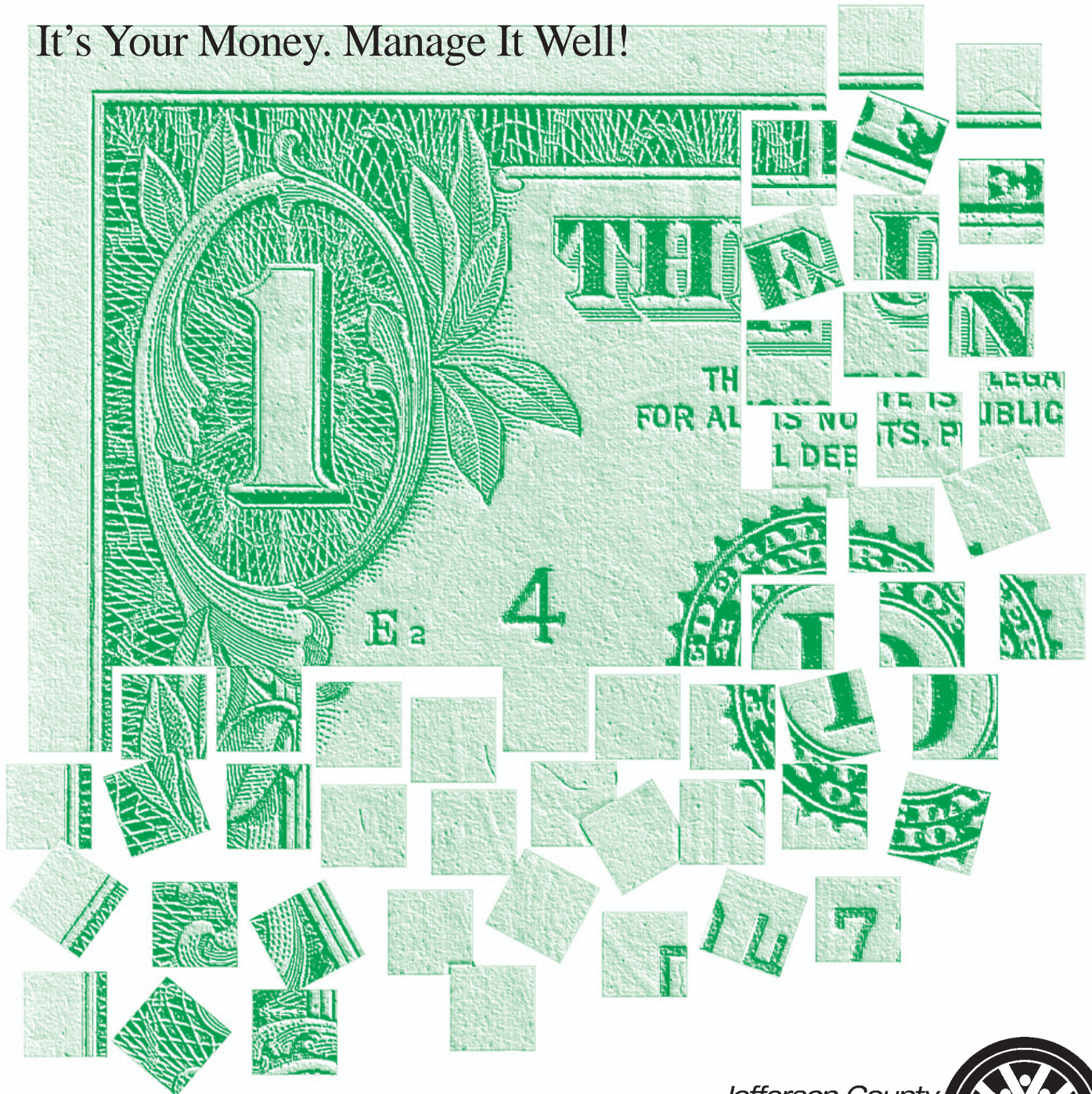
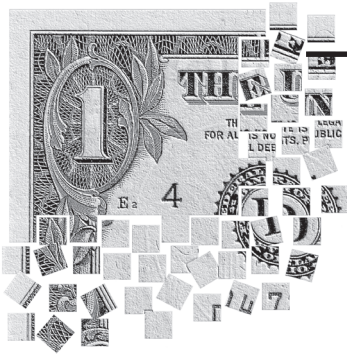


Money Management for Savvy Students

It's Your Money. Manage It Well!





Money Management for Savvy Students

Lenders for Community Reinvestment, a partnership of local financial institutions, is pleased to offer this instructional document to educators interested in encouraging students to be good money managers. Financial literacy covers a host of issues, from making smart spending decisions, to avoiding the pitfalls of “bouncing” checks, to shopping for the best terms, to honoring loan agreements, to learning how to avoid paying outrageous interest rates and fees when it is necessary to borrow money.

Jefferson County Public Schools is including this information on our Web site as a partnership with Lenders for Community Reinvestment. The content encourages students to avoid acquiring debt and to save money. But, if debt is unavoidable due to one’s carrying a balance on credit cards or to taking out a car loan, this booklet explains the value of maintaining “good” credit and the importance of knowing how to evaluate the cost of credit. Perhaps the most important financial wisdom we can impart to our children is the concept of delaying gratification—postponing purchasing items until they have saved the money to buy them so that they will achieve financial security.

This document is designed primarily for high school juniors and seniors, but sophomores may benefit as well. *Money Management for Savvy Students* correlates with our Core Content in Practical Living, and specifically relates to PL-H-3.2.1, which states that financial management practices (e.g., maintaining bank accounts, budgeting, saving, using credit cards wisely, financing large purchases) are methods

of achieving short- and long-term goals.

The original version of *Money Management for Savvy Students* was published in 1997. Since that time, at least 7,000 JCPS students have been exposed to the materials.

Lenders for Community Reinvestment want to help! Volunteer bankers are available to come to your classroom to offer a brief seminar on the material in this document. To request a volunteer, contact Gary Throckmorton at gthrockmorton@republicbank.com. You will need to give Gary the following information:

- Your name
- Your telephone number or e-mail address
- School name
- Number of students
- Preferred date(s) and time that you would like for a volunteer to come

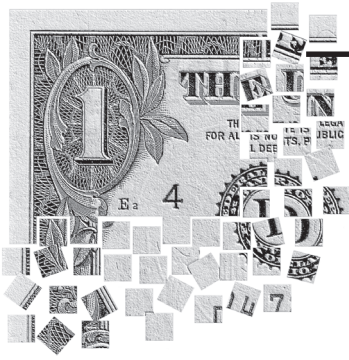
Alternatively, if you want to use the curriculum on your own, our bank partners wish to track program usage and receive comments or suggestions for improvements. Please e-mail one of the following individuals with that information:

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Our grateful appreciation goes to the following partners who willingly gave of their expertise and time to develop this curriculum and who provide professional volunteers to teach.

