Personal **Finance** Made Easy

your *money*
your *credit*
your *future*

FAMILY CREDIT MANAGEMENT™

make

your money do what

you

want it to

Welcome

You did it.

Or at least you have started to do it! You are taking responsibility and control of your financial future.

Money management seems like it should be easy ... just spend less than you make. But it is more than that. It's also about savings, credit reports, investing, insurance, and even relationships. It can seem so complicated and overwhelming. Our schools don't do the best job preparing us for handling all of the challenges of personal finance, so it's up to you to figure it all out.

Most of our parents could not teach us about credit reports, credit scores, fancy mortgages, or even credit cards. Who can you trust to help guide you? Financial advisors may be more interested in their commission than in your personal interest. Friends and family may have the best of intentions, but they might not be the most knowledgeable and may not give you the best advice. The only person who will truly always be looking out for you, is you.

It's never too late (or too early) to learn good money management habits, or to start saving. Personal finance is not only for the rich! Look no further than the inspiring story of Earl Crowley, who faced challenges many of us never have. He never made much money, but is now a wealthy man. Do an online search to read or watch Mr. Crowley's inspiring story of success. Trust us, you won't regret it.

This workbook is your guide to personal finance. We make the lessons learned during our combined fifty years of personal finance easy. The authors of this workbook, leaders of one of the foremost debt management agencies in the nation, understand the perils your family faces – often through no fault of your own.

Throughout this book you will find strategies, ideas, answers, and solutions gained over the past twenty years working closely with families, individuals, and students. You don't need a college degree to master this. Today's financial world changes so rapidly, but most of the basics are not that complex – they just need to be explained.

Learning about money management and personal finance should be a lifelong endeavor that you've now begun!

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Self-Assessment

Only you know the answers to these questions

Successful money management is about making sure your money is doing for you what you want it to. **This means that before you can be successful with your money, you have to know what you want.**

Often times, our spending takes on a life of its own before we can take time to think about it. This is where many people get into trouble. It is not unusual to find someone who has worked in an industry they may not like for years, simply because they did not have a career plan. They applied for the job, were hired, and are still employed by the same company decades later. Likewise, far too many people don't have a plan for money management and end up scrambling for retirement, emergencies, or to help with their child's education.

You can fix this.

To get control of your finances, you must understand your own personal expectations, goals, and values.

Take a moment to answer a few questions about yourself

Remember, this is for you!

The key is to be honest with yourself when answering each question. You may not like some of your answers. You may even wish they were different. But you're not here to impress anyone, so this is no time to fool yourself. Much like a diet, you'll only get the results you want if you are honest with yourself.

Why do you want to complete this book?

What does financial success mean to you?

How will financial success improve your quality of life?

What are the biggest obstacles to you reaching your financial success?

(Remember, being aware of obstacles helps you avoid them. Ignoring these personal pitfalls guarantees you will fall into them again.)

If you have children, what lessons are you teaching them about finances?

Everybody agrees that smoking, drunkenness, and cursing in front of children is harmful. This is also true of demonstrating destructive financial habits. If you have children, or plan to, it's more important than ever to complete this book. Their future is at stake also.

How do you waste money?

You can do better! Remember, this is the time to be honest with yourself. Nobody is going to see these answers but you. Are you sure you don't waste a little more? Keep thinking. Do you waste money on extra cable channels? Lunches out? Smoking? Shoes? Movies? Music? What else can you think of?

What steps can you take to stop some or all of this wasteful spending?

Right now, physically or mentally, take a walk through your home and look at everything you own. Mentally place the original price tag on each item. If you don't remember the dollar amount, just take a guess. Pay special attention to items like clothing, movies, music, shoes, collectables, kid's toys, food, knick knacks, etc.

Now, ask yourself if you would rather keep each item or have the money back? For example, you see a movie sitting on your shelf. Would you rather keep it or have the $20 you paid for it? Write down everything you purchased but never used. Consider toys, music, clothes, everything. How many dollars would you collect if you could trade all these items back in for the money you spent on them? We have never seen anyone leaving this section blank, so list it all. You might need another page or pages — if you are really honest, you may need an entire notebook!

Congratulations!

You may feel emotionally drained, but in some ways, these answers are the foundation of your financial future. We will use many of these answers later in the book. You should revisit them periodically to remind yourself why good money management is needed to help you stay on track.

Spending

What are you spending now?

In this section you will:

Create your customized household spending plan.

Learn how to plan ahead.

Explore spending insights.

Where do we begin?

Balance

Managing finances is an important part of living a balanced life. It helps us to pay our bills, build strong credit, establish realistic goals, and plan for the future. Simply put, it's the process of making sure we spend less than we earn.

Income and expenses often vary from month to month, so keeping track of these only in your head can lead to trouble. Creating and following a plan is not hard once you get the hang of it. Don't focus on the numbers — focus on the outcome!

Isn't your financial future worth a few minutes of your time?

This section was designed with YOU in mind. It can be used on your own or with help from one of our certified credit or housing counselors. It doesn't require hours of your time and many of the materials you need to get started are already at your fingertips. Once you begin, you'll wonder why you didn't do this sooner!

Ready to Get Started?

1. Gather your current bills.
2. Grab a sharp pencil.
   (with a good eraser)
3. Get a calculator.
   (even your cell phone has one)
4. Complete the following pages.
5. Relax and take your time!

Commit to following a spending plan today, and start living life your way!

Why do my goals matter?

Setting Goals

According to a study by the University of Tennessee, less than 1 out of 20 Americans have clearly defined goals; the key to developing a practical spending plan. That means 19 out of 20 find it difficult to avoid debt and save for the things that really matter.

Having goals can prevent us from making foolish choices.
Imagine you charge $2,500 to your credit card with an interest rate of 21%. If you pay $50 per month, it will take around *10 years to pay off the balance*. You will have paid an additional $3,493 in interest by the time it is paid off. In other words, what you thought had a $2,500 price tag actually cost you $5,993!

Paying extra for interest, over-limit fees, or late charges sets you back!
Do your best to pay cash for the things you want to buy, and never use credit to purchase consumables such as groceries or gas. If you must use credit, be sure your account is paid in full every month.

What could you do with $3,493? If that money is going towards interest, it's like throwing money down the drain. Make a list of 5 things you would rather do with it!

1. ______________
2. ______________
3. ______________
4. ______________
5. ______________

Is your money doing what you want it to do?

List 3 financial goals you would like to reach in...

12 months

1. ______________________________
2. ______________________________
3. ______________________________

2 years

1. ______________________________
2. ______________________________
3. ______________________________

5 years

1. ______________________________
2. ______________________________
3. ______________________________

Stop. Think. Save!

Think about all the money you've ever wasted! If you're like most Americans, your house is probably full of barely-used items cluttering your shelves, tabletops, closets, and drawers. Do you have clothes that still have price tags, gadgets you never use, toys the kids played with once, or shoes you rarely wear? Does your refrigerator or cabinets have food that goes uneaten?

If we could go back in time, how much of your stuff would you not buy? Think about all the money you would have if you could magically take it all back. **In the future, Stop. Think. Save!**

Stop. Think. Save! is not about denying yourself pleasures or luxuries. It is a process to help you set priorities, get the things you really want in life, and make your money do what you want it to do with no regrets.

Would you rather spend $5 a day on lunch at your favorite fast-food chain, or would you rather put most of that $1,825 (after only one year) toward something like retirement, a new technology, or a vacation with your family? By making small changes in your daily spending habits and putting money aside, you'll be able to buy things that really matter to you in the future.

Before you approach the check-out line, **stop**: Do you really need what you're holding? If so, **think**: Is it more important than your goals, or is there a cheaper way to satisfy that need? Is it truly a need, or is it just a want — and will you still want it three months from now? If you can't honestly justify the purchase, **save**: Leave the store.

Would you like to get back all the dollars you spent on lottery tickets?

Plugging the Leaks

1. You've already set your goals. Now put a picture or other reminder of it in your wallet, in your car, next to your computer, or wherever you usually spend money.

2. Figure out how much you need to save every month to reach your goals. Open a high yield online savings account so you can watch your money grow. Search online for help finding products and rates to make your money work for you.

3. Every time you stop yourself from buying something you don't need, **put that money into your savings account.**

4. Choose an inexpensive way to reward yourself at the end of the month when you meet a goal.

5. Resist impulse purchases. When you find something you want to buy, give yourself a cooling off period — at least one hour for every dollar it costs, and see if you still want it.

What's included in my income?

Determining Your Income

You can't create a working plan if you don't know how much money you earn. There are two types of income: **gross income** (the amount before taxes and other deductions) and **net income** (the amount we get to take home). Income not only refers to the money you earn at work, but it also includes any payments you receive on a regular basis (i.e. child support, disability, retirement, social security, or unemployment).

Complete the fields below to determine your total income. For best results, list only the **net income** *for each working adult. Remember: don't count income you can't rely on - such as bonuses, commissions, overtime, or gifts. If this is a major portion of your income, contact an expert at Family Credit Management for help with your plan.*

Income #1	$ ____________	Social Security	$ ____________
Income #2	$ ____________	Unemployment	$ ____________
Child Support	$ ____________	Rental Income	$ ____________
Disability	$ ____________	Other	$ ____________
Retirement	$ ____________	**TOTAL**	$ ____________

Free Up Some Extra Cash

A coffee on the way to work or lunch at your favorite fast-food restaurant may seem like small expenses, but over time they can really add up and keep you from reaching your savings goals. **Take a look at how much you can save by plugging your spending leaks:**

one soda = $1.00

one soda x 5 days = $5.00

one soda x 5 days per week x 52 weeks per year = $260.00

muffin & coffee = $4.00

muffin & coffee x 5 days = $20.00

muffin & coffee x 5 days per week x 52 weeks per year = $1040.00

a pack of cigarettes = $6.00 (or more!)

a pack of cigarettes x 7 days = $42.00

a pack of cigarettes x 7 days per week x 52 weeks per year = $2184.00

a carry-out lunch = $6.00

a carry-out lunch x 5 days = $30.00

a carry-out lunch x 5 days per week x 52 weeks per year = $1560.00

TOTAL ANNUAL SAVINGS: $5,044.00 (after tax savings)

How much credit card debt do I have?

Listing Your Bank & Store Cards

List your credit cards, current balances, and monthly payments.

Creditor #1:	Balance: $	Payment: $
Creditor #2:	Balance: $	Payment: $
Creditor #3:	Balance: $	Payment: $
Creditor #4:	Balance: $	Payment: $
Creditor #5:	Balance: $	Payment: $
Creditor #6:	Balance: $	Payment: $
Creditor #7:	Balance: $	Payment: $
Creditor #8:	Balance: $	Payment: $
Creditor #9:	Balance: $	Payment: $
Creditor #10:	Balance: $	Payment: $
	TOTAL: ________	**TOTAL:** ________

Ever wonder how much you *should* be spending in each expense category?

Consider the following suggestions:

Housing - Mortgage/rent, utilities, insurance, taxes, and home maintenance should not exceed **30%** of your net income.

Transportation - Car payments, auto insurance, licensing, parking, city registration, maintenance, and gas should be less than **20%** of your net income.

Debt - Keep debt payments under **20%** of your net income, but your goal should be getting to zero debt.

Family & Community - Food, clothing, child care, entertainment, medical bills, personal hygiene products, gifts, tithing, and charity should not exceed **20%** of your net income.

Savings - Save at least **10%** of your net income.

Did you know?

Credit card companies can usually increase your interest rates at any time just by giving you notice.

Is it possible to track all expenses? Yes, it is!

It's easy to overlook small purchases but it doesn't take many to turn your finances upside down.

Listing Your Expenses

Listing your expenses is a crucial step when creating and maintaining a spending plan. You cannot stick to a plan if you don't know how much you spend every month. The key is to spend less than you earn.

At the beginning of the month, record your expected expenses in the "planned" column. As you pay bills, fill in the "actual" column with the amounts you really spend and then determine your total. These totals will not only show you what you must spend every month, but they will also help you plan more effectively in the future.

Housing

	Planned	Actual
Mortgage / Rent	$	$
Condo / Association Fees	$	$
Property Tax (if not escrowed)	$	$
Home / Rental Insurance	$	$
Electricity	$	$
Heating	$	$
Water / Sewer	$	$
Garbage	$	$
Telephone	$	$
Cell Phone	$	$
Cable	$	$
Internet	$	$

Transportation

Car Payment	$	$
2nd Car Payment	$	$
Car Insurance	$	$
Fuel	$	$
Routine Maintenance	$	$
Other (Registrations fees, etc.)	$	$

Family & Community

	Planned	Actual
Groceries	$	$
Clothing	$	$
Medical Bills / RX	$	$
Child Care	$	$
Hygiene Products	$	$
Entertainment (movies, etc)	$	$
Dining Out	$	$
Allowance	$	$
Tuition	$	$
Gifts	$	$
Pets	$	$
Lessons / Sports	$	$
Subscriptions	$	$
Tithe / Charities	$	$
Other	$	$
Other	$	$
Other	$	$
Other	$	$

TOTAL $__________ $__________

NOTE: When two line totals are different, you need to determine what caused you to spend above and beyond your projection and see what changes you can make to get your actual expenses back down to where you originally thought it should be. It may take a couple tries before your "planned" expenses and "actual" expenses match. Call a credit counselor at Family Credit Management to request additional copies of this page.

What do I do next?

The Results

Now it's time to compare totals for income and expenses. Fill in the blanks below with your results from pages 14 through 17.

Total Monthly Income $

−

Total Monthly Expenses $

=

$

Once your debts are under control, you will need to review your goals from page 12 and start planning for the future. Read on for more information about building your wealth.

If Expenses are Greater than Income

If your expenses are greater than your income, you may be thinking "Somehow I'm making it work." The reality is you are on a dangerous path, and now's time to make some changes. You have three choices: you can increase your income, reduce your expenses, or do both.

