MONEY MATTERS

Budget Planning for Life

ARE YOU PREPARED?

WORKBOOK

TABLE OF CONTENTS

DISCLAIMER

FINANCIAL WELLNESS ASSESSMENT

This assessment is designed to gauge your current financial knowledge and provide the framework for learning how to budget and plan for the future.

Strongly Disagree ——— Strongly Agree

MONEY BASICS	1	2	3	4	5
I know my monthly NET income.					
I know my monthly fixed expenses.					
I know my current level of debt (including credit cards and student loans).					
I know my credit score.					
I have short, mid and long-range financial goals.					
I have a budget.					
I have an emergency fund that can cover more than three months of expenses.					
I have a will and testament.					
I am confident and comfortable with my current financial situation.					
FINANCIAL PRACTICES					
I make a concerted effort to live within my means and follow a budget.					
My budget includes non-monthly expenses (like oil changes, property tax, etc.).					
I plan for large expenses like vacations and holiday spending.					
I do not make impulsive decisions about spending money.					
I do not make purchases that I don't need just to lift my spirits.					
I have not been behind on any bills, or paid late fees, in the last 12 months.					
I pay more than the minimum payment on my credit cards.					
I pay my credit card balances in full (creating a zero balance) each billing cycle.					
The balance on my credit card(s) is 30%, or less, of the credit limit.					
I regularly put money aside in a savings account (different than emergency fund).					
I am regularly contributing/saving money for retirement via 401K, IRA, etc.					
SUB-TOTAL - *Add the scores in each column, based on column header value:*					
TOTAL SCORE – *Calculate the sum of the sub-totals:*					

BELOW 50	51-69	70-84	85-100
Danger! You are vulnerable to financial catastrophe. You need to implement new financial habits and behavior.	**Caution!** You've got a good foundation, but you need to concentrate on improving your financial habits.	**Good job!** You've got a solid start. Dedicating more time and attention to your financial practices will secure your future.	**Excellent job!** You have a strong handle on your finances and possess good financial habits. But you can always learn more tips!

PAYCHECK 101

Pay Date	The date employees are paid, and checks are distributed.
Pay Period	Represents the date range when employees earned their wages.
Gross Pay	Total amount earned, based on hourly wage or annual salary, before taxes and other items are deducted.
Deductions	Any amount taken directly out of an employee's paycheck.
Federal Income Tax	Taxes deducted from the paycheck according to the employee's W-4 form.
FICA	Collected by the federal government for two separate purposes: Social Security and Medicare.
State Income Tax	These taxes go towards services like education and road repair.
Local Tax	Used to fund things like parks and support improvement in the community where the tax is collected.
Voluntary Contributions	Amount taken directly from a paycheck, based on the employee's choices.
Involuntary Contributions	Withheld from a paycheck for items like child support, defaulted student loans, tax garnishments, bankruptcy payments, and unpaid court fines.
Net Pay	The "take-home" amount the employee receives in their check.

MONTHLY INCOME	
Income 1	
Income 2	
Child Support	
Other Income	
Other Income	
TOTAL MONTHLY INCOME:	
MONTHLY SPENDING	
Housing	
Mortgage / Rent	
Homeowners Association	
Repairs / Maintenance Fees	
Property Taxes	
Home / Property Insurance	
Lawn Care / Snow Removal	
Total Monthly Housing:	
Utilities	
Electricity	
Water	
Gas	
Phone	
Cable / Internet	
Trash / Recycling	
Total Monthly Utilities:	
Food	
Groceries	
Dining Out / Carry Out	
Lunches (Work and/or School)	
Total Monthly Food:	
Entertainment	
Streaming Service(s)	
App Subscriptions	
Season Tickets (Sports / Theatre)	
Date Night	
Total Monthly Entertainment:	

Transportation	
Car Payment 1	
Car Payment 2	
Car Insurance	
Gas	
Oil Changes	
Repairs / Tires	
Total Monthly Transportation:	
Dependents	
Daycare / Tuition	
Tutoring	
Sports / Recreation	
Total Monthly Dependents:	$
Clothing	
New Clothes	
Dry Cleaning / Laundry	
Total Monthly Clothing:	$
Personal Care	
Hair / Nails	
Massage / Yoga / Life Coach	
Gym Membership	
Total Monthly Personal Care:	
Medical	
Health Insurance	
Co-Pays	
Dental	
Prescriptions	
Life Insurance	
Total Monthly Medical:	
Other (Charities, Tithe, Credit Cards, Loans, Etc.)	
Visa	
Mastercard	
Student loan	
Total Monthly Other:	
TOTAL MONTHLY SPENDING:	

TOTAL MONTHLY INCOME:
(minus) **-**
TOTAL MONTHLY SPENDING:
(equals) **=**
BALANCE:

DETERMINING NEEDS VS. WANTS

Transfer all the items from page 3 into one of the columns below.

NEEDS *Required to Survive*	
	$
TOTAL NEEDS:	$

WANTS *Not Required to Survive*	
	$
TOTAL WANTS:	$

(Jespersen, 2019)

TYPES OF BUDGETS

Every individual and situation is unique. Therefore, selecting the right budget for you is very personal. You may implement one type of budget now and transition to a different type of budgeting later. You may take concepts from several budget models and create your own hybrid. The important thing is that you pay attention to how much money you have coming in and going out, and plan for your future. We've described a few popular budget models below:

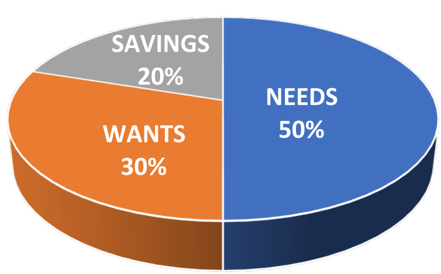
SURVIVAL BUDGET – When your spending is greater than your income, you must implement a survival budget. This is a tight budget, with the hopes that you'll only need it for a short time, until you get financially stable. You must eliminate non-essential spending and find ways to cut down on spending for necessary items. (coupons, no dining out, etc.)

ENVELOPE BUDGET – If you struggle with self-control, you can determine the spending limit for each item in your budget and set cash aside for that purpose in a marked envelope. For example, the cash equivalent of your grocery spending limit would be in an envelope called "groceries". When you run out of cash in that envelope, you don't spend any more in that category until your next paycheck.

REVERSE BUDGET – Instead of calculating your total monthly expenses and putting what's leftover into your savings, you would allocate the appropriate amount of your monthly income to your 401K, IRA or high-interest savings account first, then use the remainder for monthly expenses (like housing, bills, car gas and food) and use any leftover money for spending. This is a great option for retirement planning and when anticipating a major life change.

ZERO BALANCE BUDGET – You assign every cent of your monthly income to an item listed in needs, wants and savings. You are left with a zero balance at the end of every month. If your balance doesn't equal zero at the end of the month, you must go back and re-calculate to update the allocations.

50/30/20 BUDGET – Your income is broken down across three categories. 50% of your income goes towards needs, 30% towards wants, and 20% towards savings or paying off debt. If you're currently spending more than these percentages on the needs and wants categories, you'll need to adjust your spending.