Lenders for Community Reinvestment

- BB&T
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- Fifth Third Bank
- First Bank
- First Capital Bank of Kentucky
- Federal Reserve Bank of St. Louis—
Louisville Branch
- Home Ownership Partners
- Irwin Union Bank
- Kentucky Housing Corporation
- Louisville Community Development
Bank
- National City Bank of Kentucky
- PNC Bank
- Republic Bank & Trust
- Stock Yards Bank & Trust
- US Bank

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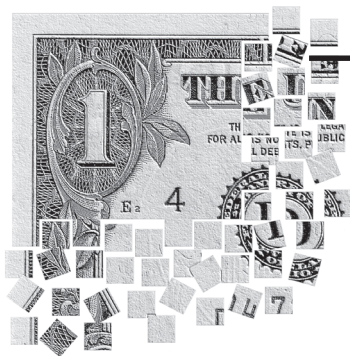
Contributors

- Robin Graf, First Capital Bank of
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- Kathi Whalen, Chase

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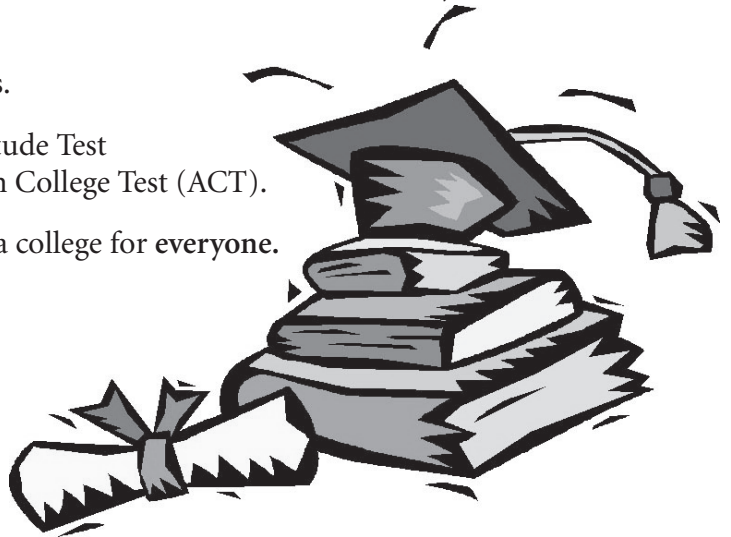


Various Levels of Education Attainment Correlate to Your Income Potential.

Education Level	Annual Income	Lifetime Earnings	Difference Based on Graduation From High School
Less Than Ninth Grade			
High School, No Diploma	\$18,935	\$757,400	
High School Graduate	\$22,463	\$898,520	
Some College, No Degree	\$29,185	\$1,167,400	
Associate's Degree	\$35,370	\$1,414,800	\$247,400
Bachelor's Degree	\$35,590	\$1,423,600	\$256,200
Master's Degree	\$53,103	\$2,124,120	\$956,720
Doctoral Degree	\$60,726	\$2,429,040	\$1,261,640
Professional Degree	\$89,638	\$3,585,520	\$2,418,120
	\$113,242	\$4,529,680	\$3,362,280

* 2002 Bureau of Labor Statistics and The Bureau of the Census; not adjusted for inflation

- Take **demanding** courses.
- Take the Scholastic Aptitude Test (SAT) and the American College Test (ACT).
- Remember that there is a college for **everyone**.
- Apply for financial aid.
- Apply for scholarships.



Visit <http://thebeehive.org/school/>



I. Develop a Simple Budget That Works for You.

A. Be organized.

1. Gather pay stubs, bill receipts, bank statements, etc.
2. Gather supplies (calculator, calendar, pencils, paper).
3. Find a quiet, comfortable work area.

B. Plan your strategy (monthly and yearly).

1. What are your necessities (needs)?
2. What are your desires (wants)?
3. What are your short-term and long-term goals (< or > 12 months)?

C. Attention to details makes it work.

1. Calculate your monthly income (before and after taxes).
2. Identify your expenses.
 - a. Do you have a fixed car payment, insurance payment, etc.?
 - b. Do you have flexible-pay expenses such as gas, lunch money, and entertainment?
 - c. Do you have seasonal expenses such as proms, wardrobe updates, etc.?
3. Determine how much of your paycheck you want committed to bills.
4. Establish a regular savings plan (short-term and long-term).

II. Your Bottom Line—Have a Balanced Budget.

A. Calculate.

1. Total Income—What's your monthly income?
2. Total Debt—What are your monthly expenses/payments?
3. Subtract your total debt from your total income.
4. This is your balance.
 - a. Positive—Congratulations! You have money left!
 - b. Negative—Congratulations! You have a challenge to solve!

B. If positive (+), you can be positive. (Smile!)

1. Set a savings goal.
2. Set a short-term goal for special items/events (i.e., prom, stereo).
3. Set a long-term goal for major purchases (i.e., car, college).

C. If negative (-), changes are in order. (Readjust your budget.)

1. Look for ways to increase your income.
2. Look for ways to reduce your expenses.

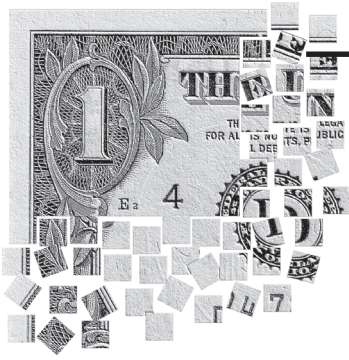
III. Your Commitment Will Make Your Budget Work.

A. Practice makes perfect.

B. Make it a habit to stick to your budget.

C. If your budget isn't comfortable, go back to the drawing board.

D. Readjust when necessary, but accept your limitations. (Be reasonable.)



Importance of Goals

Goals are dreams or wishes that could come true. If your goals are specific enough, then you will be motivated to balance your spending and savings to reach your goals. If you don't set goals, you will find yourself saying, "Where did all my money go? I have nothing to show for all my work." The idea of goal setting is to prioritize your wants. It means sacrificing a little today for greater benefits tomorrow. Goal setting is an ongoing process. Once set, your goals should be reviewed and redefined as you grow and mature.



Setting Goals

Short-term goals are set usually for under one year, whereas long-term goals can be set for two, three, five, or ten years, or even for a lifetime!

Examples:

Short-Term Goals

(Within the Next 12 Months)

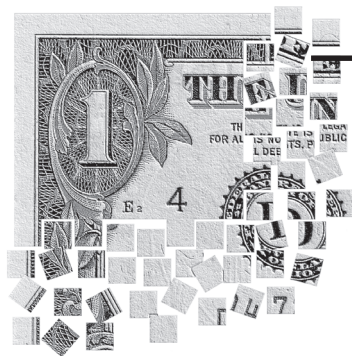
- Stereo system for car
- Senior trip
- Prom expenses
- Spring Break
- Saving for car insurance

Long-Term Goals

(A Year or More From Now)

- New car (in two years)
- European trip (after graduation from college)
- Payoff of student loans
- Saving for a home

Short-Term Goals	Cost
1. _____	
2. _____	
3. _____	
4. _____	
Long-Term Goals	Cost
1. _____	
2. _____	
3. _____	
4. _____	



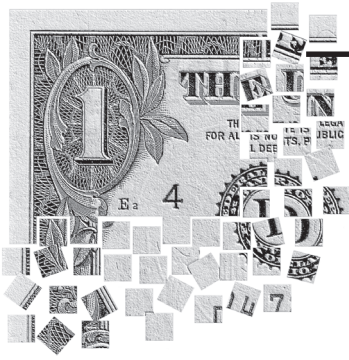
Think About Where Your Money Goes

Create a Budget for Yourself!

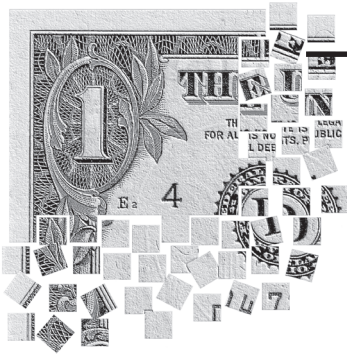
Use this form, make one up in a spreadsheet, or use one of many budgeting software programs that are available.

