

Financial Education for Persons in Recovery

Financial Management Training



Helping You Save Money

Center on Mental Health Services Research & Policy
University of Illinois at Chicago
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UNIVERSITY OF ILLINOIS
EXTENSION

College of Agricultural, Consumer and Environmental Sciences



FINANCIAL LINKS FOR
LOW-INCOME PEOPLE

UIC University of Illinois
at Chicago
**Center on Mental Health Services
Research and Policy**

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University of Illinois at Urbana-Champaign College of Agricultural, Consumer and Environmental Sciences

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In collaboration with the Illinois Department of Human Services and the Financial Links for Low-Income People Coalition, University of Illinois Extension expanded the All My Money curriculum to further meet the financial education needs of persons transitioning from welfare to work and other limited-resource people. The result of this collaboration is *Your Money & Your Life*.

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Financial Education for Persons in Recovery

I. Introduction to the Curriculum

Poverty is a significant issue for many people with psychiatric disabilities. Financial problems can interfere significantly with recovery goals such as housing, education, and employment. Financial education involves learning to manage money, get out of debt, and plan for a secure financial future. It is a vital but often overlooked component of recovery for individuals with psychiatric disabilities.

Based on results of a national needs assessment¹, we determined that financial education resources for people with psychiatric disabilities should be based on an individual planning model. In addition, resources should include both short-term money management strategies and long-term financial planning goals. Recovery and self-determination should be emphasized throughout the curriculum, and feasible goals should be promoted to develop self-efficacy. Social and emotional support are also essential to successful financial education efforts. Financial goals can include basic money management, repairing a bad credit history, getting out of debt, starting a savings account, and acquiring assets such as a car or home. We developed a curriculum suitable for gaining knowledge, refreshing knowledge, and practical planning.

This curriculum is a condensed adaptation of two longer curricula developed by the University of Illinois Extension, *All My Money* and *Your Money and Your Life*.

The curriculum's six sessions can be implemented in weekly classes of 1 ½ - 2 hours. Topics include: identifying financial goals; tracking and managing expenses; managing debt; understanding credit; using financial institutions; and building savvy consumer skills. Each section is self-explanatory, and includes lesson pages, activity sheets for use with a group or teams within the group, and homework sheets. Familiarize yourself with the material before using the curriculum. Use lesson and activity pages to impart information and generate discussion. Have participants share their experiences, both good and bad, with the topic at hand, and have the group brainstorm and strategize on each topic. There is a companion Facilitators' Guide that will help you implement the curriculum as a class.

Each week, ask participants to complete the homework pages and bring them to the next class. Participants are also asked to track their expenses on a weekly basis. This process is critical to creating and maintaining a budget. Encourage participants to keep

¹ See our publication ART-171, *Assessing the Financial Planning Needs of Americans with Mental Illnesses* (2004), available from <http://www.psych.uic.edu/mhsrp> in the publications list and under NRTC research projects.

all receipts for things they buy and note all expenditures - both flexible (e.g., bus fare, cup of coffee, newspaper, coin tossed in a fountain, etc) and fixed (e.g., rent, utilities). During the course of the class, participants will establish a detailed record of monthly expenses, and should get in the habit of continuing to track expenses. They will do the same for income, but usually this is easier to track than expenses. In the second half of the curriculum, you can help participants calculate a monthly amount to save, or spend down debt, using the worksheet provided. One-third of the difference between monthly income and expenses is a standard savings goal. If a participant has less income than expenses, then breaking even should be the first goal.

The curriculum is best used with small groups in which students can provide on-going mutual support as financial goals are set and achieved. In addition, the curriculum instructors should get to know each participant and their particular situation and financial goal. On-going support for financial goal attainment should be provided as long as possible after the end of the class. The curriculum should be revisited as necessary to reinforce or refresh learning. Good humor, optimism, and encouragement are essential throughout!

This curriculum can be supplemented with additional materials, and a list of resources is provided below. If possible, instructors who are unfamiliar with financial education should attend a course themselves prior to teaching the curriculum. Free or low cost programs are available in most areas through banks, libraries, community colleges, community centers, or through the resources listed below. April is National Financial Literacy Awareness Month, so look for free programs in your area every Spring.

Financial education is a universal need that can benefit students and instructors alike. Learning to budget and save is not complicated but does require effort and commitment. This curriculum is a condensed and simple resource that is a guide to short-term solutions and a lifetime of good money habits for people in mental health recovery.

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Additional Resources

U.S. Financial Literacy and Education Commission <http://www.mymoney.gov>
U.S. Department of Treasury Office of Financial Education
<http://www.ustreas.gov/offices/domestic-finance/financial-institution/fin-education/resources>
National Endowment for Financial Education <http://www.nefe.org>
Centers for Financial Education <http://www.crediteducation.org>

Financial Education for Persons in Recovery

Lesson 1 – What’s Important to You? (Identifying Values and Creating Financial Goals)

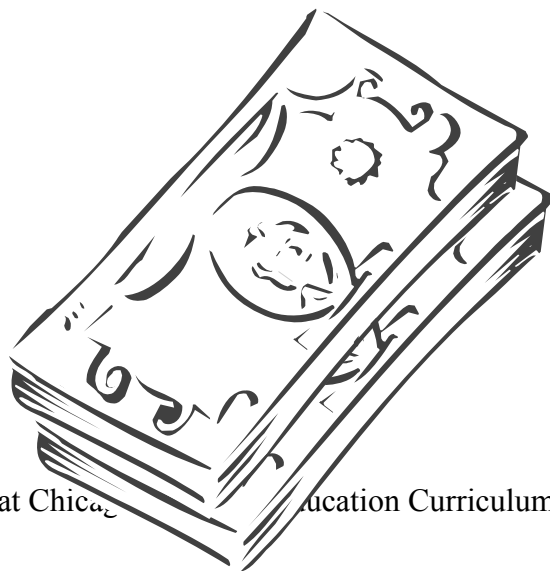
Lesson 2 – Tracking and Managing Income vs. Expenses

Lesson 3 – Managing Your Debt

Lesson 4 – Understanding Credit

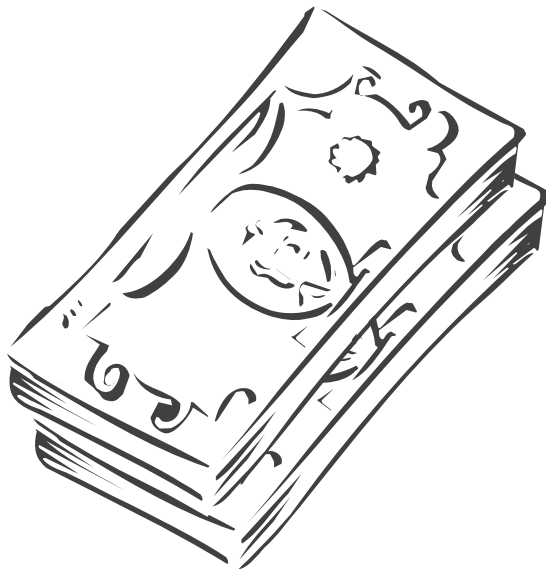
Lesson 5 – Using Financial Institutions

Lesson 6 – Building Consumer Skills



Lesson 1 – What’s Important to You? (Identifying Values and Creating Financial Goals)

- **Budgeting**
- **Financial Management**
- **Values and Goals**
- **Needs vs. Wants**
- **Homework**



Background Information

Key Points on Budgeting



Budgets are based on choices you make using your values, goals, and available resources. A budget based on someone else's formula (percentages, average costs, etc.) is doomed to fail.

Most of us must work with other people, usually family members, in setting up a budget. Because our values and goals may differ in content and priority, conflict over spending choices is common. As you will show during the budget/spending choices activity, shared money management decisions require negotiation, compromise, and regular communication.

Money is a limited resource. Spending choices require trade-offs. Therefore, it helps to see the big picture to make clear, thoughtful choices.

Even the best budget plans can be changed by an emergency or crisis. Such situations reduce income. Spending plans must be flexible enough to allow for the unexpected. An emergency fund provides a cushion to cover crisis-related expenses.

Financial Management

Financial management must be learned. The most basic economic concept we all deal with is that resources are scarce. We do not have enough resources to satisfy all our wants and needs. Therefore, trade-offs and choices must be made. The way that we make these choices is learned from our families; friends, and personal experiences.

Financial management must be practiced. We are all controlled by our habits. Some habits lead to choices we like. Others lead to choices we do not like.

To be satisfied and control your financial situation, you must look at the -choices you make, repeat the ones you like, and change the ones that do not help you reach your goals.

Financial management includes everyone in the household. Parents and children or roommates need to communicate their needs, wants, and goals. Individuals may have different values, and these need to be shared in the household. Talk out your concerns, and listen to the

needs of others. After all have contributed, the group can make decisions that reflect the interests of each individual.

Financial management is not easy! Unlike a cookbook in which there is a recipe to follow, financial management is unique to each family or household. Remember, each one has values and goals that contribute to the total picture. For financial management to work, it needs to be the family's or household's plan.

Values

It is a good idea to identify, clarify, evaluate, and assign priorities to your own values and goals before you go through the process with others. Here are some of the benefits of doing this activity:

- You experience planning a financial strategy to meet your goals.
- You become more familiar with the process, the difficulties, and the decision points.
- You become aware of your own values and goals, thus making it easier to recognize when you may be biasing your assistance to someone else.

Identifying your values

Your life-style includes things in your life that are a part of you a person, but which other people cannot easily see. These might be called your values. Values are qualities or standards people consider to be worthwhile or desirable.

The values of your family and friends may help to form what you think is important. Television, movies, and what we see in stores and magazines also influence our values. Many people value friends, honesty, education, and happiness. Others may show that they value knowledge by reading books, physical fitness by exercising or playing sports and culture by listening to or singing music. Not all of us want the same things. Our values and the life-styles we choose influence what goods and services we buy and use.

IN CLASS EXERCISE: WHAT'S IMPORTANT TO YOU?

Goals

Identifying goals

Goals are the specific plans or purposes you have in life. Your goals are the aims and objectives that grow out of your values. Goals change as your interests, income, life-style, and personal circumstances change. Goals are usually more visible than values. To put everything in perspective, first define your goals.

What are your goals?

Few incomes are large enough to cover all of your wants. Choices are made at all income levels. The first step is to identify your goals. Some goals are set for the near future or short term. They are the things you want soon-in the next few weeks, months, or year. A new coat, shoes for your children, eating out for a meal once a week, and enough money to buy groceries for the week are a few examples of immediate or short-term goals.

Perhaps getting out of debt or building a reserve fund is your most important goal. If you have a small income and/or large debts, you may be unable to do more than take care of immediate necessities. Savings probably are limited, and long term goals must be postponed until your financial situation improves.

Other goals may require long-range planning and saving. These are the things that often are not realized for many years-home ownership, a college education, a once-in-a-lifetime trip, or retirement income. Keep in mind that estimated costs for long-term goals should be revised from time to time as market conditions and prices change. If you plan ahead, however, your future needs and wants are less likely to be lost in day-to-day living demands.

Goal setting

Ideally, a financial plan for a household that has two or more persons is most effective if everyone has a part in establishing and achieving goals. Look at what you want to do or improve. What is the order of importance of those items? Setting priorities is important in developing a spending plan.

IN CLASS EXERCISE: YOUR FUTURE: WHAT DOES IT LOOK LIKE?

Needs versus Wants

Identifying needs

The items that people buy and use are different for each person. Each of us has some common things that we require or need to live. These items are called. needs. Examples of basic needs include food, air, water, and shelter. Our needs change with the seasons and vary with our age.

Identifying wants

Besides our basic needs, people have other things that they use and buy. These "extras" make our lives more enjoyable and comfortable and are referred to as "wants." Wants are things you would like to have but which are not necessary to survive. Examples of wants include a new bicycle, a disc player, designer clothes and shoes, concert tickets, and a sports car.

Sometimes an item is a need; other times, it is a want. For a person with children who haven't eaten for 3 days, food is a need. For a teen who is snacking for the fifth time today, it is a want.

IN CLASS EXERCISE: NEEDS VS WANTS

IN CLASS EXERCISE: WHERE ARE YOU GOING?

The Decision-Making Process

A decision is a choice among alternatives or a commitment to a course of action. A decision may be a choice that must be made to accomplish a goal. When we don't like what's happening in our lives, we have the right to choose something different. The way we choose something different is to stop acting the same old way and start acting a new and different way.