If you need to reduce your expenses we've included Family Credit Management's *100 Small Ways to Save Big* on page 76. Here are some suggestions to increase your income:

- Ask your employer if overtime is available.
- Search online for job listings and advice for your full-time or part-time job search.
- Have a special skill to teach others? Offer to tutor or give lessons. Talk to local coaches, teachers, band directors, and community centers for opportunities.
- Your kids can pitch in by offering to mow lawns in the summer, rake leaves in the fall, and shovel snow in the winter.

If Income is Greater than Expenses

If your income is greater than your expenses, you're on the right track. Now you need to figure out how to make the extra money work for you. If you have debt, you should use the extra cash to pay off your debts or start an emergency savings plan. Contact our certified credit counselors for help creating a plan that's best for your situation.

Why do I need to save money?

Planning for the Future

You will never have too much savings, but today never seems like a good time to start saving. If your boss were to reduce your pay by 5% tomorrow, you would manage to survive. In fact, you would still find a way to heat your home, fill up your gas tank, and put food on the table. **Why not make those adjustments now?**

Everyone should save at least 10% of their net income each month. Having a financial cushion to fall back on will help reduce stress, improve your health, and provide peace of mind. Not to mention you will be able to pay unexpected expenses timely and easily. Experts suggest having enough emergency savings to cover six to eight months of living expenses in case of:

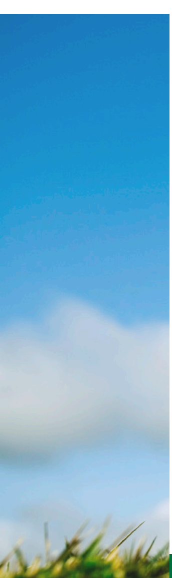
- Sudden unemployment
- An automobile accident
- A death in the family
- A medical emergency
- Illness or disability
- Home repair

Beyond planning for emergencies, saving money can also help you plan for:

- A down payment on a new home
- Retirement
- A new car
- College expenses
- Vacations
- Christmas shopping

Here are some ideas for keeping track of your savings:

1. Choose a basic savings account, a money market account, a certificate of deposit (CD), a savings bond, or even a mutual fund. You will learn more about these options later in the workbook.



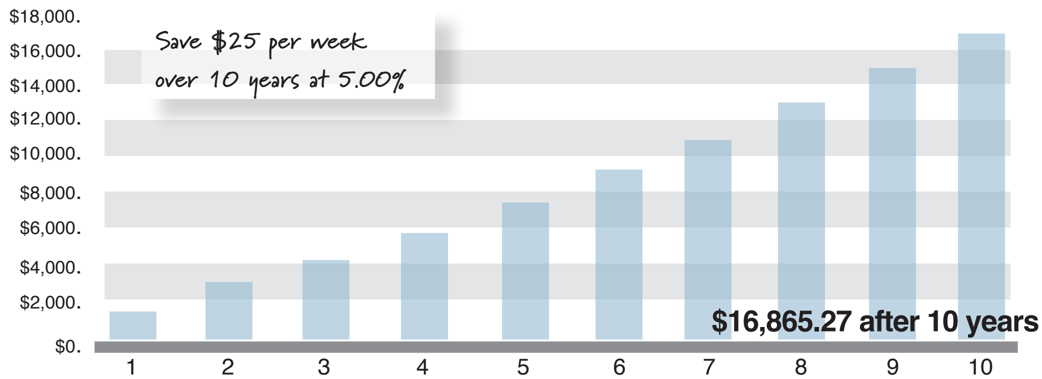
2. Consider multiple bank accounts to separate checking and savings, or to keep track of money for college, clothing, a new home, or a new car.

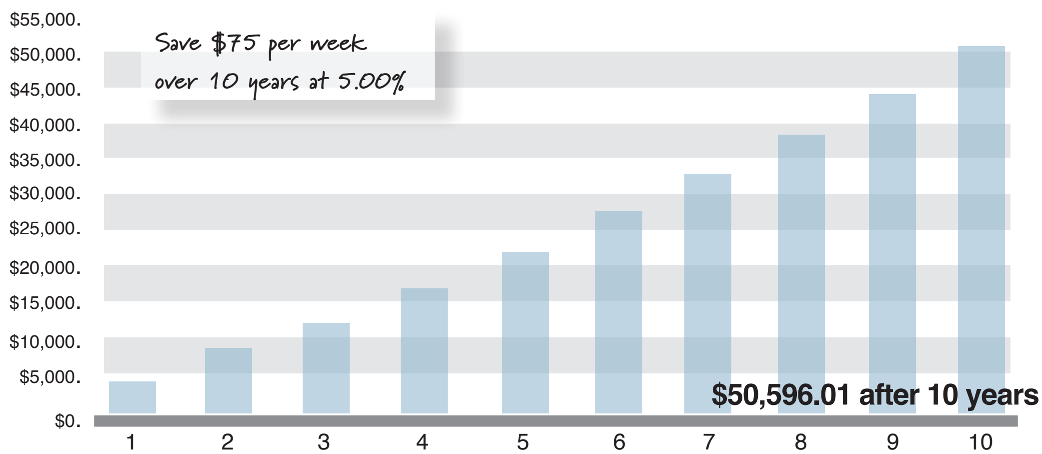
3. Try the His, Hers, Ours method (found on page 56). Some couples have individual checking accounts for spending money, while keeping a joint account for shared expenses like housing, utilities, and car payments. This helps eliminate spending leaks that can sabotage your savings goals while giving each person their own financial responsibility and reducing any resentment that may build having to ask permission for everything you choose to buy.

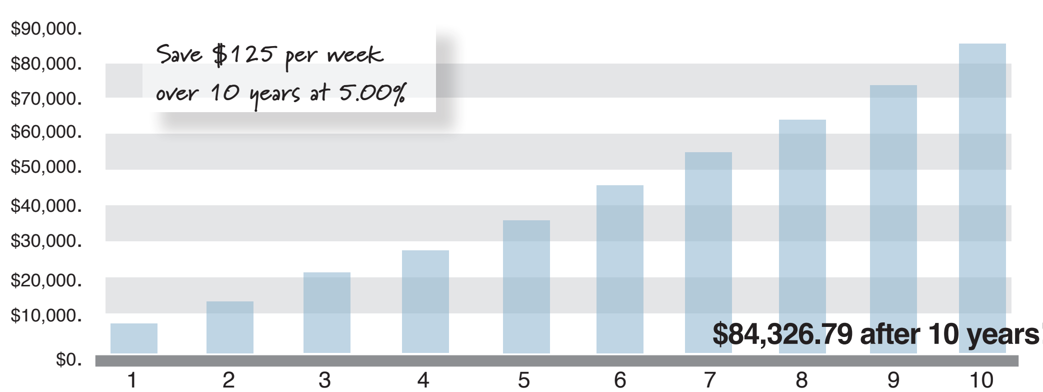
How could my money grow?

Imagine the Possibilities

Consistent contributions over a number of years, even if small, will add up as time goes on. The following charts show savings possibilities over a ten-year period by contributing $25, $75, or $125 weekly at a return rate of 5.00%.







Personal Inventory

Maintaining detailed records is essential when managing household finances. If your possessions were to be destroyed or stolen, it could be next to impossible to come up with a list of items to give your insurance company or include with a police report. **Take some time today to complete the following personal inventory,** and then store it in a fireproof container. It will serve as a valuable record of your possessions in case the unthinkable ever happens. You may also want to consider taking pictures or videos of valuable items, as well as saving receipts from expensive purchases and keeping copies separate.

Item	Purchased	Price	Serial No.	Photo	Video
Ex. Dell Computer	01/15/2012	$450	123456-78	X	X

How much am I worth?

Net Worth

To manage your money effectively, it is important to keep track of your **assets** (things you own that have value) and **liabilities** (debts you are responsible for paying). Subtract your liabilities from your assets to determine your net worth.

ASSETS

Cash

Cash in Checking Accounts	$ ________
Cash in Savings Accounts	________
Cash on Hand	________
Money Market Accounts	________
Cash Value of Life Insurance	________
Other	________

Real Estate / Property

Home (market value)	________
Land (market value)	________
Other	________

Investments (current value)

Certificates of Deposit (CDs)	________
Stocks	________
Bonds	________
Mutual Funds	________
IRAs	________
401(k) or 403(b) Accounts	________
Pension Plan	________
Annuities	________

Personal Property (value if sold today)

Automobiles	________
Recreational Vehicle / Boat	________
Home Furnishings	________
Collections / Art	________
Jewelry / Furs	________
Clothing	________
Other	________
Other	________
Other	________
Other	________
TOTAL ASSETS:	$ ________

LIABILITIES

Current Debts

Household	$ ________
Credit / Store Cards (from pg. 15)	________
Taxes Owed	________
Other	________
Other	________
Other	________

Real Estate

Home	________
Land	________
Other	________

Loans

Bank / Finance Company	________
Auto	________
2nd Auto	________
Recreational Vehicle / Boat	________
Education	________
Other	________
TOTAL LIABILITIES:	$ ________

Reminder: Subtract your total liabilities from your total assets to determine your net worth.

Total Assets $

−

Total Liabilities $

=

Net Worth $

Everything has a cost

Yes, everything...

Economists call it “opportunity cost."

In real life we simply ask...
“What’s the trade-off?”

In life, making one choice means not making another. By working your way through this book you are not at work making money, so the “opportunity cost” or trade-off to studying this book is not working at a job. You are also not watching TV or surfing the web. Your personal opportunity cost is studying instead of relaxing. You gave up one thing for another. We face opportunity costs daily and need to understand these choices.

What are you "giving up" each time you spend money?

Let’s revisit an earlier exercise:

List your top three financial goals listed earlier in this book:

1. ______________________________

2. ______________________________

3. ______________________________

List five ways you spend "discretionarily" (money you can use as you want) on a regular basis:

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

Remember, your spending proves every one of these 5 expenses are more important than your goals. If they weren't more important to you, you would not choose to spend money on them. You may say you want to meet your goals, but where are you spending your money? Is it going towards your goals or something more immediate?

Do you see any changes you could make? Each purchase costs you an opportunity to use the money elsewhere. Every choice you make means you're also choosing not to do something else – once it's gone, it's gone.

Some choices are less obvious and some are more severe (good or bad) than others. Not paying rent while going on a vacation will likely result in eviction (bad). Making your car payments on time will result in an improved credit score (good).

The point is, there is always a trade-off.

Every dollar you spend is a dollar not going elsewhere. Once it's gone it's gone.

Opportunity costs do not go away if you use a credit card (debt). You haven't eliminated a trade-off, you've just pushed it back. The interest you now have to pay is another lost opportunity.

You may want what you need but don't allow yourself to think that you need what you want.

We have met with too many people who are convinced paid television is a "necessity." It just isn't. A necessity is indispensable. You need oxygen to live. You need food to live (though some foods are more conducive to health and wallet). If you work a distance from where you live and public transportation is not an option, then your own transportation is a necessity. Food and oxygen are common to all of us, but after that, necessities are variable. Drawing the line between a "want" and a "need" becomes important.

For example, if you have a large family, and the kids have soccer practice or piano lessons, you "need" transportation. A used mini-van? Or a new SUV? What makes that fancy SUV "more necessary" than a more economical car?

Nobody has unlimited money. Remember, if you buy a cup of coffee, or lunch, or cigarettes, you are saying this purchase is more important than your goals (savings, your kids' college, vacation, or the three goals you listed earlier).

Today, much of our spending is driven by want, and that's not always a bad thing. We work hard and should enjoy some luxuries in life. The key is making sure your money is doing for you what you truly want; not just impulse buys, or keeping up with neighbors. Just make sure you want it more than your goals. It's okay to go out and spend $40 a week on lunch, if you remember that's almost $2,000 a year, if that is what you really want. Would you be happier going out once a week, and putting the rest of the money towards goals?

That is the real question.

Inflation

What is it and why should it matter to me?

What makes the value of a dollar? What can a dollar buy?

To be honest, it depends. While our currency has remained the same for years (dollar bills, nickels, quarters, etc.), the "value" of that currency is constantly changing. It's why you might hear your grandparents say they remember paying 5¢ to go see a movie, or why a brand new Ford might have only cost $2,000 in the 1950s.

The change in the **buying power** of a dollar is referred to as **inflation** or **deflation.** Inflation is an increase in prices for goods and services, causing your purchasing power to decrease. For example, if you paid $1 last year for a candy bar, but this year the same candy bar costs $1.05, then the inflation rate was 5%. The opposite is true for deflation; if you bought a candy bar for $1 last year, and now pay $.95 for that same bar, the deflation rate was 5%.

Inflation is most often measured using the Consumer Price Index (CPI) published by the Bureau of Labor Statistics. It is based on the prices of a basket of common goods and services in urban parts of the country. Unfortunately, this statistic can be misleading. One area decreases, like housing, while another rises, like groceries or food.

Why is this important?

Imagine you are retired and have $100,000 in savings paying 2% interest; your nominal rate of return. Now let's take inflation into account. If inflation is averaging 5% per year, that makes your **real rate of return** negative 3%. In other words, you've lost 3% rather than gained 2%. The buying power of your savings has dropped and you can now buy less with your savings, meaning you need more savings. Inflation can be very dangerous, especially for retirees. You need to be conscious of inflation when planning long term, because what you pay now is not guaranteed to buy you the same goods or services in the future.

Inflation might be misleading because it can be hidden. For example, if a refrigerator costs the same as it did 10 years ago, but it will only last half as long, you will wind up spending more because you will have to purchase a new refrigerator sooner. Another good place to spot hidden inflation is the grocery store. Have you noticed the size of packages of food, like ketchup bottles, getting smaller over the years? The price may be the same, but you are getting less of the product. This is called "hidden inflation" because the price of a good or service may not change, but the quantity or quality does, thus costing you more.

Hidden inflation: same price as before but smaller portions or lesser quality of the product.

Inflation is "felt" more than understood.

We "feel" it when we see prices rising faster than our income, or go to the grocery store and come out knowing we bought more in the past for the same amount of money. Inflation is an important concept to remember when planning for your future, savings and investing.

What does this mean to us?

As inflation increases, we may be tempted to decrease the amount of money we put into savings or investments to cover the increased costs for us to buy goods and services. This is one reason you should periodically revisit and adjust your spending plans.