DETERMINE CURRENT PERCENTAGES OF SPENDING

TOTAL NEEDS: ____________ *Total needs from page 4*

(divided) /

NET MONTHLY INCOME: ____________ *Total monthly income*

X 100

NEEDS

= BALANCE *(under 50%, money leftover)*

DEFICIT *(over 50%, need to cut back)*

TOTAL WANTS: ____________ *Total wants from page 4*

(divided) /

NET MONTHLY INCOME: ____________ *Total monthly income*

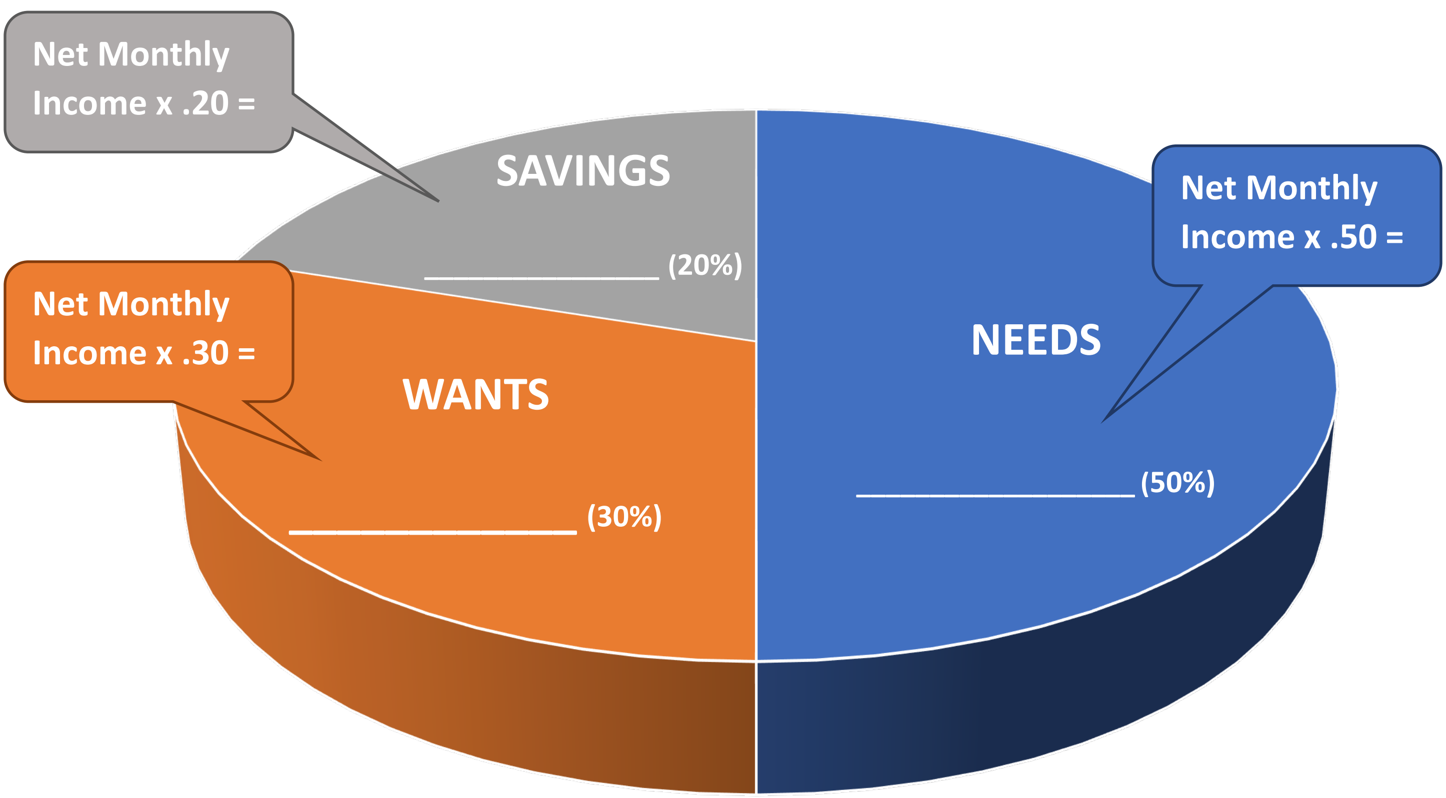
X 100

WANTS

= BALANCE *(under 30%, money leftover)*

DEFICIT *(over 30%, need to cut back)*

DETERMINE GOALS FOR SPENDING



(Jespersen, 2019)

NEEDS		WANTS	
Current Spending on NEEDS:		**Current Spending on WANTS:**	
Spending goal for NEEDS:		**Spending goal for WANTS:**	
Difference:		**Difference:**	

IDEAS TO CUT DOWN COSTS IN THE NEEDS CATEGORY

- Trade your vehicle in for a less expensive lease.
- If you have a second vehicle that you can do without, sell it. You'll save money on insurance alone.
- Shop around for better insurance rates and/or bundle with your home or renter's insurance for a better deal.
- Increase the deductible amount on your insurance to reduce the premium, making your monthly payment lower.
- Carpool to work, to save on gas money.
- Refinance your auto loan to get a better interest rate or possibly restart the clock – extending the amount of time you have to pay off the loan. This will lower your monthly payment.
- If you own a home, investigate refinancing. However, you should keep an eye on closing costs, processing and initiation fees. You'll need to run the numbers to make sure refinancing makes sense.
- If you rent, look for a more affordable option to move to when your lease is up.
- Call your credit card company to negotiate a lower interest rate. If they won't work with you, or if you're juggling several credit card payments, get a 0% interest balance transfer onto a new credit card. Some cards offer up to 18-months interest free. Note: Your credit score might take a dip in the short term, because the average age of your accounts will be decreased, but if you stop buying on your credit cards (until you're financially healthy) and use your credit wisely, your score will go back up. You might also consider a personal loan from a credit union or bank, as opposed to a 0% interest card. We'll discuss loan shopping later.
- Install a programmable thermostat, so you can set your air conditioner and furnace around your schedule - keeping the house cooler/warmer when you're not home and have it return to your preferred temperature before you arrive. You can also turn down the heat when you're sleeping, using extra blankets to keep you warm.
- Replace your regular lightbulbs with LEDs, which are more energy efficient and last up to 30 years.
- Unplug electronics when they're not in use, as they continually draw a small amount of electricity, which adds up over time.
- Hot water heaters account for 14% of energy costs. Consider turning down the temperature on yours.
- Make your coffee at home and take it in a travel mug, as opposed to stopping for that expensive cup on your way to work.
- Pack your lunch, instead of buying food on your lunch break.
- Buy store brand items, instead of name brand. Many times, they're exactly the same, even manufactured in the same facilities. The average household could save $200-300 per month by switching to generic for all products.
- Plan your meals at the beginning of the week (exchanging expensive items like lobster and steak for more affordable groceries like spaghetti and sausage) and create a shopping list. Before you get in line to checkout, pull your cart aside and remove any items not on the list. We often grab items we don't really need.
- Register for supermarket discount cards to get member deals on pricing. Note: There is always a privacy concern when signing up for programs that track your spending.
- Use coupons from the Sunday newspaper, grocery store apps and online/printable sites.

OTHER IDEAS: ____

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Hopefully implementing some of these tips will get your NEEDS category within 50% of your income.

IDEAS TO CUT DOWN COSTS IN THE <u>WANTS</u> CATEGORY

- Switch from cable to a streaming service or eliminate TV altogether.
- Cancel app subscriptions (like newspapers/publications, music streaming and gaming).
- Borrow DVDs from your public library.
- Quit your gym membership and workout in your home (jog outside instead of the treadmill).
- Put your club memberships (like the community pool or golf course) on hold or cancel them.
- Move your kids from club sports to your community's parks and recreation program. If they're playing more than one sport, have them select their favorite and eliminate the other(s).
- Trim your cell phone bill by selecting a more affordable monthly plan.
- Utilize resale shops for clothing and shoes – trading in your items that don't fit anymore. If using regular retail stores, wait to shop until there are big sales.
- Don't grab carry-out for dinner, cook at home.
- Plan a candlelight dinner at home or have a picnic in front of the fireplace, instead of a fancy date night out.
- Rent a movie and enjoy microwave popcorn, instead of going to the theater.
- Instead of going to the salon, paint your nails at home and use boxed hair dye. Try to go for longer stretches between cuts. When you do need a haircut, find an inexpensive shop as opposed to a high-end salon.
- Buy used furniture, clothing, accessories and household items on craigslist or at the goodwill store.
- For those items you want badly, but can't pay for right now, ask the store about layaway options.

OTHER IDEAS: ____

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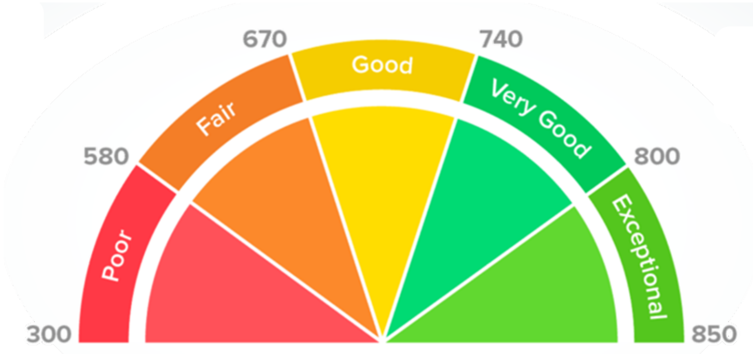
Hopefully implementing some of these tips will get your WANTS category within 30% of your income.

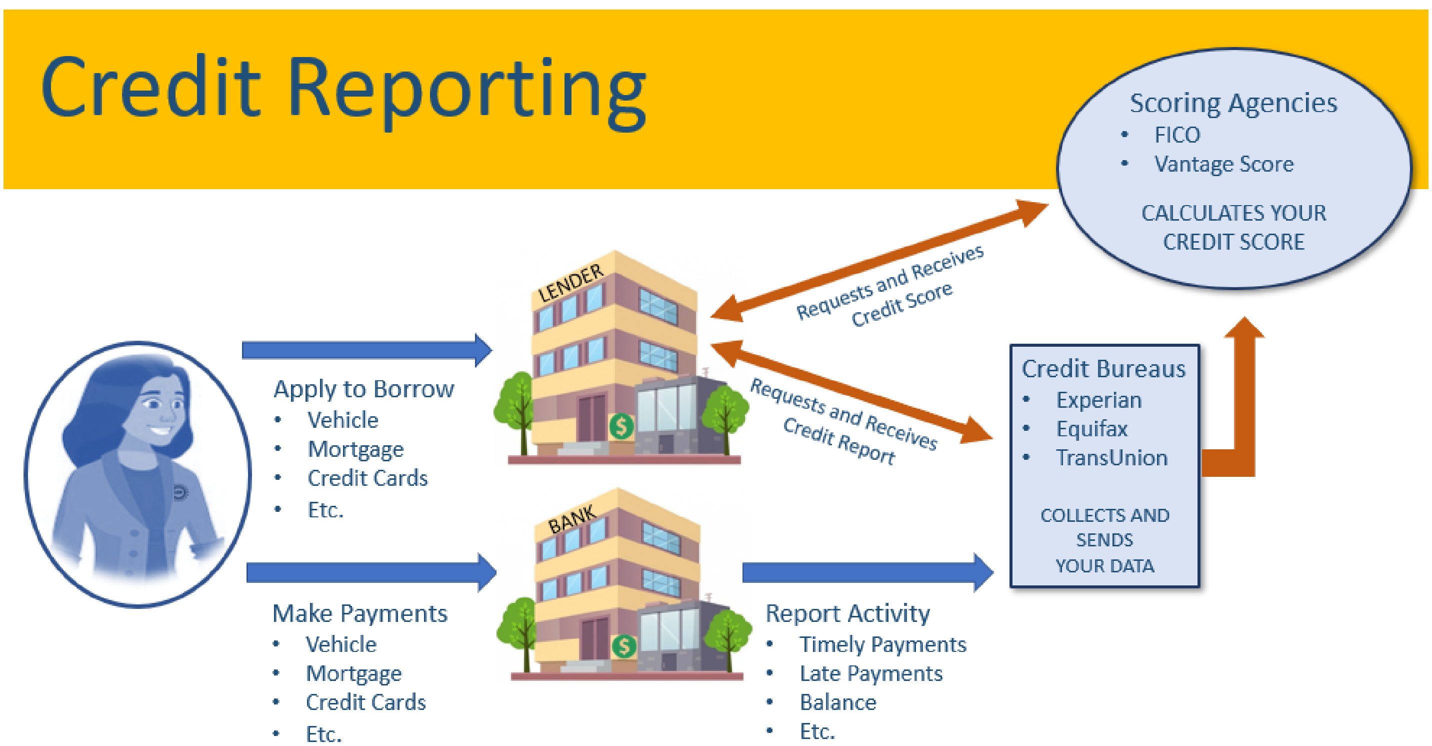
UNDERSTANDING YOUR CREDIT SCORE



Your credit score is a number between 300 and 850 used by lenders to determine whether or not they'll trust you to repay a loan, lease or credit card. This number also determines what terms they'll grant you, including the interest rate. People with a low score are considered a risky borrower and will pay higher interest rates. Depending on how low the score, a person might even be denied. People with a high score are considered good at managing money and repaying debt. People with good credit scores typically get lower interest rates, a longer amount of time to pay back loans, and higher spending limits. Your credit score is determined by:

- Payment History 35%
- Amounts Owed 30%
- Length of Credit History 15%
- New Credit 10%
- Types of Credit Used 10%

(Experian, 2021)



Legally, you have a right to obtain one free copy of each of your credit reports (Experian, Equifax and TransUnion) every 12 months. To **order your free credit report** visit annualcreditreport.com or call 877-322-8228. Learn more at FTC.gov.