	Current Spending	Necessary Changes	Planned Budget
Monthly Expenses	\$	\$	\$
Shelter			
• Rent (Dorm, Home, Apt.)			
• Renter's Insurance			
• Electricity			
• Gas			
• Water			
• Telephone			
• Cellular Telephone			
• Garbage			
• Savings			
Food			
• Groceries			
• Meals Out			
• Snacks			
Transportation			
• Car Payment			
• Car Insurance			
• Gas			
• Car Repairs and Maintenance			
Payments			
• Credit Card			
• Other			
Other Basic Expenses			
• Childcare			
• Child Support			
• Clothes			
• Laundry/Dry Cleaning			
• Hair, Nails, Personal Care			
• School			
• Pager/Cellular Telephone			
• Insurance (Life, Health)			
• Disability Insurance			

Think About Where Your Money Goes



	Current Spending	Necessary Changes	Planned Budget
Monthly Expenses	\$	\$	\$
<ul style="list-style-type: none"> • Taxes (Internal Revenue Service [IRS], State, Auto, Property) • Internet Access 			
Other			
Other			
Miscellaneous Spending			
<ul style="list-style-type: none"> • Vacations • Charity • Eating Out • Movies, Plays, Concerts • Magazines, Newspapers • Movie Rentals • Cable or Satellite TV • Newspaper • Club Dues (Health Club, Etc.) • Professional Dues • Pet Expenses • Sports • Gifts and Cards—Family • Gifts and Cards—Friends • Children's Allowances 			
Other			
Other			
Other			
Other			
Other			
Other			
Total Expenses			
Income—Monthly Employment			
Income—Other Source(s)			
Surplus (+) Deficit (-)			



Tips/Strategies for Managing Spending and Expenses

- Set your savings goals.
- Compromise—will **better** do, instead of best?
- Shop around for the best interest rates.
- Pay yourself first each payday.
- Use payroll deduction for bills.
- Save all bonus income.
- Save coupon money.
- Save your loose change.
- Watch your spending habits.
- Watch for sales on items you want to purchase.
- Have a **nothing weekend**.
- Put your budget on a diet.
- Obtain spending and savings advice from a trusted person.



Control Expenses; Don't Let Them Control You!

- Limit long-distance calls; use a timer if needed. Buy calling cards.
- Instead of telephoning, use the Internet (e-mail), or send a letter.
- Stick to basic telephone services; avoid expensive add-ons such as call waiting and/or call forwarding.
- Style your own hair, manicure your own fingernails, or go to beauty schools for these services.
- Carry only small amounts of money with you.
- Don't invest in expensive toiletries and perfumes. Buy brands that can be purchased at any drugstore.
- Avoid mall stores; use discount department stores or consignment shops instead.
- Bargain shop (But, remember, it's not a bargain if you didn't need it).
- Determine whether a potential expenditure is a **want** or a **need**? Ask yourself if you know the difference.

Savings

- Make savings a priority. Save on a regular basis; pay yourself first.
- Use payroll deductions for savings.
- Save gift or **surprise** income.
- Keep your loose change for savings.

Finances

- Don't overdo credit cards; having only one is best. One credit card will limit your exposure, will be easier to keep track of, and will require only one telephone call to report if it is stolen.
- Credit cards can be your best friend or worst enemy. Keep your balance low, and pay it off when the statement arrives.
- Manage your money. Be sure to record every transaction in your checkbook, including those transactions made at automatic teller machines (ATMs) and with debit cards.
- Reconcile your bank statement as soon as you receive it. If there is a mistake, call the bank as soon as possible. By reconciling your statement, you will know where you stand financially.



- Avoid costly fees. Insufficient-funds fees are as high as \$30 per item. Store fees for returned checks are equally high.
- Use your bank's ATM whenever possible to avoid unnecessary fees.
- Shop for low-cost checking and/or savings accounts that best fit the way you handle money.
- Make yourself known to the people at your local bank branch so that if problems arise, they will go the extra distance to find a fix or waive a fee.
- Alter your spending habits if you are struggling to pay your bills.
- Avoid impulse purchases. Plan larger purchases so that your budget can handle new debt without worry and struggle.

Education

- Use your public or your school library to obtain reading materials.
- Study to improve your qualifications for your chosen career.
- Work in a part-time position that can help you gain on-the-job experience toward future career goals.
- Buy used textbooks.
- Check into scholarships and financial aid.
- Explore work/study programs on campus.
- Take advantage of educational benefits from your employer.

Recreation and Entertainment

- Walk or bike, instead of driving.
- Attend high school and local sporting events instead of expensive, professional sporting events.
- Have movie/game nights at friends' houses.
- Use public parks and picnic areas.
- Eliminate cable television.
- Participate in regular physical activity; join school intramurals or a sports team.
- Limit subscriptions to only one or two newspapers and magazines.
- Visit museums and zoos on their free-admission days.

Employment

- Find out what type of savings program your company offers and when you qualify to participate.
- Don't pass up an opportunity to join your company's 401(k). It is the least painful and most efficient way to save.
- Explore the insurance options of your company, and secure major medical and disability insurance if they are offered.
- While in school, look for internships and part-time jobs in the field in which you are majoring. Such work experience will provide you insight into your chosen field and may prove to be a big advantage in the job market after graduation.

Clothing

- Learn to sew so that you can hem, attach a button, or make necessary repairs.
- Buy washable clothing whenever possible. Avoid buying clothes that require dry cleaning.



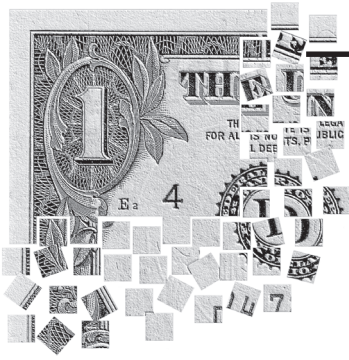
- Coordinate your wardrobe so that you can interchange garments to create several outfits.
- Launder carefully; read garment labels.
- Organize laundry in order to limit the number of loads of clothes you have to wash and dry.
- Use detergent that works well in cool- and warm-water temperatures.
- Mend clothes promptly.
- Buy clothing that does not require ironing.
- Shop at thrift stores, secondhand stores, and/or yard sales for unique items or bargains.
- Borrow friends' formals, or buy from friends instead of buying new.
- Avoid purchasing clothes that will go out of style quickly. Shop for clothes that will look good for a couple of years.

Transportation

- Use public transportation; walk or bike to avoid car and parking costs.
- Carpool with friends or co-workers.
- Avoid the burden of a large car payment for as long as possible. Shop for a used car, and then drive it for several years.
- Do your own car maintenance and cleaning.

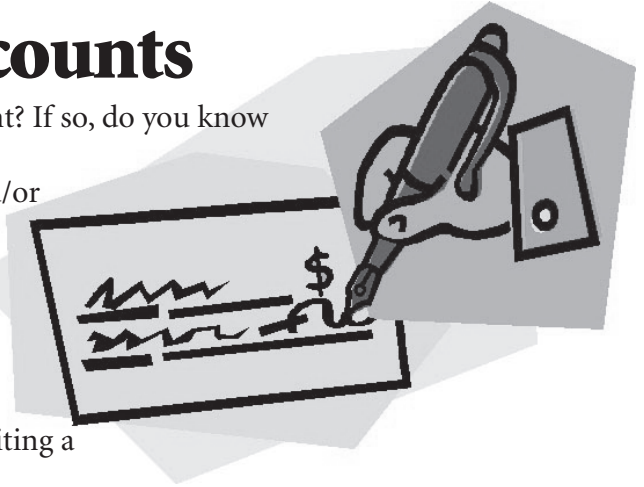
Gifts and Donations

- Set a dollar limit for gifts and stick to it.
- Make homemade gifts instead of buying them.
- Buy gifts in advance when you run across a bargain.
- Buy cards and gift wrap at outlets.
- Send free Internet greeting cards.
- Create your own cards and gift wrap.
- Use payroll deductions, when possible, to make charitable contributions.



Checking Accounts

- Do you have a checking account? If so, do you know how to balance it?
- Are you paying service fees and/or overdraft and returned check charges?
- Is having a checking account a right, or is it a privilege?



We have all heard the term *bounce* in relation to a check. Writing a check without enough money in the bank to cover it will result in your check being returned to the party to whom you wrote it. For example, if you write a \$10 check to rent a video, and that check *bounces*, what is that likely to cost you?

- \$10 video rental you still owe
- \$30 returned check charge from the bank
- \$25 returned check charge from the video store
- \$65 total to rent the video

Was it worth \$55 in bounced check fees for a \$10 check! Do that with several checks? and the fees are staggering. We all work too hard to lose money in care less ways.

“Hello ... What Is My Balance, Please?”

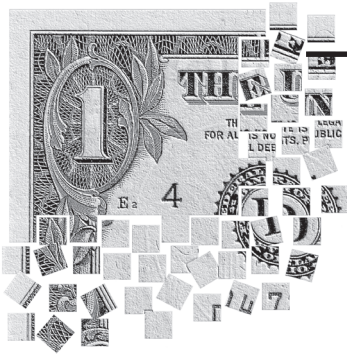
The balance the bank gives you over the telephone will usually not be the balance you can depend on for writing checks.