Over time, this can amount to a great deal of money, and it could lower the standard of living for everyone if left unchecked. Inflation is serious and must be thought about. Not taking inflation into consideration when planning your retirement can be very dangerous.

Addicted to deals?

Can you really have too much of a good thing?

Money is naturally an emotional topic. Saving, spending, investing, coupon clipping, online auctions and even daily deal sites all play on our emotions. We can easily get caught up in the moment and end up paying too much at an online auction. Sometimes we may even spend to make ourselves feel better ("retail therapy"). Others may turn a fun hobby like coupon clipping into an addiction, almost a part time job, albeit a poor paying one. Some people spend half of their valuable Saturday driving around town for sales, burning costly gas and their time, all under the pretext of real savings. Others become addicted to scouring websites and stores for markdowns, clearance items, and special sales and end up making purchases they really don't need.

It doesn't matter what area of our life we focus on, we can always go overboard, even with our finances. Many consumers experience serious problems with gambling, alcoholism, and spending/debt accumulation, so being aware of your personal weaknesses goes a long way toward being able to gain control.

Can you have too much of a good thing? Take couponing for example. Initially, it seems like a good thing, but it can easily become an obsession, doing the opposite of what was intended. When you buy just to use a coupon, it ends up costing you money rather than saving you money. You need to admit something is wrong. From daily deal websites to buying clubs, there needs to be a limit. The important thing is to keep a healthy perspective on your goals. Ultimately, what are you trying to accomplish with each purchase?

Addictive behavior can surface in any activity, but when it comes to money management, there are immediate negative consequences. If you are trying to save money by cutting coupons, good job. But step back and take a fresh look at the real cost. Perhaps you are spending several hours a week to search for and organize coupons or staying up until midnight to see what the new daily deal is. If this is the case, just say no!

Let’s ask ourselves about "deals"

Can you answer yes to any of these questions?

Be honest here – because more than half your budget may be affected.

- Are you really doing this to save money, or has the activity itself become your focus?
- Do you find yourself staying up until midnight to see the next daily deal?
- Have you lost track of how much money you are spending in order to snag a bargain?
- Are you going into debt to add to your stockpile of “savings”?
- Have you bought things you later regretted?
- Have you ever bought a voucher or daily deal and not used it?

Before your next "deal" ask yourself: “Why am I buying this?” and “How does this fit into my goals?” or "Would I buy this if it were not a 'Deal'?"

Exercise:

Did you see yourself in any of the above questions? If you need help, check out *100 Small Ways to Save Big* section on p. 76. Remember, by making some of these changes, you are taking control of your money and not letting others control it for you. If this does not apply to you today, be mindful of these concepts to protect yourself in the future. What steps will you take to reduce or eliminate some of your spending addictions?

Steps I will take to reduce....i.e. I will cancel my Daily Deal email

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What to do when the unexpected happens?

The unexpected happens. It may be an unplanned medical bill, housing or car expenses, loss of income, or worse.

You have to take action, quickly. The biggest mistake people often make when facing a financial crisis is responding too late. As soon as the crisis hits, or better yet, before it happens, have your finances in order. These crises you face may last longer than expected and quickly putting a plan together makes a big difference.

What specific steps should you take if you lose your job?

First, maximize your income in any way you can.This includes filing for unemployment benefits even if you don't think you qualify. Then start (or, we hope, continue) networking, posting resumes, take on odd jobs, anything. These activities show others your desire and work ethic and could lead to a job if it is between you and someone who shows less ambition. Also, seek out any and all government benefits. Start by searching at www.benefits.gov. Don't feel guilty; these safety nets are there for a reason and you helped pay for them. Another option is to look through your belongings for items you no longer want or need. Examples include movies, video games, clothes you don't wear, the list is endless. Selling unneeded items online can be a great way to bring in cash during (or before!) hard times.

Second, go over every expense you have and make an honest list of needs vs. wants. Remember, be honest. By "needs," we mean something you cannot live without. Paid TV is not a need, but Internet may be a vital part of your online employment search. Next, from the "honest list," review all of your needs. Address each one and see if there are any options for reducing the monthly payments. For example, you decide you need the Internet. See if you should change vendors, negotiate with current provider, reduce the speed of your connection, or use the Internet at the public library. Call your car insurance company and check with their competitors. Ask your agent what can be done to reduce your premium.

Call your credit card companies, explain your situation and see if they offer an "in house" repayment program that would reduce your interest rate and/or monthly payment. Many do and it costs nothing to ask. For a more in depth list of ideas, check *100 Small Ways to Save Big* later in this book.

Third, review your monthly spending plan. We worked on this earlier in the book, but now your situation has changed. Time to complete a new one that reflects current circumstances. Save everything you can. No one has too much money, especially at a time like this. You may be tempted to not cut all your wants out, but do it anyway. If you cannot meet all of your expenses, make a schedule of what is going to get paid out of each paycheck. Prioritize. The basic rule is take care of the roof over your head first, food second, then things the collectors can come and take. Sometimes the unsecured creditors just have to wait.

Fourth, try to relax. That's easier said than done, but you have a plan in motion and that's all you can do. Be sure you review this entire workbook again. Consider avoiding friends who go out a lot, or explain to them you simply cannot spend time with them now. Other points to consider: save gas and drive less, eat out less or not at all, no dry cleaning, shop at discount grocery stores, use coupons, plan meals to economize — a large lasagna dinner can become three or four meals. Past this point, you may also consider talking with a bankruptcy attorney or a credit counselor to discuss your specific situation.

If you don't have a plan, then frequently the loudest or meanest collector is the one who gets paid, and they may not be who you should pay.

Banking

Your vehicle to save, spend, and invest

In this section you will learn:

Cost of not having a bank account

Different types of accounts

Co-sign danger signs

Managing your checking account

Properly managing your bank account is an important part of maintaining your financial health. Financial life becomes more manageable with a well-kept checking account. Not having a bank account will cost you money. **A lot of money.**

Let's see how much money not having a checking account could cost you.

	__________	Number of bills to be paid each month (be thorough; this may include electricity, gas, phone, insurance, car payments, rent/mortgage, student loan, credit cards, etc)
x	$ __________	Cost of a money order
=	$ __________	**The cost of just paying your bills for one month!**

Now, you also have to worry about the cost of cashing your paycheck, if your employer even prints paper checks rather than direct deposit.

	$ __________	Cost of cashing each paycheck
x	__________	Number of times you are paid each month
=	$ __________	**Cost of accessing the money you've already earned!**

Some may think:
No checking account...so what? I'll pay a few fees and don't have to deal with a bank.
Think again.

Next, let's see how much this is costing you each year:

$ ________ Total cost of paying your monthly bills

\+ $ ________ Total cost of cashing your paychecks

= $ ________ x 12

= $ ________ **Annual cost of not having a bank account!**

Next, take a moment to think about all of the things you could do with that money. Would you add it to your savings account? Go out for a nice dinner once in a while? Start a retirement fund? The options are endless.

There's no doubt the lack of a bank account will cost you money. There are many things to take into consideration. What about the time it would take to cash your check and purchase the money orders? What about the safety? We certainly wouldn't feel comfortable running around town with enough cash to pay our rent or mortgage in our pocket.

If you mismanage your bank accounts, you could find yourself in this situation because financial institutions may close your account and others will not likely open an account for you.

Not having a checking account can cost you time, money, and even jeopardize your safety.

Managing your bank account

By now you should have a good idea of how important it is to have a bank account. Managing that account can be tricky though. Here are some of our top tips:

1. Keep track of transactions. That means balancing your checkbook consistently. Mismanaging your checking account can have a serious, negative impact on your overall financial goals. In this age of ATMs, debit cards, check-by-phone, auto debits, etc., habits that weren't dangerous in the past (for example, floating a check) can now get you into trouble. But, the electronic movement of money can work to your advantage as well. Many banks offer “virtual wallets” that can help you manage your finances right on the computer. But you still have to keep track, online or off.

2. Always be aware of your balance. To do this, keep track of all transactions so you know what charges are pending and what charges have gone through. Overdraft fees are costly, but incredibly avoidable. If the money is not there, don't spend it.

3. Set up online alerts. These can include e-mail and/or text alerts when your balance falls below a certain amount, when a debit or ATM transaction takes place, when your paycheck is deposited and so on. These can be very helpful in making sure you are on top of your account and its balance. Plus, they only take a few minutes to setup.

4. Open a savings account. Fortunately, these days most people have a checking account. However, many people overlook the benefit of having a savings account. Everyone should make a practice of putting money into a savings account, regardless of whether or not it seems possible. It can be helpful in many situations, including being used as a form of overdraft protection for your checking account. Just ask your financial institution to link the accounts together.

5. Avoid paying ATM fees. If you go to an ATM not affiliated with your bank, you'll get charged at least once, if not twice: once by the bank whose ATM machine you used, and sometimes by your own bank for not using their ATM. Even if you're looking at only one fee, $1.50 several times adds up fast. We've counseled people who are surprised to find out they've spent several hundreds of dollars a year on ATM fees. Find a bank that meets your ATM use needs.

6. Avoid overdrafts. An overdraft is when you write a check or other withdrawal that causes the available balance to drop below zero. Not only are you charged a hefty fee each time this happens, but your bank can close your account if you have too many overdrafts. If this happens, you'll have another set of problems on your hands, because the next bank you go to will be unlikely to offer you free checking, or even an account at all. If your bank closes your account, other banks will know about it. This is what can cause you to become “unbanked,” which you do not want.

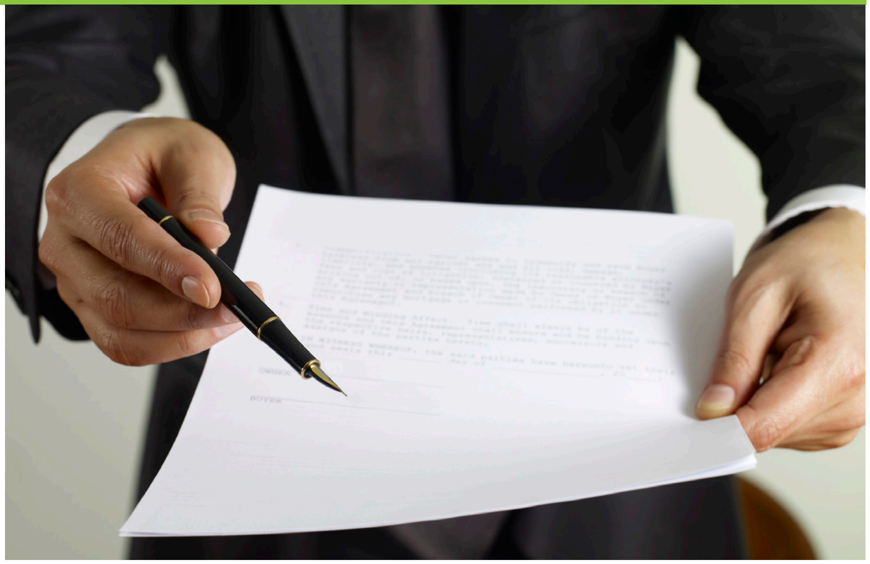
7. Avoid overdraft protection. You might think you can cover your overdraft charges by opening an optional overdraft account, but this can be risky and it's no excuse to overdraw your account. Having an overdraft account can make you lazy and think “why should I reconcile my account when I have this to protect me?” Well, you don’t, and it will not protect you. It will put you into debt. Overdraft protection is a crutch and a loan you must pay back. It's ok to have but never use.

Many people max out an overdraft account right away. As an alternative, many banks will let you link to a savings account for overdraft. This shouldn't make you feel better about overdrawing your account, since dipping into your savings is not a good practice. With most management, prudence is key. If you might overdraw your account, have your checking account linked to a savings account and put some money in there to cover this possibility. Be careful, because many banks will charge you everytime they take from your savings to cover an overdraft.

Did you know?

Many employers require electronic pay checks. Imagine starting a new job and telling them you don't have or can't get an account

8. Avoid other fees. Competition amongst financial institutions is strong, so find a bank/credit union that does not require you to maintain a minimum balance, or limits the number of withdrawals you can make within a set time period. There's really no reason to pay bank fees, and if your bank initiates new fee policies, it's time to shop elsewhere. Ask them what all of their fees are before you open that new account. Not sure it’s a good deal? Shop around. Remember, we are talking about making YOUR money do what YOU want it to.



Co-sign? Danger sign!

Almost everybody knows somebody who has needed a co-signer at some point. But why? Usually the person does not qualify for the loan on his or her own. In essence, the lender says they are too big of a risk and they believe they will lose money by lending to them.

Just because you love someone or you want to be a good friend or parent doesn't mean it's a good idea to cosign. But wait, you say they've changed and have had a job for three whole weeks now. Guess what? It's still not a good idea! Co-signing a loan puts your financial health in jeopardy. If you do it, be prepared to pay the debt yourself because there is a good chance you will be held responsible at some point. Could your budget support the extra burden of paying your debt payments as well as those you have co-signed? Can you afford to have that debt included in your debt-to-income ratio for future loans? Because it will be for the life of that loan. For most of us the answer is "No." What if you can afford it? Do you want to? Would it be taking money away from your other goals? **To us, the answer is clear. If you are not personally living in it or driving it, do not co-sign for it.**

Outside of your spouse (and even that can be an issue), think twice about joint accounts.

The moment you co-sign a loan, you are legally responsible for the debt, including any penalties and interest for late payments. If they don't make the payments, guess who the lender is going to come looking for? YOU! Worse yet, this will often not happen until payments have already been missed, causing your credit to take a major hit (as we'll see in an upcoming chapter, payment history accounts for about 35% of your credit score). If you apply for any type of loan, this could keep you from that new car or mortgage you worked so hard for.

If your co-signer defaults you may not find out until after your credit report has been affected.

How about a joint checking account? That too can be dangerous. Banks often have what is called “right of offset,” meaning if you have a loan account that becomes delinquent and a deposit account (checking or savings), they can offset the deposits (i.e., your cash) against the loan.

