Hanson Insurance of Ohio

Credit Education Program©

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Instructions: After you complete the free credit class click finished. It will take you to a contacts page that you will need to fill out and submit. you will then receive a test from (Troy Daniels take and complete the test. send it back to Troy Daniels by emailing it to tdaniels@swaplease.com. he will grade your test and email you the score. you must score 70% or higher to get co-sign.

Part I: Credit

What is credit?

Credit was established to determine if a borrower is responsible to repay a loan. Prior to credit scoring lenders would assess the prospective borrower based on factors such as payment history, word of mouth, and home visits. Those assessments have evolved into data analysis known as credit scores.

In the earlier days, credit was based on character. A representative would visit stores to inquire about a customers payment history. Character-based decision making was part of the process. If a banker did not like your demeanor or attitude they were able to decline credit. Credit evaluation began to evolve as lenders developed a scoring system, however, human emotion and judgment was still part of the process. As we are aware, it is very difficult for humans to truly make a decision without bias. Therefore, something needed to change.

In the 1950's Bill Fair, created an automated scoring system. It took several revisions before it was officially the system considered today known as the FICO Score. FICO scores range between 300 and 850. In general, scores above 650 indicate a very good credit history. In contrast, individuals with scores below 620 often find it difficult to obtain financing at favorable rates. To determine creditworthiness, lenders take a borrower's FICO score into account but also consider other details such as income, how long the borrower has been at his job and type of credit requested.

In 1970, the Fair Reporting Credit Act was established. This system became regulated by the government on what information would be collected, what could be reported, and for how long and how consumers could obtain their report.

Why Do I need good credit?

Even if you don't plan on ever taking out a loan or getting a credit card, you might find that not having any credit will put you at a disadvantage compared to those who have good/excellent credit. For example, if you're looking to get an apartment, many landlords will check your credit in order to find out whether you're financially responsible or not. Another example would be when looking for a job. Some employers will check your credit to find out more about you.

- **Income opportunities.** When an individual has good credit they can utilize their credit to generate income. One example of this is the availability to purchase a multi-family home where there are tenants that will pay a monthly and therefore if the individual resides in one of the units and has families in the other units, the individual lives in the unit for free and the renters pay the mortgage.

- **Independence.** Good credit advances an individual independence. One example of this is when an individual is not satisfied with their current employment situation, having credit can allow them to leave and look for other opportunities or start their own business. An individual with good credit can leverage their options, therefore, granting independence.

- **Lower interest rates on credit cards and loans**. The interest rate is one of the costs you pay for borrowing money and, often, the interest rate you get is directly tied to your credit score. If you have a good credit score, you'll almost always qualify for the best interest rates and you'll pay lower finance charges on credit card balances and loans. The less money you pay on interest, the more you have for everything else including repaying your balance.

- **More negotiating power**. A good credit score gives you leverage to negotiate a lower interest rate on your credit card or a new loan. If you need more bargaining power, you can refer to great offers you've received from other companies based on your credit score. However, if you have a low credit score, creditors typically won't budge on loan terms and you may not have the freedom to shop around.

- **Avoid security deposits.** These deposits are sometimes $100 to $200 and a huge inconvenience when you're relocating. You may not be planning to move soon, but a natural disaster or other unforeseen circumstance could change your plans. A good credit score means you won't have to pay a security deposit when you establish utility service in your name or to transfer service to another location.

- **Lower car insurance rates.** Add auto insurers to the list of companies that use a bad credit score against you. Insurance companies say that people with bad credit tend to file more claims and these people are penalized with a higher insurance premium. With a good credit score, you'll pay less for insurance than similar applicants with lower credit scores.

How do I get credit?

Building credit from scratch is like the chicken-and-egg conundrum: You need good credit to qualify for many of the best credit cards, but how can you establish credit without a credit card? There are several ways that you can build credit. Let's look at four options;

1. **Build credit with a credit card.** If you're just starting out and building your credit from scratch, consider applying for a secured credit card designed for people with little or no credit. We recommend starting with one of these entry-level credit cards, which generally

don't require a long or robust credit history for approval. Here's a breakdown of the various types you may want to consider:

- Secured credit cards require a cash deposit that serves as collateral if you miss a payment. If you can, find a card that doesn't charge an annual fee. In addition, make sure the credit card company reports to all three major credit bureaus, which can help you build or rebuild credit with responsible use.

