed. Add other sources of income, too.

____________________________, __________________

Month Year

Income	Planned	Actual	Difference
Job 1 Net Income			
Job 2 Net Income			
Commissions/ Tips/Bonuses			
Unemployment/ Disability			
Retirement/Pension			
Child Support/ Alimony			
Social Security			
Interest/Dividends			
Scholarships/ Financial Aid			
Rental Income			
Gifts			
Total Income			

Fixed Expenses	Planned	Actual	Difference
Savings			
Rent/Mortgage			
Health Insurance			

Variable Expenses	Planned	Actual	Difference
Medical Expenses			
Groceries			
Meals Out			
Gas			
Transportation			
Car Repairs			
Periodic Expenses	**Planned**	**Actual**	**Difference**
Property Taxes/ Insurance			
Life Insurance			
Total Expenses			

DAILY TRACKER FOR VARIABLE EXPENSES

To make your spending and savings plan as useful as possible, you'll need to keep careful track of your spending. Variable expenses change from month to month, and you won't get a bill in the mail telling you how much you spent on, say, groceries and gas. You'll have to come up with the monthly totals yourself. Here's how:

- Save all your receipts or carry a notebook or calendar around with you and write down every purchase you make, no matter how small.
- At the end of the day, total the amounts in each category and record them in the tracker.
- At the end of the week, total your spending in each category.
- Repeat this process for an entire month, and add up the amounts to find the monthly total.
- Once you've got your actual monthly totals, you can enter them in the "Actual" column of your "Monthly Spending and Savings Plan" (pp. 4–5).

The tracker has a few types of expenses to get you started. Add other types of expenses that apply to you (see page 3 for examples). Use the blank form at home.

A Family Affair

Give family members a tracker of their own. Or, have them track their spending in a notebook and share their results with you.

Item	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.	Total
Medical Expenses								
Groceries	$28.37							
Meals Out		$48.50						
Gas	$32.46							
Transportation								
Car Repairs								

SAMPLE

DAILY TRACKER
BLANK FORM

Item	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.	Total
Medical Expenses								
Groceries								
Meals Out								
Gas								
Transportation								
Car Repairs								

SAVINGS CHOICES

Once you've tracked and trimmed expenses as part of your spending and savings plan, it's time to focus on finding the best place to keep those hard earned savings. Take a look at the advantages and disadvantages of some common savings options.

Just in Case

Financial experts recommend having an emergency fund that is equal to 3-6 months worth of living expenses. Set this as a savings goal!

Type	Description	Advantages	Disadvantages
Under the Mattress	Cash hidden at home.	You can get to your money whenever you want as long as you're at home.	Many. It may be stolen. It is too easy to "borrow" for impulsive purchases or "temporary" loans. Does not earn interest. Not accessible outside of your home.
Checking Account	A bank account that allows for purchases with checks and cash withdrawals at ATMs.	Money is readily available. Checks are convenient for paying regular expenses. Many banks have on-line bill paying options. You have a record of checks written.	Little or no interest paid on your balances. Might have fees for checks or penalties for low balances. ATMs from other banks charge fees.
Savings Account	A bank account that holds your money and pays you interest.	Earn interest on savings. Very accessible through ATMs or other means.	May require a minimum balance, or limit the number of withdrawals each month. Might have fees.
Money Market Account	Government-insured account with interest and limitations.	Earns better interest than savings accounts.	Might limit the number of transactions per month. Minimum balance usually required.
CD (Certificate of Deposit)	An investment for a set period of time (six months, one year, five years), in exchange for higher interest than savings accounts.	Guaranteed interest. You can choose the length of time that works best for you.	Must wait for the expiration date to take out money, or else be charged a fee for early withdrawal.
Savings Bond	Long term investments issued by government (or others).	Higher interest than savings accounts. Very safe and guaranteed investment. Tax-free if used for education.	Withdrawing funds before the term brings penalties.