Huh? Why Not?

Many people call the bank to ask about their balance. Assume you call and are told that there is a balance of \$200 in the bank. Are you sure that this amount is what you have available? What if checks have not cleared? The bank only can tell you what the balance is in a “snapshot” of time that may or may not include all of the checks and other charges you have generated. So, when the bank tells you \$200, your checking account balance may be only a few dollars! If you write checks against what the bank says is your balance, you will probably write more checks than you have money deposited to cover them!

Checking Account Tips

1. Never write a check for a greater amount of money than you know is in the account.
2. Ask if you qualify for overdraft protection on the account.
3. Balance your account with monthly statements you receive in the mail or on the Internet.
4. When you open a checking account, consult a trusted friend/relative who can coach you about how to balance the account.
5. Compare account features and charges. There are many options, including means of obtaining access to your account information over the Internet.



How to Balance Your Checkbook

1. List your current checkbook balance. \$ _____
2. Add earned interest (if any). \$ _____
3. Subtract monthly account fees (if any). \$ _____
4. Subtract ATM fees (if any). \$ _____
5. List your balance. (Write this amount in your checkbook.) \$ _____

Bank Statement

1. List your current statement balance. \$ _____
2. Add all deposits not credited on your current bank statement. +\$ _____ \$ _____

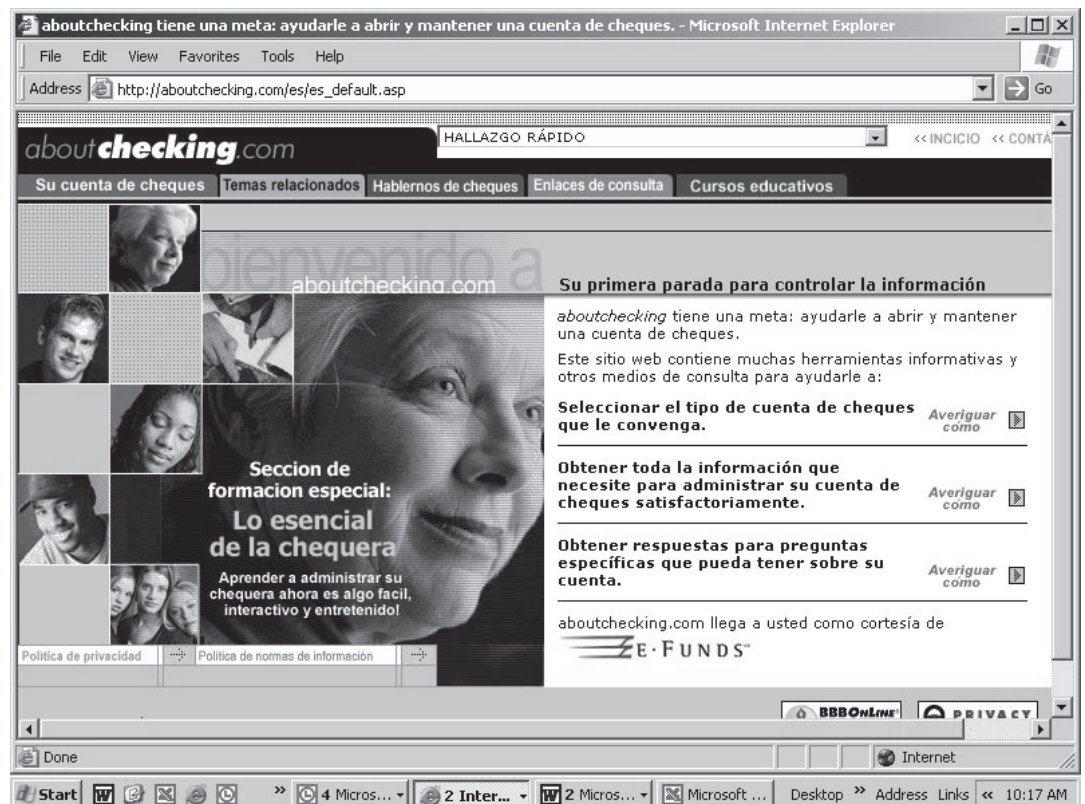
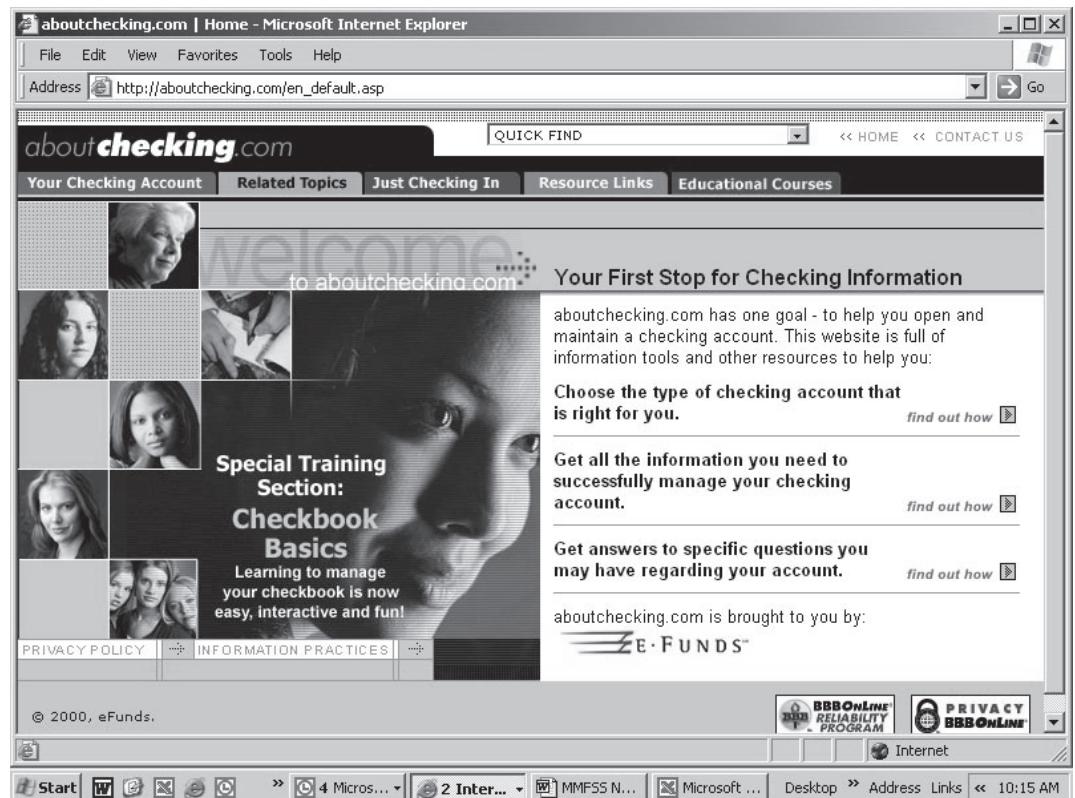
3. List any check, ATM, or debit-card transactions that are outstanding:

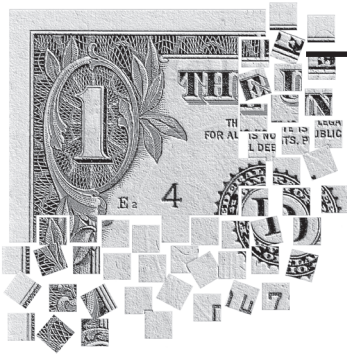
Check, ATM, or Debit Card	Amount
_____	– \$ _____
_____	– \$ _____
_____	– \$ _____
_____	– \$ _____
_____	– \$ _____
_____	– \$ _____
_____	– \$ _____
Total	\$ _____

4. Subtract total outstanding check, ATM, or debit-card transactions. \$ _____

The total should equal your checkbook balance.

Aboutchecking.com is an excellent, bilingual Web site that shows how to choose the right account, write a check, and balance your account.