We once counseled a man new to the area. He was unable to open a checking account here and had no idea why the banks were saying he was not qualified. The problem was not that he had written bad checks or mismanaged his finances. It turns out his ex-wife had kept the joint checking account from their marriage and had written bad checks. With his name on the account, the bank was looking to him for payment.

It is not your responsibility to take on another’s debt. Just say no.

Banks put great time and resources into predicting if somebody is going to cause them to lose money. If they decide someone is a high credit risk, they won't make any money on that person, and will deny them a loan or credit. The examples above illustrate only some of the dangers — avoid co-signing.

If you’re asked to co-sign, don't be afraid to say no. Most people can get financing if there is any chance of repayment. They may have to pay higher interest or put more money down, but it can be done. If they cannot be financed without a co-signer under any circumstances, consider this a huge red flag. It's not your responsibility to take on another's debt. Just say no; your financial future is far more valuable than saving them a few points on a car loan.

If someone keeps pressing you, tell them you were told by a financial advisor, credit counselor, or college professor (you know, us) not to.

Saving and Investing

Why it's for everyone.

In this section you will:

Discover various investments

Get an introduction to investing

Whether you know it or not, you are probably an investor already. Can you answer yes to any of these questions?

- **Do you have a savings account?**
- **Do you have a retirement account (401k, 403b, IRA)?**
- **Do you have a bank certificate of deposit or CD?**

If you do not have any of these, you need to keep reading and investigate your options. If you do, you are already an investor and need to have a better understanding about how it all works.

A foreign language?

To most people, the world of investing is mysterious and intimidating. Terms like “ask,” “yield,” and “bear” have very different meanings from our everyday understanding of these words. In short, most of us feel left out of a conversation others are having about investments. This does not have to be the case, so let’s break down the basics. The more control you have over your finances and the more educated you become about how to control your finances, the less likely you will be to fall for investment scams, or make investments that aren’t right for you.

First, **know that investing really is for everyone.** You may be thinking, “Are you kidding? Me? I don’t have enough money to be an investor.” At a minimum, everyone should have a savings account and everyone should invest for retirement. If not today, soon. Very soon. It doesn’t take much. You don’t need vast sums of money to begin investing. For example, $50 can get you started in a mutual fund. Did you research the story of Earl Crowley from back on page 4? What did he start with? Don’t forget his salary was certainly not on the high end! He learned by listening to others, educating himself, learning how to budget, then slowly investing with small amounts.

While investing is for everyone, even if its not a lot you do you need to have money to invest, and it has to come from somewhere. **It’s time to start saving.** If you get a raise at work, take the difference and put it in a savings account. This book is full of ideas for saving and reducing spending. Just put some of those ideas into practice. The point is, you need to set money aside, and everyone can do it. The key is to **get started.**

Next, **understand there are several investment options; you simply need to find those that are right for you.** The best place to start is by reading money and investing magazines and books for beginners. Jim Cramer’s *Real Money* is a good, real world guide to stocks. In addition, there is a vast amount of information online. Many magazines and newspapers can be read online and many great books on investing can be checked out at your local library.

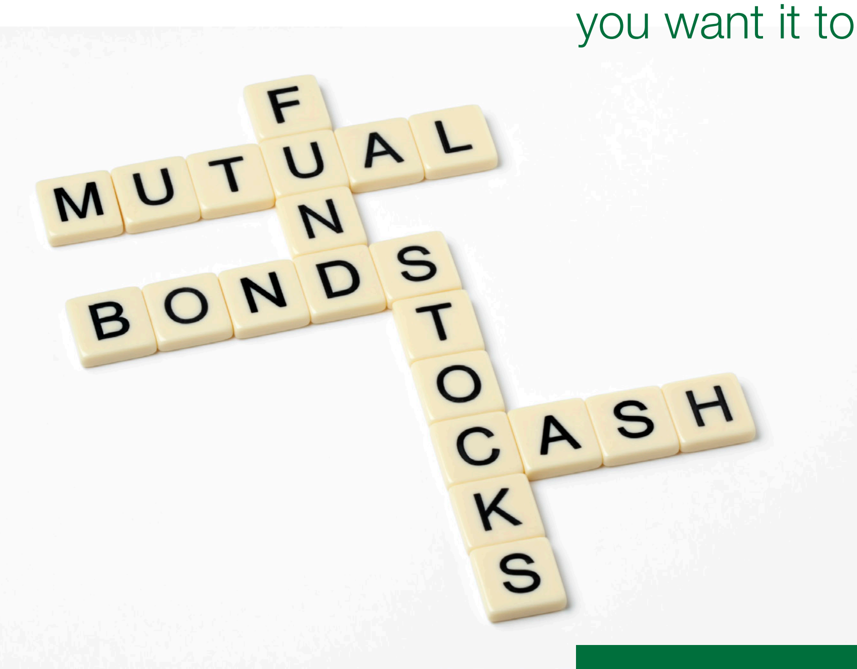
Third, once you're familiar with the types of investment opportunities out there, **figure out what sort of investor you are.** Are you a risk taker? Are you a conservative? How upset would you be if your $5,000 retirement account became worth only $4,000?

Some investments fluctuate a lot, while others don't. But the more risk you can accept, the greater the potential gain. Some investors are very conservative and prefer certificates of deposit; others are mostly invested in stocks. Neither is wrong. It is up to you; your risk tolerance, and your age. There are many online surveys to help you figure out what your risk tolerance is and how you should allocate your investments.

Lastly, the most important rule to investing is to understand that risk equals reward. How much can you, or should you, risk on your investments? Does the potential reward seem too good to be true? The more you know about investing, the better you'll understand how risk vs. reward applies. When you invest, the goal is to make money. However; investment come with risk. You can never guarantee what the future will bring. But this does not mean investing is the same as buying a lottery ticket or playing the slot machines. If you want to have more control over your profits and losses, never stop learning!

"Successful money management is having your money do for you what you want it to."

– Michael J. McAuliffe



Here is what some great investors think.

Warren Buffett, the famed businessman and investor, devised a philosophy about investing that we couldn't agree with more. This belief states you should have long-term thinking when it comes to what you're invested in. Buffett once said, "If you don't feel comfortable owning something for ten years, then don't own it for ten minutes." Long-term thinking about investing is the opposite of fast turnovers (buy, then quickly sell). Long-term investing is not a "get rich quick" scheme; it does not involve buying stocks and then selling them again soon after.

Buffett has been ranked among the top 5 richest men in the world, often as #1. To put in perspective his long-term investing strategy, he bought his modest home in Omaha over 50 years ago for $30,000, and maintained it as his primary residence years after he made his billions! You might say he likes to practice what he preaches.

For any company to be successful over time, they cannot be concerned with whether the value of their company is "up" or "down." That means investors in the company should also not focus on profits as the driving force in their investment. After all, if the company is doing well, there will be profits for investors. There is a lot more to investing than if you like a company or the product they sell. Bad companies can make good investments and good companies can make bad investments. Good decisions are based on knowledge – guesses are hit or miss, and when it comes to money, guessing is the same as gambling -- don't.

Another famous investor, Peter Lynch, created the concept that you should invest only in companies you're familiar with – a product you use, for example. My advice is no one should buy a stock unless they have done extensive research on the company.

While it is important to research your investments and see what 'experts' say about your investment ideas; you should not be afraid to strike out on your own. What that means is you should not always follow the crowd or go along with the herd. After all, there is a saying on Wall Street: "sheep get slaughtered." The more you know about your investments, the better you'll be at predicting what's going to happen in the market.

"If you don't feel comfortable owning something for ten years, then don't own it for ten minutes."
– Warren Buffett

“No one should buy a stock unless you have done research on the company”

As you continue reading about various types of investments, you will start to see why it is important to diversify. As the old saying goes, “don’t put all your eggs in one basket.” It’s always a good idea to spread your money across several types of investments. For example, placing all your money into a single company’s stock – especially your employer – is riskier than putting money into a mutual fund, which involves a variety of stocks. Let's look at some specific investments and how to go about investing in them. By diversifying your portfolio and the range of your investments, you are more likely to secure a solid financial future for you and your family.

What about buying a house?

This workbook is about creating financial independence. Owning your own home can be an important part of achieving that dream. Paying rent or a mortgage in retirement can be a risky proposition that you don't want to face.

It is true your home is an investment but that is only part of the story. The primary function of your home is to provide security and comfort to you and your family. You should never buy a home simply because you think you will make money on it. Learn a lesson from the many people who made this mistake during the housing bubble.

First and foremost, your home needs to do what you and your family need it to. Secondly, you should not buy if you may have to relocate in the near future. There are a multitude of costs that you must factor in when you're buying a house (mortgage fees, appraisal, title costs, attorney fees) and when you're selling a house (real estate commissions, transfer taxes, title costs). If you know that you'll be moving in the near future, purchasing a home often isn't worth the cost and time spent.

Don't buy more house than you can afford. Just because the bank offers you a 30 year mortgage for a certain dollar amount, it doesn't necessarily mean you should get one or that you can even afford it. In Japan they began offering 100 year "multi-generational mortgages." I think we can all agree that's not a good idea. If you cannot pay the mortgage off comfortably in 15 years, look at other properties.

Let's take a moment to compare how much an average home would cost over the life of the mortgage so you can see for yourself just how dramatic the savings are:

	15 year mortgage	30 year mortgage
Loan amount	$100,000	$100,000
Interest rate	5.75%	6.00%
Monthly payment	$830	$600
Total interest paid	$149,474	$215,838

Houses cost more than just the mortgage. Be prepared to pay these additional expenses:

- increased utilities
- property taxes
- furnishings
- decorating
- maintenance
- lawn care
- insurance

These are just a few. The list can be much longer depending on what kind of home you buy.

A 15 year mortgage term will save you $66,364 in interest- that's a lot of cash. You will be tempted to go with the lower payment and promise to pay extra. I tried that myself and it simply does not happen. So when you're thinking of how great it will feel to own your own home free and clear, remember: stick to a 15 year mortgage, nothing longer.

If you are looking to purchase your own home, start saving cash immediately. The bigger down payment you can come up with, the better. If you can put away 20% of the home's purchase price as your down payment, you will not have to pay mortgage insurance. Even better, the larger down payment means lower monthly payments.

Talk to a lender about your credit: What steps you should take now, what documentation would they need to approve you for a loan, and how much you qualify for? Get a copy of your credit report and make sure it's accurate. Consider contacting a HUD certified housing counselor and taking a pre-purchase housing class. These classes will help you better understand the home buying process, explain the typical terms and fees, and how to avoid being taken advantage of. Family Credit Management even offers an online course, so there is no excuse not to be completely prepared when you decide to take the plunge.

Look for a qualified realtor who is experienced in the area and types of homes you are considering. It's often helpful to ask friends or family members for referrals. If they've had a good experience with that specific realtor, there's a good chance you will too.

Purchasing a home can be one of the best financial decisions you can make. It can also cause financial ruin if it is not done right. So take your time, do your homework, and make sure you are fully prepared!

What is stock?

As we've discussed in other sections, there are many types of investments. When most people think of investing, stocks are first to come to mind. But, what is stock? Stock is a percentage ownership of a company. Companies, like people, can find it a hassle to go to the bank, so when they need money to expand, they sell a portion of ownership in the company. Shareholders are the people who own stock. The process by which prices are determined is the highest price someone is willing to pay for a stock (the "bid"), and the lowest someone is willing to sell (the "ask"). Proof of your ownership, years ago, was a paper certificate. Today, most are electronic.

Why should you consider purchasing stock?

To put it simply, it is an important part of any investment strategy because of the long-term benefit. The S&P 500 – a "basket" of 500 major companies – averaged an 11% return every year from 1926-2006. As part owner of a company, you are entitled to a share of its earnings. That means your returns are generally consistent and profitable. But you can and will have bad years, even multiple down years, hence the reason for investing in stock long-term. You should never put money into the market you will need in the next five years or so. There is never a guarantee.

How do you choose what stocks to buy?

First, most beginning investors should start with mutual funds. But if you want a specific stock, **do research.** You can get ideas from all sorts of sources and investment guides. You may be a customer of a company you find interesting. Go research it. You may read an article touting a particular company. Go research it. You may even see an emerging trend, like "green energy," that others may not. The more you know about a given company, the better your decisions will be.

Next, determine what your investment objectives are. Are you looking for current income, long-term investment, or both? Remember to weigh the risk against the reward. You should also enjoy the research. It's your money, and it becomes increasingly easier to make it grow if you enjoy the subject matter. If it's not fun for you, then you won't put in the time needed to make the investment process payoff. If you don't enjoy it, it's not the end of the world. There are other, less time consuming investments (like mutual funds) that can be managed by a full-time professional.

Let's talk about some basic stock terms.

You might have heard investors speak of "bull" and "bear" markets. **Bear** markets are when stocks are going down (the bear claws the stock prices down). **Bull** markets are the opposite (the market is pushed up by the bull's horns). Forecasting a bull or bear market, though difficult, should influence your investment decisions.

There are several groups of stocks out there.

Blue chip stocks have consistent earnings growth over many years. **Speculative stocks** carry more risk and aren't as reliable for consistent growth. Blue chip stocks however; are not immune from losing their steady status. Ford and General Motors were long considered Blue Chips, until the American auto industry took a dive late in the 2000s. The market is always changing. That's why you need to be able to watch your stocks closely – or have someone who does that for you.

Another way your investment can increase is through companies that pay stock dividends. A **dividend** is a monetary payment to shareholders out of a company's reserves (usually cash or additional stock). It reflects a company's profit status. General Electric, for example, usually pays shareholders a dividend per share on a quarterly basis.