THE FACTS ON INSURANCE

Paying for insurance now protects you from financial hardship later. You can only save so much for emergencies. That's why insurance is part of any good financial plan. But just one late payment and you risk losing your coverage. So be sure to pay on time.

Type	Description
Car	Insurance in case your car is stolen or damaged. In the case of an accident, auto insurance covers some or all of the costs of repairing your car or the other person's car. It also can cover other financial losses from the accident, such as medical and hospital expenses and loss of income. It can include liability insurance to cover these expenses for other people injured in the accident, up to $1,000,000 or more. Each state has its own requirements for minimum coverage. Some lenders also require minimum amounts of coverage until you pay off the car.
Disability	Pays you a certain amount should you become disabled and are unable to work and earn income.
Health	Covers medical care expenses. There are several types of policies: private, employer-sponsored, and government-subsidized, like Medicaid and Medicare.
Homeowners/ renters	Covers the value of your home and property in your home if it is lost, stolen or, in some cases, damaged. It can include liability insurance, if someone is injured on your property and sues you for damages.
Life	Gives a certain amount of money to your heirs when you die. If you have people who depend on you for income, you may want to buy life insurance so they will be provided for.
Long Term Care (LTC)	Covers expenses if you need to move into a nursing home or have extended home care.
Liability	Protects you from others. If your negligence or error should lead to damage of their property or, worse, their health, you should be prepared to cover these costs in case you are sued. Such liability coverage usually comes with your car and home or renter's insurance. "Umbrella policies" are also available for more general liability. Coverage limits, in these cases, are usually based on your net worth and how much of it you can afford to lose.
Mortgage (also called Private Mortgage Insurance, or PMI)	Insures your lender in case you default on your mortgage payments and leave the lender with a house worth less than the balance of your debt. Most lenders require that you get PMI if you put down less than 20% when buying a home. NOTE: Although you pay for the coverage, you do not receive any benefit. You want to avoid having to pay this coverage. If you have no choice, try to pay it off as soon as possible.

Knowing Your Options

Be aware of your options for insurance deductibles—a higher deductible will lower your monthly premium, but you will have a higher out-of-pocket expense if you have to file a claim. Be sure you can afford to pay the amount of the deductible that you choose—review all your choices before making a decision.

THE FACTS ON CREDIT: BE CAREFUL WHAT YOU WISH FOR

When you buy a DVD player with a credit card, the credit card company pays the store for it. You walk away with the DVD player. Why would a credit card company pay for your DVD player? Because they trust that you will pay them back. What's more, if you pay them back slowly enough, they will earn money from you.

Beware of Cash Advances!

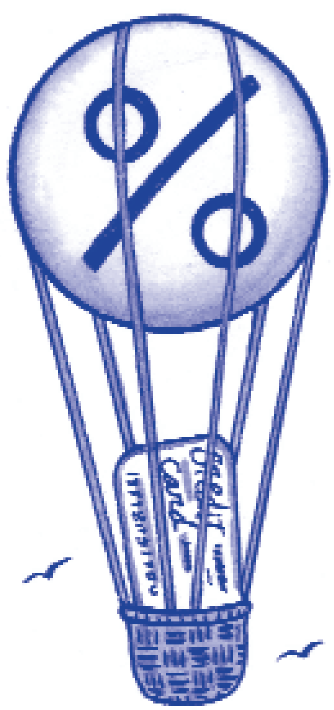
With their sky-high interest rates, they'll cost you way more than the amount you borrow.

What Is Credit?

Credit is an agreement between you and a lender to borrow money. Credit agreements have the following features: loan terms, including interest, penalties, and other fees, and the length of the loan.

Know What You're Signing Up For

When you sign up for credit, whether in the form of a mortgage, lease, credit card, or bank loan, you agree to certain terms, and requirements. It is important to read all the fine print of your agreement so that you know what you are liable, or legally responsible, for. Also, if you know the terms of your agreement, you can often avoid hidden extra fees, such as annual fees, overlimit fees, and late payment fees.