- Store credit cards not only help consumers save money at their favorite stores, but they may also give those with little or no credit a chance to prove they can handle money responsibly. Beware of the high-interest rates these cards may charge if you carry a balance.

2. **Build credit with help from a friend or family.** A close friend or family member might be willing to lend you a hand by making you an authorized user on one of their credit cards, or co-signing a loan with you.

    - Authorized user. If your family or friend make you an authorized user on their rewards credit card, you may both benefit. You will have a chance to build your credit, while they may rack up points or cash back on every dollar you spend. Be aware that some credit cards charge an annual fee for authorized users. The downside (for your family member or friend, at least) is that they'll be responsible for repaying the money you spend if you don't. In addition, if that causes them to miss a payment or rack up a lot of debt, it could hurt both of your credit scores.
    - Co-signer. Whether you're applying for a credit card, loan or buying your first car, you might consider obtaining a co-signer, which may increase your chance of qualifying if they have good credit. Unlike the case with an authorized user, you'll both be on the hook for repaying the loan. If you're under 21, according to the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009, you either have an adult co-signer or show that you make enough money on your own to repay any money you spend on your credit cards.

3. **Building credit with loans.** If you do not want to get a credit card, consider the following type of loans.
    - Auto loans. Buying a car is another way to build credit if you make on-time payments on your auto loan. Keep in mind, if you pay cash, you may save money on interest, but it won't help your credit. This is one way even high school students may be able to jumpstart this credit history. Of course, it doesn't make sense to buy a car solely for the sake of building your credit, so make sure it's a necessary purchase before asking the dealer to hand over those keys.

    - Mortgages. Homeowners can build credit by making on-time mortgage payments.

    - Rent. In some cases, renters may also build credit by making on-time payments. If your landlord doesn't report your positive payment history to the credit reporting agencies, check out services like RentTrack and PayYourRent. You can also ask your utility company to report your on-time payments, too.

- Cellphone payments and "alternative data". Some lenders are looking at using alternative forms of data when assessing your creditworthiness (such as your rent, cable TV, and cellphone payments). The CFPB is now looking at the risks and benefits of using alternative data sources in making lending decisions.

- Personal loans. Personal loans and peer-to-peer loans may help low-income customers build credit. However, they oftentimes carry high-interest rates, particularly for customers with bad credit or no credit.

- Secured loans. A secured loan, also known as a credit-builder loan, works like a secured credit card. You pay a deposit upfront, which is used as collateral if you default on your payments.

4. **Build credit responsibly**. If you're just beginning your credit journey, you may have more credit-building options than you think. Getting approved for a credit card is only the first step. Here are a few recommendations to keep in mind as you begin your credit journey:

    - Don't pay interest. Contrary to popular belief, you don't need to carry a balance to build credit. So consider paying off your entire balance each month to avoid interest charges.
    - Don't miss a payment. Late payments can stay on your credit reports for years and wreck your credit. So do your best to make each payment on time, even if you can only afford the minimum payment.
    - Don't spend too much. While you might be excited about breaking in your new credit card, try not to use more than 30 percent of your available credit. That means if you have a $1,000 credit limit, try not to spend more than $300. Keeping your credit utilization rate low can help improve your overall credit health.

Unfortunately, it may be easier to damage your credit than to fix it. So look at this new beginning as an opportunity to form good habits and start your credit history off right.

Once I got good credit how do I keep it?

Once you get credit — like a home loan or a credit card — the most important thing is to keep control of it, so you can achieve your financial goals without getting too far into debt.

1. Manage Your Credit. Here are some tips for managing your credit:

- Keep track of your spending: Keep track of the checks you've written, debit and credit card transactions, and ATM card usage. Review your monthly statements when they arrive, and report any possible discrepancies immediately.
- Don't exceed your credit limit on lines of credit and credit cards: Your available credit is how much credit you have left on a line of credit or credit card; it is your credit limit minus your outstanding balance. Be careful to keep your spending below this amount. Following the "20/10 Rule," it is a good practice not to let your credit card debt exceed more than 20% of your total yearly income after taxes. And each month, don't have more than 10% of your monthly take-home pay in credit card payments.
- Have an emergency fund: Keep at least a 15% cushion of available credit in case of emergency. Or better yet, keep an emergency savings fund of three to six months' living expenses in a liquid, interest-earning account. That way, if you lose your job or have a big unexpected expense, you don't have to borrow more than you're comfortable repaying.
- Pay what you owe: Always pay at least your minimum monthly payment on time every month. By paying more than the minimum – or better yet the full balance each month, you will reduce your finance charges. Be sure not to skip any payments.