Extreme Savings—Investing for Your Future, or How to Become a Millionaire

The power of compound interest/earnings (assuming a nine percent annual return)

	Start Saving	Weekly Savings	Yearly Savings	Years Required to Save	Saved	Balance
Saver 1	Age 18	\$ 38.46	\$ 2,000	13	\$ 26,000	\$ 1,042,482
Saver 2	Age 25	\$ 49.08	\$ 2,552	41	\$ 104,632	\$ 1,027,252
Difference						\$78,632
Saver 2 had to save \$78,000 more to achieve the same goal!						

Starting at age 18, you save \$2,000 per year (\$38.46 per week) through age 30. You will have saved \$26,000 by the time you are 30 years old. Your account, with earnings, will be worth \$50,038—more than double what you invested!

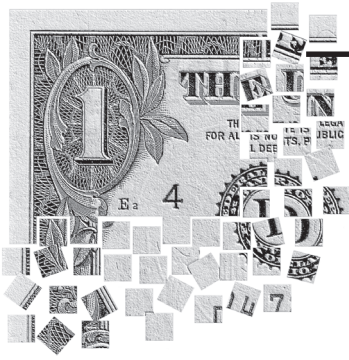
Or you wait seven years until you are 25 years old. To achieve about the same savings account balance as in the first example, you will have to save \$2,552 per year (\$49.08 per week) until you are age 35, but you will have invested \$28,072.

But it gets even better!

Saver 1 Keep the investment until age 65, and your balance will be \$1,042,482.

Saver 2 To save a million dollars by the time you are 65, you will need to keep saving \$2,552 every year. At age 65, you will have \$1,027,252, but you will have saved \$104,632 to get there!

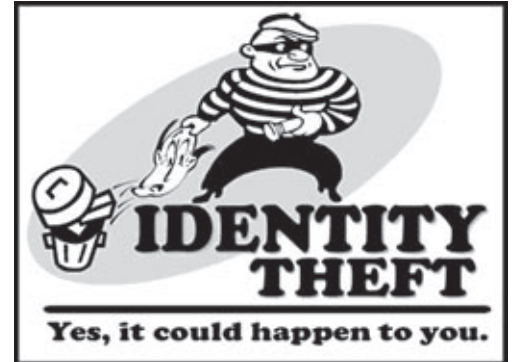
Which is the better way to save/invest? Start saving early, or start saving late? In example 1, you only had to save \$26,000 to obtain a \$1 million balance. In example 2, it took \$104,632 to obtain a \$1 million balance. In other words, because of the time value of money, it takes **four times the investment** to save the same amount of money a bit later in life!



What Is Identity Theft?

Identity theft occurs when someone steals your identity by using personal data about you such as your name, social security number, and date of birth, as well as your financial information. Thieves then use this information to open charge accounts, order merchandise, or borrow money in your name.

- Identity theft is the fastest-growing crime in the United States.
- The money lost due to identity theft went from \$442 million in 1995 to \$1 billion in 2002.
- As consumers, each of us is paying for this loss when we pay our bills.



How Is Your Identity Stolen?

This can happen in a variety of ways, including the following:

- Trash diggers obtain copies of credit card receipts, credit applications, and other information that has been placed in the trash.
- Mail thieves take letters out of personal mail boxes.
- Purse snatchers steal personal information and use it or sell it to others.
- Thieves obtain books and catalogs with your name, address, and date of birth so they can go on spending sprees.

Protect Your Identity!

- Do not give out any personal information such as your birth date or social security number to solicitors or retailers.
- Do not throw away any personal identifying documents (prescriptions, receipts, bank deposit slips, pay stubs, expired credit cards, insurance policies, credit card applications) without first destroying the material.
- Shred discarded items whenever possible.
- Order a copy of your credit report from each of the three major credit reporting agencies every year. Make sure it is accurate and includes only those activities you've authorized. The law allows credit bureaus to charge you up to \$9 for a copy of your credit report. (The toll-free telephone numbers for these agencies can be found in the section "Credit—What is it?")

Need More Information?

The **Office of the Attorney General** has a Web site with additional information. If you believe you are a victim of identity theft, visit <http://ag.ky.gov> in order to know what to do.



What Is Credit?

There are many forms of credit, but for the purposes of this program, *credit* is borrowing money (called *principal*) from someone or from an *entity* (bank, finance company, car dealership, etc.) to obtain a product or service. In exchange for lending you money, the lender charges rent in the form of interest.



Credit is like water. Just the right amount will sustain you. Too much credit can get you into serious trouble!

What Are Principal and Interest?

- *Principal* is the amount of money you owe on a loan.
- *Interest* is what you pay for borrowing money. It's normally calculated on an annual (yearly) basis. For example, if you borrowed \$1,000 for one year without paying back any of the principal, at five percent interest, you would pay \$50 in interest.

What Is Good Credit Versus Bad Credit?

Persons who maintain good credit pay a lot less interest for virtually every form of credit (home, car, personal needs, boat, credit cards, etc.). For example, a person with good credit might expect to pay five percent interest on a car loan, versus 29 percent interest for a person with very bad credit. Later, you will see an example using these interest rates.

Good Credit: On-time payments and not too much debt (including access to lines of credit)

Bad Credit: History of making slow payments, history of collection efforts by creditors, and/or too much debt (including access to lines of credit)

Do I Need Credit?

That's really the same as asking, "Do I really need to borrow money?" It's a big decision that is often complicated by not understanding the differences between **wants** and **needs**, being willing to delay a purchase for a while, and considering all options.

- Generally, credit should be avoided until someone has stable employment and/or a stable way of making payments.
- Even the decision to take out student loans should be carefully weighed. Graduating with a huge student loan debt, plus other debts such as credit cards, puts intense, negative pressure on young families!

Dangers of Abusing Credit

- Leads to a poor credit history (how those who will grant future credit review your record)
- Increases interest expenses
- Commits future earnings
- Creates temptation to overspend (buy-now-pay-later attitude)



How Do I Get Credit?

In Kentucky, you have to be at least 18 years old to sign a contract (loan agreements are legally binding contracts). Credit actually can be a little *too* easy to get! But there are several ways to get started:

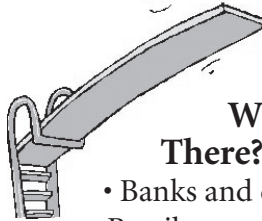
1. Put several hundred dollars into a savings account to pledge on a loan. Some banks offer this service in various forms. A common form of this kind of credit is called a secured credit card.
2. Ask a parent to cosign a loan.

If I Decide to Borrow Money, Aren't the Payments the Most Important Thing to Consider?

No! No! No! You are probably thinking about how much you have to pay each month. If that's the only thing you consider, you will make a big mistake! Sales people often push low payments or affordable payments to distract borrowers from the real costs of borrowing money. The key is to borrow as little as possible, for the shortest time possible.

Before You Take the Plunge ...

- Estimate your credit capacity. Spend no more than 15 to 20 percent of your net income (after taxes) on short-term purchases, including a car payment.
- Spend no more than you can afford to pay off completely in 12 months, excluding a car loan.
- Shop for the best deal on what you want to buy.
- Shop for the best deal on interest rates, loan terms, and loan fees. They can vary considerably!



What Kinds of Lenders (Also Called Creditors) Are There?

- Banks and credit unions (tend to be lower-cost sources of credit)
- Retailers such as department stores (often use finance companies to issue credit)
- Credit cards (There are many issuers; some have very high interest rates.)
- Alternative lenders, also called fringe banking (rent-to-own, pawn shops, payday lenders, etc.)

What Kinds of Credit Are There?

- Revolving credit (see the next section): This type of credit is very common and comes in several different forms. The key element is that a limit is assigned to the account, which can be accessed and repaid, over and over.
- Installment credit: This is a close-ended loan where a fixed amount of money is borrowed, then repaid, over time. The loan ceases to exist when the last payment is made.

What Is a Credit Card Account or a Revolving Credit Account?