In the decision-making process, some choices may not be completely satisfying to everyone. You measure the cost of something not only by its price tag but by what you give up by that choice! With each choice, you may lose the opportunity of doing something else with your money. For instance, if you have the money for either a down payment on a car or a trip, and you choose the car, you might lose out on the trip.

The decision-making process is a technique that can be used for several things. It can be used to help us attain a goal or solve a problem. Frequently, people use shortcuts in making decisions. These approaches to making choices may be satisfactory for some things, but important choices need more careful thought.



Here are the six steps to the decision-making process

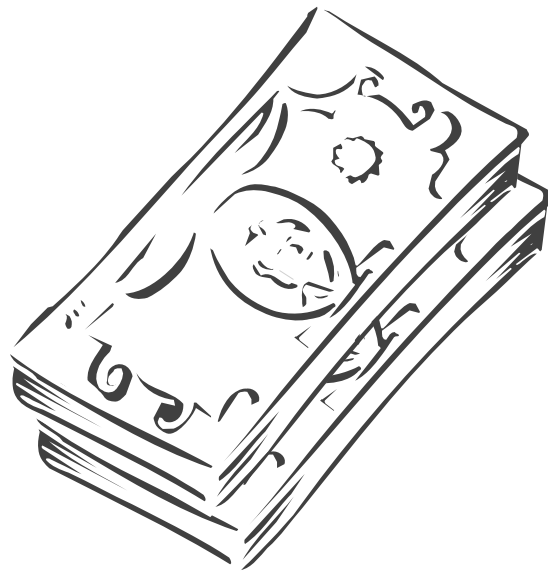
- 1. Identify.** Ask yourself what goal you want to accomplish or what problem must be solved.
- 2. List.** Alternatives are the available courses of action. Finding alternatives often takes time and energy. You usually need to get information, talk with other people, depend on your resources, look in books, ask experts. List as many possible alternatives as you can. Brainstorm.
- 3. Analyze the consequences of each alternative.** Determine how well each alternative meets goals and solves problems. Each choice usually has some pros and some cons. Ask yourself how much you will have to give up to use a particular alternative? List the pros and cons of each alternative. Will it accomplish what you have in mind? One alternative may go against a value that is important to you, and therefore may not be appropriate for you.
- 4. Choose the best alternative.** This involves following the principle of least cost, which means choosing the alternative that offers the most desirable benefits for the fewest costs. Cost includes more than money. It means anything we must give up to get a result. That could be time, relationships, familiarity, etc. Be fully aware that choosing an alternative has consequences.
- 5. Act.** Put your choice into action. Carry out the chosen alternative. Accept responsibility for your choice.
- 6. Evaluate.** Periodically look at what you are doing as a result of your choices. Ask yourself these questions: Is your goal being attained? Is your problem being solved? Is your decision working? Are you pleased with your choice? Would you make the same choice again? Is it in line with your values?

There may come a time when you decide to do one thing, then you realize you made the wrong decision. If ever you feel that you made the wrong decision, don't be afraid to change your mind. Sometimes a change of mind proves to be the more responsible decision and gets the outcome you seek.

Your goals and values influence the decisions that you make. Remember that decisions should be made carefully and thoughtfully. Understanding your values, identifying your goals, and using the decision-making process are the basic building blocks for a positive and productive future.

Lesson 2 – Tracking and Managing Income vs. Expenses

- **Fixed vs. Flexible Expenses**
- **Envelope Budgeting**
- **Planning for Savings**
- **Homework**





BACKGROUND INFORMATION

Expenses fall into one of two categories-fixed (regular) expenses or flexible (changing) expenses.

Fixed Expenses

A fixed expense is a set amount of money that is to be paid at a regular time. Fixed expenses cannot be changed easily. Late or missed payments can cause problems such as late fees, eviction, legal action, or cutting off utilities.

Examples of fixed expenses

Housing: Rent or mortgage payments.

Utilities and services: Electricity, gas, water, telephone, and garbage removal. (The basic rate is fixed, but the total amount depends on your use of the service.)

Credit payments: Repayment of loans or other credit.

Insurance payments: Any payments your family has for health, disability, life, car, or household insurance.

Savings: You may save a set amount for irregular or unexpected expenses. This might include a vacation, a birthday, or an unexpected emergency like unemployment or illness.

Flexible Expenses

A flexible expense is one that you can change. You can decide how much to spend and when to spend it. Flexible expenses are not necessarily frivolous or unimportant; but we have more choice in them.

If one needs to make changes in expenses, it is much easier to cut spending in the flexible expenses.

Examples of flexible expenses

Food: All the things your family eats, including meals eaten at work or school.

Clothing: Indoor and outdoor clothing, shoes and boots; shoe repairs, laundry, and dry cleaning.

Household: Cleaning materials, like laundry products, soap, polish, brushes, and pails; furnishings, like rugs, curtains, and furniture; replacements, for instance, a range, light bulbs, refrigerator, and toilet paper.

Health: Doctor, dentist, and hospital bills; prescriptions for medicine; drugs bought over the counter.

Education: Books and other materials for school; fees for adult education Classes; newspapers and magazines.

Transportation: Bus, taxi, train, plane, or car expenses.

Recreation/Entertainment: Television, movies, videos, sports, or eating out.

Personal: Cosmetics, gifts, cigarettes, haircuts.

Contributions: Church, charitable organizations, or other.

Savings: Anything extra you can put away will help you reach goals faster.

Allowances: For children or a special fund.

Envelope Budgeting

There are various ways to keep records on how you spend your money. Record keeping is the process of recording the sources and amount of dollars earned and spent. This lesson teaches the envelope method.



Key points

- This method is good for families with limited income, operating on a cash basis.
- It is important to make good "guesstimates" of how much to put in each envelope.
- You can start with a few envelopes and add more over time.
- You should keep the envelopes in a safe place, preferably in a locked box.

If you don't like arithmetic, the envelope method may be right for you. Envelope budgeting is a way of tracking spending. It allows you to set aside money each week for various expenses, rather than keep written records of what you spend.

Think about where your money goes, and name each area of spending. Examples include food, transportation, housing, utilities, clothing, and loan payments. Label a separate envelope, using a sticker with the name of each area.

Determine amounts for the envelopes by estimating your expenses in each category and dividing your income to cover all expenses. Also, write on each envelope how much you intend to spend on that category. After you do this a few times, you will be sure how much money to put in each envelope.

Decide if you will borrow money from other envelopes if you run out of money too soon. Try to spend only what you set aside for each expense. Borrowing from your savings or emergency envelope keeps you from saving money you may need in the future.

When you get paid, divide the cash among the envelopes according to your plan. Then use the money for expenses throughout the month. When an envelope is empty, you've reached your spending limit for that area.

Pay bills right away so you won't be tempted to spend the money for something else.

Store the envelopes in a safe place. When you go out, carry only the envelope related to items on your shopping list, or just take the dollars you will need with you. This helps cut down on impulse buying, too.

Try not to shift money from one envelope to another. If you run out too quickly in one area, you may need to adjust the amounts for future months. But, remember, you need to reduce in one area to add in another.

Transfer any money left in the envelopes into a savings account or envelope. Build up a reserve for later use by setting aside a few dollars each month in envelopes for emergencies or irregular expenses, such as medical expenses or gifts. This is a first step in avoiding financial crises. If you do this, you won't need to borrow from others as often. You can set a goal many months in advance and work toward it.

Emphasize the positive outcomes of savings.

Advantages of the envelope method

- It is convenient to divide income to cover all expected expenses.
- Money is always where it's supposed to be.
- It is easy to see how much is in each envelope.
- The system is very simple, especially for fairly small incomes.
- It requires little writing.



Disadvantages of the envelope method

- It is risky to keep cash in the house.
- It may encourage careless spending because cash is conveniently available to spend.
- It is tempting to borrow money from another envelope when money runs short. When this happens, control is lost.

Other Budgeting Methods

One method of budgeting involves keeping receipts of everything paid during the week or month.

Another method has the family or household members write down all expenses. Use a small pad of paper, and write down each expense as it is made. For example, if you ride the bus, write down the bus fare when you sit down on the bus. This method is more involved and uses more math skills. The individual expenses can be transferred to a ledger-type sheet, like the handout, "Family Expenses for Week _to _."


A third method is using a metal storage box or a shoe box that is divided into sections. This method allows you to have sections for receipts from each month of the year. Then you will be able to find the receipt if you need to return an item to a store or to prove that you paid a bill.


The box might also include a section for bills to pay this month and one for bills to pay next month. If you have any charge accounts, it is wise to keep all your receipts in one place. It helps you know how big the next month's bill will be. It also helps you check to make sure there are no errors on your bill.


If you are good at using a computer, you might want to use software like a spreadsheet or other software programs like QuickBooks to create and track your budget.

Examples of budget formats:

Here is an example of a very simple budget...

Income < Expenses = 

Income = Expenses = 

Income > Expenses = 

The following is a more detailed budget, but the bottom line is the same (surplus is good, shortage is bad)....

BUDGET WORKSHEET

From Financial Planning at About.com
(<http://financialplan.about.com>)

CATEGORY	BUDGET AMOUNT	ACTUAL AMOUNT	DIFFERENCE
INCOME:			
Wages and Bonuses			
Interest Income			
Investment Income			
Miscellaneous Income			
Income Subtotal			
INCOME TAXES WITHHELD:			

Federal Income Tax			
State and Local Income Tax			
Social Security/Medicare Tax			
Income Taxes Subtotal			
Spendable Income			
EXPENSES:			
HOME:			
Mortgage or Rent			
Homeowners/Renters Insurance			
Property Taxes			
Home Repairs/Maintenance/HOA Dues			
Home Improvements			
UTILITIES:			
Electricity			
Water and Sewer			
Natural Gas or Oil			
Telephone (Land Line, Cell)			
FOOD:			
Groceries			
Eating Out, Lunches, Snacks			
FAMILY OBLIGATIONS:			
Child Support/Alimony			
Day Care, Babysitting			
HEALTH AND MEDICAL:			
Insurance (medical,dental,vision)			
Out-of-Pocket Medical Expenses			
Fitness (Yoga,Massage,Gym)			
TRANSPORTATION:			
Car Payments			
Gasoline/Oil			
Auto Repairs/Maintenance/Fees			
Auto Insurance			
Other (tolls, bus, subway, taxi)			
DEBT PAYMENTS:			

Credit Cards			
Student Loans			
Other Loans			
ENTERTAINMENT/RECREATION:			
Cable TV/Videos/Movies			
Computer Expense			
Hobbies			
Subscriptions and Dues			
Vacations			
PETS:			
Food			
Grooming, Boarding, Vet			
CLOTHING:			
INVESTMENTS AND SAVINGS:			
401(K)or IRA			
Stocks/Bonds/Mutual Funds			
College Fund			
Savings			
Emergency Fund			
MISCELLANEOUS:			
Toiletries, Household Products			
Gifts/Donations			
Grooming (Hair, Make-up, Other)			
Miscellaneous Expense			
Total Investments and Expenses			
Surplus/Shortage (Spensible income minus expenses & investments)			

For expenses incurred more or less often than monthly, convert the payment to a monthly amount when calculating the monthly budget. For instance, convert auto expense that's billed every six months to a monthly amount by dividing the six-month premium by six. This money should be kept separate from your other money so it's available when the bill becomes due.

In this class, we'd like you to be able to use a budget form like the following one. As you track your income and expenses over the next few weeks, you'll be able to fill it out.

Figuring Your Savings/Credit Limit

Figure out how much you can afford to pay on monthly credit payments or savings:

1. Monthly total income: \$ _____

2a. Basic living expenses:

Mortgage or rent: \$ _____

Utilities \$ _____

Food \$ _____

Transportation \$ _____

Medical expenses \$ _____

Other fixed expenses \$ _____

2b. Total. basic expenses \$ _____

3. Money left after basic expenses (line 1 minus line 2b) \$ _____

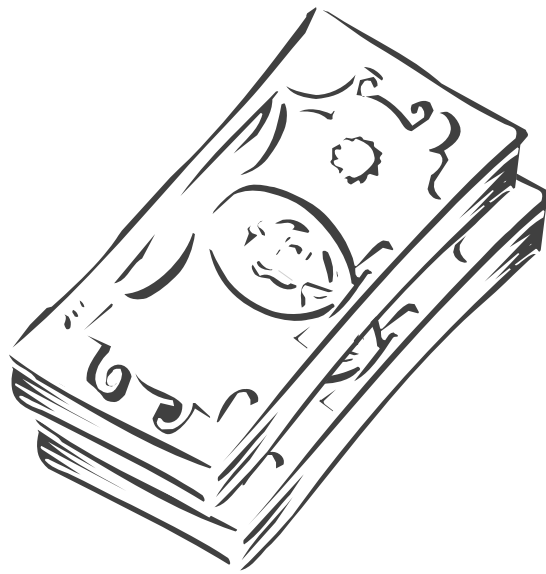
3a. If line 3 is a negative number, you need to cut your spending and/or increase your income!