2. Make timely payments. Timely payment is one of the best ways to establish yourself as a good credit risk to future lenders.

    - Be organized. Put all your bills in one place so you don't lose them or forget about them. Keep a list of the bills you have due, and if it will make it easier for you to remember to pay them, make them due on the same day each month. (Contact your lender to see if you can change your payment due date.)
    - Pay attention to the payment due dates. Mail your payment — or schedule an online payment through Bill Pay — at least a week before the due date.
    - Sign up for automatic payments. Using automatic loan payments from your checking account is a simple, convenient way to regularly make your payments. Be sure to schedule them according to your payment schedule to ensure you have sufficient funds for the payment when it is drafted.
    - Keep your contact information current. If you're moving, remember to fill out the change of address form on your statement or update it online to ensure that your statement goes to your new address.

3. Stay in touch with your creditors. Contact your lenders immediately if you fall behind on your payments. Most creditors are willing to set up alternative payment options, especially if you inform them right away from your situation.
4. Avoid applying for new credit whenever possible. New credit applications account for 10 percent of your score. Each time you apply for credit that prompts a hard inquiry into

your report, your score will take a hit. Unless it's absolutely necessary, don't apply for new credit cards or loans if you want to keep your score up.

5. Keep an eye on your credit report and report errors. Errors on your credit report are more common than you might think. Luckily, you can keep an eye on them by taking advantage of the free yearly credit reports you're entitled to from TransUnion, Experian, and Equifax. When you get the reports, go over them carefully to look for errors, and get on the horn right away to dispute ones you find.

Is the system rigged?

The dirty secret of American life is that it's expensive to be poor. What little money people are able to save gets eaten away by the surging costs of bare necessities, annual credit card fees, or penalties for not maintaining minimum balances in accounts. Ideally, you shouldn't then rely on consumer credit to make ends meet. You should never use borrowed money to buy something that's going to lose value, either. But life doesn't work that way. People are, definitively, working harder for less. Most Americans can't, for example, pay for a new car in cash upfront, so they pay to borrow money that loses value the second their foot hits the gas pedal. Meanwhile, reports the Department of Labor, the productivity of non-farm workers in the U.S. jumped 2.5% in the second quarter while wages barely budged. Today, those people might have actually, for the first time in a long time, found out some good news. Fair Isaac—the manufacturer of the software that Equifax, Experian, and Transunion use to issue credit scores to consumers—has loosened its standards.

Didn't pay your bills in time a few years ago? Are those debts all resolved now? That won't affect your credit score as much as it did in the past. Even if this doesn't mean more credit for everybody, it could definitely help borrowers at the margins. To some, this means that borrowers on shaky financial footing will have more access to credit that could cause trouble for them later on. There's a flip side, too: The easing of scores could keep people on the shaky financial ground from having to pay higher interest rates and bank fees for the credit they already have, and that could be a real boon. But there's an underreported side effect to this, and it may be the most important part of the story: The move also exposes some ethical problems with the credit scoring process. The FICO score methodology is the intellectual property of Fair Isaac—a public, for-profit company—and it is used by three other public, for-profit companies. Banks and rating agencies use the FICO score to determine which customers get loans and what they'll have to pay to access their lines of credit. After studying the issue, FICO's actuaries have determined that certain debts in collection like unpaid medical bills and consumer debts do not matter so much if other debts have been paid. Lowering the weighting given to these issues could boost some consumer's scores by as many as 25 points. (The max is 850.)

Consumers, themselves, otherwise have very little input into what their score is and how it's calculated. Companies and debt collection agencies report to the rating agencies that debts are owed but the scoring companies make no effort to get the consumer's side of the story. If Fair Isaac has found, after all these years, that certain debts don't tell us very much about a consumer's ability and willingness to pay the monthly credit card or mortgage bills—it's now fair to wonder about the legitimacy of some of these bills.