Can You Afford It?

One of the most easily obtainable forms of credit is a credit card. It enables you to buy all sorts of things you couldn't ordinarily afford. The problem is that if you can't pay for those things by the end of the month the credit card company charges you interest and possibly other fees. The purchase is now even less affordable and the payment period may be longer than you imagined.

A debt-to-income ratio can help you figure out how much you can afford. It is calculated by dividing your monthly minimum debt payment (excluding mortgage or rent payments) by your monthly gross income (your income before taxes are taken out). A debt-to-income ratio of more than 20% may indicate that you have borrowed too much relative to your income.

For example, if you pay $226 toward a car loan, $200 toward a student loan, and $150 toward your credit card balance, your monthly minimum debt payment would be $576. Now let's say you earn $3,200 per month before taxes. Here's how to calculate your debt-to-income ratio:

$576 ÷ $3,200 = .18
.18 = 18%

This debt-to-income ratio of 18% means that you have taken on a debt that you can afford. Add to that debt, even just a little, and you may get in over your head.

Getting Your Interest

All lenders want their money back, as well as a fee for lending it to you. The fee comes in the form of interest—a percentage of the amount you've borrowed. Sometimes, they offer great low interest rates or APRs (Annual Percentage Rates). However, if you read the fine print, you might find that the low rate lasts for only a few months before it goes way up. Also, that rate will usually only apply to purchases. If you take out a cash advance, you could owe a much higher rate, for example over 20%.

Be Smart!

The point is, know what you're agreeing to. If you understand how your card works, you can make effective use of it and pay the least amount possible. But along with knowledge, you'll need a healthy amount of discipline. The best policy is this: don't buy anything you can't pay for by the end of that billing cycle. Make it a top priority to pay your bill on time and in full every month. If you can do that, you won't pay any interest! Take advantage of the card, instead of letting the card take advantage of you.

Did you know?

You can stop receiving credit card solicitations in the mail for two years, or permanently if you choose.
Just call 888-5OPTOUT or go to www.optoutprescreen.com to stop getting tempted by those offers. You can "opt in" again if you change your mind.
To stop receiving credit card solicitations by phone, go to www.donotcall.gov.

THE REAL COST OF CREDIT

Every form of credit is a loan. When you borrow money, make sure you understand the terms (how much it will end up costing you in interest, fees, and penalties) and time (how long it will take to pay off the loan in full). Here's how to figure this out.

Suppose you see this sign in a store window.

RENT TO OWN
A NEW
WASHING MACHINE

For only $22.00 a week, you can have a new washing machine!

NO MONEY DOWN!

EASY PAYMENTS

Own it in 24 months!!
If purchased in cash, $650

You don't have the cash to buy this right now. And you're absolutely sure you need the washer. Before you sign up, do the math to figure out how much the terms of this loan will cost over time.

A. FIGURE IT OUT

1. Find the length of the loan in weeks. ____________________
2. Multiply the total number of weeks by the weekly payment to find out how much you will owe. _________________________
3. Subtract the cash price from the total amount you will owe if you go with rent-to-own. The difference is the amount of interest you will be paying—in other words, the cost of this loan. _____________________