(Federal Trade Commission, 2021)

BEST PRACTICES FOR CREDIT CARDS

Credit cards are the fastest and easiest way to build your credit score, if you do it right.

If you're struggling with obtaining a credit card because you don't have enough credit history, or you have a low credit score that is preventing you from obtaining credit, you may consider a secured credit card or becoming an authorized user on someone else's account. Before applying for a secured credit card, be sure the lender reports to the credit bureaus, or using the card won't be helpful in building your credit score. See page 25 for tips on shopping for credit cards.

You should have a variety of credit cards, including cards that can only be used exclusively at your favorite stores. The average consumer has nine credit cards. The key is using them wisely.

It is recommended that you wait 6 months between any type of credit application – as your credit score drops slightly when you apply for credit – whether or not your approved, and whether or not your credit score is exceptional or poor (Palmer, 2021). This small dip is repaired within six months, assuming you're being responsible with your finances. If you apply for another type of credit before those points are restored, not only does your score dip lower, but the terms of your agreement will be based on a lower credit score – meaning, you could get a better deal if you wait just a bit, because in credit, a few points can make a big difference.

To get the most out of your cards and effectively build your credit score, we recommend that you:

- **Use your card(s)**
- **Keep utilization between 1% - 30% of your credit limit (NerdWallet, 2020)**
- **Pay on time every month**
- **Pay off the balance after your statement closes each month**
- **Keep your accounts open, even if you're not using them***
- **Comparison shop for new accounts****

**You should use any open account at least once per 12-month period, as most lenders charge inactivity fees.*

***There are several great websites for comparing credit cards. A few are listed below:*

- *https://www.nerdwallet.com/credit-cards*
- *https://www.creditkarma.com/credit-cards/*
- *https://www.consumersadvocate.org/credit-cards/*

Union Plus offers a credit card for union members, and once someone is a cardholder for 3-months or more, they can receive a grant if they become laid off or participate in a union-sanctioned strike. Find more information at: https://www.theunioncard.com/afl-cio-union-plus-credit-card/ or https://www.unionplus.org

NOTES: ____

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SAVINGS

Savings can take on many forms. Let's break down saving money into three categories:

MONEY NEEDED NOW	MONEY NEEDED SOON	MONEY NEEDED LATER
• Emergencies • Vacation • Holiday Shopping • Special Occasions • Big Purchases/Gadgets • Etc.	• Vehicle Purchase • Home Purchase • Home Remodel • Wedding • Etc.	• Retirement • Kid's College • Investment Property • Etc.
Needed Within 1 Year (plus Emergency Fund)	Needed Within 2-5 Years	Not Needed Within 5 Years
Savings Account	Stocks and Bonds	401K, 403B, Individual Retirement Account (IRA), Certificate of Deposit (CD), 529 College Account

EMERGENCY FUND

Your emergency fund should be three months of expenses if you're single, six months of expenses if you have dependents. It's recommended that you keep this money in a separate savings account than your other savings, to keep you from dipping into it for other spending.

MONEY NEEDED NOW

There are things you'll need money for within a year's time, that aren't part of your monthly expenses. These items can include vacations, holiday shopping, special occasions (like birthday and anniversary celebrations) and money for big purchases, like new furniture, tv's or other tech gadgets. We call this category "Money Needed Now" and should be kept in a regular savings account. Money in an average savings account will only earn about a 1% interest (where inflation is at about 3%, so the money in your savings account isn't keeping up with rising costs). You should shop around for a high-interest savings account, but it's important that you have this money accessible when you need it.

MONEY NEEDED SOON

Things like purchasing a new vehicle, moving into a new home, remodeling your house, and preparing for a wedding probably belong in your "Money Needed Soon" category. These are items where you have a little more time before the need to access that cash. To make the most of your savings, you can move this money into stocks and bonds to gain a better return. Know that ANY investment is a risk, but some investments are less risky than others. It is recommended that you work with a stockbroker to select a couple low-cost, widely diversified, mutual funds – that include a healthy amount of bonds. There are also websites that allow you to deposit money and select the percentage of stocks and bonds you wish to invest in.

MONEY NEEDED LATER

Retirement, your kid's college, investment properties and other long-term goals should be saved for differently. For retirement there is nothing better than your employer sponsored 401K or a 403B. If you don't have these options, you can look into an Individual Retirement Account (IRA). You can use a 529 College Account for college savings. A Certificate of Deposit (CD) provides a higher interest rate than a savings account and the longer the CD the higher the interest rate. CD's are federally insured and virtually risk free, but beware – you do not want to pull your money out early or you'll suffer a penalty. In fact, all the options we've listed here for investing come with parameters and penalties for early withdraw. It's important you do your homework before making any decisions.

(Lake, 2020)

DEBT PAYOFF

CREDITOR	BALANCE	INTEREST RATE	MINIMUM PAYMENT

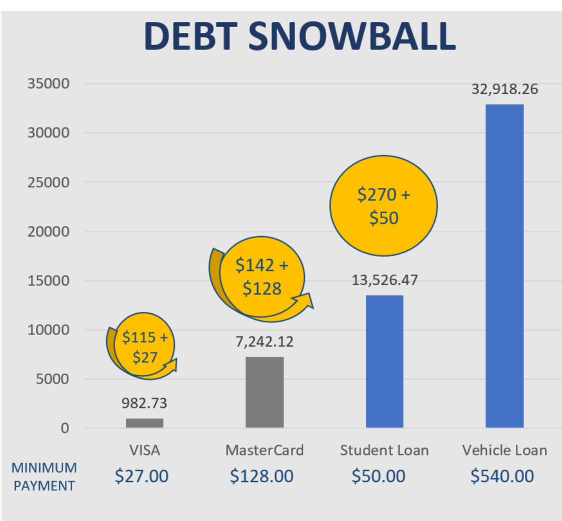
When discussing debt payoff, debt is any amount of money you owe anyone, other than your mortgage. Typically, your mortgage is not included in your list of debts, although it's considered when applying for credit. After determining what non-mortgage debt you're currently carrying, you will need to decide what method you're going to apply for paying off debt. The two most commonly used are the "Debt Snowball" method and "Debt Avalanche" method. Both methods focus on paying down one debt at a time, but they are different in their approach.

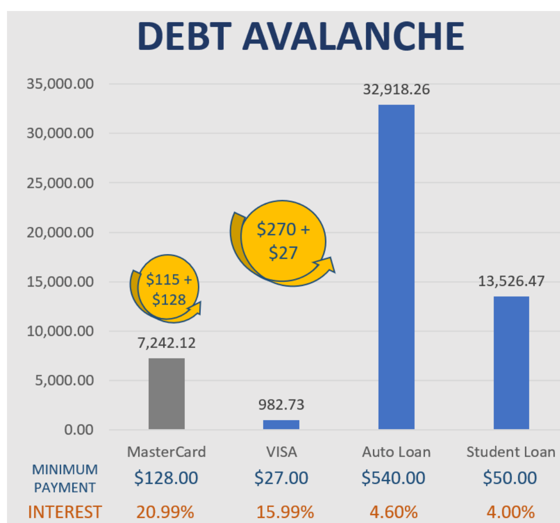
DEBT SNOWBALL

The "Debt Snowball" method prioritizes your debts by balance, starting with the smallest balance and working through to the biggest balance. You would pay all your minimum payments but add any extra money to the debt with the smallest balance. Once that debt is paid off, the minimum payment for that debt and extra money would be applied to the next smallest debt. The concept is the payment gets bigger and bigger as you pay off debts and move to the next.

DEBT AVALANCHE

The "Debt Avalanche" method prioritizes your debts by interest rate, starting with paying off the debt with the highest interest rate first and working through to the lowest interest rate. You would pay all your minimum payments but add any extra money to the debt with the highest interest rate. Once that debt is paid off, the minimum payment for that debt and extra money would be applied to the debt with the next highest interest rate.





There are some free resources online to help you determine which method will work best for you. For instance: *www.vertex42.com/Calculators/debt-reduction-calculator*

(Eneriz, 2021)

WHEN YOU'RE IN DEBT TROUBLE

If you find yourself overwhelmed in a situation where it's unmanageable to stick to your budget and keep up with your multiple debt payments, you may be deeper in debt than your paycheck can support. Millions of Americans find themselves in this tricky spot when there is a significant employment change for one or more of the financial contributors in the household, unexpected medical bills or illness, divorce, relocation or other situations that cause financial hardship. So, what are your options when your debt is too big to pay?