In fact, there has to be an easier way to check on illegitimate bill collection, especially if access to credit will be easier to attain. Medical bills, which are expressly more likely to be forgiven in this new system, are a good example. These often stem from an insurance company and a medical provider disagreeing about how much, say, a procedure should cost. The insurance company pays according to its schedule and, if there's anything left over, the medical provider bills the patient directly. The patient may be under the impression that the bill had already been paid. Sometimes, because of the complex interplay between insurance companies, large hospitals, and patients, mistakes are made and patients are billed for things that the insurance company has actually paid for. There is so much room for misunderstanding in medical billing that a lender can never really look at a bill and say the borrower wasn't willing or able to pay it. It's simply too easy for a company to claim that a consumer owes them money. All that company has to do is present the customer with a bill. The existence of an invoice doesn't signify the legitimacy of a debt, but collections agencies are routinely employed to pursue debts of disputed validity anyway. Companies large and small make mistakes, but sometimes it's even more nefarious than that. In July, the Federal Trade Commission accused T-Mobile of enriching itself by hundreds of millions of dollars by cramming their customer's bills with phony charges for premium text messaging services and the like. A consumer who refused to pay such charges could well have a collections agency sicced upon them, but this would tell a potential lender nothing except that the consumer in question doesn't just send electronic payments to anyone who asks. The system is vulnerable to consistent, credit-shattering mistakes. The entity who feels the pain is never the insurance company or the hospital or the cell phone provider. It is always the borrower.

Part II: Credit and Debit

Consumer Credit

Consumer credit is a way for people who spend money on products to get an advance on the money required to pay for the object. The most common example of consumer credit is a person using a credit card. He uses the credit card to pay for goods and services, then he repays the credit card company at a future date. They are three types of consumer credit.

- **Noninstallment Credit.** Noninstallment credit is either secured or unsecured, depending on the company offering the credit. This credit does not have monthly payments of a set figure but instead is due all at once in a lump sum payment of the full amount owed. Noninstallment credit tends to be due in a short period of time, such as in a month.

- **Installment closed-end credit.** Installment closed-end credit allows the consumer to receive a certain amount of credit to purchase one item or a few goods. One type of installment closed-end credit is a car loan. The car company offers the consumer credit to buy the car. The credit does not extend beyond the sales price of the car. In addition, the person pays the credit in installments over a period of time instead of paying it back in one lump sum.

- **Revolving open-end credit.** Revolving open-end credit is the type of credit a consumer typically finds with a credit card. The consumer has a specified amount of credit she can use or not use at her leisure. Then, the consumer must pay off part of the credit she uses at the end of a period, normally a month. The credit does not close unless the company offering the credit closes the account. Since it usually does not close, this makes the credit revolving.

Understanding credit scores and reports.

It's important to review your credit periodically. Your credit report contains a lot of information, and it can be confusing to navigate. Here's how to decode and understand your report.

For a number of reasons, experts recommend checking your credit report once a year. Because your credit is a collection of your debt history, it can affect your loan interest rates and ability to open financial accounts. An annual review helps ensure your report is up-to-date and accurate. Also, if you're a victim of identity theft, your report might contain errors. Overall, reviewing your credit keeps you aware of your financial situation.

You might see a handful of sections on your report, but most of the information is grouped into four main categories: personal information, public record information, creditor information and credit inquiries.

Personal Information. This is pretty self-explanatory, but this section generally includes:

- Your name and aliases
- Social security number
- Date of birth
- Employment data
- Current address
- Previous address
- Public Record Information

If you have any open legal issues related to your financial situation, they will be included in this section. These records might be:

- Bankruptcies
- Liens
- Judgments
- Wage garnishments

Creditor Information. This is the meat of your report. All of your existing lines of credit are included in this section. If you have had any credit turned over to a collection agency, that will be included, as well. Among some basic information, each account section tells you:

- The status of the account: Current/open, closed, charged-off (sent to collections)
- The responsibility of the account: Joint or individual
- Your account balance
- Your most recent payment
- Past due information, if applicable
- Your credit limit

Generally, your adverse accounts and good accounts will be split:

- Adverse accounts, potentially negative items. These are the accounts that hurt your credit. If you have an account in this section, you might have made late payments, the balance might be outstanding, or the account may have been sent to a collection agency.

- Accounts in good standing, satisfactory accounts. These accounts have been paid in full and on time.
- Credit Inquiries. This section includes individuals or businesses who have pulled and reviewed your credit report. It might include a bank at which you opened an account, for example. Or a mortgage lender, if you're applying for a home loan. there are two types of inquiries.
    - Hard Inquiries: Made by lenders when you have applied for a loan or line of credit. If too many are made within a certain time frame, this can count against your credit score.
    - Soft Inquiries: Made when you check out your own credit report or when a marketing agency "pre-approves" you for a line of credit.

