

Money Possible:

Destroy Debt



KANSAS CREDIT UNION ASSOCIATION

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Your Guide To

Money Possible: Destroy Debt

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Planning & Setting Goals

Most people would not take a road trip without deciding where they wanted to go or without planning the route. A good plan helps us guide us to our destination. The same process should be used with your personal finances. Setting financial goals and creating a spending plan will help you and your family end up where you want to be. Making financial decisions without your Money Action Plan is like taking a road trip without deciding where you want to go or using a map. You will probably get somewhere, but will it be where you wanted to go?

Do you have specific financial goals? One way to think of goals is to imagine what you could accomplish if you won the lottery. What would you do? Many people say they would pay off debt, replace their car, take a well-deserved vacation, make sure children have good educational opportunities, pay off or replace their home, and never have to borrow money again so they can retire in comfort – today! Without winning the lottery, you can achieve your financial goals. With a good spending plan you can achieve the same goals - it will just take longer. Start by setting goals—short, medium & long range goals.

Short range goals (up to three years) could include an emergency fund, debt reduction, saving for a car down payment, saving for a vacation, and permanently reducing everyday household expenses.

Medium range goals (three to seven years) could include education funds, eliminating unsecured debt, saving for a mortgage down payment, or eliminating car payments.

Long range goals (over seven years) may include retirement funds, education funds for young children, paying off a mortgage, and estate planning.

The key to reaching your financial goals is to make a commitment to spend less than you earn and set aside money toward each goal until it is achieved.

Begin by listing your goals. Discuss them with the members of your household and make your goals as specific as possible. Remember that achieving these goals will contribute to overall financial success for you and everyone involved.



Short Range Goals (Up to 3 years)

- 1.
- 2.
- 3.
- 4.

Medium Range Goals (3-7 years)

- 1.
- 2.
- 3.
- 4.

Long Range Goals (More than 7 years)

- 1.
- 2.
- 3.
- 4.

Information in this handbook will help you develop skills necessary to achieve your goals. These skills involve assessing household spending priorities, comparing prices and values, and developing the habit to save money. At first, it may be difficult to stick to your plan. This is especially true if household spending priorities need to change. Setbacks and unanticipated expenses can happen and could lead to discouragement.

Here are a few suggestions that may help.

- **Picture your goal.** Put a picture of your goal where you can see it every day to help keep you motivated.
- **Track your progress.** Reevaluate and make any necessary adjustments.
- **Consider the alternative.** If you do not set aside an emergency fund, you will probably be forced to borrow money for every emergency you encounter. Perhaps even more important, by not planning for and saving toward an adequate retirement fund, you are actually planning to live on your Social Security or other government entitlement, work past normal retirement age, or rely on others for financial support. Social Security was not meant to cover all retirement costs. **Having enough funds for a comfortable retirement is one goal you cannot achieve by borrowing.**

Savings—It's Up to You

You may have established your financial goals but feel that saving money is not possible right now. You have many reasons to spend money, leaving very little, if any, leftover to save. You aren't alone. The national savings rate in the United States is among the lowest in the world. Based on recent statistics, many households spend more than they make every month. Why save if society is telling us to spend, spend, and spend some more?

Sometimes people have to change their way of thinking and make a conscious decision to change the way they spend. Below are a few important savings goals. Are any of these included on your list of goals?

Emergency Fund Goal. Costly unexpected events happen to everyone. An emergency fund can turn a panic situation into a minor bump in the road the next time you experience unexpected medical costs, unemployment, car maintenance, or travel costs. The alternative is increased high interest debt or perhaps worse financial consequences. An emergency fund should contain at least three months of living expenses.

To grow your emergency fund, set a specific date to work towards and write it on your calendar. "By June 6th, 20xx we will set aside \$6000, which is 3 months of our monthly living expenses."

Specific Fund Goal. Specific goals could include a down payment for a vehicle or a home. Instead of going into debt for a vacation, replacement of a major appliance, or other purchases, try postponing the purchase for a few months and make the same payments to yourself. This will accomplish two goals:

- 1) You will discover if you can really afford proposed payments on a new item.
- 2) You will accumulate a healthy down payment.

"In order to stay within spending plan guidelines, we will need to save \$XXX by April 1, 20xx to purchase a new washer and dryer."

Retirement Fund Goal. Will enough income be available when you retire? If the answer is, "I don't know", consider this...the average Social Security payment is less than \$1,000 per month. If Social Security is the only option available to you in retirement, will it be enough?

Achieving retirement goals may require investing in accounts that involve some degree of risk. A certified financial planner can assist you in determining how much you will need, the degree of risk you're comfortable with, and how much you will need to set aside each year to reach your goal. Because of the 'time value' of money, the sooner you start on any savings goal, the easier it will be to achieve.