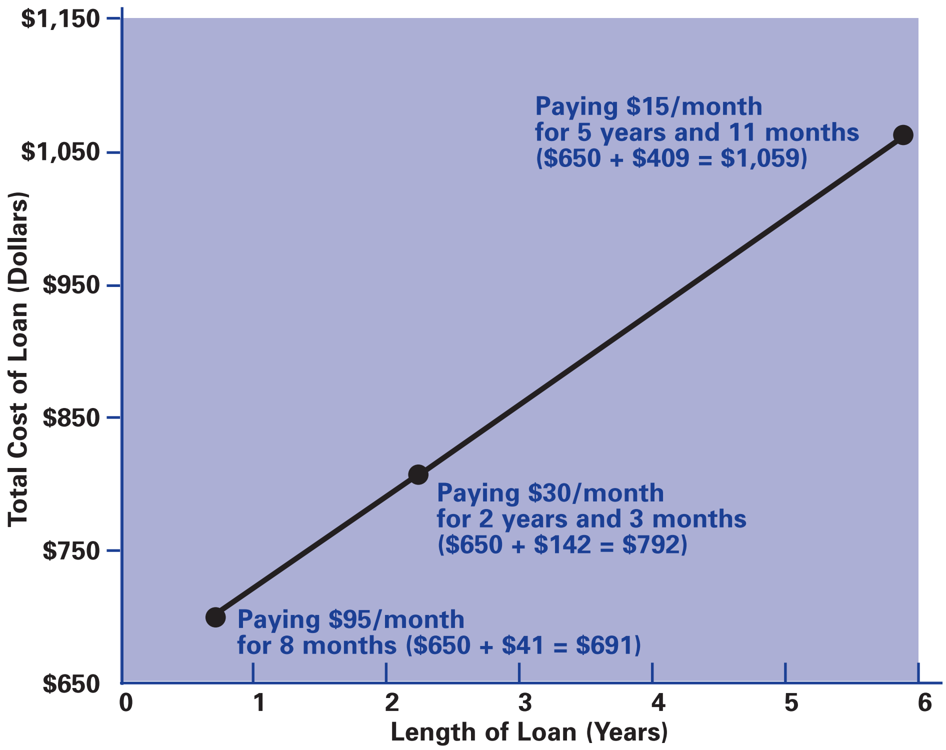
Did You Know?

The Web has easy-to-use loan calculators. Plug in the principal and figure out the cost of any loan at different interest rates and over different periods of time. Search for "debt reduction planner," "loan calculator" or "credit-card calculator" and find one that's easy to use.

B. WHAT IF YOU CHARGE IT?

Suppose you charge the $650 washer to your credit card. And suppose your card has an APR (annual percentage rate) of 17.99%, with interest compounded monthly.

Look at the chart below to see how long it would take you to pay off the washer—and how much extra money that washer will cost—if you paid only the minimum of $15 a month at 17.99% APR. What if you paid double the minimum, $30 a month, at the same APR? What if you paid $95 a month?



Remember: if you charge anything else to your card during this time, you'll pay MORE interest. Penalties or late fees will also increase your debt.

C. WHAT ELSE CAN YOU DO?

What if you put $22 a week into your savings? How long would it take to save $650 for the washer?

Do the math here: ____

A. 1) 24 months = 2 years, 1 year = 52 weeks. 52 + 52 =104 weeks. 2) $22 x 104 = $2288. 3) $2288 - $650 = $1638. That adds up to about 168% interest. C. Divide $650 by $22. It would take about 30 weeks (7 months) to save for the washer.

Pay more than the minimum!

On average, people who pay only the minimum due each month will take 45 years to pay off their credit cards, paying many times more than the amount they borrowed.

PICK A CARD

Having a major credit card such as Visa, MasterCard, or American Express can be a real convenience. To select and use a credit card wisely, you need to be aware of all the potential costs on top of your purchases.

Look closely at the terms offered by two different credit cards. One may be better than the other in some ways, but not in others.