How Your Fico Score is Calculated

Your credit score is based on five categories. Here is the breakdown:

1. Payment history (35%): Payment history reflects whether you've paid past accounts on time. So if you're good about making payments on time, your credit score will increase. ' An overall good credit picture can outweigh one or two instances of late credit card payments."
2. Amounts owed (30%): Lenders what to know how much you owe. If you are close to reaching your credit limit for an account, ("maxing out"), this may negatively affect your credit score, the site says.
3. Length of credit history (15%): A longer credit history will increase your FICO score, according to MyFico.com. FICO also takes into account how long you have been actively using those accounts.
4. Types of credit (10%): Your score considers your mix of credit cards, installment loans, retail accounts, mortgage loans and finance company accounts. It also looks at the number of accounts you have open. In addition, closing an account doesn't make it go away; it will still show up on your report.
5. New credit (10%): Inquiries into new lines of credit can lower your score.

Length of Time of Accounts on Credit Report

In many ways, a credit report is a lot like a living thing: It grows and strengthens over time, and when something bad happens, it will eventually heal. The duration of that healing process depends on the severity of the damage.

Most negative information will remain on your credit reports for seven years with the one major exception being bankruptcies, which can stay on your credit reports for ten years. If you make a mistake or run into financial obstacles that result in negative items on your credit report, those derogatory marks will remain there for years. The good news is they will carry less weight in credit scoring formulas as they get older.

Let’s take the dreaded credit score killer bankruptcy as an example. According to a study from FICO, a person with an average credit score of 680 could expect said score to fall around 130 to 150 points once a bankruptcy gets posted to their credit report. As we mentioned earlier, most bankruptcies can remain on credit reports for up to ten years (more on this in a bit). However, so long as that person doesn’t have any new negative information hit their credit file, they can expect to be back to that 680 in roughly five years, FICO says.

In other words (and this extends beyond bankruptcy), assuming you start instituting healthy credit habits, like making on-time loan payments and keeping low debt levels, your score won’t bear the brunt of a misstep for the entire time an item is on your credit reports.

Positive information can stay on indefinitely; however, most closed accounts that were paid as agreed “age off” (as it’s known in the industry) of your credit reports after 10 years.

How to improve your score

It's important to note that repairing bad credit is a bit like losing weight: It takes time and there is no quick way to fix a credit score. In fact, out of all of the ways to improve a credit score, quick-fix efforts are the most likely to backfire, so beware of any advice that claims to improve your credit score fast. The best advice for rebuilding credit is to manage it responsibly over time. If you haven't done that, then you need to repair your credit history before you see credit score improvement.

- **Check Your Credit Report.** Credit score repair begins with your credit report. If you haven't already, request a free copy of your credit report and check it for errors. Your credit report contains the data used to calculate your credit score and it may contain errors. In particular, check to make sure that there are no late payments incorrectly listed for any of your accounts and that the amounts owed for each of your open accounts are correct. If you find errors on any of your reports, dispute them with the credit bureau.
- **Setup Payment Reminders**. Making your credit payments on time is one of the biggest contributing factors to your credit scores. Some banks offer payment reminders through their online banking portals that can send you an email or text message reminding you when a payment is due. You could also consider enrolling in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account, but this only makes the minimum payment on your credit cards and does not help instill a sense of money management.
- **Reduce the Amount of Debt You Owe**. This is easier said than done, but reducing the amount that you owe is going to be a far more satisfying achievement than improving your credit score. The first thing you need to do is stop using your credit cards. Use your credit report to make a list of all of your accounts and then go online or check recent statements to determine how much you owe on each account and what interest rate they are charging you. Come up with a payment plan that puts most of your available budget

for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.

Amounts owed accounts. This category contributes 30% to a FICO Score's calculation and can be easier to clean up than payment history, but that requires financial discipline and understanding the tips below.

- Keep balances low on credit cards and other "revolving credit". High outstanding debt can affect a credit score.
- Pay off debt rather than moving it around. The most effective way to improve your credit scores in this area is by paying down your revolving (credit cards) debt. In fact, owing the same amount but having fewer open accounts may lower your scores.
- Don't close unused credit cards as a short-term strategy to raise your scores.
- Don't open a number of new credit cards that you don't need, just to increase your available credit. This approach could backfire and actually lower your credit scores.