CREDIT COUNSELING

You should immediately schedule a credit counseling session. Counselors can assist you with making a plan to reduce your debt and help you determine the best approach to your situation. A typical credit counseling appointment includes:

- Evaluation of your current financial situation
- A detailed review of your income, assets and expenses
- Suggested options based on your goals and needs
- Layout of a personalized debt management plan

LOCATE A CREDIT COUNSELOR

If your state offers a United Way call center, you can start by dialing 2-1-1. You'll be matched with a credit counseling service in your community. If 2-1-1 isn't an option for you, the United States Department of Justice offers a search by state at this link: *https://www.justice.gov/ust/list-credit-counseling-agencies-approved-pursuant-11-usc-111*

Some of these referred services are free of charge. However, there are agencies that impose fees for their sessions. You should be aware that:

- An agency must inform clients that services are available for free or at a reduced rate, based on a client's ability to pay, before providing any information to, or obtaining any information from, a client. Fee information should be discussed before beginning a counseling session.

- Fee waiver policies vary by agency. At a minimum, however, a client whose household income is less than 150% of the federal poverty level is entitled to a fee waiver or fee reduction. The poverty level is defined by the Federal Register of the U.S. Department of Health and Human Services.

(Department of Justice, 2021)

DEBT SETTLEMENT

You may see advertisements for debt settlement companies on billboards and television. They often make promises, such as eliminating all your debt. Remember that if it sounds too good to be true, it probably is. A settlement is an amount you offer to pay a creditor that is less than what you owe. Debt settlement will almost always come with a cost.

Debt settlement companies charge a fee for arranging these settlements with your creditors. The fee they charge is often based on the amount "forgiven" by the creditor. Another potential cost of debt settlement develops during the process itself. Usually the debt settlement company will instruct you to stop making payments and stop communicating with your creditors while they negotiate your settlement amounts. This typically results in late fees, penalty charges, and collection efforts - causing the overall amount of your debt to grow. Once your debt is settled, you may end up owing income tax on a portion of your forgiven debts. The forgiven amount is seen as income from the perspective of the IRS. You will likely receive a 1099 for the debt forgiven. Additionally, debt settlement is listed as "settled" on your credit reports. This is considered negative information and will affect your credit score. As discussed earlier, when there are negative comments on your credit report or your credit score drops, you end up paying more for services and insurance, higher interest rates, and end up disqualifying yourself from opportunities. So, as you can see, there is a cost associated with debt settlement.

While some creditors and debt collectors will agree to settlements with debt settlement companies, many will not negotiate the amount they will accept. Many companies have standard policies about how much principal they will forgive when you haven't made payments for a certain period of time. This means debt settlement companies usually can't get better terms than you could get by talking to your creditors yourself. You can save the fee and send letters on your own.

LETTERS TO CREDITORS

It is in your best interest to send a debt letter to your creditors as soon as you realize you can't make your scheduled payments. Most lenders appreciate honesty and timely notification from a borrower and will be willing to work with you to find a solution, because they're happy to get any payment vs. no payment. This is especially true for unsecured debt. However, you shouldn't approach these types of situations with the attitude that you deserve a settlement or modified payment plan. The lender is the only one with the authority to decide if you deserve assistance or not. You should put your explanation and request in writing as proof that you're trying to resolve the situation. It has happened where creditors agree to certain conditions over the phone and later want to change the agreement. Having everything in writing protects you.

Your letter should include:

- Why you can't afford to make your payment (your current financial situation – like job loss)
- Steps you've taken to resolve the matter (like job hunting)
- How much money you can afford to pay (proposed temporary monthly payment or settlement amount)
  Or, if you're not in a position to make any payments, request for debt forgiveness
- A request for a written agreement

Letter writing tips:

- Address it to the person in charge (you can call customer service to get the appropriate name/mailing address)
- Include your loan/account number and contact information
- Keep the letter to one page or less (if your letter is too long, they won't read it in its entirety)
- Be courteous and polite
- Include your mailing address after your signature

SAMPLE LETTERS

Date

Contact Person at Company
Address of Creditor

Regarding: Deferment of Your Loan/Account #

Dear Contact Person:

I sincerely apologize that I am unable to keep up my monthly payments for loan/account. This is because I am sick and unable to work. I have claimed benefits and am waiting to hear the outcome of my claim. My situation is unlikely to improve for at least 3 months. I've enclosed a copy of my financial statement. This shows my income and expenses. You will see from this information that I am unable to make any offer of payment at this time.

I am making every effort to increase my income and will contact you again as soon as my financial circumstances improve. In the meantime, I am respectfully requesting your help in holding off action on my account and agreeing to freeze interest and other charges to stop my debt from increasing. I greatly appreciate your understanding and humbly request a written letter from you confirming your ability to oblige this request. If you are unable to help me, please provide a written explanation of your reasons.

Thank you for your help. I look forward to hearing from you.

Yours faithfully,

Date

Contact Person at Company
Address of Creditor

Regarding: Modified Payment terms for Your Loan/Account #

Dear Contact Person:

I am writing this letter to inform you that I am temporarily out of work, which has caused serious financial difficulty for my family. I am receiving unemployment assistance, but it's just enough to feed my family. Because of my hardship, I am asking each creditor to kindly accept a reduced payment of $50 per month and withhold any interest and penalty fees on my debt for the next six months. I expect to be back to work and receiving my full salary by that time. If I can return to work sooner, I will inform you and return to making the usual payments.

I prefer to deal with you directly and not a collection agency. I fully intend to pay my debts, but I need a bit more time.

I look forward to a favorable written response to this request at the address below or name@email.com. Thank you for taking the time to consider my request and for helping me during this difficult time.

Sincerely,

LETTER WRITING EXERCISE:

____

John Smith, Director of Customer Accounts
Merrick Bank
Customer Service
P.O. Box 9201
Old Bethpage, NY 11804-9001

RE:

DEBT CONSOLIDATION

Debt consolidation is simply taking out one loan to pay off all your debts, leaving you with one monthly payment instead of several. Usually this monthly payment is lower than the combined monthly payments for all your debt, and it's a lot easier to manage. However, debt consolidation loans need to be approached with caution.

You will typically pay more in total interest with a debt consolidation loan. In some cases, the interest rate can even change during the course of the loan. Beware of consolidating debt through credit card balance transfers. The advertised low interest rates are attractive but only apply for a certain period of time. These interest rates will eventually climb up. A debt consolidation loan will have extended repayment terms, which for most means you pay less each month, but you end up in debt longer and pay more total interest than if you pay off your debts independently. Moreover, if you don't solve the underlying issue that caused you to get into debt in the first place, you'll end up racking up more debt – especially since psychologically you'll feel freer since you're down to one monthly payment. Some financial educators and advisors recommend steering clear of debt consolidation loans for several reasons. Nonetheless, if you feel debt consolidation may be right for you, use a loan calculator to:

- Determine if a debt consolidation loan will take longer to pay off than if you continue paying your debts independently
- Calculate how much more total interest you'll pay with a debt consolidation loan vs. paying your debt independently through your current creditors

EXAMPLE

Earlier we discussed the snowball and avalanche methods for paying off debt. Using the same scenario data, Sam B. Someone is currently paying $745 per month in minimum payments on his four debts. His interest rates span from 4 – 21%. He thinks a debt consolidation loan may be the answer to better financial health. Let's take a closer look:

CREDITOR	BALANCE	INTEREST RATE	MINIMUM PAYMENT
VISA	$982.73	15.99%	$27.00
AUTO LOAN	$32,918.26	4.60%	$540.00
MASTERCARD	$7,242.12	20.99%	$128.00
STUDENT LOAN	$13,526.47	4.00%	$50.00

The total balance of all four of Sam's debts is $54,669.58. Sam can take out a loan in this amount with an incredibly low 8.9% interest rate. This sounds much better than the current 15.99% on his Visa and 20.99% on his MasterCard. Because he wants his monthly payment to be lower than the current $745 minimum, he's looking at a 10-year loan.

Sam's DEBT CONSOLIDATION LOAN is only $690/month! This saves him $55/month and one payment is much easier to manage than four separate payments. So, he should do it, right? … WRONG!

When you look deeper, Sam will be paying a total of $82,749 over the life of the debt consolidation loan. That's $28,079 in interest. Sam would only pay $10,916 in interest using the debt avalanche method. He would only pay $11,114 using the debt snowball method. The other huge factor is, using the avalanche or snowball method gets Sam debt free in 6 years and 5 months, where this debt consolidation loan will take him 10 years to become debt free. Bottom line, things are not always what they appear to be!

If you decide to move forward with debt consolidation, do not use loans advertised on television and on the Internet. They often charge higher fees and interest and may end up costing you a lot more than a loan from another source. Instead, inquire with your bank or credit union about their debt consolidation loan options and make note of fees and service charges related to the loan. Before making a decision on any loan, you should model the loan using a calculator like: *https://www.creditkarma.com/calculators/amortization* to see what you're getting yourself into.

(Bieber, 2021)

GARNISHMENTS

If you fail to make payments to creditors, or people to whom you owe money, they can sue you for nonpayment of a debt in court. This can result in the court ordering your employer to withhold a portion of your paycheck or requiring your bank to withdraw specific amounts from your bank account, and send it directly to the creditor or person, until your debt is resolved. Sometimes a creditor can force garnishment without a court order, most commonly found in cases of child support, unpaid taxes and student loans.

Most states require a creditor to exhaust every effort possible before granting a garnishment request. These efforts include things, like posting notices in your account login, mailing letters, sending emails, calling you, or any other means to solicit a response from you or motivate you to pay your debt. Finally, you should receive a "Notice of Intent to Garnish" before money is taken from your paycheck or bank account.

If you're unable to make your scheduled payment you should talk with your creditor right away. Some creditors will not talk with you until you are more than 60 days past due, but other creditors would rather work with you before you become delinquent. In the *Letters to Creditors* section we discussed the proper way to request alternative payment plans with your creditor. Some options to consider include making partial or no payments for a period of time, settling the account for something less than what is owed, paying interest only for a period of time, or reducing the interest rate altogether. You should make every effort to negotiate with your creditor before they send your account to a collection agency. If your account has already gone into collection, try to work with the debt collector before your account reaches the lawsuit stage.