HANDY CARD

Annual Percentage Rate (APR) for Purchases	0.00% introductory rate for the first 6 months of membership; thereafter 13.99%
Other APRs	Balance Transfers: 0.00% until the day of the last billing period ending 6 months after inception; thereafter the standard APR for service will apply. Default Rate: 19.99% or 24.99%* Cash Advances: 21.99%
Grace Period for repayment of the Balance of Purchases	At least 25 days when balance is paid in full each month
Method of Computing the Balance for Purchases	Two-cycle Average Daily Balance (including new purchases)
Cash Advance Transaction Fee	3% for each cash advance, with a minimum of $5 and no maximum. This fee does not apply to balance transfers submitted with this application.
Late Fees	$25 on balances up to $99.99; $30 on balances from $100 to $1,000; $45 on balances over $1,000.
Over-limit Fee	$15 on balances up to $1,000; thereafter $35
Line of Credit:	$10,000
Annual Fee:	$25

*Default Rate: If you fail to make a required payment when due, any introductory/specials rates terminate and the standard Purchases APR will apply to purchases and balance transfers. If you fail twice, or if you exceed your account credit limit, your purchase APR will be increased to 19.99%. If you fail three times or exceed your credit limit twice, your purchase APR and cash advance APR will be increased to 24.99%. See Card Member Agreement for details.

Lucky Card

Annual Percentage Rate (APR) for Purchases	3.9% introductory rate for the first 6 months of membership; then 13.99%
Other APRs	Balance Transfers: 3.9% for the first 9 months of membership; then 12.99% Default Rate: 25.99% Cash Advances: 18.99% Your APR may vary.
Grace Period for Repayment of the Balance of Purchases	At least 20 days for purchases, if full balance is paid by the due date
Method of Computing the Balance for Purchases	Average Daily Balance including purchases
Fees	Cash Advance Transaction Fee: 4% for each cash advance, with a minimum of \$5 and no maximum Late Fee: \$25 on balances of \$99.99 or less; \$35 on balances from \$100 to \$1000; \$45 on balances over \$1,000 Over-limit Fee: \$35 Balance Transfer Fee: 3%, \$5 minimum, \$40 maximum Annual Fee: None Minimum Finance Charge: \$.50
Line of Credit:	\$14,900
Minimum Income Required:	\$40,000

The highest rate (25.99%) may be charged if the cardholder is late making a payment to any creditor; this can include phone and utility bills, car payments and the like, even if credit card payments are made on time.

SHOP AROUND

Read the fine print on the credit card terms above and fill in the table below. Does one card have terms that are better than the other?

	HANDY CARD	LUCKY CARD
APR for purchases		
APR for cash advances		
Universal default provision		
Grace period		
Annual fee		
Late payment fee		
Over credit limit fee		
Transaction fee for cash advances		
Minimum finance charge		

THE FACTS ON CREDIT REPORTS

What is a Credit Report?

Credit reports are histories of your past behavior with certain debts. They show how much you owe your listed creditors, whether you are borrowing a lot or a little, and whether you are paying on time. For example, do you make your listed non-credit card payments (such as mortgage or car payments) on time? They also include information in the public record, such as foreclosures and liens, and information about closed accounts and student loans. Credit reports give potential lenders, landlords, and employers an idea of the risk they are taking if they approve your application.

How Important Is It?

Building and maintaining good credit is very important. If you have good credit, many loans and credit cards will be available to you, often at low interest rates. Poor credit makes it hard to get a loan, a mortgage, a lease, or a new credit card. Negative information such as poor payment history, lawsuits, or judgments will remain on your report for seven years. Bankruptcy may remain for up to ten years or longer.

The "Three C's"

Anyone considering lending you money—whether it is through a mortgage, a credit card, a bank loan, or a lease—will consider "the three C's" of credit:

Character is your reliability in paying debts, as shown in your credit report. Creditors like to see that you pay your bills on time and that you don't run up your bills to the maximum credit limit.

Creditors also look at your ***Capacity***—your likely ability to repay a debt, measured by your income, debt you already carry, number of dependents you have, etc. Can you afford to make the payments?

Finally, creditors look at your ***Collateral***—property or other valuables used as security to guarantee the repayment of a loan. Lenders want to be sure that you have something of value that could be sold in case you default on the loan.