Start and Build Your Savings

The hardest part about savings is changing current spending habits and starting a savings plan. You won't be able to save if you regularly spend more than you earn. We will cover skills you need to track and control spending so you can make choices that will help you reduce your expenses and increase your discretionary income. When this happens, it is very important to make sure some of this money is set aside and used to achieve your financial goals. To build your savings:

- Set specific, realistic goals, and keep track of your progress.
- Thoroughly review each category of spending.
 - Determine if you can reduce spending in any of your categories.
 - Ensure the spending reduction is realistic and acceptable in your household.
 - Be sure to save any spending reduction toward a specific goal.
- If saving money is not a regular habit, start with small amounts.
 - 50 cents a day = \$182.50 per year plus interest**
 - \$1.00 a day = \$365 per year plus interest**
 - \$19.20 per week = \$1,000 per year plus interest**
- If you are paid every other week, there will be two months each year when you receive three paychecks instead of two. Save these two 'extra' paychecks.
- Save at least half of every raise you receive.
- If you use direct deposit for your paychecks, place a portion of each paycheck in your savings account with every deposit.
- When you pay off a loan, continue making the payments to your savings account. This is a good way to save up for a large down payment on your next major purchase, or to buy the item with cash.
- Set aside pocket change and make regular deposits to savings. Save change for a specific short-term goal.
- Take advantage of Christmas or other special accounts at your credit union.
- Save financial windfalls like a tax refund, bonus, or overtime pay.

SMART Savings Goals

To set goals, you should make sure they are 'SMART':

Specific—What do you want and how much do you need?

Measureable—Determine a method to tell if you are on track to hit your goal.

Attainable—You can't save more than you make.

Realistic—Even if it's possible to save every penny you make, it's not probable.

Time Oriented—Set a start and an end date.

Basic Money Management Skills

Managing your finances is not something you just ‘know’ how to do. It takes time and effort to learn basic skills. A few guidelines:

Properly manage your financial accounts. Always keep a current **balance** in your checkbook and savings registers. This doesn't mean checking your balance online or at an ATM. This does mean to add deposits and subtract withdrawals from the previous balance, as they happen. Save receipts until they are recorded in your registers and information from them is transferred to the expense tracking spreadsheet that will be covered later. You should record transactions as close to when they happen as possible to ensure you keep your financial records accurate.

Reconcile your checking and savings registers with the monthly statement from your credit union. These skills will not only help you find errors but will avoid costly overdraft charges and allow you to maintain the privilege of keeping a checking and savings account.

You will also be able to find unauthorized transactions and detect **identity theft**. These skills are make the next step, tracking your spending, much easier.

Know your net income and the reasons for your deductions. **Gross income** is what your employer pays you before subtracting deductions. There are mandatory deductions for items such as Federal and State tax withholdings, Social Security, and Medicare. Many people have other mandatory or optional deductions for retirement funds, alimony or child support, insurance, garnishments, charity, or a variety of other reasons. **Net income** is your take-home pay, the amount of money available to you after deductions are subtracted from your gross income.

Track expenses. You will learn how practicing this skill allows you to find out whether you are spending too much of your income in certain areas of your life. With these facts, you can make informed decisions about financial priorities and controlling your spending.

Needs and wants. Many financial management courses treat needs and wants as completely separate things. What's really important is to recognize that nearly everything we **want** is related to a **need**. This concept applies in almost all areas of our lives. Think about how much money people sometimes spend on cars, fashion, eating out, or entertainment. Many times our needs can lead to our wants. Recognizing the difference between how much you spend in these areas and how much less could be spent to satisfy the real need for transportation, clothing, food, or recreation is a key financial management skill. The bottom line is to learn how to spend only what you can really afford to meet your households needs.

Fixed and variable expenses. There are some expenses in every household that are fixed and do not vary from month to month. Examples are rent/house payments or car payments. Many other expenses are partially fixed and partially variable. A good example would be the family expense for food every month. A certain fixed amount must be spent to provide a healthy diet. The amount of spending beyond the fixed amount is variable. You may find that a good portion of your variable expenses are closely related to the wants of various members of your household. Finding the controllable portions of your spending and making informed decisions on acceptable reductions is another key financial skill.

Periodic expenses. Some expenses come yearly, instead of monthly. These expenses are periodic expenses. We call them hidden costs because they are hidden from your monthly spending plan. Examples of these costs are car tags and taxes, some types of insurance, holiday or birthday spending, and back to school expenses. Many households do not plan for these expenses and they could end up being thousands of dollars. Your spending plan may fail if you do not set aside money for hidden costs. To find, plan for and set aside money for hidden costs use the table on page 25 to list them.



Track Your Spending

NOTES	Date	Housing	Utilities	Groceries/ Household Supplies	Snacks/ Eating out	Transportation	Clothing
	1						
	2						
	3						
	4						
	5						
	6						
	7						
	8						
	9						
	10						
	11						
	12						
	13						
	14						
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	19						
	20						
	21						
	22						
	23						
	24						
	25						
	26						
	27						
	28						
	29						
	30						
	31						
	Totals						

Sources of Net Income:

Job #1 \$ _____ Job #2 \$ _____ Child Support \$ _____
 Retirement \$ _____ Government \$ _____ Any Other \$ _____