- A lender, retail store, or other seller of products/services will authorize you to borrow up to your credit limit or credit line (usually through a piece of plastic called a credit card).
- Provided you make timely payments, the lender will allow you to borrow up to the limit again and again without having to apply for a new loan every time you wish to borrow money.



- They also are referred to as open-ended credit accounts.
- Usually, you will receive a monthly statement that shows the interest charges, payments received, the new balance you owe (including interest), the minimum payment due, and the payment due date.

What Does a Credit Card—or Other Type of Revolving Credit—Cost, and What Are the Payments?

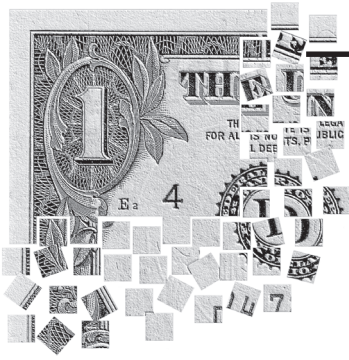
In addition to various fees and charges, you will pay interest on the outstanding balance. The interest rate can vary from as little as five percent per year to more than 21 percent per year. Here is what an 18 percent credit card account would cost over time if you only make the minimum payment of two percent of the balance (for example, a two percent minimum payment on \$2,000 would be \$40):

	End of:	Remaining Balance	Interest Cost
	Year One	\$1,876.44	\$349.69
	First Two Years	\$1,760.48	\$677.78
	First Five Years	\$1,453.98	\$1,107.06
After ten years, you still owe more than half of what you borrowed! And you will have paid more in interest alone than what you borrowed!	First Ten Years	\$1,057.02	\$2,230.51
Just making minimum payments, it would take 29.5 years and \$6,675.42 in interest to achieve a zero balance!	29.5 Years	\$0	\$6,675.42
This borrower made payments for almost 30 years and paid \$6,675.42 just to buy a \$2,000 sound system that was outdated in only three years!			

But you would never do that, would you?

Wise Use of Credit

1. Shop for the lowest interest rates and fees.
2. **Never make only minimum payments.**
3. Try to pay off credit card accounts every month.
4. **Never buy the payment.** Look at the total loan terms!
5. Don't have multiple credit cards. It's best to have only one!
6. Use a debit card for small purchases and ATM cash withdrawals.
7. Avoid terms that exceed the useful life of what you purchase. For example, a computer's useful life may be only three years. Don't finance one for longer than that.
8. Pay all bills by the dates they are due. This includes bills for school, doctors, cellular telephones, and insurance, as well as loan and credit card payments.
9. Avoid too much credit. Too much credit is a sign of pending trouble.



Why Should You Pay \$1,200 for a \$400 Television? (See example below.)

- Generally, alternative forms of credit cost a lot more money than conventional credit from banks and credit unions.
- When you use alternative forms of credit to buy something, it is likely that you will pay much more than the item's value in fees and interest.
- The use of alternative forms of credit, even if paid back as agreed, can negatively affect your access to conventional, lower cost credit.
- It is better to never start using these sources. Instead, get on a budget by letting a trusted adult or credit counseling agency help you prepare for life's major and minor purchases and financial emergencies.

What are some alternative forms of credit?

- Pawn Shops
- Payday Loans; Payday Advances
- Rent-to-Own
- Owner Financing (can be good source of credit, if terms are reasonable)
- Finance Companies
- "Buy on the Lot—Pay on the Lot" Vehicles

Rent-to-Own:

What Is It?

You agree to rent a consumer product, such as a TV, a computer, or a stereo, for a set period of time. At the end of the contract period, the product is yours. In some contracts, even if you make all but the last payment, the store can take the item away from you, even though you may have already paid several times what it is worth.

Typically, you make weekly payments, which seem affordable, because they are only about one-fourth of a monthly payment. Almost every product you can imagine can be rented, including furniture, appliances, toys, exercise equipment, home décor, etc.

Examples:

	Weekly Payment	Monthly Payment	Term in Weeks	Term in Years	Total Payments	Cash Purchase Price	Period of Delayed Gratification by Saving the Payments and Paying Cash
Color TV	15.95	69.06	78	1.5	\$ 1,244	\$ 400	Six Months to Own!
Washer	13.92	55.69	72	1.4	\$ 1,002	\$ 404	Seven Months to Own!

It is not unusual to pay the equivalent of more than 600 percent interest!



Payday Loan/Payday Advance

What Is It?

A payday loan is a short-term, small loan, typically from \$100 to \$500. The objective is to span the time between paychecks. The way costs are quoted is very deceptive. For example, if a company reports that you “only” pay two percent per day, that equals an annual cost of 730 percent. One entity charges \$25 per \$100 until the next payday. For a two-week loan, that is equivalent to 650 percent interest. In other words, if you owed \$100 for one year, you pay back \$1,400 (\$100 loan/advance plus the \$1,300 fee).

Pawn Shop

What Is It?

An individual pledges something of value in exchange for a small loan. Borrowing money from a pawn shop is expensive! Most transactions are small (well under \$500). For example, a person pawns a wedding band valued at \$140. The ring serves as collateral. A 30-day loan is made for only \$10, but interest and fees make the amount due in 30 days \$12.20, which is equivalent to 264 percent interest. If you do not repay the loan, the pawn shop keeps the ring and sells it. In fact, 30 percent to 40 percent of the time, pawn shops keep the items pawned!



Cost of Borrowing Examples (Low vs. High Interest)

How Much Borrowing Will Cost You

(Sample of Actual Loan Contract)

Compare:

“good credit, low-cost interest expense” to “bad credit, high-cost interest expense”

5 Percent Annual Rate

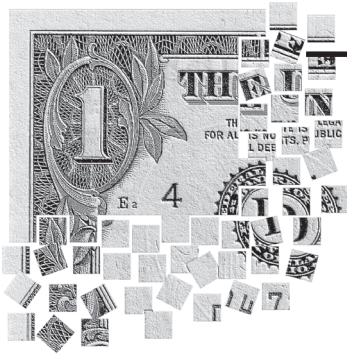
Annual Percentage Rate The cost of your credit as a yearly rate	Finance Charge The dollar amount the credit will cost you if you pay as scheduled	Amount Financed The amount of credit provided to you or on your behalf	Total of Payments The amount you will have paid after you have made all payments as scheduled
5%	\$1,986.60	\$15,000.00	\$16,986.60
Number of Payments	Amount of Payment	When Payments Are Due	
60	\$283.11	Same Day Every Month Until Paid	

29 Percent Annual Rate

Annual Percentage Rate The cost of your credit as a yearly rate	Finance Charge The dollar amount the credit will cost you if you pay as scheduled	Amount Financed The amount of credit provided to you or on your behalf	Total of Payments The amount you will have paid after you have made all payments as scheduled
29%	\$13,590.60	\$15,000.00	\$28,590.60
Number of Payments	Amount of Payment	When Payments Are Due	
60	\$476.51	Same Day Every Month Until Paid	

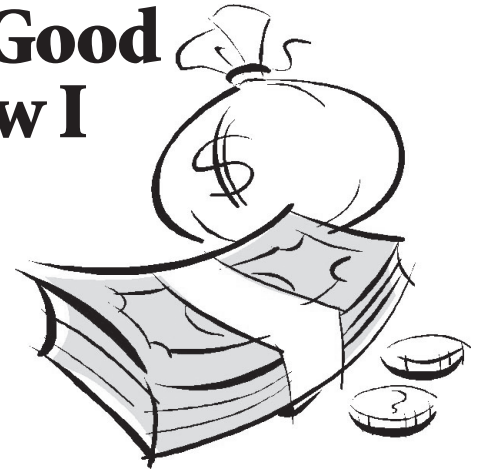
The person with bad credit pays \$11,604.40 more in interest !

	Monthly Payment	Total Interest Cost
Bad Credit	\$476.51	\$13,590.60
Good Credit	\$283.11	\$1,986.60
What's the difference?	\$193.40	\$11,604.40



Why Worry About Good Credit When I Know I Can Get a Loan Anyway?