Credit Bureaus and Credit Scores

The three major ***credit bureaus*** that make credit reports are TransUnion, Equifax, and Experian. They only collect and report credit information; they do not make lending decisions. Each uses a slightly different format, and each uses a slightly different scale to figure out a ***credit score***. Scores tend to range from 300 to 850. Most creditors like to see credit scores in at least the mid-600s.

No Guarantees

There is nothing that guarantees that you will get a loan, a card, a lease, etc. Lenders look at your overall picture to decide if they will trust you to pay back the loan. Besides the three C's, they may also consider how long you have held a job, owned a certain credit card, or been paying a certain lease.

How Do I Check My Credit Report?

Everyone is entitled to one free credit report per year from each major credit bureau. You may be allowed additional free copies in special circumstances, for example, if you were denied credit. (Some creditors may belong to only one service, so it is important to check all three reports.) If you want your credit score as well, you will have to pay about $10 to each bureau.

Experian:
Tel: 888-397-3742
Web: www.experian.com

Equifax:
Tel: 800-685-1111
Web: www.equifax.com

TransUnion:
Tel: 800-888-4213
Web: www.transunion.com

What if There Are Errors on Your Report?

It is your responsibility to make sure the information on your credit reports is accurate. If you find an error, you can and should dispute it by writing a letter saying what information is inaccurate and attaching any documentation to back up your claim. Each credit report tells you where to send your letter. It is illegal to remove accurate negative information from your credit report: you can't erase the truth.

Identity Theft

Identity theft is a growing problem. For example, thieves can steal credit card offers out of your mailbox or trash, get a card in your name, and file a change-of-address form so that you never receive the bills. While they are damaging your credit, you may not even know you've been a victim.

- Always be sure to whom you're giving your information and what it's going to be used for.
- Keep account numbers and your social security number in a safe place.
- Keep track of when you usually receive your monthly bills; if you don't receive one, call the company right away to let it know.
- Shred or cut up documents with personal information.
- Beware of emails from people and companies you don't know.
- Report a lost or stolen card immediately.

Establishing Credit

It can be difficult to get credit when you have no credit history, or if you have previously experienced difficulty paying bills on time and have a poor credit report. Here are some ways to start, or to start over:

- Obtain a **secured credit card** in the amount of cash you place in a special account. These cards can be expensive, so pick yours carefully.
- Have a relative or friend with good credit act as your guarantor—that person will be held responsible for any payments you don't make.
- Pay off an installment loan from a bank quickly and on time.

Once you have credit, the best way to protect it is to carry zero or low balances and to always pay your bills on time.

Are You Really You?

Credit bureaus will ask numerous questions to ensure authentication of your identity and protection of your information. The only people who can see your report are lenders such as a bank, credit card company, or car dealer; insurance companies; landlords (in some instances); and government agencies that determine if you qualify for public assistance or owe child support. Employers can also see it, but only with your permission.

Be On Time

Making payments on time is more important than you think! Approximately 35% of your credit score is determined by your payment history.

TO YOUR CREDIT

Your credit report is a record of your repayment of credit. Read it carefully to make sure there are no mistakes. If you spot an error, you have the right to dispute it and have it corrected.

Here's a sample credit report that includes a credit score. Make sure you understand the information it contains.

Sample

Sample Credit Bureau
123 Main Street
City, ST 90000
(800) 000-3333

Date of report: 12/31/2011 Report file #: 23456789

This section lists personal identifying information.

Name: Jane Q. Doe
Current address:
456 Maple Lane
Anytown, ST 10000

SS#: XXX-XX-1234
Date of Birth: 01/22/1970
Spouse: John

Former addresses:
10 Elm Street
Waltham, TX 00000

50 Center Street
Town, ST 23456

Employers: General Electric, Dixon Automotive

This section is a snapshot of your credit report.

CREDIT SCORE and CREDIT SUMMARY

Your Credit Score is 682, based on a scale from 330 to 850, which is in the "Fair" range.
Total Accounts: 7
Open Accounts in Good Standing: 4
Closed Accounts: 3
Total Inquiries: 9
Regular Inquiries: 7
Promotional Inquiries: 2

This section lists late payment history on both open and closed accounts.