Add all sources together to find TOTAL NET INCOME: \$ _____

Medical	Child/ Dependent	Insurance	Charity	Monthly Hidden Cost	Savings/ Invest- ment	Unse- cured Debt	Edu- cation	Personal/ Leisure	All Other	Date
										1
										2
										3
										4
										5
										6
										7
										8
										9
										10
										11
										12
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										23
										24
										25
										26
										27
										28
										29
										30
										31
										Totals

TOTAL NET INCOME \$ _____

Subtract TOTAL EXPENSES THIS MONTH (total of all columns above) \$ _____

A positive number means DISCRETIONARY INCOME \$ _____

A negative number means OVERSPENT \$(_____)

Monthly Net Income =					
Spending Plan Guidelines for Living Expenses		Actual Expenses	Actual % Income Spent	Guideline %	Over or Under Guideline?
Housing	Rent or Mortgage				
	Second Mortgage				
	Home Maintenance/Repair				
	Property Taxes				
	Home Owners/Renters Insurance				
	Homeowners Association Dues				
	Lot Rent				
	Lawn, Cleaning, Security, Maintenance				
	Subtotal Housing			20 - 30%	
Utilities	Electricity				
	Natural Gas/Propane				
	Water				
	Trash				
	Telephone				
	Cellular Phone				
	Cable/Satellite Radio and Television				
	Internet Service				
	Subtotal Utilities			7 - 10%	
Food	Groceries				
	Eating Out				
Household Supplies	Laundry Supplies				
	Household Cleaning				
	Other Household Supplies/Equipment				
Subtotal Food/Household Supplies			15 - 30%		
Transportation	Vehicle Payments				
	Gasoline/Parking Fees				
	Repairs/Maintenance				
	Tags/Taxes				
	Vehicle Insurance				
Subtotal Transportation			6 - 20%		
Clothing	Purchases				
	Professional Laundry/Dry Cleaning				
Subtotal Clothing			3 - 7%		
Medical	Prescriptions/Medication				
	Health/Dental Care Insurance				
	Eyecare/Eyeware				
	Doctor/Dentist visits				
	Other Medical				
Subtotal Medical			4 - 10%		
Child/Dependent Expenses	School				
	Activities				
	Daycare/Babysitter				
	Allowances				
	Child Support				
	Other Expenses				
Subtotal Child/Dependent Expenses			varies		

Spending Plan Guidelines for Living Expenses		Actual Expenses	Actual % Income Spent	Guideline %	Over or Under Guideline?
Insurance	Life				
	Other				
Subtotal Insurance				varies	
Charity	Tithes				
	Other				
Subtotal Charity				varies	
Savings/Investments	Savings Account				
	Other - regular investments in mutual funds, etc.				
Subtotal Savings/Investments				varies	
Unsecured Debt	Student Loans				
	Credit Card #1				
	Finance company loan				
	Other (includes medical, collection, etc.) #1				
	Other #2				
Subtotal Unsecured Debt				2 - 8%	
Education Expenses	Tuition				
	Books				
	Other				
Subtotal Education				varies	
Personal/Leisure Expenses	Tobacco/Alcohol				
	Haircut/Hair care/Cosmetics/etc.				
	Subscriptions: Mag./Newspapers/Dues/Postage				
	Pets				
	Gifts - Holidays/Birthdays/Other				
	Movies and Video/DVD/Game Rental/Purchase				
	Travel/Vacations				
	Hobbies/Lessons/Self Improvement/Fitness				
	Other Personal Care				
	Subtotal Personal/Leisure				2 - 4%
All other expenses not covered above					
TOTAL EXPENSES= Total Amount of the previous "Subtotals"					
TOTAL EXPENSES THIS MONTH =			TOTAL ACTUAL% =		

What is Discretionary Income? It is the money that is left over after all regular expenses have been paid. Do you have discretionary income or have you overspent? If your numbers aren't adding up, then perhaps it is time to re-evaluate where your money is going. Does the problem fall under housing expenses? Is your percentage for transportation expenses over 20%? These two expenses tend to be the biggest culprits for overspending.

It is important to remember that all of the pieces of your pie, i.e. your current household expenses, must fit within your current net income. The key for us all is to learn to live within our income. If that means we must make changes and do without things then it is the lesson we must learn. Becoming a discretionary income person or household will make you financially successful.

Debt Warning Signs

Check the boxes below to see how many signs you have:

- You start paying last month's bills after this month's bills begin to arrive.
- You avoid opening the mail or answering the phone for fear it might be a creditor.
- You hide bills from others.
- You don't record transactions in your checkbook or savings register, balance your registers, or reconcile your accounts with your bank statements.
- You used cash, checks, or a debit card for most purchases in the past. Now you almost always use a credit card.
- You don't compare prices or value when making major purchases.
- You are borrowing more money for longer amounts of time with each large purchase.
- Balances on credit cards, home equity lines of credit, or other debt are steadily increasing.
- You overspend on gift purchases.
- You use cash advances on one credit card to pay the minimum payment on another card.
- You spend financial windfalls such as a tax refund, overtime pay, bonus, etc. before you actually receive the money.
- You only make the minimum payments on credit cards.
- You don't discuss money, set savings goals, or establish spending limits with your family.
- You have little or no savings.
- You post-date checks or count on mailing time and rush to deposit funds such as a paycheck, between the time you mail a bill and the time you expect the check to be cashed.
- You believe that checking account overdrafts are a normal part of everyone's financial life.
- You don't know what your living expenses are because you have never tracked your spending.
- You spend the entire amount of any raise on consumer goods or services.
- The loss of a job in the household would cause an immediate financial crisis.
- You borrow money from payday loan offices, pawnshops, or title loan companies.
- One or more of your major household items are from a rent-to-own establishment.