4. If line 3 is a positive number, divide it by 3 (line 3 ÷ 3) \$ _____

Line 4 is the amount you should be able to afford to save or put toward additional debt payments. Everyone's situation is different, so this is not a hard and fast rule, but a useful guideline.

Lesson 3 – Managing Your Debt

- **Controlling Debt**
- **Ways to Increase Your Income**
- **Homework**



Background Information

Bills, bills, bills! Some days it seems like all we get in the mail are bills. They can be so overwhelming that we ignore them, hide them, and even destroy them. But, bills just don't go away. The best thing to do with bills is to take charge of them!

How do you decide how much debt you can handle? One way is to see how you feel about having one more bill to pay. Will you stay awake wondering how you'll pay it? Will you worry that you might not have enough money to pay the bill when it comes due? This is the comfort test. If the bill can't pass this test, don't take it on. Another way to see if you have too much debt is to use the activity, "How Well Am I Managing Debt?"



IN CLASS EXERCISE: HOW WELL AM I MANAGING DEBT?

Putting Your Bills in Order

To control something, you have to know everything about it. That's the way it is with bills too. You need to know everything about your bills so you can make a plan for paying them.

Make a list of all of your bills—rent/mortgage, utilities, telephone, doctor, bankcard, department store charge, etc. Then, list the amount due, when it's due, the interest rate, the amount you are behind, and anything else related to each bill. This helps you see all your debt at once.

Bills are debts that you're obligated to pay. Pay your bills first and then you can pay other expenses such as food, clothing, and entertainment.

Next, make a calendar of payments. See the one-month calendar that you filled out as a homework from Lesson 2. Also, look at the calendar of payments for the whole year both help to understand when each bill is due and how it fits in with other expenses you have.

Plan Your Spending

As you plan your spending, keep your goals in mind. Think about what you'd like your life to look like in the next month, two years, and beyond. Remember, your goals should be written and SMART-Specific, Measurable, Agreed upon, Realistic, and Timed.

The next step is to find out how you're spending your money. Save all your receipts. This is called "tracking your spending." Next, plan your spending by setting up a budget or spending plan. A written budget is an important tool to help you visualize your plan, and to help you to follow it.

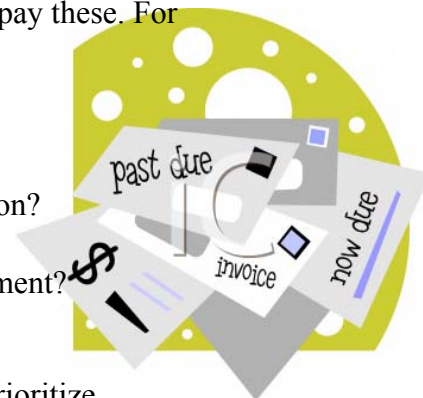
The challenge is to find ways to pay your bills-and pay even more than what is due, if possible. Think about ways you can increase income and/or decrease spending. Can you give up buying some things? Can you buy a smaller amount of something? Can you buy a cheaper item? Can you borrow something from someone else instead of buying it? Can you get a higher paying job? Can another person in the family get a job? Can you work overtime? Can you take a second job? Review the activity on ways to increase income to meet short-term needs and ways to spend less.

Prioritize Your Bills

You're legally obligated to pay your bills. Also, if you don't pay your bills or pay them late, you're hurt because future creditors won't have a favorable view of you. So, it's important to pay your bills on time. The calendar of payments helps get this done.

For some people, not all bills can be paid on time because they don't have enough money. When you're looking at your bills, think about what would happen if you couldn't pay these. For example:

- Will your family's health and security be affected?
- Will your utilities be disconnected?
- What legal action might happen, such as garnishment or repossession?
- Is there a penalty or charge for late payment?
- Will the remaining balance need to be paid in full if you miss a payment?
- Will you be harassed by the creditor?



Review your bills and decide which are the most important to pay-that is, prioritize your bills.

- The most important bill is housing. Be sure that you have some place to live.
- Vital services like utilities, transportation, and insurance are the next most important bills.
- Bills that cost money if they are not paid are next. These include bills with a late penalty, disconnect-reconnect charges, and repossession options.
- Bills that are likely to be vigorously collected come next.

When you've paid the above bills, you can pay your other bills.

Strategies to Control Debt

To manage your debt, you need to plan how you want to do it. First, list all of your debts. Then look at your different debts and set priorities for repayment. Which debt will you pay first? What changes do you need to make to manage your debt well? Consider the following strategies to see which ones might work for you:

Stop Spending and Borrowing Money

As hard as it might be, to manage debt problems you must stop borrowing money. If you have credit cards, cancel them. Instead of using credit, either pay for things with cash or don't buy them. Changing your spending behavior can be difficult, but it's critically important.

Think about going on spending and credit diets. Cut all of your living expenses to a minimum, and don't buy what you don't need. Set a goal to maintain your spending diet for a month or whatever time period is appropriate for you.

Set Up a Plan

Plan how you will pay off your debts. Do you have bills that must be paid soon? Will there be consequences if you don't pay? Set up your plan to deal with these bills first. Do you have loans or credit cards with high interest rates? At higher interest rates, more of your monthly payment goes toward finance charges. Quickly paying off loan balances with high rates can free up cash to pay other bills. Or, perhaps you'd rather pay off loans that have small balances. This will give you extra money to pay on the bigger balances. Whatever you do, developing and writing down a plan will help you manage your debt.

Pay Off Your Debt Faster

Put more money into paying off your debt. You may look at your debts and decide that you need more money to pay off your debt. What are your options? Can you change your spending so you have more money available to pay your debt? Can you work more to earn more money?

Rethink Your Debt

Can you get rid of any debts? Perhaps one of your debts is furniture or electronic equipment you bought as "rent-to-own." Or, maybe you haven't paid much money yet. Consider whether you want to keep these debts. Perhaps you can return the item, so you don't have to make any more payments. Check to see if this is possible, and make sure there's no fee.

It may be possible to transfer a credit card debt to a card with a lower interest rate. Check that the interest rate really is lower and will stay low. Some credit cards have low initial rates that increase to a very high rate after the "introductory period."



Pay Off Your Debt

Minimum Payment Trap

One of the things that can make paying off bills a problem is the minimum payment trap. This is where you pay only the minimum amount due each month. And, if the bill is a credit card, you also might continue to charge. If it seems like you'll never get the bill paid off, you're close to being right. The minimum payment is usually 2-5% of the balance due. Paying only this amount stretches repayment over many months or years while interest (often 18-20%) continues to add up. There are times when your bill can go up because you haven't paid the interest cost.

IN CLASS EXERCISE: MINIMUM PAYMENT TRAP

Power Paying Your Debt

Think of your total debt repayment amount each month. When you pay off a bill, the amount you've budgeted for debt repayment will be less. What do you do with the money you would have paid on that bill? Your natural inclination is to spend it. But, you can make a big difference in how fast you repay your total debt and how much you repay if you power pay your debt instead. By power paying you take the money you have available from a paid-up debt and use it to pay extra on another debt. This way you pay off that debt faster and save money from interest that would have been charged. In the example in the "Power Paying Your Debt" handout, Thomas can save \$247.02 and pay off his debt 30 months earlier by using PowerPay.

To save even more money, use the extra money to pay on debts with the highest interest rate. And, whenever you get some extra money, use that to pay on your debt, too.

By power paying, you make a commitment to debt repayment. This means that you don't add any more debt-no more charges on your credit cards and no more loans. And, you consistently use freed-up money to pay down other bills.

IN CLASS EXERCISE: POWER PAYING YOUR DEBT

Teaching Tip: Utah State University Extension Service has a computer software program that can take all your debts and set up a repayment calendar based on the PowerPay method. The PowerPay program allows you to try different repayment scenarios.

Their Web site is: <http://extension.usu.edu/cooperative/powerpay/index.cfm> You can order the software for \$22 from: USU Extension-Utah County, 5J South University Avenue, Room 206, Provo, UT 84601.

Think About a Debt Consolidation Loan

If you have a lot of debts with multiple payments each month, you may be tempted to get a debt consolidation loan. Typically, when you get a debt consolidation loan you exchange paying several smaller debts with varying payment dates and interest rates with one large loan, interest rate, and monthly payment. Because you have combined your debts, you will usually have a lower payment each month. However, the interest rate for the consolidation loan is often at a higher rate, and the time it takes to repay the debt will be significantly longer.

IN CLASS EXERCISE: CONSOLIDATION LOANS – COMPARE THE COSTS

IN CLASS EXERCISE: MINIMUM PAYMENT TRAP

REVIEW HANDOUT: STRATEGIES TO CONTROL DEBT

REVIEW HANDOUT: CONTROLLING SPENDING DURING A MANIC OR DEPRESSIVE EPISODE

IN CLASS EXERCISE: WAYS TO SPEND LESS

IN CLASS EXERCISE: SAVING DOLLARS WHEN YOU DON'T HAVE A DIME TO SPARE

Ways to Increase Income to Meet Short-Term Needs

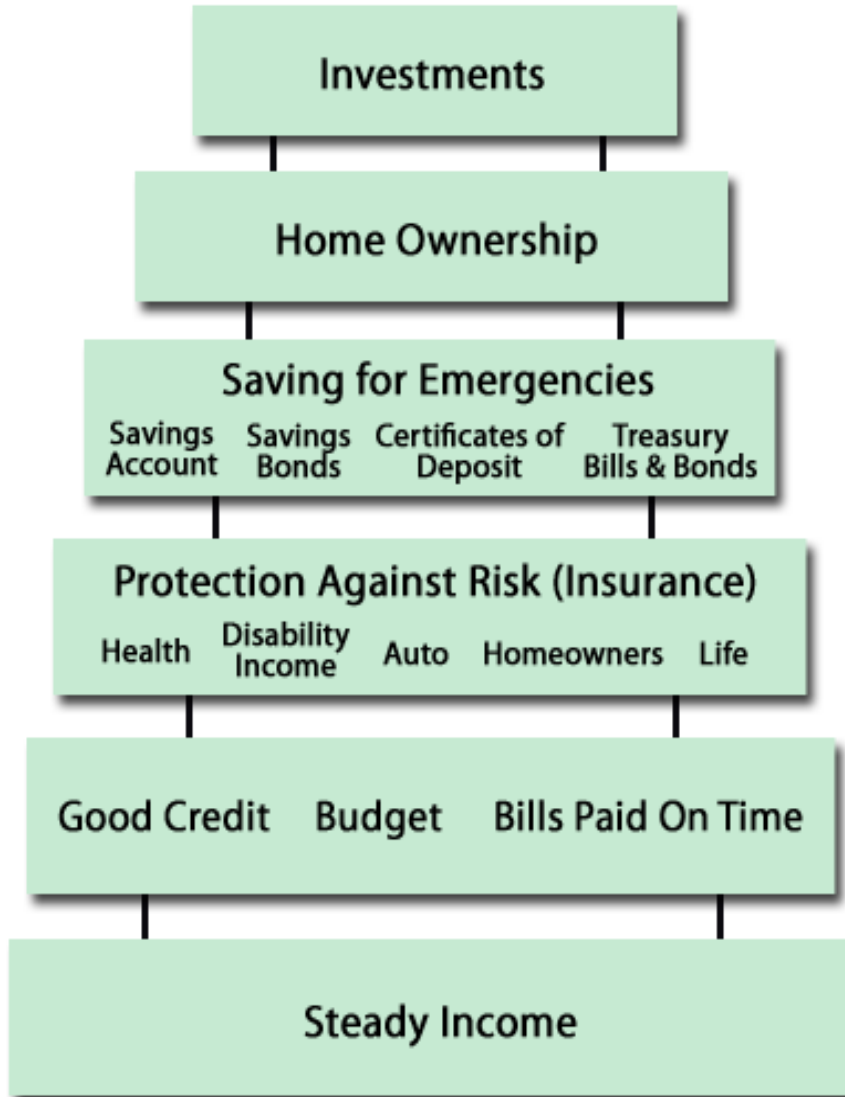
Class Exercise: BRAINSTORM!