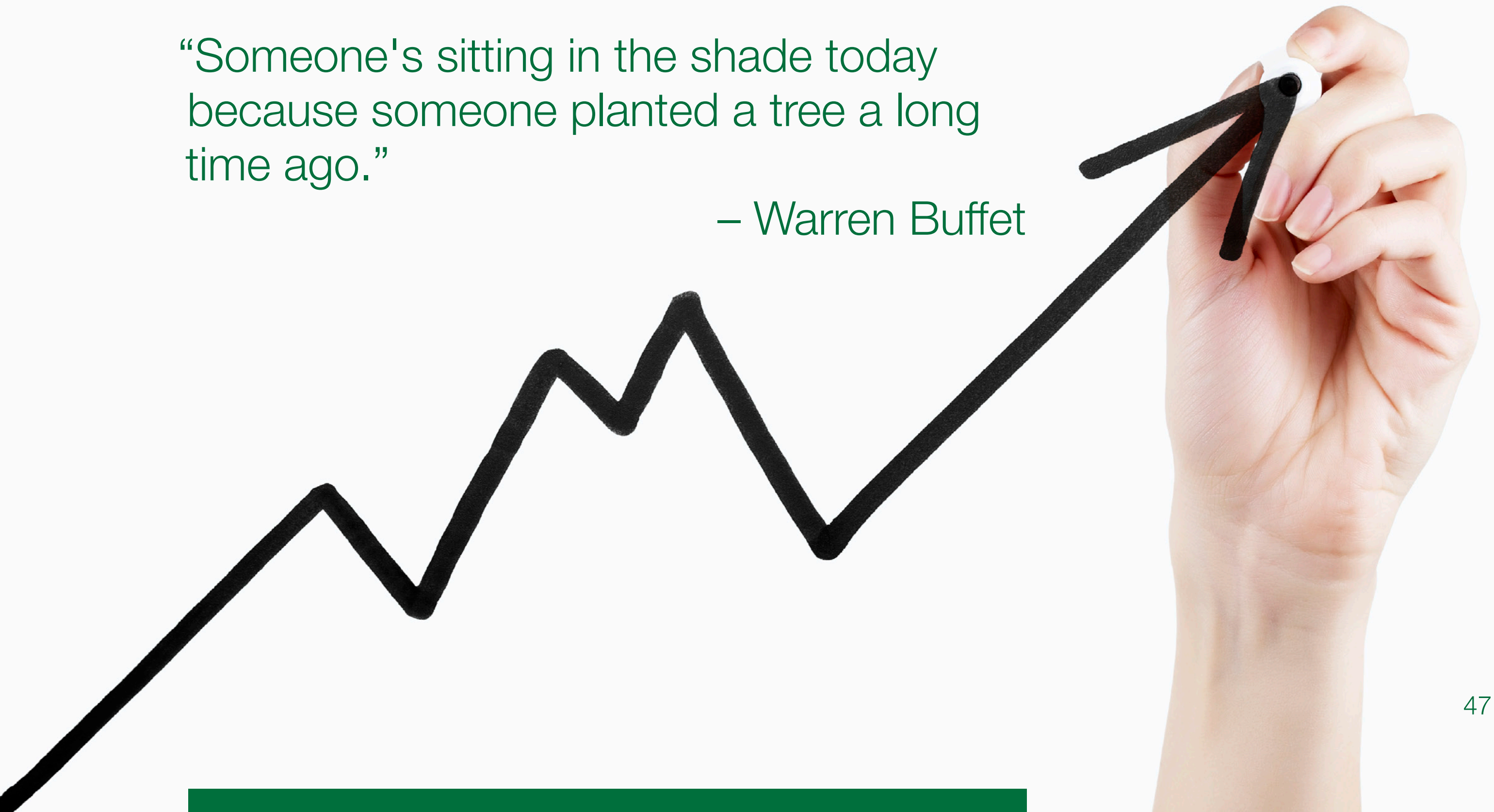
Growth stocks are companies whose sales are growing at a rapid clip. They are usually young and hot businesses.

We'll get more specific in the next section, but **bonds** are yet another enormous part of the finance world. Simply put, they are loans to a government or business. The issuing party accepts cash from an investor, and depending on the nature of the bond, will pay a set amount of interest to the investors at a specified date. We'll get further into bonds in a bit.

There are also **preferred stocks**, which are effectively a hybrid of stocks and bonds. A preferred stock trades like a stock and usually pays a higher dividend. Preferred stocks are not really ownership in the company and are not owned or understood by most investors. If you don't understand what you are investing in, stay away. Preferreds have a place, but only if you get a little experience in investing.

"Someone's sitting in the shade today because someone planted a tree a long time ago."

– Warren Buffet



This is just an introduction to investing. Don't stop here: read, research, and get your investment feet wet. You can start with $50 a month.

Ready to purchase stock?

When you decide to buy stock, you can purchase it directly from certain companies. In today's high-tech culture, locating and contacting companies is typically just a few clicks away on the internet. Once you are a shareholder, many companies offer dividend reinvestment plans (DRIPs) and direct investment plans (DIPs). These plans allow investors to reinvest their dividends in the company by purchasing additional shares or fractional shares of stock on the dividend payment date at a discount. Such plans typically allow you to reinvest commission free. There are brokers like sharebuilder.com that also allow you to purchase stock in small amounts, even fractional shares, and reinvest the dividends.

The Stock Market

The **stock market** is the place where stocks are traded (bought and sold). The most famous stock exchange is the New York Stock Exchange (NYSE). The NYSE trades stock for some of the world's largest companies. Computers, but also men and women, trade stocks there on behalf of brokerage firms and their clients.

NASDAQ

The NASDAQ is the virtual stock exchange which connects dealers through computer and telecommunications networks. There are many big companies trading on NASDAQ, just like the NYSE.

There are many more factors to consider when buying a stock. This can include their debt load, profits, outlook, growth rate, and so much more. This workbook is meant to provide a basic understanding, tear down reservations people have about investing and encourage you to continue to learn more. You can figure investing out. Nobody is born with this knowledge. Keep moving forward!

What is a bond?

A bond is a debt issued by companies and governments to raise money. In reality, it is a type of loan. When you buy a bond, you and the other buyers become the lender. It's a form of an IOU the issuer (company or government) gives to the investor. The point of buying a bond, of course, is to make money from the yield or interest. Bond issuers will then pay interest throughout the life of the bond, until it "matures" (the bond period has ended).

A few bond terms to familiarize yourself with:

- **Face value** – the amount the bond is originally sold for, usually $1000.
- **Maturity date** – the date the bond is to be repaid.
- **Collateral** – specific assets of the company used to secure (reduce risk) the bond. This is common with mortgage bonds.
- **Debenture** – a bond that is only backed by the credit, faith and good name of the issuer.
- **New issues** – bonds being issued or sold for the first time.

You can also buy a bond on the secondary market, which means a bond is sold by an existing investor/bond owner who doesn't want to or can't wait for the bond to mature.

One advantage of investing in bonds is they are less volatile than stocks. A bond can be an important part of any portfolio. As with any investment, there are risks involved in bonds. As stated above, you get your money back, with interest, if the issuer is able. Companies, like people, can go bankrupt or get in financial trouble. When that happens, there is no guarantee the bond will pay out. Companies like Enron and Worldcom went belly up almost overnight due to the unethical practices of their management.

To counter risk, always diversify your investments. Simply put, "diversifying," means to put your money in a variety of investments and companies (or "don't put all your eggs in one basket"). Investing in U.S. Government bonds are considered the safest bond investment because if it turns out the United States Government can't pay back the bond, we've got more serious troubles to worry about! Some states and municipalities issue bonds too, but may not be as safe; they can go bankrupt too. The lower the grade (established by rating agencies like Moody's, Standard & Poor's, etc.), the more risk there is you won't get your principal back. Of course, the lower grade also means the return could be higher. Once again, the guiding principle of investing is risk vs. reward. You need to understand what your risk tolerance is – and make sure you're realistic about it! As with any investment, be sure to conduct your own research.

Bond investment is part of an overall sound portfolio. Buying bonds is not just for retirees, the very wealthy, or very conservative investors. They often provide stability, a steady stream of income, and rates of return often higher than banks. If you decide to invest in bonds, diversify. Investing in some short-term and some long-term bonds can help you balance potential fluctuations in interest rates.

What are CDs?

Certificates of Deposit (CDs) are a common type investment offered by banks or credit unions. They are called timed value deposits, meaning the deposit is to be left for a set period of time to earn an agreed upon rate of interest. When you buy a CD, you agree to keep the CD for a specified period of time, which allows the bank to use the money for investments or lending. In return, your bank will usually pay you a higher interest rate than you would get from a standard savings account or shorter term CD. The primary difference between savings accounts and CDs is that your money earns more interest in a CD and you agree not to remove your money before the specified time, or pay a penalty.

Once you've kept your money in a CD for the specified term, the CD reaches maturity. At that point, you can reinvest in a new CD or withdraw your money along with interest it earned. If you do nothing at maturity, most banks will roll the money into a new CD, which will mean another set period of limited access to the money.

Traditionally, the longer it takes for a CD to mature, the higher the rate of return on your investment. However, by "locking in" a rate for long-term maturity you give up the chance to invest in a higher rate, should one arise. For example, you may have $1,000.00 to invest, and you put it into a CD at 5% that matures in five years, but then a year later, the rates go up to 6%. Because you're locked into the 5% CD, you cannot withdraw it early without incurring a penalty. Penalties for early withdrawal can be painful. The worst we have seen being half of all interest earned up to the point of withdrawal. Find out the penalty before opening the account and be sure to check the policy and interest rates of other banks. Some banks have relatively small penalties (2 or 3 months interest) which may allow you to invest in a long term CD to get the higher interest, while still having the ability to back out relatively painlessly.

One strategy for investing in CDs is called **laddering**. Say you don't think you will need the money for a long time but don't want to take the risk of paying a penalty. What can you do? Take your investment, say $5,000, and purchase five $1,000 CDs. Buy them with a one, two, three, four, and five year maturity. Each year when the CD matures, providing you do not need the cash, roll that CD into a new five year investment. In four years you will have a CD maturing every year but still receiving the higher long term five year interest rate.

How to buy Certificates of Deposit

There are a couple of ways to buy a CD, but perhaps the most common is directly through your bank or credit union. WARNING: Some non-banks issue CDs that are not insured by the Federal government. While they often claim to carry high rates of interest, never invest in these. They are unsafe and usually fraudulent. Stick with FDIC insured accounts from licensed domestic financials only.

Another way to buy a CD is through a stockbroker. They sell both new issue CDs, plus secondary ones. Brokered CDs usually cannot be sold back or cashed in early, and trade more like bonds based on the prevailing interest rates. This means your $5,000 CD may be worth significantly less if you attempt to cash it in early. You should be aware of these, but they are not for new investors. These are a little complex and most people should purchase them from traditional financials only.

Regardless of how you buy your CDs, be sure the bank is FDIC-insured. If it's not, you risk losing your money. Banks and credit unions often have CD sales and rising rate CDs. We've also found that online-only banks often have some of the most competitive rates around. So do your homework and shop around! Bankrate.com is a good place to begin.

Some firms will let you start investing with no account minimum.

What are mutual funds?

Mutual funds are the most common way for first time investors to enter the market. Buying stock is investing in individual companies. **Mutual funds** are investments in several holdings at once. It is typically a collection of stocks, bonds, or a combination of both. An **equity fund** is a mutual fund that invests in stocks, while a **fixed-income fund** is one that invests in bonds. When you buy shares of a mutual fund, you're actually buying shares of a company that invests in other companies.

Advantages

One of the biggest advantages to a mutual fund is diversification. With only one investment, you're automatically diversified with investments in multiple holdings. For example, investors in a typical mutual fund now own shares of many companies. Another benefit is the fund is professionally managed. While you pay a fee to be part of the fund, it is usually relatively inexpensive. Additionally, because investing in a mutual fund is an investment in stocks, there is liquidity. You can sell your shares for cash at any time.

There are many **fund families** who have individual funds from which you can choose. Many require low initial investments. Some will open your account with only a $100 monthly investment and some have no minimum at all. Fund families may be **load funds**, which mean they charge investors a commission every time they purchase or even sell shares. Fund families can also be **no-load funds**, meaning the investor does not pay a sales commission.

Dollar cost averaging is when you make regular investments at set intervals (i.e. monthly, bimonthly, etc.) regardless of the ever changing prices. Meaning you will in theory buy at the high and at the low and not worry about "timing" the market.

It is important to note that all funds will charge a fee to provide financial support to the fund for their websites, statements, accounting, advertising and marketing. There is also an expense ratio which is a fee removed from the fund's assets to cover the management and administrative costs of the fund. These fees you can't avoid, while sales or load charges you can.

Considerations

When deciding whether to invest in individual stocks or mutual funds, you should take into consideration your risk aversion and how much you want to oversee your portfolio. Many who invest in mutual funds prefer to have someone else manage their investment. Choosing a mutual fund can be a bit daunting; there are thousands of them. And, as with any investment, along with greater risk comes a greater potential for reward. So how do you choose? Look at the websites of some mutual fund families, review the holdings of specific funds and see which ones you agree with. Open an account, make regular investments, read the monthly statements, and keep expanding your understanding of investing.

Making regular investments at set intervals (monthly, for example) is called **dollar cost averaging**. Investments fluctuate. The theory is, if you invest this way you will buy some at the high, some at the low, and over time, always buy in the middle. If you want to begin investing in funds, do a little research. Check out morningstar.com, read money magazines, select a couple fund families, explore their websites, and then open an account.

Should you think about gold?

Investing in gold and other precious metals is another way to diversify your portfolio. Gold investments tend to do best when the economy struggles or there are international tensions, so investing in gold can protect you from losing buying power during times of inflation. For thousands of years, gold has been recognized across the world as a standard means of exchange. Think about it this way: gold is a currency that transcends paper money and nations. Gold is used everywhere; from jewelry to dentistry to electronics, and is easily traded.

Other precious metals (silver, platinum, copper, etc.) can also be qualified long-term investments. They may not be as popular as gold, but they can hold their value against inflation as well as gold. This is partly because precious metals are used in a wide variety of industries.

Unlike other investments, gold and other precious metals do not yield income. You don't receive interest or dividends from the gold. The value at the time of sale depends on how well the economy is doing or what world events are occurring, basically supply and demand. Metals are not for everyone, but they may have a **small** place in your investment portfolio.