Getting More for Your Dollar

Housing and Utilities

- Do more home repairs, regular maintenance, and lawn care on your own.
- Adjust your thermostat so the furnace or air conditioner won't run as much when no one is at home – or install a programmable thermostat.
- Change your furnace filters at least every three months, if not every month.
- Organize laundry so the washer is full when used.
- Dry clothes on the lowest heat settings for the least amount of time.
- Unplug items when you're not using them to save on electricity costs.
- Set your water heater to the lowest comfortable setting. And flush it out yearly.
- Switch to compact fluorescent bulbs.
- Reduce or eliminate extra features on cable TV, phones, and Internet service.
- Consider a level-pay plan with your utility companies.
- Buy a low-flow showerhead and toilet to save water.



Food

- Plan menus one week at a time, watch for items on sale, and use coupons for needed items. Make a list and stick to it!
- Buy the produce that is in season.
- Try store brands. Remember which ones you like and always remember to compare the unit price!
- Try using less expensive cuts of meat in a slow cooker. It will save dinner prep time too.
- Grow a vegetable garden.
- Participate in a cooperative food program.
- Wrap and store leftovers carefully and use them.
- Take your lunch, drinks, and snacks to work or school.
- Use coupons if they apply to the exact item you will be buying.
- Don't take your children with you to the store if you can help it and remember your spouse is usually your biggest child.
- Watch for manager specials.
- When eating out, order water to drink and think about ordering an appetizer rather than an entrée.
- Resist buying packaged, pre-processed, convenience foods and using vending machines.
- Consider having a potluck once a week with friends or neighbors.

Clothing

- Launder and mend clothes properly to make them last.
- Watch for seasonal sales. Buy clothes that match and that go together in various combinations.
- Consider shopping at Goodwill, DAV and/or garage sales.
- If you have internet access, keep an eye out not only for clearance items, but free shipping days as well.

Transportation

- Purchase vehicles you can afford, within spending guidelines. Compare all costs. A maximum of 20% of your net income for all vehicle expenses is what we recommend.
- Check the resale value of a vehicle before you buy. Try www.KBB.com or www.NADA.com.
- Don't buy a new vehicle. Try a used car with 36,000 miles or less.
- If you can afford it, raise your car insurance deductible to \$500 or even \$1,000.
- Comparison shop your insurance with at least 5 companies.
- Keep your vehicle in good condition (filters, tires, oil changes, etc.)
- Combine and organize your errands and share a ride to work or school.
- SLOW DOWN!! Aggressive driving uses 30% more gas.
- Use the grade of gasoline recommended in your owner's manual.
- Gas prices generally go up before a major holiday. Take that into consideration when filling up.
- Use www.gasbuddy.com — the site lists the lowest gas prices in your area.

Medical

- Eat right and exercise, cut down or eliminate bad habits. Staying healthy is a great money saving strategy.
- Check out store or generic brands of medication. See if buying a 90-day supply is less expensive.
- See what services, such as immunizations, are offered at the Health Department.
- Be sure to check with the doctor's office as well as the hospital to see if they have a financial assistance program available.

Children

- Use the library for movies, tapes, CDs, and children's activities - not just books.
- Look for free activities offered in your local community.
- Rent DVDs or videos after they are no longer new release.
- Use programs such as free/reduced meals, WIC, Earned Income Tax Credit, Health Wave, etc.

Debt

Avoid debt. Long term borrowing should be limited to mortgage, higher education, required vehicles, and necessary medical debt. Unnecessary debt may prevent you from reaching your financial goals. Especially avoid borrowing from places that do not require a credit check such as pawn shops, payday loan offices, rent-to-own establishments and auto title loan companies.

Types, Best Sources, and Costs for Credit and Loans

You should know about different types, sources, and costs for credit and loans. It's also important to know whether the lender reports loan activity to at least one of the three credit reporting agencies (Equifax, Experian, or TransUnion) and to borrow money only from lenders who do report transactions.

There are three major types of loans:

Home Mortgages. Many types of home mortgages exist based on factors such as whether the interest rate is fixed and the length of the loan. Good sources for mortgages are financial institutions, like your local credit union, and large mortgage lenders. A good credit rating is essential when shopping for a mortgage. A one-half percent difference can cost thousands of dollars over the life of a mortgage loan.

If you borrow \$100,000 at 7% it will cost \$11,964 more in interest payments over 30 years than the same loan at 6.5%. Mortgages are an example of **secured** debt because the house is **collateral** for the loan and can be turned back to the lender, or **foreclosed**, if payments are not made. Make sure you understand all obligations and fees before signing a mortgage. Consider taking a First Time Homebuyers course.