Good credit equals much lower interest expenses (as shown in the example), which means you will have more money to use for **lifestyle!**



Smart Credit

- Delayed gratification means a willingness to wait for something. Save and invest a little, regularly, for a big return later. Or spend it now, and barely live paycheck to paycheck.
- Set a goal to pay cash.
- Never buy the payment. A favorite marketing message is to emphasize low payments that can sound very affordable.

Before borrowing money, look at the total cost, including fees and interest.

Okay, I'm Ready to Borrow! What Will I Be Asked?

- Purpose
- Amount
- Name, age, address, and social security number
- Occupation, employer, and length of employment
- Total monthly income
- Banking and credit references
- Single or joint application

What Does the Lender Do When I Have Completed the Credit Application?

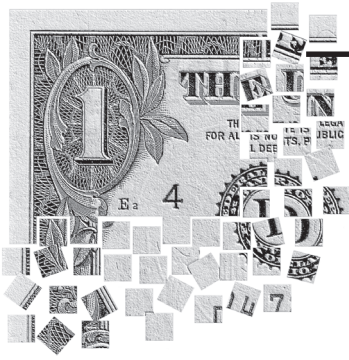
The lender will determine the amount of your payment and how much money you can borrow by reviewing all of the information you supply, plus reviewing the information obtained from a credit bureau. Using all of that information, the lender will make a credit-granting decision.

What Is a Credit Bureau?

Companies that loan you money or that provide services to you usually report your payment history to one or to all three major credit bureaus. A credit bureau is simply a clearinghouse for credit history information. That information is what is contained in your personal credit report.

In addition to reporting how many credit accounts you have and how well you make your payments, your credit bureau report also will contain information such as rent collections and efforts from other creditors to collect unpaid bills from you. Examples include a multitude of items such as cellular telephone bills and medical bills. Credit bureaus also generate your credit score, which is considered to be predictive of how timely you will be in making payments. Credit scores are one means for creditors to examine the risk of lending money any particular individual.

Credit Bureau		
TransUnion 800-888-4213 www.tuc.com	Equifax 800-685-1111 www.equifax.com	Experian 800-493-2392 www.experian.com



Who Can Legally Obtain a Copy of My Credit Report?

The Fair Credit Reporting Act (FCRA) mandates that a person or a company must have a permissible reason to see your credit report. Some permissible reasons are as follows:

- Granting a loan
- Renting an apartment
- Applying for a job
- Applying for insurance

Experian allows you to get one free copy of your credit report each year.

Will I Be Approved?

- Your credit score and/or credit report will be reviewed by the lender to determine how well you make payments.
- Your income and expenses will be put into different formulas to determine if the lender thinks you can afford to make the payments.
- If you are approved, your lender likely will make term and interest-rate decisions based on your credit record.

Why Could I Be Denied?

- Lack of credit references
- Insufficient income
- Too short a period of employment
- Too short a period of residency; creditors want to know how well you will handle living expenses.
- Bad credit history (too much debt, record of slow payments)
- Many recent inquiries to the credit bureau (could be a sign of sudden, overwhelming debt load)
- Bankruptcy (Chapters 7 and 13)

Prohibited Criteria for Denying Loans (Regulation B):

- Race
- Color
- Religion
- Gender
- National origin
- Marital status
- Receipt of public assistance
- Age (However, you must be old enough to enter into a legally binding contract.)
- Good faith exercise of rights under the Consumer Protection Act
- And in a real-estate related transaction, add the following:
 - Family status
 - Disability

What Will Happen If I Am Denied Credit Because of Information Contained in My Credit File?

- You will receive a letter from the creditor that will tell you which credit bureau was used and how to receive a free copy of the report.
- Reviewing your credit report is a good idea so you can determine if errors exist (e.g., incorrect data or someone else's history could be in your file.)
- The credit bureaus are obligated to verify the information you report is inaccurate and, if applicable, to correct/delete it.
- Finally, it can be beneficial to speak with the lender to determine if other options exist or if clarification of your history will help.



Okay, So I Was Late on a Few Payments. I Thought I Had a Grace Period, So What's the Big Deal?

- You have an obligation (legal and moral) to pay your bills.
- How others have been paid (your payment history) is important. It will determine if you get approved or denied for credit, and it will help determine how much interest you will have to pay.
- Your payment history affects the cost of credit you want (interest and fees).

Grace Period—What Is It?

Credit Card Purchase Grace Period:

Many credit cards offer a period of time during which you will not be charged interest for new purchases. The period can be as long as 25 days. You will save money by paying the balance, in full, for new purchases. Just make sure the credit card features this type of grace period.

Installment Payment Grace Period

When you buy something, there is normally a due date which is the date, every month on which you agree to make a payment. For example, if a payment is due on the tenth of each month, that represents a few days after the due date when you will not be charged a penalty for being late. Often, this period is from five to ten days. After the grace period, lenders charge a late fee. In the following example, there is a \$15 late fee charged after the grace period.

Car Payment Grace Period—Example:

Due Date: July 10, 20____ pay: \$250.53 After: July 20, 20____ pay: \$265.53

Caution: Even though the lender may not charge a late penalty until a few days after the due date, any payment made after the due date is a late payment. To protect your credit rating (credit score), **always make sure you make payments by, or even before the due date!** In this example, your payment should be made by July 10, not July 20.

Common Mistake: I'll Not Make Any Payments Until I Am Satisfied.

- Sometimes, people get into a dispute over the purchase of a product or service. Do not make the mistake of withholding payments, except in such a case as is noted below.
- Normally, the lender is in the middle, between you the purchaser and the company from whom you made the purchase.
- Example: Even if your new car stalls, you are obligated to make the payments.
- There is an exception for credit cards. Under certain circumstances, you can place a credit card purchase in dispute and withhold making payments, but check with the credit card company before doing so.
- Better yet, try to solve the dispute with the seller before it becomes a payment problem!

What Do I Do if I Cannot Meet a Payment?

- Don't hide; contact the creditor to explain the situation.
- If it's a short-term problem, keep it that way. Make a commitment to pay (by a particular date), and stick with it.
- If it's a longer-term problem, you may need help. There are credit counseling organizations that will help you!
- Stay in contact with creditors until the problem is resolved.



What Is Bankruptcy?

- Bankruptcy is a process through a federal court for someone to get court approval not to repay or to change the payment of certain kinds of debts.
- Bankruptcy can be an option when someone cannot pay his or her debts, a situation that can be caused by the loss of employment, abuse of credit privileges, sudden legal liability, medical bills, etc.
- Sometimes, bankruptcy may seem like the only way to solve a problem. But it should be a last resort. It can take years to recover financially and to repair your credit record.
- Not all debts can be “erased,” so persons who claim bankruptcy often have continuing obligations for such debts as cars, federally insured student loans, and homes.
- There are two kinds of personal bankruptcies—Chapter 7 and Chapter 13. Chapter 7 is a liquidation plan where nearly everything the debtor owns is sold to repay the creditors and certain debts are eliminated, while Chapter 13 results in a repayment plan.

Fair Debt Collection Practices Act*—How Are You Protected in Dealing With Collection Agencies? Among Other Things, Collection Agency Personnel Cannot:

- use abusive language.
 - call at unreasonable hours. (Reasonable hours are considered to be between 8 a.m. and 9 p.m.)
 - make excessive telephone calls.
 - threaten to notify an employer or friends.
 - use false pretenses to gain entry into a home with the intent to identify or to take something of value.
 - attempt to collect more than what is owed.
 - send a consumer misleading letters that appear to be from a government agency or court of law.
- * Credit grantors collecting their own debts are not covered by this law; however, reputable credit grantors subscribe to high standards and want to be fair to consumers when attempting to collect past-due loans/payments.



Help Is Available!