If you don't want to buy coins, gold bullion, or invest in mutual funds, you might be interested in a mining company. It is another way to invest in metals. Moreover, like mutual funds vested in metals, it's easily liquidated. You can track the value of your investment on a daily basis more easily than you can track the value of the coins you have in your drawer.

Want to start out small? Check out coins at USMint.gov. Just make sure you have a safe place to store them!

Money and Your Life

In this section you will:

Examine how finances affect your relationships and what you can do about it

Discuss debt and what to do when you find yourself drowning in it

I'm a saver. You're a spender. What are we going to do?

Relationships are challenging enough on their own. Throw finances into the mix, and you can create a recipe for disaster. We've found this to be one of the most challenging aspects of personal finance. Almost everybody can be categorized as either a spender or a saver. If you and your significant other are both savers (we haven't seen it, but hear these elusive couples do in fact exist), go ahead and skip this section. If you are a spender partnered with a saver, or you're both spenders, read on. In fact, this may be the most important section of this entire workbook for you.

Not only are your finances at risk, but your relationship may be in jeopardy as well. According to a study performed by the University of Virginia, **couples who argue about money are 30% more likely to divorce.** You owe it to both your family and wallet to figure out how to handle your spending and saving values.

It is important to understand there is no right or wrong way to approach this issue. Everyone is different, including couples. This is about personal beliefs and moderation. While life is not all about money, it does affect all aspects of our society. It's important to make sure there is an open dialogue about family finances, as it's not just you who is affected by irresponsible financial behavior. Make spending and saving a transparent concept to everyone in your household to help avoid missteps and potential disasters.

How can this be solved? Our solution: "His, Hers, and Ours."

Money is power and can be used as a weapon. As we discussed, money is also emotional. It's not healthy when one person in a 50/50 relationship needs to get permission to go out to lunch or buy a new pair of shoes. However, eating out too often or shopping too much can break the bank. Asking for permission to spend money can put one person in the uncomfortable position of saying no. Even if they say yes, being an adult and having to ask permission to make a basic purchase can lead to resentment. This simply is not good for a relationship. We suggest using a system that sets common goals while allowing each of you to have control of your own spending. Each person keeps their spending money in a separate account and can be spent however you want. Regardless of how silly or insignificant your purchases seem to your other half, it doesn't matter - it's all YOURS.

To create your own "His/Hers", try following these steps:

1. Complete a family/household spending plan.
2. Decide how much money you want to devote to savings, goals, and discretionary spending.
3. Decide what is covered by "His or Her" (shoes, clothes, meals out, buying music, etc.), and how much should go to each partner. This is different for every family, but MUST BE FAIR. Who makes more money is not part of this equation and in most cases the split is 50/50.
4. Each person will open their own checking or savings account, in addition to the joint account they share with their partner.
5. On the agreed pay dates each partner receives their “allowance” (discretionary split) that goes in their individual account to do with as they please.

This last part is the key.

Today we hear more and more about financial infidelity, where one partner is afraid the other will find out how much they have spent or even the debt they have built up. This is unhealthy. He may want to spend fifty dollars going to a ball game; she may want to spend fifty dollars on a pair of shoes. Both of these scenarios are okay, as long as you are honest. No more arguing or hiding what was spent. If following this strategy, you can spend and still meet your goals.

One of the biggest advantages to this plan is putting perspective into your spending. When you have $1,000 in your checking account, going out to dinner and spending $50 can seem like no big deal. However, when that same $50 comes out of your individual account and you have to buy lunch next week and your balance is only $83, then you may rethink your options. You may not go at all, order something less expensive, or order something large enough that you can bring the leftovers to work for lunch. This will save you money! What changed? You still make the same amount. The only thing that has changed is your perspective on your finances.

Little changes can go a long way, both financially and personally.

Should I repay my creditors?
What are my options?

If you are like many Americans, you are looking ahead to many years of debt. And not just credit cards, but also automobile loans, and even your home. Debt payments can take a heavy toll on your goals, often absorbing an ever-increasing percentage of your income.

So what do you do?
Are there answers?
Do they have consequences?
Yes, and yes!
Let’s look at some of the most common.

There are no easy answers here, no magic formulas, and definitely no quick fixes. You cannot borrow your way out of debt, so the first step is to forget the “I’ll just get another loan and put everything I owe into one basket” idea. Many people erroneously think this helps. But think for a moment; if you take out a home equity loan, you have only transferred the debt you have into a loan against the roof over your head. If you suddenly became ill, died, or just couldn't repay this new debt, the home of your family could be at risk.

Remember, only consider legitimate ways to help you get out of debt. There are all sorts of scams and con-men out there, especially when it comes to finance. If the deal sounds too good to be true, it probably is. Always do your homework and check with regulators, the Better Business Bureau (BBB), the Association of Independent Consumer Credit Counseling Agencies, etc. You can't be too careful. And if anyone pushes you to make a quick decision, run!

Where can consumers turn for help with debt?

First, you can approach the very people you owe for assistance – your creditors. Some creditors are willing to rewrite existing loans or provide an "in-house" or "hardship" program. This may lower your monthly payment somewhat, but it often increases your total debt payback because of additional interest and possible other charges. In the case of credit card debt, you may receive relief from high monthly payments and interest charges by seeking the assistance of a certified credit counselor at a non-profit credit counseling agency like **Family Credit Management**. Depending on your circumstances, we may be able to negotiate lower rates and payments with most creditors, and the time for repayment of your debt can be reduced.

Help with debt is available, but take action sooner than later. Past due bills don't go away on their own and even result in getting sued.

Friends and family members are a possible source of help, but there are pitfalls to watch for. You must be certain the terms you agree to with friends or family are in writing, witnessed, and notarized. This is a business transaction, and you must keep it as such. Any business dealings with family and friends, should they become strained or fail, can risk alienating those you love. As we discussed earlier, think about this long and hard before choosing this option. A better choice may be peer-to-peer lending sites where people like you and I fund loans with as little as $25 each and together you can borrow thousands.

Other Remedies

Paying a creditor less than the amount owed and their accepting this as payment in full is referred to as **debt settlement**. Some creditors (usually collection agencies) may offer to accept this type of arrangement. Why? The debt settlement company pays the original creditor less than you owe - sometimes far less depending on how old the debt is. Sometimes as little as pennies on the dollar. If they pay $25 for a hundred dollar debt and collect $50 from you, it's not a bad investment for them. Unfortunately, some unscrupulous businesses have tried to convince consumers that all creditors and banks are happy to accept this arrangement, and for a large fee they will help you make this happen. This is simply not true and can even get you sued. Depending on how old your debt is, some creditors may offer to settle. Find out if there will be any tax implications, like sending you a 1099 requiring the written-off debt to be income on your next tax return. Also ask about the effect on your credit report. As we said earlier, if it sounds too good to be true, be careful, it probably is.

What if your debt situation is extreme?

Bankruptcy is there for a reason, but it is not a quick fix (no matter what attorneys on television may tell you). There are effects of filing bankruptcy, and people have reported varying experiences obtaining credit after filing. There is no across the board answer for how easy or hard it will be to obtain credit after bankruptcy. If you file there are two basic choices: Chapter 7 (straight bankruptcy) in which many but not all debts are forgiven and most of the debtor's assets are sold to pay off creditors, or Chapter 13, where a debtor with regular income makes partial repayment towards their debt over a period of time to a Chapter 13 trustee. This can be very complicated. If you believe your situation is serious enough and your debt burden large enough, talk to an experienced bankruptcy attorney.

Bankruptcy is not the quick fix some think, but it is there for a reason.

Lastly, you can do this yourself! Once you have calculated your spending plan and know how much extra (if applicable) you have to pay down debt, apply all the excess monies to the creditor with the highest interest rate. When that creditor is paid in full, apply all excess funds to the creditor with the next highest rate, and so on until all the creditors have been paid in full. We suggest you start with eliminating all unsecured debt, like credit cards, then move on to auto and mortgage loans. The key to this plan is never lowering the amount of the monthly payment you began with when you calculated how much you had available to eliminate debt.

While we suggest putting all extra money towards the highest interest, psychologically many need to put it towards the smallest balance. Whichever way inspires you to attack your debt is the right way.

Even debt comes at a price

Whichever method you explore, you should be aware of the price you pay if you do not repay your debts. As we will explore in the next section, the first is the damage to your credit rating. At some point in the future, you will want (or need) to borrow money, buy insurance, or get a job, and this can have a negative impact on your being able to. Remember, everyone from landlords to employers, cell phone carriers, and even some utility companies are now using credit reports and scores to determine if you are a worthy risk. If they decide you are worth the risk, they then may use your credit to decide how much to charge. A person with very negative (or no) credit history should also expect much higher interest rates or simply be denied.

Credit and Credit Reports

Your credit score matters!

In this section you will:

Learn about credit reports and scores and how they affect you

How to build your credit

"Quick Money" Don'ts

Your Credit Report and Score. Who needs it? You do!

Is your credit report and score important? Of course! Whether you like it or not, it will be an important part of your life, so it's important to understand what it means.

Why is credit so important?

To answer this, we're going to give you a pop quiz. Your credit is used for a lot of things these days. Circle each of the items below that are affected by your credit report:

- Mortgages
- Car loans
- Credit cards
- Insurance rates
- Utilities
- Cell phones
- Employment eligibility
- Renting apartments
- Checking accounts
- Relationships

As you may have guessed, that was a trick question. **ALL of those items can be affected by your credit.** You may not need a mortgage anytime soon, but can you risk not getting a job or being turned down for a new apartment or a date because of the status of your credit report?

No credit? Bad credit?

You probably won't be able to obtain a loan for a car or a home. Have bad credit? You'll probably have a harder time finding somebody to lend you money, and if you do, chances are you will pay more (i.e., higher interest rates) than someone with good credit. So it's important that you manage what you do have, establish credit if you don't already have it, and/or rebuild what has been damaged.

What's on your credit report?

There's a great deal of personal information (such as your name, date of birth, social security number, address, etc.), but the bulk of your report will consist of your credit history. Credit history includes the name and type of each account (credit cards, auto loan, etc.), current balance, credit limit, date account was opened, and payment history. There is another section with a list of public records such as foreclosures, liens, bankruptcies. There is also a list of **inquiries**; the number of times your credit report has been accessed and by whom, whether you applied for new credit, a lender reviewed it to increase your credit limit, or you were pre-approved for a credit card in the mail.

"Before you get involved in a relationship or anything, FICO first, then sex."
– Suze Orman

What makes your credit good or bad?

Simply speaking, credit is trust – trust that you will pay back borrowed money. When lenders look to see if you have "good" or "bad" credit, they are checking to see how much faith they should place in you to pay them back. If you have used a credit card, you are "borrowing" money. If you pay it back on time, you have established "good" credit. You are now seen as more trustworthy in the lending world. If, however, you were to take out a home loan and were late with payments, you have broken your agreement with the lender and are establishing "bad" credit.

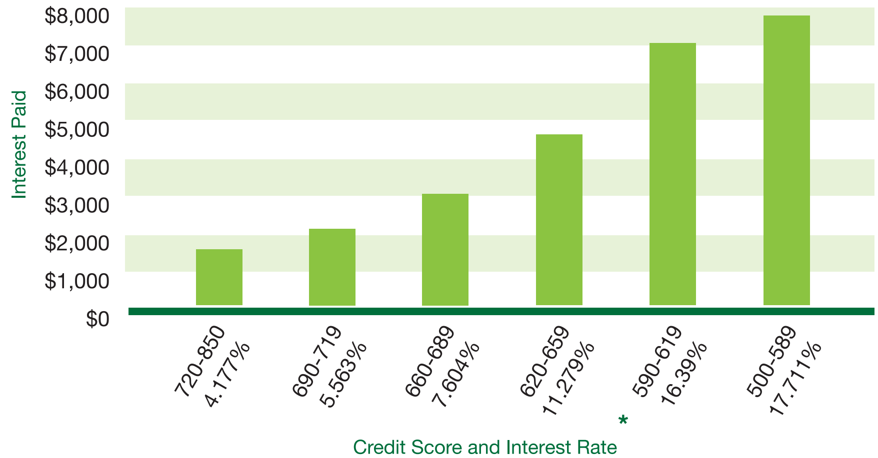
Lenders use your credit score to help determine the financial risk they are taking by lending to you.

What's your credit score made of?

We've been talking about your credit score, but what exactly is it? It's a 3-digit number lenders use to help them determine the financial risk they are taking if they lend to you. It helps them decide if they should approve your application and, if so, how much they should charge you (interest) for it. It also takes into account your good and bad credit, the length of time you have had your accounts, percentage of debt to credit limits and more.

Your score varies depending on which scoring "model" is used. FICO (Fair Isaac and Company) is the primary scoring method used, with scores ranging from 300 (the lowest rating) to 850 (the highest rating). You want to have a score as high as possible, but most people consider a good credit score 700 or greater. Remember, the higher your score, the less you'll be viewed by creditors as a risk. A higher credit score lowers interest rates, costing you less money in the long run.

The lower your credit score, the more you'll pay in interest!



Exercise:

Is your credit good or bad?

When was the last time you looked at your credit report?

Check your credit history by obtaining a free copy of your credit report. Beware of scam websites. For your free credit report only go to www.annualcreditreport.com. You will be given your credit report free of charge. Your credit score can be purchased for a small fee. This is optional and is only necessary if you're planning to make a large purchase in the near future.

You will see there are three different credit bureaus: TransUnion, Experian, and Equifax. They usually have similar information, but can vary. We recommend pulling one today, the second in 4 months, the third in 8 months and then back to the first one a year from now. This allows you to self-monitor your credit report for identity theft and mistakes. However, if you are planning on purchasing a car or home, you should get all three today to be certain you are not in for any surprises.

For this exercise, you only need your credit report, but your score is good to know if you are considering getting a loan soon. If you do not have internet access, you can still receive the free report by calling 877-322-8228.