Installment loans. These loans may be secure, like a car loan, or not secured by collateral. Installment loans are usually at a fixed interest rate for a set number of years. This results in a regular monthly payment.

Revolving charge accounts. Credit cards, including cards issued by stores, are revolving charge accounts and are normally not secure, nor are they at fixed interest rates. These loans do not feature a fixed term and as a result the monthly payment varies based on the amount of debt being carried in the account. Instead, payments are calculated at a small percentage of the debt balance plus any fees. Loans on credit cards are usually at a significantly higher interest rate than mortgages or secured installment loans.

These three types of loans represent loans that are normally reported to the credit reporting agencies. Used correctly, within income and time limits, debt may be needed to help you reach important goals such as a college education or a home of your own.

However, if used incorrectly, obtained at too high a price, or from the sources you should avoid, debt can be a major roadblock to reaching your financial goals. Too much debt can lead to financial disaster.

Let's make sure we understand various sources and uses for debt—some may be necessary; some are to be avoided.



Not all debt is “bad”. Some debt may be necessary. Examples of debt that may be necessary:

Life saving or medically necessary procedures. Normally unsecured debt. Often there is no choice as to whether or not to go into debt for this reason. This is the most common reason for bankruptcy.

Home Mortgage. The limit is discussed in the spending section of the workbook. Even a very small increase in the interest rate for home mortgages can cost thousands of dollars over the life of the loan.

Student Loan. These loans normally last for 10 to 15 years. It’s important to realize that student loans are designed to help people obtain higher levels of education. Higher education levels should lead to better employment opportunities and a greater ability to pay off the education loans.

Transportation. Many households are spending at well above the recommended guidelines for their transportation expenses. Before shopping for a vehicle, the first step is to determine what you can afford to spend to meet all of the expenses you will incur (payment/lease, tags, taxes, insurance, gas, oil, maintenance). It is financially risky to owe more for a vehicle than it is worth. This is an area where many people spend a great deal more than they *need* only because of what they *want*.

Examples of debt to avoid:

Credit Card Balances. Credit card debt is a high interest loan when compared to most examples of debt that may be necessary. Most credit cards also apply a default interest rate to your account if you fall behind or go over the credit limit. This rate is usually more than twice the standard rate and can exceed 30% APR.

Home equity loans. These loans are made using the equity or difference between what you owe and what your house is worth, as collateral. Defaulting on a home equity loan could result in foreclosure—the loss of your home. You should consider this risk and compare the risk to the reason you are borrowing. Make sure the purpose of the loan is worth the risk. Sometimes people use home equity loans to pay off credit cards or other unsecured debt. This practice can be dangerous unless the spending habits that built up the unsecured debt are changed. In other words, cut up the credit cards, close the accounts that were consolidated in the home equity loan, and *don’t open new accounts*.

Finance Company Loans. These high interest rate loans may be ‘secured’ by your household goods.

Contracts with rent-to-own companies. These contracts can require payments that normally add up to almost twice the original value of an item in about 2 years. This would be the same as a loan with an interest rate of over 60% APR.

Loans from auto title companies. These loans are secured—and your car may be taken from you and sold to pay them off. Even so, the interest rate on auto title loans in Kansas is 264% APR.

“Pay Day” loans. In Kansas, the fees charged for these loans equal an interest rate of 391% APR, about 13 times the default interest rate for credit cards.

In addition to the extremely high interest rates charged for loans in the last three examples, these businesses typically do not report account information to the credit reporting agencies. Therefore, even if you pay off one of these loans, your credit rating will not improve. The combination of high interest rates and not reporting to the credit reporting agencies is usually what ‘No Credit Check’ means.

Accelerated Debt Reduction

There are ways to accelerate your goals and pay down your debt even quicker. Here are some tips:

- Make sure your basic living expenses are paid on time every month. Establish an emergency fund.
- Stop borrowing. This especially includes additional charges to credit cards.
- List all debt accounts from highest to lowest interest rate on the chart on the next page. Use an additional page if necessary. Be cautious when transferring balances to 0% offers. Read and understand the rules and restrictions.
- Add up all of your minimum debt payments. *This total will now be your minimum monthly payment .*
- To save the most money over the life of the plan, add part of your discretionary income to the minimum payment on the first account. Make this a fixed payment and plan to pay this amount each month until the account is paid in full. Also, fix the payments on your other accounts at the current minimum payment.
- When the first account is paid in full, add that monthly payment amount to the next account to accelerate that payment. Continue to make this fixed payment until that account is paid in full.
- Follow this pattern until all accounts are paid in full.
- You may wish to start on an account with a low balance to quickly reduce the number of accounts on the list.
- Continue to make fixed payments on ALL accounts every month even though the minimum payment on your account statements will probably be for a lower amount.
- If your discretionary income increases, increase the amount of your **power** payment.

The following chart shows an example of how power payments work to accelerate your debt reduction. The example debts are listed from highest to lowest interest rate. The strategy is to fix all payments at what the minimum payment is on the account when you start the plan. In this example, an extra \$50 dollars is added to the payment for the most expensive debt. As each debt is paid off, the entire amount that was used to pay off that debt is added to the next one on the chart. If someone just made the minimum payments at 3% of the balance as required by the creditors, the total time to pay off these debts would be 22 years and 9 months. By following the method in the chart below it would only take 3 years and 11 months to pay off the same debt.