Maybe you need help to make a budget, reduce your debts, etc. You may wish to work with your parents, and there are credit counseling organizations that will help. Here is some information about credit counseling organizations:

Consumer Credit Counseling Service

2100 Gardiner Lane, Suite 103A

Louisville, KY 40205

(502) 458-8840

1-800-278-9219 (toll-free)

Since 1980, Consumer Credit Counseling Service has been a Housing and Urban Development (HUD)-approved counseling agency. Many lenders look for this stamp of approval in deciding where to send their customers for counseling. Consumer Credit Counseling Service not only provides the one-on-one counseling often required by lenders, but it offers a one-day Homebuyer Preparedness Program. This free program covers such topics as working with a real estate agent, finding a lender, figuring out how much you can afford to spend, and going through the application process. The agency also is certified by HUD to provide default and reverse equity mortgage counseling. Counseling on debt management and budgets also is available. The initial counseling session is free. Consumer Credit has six sites throughout the area.

Home Ownership Partners (HOP)

333 Guthrie Green, Suite 404

Louisville, KY 40202

(502) 585-5451

This is the counseling division of The Housing Partnership Inc. and is the largest HUD-certified agency in Kentucky. HOP provides counseling, courses, and other services to those who want to own a home. (HOP also counsels homeowners who are in danger of default.) Participants attend an orientation session before being assigned to a counselor. The counselor concentrates on such things as budgeting and credit preparation. Participants then must complete a handful of short courses over six weeks. These courses cover such basics as contracts, inspections, loans, insurance, and maintenance. HOP assesses a one-time fee on those who earn more than \$18,000 a year. The fee varies, based on income; the maximum is \$300. Scholarships are available for those who earn less than \$46,000; some end up paying nothing. The fee entitles participants to a lifetime of service. Homebuyers often come back for help on budget and credit issues. HOP has five satellite locations scattered throughout the area, including two in Indiana.

Kentucky Housing Corporation (KHC)

1231 Louisville Road

Frankfort, KY 40601

(502)564-7630, Ext. 324

1-800-633-8896 (toll-free)

The Yes You Can ... Own a Home series of classes is presented periodically throughout the state by local lenders and nonprofit organizations. Local coordinators team up with housing professionals who volunteer their time to serve as instructors. The classes cover such topics as finding the right house, completing a loan application, navigating the mortgage loan process, resolving budget and



credit issues, and conducting basic home maintenance. The classes are free and open to the public. In addition, the agency offers a counseling program for potential homebuyers who have been declined financing by the KHC or by a KHC-approved lender or who have completed the Yes You Can course and are within KHC's income limits. As the state housing-finance agency, the KHC also offers a down-payment assistance program, low-interest rate mortgages, financing for the production of rental housing, and a variety of rental assistance programs.

Home Ownership Training (HOT)

**1535 West Broadway
Louisville, KY 40203
(502)585-4622**

This program is offered by the Louisville Urban League's Housing Services and Neighborhood Revitalization Department. Through individual and group counseling, HOT prepares and prequalifies people for mortgages. In one-on-one sessions with a certified HUD counselor, clients learn about budgeting, credit, and home ownership options. When financially ready (exhibiting clean credit, steady budget, and savings), clients take four classes. These cover sales and purchase contracts, inspections and maintenance, loan applications and closings, and insurance. Classes are held the last two Tuesday and Thursday evenings of the month. Those who already save, budget, and have established good credit are eligible for a fast-track version of this training—a one-day group session called Home Track. The Urban League charges a lifetime membership fee, which is set on a sliding scale based on income. The fee ranges from \$50 to \$160. Kentucky residency is not required. Additional counseling is available on such issues as reverse mortgages, delinquencies, refinancing, and rental options.

National Council on Economic Education, Financial Fitness for Life

<http://www.fffl.ncee.net>

One Economy Corporation

<http://www.thebeehive.org>

Federal Deposit Insurance Corporation (FDIC), Money Smart

<http://www.fdic.gov/consumers/consumer/moneysmart/index.html>

Federal Trade Commission for the Consumer

<http://www.ftc.gov/bcp/menu-credit.htm>

National Foundation for Credit Counseling, *Keys to Homeownership*

<http://www.nfcc.org/>

National Urban League, CreditSmart

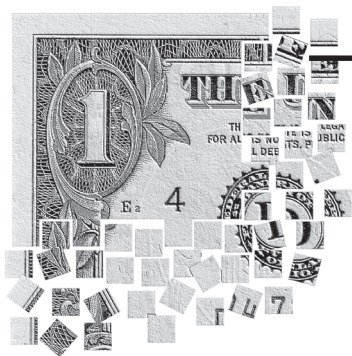
http://www.nul.org/resources/financial_literacy/creditsmart.html

National Endowment for Financial Education, High School Financial Planning Program

<http://www.nefe.org/pages/highschool.html>

U.S. Department of Housing and Urban Development, Consumer Information

<http://www.hud.gov/consumer/index.cfm>



Glossary

Amortization—The general reduction of a loan or other obligation by making periodic payments of principal and interest

Annual Percentage Rate (APR)—Rate of interest figured on a yearly basis and expressed in terms of a percentage

As Agreed—When a payment is made on time. The term usually refers to how all of the payments were made.

Assets—Items of value that you own, even if money is owed on them.

Appreciation—The growth in value, over time, of an asset

Balance—Amount of loan remaining to be paid, sometimes referred to as the “outstanding balance”

Budget—A spending plan based on your income and your monthly expenses

Capacity—Your ability to repay based on income, expenses, and debt

Character—Your credit history and record for repaying your debts on time

Charge Account—An arrangement permitting the customer to buy goods and services now and pay for them later

Collateral—Something of worth that serves as security for a loan; your assets such as bank accounts or a car

Credit—Based on trust that goods and services received now will be paid for in the future

Credit Card—Plastic card issued by a creditor, representing a type of charge account, which allows individuals to obtain cash, goods, or services according to and within the dollar limits of an established credit arrangement

Credit Report—A record, or file, used by a prospective lender or employer that chronicles the credit history of a prospective borrower. It is used to evaluate credit worthiness.

Credit Score—A statistically based method used by many creditors to determine the likelihood that an individual will make payments on time and according to the terms in the loan agreement. Factors such as income, past payment history, and employment are used to determine the credit score value.

Creditworthiness—Ability to obtain and repay debts

Debt—Obligations (bills) owed to creditors to be paid within preestablished times (usually monthly)

Default—Failure to meet a payment or fulfill an obligation

Delinquent—A bill/obligation not paid by the date due; past-due payment

Depreciation—The declining value of an asset, over time

Disclosure Statement—Statement giving all the terms and conditions of the credit transaction



Equity—The money value of a property or an interest in the property in excess of claims or liens against it

Finance Charge—Amount charged for the use of credit services

Fixed Expense—Payments you must make each month, many of which remain the same. Examples include rent, car payment, certain utilities, etc.

Flexible Expense—Expenses that vary from month to month but that can be controlled more readily than fixed expenses (e.g., food, clothing, personal expenses, entertainment)

Goal—The end toward which effort is directed; future plans/dreams to be attained

Gross Monthly Income—What you earn before taxes and other deductions from your pay

Income—All sources of money you earn or are paid such as payroll and interest on savings

Interest—Amount paid for the use of credit over a period of time, expressed as a percentage; the cost, or rent, for borrowing money, usually expressed as a percentage

Line of Credit—Dollar amount a lender makes available to a borrower

Nontraditional Credit—Considered to be debt such as pawn shop loans, payday loans, rent-to-own

On Time—Payments made by the agreed dates are considered to be “on time”

Over Limit—Charging more on a line of credit than you have been allowed

Payroll Deduction—Money taken directly (automatically) from your paycheck for specific items such as insurance, contributions, and savings.

Principal—Original sum borrowed; also, the remaining amount owed before interest or other charges are added

Revolving Account—Line of credit that may be used repeatedly to a specified limit

Salary—Payment for work over a specified time

Savings—Money set aside for short- or long-term goals; if deposited into a bank account, may earn interest

Seasonal Expense—Periodic expenses that you may pay quarterly, semiannually, or annually such as insurance and medical bills

Security—Something of value that is pledged to assure loan repayment and is subject to seizure upon default

Signature Loan—A loan that is unsecured (without collateral)

Simple Interest—Interest computed on the principal balance, over time