How about the following ideas (after the class has had a chance to make suggestions):

- get a second job
- work overtime
- get another family member to work
- get a better paying job
- use the Earned Income Tax Credit when you file your federal taxes*
- have a garage sale or sell things you don't use on Craig's List
- do online surveys for money
- do a marketing focus group that is paid
- join a research study that pays
- rent something out (if you have a car or extra room)
- take in laundry or sewing for people
- do odd jobs for cash
- wash cars
- bake sale
- sell books, old cds or movies to second hand stores

*The Earned Income Tax Credit is an important resource for many low income people. You can get free tax advice or find a guest speaker through the Real Economic Impact Tour at <http://www.realeconomicimpact.org> or call 202.296.2040.

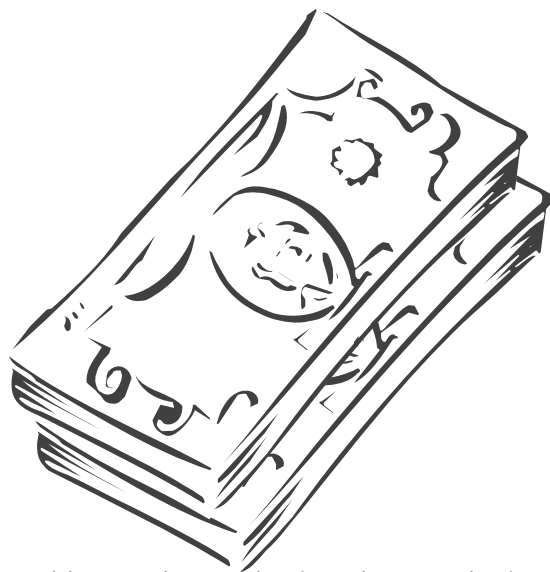
Steps Toward Financial Security



Financial Education for Persons in Recovery

Lesson 4 – Understanding Credit

- **What is Credit?**
- **Credit Report/Score**
- **Managing Credit Problems**
- **Homework**





BACKGROUND INFORMATION

What Is Credit?

Sooner or later, almost everyone needs to use credit. Credit is the use of goods and services on the basis of paying for them in the future.

There are four different types of credit:

- **Sales credit** or installment credit is used to buy goods. This form of credit is offered by car dealers, department stores, and some mail-order catalogs.
- **Loans** offer cash, which is usually available through a bank or finance company. Loans are used to meet unexpected expenses, make major purchases, or payoff other debts.
- **Credit cards**, usually offered through banks, are used to purchase goods or services and can also be used to get cash. Credit cards are also offered through other sources, such as businesses and other types of financial institutions.
- **Service credit** is used when we visit the doctor and are billed later, or for the use of household utilities such as telephone or electric service.

Buying on credit can give us the use of goods and services. However, it is important to remember that credit is not free. Buying "on time" involves charges and interest on deferred payments. These costs can add up quickly.

Credit can be an asset when used wisely. It can improve a family's level of living. The main reason most people use credit is that they do not have the available cash to pay the total cost of an item or service at one time. Another reason is that it may be easier to pay for an item through regular installment payments rather than by saving for it

IN CLASS ACTIVITY: REVIEW ARE YOU USING TOO MUCH CREDIT? HANDOUT

Advantages and Disadvantages of Credit

Using credit has both advantages and disadvantages.



Advantages

- Credit is convenient. You do not carry a lot of money with you.
- You can buy things that are needed when you don't have enough money on hand to pay for them.
- You can use an article or service while paying for it.
- You might be able to save money because you can take advantage of special bargains or sales when you don't have enough money with you.
- You may get better service if you are a regular customer and the seller holds an open account with you.
- Credit can help if you need money for emergencies such as unemployment, illness, death, or property loss.
- A good credit history is important for future credit needs, such as buying a house or an automobile.
- Credit is convenient for making purchases through different retail options, such as mail, telephone, and Internet purchases.

Disadvantages

- Credit usually costs more than paying cash. Interest and other charges are added to the purchase price of goods or services.
- You may buy more than you can pay for and may even buy things you don't want or need.
- Credit ties up future income. When you use credit, you owe money that must be paid back from future income.
- By committing to monthly credit payments, you may have to give up other things that you need.

IN CLASS ACTIVITY: USING CREDIT WISELY

Determining Credit Limit

Families need to know how much credit they can afford to use. A common guide line is to limit credit use, excluding mortgage or rental payments, to 15 percent of take home pay. While this may serve as a rough guideline for some people, it may not apply to others. Spending habits and economic situations influence how much credit a family can afford. A more specific guideline for safe credit use is based on the use of extra income for credit payments. That is the

money not needed for basic living expenses such as housing, food, and transportation. This guideline suggests that you spend no more than one-third of your monthly extra income on credit payments.

IN CLASS EXERCISE: FIGURE YOUR SAVINGS/CREDIT LIMIT

Figuring Your Savings/Credit Limit

Figure out how much you can afford to pay on monthly credit payments or savings:

1. Monthly total income: \$ _____

2a. Basic living expenses:

Mortgage or rent: \$ _____

Utilities \$ _____

Food \$ _____

Transportation \$ _____

Medical expenses \$ _____

Other fixed expenses \$ _____

2b. Total. basic expenses \$ _____

3. Money left after basic expenses (line 1 minus line 2b) \$ _____

3a. If line 3 is a negative number, you need to cut your spending and/or increase your income!

4. If line 3 is a positive number, divide it by 3 (line 3 ÷ 3) \$ _____

Line 4 is the amount you should be able to afford to save or put toward additional debt payments. Everyone's situation is different, so this is not a hard and fast rule, but a useful guideline.

Building a Credit History

It is wise to establish a history of reliable credit payment so that credit can be obtained from a reputable source when it is needed. Families who cannot qualify for credit or have a poor credit record are sometimes forced to go to loan sharks or pay very high interest charges. Success in obtaining credit often depends on past successes. Applicants must show a good payment record before credit is granted. Paying all bills on time is the best way to establish a good credit record.

People who have not had credit before should consider applying at a local bank or retail store. They should not apply for too many accounts at one time. Credit-reporting agencies keep a record of each creditor who inquires about a person's credit record. Some creditors will deny an application if they think the applicant is opening too many new accounts in a short period of time. Credit-reporting agencies must notify you if multiple applications for credit are lowering your credit score.

People who have had credit before should make sure the credit reporting agency has complete and accurate information about them. The bureaus can be located by looking in the phone book under headings such as "Credit" or "Credit-Reporting Agencies." Credit bureau files contain information on how many and what kinds of credit accounts people have, how they pay their bills, and if they've ever filed for bankruptcy or been sued.

For married couples, loans and other accounts may be in one name only, or they may be joint accounts. A joint account should be reported on both account holders' credit histories. If one spouse does not have a credit history, he or she can establish credit by using the spouse's credit record. Simply request that the credit bureau report information in both names.

Creditors consider you to be more stable if you have lived in one location for a period of time. Therefore, people who plan to move may want to establish credit at the current location before they move.

IN CLASS ACTIVITY: REVIEW ESTABLISHING A CREDIT RECORD

Applying for Credit

Creditors evaluate applicants for credit on their ability to repay debts. Creditors want to be sure that the applicant can repay the debt. Their evaluation of credit worthiness is based on income, stability, and credit history. Income is salary and other sources of income such as child support, social security, and welfare benefits. There may be other questions about assets such as savings, real estate, automobile ownership, or other investments.

Stability is measured by how long a person has lived at the present address and worked for the present employer. Living expenses and other credit obligations are also considered to determine the applicant's ability to repay. Credit applications usually require a signed statement that allows the creditor to investigate the credit history and employment of the applicant.

To better prepare for teaching this material, order your own credit history. Study it to become familiar with the kinds of information included in a credit report.



Creditor Guidelines

Under the law, there are certain things that a creditor may and may not ask.

- A creditor may not
- Ask about childbearing intentions.
- Ask about race, creed, color, national origin, or sex, except when it is required to do so by a government agency.
- Discourage applicants from applying for credit because of sex or marital status.
- Discourage women from applying for their own individual accounts.

A creditor may request information about a spouse if

A couple is jointly applying for credit or the spouse will be an authorized buyer on the account;

The applicant is relying on community property or a spouse's income for credit worthiness.

All creditors are required by the Truth-in-Lending Act to state the cost of their credit to consumers. It is wise to shop around for the best terms by comparing the annual percentage rates (APRs). Applicants should find out exactly how much the credit is going to cost and be certain that they understand the contract before signing it. A signed contract is a legal document.

A Denied Application

A credit application can be denied for several reasons. Every creditor has different standards for evaluating the creditworthiness of an applicant. One creditor might accept your application for credit, while another might not. If credit is denied, the creditor must give a

written notice explaining the specific reasons why the application was denied or let the applicant know that the information is available upon request

If credit is denied based on a credit report, the Fair Credit Reporting Act gives the applicant the right to get a summary of the credit history from the credit-reporting agency. If credit is denied due to incorrect information provided by the credit bureau, the applicant can request the incorrect information be removed from the file. All creditors who received the incorrect information in the past 6 months must be notified by the credit bureau that the file has been corrected.

Credit History and Credit Score

Credit bureaus collect information on all persons who have used any form of credit. This credit could be service credit, such as doctor's bills or rent. Reports include information on mortgages, credit cards, or other debt. Legal actions such as bankruptcy, tax liens, or foreclosures are recorded. Any business or creditor who subscribes can have access to this information.

Negative information remain on the credit report for seven years. A bankruptcy can remain for 10 years. Inquiries -a list of creditors with whom you applied for credit -may remain for two years.

Everyone should check his or her credit report. You can get a free copy from each of the three major credit -reporting agencies once per year. Persons who were denied credit or any benefit based on their credit history can get a copy free from the agency who provided it if requested within 60 days. Victims of identity theft, those on welfare, and the unemployed can also get a free copy.

A credit score is calculated by applying a mathematical formula to the information in your credit history. Many lenders use your credit score to determine whether to loan you money and what interest rate to charge. You must pay a fee to get your credit score.

Special Situations

Certain issues dealing with credit can occur, based on special situations for women or a change in marital status.

Women

When a married woman, or a woman whose marital status has changed, applies for credit in her own name for the first time, she may be refused because she has no credit history on file. Credit records may be listed under only her husband's name. However, under the Fair Credit Reporting Act, creditors must report payment records in both spouses' names to the credit bureaus. A married woman should check the credit bureau to make certain that her name is on file. If not, she can request that her name be added, based on her husband's record.

Handling Credit Problems

Almost everyone uses some form of credit. Credit allows us to obtain goods and services by paying for them with income we expect to receive. We can use the goods and services right away without waiting until we save enough money to buy them. However, credit can cause financial problems and hardship if not managed wisely.

Danger Signals of Credit Problems

Some families have difficulty using credit. Credit is often used as a convenient means to buy an item when it's wanted or needed. If this becomes a habit, a family can become financially overextended.

Most families can learn to use credit wisely if they know the credit danger signals and are willing to do what is necessary to reduce debt. Following are some danger signals that indicate a family may be having financial problems:

1. You pay only the minimum amount due each month on your credit cards.
2. You make so many credit purchases that your total debt rarely shrinks at all.
3. You take out new loans to payoff other loans.
4. You skip payments, and owe even more interest charges.
5. You rely heavily on the automatic loan-overdraft protection of your checking account
6. You buy items on credit that you once bought with cash.
7. You often receive past-due notices in the mail.
8. You must rely on extra income, such as overtime wages, to make ends meet
9. The gap between income and expenses gets bigger.
10. Bills are turned over to a collection agency.
11. You post-date checks.

12. You are turned down for credit because you have a poor credit report or too many outstanding debts.

13. You use a payday loan or a car title loan to get money to pay bills.

Creditor Options: What Happens If Bills Aren't Paid

What happens when bills are not paid depends on the credit contract. People who fall behind in their payments often face ever-increasing pressure to pay.

One of the first actions taken to make debtors pay their bills is a letter asking for payment. After that, there may be a telephone call. If this does not get results, a creditor may follow up with several options.

Negative Credit Report

The creditor may report information about your debt payments to the major credit reporting agencies. Your credit report will show if a bill was turned over to a collection agency. Any judgments against you will also be on your credit report.