Once a judge makes a decision regarding the lawsuit, you can either accept the garnishment or you may challenge the garnishment – meaning the garnishment was made in error, will cause you undue harm or is otherwise improper. In which case, you'll be dealing with attorneys. If you plan to challenge the garnishment, you'll need to work quickly and should work with a no-cost or low-cost attorney. You may want to try locating an attorney through this link: *https://www.consumeradvocates.org/for-consumers*

Even after the court has entered a judgement, some creditors will hold off on the garnishment if you agree on a payment arrangement. The key to working with creditors is communication and putting forth your best effort to keep your repayment commitment.

PERCENTAGE OF WAGES THAT CAN BE GARNISHED	
Up to **15%** of your wages can be garnished	to pay your taxes
Up to **15%** of your wages can be garnished	to pay back federal student loans
Up to **25%** of your wages can be garnished	to pay for credit cards, medical bills, personal loans and most other consumer debts
Up to **50%** of your wages can be garnished	for child and spousal support if you're supporting another child or spouse
Up to **60%** of your wages can be garnished	for child and spousal support if you're not supporting another child or spouse

(O'Neill, 2021)

BANKRUPTCY

Sometimes, no matter what options or methods you try, it's just not possible to pay off the debts you owe because you simply don't have enough money to follow through. This can be scary, stressful and overwhelming. The legal process of bankruptcy is an option to help people in this situation. Inside the process of bankruptcy, existing debts are greatly reduced or completely eliminated under the supervision of bankruptcy courts. Collection efforts must stop once you file for bankruptcy. If debt collectors or creditors continue to contact you, they could be cited for contempt of court and ordered to pay damages. There is an "automatic stay" when you file for bankruptcy, meaning lawsuits and garnishments are also stopped. For consumers, there are two kinds of bankruptcy: Chapter 7 and Chapter 13.

CHAPTER 7

Under Chapter 7 bankruptcy, assets belonging to you that are not exempt to the court are used to pay off your debts. All of your debts are then discharged - whether they are paid in full or not. This is why Chapter 7 bankruptcy is often called "liquidation" or "walk away" bankruptcy. You're forfeiting your non-exempt assets but protecting your future income by starting fresh. There is an income eligibility requirement for filing Chapter 7 bankruptcy. If your income is less than the median income of your state (based on your household size), you more than likely qualify for Chapter 7 bankruptcy. If your income is above the median income, the means test is used. This test is designed to determine whether you have enough income to pay at least a portion of your debt. The higher your disposable income, the less likely you will qualify for Chapter 7. If you do not pass the means test, your case will be converted to a Chapter 13 bankruptcy or dismissed.

There are three exceptions to the means test for Chapter 7 bankruptcy. If:

- More than 50 percent of your debts are non-consumer debts, or business debts.
- You're a disabled veteran and your debts were incurred while on active duty or engaged in homeland defense activities. You must have a disability rating of at least 30 percent.
- You're a military reservist or National Guard member. The exception applies to the period of time you are on active duty for a minimum of 90 days and 540 days after that.

CHAPTER 13

Chapter 13 bankruptcy is commonly referred to as "reorganization" or a "payment plan" bankruptcy. Under Chapter 13 you would repay your creditors through a payment plan negotiated by the courts. Creditors generally look more favorably on Chapter 13 bankruptcy because you're making every effort to pay back what you owe. With Chapter 13 bankruptcy, you are protecting your assets but tying up future income in repayment plans. Five years is the maximum length of any Chapter 13 repayment plan. The average plan is 3-5 years long.

COST OF BANKRUPTCY

Bankruptcy is a negative comment on your credit report for up to 10 years; and your credit score drops, costing you higher interest rates and possible denial for services and lines of credit.

You are responsible for the filing cost, plus administrative and trustee surcharge fees, to file for bankruptcy; $338 for Chapter 7 and $310 for Chapter 13. These fees do not include the cost for legal representation if necessary.

You are required to pay for credit counseling before you file for bankruptcy and debtor education before your bankruptcy case is discharged. You automatically qualify for a fee waiver for these services if your household income is below 150 percent of the federal poverty limit. A certificate, from approved providers, for both credit counseling and debtor education must be presented to the court before your case can be discharged.

(Fay, 2021)

ROOT OF THE PROBLEM

When you find yourself in financial trouble, it's important to determine the cause. Experts say the leading causes of personal financial issues are:

- A lack of budgeting and/or money management skills
- Job loss or other decrease in income
- Major life changes (relocation, divorce, addition of children, or other family issues)
- Unexpected health and medical expenses
- Education expenses
- Addiction

(Floyd, 2019)

ADDICTION SUPPORT

Many people associate the word addiction with substance abuse. However, an addiction is defined as a disorder characterized by compulsive behavior, engaging in rewarding stimuli regardless of negative consequences. When it comes to money trouble, there are several addictions that could affect your bottom line. If you're struggling with an addiction, we encourage you to get the help you need. Here are some useful resources:

- **Debtors Anonymous** https://debtorsanonymous.org/

  Debtors Anonymous offers hope for people whose use of unsecured debt is causing problems and suffering in their lives and the lives of others. Debtors Anonymous offers a successful 12-step program of recovery that helps those who wish to stop sinking further in debt.

- **Spenders Anonymous** http://www.spenders.org/

  Spenders Anonymous is a 12-step program for people who spend compulsively or take on debt they don't know how to repay. Their mission is to help people stop spending compulsively, to take responsibility for their money, and to carry the message of recovery to the compulsive spenders who still suffer.

- **Gamblers Anonymous** http://www.gamblersanonymous.org/

  Gamblers Anonymous creates space for women and men to share their stories and encourage and support one another in applying principles in their daily lives, in an effort to recover from a gambling problem.

- **Shopping Addiction Support Groups** https://shopping-addiction.supportgroups.com/

  If you're struggling with a shopping addiction, you may join this online support group. If you're looking for further addiction support, you may call 1-800-459-2296.

- **Other Addition Support Groups** https://online.supportgroups.com/

  This link provides an alphabetical list of all kinds of support groups, by specific topic.

A simple google search can help you locate other organizations and helpful programs for the specific addiction you're struggling with. You may also reach out to your EAP rep or local union Community Services Committee where available.

BANKS VS. CREDIT UNIONS

Both banks and credit unions secure your money with federal government-backed insurance. These days, for the most part, both banks and credit unions offer an array of online services and access to nationwide ATMs. Most credit unions utilize a co-op so members can utilize evening and weekend teller services, meaning credit unions and banks essentially offer similar hours of operation. So, what are some of the differences between banks and credit unions?

BANKS	CREDIT UNIONS
Banks are for-profit and owned by investors who expect to make money (profit) off their customers.	Credit unions are not-for-profit and ownership belongs to the members.
Anyone can apply to open an account.	Membership is typically limited to a specific group of people (union membership, religious affiliation, certain profession, etc.)
Banks tend to have more fees for services and higher penalties for things like overdrafts and bounced checks.	Many credit unions offer accounts with no service fees and no minimum balance requirements.
Banks usually have higher interest rates on loans and lower interest rates on savings and investment products.	Credit unions often provide lower interest rates on loans and higher interest rates on savings accounts and CDs.
Banks have been known to offer a wide variety of products and services, like several different credit cards.	Credit unions usually have a smaller selection of products and services, sometimes offering only one credit card.
Customer service and support for banks is usually 24/7, but this could mean speaking to a call center representative in another state or different country.	Typically, all customer service and support is handled by employees of the credit union, which means they have more decision making authority and resources to help you, but are usually only available during weekdays.

ACCOUNT APPROVAL

According to nerdwallet.com, “More than 80% of banks and credit unions use consumer reports from ChexSystems and other agencies to help them decide about bank account applicants” (Tierney, 2020). Much like the process for applying for a credit card, where a lender checks your credit report, banks and credit unions look at your banking history to determine if you’re a risky customer/member. ChexSystems tracks and provides information to banks and credit unions when you apply to open an account or service. ChexSystems assigns a score to you that ranges from 100-899. The higher your score, the less risk you pose. Unlike your credit report, the ChexSystems report (which is called the “Consumer Disclosure” report) focuses mostly on negative account history, like bounced checks, unpaid fees, late payments, suspected fraud and accounts closed by the lender due to delinquency. Federal regulations allow ChexSystems to keep your records for up to seven years, but they typically keep records for only five years. Just like your credit report, you’re able to obtain one free copy of your ChexSystems report (“Consumer Disclosure” report) each year. To do so, visit: *www.chexsystems.com.*

“SECOND CHANCE” ACCOUNTS

If you’ve been rejected when attempting to open an account with a bank or credit union, a “Second Chance” account may be right for you. These accounts don’t have all the bells and whistles of regular accounts and they often carry more requirements than standard accounts, but they can help people rebuild their banking history. Note: This is not the same as rebuilding credit, which we discussed on pages 9-10. “Second Chance” accounts are a better option than pre-paid debit cards and check-cashing services, and most allow you to upgrade to a standard account after one year without negative activity. You can search accounts by state at: *https://www.nerdwallet.com/blog/banking/second-chance-checking/*

(Tierney, 2020)

THE TRUTH ABOUT PAYDAY LENDING

Approximately 12 million Americans take out payday loans each year and spend around $7 billion on loan fees, per a study conducted by Pew Charitable Trusts. According to this study, the typical payday loan customer has poor credit, doesn't qualify for standard credit cards or has very low credit limits, due to past financial troubles. Instead of covering the cost of short-term needs on a credit card with 15-30% APR, these payday loan customers are taking out short-term loans and paying a huge interest rate of 300-500% which usually leaves them in worse shape than they started.

The estimated 18,600 Payday lenders in the United States usually operate from storefronts in low-income neighborhoods and target financially struggling consumers who may need a little extra money to cover rent or pay a utility bill. The lender typically makes the borrower pay a fee up front. This seems reasonable, like $15 for every $100 borrowed. The borrower pays the fee and commits to paying back the loan in full upon their next paycheck. The issue with this is most cash-strapped borrowers are living paycheck to paycheck and need every dollar on their next pay day to cover bills and expenses. Most borrowers return to the lender and ask for an extension, for which they're charged additional fees. When all is said and done, the average payday loan borrower pays $520 in fees, in addition to paying back the originally borrowed $375 loan.