CREDIT HISTORY

Company Name:	Pennywise Bank	Home Furnishings Store
Address:	101 Elm Street	202 Maple Street
City, ST, zip:	Chester, NY 10700	Winchester, OH, 08600
Phone:	(800) 000-8910	(888) 000-9999
Account Number:	9876543-21	33-455-6789
Date Opened:	05/08/2008	10/03/2005
Date of Last Activity:	12/19/2011	01/23/2011
Type of Account:	Revolving	Revolving
High Balance:	$2,273	$1,894
Credit Limit:	$15,900	$8,000
Amount Past Due:	$0	$678
Whose Account:	Joint	Individual
Months Reviewed:	42 months	61 months
Prior Paying History:	30 days late (3) 60 (1)	30 days late (1) 60 (2) 90 (1)

Sample

COLLECTIONS

```
>>> Collection reported 07/06; assigned 02/06 to Big
    Collection Agency (800) 555-0000

>>> Client: Horizon; Amt.: $424; Status: Bal $0; Last
    Activity: $50 paid 06/09
```

PUBLIC RECORDS

```
>>> Bankruptcy filed 12/04; Eastern Dist Ct Case
    #455T2Q1; Liabilities $34,268; Individual; Discharged;
    Assets $1,030

>>> Lien filed 10/10; Dogtown, NC; Case #27330;
    Amt $14,022; Released 01/11;Verified 07/11
```

INQUIRIES

CredCo Data, Inc.	Smith Rental Properties	Emerald Savings Bank
100 Elm Ave	200 Beech Dr	300 Weatherford Street
Portland, OR 90000	Charlestown, NE 60000	Providence, RI 70000
(503) 000-8000	(800) 000-2100	(888) 000-1234

DISPUTE FILING INFORMATION

If you believe information in this report is incorrect, you may launch an investigation about the information in these ways:

- Go online to www.investigate.samplecreditbureau.com and follow the instructions.
- Mail a letter to Sample Credit Bureau, P.O. Box 0000, City, ST 90000, explaining what you believe is inaccurate. Include any bills, records or correspondence to support your claim.
- Call 800-200-9999 and ask to speak to the Disputation Office. Have your credit report file number available.

This section shows any accounts assigned to collection agencies.

This section shows any public records.

This is a list of businesses that have requested your credit report.

These are instructions on how to dispute information you believe is false.

YOUR RIGHTS AND RESOURCES

Rights

There are laws designed to protect you from discrimination, fraud, and other violations of your right to fair credit practices. Be aware of your rights. Here are several important ones:

- The Equal Credit Opportunity Act requires that all credit applicants be considered on the basis of their actual qualifications for credit and not be rejected because of certain personal characteristics, such as race, gender, religion or income.

- The Fair Credit Reporting Act sets up a procedure for correcting mistakes on your credit record. You have the right to an accurate credit report and to have decisions about credit based on facts, not fiction.

- The Fair Debt Collection Practices Act prohibits credit companies from using unfair, abusive, or deceptive practices. They cannot contact people you know and talk to them about your debt, call or harass you, or use abusive language of any type. They must send you information about the debt they are trying to collect in writing.

- Consumer Protection Acts – The US government has passed numerous acts to protect consumers and citizens. They include protection from telephone solicitations; the Truth In Lending Act, which says that all terms of a loan must be clearly stated; the requirement that credit repair agencies give accurate terms in the contract and allow consumers to withhold fees until after repair work is completed; and identity theft protection, among others.

If you feel your rights have been violated, contact your attorney or one of the many national consumer protection agencies (some are listed under "Resources", pp. 21–23) or check with your state and local consumer protection agencies.

Resources

There are a number of low-cost or free sources of information on credit and money management. Spend some time finding out about the ones that seem most useful to you.