Collection agency

If bills still are not paid, the debt is probably turned over to an independent collection agency. The agency will try to get payment on the debt. Debtors, however, are protected by law from certain practices by collection agencies. Debtors have the right to tell the agency in writing not to contact them. Also, the collector

- May contact debtors only between 8 a.m. and 9p.m.
- Cannot discuss someone's financial situation with others, but Call ask others how to find a debtor.
- Cannot use abusive language or threaten violence.
- These guidelines apply only to collection agencies. The actual creditor is not held to these guidelines.

Wage assignment

Creditors must get a court judgement to garnish wages. Wage assignments can only be included in a contract with a clause allowing the consumer to cancel the wage assignment at any time. By signing a credit contract containing a wage assignment, consumers give their creditor the right to their future wages. If a payment is missed, the creditor simply tells the debtor's employer to withhold part of his or her wages. The creditor does not need a court order to do this. Although employers are not legally bound to honor the creditor's request, they usually do. The law offers 'no protection against being fired for a wage assignment.

Acceleration

This clause is written into some contracts. A creditor has the right to claim the entire amount due if a payment is missed. The courts can force debtors to pay by seizing property and selling it.

Repossession

The creditor can seize the item bought or the property put up as collateral. The creditor can repossess without notice. If the sale of the property brings less than the amount owed, the debtor must pay the difference.

Wage garnishment

Creditors must get a court judgment to garnish wages. Employers then withhold part of the debtor's wages and pay it to the creditor. Only one creditor can collect at a time. Others must wait, and often their collection efforts stop. The law limits the amount that can be withheld to 25% of disposable income, with additional restrictions on garnishment for low income workers. However, these limits and protections do not apply if the judgment is for child or spousal support.

The same law protects debtors from being fired as a result of garnishment for one debt. However, there is no protection against being fired for a second garnishment.

Foreclosure

If homeowners do not make their mortgage payments, lenders may start foreclosure proceedings. This means that the lender will force the sale of the house in order to recover what is owed.

Foreclosure may take up to a year or even 18 months to complete. The process ends with the lender selling the house. If the house is sold for less than what is owed on it, the debtor is responsible for that deficiency.

Foreclosure can be stopped at any time by making up all missed payments and paying late fees or other charges. One way of doing that is to sell the house before the foreclosure is complete.

As a last resort, debtors may be able to deed the house back to the lender in lieu of foreclosure. This will avoid the costs of foreclosure and the risk of being stuck with a deficiency.

Your Options: What to Do if You Can't Pay Your Bills

Getting into debt is usually a painless process. Getting out probably won't be, but it isn't impossible to do. Some families may have overextended themselves to the point that they cannot pay the minimum due each month on credit balances. They may not be making any payments at all. Your goal is to help them look at their situation realistically and develop a plan to help them get out of debt.

Contacting the creditor

The most important action to take is to contact the people to whom they owe money. Most people try to avoid their creditors, but this is not helpful. Creditors sometimes are reasonable if they think this will be the only way to get their money. They have an interest in helping work out a plan for repayment.

When talking with creditors, explain honestly why the family is having trouble paying. A realistic plan should be worked out. This plan should be based on what realistically can be paid. Some creditors, such as utility companies, have special payment schedules. Customer service representatives of creditors assist in setting up a plan.

It is important that families understand, however, that they shouldn't agree to just any plan to get off the hook. They must be sure they can follow the plan. Creditors are not so understanding if customers fall behind repeatedly.



Dealing with Collection Agencies and Others

At some point, your bill might be turned over to a collection agency. There are federal laws that specify what collection agency personnel can and cannot do when they contact you about collecting what you owe.

Collection agencies aren't the only ones who might try to collect payments from you. A member of the creditor's staff is more likely to contact you first. Federal laws don't apply to

creditors. So, if you have a creditor who calls you before 8:00 a.m., that's not against federal law. Only collection agency staff may not call you before 8:00 a.m. or after 9:00 p.m.

When dealing with anyone trying to collect a debt, it's important to stay calm. Let the person know that you sincerely want to repay your debt. If you negotiate with the creditor and agree to a repayment plan, you must follow the plan or the creditor won't be willing to work with you in the future. If you find that you cannot follow the plan, contact your creditor immediately and explain.

Ask For Help

Debt management can be hard. If needed, contact a counselor at the National Foundation for Credit Counseling (1-800-388-2227) or <http://Myvesta.org> (1-800-6803328). Often these people can make suggestions to help you. A National Foundation for Credit Counseling counselor can negotiate with your creditors if you qualify for their Debt Management Program.

Another good resource regarding debt, credit and loans is the National Consumer Law Center Phone: 202/452-6252 or visit the website at <http://www.nclc.org>

Also, don't forget to ask family members for help, too. It's important that people like your children and/or spouse also control debt if you want to succeed.

Consider Bankruptcy (as a last resort)

Bankruptcy is a legal procedure that can help you when you're completely overwhelmed by debt. With a Chapter 7 bankruptcy, your non-exempt assets are sold and debts are either paid with this money or discharged. You don't pay discharged debts. With a Chapter 13 or Chapter 11 bankruptcy, the court will approve a repayment plan that allows you to pay back part of your debt over time. The remaining balances may be discharged.

Think carefully before you declare bankruptcy. Bankruptcy will stay on your credit record for up to 10 years. This may mean that you may not get a loan when you need it or that the loan will be at a higher interest rate. A bankruptcy on your credit record also can affect your ability to rent an apartment, open a checking account, or get employment.

Be aware that not all debts are discharged with bankruptcy. Be sure you understand which debts you're still responsible for before you file for bankruptcy. Some debts that may be exempt from bankruptcy include:

- Alimony
- Child support
- Student loans
- Taxes
- Debts based on fraud • Fines • Damages caused by drunk driving

Avoid Predatory Lending

Predatory lenders charge high fees and interest rates. This is a very expensive way to borrow money.

Improve Your Credit History

Now that you have control of your bills, look at your credit report. Often, people who've had trouble paying bills learn they have a poor credit history. Don't give up at this point! You've done a great job of getting back on track, and you can handle this problem too.

Nobody's credit is so bad that it can't be improved. But, how quickly it improves depends on you. First get a copy of your credit report.

Avoid Ads for Credit Repair

You've seen ads like this on television: Can't get credit? No problem! We'll fix your credit and get you back on track in no time at all! No one can fix your credit for you. And, some of the methods these firms use are a bit shady if not illegal. You can take the steps to improve your credit report. You don't need to pay someone else to do it.

Read the fine print. The cost of these plans is high. If you're having financial difficulties already, it makes no sense to spend money you don't have on something you can do yourself. **Correct Your Credit Report** You can correct credit problems yourself: First, you need to get a copy of your report. Correct outdated, incorrect, or misleading information in your credit report. You have the right to request an investigation to set the record straight if you notice an error in your report. If the credit bureau investigation supports your request, it has to change the information in your report.

Clean Up Your Credit Report

Clean up poor credit references. For example, if you're behind on car payments, see if you can sell the car yourself and pay off the debt. Ask the creditor to report to the credit bureau that the loan is paid. If you have several credit cards, pay them off, and cancel the ones you don't need. For most people, one to two bankcards are enough. It's important that you pay off the credit card, then ask the creditor to cancel the account and report to the credit bureaus that the account was closed at your request. Just cutting up the card doesn't close the account.

You can also write a 100-word (or less) statement of explanation for your credit report. This can explain something that happened beyond your control that resulted in a poor report to the credit bureau. Some examples might be a job layoff, sickness in the family that resulted in high medical bills, or a divorce.

Add Positive Experiences

Add positive experiences to your credit report. For example, your credit report may not include your rent payments. If you pay on time, ask the landlord to report this to the credit bureau. If the landlord isn't willing to do this, send the credit bureau a copy of paid receipts showing your payment record. Or, you might consider enrolling in the Pay Rent, Build Credit® (PRBC) credit bureau. Enrolling in PRBC is free and allows you, or your creditors, to report rent, utility, and other regular payments that are not ordinarily reported to the three national credit bureaus. This information is released for "permissible purposes" under the Fair Credit Reporting Act when you apply for credit.

If you feel that you can manage it effectively, takeout a small loan or open a department store charge account. Make regular payments to show your ability to repay on time. Be sure the lender or creditor reports your payment records to the credit bureau.

Other Options

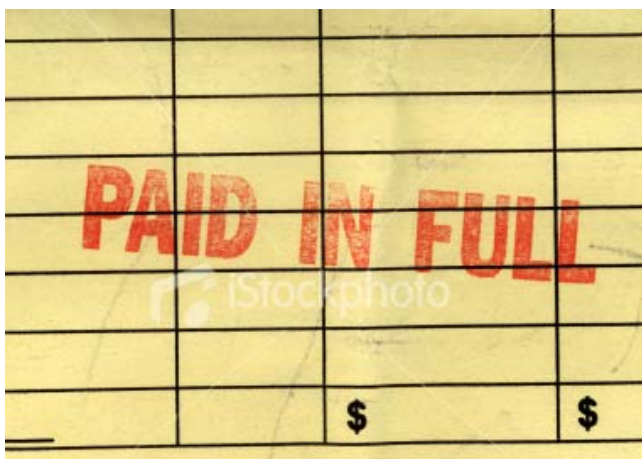
What if you can't get a loan or credit card? Try using a co-signer who has a good credit history. The loan will be based on that person's good credit. You're responsible for repayment; but if you don't repay, the co-signer is responsible. Obviously, if you're trying to improve your credit report, pay on time!

Another strategy is to get a secured loan or credit card. You must set up a savings account with a bank or credit union, and the amount you deposit stays in the account until your loan or line of credit is paid off. Check to see that the financial institution will report your payment record to the credit bureau. Be sure to pay on time, and you'll build up a positive credit reference. Your savings will earn interest too. Make sure you deal only with a reputable bank or credit union and learn about any costs before signing the loan papers. If there is a high fee to set up the loan or credit card, look for another lender.

It takes time to improve a poor credit report, but it's well worth it! In the end, you'll not only have a good credit history, but you'll also feel great because you did it yourself!

Reward Yourself

As you begin to get control of your bills, reward yourself. When you pay off a bill, write PAID OFF on the bill statement. This will be a visual reminder of your success. When you've successfully stayed within your budget, give yourself a pat on the back. You've done a great job!



Financial Education for Persons in Recovery

Lesson 5 – Using Financial Institutions/Budget

- **Checking Accounts**
- **Savings Accounts**
- **Managing Your Accounts**
- **Homework**



BACKGROUND INFORMATION

There are many potential benefits to using a financial institution's services.

Safety and security: Your money is safe from theft. Plus, most financial institutions have insurance that guarantees your money is secure.

Cost: If you have a checking or savings account, you may be able to save money on fees for cashing checks or on sending money to another country.

Convenience: You may be able to get money quickly, especially if you have an ATM card. Writing a check is a convenient way to pay bills.

Build a financial future: Having a savings account and a long-term relationship with a financial institution may be helpful if you want to borrow money. With a checking account you can develop a bill payment and credit history with a financial institution.

IN CLASS EXERCISE: GROUP DISCUSSION USING THE FOLLOWING QUESTIONS

DID YOU KNOW?

About one in four Americans don't use banks or other financial institutions?

Using check cashing services and other fees can cost you over \$1,000 a year?

Financial Institutions

It's important to keep in mind the differences between banks, credit unions, and currency exchanges when choosing where to make financial transactions.

Bank

Banks offer many services to customers. For example, you can cash checks, get money orders, and purchase travelers checks. You can also open savings and checking accounts. Fees

may be charged for many of these services. Banks also offer different types of loans such as automobile and home loans.

The Federal Deposit Insurance Corporation (FDIC) protects money that you deposit. The FDIC insures your deposit up to \$100,000.

Savings and Loan Association

Savings and Loan Associations (S&Ls) specialize in providing savings accounts and mortgage, consumer, and business loans. S&Ls offer check services through interest-earning NOW (negotiable order of withdrawal) accounts. Often S&Ls pay a slightly higher rate of return on money in savings accounts than banks. Accounts are insured up to \$100,000 by the FDIC.

Credit Union

Credit unions offer many of the same services banks do, such as cashing checks, getting money orders, and purchasing traveler's checks. You can also open savings and checking accounts. Credit unions, like banks, offer many different types of loans. The National Credit Union Association insures credit union deposits up to \$100,000.