REASONS TO AVOID PAYDAY LOANS

Cost: High interest credit cards might charge borrowers an APR of 28 to 36%, but the average payday loan's APR is 398%.

Inability to pay: Many borrowers are unable to pay back the loan in the allotted timeframe. When it is due, they end up borrowing more or pay another round in fees, sinking them deeper and deeper into debt.

Speed: Bank loans require paperwork that takes a few days to complete. This gives you time to think about what you're doing. You can get a payday loan in minutes, by walking into a store, signing a few papers and writing a check. And, unlike standard loans from a bank or credit union, once you sign the papers at a payday service and take the money you can't change your mind. Moving so quickly lends to impulsive decisions that may not be best for you in the long run.

Bank account access: These payday lending services often require access to your bank account, saying this saves you from writing a post-dated check. However, if the funds aren't in your account on the due date of your repayment, the payday lender can make repeated attempts to withdraw the money, often resulting in multiple overdraft charges of $35 or more.

Debt collection: If you can't repay the loan and can't afford the extension fees, payday lending services are known for barraging their customers with a number of tactics that include late-night calls from debt collectors.

ALTERNATIVES TO PAYDAY LOANS

Communication: If you can't make a payment on time, contact your lender. Many times, lenders are willing to work with you, offering a deferment or payment plan that might eliminate the need for a payday loan.

Credit union loan: If you're looking for a small loan, credit unions are a great place to start your search. Joining a credit union has become easier and, as we discussed, you'll be able to work directly with a decision maker, allowing the credit union to be more relaxed about loan terms. Many credit unions will match rates that you find online.

Credit card cash advance: Most credit cards allow you to take a cash advance, many times through an ATM. The advance amount limit varies. The interest rates are in the double digits, but still lower than the interest rate of a payday loan.

Comparison shopping: The internet is a helpful tool for comparing APRs and finance charges from available lenders. Some might charge high interest rates but don't impose the loan rollover fees that payday lenders typically demand.

(PEW, 2012)

THE TRUE COST OF CREDIT CARD PURCHASES

Earlier we discussed best practices for improving your credit score through the use of credit cards. Our advice is to pay off the balance in full after your statement closes each month. However, in many cases people are not able to do this. Let's take a deeper look at the true cost of a credit card purchase when it's not paid off immediately. There are three things to consider when carrying a balance on your credit card:

Grace Period

The Credit Card Act of 2009 requires credit card issuers to have grace periods of at least 21 days. The average lender's grace period is between 21 - 25 days. This is the time frame which you can pay off your credit card bill without having to pay interest. This grace period applies to new purchases, made during the current billing cycle, and is the timeframe between the end of the current billing cycle and the payment due date. The Credit Card Act of 2009 ensures your credit card statement is made available to you no later than 21 days before the due date. This gives you ample notification to pay off the balance before interest is applied. If you pay off the balance during this period you've borrowed money for free! If you do not pay the balance in full by the due date you are charged interest on the remaining balance. When you carry a balance into the next billing cycle your lender eliminates the grace period, meaning you also begin racking up interest charges on new purchases as soon as you make them.

APR

The letters APR stand for annual percentage rate. This is the percentage rate used to calculate how much you're charged to borrow money. In other words, the cost of your loan.

Fixed vs. Variable APR

- A fixed APR means you pay the same interest rate for the entirety of the loan or use of your credit card.
- A variable APR means your lender attaches your interest rate to the U.S. prime rate. Let's say your credit card APR is 19.99% and the U.S. prime rate is 4.5%, your interest rate would actually be 24.49%, and this would be recalculated on a monthly, quarterly or annual basis. When financial markets are stable you won't see much change, but when financial markets are in turmoil you could see big jumps in your variable rate. Before entering into a credit card agreement with a variable APR you should verify that there is a rate cap, which limits the amount your APR can increase over time.

Most credit cards have multiple APRs for different situations. Here are some common APRs that you may see on your monthly statement:	
Introductory Purchase APR	Low APR that applies to new purchases made within a specified period. It's a tactic lenders use to attract new customers. Watch out for when this low APR ends!
Promotional APR	Special rate offered for a short period of time or on certain types of balances.
Balance transfer APR	Low APR on balances you transfer from another card to a new or existing account, usually for a set period of time before the APR jumps to a higher rate.
Cash advance APR	Most issuers allow you to borrow cash against your credit limit through an ATM. They charge a higher APR on this than a regular purchase. You'll usually also pay a cash advance fee, making this a costly option.
Penalty APR	Some credit card companies bump your APR to the highest APR allowed in your agreement when you have late payments, or your balance grows above your credit limit. There is currently no law limiting the penalty rate banks can charge. The average is 29.99%.

Finance Charges

Each billing cycle your finance charges are calculated based on your APR and credit card balance, so this amount will vary from month to month. Each credit card company has the right to calculate finance charges differently. Some of the most common methods of calculating finance charges are using your daily balance, an average of your daily balance, the balance at the beginning or end of the month, or your balance after payments have been applied.

The terms of this calculation must be included in the cardholder agreement, thanks to the federal law known as the Truth in Lending Act (TILA). This law is meant to protect you as you deal with lenders. It's important you read your cardholder agreement when opening an account. You can request a new copy from customer service or read the small print (finance details) on your billing statement.

Simple vs. Compound Interest

- Most personal, auto and student loans are calculated using simple interest. This means each monthly payment you make pays the APR in full and the principle balance of your loan reduces. If you make your payment early your interest charges are lower, and a greater portion of your payment goes towards your principal.
- Most credit cards use compound interest. This means the lender calculates your average daily balance by your APR and divides by 365 (there are 365 days in a year). They then add this interest fee to your outstanding balance. Essentially this means that if you don't pay your balance in full each month you end up paying interest on your interest fees.

EXERCISE:

A common method for credit card lenders is the average daily balance method, which is calculated as:

(Average Daily Balance x Annual Percentage Rate x Number of Days in Billing Cycle) ÷ 365

Before they use the formula above, they add together your balance from the end of each day in your billing cycle. Then, divide that number by the number of days in the same billing cycle. That's your average daily balance.

Let's say your average daily balance is $1,000, your APR is 20%, and there are 30 days in the billing cycle - What would your finance charge be?

(________ x _______ x _______) / ________ = _________

To pay your balance in full right now, what amount do you owe? ____________________

Let's model out this balance of $1,000 with three different APRs, paying MORE than the minimum monthly payment:

APR	10%	15%	25%
Monthly Payment	$40	$40	$40
Time to Pay Off	2 years and 4 months	2 years and 6 months	3 years
Total Interest Charged	$129	$207	$427

Paying only the minimum on your credit card will cost you dearly. In this instance, with a $1,000 balance, depending on your interest rate, paying only the minimum each month could take up to 11 years to payoff and cost as much as $990 in total interest.

Additionally, many credit cards charge annual fees just for having an issued card – even if you don't use the card. You should also keep in mind that late fees and other penalties will drastically change the amount of time it will take you to payoff your balance and can greatly increase the total interest you're charged.

SHOPPING FOR CREDIT CARDS

The first step to shopping for a credit card is identifying what type of credit card you want or need. For the most part consumers look for one of three types:

- A card that has a low interest rate and/or a 0% balance transfer option
- A card that provides rewards, whether it be airline miles, cashback or store rewards
- A card that will help rebuild one's credit score

Depending on your goals, there are different questions you need to ask yourself. These questions may include:

- What is the credit limit?
- Will the credit limit increase over time?
- What is the interest rate?
- Will the interest rate change?
- Is there a cap on the interest rate?
- Are there different interest rates for different types of transactions?
- Is there an annual fee?
- Are there other service charges or usage fees?
- Are there fees for certain transaction types?
- What is the penalty for late payments?
- How long is the grace period?
- Can I use this card out of the country?
- Does this card offer trip cancelation insurance?
- How do I earn rewards?
- Is there an expiration on unused rewards?
- How do I use my rewards?
- Will my rewards be revoked if I'm late on a payment?
- What are the limitations for using my rewards?
- What online services are available?
- Does this card have a mobile app?
- Can I get alerts when charges are made on my card?
- How does the card handle fraudulent charges?
- What is my liability for unauthorized charges?
- What is the balance transfer policy?
- Does this card report to the three major credit bureaus?

NOTES:

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Once you know what type of card you're looking for and what questions you need to find answers to, using an online credit card comparison tool is the best way to locate the right card for you. However, no matter what card you get, the most important thing is for you to use your credit card wisely.

SHOPPING FOR LOANS

There are a wide variety of loans that you will likely need during your life, including but not limited to: student loans, vehicle financing, home mortgage and personal loans. We have some information to share in hopes of helping you in the process of selecting the right loan option for you. **Six months before shopping for any loan you should obtain a copy of your credit report and correct any errors, to ensure you get the best deal possible.**

STUDENT LOANS

A common challenge for Americans is finding a way to pay for college. Even folks who save for years usually still need to utilize one or more loans to complete their degree. It's been reported by the Consumer Financial Protection Bureau that 67% of bachelor's degree recipients used loans to pay for their education (MyCreditUnion.gov, 2019). If you end up needing to do the same, you have two types of loans to select from: federal and private. Let's take a quick look at both:

Federal

With federal loans the rate is fixed, which helps with your financial planning as you know what to expect. During the 2020-2021 school year, the federal student loan interest rate is 2.75% (Federal Student Aid, 2021). In certain cases, you may get subsidized loans, where the federal government pays the interest on your loans while you're in school. Federal loans don't have to be repaid until you graduate or drop below half-time student status. Federal loans offer repayment options and sometimes loan forgiveness. There are different types of federal loans:

- **Direct Subsidized Loans** don't accrue interest while the student is still in school or while the loans are in deferment after graduation, but only undergraduates who demonstrate financial need qualify. You don't need a good credit score to qualify.
- **Direct Unsubsidized Loans** don't require a good credit score and are not based on financial need. You are responsible for paying all the interest, even while in school and during deferments.
- **Direct PLUS Loans** are available for graduate and professional students, and parents of undergraduates. You are responsible for paying all the interest, even while in school and during deferments.