Credit Abuse Resistance Education (C.A.R.E.) Program
http://www.care4yourfuture.org
The C.A.R.E. outreach program began as a project of the U.S. Bankruptcy Court for the Western District of New York and has expanded nationwide. Its purpose is to provide high school and college educators easy access to local bankruptcy professionals who lead financial literacy programs for teachers, teens and young adults about the importance of using consumer credit wisely, avoiding credit card and other unnecessary debt, and the financial problems and other consequences that result if they don't. To help improve your financial IQ, materials on the website include videos, articles, handouts used in the program, a recommended book list, and links to other financial information sites.

Federal Citizen Information Center
http://www.gsa.gov/portal/category/101011
1-800-FED-INFO (1-800-333-4636)
This resource provides information to citizens about how the federal government works through an extensive website, free (or very low cost) print and on-line publications, and a toll free number. There are quick links to information about finances, family, health, employment and many other topics as well as many resources in Spanish.

Federal Reserve Education
http://www.federalreserveeducation.org/
This resource has a wealth of lesson plans on personal finance, credit, and banking, including games and quizzes.

Federal Trade Commission
600 Pennsylvania Avenue NW
Washington, DC 20580
http://www.ftc.gov
877-FTC-HELP (877-382-4357)
This government agency works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid such practices. Contact the FTC to file a complaint or to get free information on consumer issues.

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
http://ncua.gov
703-518-6300
The National Credit Union Administration (NCUA) charters and supervises federal credit unions and insures savings accounts in them. Credit unions are not-for-profit cooperatives that promote thrift among their 82 million members. The site has a locator map where you can find a credit union in your anrea.

National Endowment for Financial Education (NEFE)
1331 17th Street, Suite 1200
Denver, CO 80202
http://www.nefe.org
http://www.smartaboutmoney.org
303-741-6333
The National Endowment for Financial Education is a non-profit foundation that partners with other organizations to provide financial education to the public.

National Fraud Information Center/
National Consumers League
1701 K Street NW Suite 1200
Washington, DC 20006
http://www.nclnet.org
http://www.fraud.org
202-835-3323
800-876-7060
The NCL provides information about dozens of consumer fraud topics, including medical scams, internet issues, telemarketers, and more.

Small Business Administration (SBA)
Headquarters Office
409 Third Street SW
Washington, DC 20416
http://www.sba.gov
800-827-5722
The SBA provides numerous resources for planning, establishing, financing or expanding a small business. Its website includes links to local resources, training and publications.

Trustees' Education Network (TEN)
Region I
P.O. Box 1720
Greensboro, NC 27402-1720
http://www.trustenet.org
336-378-9164
This nonprofit entity is a cooperative effort of Chapter 13 Trustees with the sole purpose of extending quality personal financial management education opportunities to debtors nationwide.

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.

TOP 10 TIPS

1. Set SMART financial goals.

Goals that are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic, and **T**imed will keep you focused and effective.

2. Make and follow a spending and savings plan.

With a plan like this, you can track your spending, trim expenses if necessary, and save for your financial goals.

3. Don't confuse needs with wants.

Spend wisely and you'll be more likely to get what you want in the end.

4. Develop the habit of saving.

Start small if need be, and just keep saving. You'll thank yourself later. Savings are important for unexpected needs and long-term goals.

5. Remember: Credit costs money!

You'll pay for that loan with interest charges and other fees.

6. Shop around.

Whether you're in the market for a TV, a credit card, or a bank loan, look for the best deal.

7. Read the fine print.

There's important information hiding in that tiny print. Pull out the magnifying glass and find out just what you're getting into.

8. Order your credit report every year.

Lenders, insurance companies and others have access to this information. Make sure it's accurate.

9. Be prepared.

You never know what's coming your way—be ready with adequate savings and appropriate insurance.

10. Know your rights.

Find out about the laws that protect you from fraud, discrimination, and deception.