*** These figures are for illustrative purposes only.**

No Credit = Bad Credit

If you don't have credit already, start building it now! Many lenders consider **not having credit just as bad as having bad credit.** During our years as consumer credit counselors, we've met people in their 30s who have no credit, but think they have perfect credit because they've never had delinquent payments. They can't have great credit, since they have no credit at all. Many people who are afraid of credit don't actually understand credit. They may have a credit card, but never use it. Because they never use it, there is no history to report to the credit bureaus. In this case, they might as well not have the card at all, since creditors have no way of determining their credit trustworthiness.

Credit has to be in your name, not just in your family's name. If, for example, you are a stay-at-home parent and your spouse has the title to the house, credit cards, or auto loans in their name only, it does NOT reflect on YOUR credit score. You shouldn't rely on other "debt obligations," like rent or utilities, to establish credit if these payments are in your name. These payments traditionally aren't reflected on a credit report **unless there is a problem**. In that case, they reflect badly. If you have no credit whatsoever, the key is to establish credit quickly. Get off on the right foot by making sure you can make your scheduled payments.

"The most important thing for a young man is to establish credit - a reputation and character."
– John D. Rockefeller

What will our credit reports be used for in the future? Imagine if a generation ago someone said your credit could get you denied a job. Future possiblities are endless.

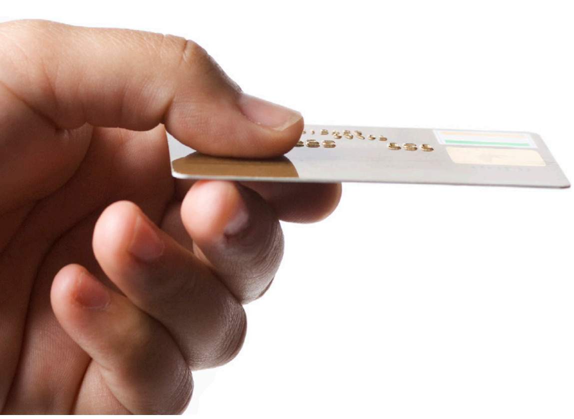
The bottom line? If you don't have a credit identity, you will most likely be treated as someone with bad credit. This could mean being turned down for loans, or, if you do secure them, being slapped with high interest rates. Regardless of who manages the finances in your home, establish credit for yourself. At some point, you'll need to rely on that credit.

Good credit is important in our society. Who would have dreamed that your credit report would be used to help determine if you are hired for a job, what your car insurance premiums would be, or whether or not you are given a checking account? We've even heard talk of a utility company trying to charge higher rates for consumers with poor credit scores. No matter what your age or future lending needs, it is important to have good credit.

Here are a few ways you can establish yourself as credit worthy:

1. Apply for a credit card. Whatever credit you establish, show you are financially responsible by paying more than the minimum due every month. Never let the balance get higher than one-third of the credit limit. Doing so could negatively affect your credit score. Don't open too many accounts, and be careful about department store gimmicks, as their cards usually have higher interest, and too many cards can hurt your credit. There are banks and stores that offer credit cards to those with little or no credit.

2. Use your credit card. Once you open a credit card account, use it consistently but responsibly. Pay it off on a regular basis and DON'T LET THE BALANCES GET OUT OF CONTROL. Trust us, it's easy for that to happen.



3. If you are turned down for a traditional credit card, open a secured card. Open a credit card that is secured, but reports to the credit bureaus as unsecured. The way the bank can do this is by making a portion of the credit line unsecured. You deposit a minimum amount, say $500, into a savings account or CD set up by the bank. The bank then freezes those funds, and gives you a credit card that is equal to or a little more than the deposit. Provided you manage your account properly, you often get a portion of your deposit back. After twenty-four months or so, the rest may be refunded. One benefit of having an account listed as unsecured is that it appears to creditors that the bank has taken a chance on you. If you don't have credit (or have bad credit), and no one will issue you a card, a secured card is a great way to start. Be careful of any credit card offers on late night TV or online. Remember, if it seems too good to be true, it probably is.

Consumer Reports magazine lists the best secured cards. Do an online search to see who they like today.

4. Obtain an installment loan. Your credit score looks for a mix of debt — some revolving (credit card), some installment, and some secured. An “installment” loan is one that is paid off by regular monthly payments. This type of account is often used for cars or major household items, such as furniture. Installment loans are good because you can't add to the balance and they help you develop that mix of credit types. If you are unable to get a traditional installment loan, many creditors offer a "credit builder" type loan. This is similar to a secured credit card, but they give you a loan to purchase a certificate of deposit (CD) at the bank. The CD is kept as collateral until the loan is paid in full.

5. Don't apply for too much at once. Every time you apply for credit they will pull a copy of your credit report. This is called an inquiry. Too many of these in a short period of time can make you look desperate and also reduce your score. No one wants to lend money to someone who's desperate. Pulling your own credit report (or having a professional like a financial advisor or credit counselor pull it for non-lending purposes) is called a "soft pull" and will not affect your credit. Only "hard pulls" for lending purposes will report and affect your credit score.

Now that you have credit, manage it well.

“Remember that credit is money.”
– Benjamin Franklin

"Quick Money" Don'ts

Having gone over some of the "Do's" in finance, let's check out some of the "Don'ts."

Many people believe they need a mortgage for the tax savings. But remember, for every thousand dollars you pay the bank your tax bill only reduces by zero to a few hundred dollars depending on your tax rate.

Here is a list of quick money "dont's":

1. Don't help your children (or parents) too much!

Everyone wants to help their loved ones when they can, but too often it comes at the cost of their own financial well-being. We do not want to see our children struggle, but they need to learn to be responsible and we have to plan for our own financial future. There is an old saying, "you can't borrow for retirement." It's true. Whether it's for student loans, rent, car payments, spending money or anything else, money is hard to come by. What happens when you can't help them any longer? Who is going to help you or them? Don't underestimate your long term financial needs and risk them for somebody else!

2. Don't take equity out of your house or take on a 30 year loan.

Odds are you either own your home or want to do so in the future. This is likely a good move. Retirement is much easier when you don't have to worry about annual increases. But, you don't want to worry about paying a mortgage in retirement. If we have learned one thing from the housing collapse, it is that no one should buy a house they can't afford. When we say afford we mean pay off in no more than 15 years. The difference in interest paid on a 30 year versus a 15 year loan is staggering. In fact, if you take a **$100,000 loan for 30 years at 7%** you will pay **$139,508 in interest**. However, if you take a 15 year loan at the same rate, your payment **will only increase by $233.53**, but you will pay **$77,718.60** less in interest and own your home free and clear in **15 faster years**. That is, unless you take out a home equity loan… so don't! People mistakenly think having mortgage interest is good because it can be written off as a tax deduction. In fact, some believe they need a mortgage, thinking the tax deduction is significant. Homeowners have even borrowed against their mortgage, getting a home equity loan (HEL) to make an expensive purchase, such as a car, and then justify it as a tax deduction. In any of these cases, the numbers just don't add up. The deduction is not worth the interest you will have to pay.

If you take a home equity loan, the collateral is your home and therefore at risk of foreclosure. Occasionally it makes sense to take equity out of your home, but only do this thoughtfully.

3. Don’t carry credit card debt.

Usually it starts slowly, just a couple hundred dollars. You tell yourself, “I will pay it off next month.” Then a few dollars more. Before you know it, you find yourself in substantial credit card debt. Trust us, it's very hard to get out of. Everyone has a different **debt tolerance** – the amount of debt you can carry without thinking it's too much. "How did this happen?" It's simply sneaky and easy, which is why it's so dangerous. Even if you're not bothered by your own credit card debt, you can’t deny it's a very expensive form of debt to carry. Don't be fooled by “no interest,” or a “low interest rate for a few months,” and definitely don't fall for “rewards programs,” as they exist to get you to spend more. Take control of your credit cards. If you’re in trouble please call a certified credit counselor at Family Credit Management, and speak with an expert in credit card debt who will help.

4. Don’t take on "payday" loans.

A popular predatory form of usury is the “payday loan,” a signature loan with unbelievably high interest rates. These short-term loans are often marketed as paycheck advances, but their interest rates are beyond comparison. The interest rates go as high as 1,800% annual interest and the perceived convenience just doesn’t add up in your favor.

Many people blame borrowers for not realizing payday lenders charge exorbitant interest rates. Others say the lenders offer easy money that’s difficult to pay back, advertising their product as a "quick fix.” The bottom line: **Don't go near payday loans!** And don't even think about internet payday loans. These lenders will wire you money, but there is rarely contact information for the company – no telephone number or postal mail address. **The goal of the payday lender is to keep you in debt and make them money.** The longer you owe them, the more money they make. **Stay away from payday loans!**

5. Don't open multiple department store credit lines.

Opening several credit card accounts might seem like a good idea, but it's not, for a number of reasons. The “free gift,” or one day shopping discount you get when you open a store account is tempting, but it only encourages you to spend more. In addition, a surge of new department store accounts could hurt your credit. It doesn't look good to the credit bureaus when you seek multiple new sources of credit. Department store interest rates are typically high, often 21% or more (according to bankrate.com). Many stores offer promotions, coupons, special sales, etc. for their card holders and they do this for a reason – to motivate you to buy more from them. Many people have a merchant they are loyal to and insist on opening or keeping their card. If this is you, always pay it in full monthly, and only spend what you normally would - regardless of their promotions or sales.

6. Don't use credit cards for consumables.

Consumables are items that are used quickly and/or daily (groceries, gas, etc.). Don't ever use a credit card for a purchase that will be gone by the time the bill comes. If the item isn't going to be around in six months, it's not worth charging on your credit card. You could be paying for milk, bread, eggs, etc. months after they're gone! To many, charging on a credit card is like not spending real money. Study after study shows if you use plastic you will spend more than if you use cash or a check. The lenders and merchants have seen the same studies. If you are among the consumers who cannot control their spending and charge more than you can pay off that month, keep your card tucked away when you hit the register.

7. Don't pay late and overlimit fees.

Simply put, you won't incur late fees if you pay your bills on time and stay under the credit limit. They're simply a waste of your hard earned money. Equally important it means you are not paying your bills on time. If you don’t utilize online bill paying services or make payments on your creditors’ website, now is the time to start. This will save you time and money (for checks and stamps), and you will not have to worry about anything getting lost in the mail or taking longer to arrive.

8. Don't make decisions based on the minimum payment.

We once met with a young man who was past due on several credit cards. When we reviewed his accounts we noticed he purchased a brand new TV for $500 while several of his cards were past due. When we asked his reasoning he said he figured the minimum payment would only go up by about $10 a month and he could always come up with that.

When you make only the minimum payment every month, all you are doing is paying the interest and maybe a small portion of the original debt you owe. This type of thinking is one of the reasons so many get into debt trouble. Merchants and sales people push consumers to buy based on what they can afford monthly. If you are buying a TV, car, or home, never base your decision on the minimum monthly payment.

9. Don't take cash advances on credit cards.

Cash advances usually come at a higher interest rate than debt from outright purchases and they often have a transaction fee. Cash advances aren't as bad as payday loans, but they're still very costly, and you should use the same cautious thinking. What's so important that you need this money right now? It typically is not the people who are the most desperate who get into the worst credit situations. This is because banks (unlike payday lenders) don't loan money to people with little or no money. Middle of the road Americans are the ones who get into the most trouble with credit cards and cash advances.

Remember, stop and think before purchasing decisions are made.

10. Don’t impulse buy.

Impulse buying. Admit it, we have all been there, and merchants know this and love it! Merchants and manufacturers spend a lot of time and money figuring out the best way to lay out a store, using just the right words in their advertising and packaging so you will be “encouraged” to buy things you don't need. Since we are all prone to impulse shopping, just leave the credit cards at home. You need to protect you from yourself.

Wait at least five days before giving in to those impulse buys. Experience shows you will probably forget you ever even wanted it.

You may need to make your credit cards difficult to access. Some have put theirs in a glass of water and then freeze it.

When out shopping, only buy the specific items you need, meaning only the things you were looking for. For example, if you need a winter coat and find it, great! But say no to the matching gloves, hat, scarf and boots. If you see something else and grab it without thinking, stop! Put it back and give yourself five days. If you still want it after five days and you can afford it, buy it. Our experience says in five days you won't even remember it.

A great way to stop impulse buying is to make a list before you go to the store. Stores are designed to get you to buy more than you need. (See all those glossy magazines and candy bars at eye level in the checkout line?) By making a list, and more importantly, sticking to that list, you can walk the store freely, get what you need, and get out!

11. Don’t use your debit card as another credit card.

Studies show that when you use plastic, you will spend more. It doesn't matter if that plastic is a credit or debit card. This can be dangerous, as it doesn't take much to empty your bank account, leaving you nothing for living costs. At the same time, plastic is the direction our economy is heading for most purchase transactions. Please understand, whether it’s a credit or debit card (even cash!), it's your money that's going into someone else's hands. **An overdraft on your debit card is the same as an overdraft on your checking account, with penalties.**

12. Don't be desperate!

People get into debt for many reasons. Emotional purchases when happy, unhappy, or simply out of habit, begin to form spending-associated psychological problems. Desperate people often do desperate things, making their situation worse. At Family Credit Management, we receive thousands of unique calls a month from families going through first–time debt troubles. Financial problems can seem overwhelming and insurmountable, especially when a family member hides his or her financial situation from a spouse (also known as financial infidelity). This is becoming more common and more upsetting to individuals who now fear telling their spouse about the debt they are hiding. Be sure to discuss your financial arrangements with your spouse and share both the burdens and successes so no one is alone, and no one is left out.

13. Don’t be eager to close old credit cards.

It seems like common sense to close an old credit card that you don’t use anymore. Not so fast. Look at your credit report and research how closing that card will impact your score. If you carry balances on credit cards, closing one will lower your available credit and perhaps your overall score. Depending on how many other accounts you have, closing an old, established account can also lower your score by shortening the length of your credit history. The key here is to not jump to decisions because the consequences are too important. If you are unsure of which accounts to keep and which ones are safe to close, you should seek guidance from a certified credit counselor. But, stop using the cards!

Save for your future

Small steps go a long way

Every day you make many decisions about how to spend your money.