There are services that offer to consolidate all your student loans into one. The same principles outlined in the debt consolidation section of this book should be applied when making your decision.

Private

Most private loans are obtained through banks, where interest rates vary – some as high as 16%. Private loans don't offer as many options for reducing or postponing payments as federal loans do. Private loans are never subsidized, so you pay all the interest, and most private loans require you to start repaying while you're in school. For these reasons, private student loans should only be considered after you've exhausted all other possible federal loans, scholarships, and grants.

VEHICLE FINANCING

Before starting the search for a vehicle, you should sit down, with your partner if applicable, and determine how much you can afford and are willing to pay. This includes the overall cost range you're looking for, what monthly payment you can accommodate and how much you are able to put down. You should determine these figures first and use them as your guide.

You should shop for a loan and apply for the best, obtaining a pre-approval letter for the amount you're willing to spend before finding a vehicle. You can look at online lenders, banks and credit unions. Credit unions tend to have interest rates 1-2% lower than banks. Dealerships will often match or beat your pre-approval, and sometimes manufacturers offer special cashback deals and low interest rates if you take a loan through their affiliated finance company.

MORTGAGE

If you're like the majority of Americans, your home mortgage is the largest long-term debt of your life. So much so, that if your interest rate is even a fraction of a point lower, you could save thousands of dollars over the duration of your mortgage. This means, before you find a home, you should spend time thoughtfully and patiently shopping for your mortgage. Here are some things to consider:

Affordability

It's important to know how much house you can afford, before you shop. There are several online calculators, which can be found with a simple google search, that can help you determine this. Identify how much you have a for a down payment, how you'll pay for the closing costs and what monthly payment amount works in your budget.

Types

There are two main types of mortgages: conventional and government backed. Most homeowners have a conventional loan through a private lender, like a bank or credit union. Government-backed loans have more flexible income requirements, allow lower credit scores and require a smaller down payment. Most first time buyers utilize a government-backed loan. One big difference between the two, a government-backed loan requires the borrower to live in the home. Meaning, a government-backed loan can't be used for vacation or investment properties. If you're looking to live in a rural area you can check out USDA loan options, which offer interest rates as low as 1%. USDA loans require that you've had no debt collections within the twelve months leading up to the application and your monthly mortgage payment (with interest, insurance and taxes) can't exceed 29% of your monthly income. If you're a veteran, service member or military spouse, you can look into a VA home loan, which offers a $0 down option to certain qualifiers.

Finance Options

There are two finance options: fixed-rate and variable-rate. A fixed-rate is good for you if you want a predictable payment throughout the entire life of the loan. A variable-rate typically starts with a low introductory rate but periodically changes, per the terms of the loan. Many times this means a drastic increase in your monthly payment after the introductory period ends. If you're thinking about choosing a variable-rate loan with the idea that you'll refinance after the introductory period, you need to consider the closing costs associated with refinancing – which can run between 2-4% of the loan amount. That's $4,000 - $8,000 on the median price of $200,000 for a home in the United States. There are additional costs that you should consider, including fees for the application, appraisal, underwriting, broker points and other items you may not realize. Lenders are legally obligated to provide a detailed breakdown of all costs associated with a mortgage within three business days of receiving your application.

Length

Mortgages can be 10- or 15-year commitments, as opposed to 30. In fact, some lenders offer customized mortgages for any length between 10-30 years. If you're focused on your monthly budget, a 30-year mortgage is the best option to keep your monthly payment lower. However, if your budget allows for a bigger payment, you should consider a shorter-length loan – where you'll likely get a lower interest rate and pay a lot less in total interest over the life of the loan.

Negotiate

You're a proud union member, so you know all about negotiating, right? Once you receive a quote, you are entitled to negotiate for better terms. Don't be afraid to ask for a lower interest rate and a reduction in certain fees. You can also ask a lender to beat another lender's rate. You might be worried about applying for more than one mortgage, because of the negative impact on your credit score. Mortgages are the exception to the rule. Multiple mortgage related inquiries within a 45-day period are disregarded.

If you're happy with a proposal, get the terms in writing! You may be required to pay a nonrefundable fee for a "lock-in" rate, but it's worth it.

PERSONAL LOANS

You may find yourself in need of a personal loan. Whether it be for a home improvement project, vacation, unexpected life event or any other reason, a personal loan allows you to pay monthly installments – typically for a length between one to seven years.

Types

There are two types of personal loans: unsecured and secured. An unsecured loan has no collateral, so it usually requires good credit. A secured loan is backed by collateral and if you fail to make payments, your lender has the legal right to claim your asset.

Lenders

You can seek a personal loan through your bank or credit union, and even your credit card company. You might also find great offers online. As discussed earlier in this book we discourage you from using payday lending services.

Calculate the Cost

You should use a loan calculator with an amortization schedule, which can be found online, to determine how much you'll actually pay in total for the loan. With any option, you should consider the interest rate, any fees associated with the loan and if there is a penalty for paying off the loan early.

TIPS:

- If you find a lender online for any type of loan, before providing any personal information, you should check with the Consumer Financial Protection Bureau to ensure the creditor is legitimate.

- It's a good idea to learn what payment methods are available for your loan. Some lenders make automatic deductions from your bank account, some send you a monthly statement and require a check by mail, and some allow you to login and make a payment with a credit card. Make sure the available methods work for your lifestyle, so you can make your payments on time, every month.

401(K) LOANS

Some 401K plans allow you to take out one or more loans, based on what the employer decided when the 401K program was setup. If you're allowed to borrow against your 401K, there are things you should consider:

- By law, you can only borrow up to 50% of your vested balance or $50,000, whichever is less.
- You pay yourself interest, but this is usually less than you would have earned if leaving your money in the account. Meaning, in the end, you've saved less for retirement.
- Your loan is repaid through payroll deductions, with the longest repayment plan being five years. Some 401K plans don't allow you to contribute to your plan while paying back a loan.
- If you have an outstanding 401K loan when you leave the company, or lose your job, you need to repay the balance quickly or the IRS could consider the loan an "early distribution" and charge you taxes on the loan amount.
- It's important that you familiarize yourself with all the ins and outs of borrowing against your 401K before jumping into a loan, as there can be major consequences. It is not advised for you to borrow against your 401K if it is your main savings for retirement.

PROTECTING YOURSELF FROM IDENTITY THEFT

In the year 2020 alone, there were 1.4 million complaints received by the Federal Trade Commission regarding identity theft (Insurance Information Institute, 2021). This common crime falls into six major categories:

- Employment or tax related fraud
- Credit card fraud
- Phone or utilities fraud
- Bank fraud
- Loan or lease fraud
- Government document or benefits fraud

The fact is, no matter how many protections you put in place there is no way to be 100% safe. For instance, a server at a restaurant could snap a photo of your credit card, or a store where you used your credit card could have a data breach. However, not protecting yourself leaves you completely vulnerable. Here are some ideas for you to consider:

- Passwords: Use long, strong passwords that combine letters, numbers and symbols. Use a different password for every account. Change your passwords at least once per year. Password protect the lock screen on your phone.

- Private Information: Don't provide private information on your social media profiles, like birthdates, address, family members' names, or other data that allows an imposter to use your identity.

- Shredding: Dumpster diving is a real thing. Shred bank statements, credit card bills, medical bills and any other paperwork containing sensitive information – before recycling or throwing them away.

- Mail: If you're out of town, have your mail held. You can also sign up for a free service through the United States Postal Service called Informed Delivery. This provides you with a scan of mail being delivered to your home, so you can identify if anything is missing.

- Electronic Devices: Keep your software updated on your computer, laptop and phone. Turn off Bluetooth when you're not using it. Be extremely cautious when connecting to public Wi-Fi networks. Don't download free apps unless you've vetted them out, as many times these apps create a tunnel into your device or otherwise gain access to your data. Don't click on links inside your email to login to online accounts, as these can be fake. Instead, use your web browser to visit the appropriate website (which should have a familiar URL and lock icon) to login.

- Monitor your Accounts: You should login to every open account under your name at least once per month to review activity and ensure no one else is using your credit cards, iTunes account, gaming app stores, department store accounts or bank accounts. It's good to keep a list of all your accounts and keep an eye on them regularly.

- Freeze your Credit: You can freeze your credit at all three credit reporting bureaus. Sometimes this is free, but sometimes there is a small fee – up to $12. When a security freeze is on your credit, lenders won't send you offers in the mail (which reduces risk) and others can't open accounts in your name. You must unfreeze your credit before applying for a credit card or loan, as the lender will be unable to pull your report. However, you can unfreeze temporarily. Don't permanently unfreeze your credit or you're back to being vulnerable. When you freeze your credit, you're given a 10-digit pin that you'll need to unfreeze your credit later. DO NOT LOSE IT.

- Identity Theft Protection Service: There are a lot of services that offer identity theft protection. They usually charge a monthly fee. A simple google search will provide you with information and options for comparing.

FRAUDS AND SCAMS

The Federal Trade Commission received 2.2 million fraud reports in the year 2020, resulting in a loss of more than $3,3 Billion (Insurance Information Institute, 2021). Most of these fraudulent activities and scams came in the shape of a phone call or email. Beware if you receive a phone call or email from someone:

- claiming to be the government and asking you to pay money
- claiming to be Microsoft and asking for the mac address of your computer
- asking you to pay money or taxes on a prize or gift, so it can be sent
- asking for money to be wired
- asking for money to be put on a prepaid card or gift card
- requesting personal information, like your full name, birthdate or social security number
- asking for you to confirm a bank account or credit card number
- requesting access to your ATM cards, bank accounts, credit cards or investment accounts
- pressuring you to "act now"

If you get the feeling in your gut that something isn't right, it probably isn't. You should hang up the phone and go to the official website of whatever company the caller claims to be from to locate the customer service number. By dialing them, you know who you're getting on the other end of the line.