Debt Account	APR Interest Rate	Balance	3% minimum payment/ payoff time	Add \$50 to most Expensive/ payoff time	Add payments from paid off accts/ payoff time
Store Card #1	22%	\$500	\$15/7 years, 3 months	\$65, paid off in 9 months	Add \$65 to Credit Card #1
Credit Card #1	21%	\$5,000	\$150/22 years, 2 months	\$150 for 9 months then add \$65	\$215 after 10 mos./2 yrs-10 mos.
Store Card #2	18%	\$10,000	\$300/ 22 years, 9 months	\$300 for 2 yrs-10 months then add \$215	\$515 until debt is paid off in 3 yrs-11 mos.

List your accounts in the following chart to begin an accelerated debt reduction program.
 The chart can also serve as a handy backup list of your debt accounts.

Creditor Name and Address	Account Number and Contact Phone Number	Balance	Payment	Interest Rate
Total Balances and Payments				////////////////////

Your Credit Report

Credit reports include your financial information as it relates to your loan and credit information. Many lenders report your financial information related to credit and loans you have with them to at least one of the three credit reporting agencies - Equifax, Experian and TransUnion. The agencies store information in a file under your Social Security number. When printed, credit file information is commonly called a **Credit Report**. The data from a credit file is run through a complicated math formula and produces a 3-digit number from 300-850 called a **Credit Score**. This score was originally used to predict whether or not someone was a good risk for a loan. This section will cover the common features of credit reports, how to get your credit report, how scores are determined, what credit scores are used for now and strategies you can use to improve your credit rating.

What's in Your Credit Report

All credit reports contain the same basic information organized into sections. Credit reports from different agencies don't look the same because the sections may be printed in a different order and some reports contain more detail than others. The basic sections of a credit report are the identification section, public records section, account summary section, and inquiries.

Identification Section. Contains your name, spouse's name, address history, Social Security number, birth date, and employment history. Data in this section comes from the information you supply to lenders and is not used to compute your credit score. This section does not contain income information.

Public Records. This section contains information on items such as bankruptcies, foreclosures, judgments, and liens. An item in this section is always damaging to your credit record.

Account Summary. This section summarizes credit accounts that have been reported to the credit reporting agency that printed your report. Information on the type (mortgage, auto loan, credit card, etc) of account, date the account was opened, credit limit or original loan amount, account balance and payment history, is contained in this section. Depending on the agency that printed the report, this section may be divided between accounts with problems and accounts in good standing.

Inquiries. When you apply for a loan or credit card, you authorize the potential lender to evaluate your credit. They do this by asking for a copy of your credit report. This inquiry will slightly lower your credit score because you have applied for additional debt and this makes you a greater credit risk. Many other types of inquiries, such as when a lender looks at your report to send you a pre-approved credit offer or when you get a copy of your own report, are not requests for more debt and do not affect your score.

How to Get a Free Copy of Your Credit Report

Everyone in the United States is eligible to obtain one copy of their credit report every year from each of the three credit reporting agencies. You need to ask for your credit report every year. You may go to the internet at www.annualcreditreport.com, call 1-877-322-8228 and interact with an automated system, or send a form in the mail. *Note: you must disclose your Social Security number and some other personal information to obtain your credit report.* Your file is under your Social Security number and there are security safeguards built into the process to help prevent other people from stealing the information in your file. If you have moved within the past six months or if you have ever reported an identity theft issue in the past, we recommend that you mail in the request form with a copy of your Social Security card and either a picture ID or piece of mail with your current address. Your free report will not include your credit score. At this point, understanding what's on your report and learning how to improve your score is probably more important than your current credit score.

Under federal law there are several other ways you may be able to obtain a free credit report:

- If a company takes adverse action against you such as denying your application for credit, insurance or employment—you may ask for your report within 60 days after receiving notice of denial;
- You may obtain one free credit report per year if you are unemployed and plan to look for a job within 60 days; if you are receiving welfare payments; or
- If your report is inaccurate because of fraud.

Buying a Copy of Your Credit Report

If you don't qualify for a free copy of your credit report, you may purchase a copy from each credit reporting agency by contacting them directly. There may be a charge to access your report.