There are some key differences between banks and credit unions. Credit unions are able to offer low cost financial services because they're owned and operated by members. You also may get higher interest rates on savings.. To join a credit union certain eligibility requirements must be met. Eligibility is often dependent on geographical location, employer, or other affiliation. Check with the credit union to determine if you meet eligibility requirements.

When opening an account at a credit union, you become a member of the credit union. You have the same rights and responsibilities as every member. Another difference between banks and credit unions is credit unions are not-for-profit organizations. Banks are for-profit organizations.

Currency Exchange/Check Casher

Currency exchanges (sometimes called check cashers) cash payroll and government checks. You can also buy travelers checks and money orders and get documents notarized. Other services which may be provided are payment centers for utilities and automobile license renewal. They'll charge a fee for services. When you cash checks, the larger the amount of the check the higher fee you'll pay. Often a service charge is added to this fee. Unlike a bank or credit union, services such as savings and checking accounts and automobile and home loans aren't available.

Choosing a Financial Institution

It's important to choose a financial institution that meets your needs. Visit several financial institutions and compare what types of accounts and services they offer. Keep these questions in mind to select the one that best meets your needs:

- Does it offer services I need?
- Is it conveniently located?
- Does it have convenient hours including evenings and Saturdays?
- Does it have ATMs? Are they located near where I live, work, or shop?
- What kind of fees will I be charged, if any?
- Will I earn interest on money in my account?
- Do the employees speak my preferred language?
- Is the institution insured?
- Am I eligible to join a credit union?
- Will it help me develop a bill payment and credit history?

Savings Accounts

A savings account is a good tool to help you save money for future needs. Having a regular savings habit helps you establish an emergency or "rainy day" fund. This will help you if someone in your family loses a job or gets sick, or you need to buy a new refrigerator.

A savings account is an account that lets you deposit money and earn interest. Some financial institutions allow you to open a savings account with a small opening deposit. Five dollars may be all that's required at some institutions. While your money is in the account it's protected from theft. Typically savings accounts are insured in case the financial institution has a loss.

Even though savings accounts have a low rate of return, over time the interest can add up. That's why it's important to start saving money as soon as you can. Once you have accumulated enough money in your savings account to cover emergency or unexpected expenses, then you can think about putting some of your savings in other accounts such as

money market or certificate of deposit accounts. These accounts typically earn more interest than savings accounts.

Checking Accounts

The main difference between a savings account and a checking account is that a checking account lets you have access to your money by writing a check. It allows you to pay bills without using cash, credit cards, or money orders. Each bank or credit union has different types of checking accounts, as well as different account guidelines for check writing fees, interest calculations, and minimum deposit requirements.

Opening an Account

Certain information is required to open a checking or savings account. Information about yourself such as your name, address, phone number, and other identifying information is necessary to open an account. You may be asked to fill out forms with this information. You'll also be asked to show picture identification. Check with the institution you choose to find out what information is needed to open the account.

Next, the financial institution may check your financial history to decide if they want to open an account for you. This may include checking your credit history, credit score, and or your history of handling financial accounts. Companies such as Chex Systems and TeleCheck keep track of people's history of bounced checks and account closures. These companies provide this information to financial institutions. Information about your history may be kept for up to five years. These companies are regulated by the Fair and Accurate Credit Transactions Act (FACTA) as are credit reporting agencies. Standards for what is an acceptable financial history vary among different financial institutions. If you cannot open an account due to your credit history or Chex Systems, try another financial institution that does not use that screening system.

Once you provide the information requested, you'll be asked to sign a signature card. The signature card could be a paper form or a computer pad. Your signature will be used to verify account ownership on future transactions. Signing the signature card means you agree to all the fees, terms, and conditions of the account.

To protect customer privacy, financial institutions must notify customers of the financial institution's privacy policies. Customers must be given an opportunity to "opt out" of having their personal information shared with outside companies. For your protection, you should complete and return the opt-out information within the specified time limit.

Information to Take with You

Identification Card

Financial institutions will require one or two forms of identification, and many require one identification with your photo. Many banks require a Social Security card as one form of identification. However, some banks may accept an Individual Taxpayer Identification Number (ITIN) instead. In fact, some financial institutions will help you obtain an ITIN if you need one. Also, some financial institutions will accept foreign issued identification, such as a Matricula Consular identification card. Proof of identity is required to verify who you are when opening an account and for the financial institution to accurately report information required by the government.

Examples of identification are:

- Driver's license
- State identification card
- Passport
- Military identification card
- Individual Taxpayer Identification Number (ITIN)
- Matricula Consular or other foreign-issue identification card

Permanent Address

A permanent address is required to open accounts. An address is needed for government reporting and to send statements to you about your account.

Other Information

The financial institution may also require the following information:

- Home telephone number
- Name and address of nearest relative
- Place of employment

Steps to Open an Account

Shop around for the account that best fits your needs. Call or visit several financial institutions and ask for information on accounts they offer. Some questions to ask might include the following:

- Is there a minimum deposit required for opening an account?
- Is there an interest rate on the account?
- Am I able to make withdrawals at any time, and how many can I make before a fee is charged?
- Is there a penalty for not maintaining a certain balance in the account? If so, what is the minimum balance required and what is the penalty when the balance goes below the minimum?

Once you've chosen the financial institution that is best for you, you're ready to open your account. All financial institutions are not the same. When you enter the financial institution, you may be asked to take a number or sign a register or be directed to a customer service representative.

- The following information will help you:
- Locate the area or person who can help you open an account. The person will assist you or direct you to the next available account representative.
- Tell the representative you'd like to open an account.
- The account representative will describe the different kinds of accounts and help you figure out which one best meets your needs.
- The account representative will explain the guidelines of account ownership for the financial institution.
- The account representative will help you open your account. Paperwork will be filled out with your name, address, identification number such as a Social Security number or Individual Taxpayer
- Identification Number, place of employment, and other detailed information. You'll be asked to sign the account information form and show identification to verify your identity.
- Your financial history may be checked next. This can often be done electronically and may not take very long.
- Once your paperwork is complete, your account will be opened. An account number will be issued to you, and you'll be asked to make an initial deposit into the account.
- After the deposit is made, the opening of your account is complete.
- If you've just opened a checking account and ordered checks, then the financial institution will give you a few temporary checks.

Checking accounts



The better, safer way to
handle your money

Managing Your Account

Record All Transactions

Keep track of all transactions on your account such as deposits and withdrawals. Make sure to include any ATM withdrawals, debit transactions, automatic payments, and monthly service fees.

An automatic payment is when money is "automatically" withdrawn to pay bills from your account on a specified day each month. It can be convenient to have bills paid with an automatic payment if you're sure there will be enough money in the account to pay the bill each month.

Balance Your Account

Keep track of your deposits and withdrawals. Every time you write a check or withdraw money be sure you write it in your register and subtract it from your account balance. This way you'll know how much money (your balance) is in your account at all times.

Review Your Statements

Each month or quarter, your financial institution will send you a statement showing all the activity on the account. It will show in detail all of the deposits, withdrawals, and fees for the account. Make sure you review the statement to determine if your records and the financial institution's statement are the same. If you disagree, contact your financial institution. Be aware that you may be charged a fee for help with balancing your account.

Avoid Overdrafts or Bounced Checks

"Overdraft," "bounced check," and "not sufficient funds (NSF)" all refer to the situation when you write a check for more money than you have in your checking account. . The financial institution won't payout more money than what is in your account. You should never write checks for more than the amount of money you have in your account. The bank, credit union, or savings and loan will charge you a fee and return the check unpaid back to the business or person you wrote it to. The business will also charge you for a bounced check.

Some financial institutions offer "overdraft protection" to account holders who qualify. With overdraft protection, if you write a check for more money than is in your account, the institution will cover the extra money needed. This means you avoid the embarrassment of a bounced check, and you avoid the fees the business would have charged you for a bounced check. The financial institution will charge you a fee for this protection. However, the fee is often less than the business charges for a bounced check.

The financial institution will then send you a letter to let you know you've overdrawn your account, and that you must deposit more money into your account.

Federal Check 21 Act

Beginning October 28, 2004, you will no longer get cancelled checks with your monthly checking account statement or when there might be a problem with an individual check. The Check Clearing for the 21st Century Act, or Check 21, is federal legislation that lets banks electronically transfer an image or other information about your check through the check clearing process and thereby eliminates paper processing.

Because transfers are done electronically by banks, the check clearing process will be much faster. You will have less "float" time, the amount of time it took for money to be removed from your account. Also, if you want to stop payment on a check, you will need to do it immediately.

Instead of receiving your original cancelled check, you will be able to get a "substitute check." The substitute check is a special laser printout of the image of your check. This will be helpful in checking for forged signatures or alternations and providing you with proof of purchase. It is recommended that you ask your bank for substitute checks every month.

Electronic Banking

Electronic banking is transferring money from one account to another using computer technology, not paper. Electronic banking has many forms. Direct deposit of paychecks or benefit checks, stored value cards, electronic payments, and on-line banking are all forms of electronic banking. Debit cards give you electronic access to your accounts.

What is an ATM (Automated Teller Machine) Card?

An ATM card lets you withdraw money from your checking and savings Accounts, make deposits, transfer funds, and check account balances. Your financial institution issues the ATM card with a PIN (Personal Identification Number). It allows 24-hour access to our account. The PIN is specific to your card and allows only you to transact business on your account. An ATM card can be used at an Automated Teller Machine or cash machine or at a register in a store.

Some questions to ask if you are thinking about getting an ATM card:

- Is there a fee to use the card at your institution's ATMs?
- Can I use the card at other institutions' ATMs?
- Is there a fee to use the card at other institutions' ATMs?

- Is there a monthly or yearly fee to use the card?

ATM Networks

Most financial institutions operate through an ATM network. The network allows banks, credit unions, and savings and loan associations to be linked together. Networks give you access to your account around the world. Since ATMs are linked worldwide, it's necessary to be aware of what machine you're using. Each network has transaction fees associated with it. To avoid any transaction fees for using an ATM, use an ATM owned by your financial institution. If one isn't available, use an ATM with the logo of your network or name on your ATM card. However, be aware of the fees for using the machine. Federal law requires that the transaction fee be posted on the ATM.

What is a Debit Card?

Financial institutions issue debit cards. A debit card is a plastic check. When you get one, you'll be issued a PIN (Personal Identification Number). The PIN is specific to your card and allows only you to transact business on your account. You must have a checking or savings account to be issued a debit card. The amount you can spend depends on the amount of money you have in your account.

Debit cards can be ATM cards or check cards. A check card will have either a MasterCard or Visa logo. They can be used to get cash or purchase products without using checks, cash, or credit. Debit cards aren't credit cards. (A credit card is a loan from a financial institution.) When you use a debit card, money is immediately taken out of your checking or savings account. In some cases, a merchant can actually put a hold on your checking account (for up to 72 hours) for more than the actual purchase to make sure that you have funds to cover the purchase.

Credit and debit cards often look similar (they may both have a MasterCard or Visa logo), but they're very different. This can be confusing when you begin to use these cards. Refer to the handout, "What's the Difference Between Credit Cards and Debit Cards?"

If you lose your debit card, report it to your financial institution immediately. This is important in case someone else uses your card.

- If you report it within two days, you're liable for no more than \$50.

- If you report it within 60 days after you receive your bank statement, your liability increases to a maximum of \$500.
- After 60 days, if you don't report your loss, you could lose all the money in your account.

Obtaining an ATM/Debit Card

To receive an ATM or debit card you'll have to fill out paperwork to request the card. You may also have to meet financial institution's requirements such as satisfactory credit history, have an account open for a certain period of time, or be in good financial standing.

Protect yourself:

- Keep your ATM or debit card in a safe place.
- Keep your PIN private. Don't share it with anyone.
- Don't write your PIN on the back of the ATM or debit card or keep the number in your wallet. Memorize it.



Direct Deposit

Direct deposit is an electronic transfer of your paycheck, government benefit, or other payment into your checking or savings account. Direct deposit has no cost to you, and the money is available the morning of the payment date. You can get your money quickly including on Saturdays and Sundays.

What types of transactions can be made by Direct Deposit?

- Federal tax refunds
- Social Security
- Supplemental Security Income (SSI)
- Railroad retirement
- Veterans benefits
- Civil service retirement
- State government retirement
- Unemployment benefits
- Paychecks from most employers
- Pension payments
- Investment income
- Cash assistance (public aid) payments

Stored Value Cards

Stored value cards are linked to an electronic account at a financial institution. Deposits can be made to these stored value cards. For example, your employer may deposit your paycheck to a stored value card. These cards are sometimes called "payroll cards." You may only spend up to the value of money stored on the card. Once a deposit is made, the money is immediately available to the cardholder.