New Credit Tips

- Do your rate shopping for a given loan within a focused period of time. FICO Scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.
- Note that it is OK to request and check your own credit report. This won't affect a score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.
- If you have been managing credit for a short time, don't open a lot of new accounts too rapidly. New accounts will lower your average account age, which will have a larger effect on your scores if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

Understanding the real cost of borrowing money

Borrowing money is convenient because it means we can buy what we want, when we want it, without having to wait to save up the full amount. However, whenever you borrow to buy a house, a car or even a television, you need to think about the true cost of that item, and that goes well beyond the sticker price.

There are so many great new things you want for your home when you go to a department store, that many businesses will now offer in-store finance options, so you can take your purchases home on the spot, and pay them back over time.

In-store finance is one of the highest interest forms of borrowing, so the true cost of borrowing money to purchase a $3,000 television, for example, can be:

- A $3,000 purchase price.
- A 19% interest rate.
- A loan term of 4 years.
- Your monthly repayments are $89.70.
- Over the loan, you will have paid over $1,305 in interest.
- This means the real cost of your television was over $4,300.

Understanding how to use good credit and effectively manage debt to recognize the warning signs of impending debt problems.

Sign-up bonuses. Chances are if you have a good credit history, you've heard from credit card companies wanting your business. One of the most rewarding things you can do is to take advantage of the huge sign-up bonuses out there on credit cards. Some credit card companies offer thousands of points for customers with the best credit — points that can be traded in for cash or even round-trip flights abroad.

Low-interest rates. Whether you have average credit or excellent credit, you'll likely be able to purchase a car or house. However, your credit score can mean the difference in either saving or spending thousands of dollars over the life of the loan you take out for that car or home. Higher credit scores typically mean lower interest rates.

Have more negotiating power. Think lower APRs, longer repayment periods on loans and better chances of approval for financial products.

Ask for a discount on your home loan. Because your good credit score indicates that you have steady finances, you may be able to negotiate a lower rate on your home loan or even avoid paying certain fees. Discounts generally won't work for a credit card or personal loan.

Get a higher credit limit. Creditors will likely lend you more money because of your proven creditworthiness. On the other hand, if you have a poor credit score, your credit limits will typically be low with high-interest rates.

Consider a peer-to-peer loan. Peer-to-peer is a relatively new type of lending where your interest rate is based on your credit score. The better your credit score, the lower your rate — which can be as low as 4% for an unsecured personal loan.

Part III: Personal Financial Responsibility and Decision Making

Personal finance refers to how you manage your money, including your income, expenses, and savings. When you put an effort into managing your personal finances, you have a better grasp on where your money is going and what changes you can make to meet your future financial goals.

Setting Your Goals. Personal finance is, well, personal. Though certain aspects of personal finance are generally applicable to everyone's financial life, you choose which aspects are most important to you. Kiplinger recommends choosing financial goals that you're excited about. For example, just about everyone needs to include the costs of food, clothing, and shelter in their budgeting process. However, where you live, whether you want to eat out regularly or save money by eating in, and what types of clothes you buy are up to you. In addition, you might prioritize taking a family vacation every year, while someone else might view saving for tuition at a private college as a more important priority.

Creating a Personal Financial Plan. You're much less likely to attain your financial goals if you don't make a plan in advance. Plan how you're going to spend or save your income. If you've been tracking your spending for a few months, you can estimate how much you spend per month, on average. If not, use your best guess and adjust as needed in the future. When the money is earmarked for a specific purpose, you're less likely to fall off track by making unnecessary purchases.

Financial Goals. We all have dreams for the future, and many of those dreams require money to make them come true. Perhaps you want to buy a place you can call home, travel to Europe with your dearest friend, or start saving to send your children to college. Reaching those milestones starts with setting clear financial goals.

- Define your goal clearly. A goal is the first step that sets you on a path. It should be inspirational and based on your own values and interests. What matters most to you? What are you willing to sacrifice in order to make it happen sooner? What can help you stay the course?

- A realistic goal should also be Achievable. Use your income (and expected income) to set your goals for the future. Don't count on winning the lottery to achieve what you want.
- Specific. "To get richer" is not a specific or clear goal, but "to pay for 50% of my child's tuition at a public university" is.

- Measurable. Set a deadline for your goals, such as the age at which you want to retire, or the timeline for buying a new house.
- Identify your time frame. Categorizing your objectives by short-term, medium-term, and long-term financial goals provides focus to your plan. It also helps you match your goals with the appropriate investment resources.

Short-term goals are those you hope to achieve within the next one to three years, like taking a special vacation or making a down payment on a new car. For short-term goals, you'll choose investments with short-term maturity dates or savings vehicles that protect you from losing value. Make sure you can access your funds any time without penalties.