Equifax. 800-685-1111, www.equifax.com

Experian. 888-EXPERIAN (888-397-3742), www.experian.com

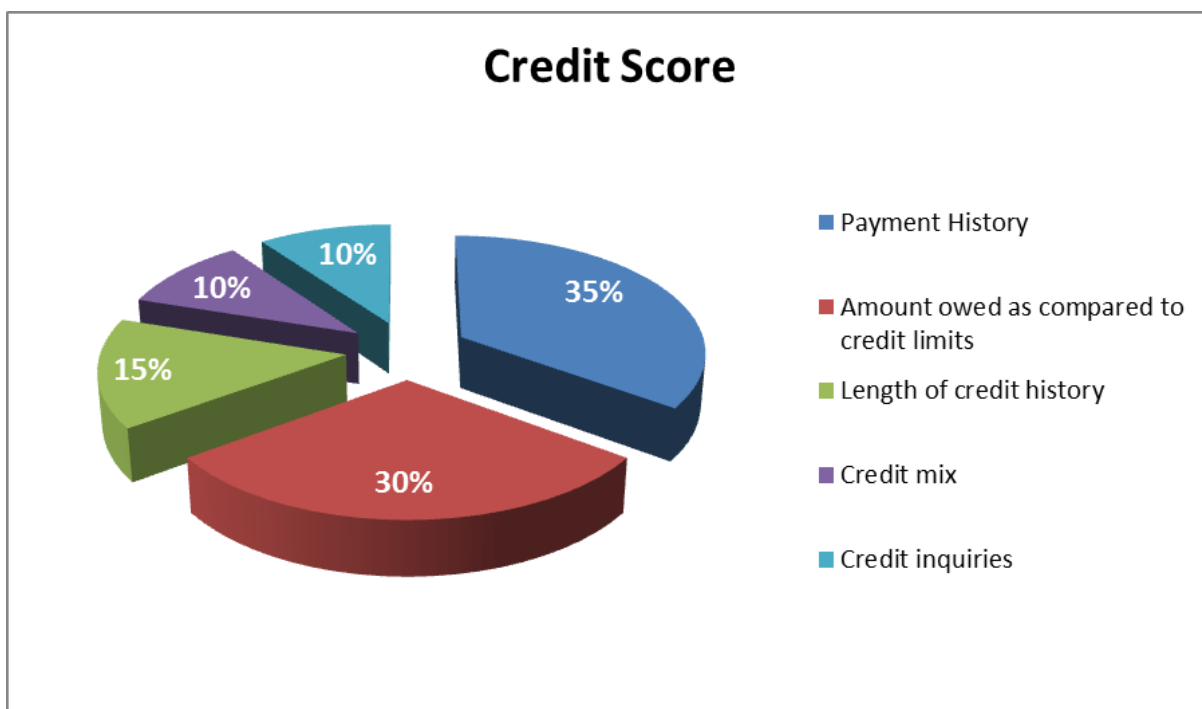
TransUnion. 800-916-8800, www.transunion.com

Carefully evaluate the costs of any further services, beyond obtaining your credit report, that you may be offered when dealing with the credit reporting agencies.

Credit Scores

Information from your credit file is run through a complex math formula to determine your credit score. The five factors are taken into consideration and are assigned different levels of importance by the credit scoring formula. The result is usually a number between 300 and 850; the higher the better. The factors most commonly used are listed below with the most important listed first. Understanding the importance of these factors will help you improve your credit rating.

Some lenders or credit scoring agencies add other factors, allowable by law, such as how long you have lived at an address, to refine your credit score.



Improving Your Credit Score

Credit scores are used for many purposes beyond helping determine whether someone is eligible for a loan at a reasonable interest rate. They may be used as part of an employment decision, whether a landlord will consider renting you an apartment, and the premiums you'll pay for car insurance, to name a few. Here are some ways to improve your credit score.

Get your credit reports. Obtain your credit report from each of the three credit reporting agencies.

Look for mistakes. Estimates vary but it's likely that over half of the credit files in the United States have an error on them. If you find an error follow the instructions in the Disputing Inaccurate Information in Your Credit Report section.

Play by the rules. Study the five factors that affect your credit score. Use the strategy that applies to your situation. If you are responsible for any debt, do your best to pay each bill on time. Contact your creditor ahead of time if there will be a problem. Don't build up new debt.

Disputing Inaccuracies in Your Credit Report and Identity Theft

The credit reporting agencies are not responsible for the accuracy of the information in your credit report. Many credit report errors are unintentional mistakes. However, some items that look like errors are the result of identity theft. If you believe you are a victim of identity theft, here are some critical steps to take.

Place a "Fraud Alert" on your credit reports, and review the reports carefully. The alert tells creditors to follow certain procedures before they open new accounts in your name or make changes to your existing accounts. The three nationwide consumer reporting companies have toll-free numbers for placing an initial 90-day fraud alert; a call to one company is sufficient:

Equifax: 1-800-525-6285 Experian: 1888-397-3742 TransUnion: 1-800-680-7289

Placing a fraud alert entitles you to free copies of your credit reports. Look for inquiries from companies you haven't contacted, accounts you didn't open, and debts on your accounts that you can't explain.

Close accounts. Close any accounts that have been tampered with or established fraudulently.

- Call the company where an account was opened or changed. Follow up in writing, with copies of supporting documentation.
- Use the ID Theft Affidavit at www.ftc.gov/idtheft to support your written statement.
- Ask for verification that the disputed account has been closed and the fraudulent debts discharged. Keep copies of documents and records of your conversations about the theft.

File a police report. File a report with law enforcement officials to help you with creditors who may want proof of the crime.

Report the theft to the Federal Trade Commission. Your report helps law enforcement officials across the country in their investigations.