Whether you're grocery shopping, driving to work, paying bills or just watching TV, there are small things you can do to spend less.

This section has 100 ways to help you start saving money today!

When you save money on everyday expenses, you'll be able to buy things that really matter to you. Tips that are bolded can help you save Big – **think of all the better uses for that money!**

Think carefully about each tip and decide if it's something you can commit to doing. Check the corresponding and remember that for every "will do" you check, you can save real dollars – **but you have to stick with it!**

If you save $5 every day, you'll have over $1,800 in a year.
Think of what you could do with that money.

circle, cross or fill in your answers. whatever you prefer ...

Utilities: Plug into savings

will do won't do did it n/a

Review your phone bill. Cancel added services you don't need or use (caller ID, three-way calling, call waiting).

If you have a landline phone, disconnect it or cancel the long distance and use your cell phone.

Replace your light bulbs with compact florescent (CFL) bulbs.

Install a programmable thermostat for heat and air – lower your home's temperature when you are away or sleeping.

Use exhaust and/or ceiling fans for comfort rather than air conditioning.

Review all cell phone, home phone, and cable services/contracts and inquire about better deals. They do exist!

Replace your showerhead with a low-flow model and save up to 30% on your water bill.

Keep blinds and shades closed in the summer to avoid high cooling costs and open in the winter to keep heating costs low.

Unplug phone chargers and computers when you aren't using them.

Let your hair air dry after showering rather than using a hair dryer.

Install a hot water heater blanket and reduce its temperature by 20%.

Keep lamps and televisions away from thermostats as this will give an inaccurate reading, forcing your air conditioner to run more than necessary.

Use glass cookware to reduce your oven temperature by 25 degrees, saving you on energy costs.

100 Small Ways to Save Big

circle, cross or fill in your answers.
whatever you prefer ...

will do | won't do | did it | n/a

Avoid over-packing your refrigerator and freezer. This causes your fridge to work harder to keep everything cold, using more energy.

Avoid using your oven in the summer. This heats up your home and causes your air conditioner to use more energy to cool it back down. Instead, use a crock pot, outdoor grill, or electric skillet.

______ + ______ = ______
will do   did it

Home Management: Savings start at home

Avoid buying dry-clean-only clothes.

Buy a steamer. Wash and steam dress shirts instead of dry cleaning.

Hang/air dry clothes when possible.

Look for used clothes at thrift stores or on eBay, especially for kids.

Wash clothes in cold water. 85% of the energy used by your washing machine is from warming the water.

Wash your own car.

Always compare prices online for large purchases. You may save money and sales tax.

Change your furnace filter regularly. Keep a log to help you remember.

Buy clothing off-season at clearance prices.

Buy classic clothing that will not feel outdated next year. Buy one trendy, inexpensive accessory to feel current if you must.

will do | won't do | did it | n/a

Call your mortgage company and find out how to cancel private mortgage insurance.

Be sure you have filed for your homeowner's exemption or senior citizen exception for real estate taxes.

Check with your lender to see if you can make half of your mortgage payment every two weeks – it saves on interest. BUT, do not pay a service to do this for you. You can do this for free!

Make an effort to do work yourself that you would usually hire out (i.e. lawn work, home repairs, painting, cleaning, etc).

Close off unused rooms in your home to save on heating and cooling costs.

Check all the faucets in your home for drips. These little leaks can add surprising amounts to your water bill.

Only use your dishwasher when it is full. Setting your dishes to "air dry" will also save on energy costs.

You probably have many items around your house you would return if you could. Selling these items on eBay can be a great way to earn some extra money while ridding your home of clutter.

______ + ______ = ______
will do   did it

Entertainment: FREE time

Get books and DVD's from the library instead of purchasing or renting.

Stop newspaper subscriptions. Most newspapers can be read online for free. Do buy the Sunday newspaper for coupons for things you normally buy.

Stop magazine subscriptions. Read magazines at libraries.

100 Small Ways to Save Big

will do won't do did it n/a

Only go to a discount movie or matinee.

Search for online coupons. They can be found for everything from amusement parks to restaurants and grocery stores.

Eat before you go to the movies or a sporting event to avoid buying expensive snacks at concession stands.

Search the internet for free events in your area. Many museums, plays and other cultural events will have a free or discounted day.

Cancel cable/satellite TV or drop to basic only.

Slow down your internet usage or use the internet at the library for free.

If you enjoy going to the movies, buy pre-paid tickets in bulk for a discount.

______ + ______ = ______

will do did it

Transportation: Deals on wheels

Use public transportation or car pool.

Drive the speed limit and save on both speeding fines and gasoline.

Do basic car repairs yourself (wipers, light bulbs, car washes).

Properly inflate your car tires to save on gas mileage.

Review auto insurance and drop collision/comprehensive coverage on older vehicles.

Remove unneeded services from auto insurance (roadside assistance, car rental coverage, towing coverage).

Review all insurance policies and get competitive rates.

100 Small Ways to Save Big

	will do	won't do	did it	n/a
Avoid driving during rush hour.				
Park in the shade. This will reduce your need for A/C when you drive.				
If your car is going to idle for more than 10 or 15 seconds, turn it off. It will conserve gas and is actually better for your engine.				
Ride a bicycle.				

______ + ______ = ______

will do did it

Money Management: Take it to the bank

If you ever pay ATM fees, switch to a bank with more local ATMs to avoid foreign ATM fees.				
Move your savings account to a higher interest online account.				
Raise the deductible on your homeowner and auto insurance.				
Use online banking to pay bills and avoid postage, cost of checks, envelopes, and possible late fees.				
If your bank charges fees, get a free checking account with a bank where no fees are charged.				
Watch credit card statements closely for added fees and increasing interest rates. Prioritize your debt repayment, paying the highest interest first.				
Never make a purchase over $50 without shopping around.				
Never make an impulse purchase of more than $10. Give yourself a cooling-off period to think about it.				
Call creditors to request reduced interest rates on credit cards.				
Cancel credit card insurance or credit protection plans.				

100 Small Ways to Save Big

will do | won't do | did it | n/a

Pay with cash (research shows we spend more when we use plastic). If you must use a card, use one with rewards (only if you can pay it in full each month).

Enroll in your company 401(k). If they have a matching program, you're throwing away free money by not using it.

Review your credit report. You may find inaccurate information that is causing you to pay higher interest rates or insurance premiums. This is also an important measure to guard against identity theft.

Track your monthly spending. Pay close attention to areas that you are being nickeled and dimed, and work to reduce or eliminate those items. Awareness is the first step towards financial control!

Pay bills on time and avoid costly late fees.

Call 1-800-FREE-411 for free directory assistance. You may have to listen to a recorded advertisement before receiving service.

_______ + _______ = _______

will do did it

Food and Health: Food for thought

Stop the daily coffee or latte fix and save up to $1800 per year. If you must buy coffee on the go, cut your consumption in half.

Only go to the grocery store on a full stomach.

Go to the grocery store with a list and stick to it.

Buy meat on sale and freeze it.

Stock-up on groceries once a month at a lower priced food store.

	will do	won't do	did it	n/a
Buy toiletries from a supercenter instead of the grocery store, where they are usually more expensive.				
Many prescription medications have generic versions that are much less expensive. By law, these prescriptions must be the exact same formula as its brand name counterpart, saving you lots of money.				
Call around to different pharmacies including mail order for the best price.				
Mail order pharmacies can send you three month's worth of prescriptions at once. This will save you on co-payments.				
Bring your lunch to work, OR only order out once a week.				
Do all of your shopping and errands in one trip each week. Plan ahead to minimize the number of miles you drive and be prepared with a shopping list. This will help you limit the number of impulse purchases.				
Stop smoking. $5 per pack per day is $1800 per year (odds are you pay more than $5/pack, too).				
Some grocery stores double the value of your coupons on certain days each week. Be sure to shop on those days and try to match the items with a sale for maximum savings.				
Cook homemade meals. It's cheaper and healthier!				
Grow your own garden to save money on produce.				
Plan ahead – cook meals on the weekends to avoid last minute dining out and make enough to bring for lunches.				
Go to places where/when kids eat free.				
Always check unit pricing at the grocery store. Example: price per ounce				

100 Small Ways to Save Big

will do	won't do	did it	n/a	
				Beverages can add large amounts to your bill when dining out. Water is free and the healthiest choice as well.
				Cancel your health club membership if you don't use it. We encourage going to the gym, however – staying healthy saves you money!!
				When dining out with a friend, order one entrée to share. Many restaurant portions are very large.
				Drink less alcohol. It's expensive and adds calories.
				Avoid frozen dinners or prepared entrées. These cost more and are usually much less nutritious.
				Shop the perimeter of the grocery store. It's fresh, cheaper and healthier.
				Make an effort to only buy toiletries, cleaning supplies, and non-perishable food items when they are on sale.
				Many stores offer free discount cards that give you substantial savings every time you shop. Get these for stores you frequently shop at for necessities.
				Avoid frequent trips to the grocery store. Getting everything you need in one stop decreases the likelihood of multiple impulse purchases.
				Look high and low for savings! The most expensive brands are usually eye level on the shelf.
				If going out to eat is important to you, try to go out for lunch instead of dinner. Many restaurants feature lunch menus with reduced prices.
				Get a good night's sleep! Lack of sleep has been proven to increase healthcare costs and the number of days you must take off work because you are sick.

______ + ______ = ______

will do   did it

Add up the number of “Will do” and “Did it” boxes you checked at the bottom of each section.

Then add those totals together for your Grand Total of _______.

Here’s what your number means:

80-100: Great job! You really understand the importance of saving. If you stick to it, you’ll have tons of money to spend on things that really matter to you.

60-79: Good job - you should be proud of yourself. Focus on the tips you’ve committed to and watch how much you save. Enjoy your extra money and remember, there’s more if you’ll follow the other tips.

40-59: You’ll save a nice amount, but you should try harder if you’re serious about saving.

Didn’t your parents tell you that money doesn’t grow on trees?
0-39: Oh, come on, you can do better than that! You worked hard to earn your money - don’t throw it away!

Make a commitment to yourself!

I will set up an online saving account and deposit $_________every month.

Meet the Authors

Michael J. McAuliffe, M.S.

Michael is an adjunct instructor of business and personal finance at Morton College outside Chicago, the founder and president of Family Credit Management Services, with over twenty-five years of experience in the financial industry including banking, collections, and credit counseling. After personally counseling thousands of families and now raising three children, he has developed a passion for providing education to help consumers prevent financial crises. He has contributed to hundreds of publications and print outlets on both the local and national level including NBC, ABC, CBS, and FOX affiliates as well as CNBC, MSNBC and First Business.

Michael received a Bachelor's Degree in Business Management and Political Science from Concordia University Chicago and a Master's Degree in Organizational and Human Resource Development from Abilene Christian University. Michael lives in Chicago, IL with his wife and three children.

Jeffrey Telling

Jeffrey has worked in consumer finance for over 30 years. The past twenty have been spent as a credit counselor helping families and individuals in financial distress. He joined Family Credit in 2003 as a certified credit, housing, and reverse mortgage counselor. In that time he has taught hundreds of seminars, workshops, and classes for thousands of consumers across the United States. Jeffrey is passionate about today's youth and providing them with the resources to make intelligent decisions about their finances both now and in the future.

Jeffrey received his Bachelor's Degree in Business Administration from Urbana University and resides in central Illinois with his wife and three daughters.

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Partners:

Family Credit Management would like to recognize these organizations for their generous support of our Financial Literacy Workbook. Without their continued support, this and many other community education programs would not be possible.

About Family Credit Management Services:

Family Credit Management – (FCM) is an ISO registered, non-profit consumer credit counseling service providing solutions for those seeking financial assistance. FCM is one of the few consumer credit counseling agencies licensed by the departments of banking in twenty five states, and has been servicing consumers throughout the country for almost twenty years. FCM's mission is to reduce stress in consumers' lives through education, debt management, and budget and housing counseling.

My Notes

Only you know what you need to focus on.

As you complete this workbook you will probably think of some changes or plans you want to make. This is the spot to write down anything that comes to mind. Your financial situation and future needs are as unique as you are. Use this space to jot down every thought that jumped out at you. Who knows, you may have so many thoughts you'll need more paper!

Congratulations

You have now completed Family Credit Management's Personal Finance Made Easy. You're on your way to becoming financially secure.

But don't stop now!

This is only the first step in a life-long process.

To help you continue on your journey, here are a few more helpful tips: some to start right now and a few for down the road.

This Month (NOW):

- Create my list of financial goals.
- Complete/review spending plan and 100 Small Ways to Save Big.
- Implement spending plan. Make the hard choices.
  Am I making the cuts I committed to?
- Review a copy of my credit report.
- Cut up (but don't necessarily close) all credit cards but one.
- Open investment account and fund with $__________________.
- Open a separate emergency savings account with automatic contributions.
- Start thinking about estate planning, guardians for your children, etc.

SPRING:

- Revisit *100 Small Ways to Save Big*— Did I make the changes I could?
- **How is my first investment performing?** Am I adding to it slowly, or can I do more?
- **Every month, compare planned expenses to actual expenses.** What more can I cut and redirect to savings?

SUMMER:

- **Estate planning completed?** If not, why?
- **Continue to compare planned expenses to actual expenses.** What can I cut and redirect to savings?
- **Are there any improvements or home repairs to do to protect that investment?**
- **Start a Christmas savings account.**

FALL:

- **Review another of one of your credit bureau reports.**
- **Revisit *100 Small Ways to Save Big* —** Have I made the changes I could? What can I cut and redirect to savings?
- Have I been diligently adjusting expenses as I do a monthly comparison of planned vs. actual?
- How's the Christmas savings coming along? The Emergency Fund? **Reevaluate now.**
- **Do my investments need adjustments?** Have I started my plan yet? If not, why not?

WINTER:

- Watch my Christmas spending.
- **Review expenses again.** What can I cut and redirect to savings?
- The New Year resolution time! **Re-evaluate my goals, spending, retirement, and savings plan.**
- **How much has accumulated in savings?** Is it time to move some into more aggressive choices?

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