Consider:

- A savings account
- Federal Deposit Insurance Corporation (FDIC)-insured money market accounts
- U.S. savings bonds

Medium-term goals are three to five years away. Examples of medium-term goals include a down payment on a new house or funds to renovate your home. With medium-term investments or savings, you should still make sure you have access to your funds when you need them and without a penalty.

Consider:

- FDIC-insured Certificates of Deposit (CDs)
- Investments with low-risk ratings (but only if you're willing to delay your goal should the markets and value of your investments dip)

Long-term goals are more than seven years away. Some of life's biggest goals, including retirement, fall into this category. For your long-term goals, you may want to consider riskier investments, which will potentially earn you more money. As your goal nears, increase the percentage of more conservative investments to reduce risk and ensure your financial stability.

Monitor your progress. Check in frequently on your money to make sure your goals are on track. At each check-in, ask:

- Am I earning as much money as I expected with my investments and savings?
- Am I contributing enough? How often should you do these check-ins?

If you're working with an investment professional, ask them how frequently you should meet to discuss your progress, and if you can check progress at other times on your own, too. If you're investing and saving without a professional, designate time to look at your account between now and when you need to reach your goal. Review your progress on a monthly basis for short-term objectives, and quarterly and annually for longer-term goals.

Saving and investing with a goal delivers its own reward: the purchase or life change that you've dreamt of and worked to achieve.

Part IV: Planning and Money Management

Create a personal balance sheet.

The function of a balance sheet is to present a snapshot of your financial position at any given time. The key here is a snapshot. Where the Income Statement presents your net result over a given period (month, quarter, year), the balance only shows you a single moment in time.

As probably the most well-known of all the financial statements, the name balance sheet already gives you some indication as to what the statement looks like. A balance sheet, unsurprisingly, has to balance. It shows you:

Your Assets (what you have spent money on)
Your Liabilities (how you obtained said money)
Your Net worth (Assets – Liabilities)

Budgeting. Establishing a budget is an important part of managing your personal finances. A budget helps you keep track of your spending patterns and plan how you are going to spend your income each month. Start by calculating your total monthly income, then create a spreadsheet that lists all of your expenses each month. This will help you see where your money is going, where you can save and where you can spend a little extra each month.

After you've successfully created a basic budget, you'll have a much better understanding of where your money goes and where you can possibly trim expenses. For many people, this is as simple as cutting back on some of the little things that can add up. For others, it may mean taking a closer look at spending to make deeper cuts in order to create a wider gap between monthly inflows and outflows.

For example, some of the smaller variable expenses you may consider eliminating include unnecessary subscription services or recurring memberships you don't use. Bigger cuts could result from refinancing your mortgage or wiping out an entire spending category, such as dining out.

Consumer Protection

Consumer protection laws are a form of government regulation that exists at both the federal and state level. There are several government organizations that promote consumer protection such as the Federal Trade Commission which was created in 1914. Their mission is three-fold:

- To prevent business practices that are anti-competitive or deceptive or unfair to consumers;
- To enhance informed consumer choice and public understanding of the competitive process, and;
- To accomplish this without unduly burdening legitimate business activity.
- The Better Business Bureau is another organization that works to protect the consumer.

Bankruptcy

Facing bankruptcy is obviously not a good financial position to be in. However, should you find yourself in this unfortunate situation, there are three primary forms of bankruptcy under Title 11 of the U.S. Bankruptcy Code that can give an individual, married couple, or a business various types of debt relief.

However, do keep in mind that a bankruptcy filing can remain part of a credit record for up to ten years which can limit creditworthiness for an extended period of time. The three types of bankruptcy filings are:

> **Chapter 7.** Provides for the total liquidation of an individual's or business' assets and liabilities. The debtor is not subject to salary/wage garnishment after filing Chapter 7. State laws vary, but the certain property is excluded from liquidation in a Chapter 7 bankruptcy, such as a residence. However, some debts cannot be discharged, such as alimony, child support, and borrowed funds used to commit criminal activity. Remember, exclusions and exceptions vary by state.
>
> **Chapter 13**. Similar to Chapter 11, Chapter 13 prohibits creditors from foreclosing on an individual's or married couple's debt while allowing the reorganization of personal debt. There are requirements for income relative to debt and limitations on total debt in order to pursue a Chapter 13 filing.
>
> **Chapter 11**. Allows a business or self-employed individual to continue to operate without fear of foreclosure while debts are reorganized under the review of the bankruptcy court. Unlike Chapter 13, the reorganization is subject to approval by a substantive majority of the creditors.