Checkout these websites for more information on common frauds and scams:

- Fraud.org
- consumerfinance.gov
- USA.gov/scams-and-frauds

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Rev. 8/24/2021

On the following pages of this book you will find blank paper tools for use in planning your personal financial goals. There are also numerous tools online. We recommend you complete the financial wellness assessment again in six months, after you've put some of these practices in place, to track your progress. We wish you well on your journey!

MONTHLY INCOME	
Income 1	
Income 2	
Child Support	
Other Income	
Other Income	
TOTAL MONTHLY INCOME:	$
MONTHLY SPENDING	
Housing	
Mortgage / Rent	
Homeowners Association	
Repairs / Maintenance Fees	
Property Taxes	
Home / Property Insurance	
Lawn Care / Snow Removal	
Total Monthly Housing:	$
Utilities	
Electricity	
Water	
Gas	
Phone	
Cable / Internet	
Trash / Recycling	
Total Monthly Utilities:	$
Food	
Groceries	
Dining Out / Carry Out	
Lunches (Work and/or School)	
Total Monthly Food:	$
Entertainment	
Streaming Service(s)	
App Subscriptions	
Season Tickets (Sports / Theatre)	
Date Night	
Total Monthly Entertainment:	$

Transportation	
Car Payment 1	
Car Payment 2	
Car Insurance	
Gas	
Oil Changes	
Repairs / Tires	
Total Monthly Transportation:	$
Dependents	
Daycare / Tuition	
Tutoring	
Sports / Recreation	
Total Monthly Dependents:	$
Clothing	
New Clothes	
Dry Cleaning / Laundry	
Total Monthly Clothing:	$
Personal Care	
Hair / Nails	
Massage / Yoga / Life Coach	
Gym Membership	
Total Monthly Personal Care:	$
Medical	
Health Insurance	
Co-Pays	
Dental	
Prescriptions	
Life Insurance	
Total Monthly Medical:	$
Other (Charities, Tithe, Credit Cards, Loans, Etc.)	
Total Monthly Other:	$
TOTAL MONTHLY SPENDING:	$

TOTAL MONTHLY INCOME: $

(minus) -

TOTAL MONTHLY SPENDING: $

(equals) =

BALANCE: $

DETERMINING NEEDS VS. WANTS

Transfer all the items from page 3 into one of the columns below.

NEEDS *Required to Survive*	
	$
TOTAL NEEDS:	$

WANTS *Not Required to Survive*	
	$
TOTAL WANTS:	$

(Jespersen, 2019)

DETERMINE **CURRENT** PERCENTAGES OF SPENDING

TOTAL NEEDS: ____________________ *Total needs from page 4*

(divided) /

NET MONTHLY INCOME: ____________________ *Total monthly income*

X 100

NEEDS = ____________________

BALANCE *(under 50%, money leftover)*

DEFICIT *(over 50%, need to cut back)*

TOTAL WANTS: ____________________ *Total wants from page 4*

(divided) /

NET MONTHLY INCOME: ____________________ *Total monthly income*

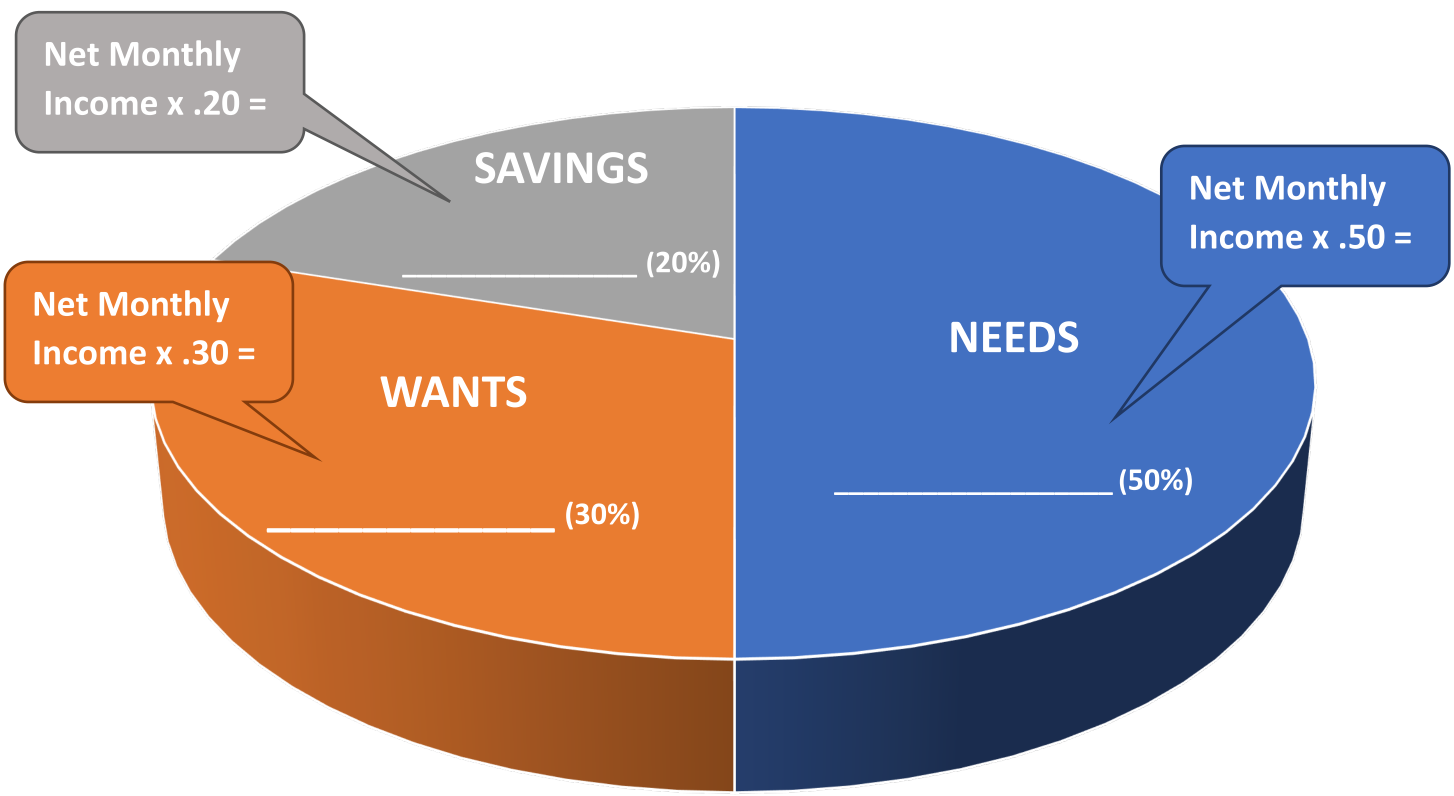
X 100

WANTS = ____________________

BALANCE *(under 30%, money leftover)*

DEFICIT *(over 30%, need to cut back)*

DETERMINE **GOALS** FOR SPENDING



(Jespersen, 2019)

NEEDS		WANTS	
Current Spending on NEEDS:		**Current Spending on WANTS:**	
Spending goal for NEEDS:		**Spending goal for WANTS:**	
Difference:		**Difference:**	

ACTION ITEMS

What will you do next to get your spending in line with your budget?

FINANCIAL WELLNESS ASSESSMENT

This assessment is designed to gauge your current financial knowledge and provide the framework for learning how to budget and plan for the future.

	Strongly Disagree				Strongly Agree
MONEY BASICS	1	2	3	4	5
I know my monthly NET income.					
I know my monthly fixed expenses.					
I know my current level of debt (including credit cards and student loans).					
I know my credit score.					
I have short, mid and long-range financial goals.					
I have a budget.					
I have an emergency fund that can cover more than three months of expenses.					
I have a will.					
I am confident and comfortable with my current financial situation.					
FINANCIAL PRACTICES					
I make a concerted effort to live within my means and follow a budget.					
My budget includes non-monthly expenses (like oil changes, property tax, etc.).					
I plan for large expenses like vacations and holiday spending.					
I do not make impulsive decisions about spending money.					
I do not make purchases that I don't need just to lift my spirits.					
I have not been behind on any bills, or paid late fees, in the last 12 months.					
I pay more than the minimum payment on my credit cards.					
I pay my credit card balances in full (creating a zero balance) each billing cycle.					
The balance on my credit card(s) is 30%, or less, of the credit limit.					
I regularly put money aside in a savings account (different than emergency fund).					
I am regularly contributing/saving money for retirement via 401K, IRA, etc.					
SUB-TOTAL - *Add the scores in each column, based on column header value:*					
TOTAL SCORE – *Calculate the sum of the sub-totals:*					

BELOW 50	51-69	70-84	85-100
Danger! You are vulnerable to financial catastrophe. You need to implement new financial habits and behavior.	**Caution!** You've got a good foundation, but you need to concentrate on improving your financial habits.	**Good job!** You've got a solid start. Dedicating more time and attention to your financial practices will secure your future.	**Excellent job!** You have a strong handle on your finances and possess good financial habits. But you can always learn more tips!

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Workshop Evaluation QR Code

Thank you for your time and participation. Before we wrap up, the last thing we need from you is for you to fill out a workshop evaluation form. This form is important because your feedback is what helps the Education Department ensure that our curriculum is meeting the needs of the membership.

So, please take out your phones or tablets and use your camera to scan the QR code below or on the screen. Or you can type the link on the screen/below directly into your phone's web browser.

If your camera is not scanning the QR code, you may need to go into your phones camera settings and turn on the option to "scan QR codes."

Once your camera has scanned the QR code, you will be directed to an online evaluation form (your phone may ask you to confirm this). The form should only take a few minutes to complete. Thank you!

SCAN ME

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