Some payroll cards do not provide federal deposit insurance. Whereas, money in a checking account is insured by the FDIC. Also, federal consumer protection laws that limit the amount of money a consumer can lose if their payroll card is stolen do not cover some payroll cards. While payroll cards that have either a MasterCard or Visa logo have some protections from these companies, the companies' "zero liability" policies do not cover all situations. Currently, consumer protection laws are being reviewed. It's possible that in the future consumers who use payroll cards will have more protection.

Stored value cards have many uses such as the ability to do direct deposits, pay bills electronically, withdraw money from ATMs, and send money to relatives. However, be aware that the cost to use a stored value card can vary by financial institution. Be sure you understand fees that you may be charged such as:

- Monthly fees
- Fees for using an ATM
- Fees for use at a retail store
- Overdraft protection or payday advance fees

Electronic Payments

Electronic payments are deposits made to your checking or savings account through direct deposit. They can also be automatic withdrawals from your account to pay bills or deposit money into another account. For example, you can pay your monthly utility bill by having the utility company automatically deduct the amount due from your checking account.

On-line or Internet Banking

On-line banking allows you access to your accounts through a computer. On-line banking allows you the convenience of checking account balances, making payments, and applying for new accounts without leaving your home. With Internet banking, you also can open an account with a financial institution that does not have a "brick and mortar" location. The institution may only be accessible through the Internet. Double check that the financial institution is insured.

Loans

Another service offered by financial institutions is loans. A loan is money granted by a lender for temporary use by you, the borrower. Interest is paid by the borrower to use the money. Loans can be used for numerous purposes. Understanding the types of loans available will help when you go to apply for a loan. There are two types of loans: open-ended and closed-ended loans.

Open-ended Loan

An open-ended loan is extended in advance so you don't have to reapply each time you want to use credit. It may not have a specific time period to be paid back. The interest you're charged may be fixed or variable. The payment amount may also vary. Examples include:

Revolving Credit Line

A revolving credit line has a set dollar limit but doesn't have a specific time period for repayment. With a revolving credit line, you only pay interest on the amount of money you borrow. Credit cards are revolving credit lines.

Service Credit

This is the type of credit you get from utility companies, doctors, and others that don't require full payment when you use their services. For example, your gas company allows you to heat your home all month and then sends you a bill. Usually you aren't charged interest, but you'll probably pay a penalty if you pay your bill late.

Home Equity Line of Credit

A home equity line of credit is like a credit card. Your home, however, is the collateral for the loan. Home equity lines of credit allow you to use as much (or as little) of the credit line as you like, up to an approved dollar amount. Depending on the value of your home, the amount could be 80% of the appraised value of your home less the amount you still owe on your home. You can withdraw money when you want to use it. You need to be very careful, however, that you not borrow more than the equity of your home or what you can afford to repay.

Typically you have between five and 20 years to access this credit line. Once this period has ended, you must stop borrowing and repay the principal and interest. You may have between 10 and 20 years to repay, or you may have a balloon payment. Balloon payments require you to pay the principal or money borrowed in one lump payment. Often the credit interest rate is adjustable and changes as the economy changes.

Closed-ended Loan

Most financial institutions offer closed-ended loans. A closed-ended loan is for a determined amount of money, often at a fixed interest rate and has a specific time period in which it must be paid back. Examples include:

Automobile Loan

An automobile loan is used to purchase a vehicle. The term for automobile loans can be up to 72 months. The length of time for the loan depends on the lender's guidelines and the age of the vehicle. The vehicle's title will usually be held as collateral by the lender. If a borrower can't make the monthly payments, the automobile may be repossessed.

Access to this type of credit can present one of the greatest challenges. Unless you have reliable public transportation, having your own automobile is important to keep your job. However, the options for those with bad credit or no credit are not good in terms of vehicle purchasing. In many cases, the interest rate charged on an automobile loan for those with bad credit will be quite high. It's important to shop around to get the lowest interest rate you can.

Mortgage Loan

Most people borrow money to buy a home. A mortgage loan is used for the purpose of buying real estate such as a home. Mortgage loans are usually set for a specific period of time with a certain interest rate. There are many types of mortgage loans. Contact a financial institution for specific guidelines.

If you take out a home loan, then you'll have a monthly mortgage payment. This payment has several components. Parts of a mortgage payment are called PITI: Principal (the loan amount remaining unpaid), Interest (the amount charged for borrowing money), Tax and Insurance.

Closed-ended Home Equity Loan

A closed-ended home equity loan is similar to a home mortgage: a specific amount of money is loaned to you, and you're required to make scheduled monthly repayments of principal and interest. This type of loan is often thought of as a traditional second mortgage. The date you must repay the loan is set when you borrow the money. Often interest rates are fixed.

Personal Loan

Personal loans may be secured or unsecured loans. A secured loan has collateral being held by the lender. The collateral may be a vehicle title, shares of stock, or certificates of deposit. Contact a financial institution for specific lending guidelines.

An unsecured loan is often called a "signature loan." An unsecured loan is granted on your promise to repay or signature of the borrower. Personal loans are often used to purchase

items such as computers, motorcycles, or any personal item. Personal loans usually have specific time periods and fixed interest rates.

Applying for a Loan

Applying for a loan is different for each individual. Each financial institution may process loans in a different way. Before applying for a loan, visit several financial institutions to compare interest rates on the loan you need.

Steps to Apply for a Loan

- Contact the lender to see if an appointment is necessary to apply for a loan. Some lenders can process applications over the phone. Others may require you to visit the financial institution. If an appointment is necessary, ask how long the process normally takes so you're able to schedule the time away from other commitments. .
- Ask what information is necessary for the loan application to be processed. If you're applying for an automobile loan, you'll need a purchase order, including the VIN (Vehicle Identification Number), year of the vehicle, make and model of the vehicle, your driver's license, and proof of automobile insurance. Other requirements may be necessary depending on the lender.
- The loan interviewer will ask you questions regarding your place of employment, salary or wages, length of employment, and any assets or debts you may have. You may want to bring a list of your assets and debts as well as a paycheck stub to provide this information.
- The loan interviewer will then discuss different loan types and terms with you. Once you have agreed upon this information, the loan application will be taken to a loan officer for review.
- The loan officer will approve or deny the loan application based on the information provided and your work and credit history. If you're applying for an automobile or home loan, then the appraised value will also be considered.
- Once a decision has been reached, the loan interviewer will inform you of the decision.
- An approved loan application will require your signature.
- If a loan application is denied you'll receive written notification in the mail stating the reason(s) the loan wasn't approved. If you're denied credit for any reason, you may receive a free copy of your credit report from one of the three credit bureaus.

Financial Education for Persons in Recovery

Lesson 6 – Goals/Consumer Skills

- **Short/Long term Goals**
- **The Smart Buyer**
- **Consumers Rights & Responsibilities**

BACKGROUND **INFORMATION**



Consumer Rights and Responsibilities

President John F. Kennedy first outlined the Consumer Bill of Rights in 1962, proposing the consumer's rights:

1. **To safety:** The right to expect your health, safety, and financial well-being to be protected.
2. **To be informed:** The right to have access to full and fair information and to, be protected against false or misleading claims.
3. **To choose:** The right to make an informed choice among products and services at fair and competitive prices.
4. **To be heard:** The right to a full and fair hearing and, if possible, a satisfactory resolution when dissatisfied.

President Gerald R. Ford added a basic right in 1975:

5. **To consumer education:** The right to receive continuing education to help ensure you have the information you need to exercise your other rights as a consumer.

In 1994, President Bill Clinton added the right:

6. **To service:** The right to convenience, courtesy, and responsiveness to needs and problems and to take the steps to ensure that goods and services meet the quality and performance levels claimed.

Since 1962, every president has endorsed Kennedy's pioneering work in this field. Numerous laws and regulations have been made to protect these rights. For instance, the work of agencies like the Consumer Product Safety Commission and the Food and Drug Administration relate to the right to safety. The Federal Trade Commission, which regulates

business to prevent monopolies, price-fixing, and other unfair trade practices, safeguards the right to choice in the marketplace.

The Magnuson-Moss Warranty Act relates to the right to be informed. It requires that warranties on consumer products costing over \$15 be available for review before you buy. Required ingredient listing on food labels and weights on product packaging are other examples.

The rights just outlined also create certain responsibilities for consumers. If a person fails to take some responsible action in buying and using goods or services, it may compromise his or her consumer rights. Responsibilities that go along with each right include:

1. **To use products correctly**, thereby avoiding injury, and to report unsafe products to the proper sources.
2. **To seek information before purchase**, to read and understand the information available.
3. **To comparison shop and report unfair business practices** to the proper sources.
4. **To speak out** assertively when dissatisfied with a consumer product or service' and to follow through with the consumer-action process.
5. **To take advantage of the educational offers** and to study as well as use that information.
6. **To be a courteous and responsive consumer** and to take the steps to ensure that goods and services are treated with respect.

The Consumer-Action Process

Two basic guidelines tell where to act when faced with a consumer problem:

1. Start with the party who provided the goods or service before moving up the ladder.
2. Look for local sources of help before going to those at state or federal levels:

Whether you take action face-to-face, by phone, or by letter, some basic steps in the consumer-action process apply:

1. Define the problem as clearly as you can for the seller.
2. Gather evidence to specify the details of the problem.

3. Outline what you expect to be done to resolve the problem.
4. Decide on a reasonable deadline for solving the problem.
5. List the outcomes for the seller if he or she does or does not respond to your complaint.

To do this last step, the consumer should explore sources of help in the community, industry, and government.

The Role of Prevention

Fully exercising consumer responsibilities may cut down on the number of market-place problems. The following behaviors are part of a consumer self-help approach to prevent rip-offs:

1. **Comparison shop:** Talk to more than one seller .Ask for written information.
2. **Take your time:** Do not be rushed into signing a contract or making a purchase. Take information home with you for a careful review before you buy or sign anything.
3. **Discover new sources of information:** Consumer Information Catalog
[http:// www.pueblo.gsa.gov/links.htm](http://www.pueblo.gsa.gov/links.htm) to check publications offering objective information. The local library has magazines like Consumer Reports that offer financial and product advice. Check these sources before making purchases, especially major ones. Also check the Consumer Action website:
[http:// www.consumeraction.gov](http://www.consumeraction.gov)
4. **Evaluate advertising with care:** Read the fine print. Do not rely on ads as your only information source for major purchases.
5. **Avoid high-risk purchase situations:** Do not deal with unfamiliar companies, especially in door-to-door or mail-order sales. Stay away from home parties if you cannot resist the social pressure to buy. Be wary of special offers by phone. TV shopping channels appeal to emotion and convenience; change the channel or turn the TV off if you cannot watch without buying.
6. **Keep good records:** Get in the habit of saving receipts, use-and-care booklets, credit -card bills, copies of mail-order blanks, and the like. Set up a filing system to help you find records.



Advertising Strategies

Involvement

The first 5 seconds of many TV commercials contain a "hook" to get you involved.. Common methods include fast editing to catch the eye, strong colors or visual images; catchy audio or music, and an increase in volume.

Banner ads on web sites flash bright colors to draw your attention, many search engines present paid ads before other search results, and pop-up ads offer the chance to click for your prize.

Direct-mail relies on involvement techniques, too: cutouts, stickers, stamps, and sweepstakes. Tactics to get you to read include using a plain brown envelope that looks like an official government document, a notice of prizes you have won and need only to claim, an envelope with no return address, and an envelope that looks like a business letter rather than a sales effort.

In telephone sales, a common question is, "Can you hear me all right?" This verbal sales pitch tries to create a "yes-saying mode" with a series of questions designed to coax a string of "yes" responses.

Emotional needs

Advertisers often present their product as a tool to meet basic emotional needs. Ads show how a product can make you feel part of a community, loved, successful, admired, confident, unique, or a member of the "in" group. Ads can sell variety, excitement, or adventure.

Buzz words

Certain words are used in print ads to stop the eye. Buzz words now and in the past have included: low fat, low carb, new, free, save, now, real, homemade, sale, easy, taste, simply, improved, more, best, and better. The exclamation point does the same thing. It sells!!