Online: www.ftc.gov/idtheft

By phone: 1-877-438-4338 or TTY 1-866-653-4261

By mail: Identity Theft Clearinghouse, Federal Trade Commission, Washington, DC 20580

You may be able to **avoid identity theft** by following a few simple steps:

- Shred all documentation with personal information before discarding it.
- Protect your Social Security number. Don't carry your card in your wallet or include it on your checks. Give it out only when necessary.
- Don't give out personal information on the phone, through the mail or online, unless you know who you are dealing with.
- Never click on links sent in unsolicited emails.
- Don't use an obvious password like your birth date, mother's maiden name, or the last four digits of your Social Security number.
- Keep your personal information in a safe place at home, especially if you have roommates, employ outside help or are having work done in your home.

Credit reporting agencies receive information from creditors and place it in your file. There are many chances for mistakes to happen in the process. The best way to tell a credit reporting agency about errors in your report is in writing. An example letter with instructions is below. Make sure you include copies, not originals, of documents that support your version of the information. Also be sure to send the dispute letter by **certified mail, return receipt requested**. The postcard you receive in return will let you know the day the credit reporting agency received your dispute letter and the amount of time (usually 30 days) that they have to investigate the situation and remove incorrect information.

Credit Report Dispute Letter Example

Date

Your Name Your Address

Your City, State, Zip Code

CRA Dispute Address. (Use CRA dispute address as listed in your credit report.)

To Whom It May Concern:

I am writing to dispute the following information in my credit report. The items I dispute are also circled and numbered on the attached copy of the report I received.

This/These item(s) (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is/are (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if you actually have copies of documents to support your position and describe any enclosed documentation, such as payment records, court documents, etc.) supporting my position. I understand that according to the provisions of the Fair Credit Reporting Act, these disputed items must be reinvestigated or deleted from my credit record within 30 days. In the interim, these items should be noted on my credit record as 'in dispute'.

Please send names, addresses and telephone numbers of individuals you contact so that I may follow up.

If it is determined through your investigation that the disputed items are inaccurate or incomplete, please correct my file and send me notification that the information has been updated or deleted.

I'm also requesting a full updated copy of my credit report, sent to my address listed above. **DO NOT SEND A SUMMARY REPORT.** According to the provisions of the Fair Credit Reporting Act, there should be no charge for this report. If you have any questions or need additional information please contact me at (Your Daytime Phone Number).

Sincerely,

Your Name

Enclosures: (List what you are enclosing)

Hidden Costs Worksheet

EXPENSES (PERIODIC) ?		
MONTH	DESCRIPTION/CATEGORY	AMOUNT
February	Property Taxes NEED <i>Housing > Taxes</i>	\$2,000
November	Fall vacation WANT <i>Entertainment > Travel</i>	\$400
December	Family Christmas gifts WANT <i>Miscellaneous > Gifts</i>	\$800
ADD NEW		
Total Periodic Expenses		\$3,200

As mentioned earlier in the book, **Hidden Costs** are a vital part of monthly budgeting and should always be accounted for. What makes them so important is that often times we forget about these costs and resort to credit cards, money from friends and family, or even skip payments on other bills to meet these needs.

Below you can list the hidden costs that pertain to your household and determine how much money should be put aside each month to ensure that these expenses are covered. Some examples that should be included are: gifts and holidays, car tags and taxes, back to school expenses, hobbies, leisure activities, vacations, and some types of insurance.

Hidden Costs

Yearly Total \$\$

Example: Car Tags and Taxes

\$375

Total Cost for the Year

Divide total by 12

÷ 12

Monthly Set Aside

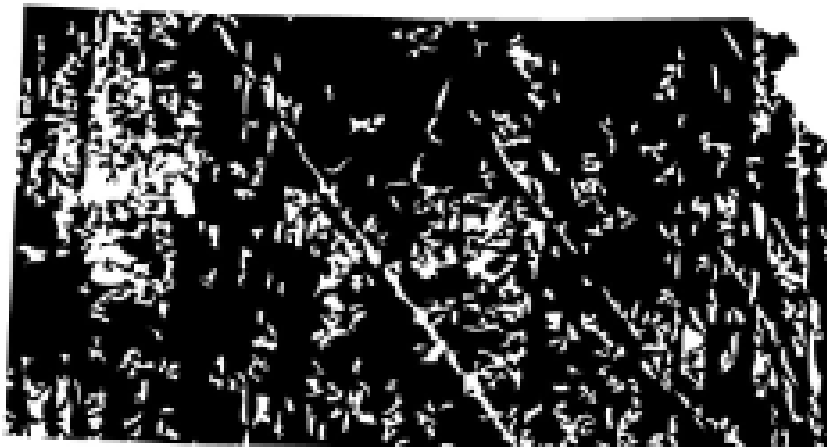
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Find a credit union near you!

Ready to keep going? Let a local credit union help you! Credit unions are for people, not for profit. As a member of a credit union, you are also an owner. It's no surprise then that credit unions exist to serve their members.

We make collaborative banking successful for half a million Kansans. We are Kansas credit unions. Join us!

To learn more and find a credit union near you visit www.kcua.org.



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