Association

Advertisers hire celebrities and/or famous athletes, hoping that their fame transfers to the product. They show products in luxurious settings, being used by people with beauty, success, or power. The purpose is to link the product with the advertisers hire celebrities and/or famous athletes, hoping that their fame transfers to the product. They show products in luxurious settings, being used by people with beauty, success, or power. The purpose is to link the product with the desired traits.

Celebrities can also serve as role models for some market segments. For instance, sports stars may be heroes to young people. Advertisers promote product use as a way to emulate the success of the celebrity.

Positioning and market segmentation

Advertisers position a product for certain segments of the population. For instance, research may show that some people use toothpaste mainly to prevent tooth decay, while others use it mainly to keep teeth looking white. Some companies make one product for the first group and another for those more interested in a sparkling smile. Advertisers may choose football or basketball stars to appeal to many U.S. residents, but use soccer themes to appeal to European, Hispanic or Asian groups.

Fear

Fear can be a powerful persuasive force and often is used for personal care products, insurance, or public service ads. Some ads appeal to our fears of failure, rejection, bad breath, body odor, or dozens of other real or imagined social disgraces. Ads for products such as smoke detectors and alarm systems sell to our fears of physical harm.

Tips for Smart Shopping

Whether you're buying on the Internet, through a telemarketer, from a peddler or in a store, the following tips will help you shop with confidence.

What are you buying?

- Read descriptions carefully. Look for details including model number, manufacturer's name, features, etc.
- Watch for words such as refurbished, discontinued, like new, compare to, etc.
- If ordering an item, when should you receive it?
- Resist pressure to buy an extended warranty. These are very profitable for sellers and are usually expensive compared to the purchase price of the item. They may provide limited coverage beyond the manufacturers' warranty.



What is the real cost?

- Ask about charges for shipping, postage, insurance, delivery, installation, or removal of old items such as carpet, mattresses, and appliances.
- What is the weight or size of the item, and the writ cost? Larger packages are not always a better buy than smaller ones. Packaging may hide the actual size of the contents.
- For complex or expensive purchases (such as a car, insurance, a furnace or roof), compare advice and quotes from several sellers.
- Compare prices. On-line, use shopping bots such as www.mysimon.com

What protections do you have?

- Ask about the refund or exchange policy. Do you have to pay shipping costs or restocking fees for returned items?
- What warranty does the manufacturer provide?
- If the seller says there is a cancellation period, check that the contract includes that information.
- If you pay by credit card and there is a problem you can't resolve with the seller, you can dispute the charge through your credit card company. Paying cash or wiring money provides no protection.

Is the seller reliable?

- Is the company well known?
- If the seller's only address is a P O Box, you won't have a physical address to locate them if there is a problem.
- Is the company licensed or registered at the state or local level?
- Did you contact them, or did they call?
- Ask friends and family to recommend companies or businesses they have used and been satisfied with product/services.
- For Internet purchase, check customer satisfaction ratings on sites such as www.bizrate.com Look for seals and certifications on the web site, such as VeriSign and BBB online.

Is everything in writing?

- Read the warranty: what is covered, what isn't, and what should you do if there is a problem?
- Read the front and back of a contract completely before signing; do not sign if there are any blank spaces.
- Get all promises in writing.
- Keep all sales receipts, warranties, contracts, or instructions, including, printouts of Internet purchases.

Privacy and security concerns.

- Read all information carefully, including privacy policies and notices.
- Opt out of statements allowing the seller to sell your name and information, or send your advertisements.
- For Internet purchases, only provide credit card numbers and other personal information if the web site is secure. Secure web sites are indicated by addresses that begin with https instead of http and by a closed padlock or unbroken key on your browser window.
- Provide only information required to make the purchase. Leave the rest blank.

Red Flags of Fraud



Consumer-protection offices urge consumers to be aware of the red flags of fraud. Toss out the mail or hang up when you hear:

- "You are among those picked ..."
- "You have won ..."
- "All we need is your credit-card (or bank-account) number-for identification only."
- "I just happened to have some leftover concrete from a job down the street.,"
- "Be your own boss! Just send in \$50 for your supplies and.,"
- "There is a problem with your account, and we just need you to confirm your account number and password.,"

Remember, the smart consumer always looks at the total price before deciding and checks out the company and product before buying. Stay away from anyone who wants you to:

- send money by wire or pay cash to their messenger.
- pay handling and shipping fees or buy something to get a "free" prize.
- pay in advance especially for employment referrals, "credit repairs," a loan or credit card.
- invest money with the guarantee of making many times that much.
- deposit a check into your account and send money back to them.

Phone Service

Rapid changes in both regular and cell phone service make it difficult for consumers to make wise decisions and avoid rip-offs. These tips will help:

- If your phone bill has charges or calls you don't understand, call customer service. If there are charges from a company you don't recognize, your long distance service may have been changed without your permission.
- Ask how much you would have paid on different plans offered by your provider, or without any plan.
- Consider prepaid phone cards and 10-10 dial-around numbers for long distance calls. Compare prices and read the fine print Some charge monthly fees or have a minimum charge per call Some cards expire. Ask friends which ones they've used and liked.
- If your cell phone plan includes long distance calls at no additional cost, it may be your cheapest way call.

Rent-To-Own

Rent-to-own may seem like a simple solution when you are short of cash, but it can be very expensive. The rental charge can be three or four times the cash price, or even the cost of financing at a high interest rate.

Before signing a rent-to-own contract, ask yourself these questions:

- Is the item something I really must have right now?
- Can I hold off the purchase until I save enough to pay cash or at least make a down payment on an installment plan?
- Does a retail store offer a layaway plan for the item?

- Have I thought of all my options, including applying for retail credit from the merchant or borrowing money from a credit union, bank, or small-loan company?
- Would a used item from a garage sale, classified ad, or secondhand store work as well?
- Do I have enough money after my other bills to make these payments every week or month?

If you decide that rent-to-own is the best choice for you, here are some questions to ask before you sign on the dotted line:

- What is the total cost of the item? The total cost can be found by multiplying the payment amount by the number of payments. Make sure to add in any other charges, for instance, finance handling, or balloon payments at the end of the contract.
- Is the item new or used?
- May I buy the item before the end of the rental term? If so, how is the price figured? Will I get credit for all my rental payments?
- Is there a charge for repairs during the rental period? Will I get a replacement while the rented item is being fixed?
- What happens if I am late on a payment? Will the item be repossessed? Will I pay a penalty if I return the item before the end of the contract period?

Comparison shop among various rent-to-own merchants. Contact your local or state consumer-protection agency to find out if any complaints are on record against the business. Check for any state laws that apply. Read the contract with care, and make sure you understand what it says. Get all terms in writing.

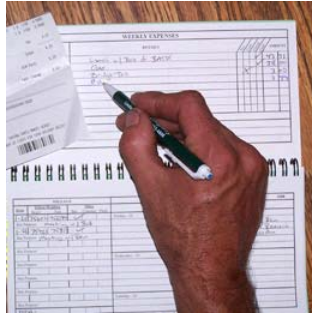
Know what you are paying. Compare the cash price plus finance charges in an installment plan with the total cost of a rent-to-own transaction.

RESOURCES

Every state's Attorney General has an office of Consumer Protection that is a great resource.

Curriculum Summary – Important points to remember:

a. Don't be an ostrich about money! You can't control it if you don't pay attention to it.



b. A penny saved IS a penny earned when you have a goal in mind.



c. Financial security is a journey.



Name: _____

Date: _____

Financial Education Workshop
Pre-test

For each of the following statements, please circle the number that best describes your behavior.

How often do I...?	None of the time	Some of the time	All of the tim
1. Write down my financial goals.	1	2	3
2. Discuss financial goals with friends and/or family members.	1	2	3
3. Identify the first steps needed to reach my financial goals.	1	2	3
4. Write out a spending plan that includes savings for goals and emergencies.	1	2	3
5. Compare my income and expenses each month.	1	2	3
6. Follow a spending plan.	1	2	3
7. Pay bills on time.	1	2	3
8. Have a checking or savings account.	1	2	3
9. Use direct deposit of my paycheck or benefits.	1	2	3
10. Pay off debt each month.	1	2	3
11. Establish a good debt repayment history.	1	2	3
12. Regularly review your credit report.	1	2	3
13. Resist financial offers that are too good to be true.	1	2	3
14. Use a filing system for financial records.	1	2	3
15. Save regularly to achieve my goals.	1	2	3
16. Claim the Earned Income Tax Credit on my federal taxes.	1	2	3
17. Comparison shop.	1	2	3
18. Use coupons.	1	2	3
19. Keep track of my spending.	1	2	3
20. Identify what I need compared to what I want when making a purchase.	1	2	3
21. Use payday or similar loans.	1	2	3

On a scale of 1=not comfortable to 5=very comfortable, how would rate the following...

Not comfortableVery comfortable

22. What is your comfort level with your knowledge of financial terms and concepts? 1 2 3 4 5

23. What is your comfort level with applying your knowledge into behavior? 1 2 3 4 5

24. How old are you? _____

25. What is your gender?

- Female
- Male
- Transgender

26. How do you describe yourself? (Check the box or boxes that best describes you)

- African-American/Black
- Hispanic/Latino
- Asian
- Caucasian/White
- Other _____

27. What is your highest level of education?

- Less than high school
- High school (or GED)
- Some college
- College degree (B.A., B.S.)
- Graduate degree (M.A, PhD)

28. What is your household income before taxes (include all sources of income)?

- Under \$10,000
- 10,000-24,999
- 25,000-39,999
- 40,000-54,999
- Over 55,000

29. Do you currently receive Social Security Disability Insurance (SSDI) or Supplemental Security Insurance (SSI), or both?

- Social Security Disability Insurance (SSDI)
- Supplemental Security Insurance (SSI)

30. Are you currently employed for pay?

- No
- Yes, part-time (less than 35 hours/week)
- Yes, full-time (35 hours/week or more)

THANK YOU SO MUCH FOR SHARING THIS INFORMATION!
IT WILL HELP US EVALUATE OUR PROGRAM.

Name: _____

Date: _____

**Financial Education Workshop
Post-test**

For each of the following statements, please circle the number that best describes your behavior.

How often do I...?	None of the time	Some of the time	All of the time
1. Write down my financial goals.	1	2	3
2. Discuss financial goals with friends and/or family members.	1	2	3
3. Identify the first steps needed to reach my financial goals.	1	2	3
4. Write out a spending plan that includes savings for goals and emergencies.	1	2	3
5. Compare my income and expenses each month.	1	2	3
6. Follow a spending plan.	1	2	3
7. Pay bills on time.	1	2	3
8. Have a checking or savings account.	1	2	3
9. Use direct deposit of my paycheck or benefits.	1	2	3
10. Pay off debt each month.	1	2	3
11. Establish a good debt repayment history.	1	2	3
12. Regularly review your credit report.	1	2	3
13. Resist financial offers that are too good to be true.	1	2	3
14. Use a filing system for financial records.	1	2	3
15. Save regularly to achieve my goals.	1	2	3
16. Claim the Earned Income Tax Credit on my federal taxes.	1	2	3
17. Comparison shop.	1	2	3
18. Use coupons.	1	2	3
19. Keep track of my spending.	1	2	3
20. Identify what I need compared to what I want when making a purchase.	1	2	3
21. Use payday or similar loans	1	2	3

On a scale of 1=not comfortable to 5=very comfortable, how would you rate the following...
 Not comfortableVery comfortable

22. What is your comfort level with your knowledge of financial terms and concepts? 1 2 3 4 5

22. What is your comfort level with applying your knowledge into behavior? 1 2 3 4 5

23. Have you made any changes in the way you handle money because of this course?

24. What part(s) of the course was most helpful to you (check all that apply)?

- None of it
- Identifying financial goals
- Tracking expenses
- Managing debt
- Using financial institutions
- Building consumer skills
- Other (describe):

Please rate each of the following as not helpful, somewhat helpful, or very helpful:

	Not Helpful	Somewhat Helpful	Very Helpful
25. Course instructors (Jane and Tina)	1	2	3
26. Course materials (book and handouts)	1	2	3
27. Overall program	1	2	3

28. What are your plans regarding an Individual Development Account (IDA)?

- I plan to open one soon
- I plan to open one next year (when? _____)
- I have no plans to open one

29. Would you recommend this program to others?

- Yes
- No

30. Any comments or suggestions?

THANK YOU SO MUCH FOR SHARING THIS INFORMATION!
 IT WILL HELP US EVALUATE OUR PROGRAM.