Fair Credit Reporting Laws

Congress has passed several laws that attempt to protect consumers when they obtain or attempt to obtain credit. These are called Fair Credit Reporting Laws. Remember, credit and your credit report are critically important and can be used in a number of ways such as an application for credit, insurance applications, and employment applications. A few of the more relevant laws are:

Equal Credit Opportunity Act. The Equal Credit Opportunity Act makes it unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction, on the basis of race, color, religion, national origin, sex, marital status, or age.

Fair Credit Reporting Act (1971), Consumer Credit Reporting Reform Act (1996) and the Fair and Accurate Credit Transaction Act of 200- These Acts provide consumers protection from harm due to incorrect credit report information and from invasion of privacy in the collection and dissemination of information, provides consumers with the right to know who is gathering information about them and the nature of the information gathered, and provides consumers with an opportunity to challenge and correct the information that has been collected about them.

Fair Credit and Charge Card Disclosure Act. This act requires full disclosure about the terms of the credit card offer, including annual fees, interest rates, and late fees.

Truth in Lending Act. This act requires lenders to provide written disclosure to borrowers about the terms and cost of consumer loans in a standardized the manner. The disclosure includes the costs associated with borrowing, how they are calculated, and the Annual Percentage Rate (APR) they are paying for the loan.

Home Ownership and Equity Protection Act. This act places restrictions on home loans to curtail predatory lending.

Consumer Leasing Act. The Consumer Leasing Act requires a lessor to provide a clear disclosure of important terms used in a lease agreement and a list of all costs charged for a lease.

Electronic Fund Transfer Act. This act minimizes the consumer's liability if someone uses his or her ATM or debit card without permission.

Privacy Policies. The Federal Trade Commission focuses on many areas in regards to privacy policies. The key areas the FTC addresses are:

Unfairness and Deception. Under Section 5 of the FTC Act, which prohibits unfair or deceptive practices, the FTC enforces the promises made to consumers by companies regarding consumer privacy and the precautions they take to secure personal information of their customers.

Financial Privacy. By way of the Gramm-Leach-Billey Act (GLB Act), the FTC works to protect consumers' personal information held by financial institutions.

Identity Theft Protection. The Identity Theft and Assumption Deterrence Act (1998) for the first time made identity theft a federal crime and give consumers specific rights when they become (or believe they have become) the victim of identity theft. Have you ever been a victim of unfair business conduct or fraud? Be sure that you understand your consumer rights and don't be afraid to seek help or compensation if you feel that you have been treated unfairly.

Financial Institutions

American banks offer a smorgasbord of investment options. From commercial and savings banks to credit unions and trust companies, consumers have a dizzying array of choices for saving and borrowing money.

Lending institutions vary in structure and purpose. Some, like the large national banks, lure customers with menus that allow the customer to not only deposit savings and write checks, but also invest in stocks and borrow for auto loans, mortgages, and personal and small business loans.

Smaller institutions often promote personal services and higher yielding investment products to attract business, but also offer a variety of lending options. Almost all are backed by the Federal Deposit Insurance Corporation (FDIC), created by Congress in 1933 to protect consumers and their deposits.

- **Commercial Banks.** Commercial banks are for-profit businesses that take deposits and make loans, paying interest on the deposits and lending money at higher rates to consumers and businesses.

  Shareholders typically own banks and choose their boards of directors. Banks operate under charters and report to both state and federal regulators.

  National banks, which have the word "National" or initials "N.A." in their names, report to the federal Office of the Comptroller of the Currency. State banks are chartered, regulated and supervised by state banking divisions. In addition, the FDIC regulates state banks that don't belong to the Federal Reserve System and insures deposits up to $250,000.

  Commercial banks offer a variety of services. Some have brokerage divisions, allowing customers to invest in stocks. Others operate trust companies, or divisions, that assist in managing personal or business trusts. The banks charge fees for these services, so customers should compare several institutions to learn what each offers and at what cost.

- **Credit Unions.** Credit unions are different from traditional banks in that they are non-profit, cooperatively-owned institutions that take deposits and make loans.

  Account holders are considered members of the credit union and deposits are seen as "buying shares" in the credit union. Customers must meet specific credit union qualification criteria to join, often based on affiliation with a business, union or group.

These members are paid dividends on the credit unions' earnings, much as shareholders are paid dividends on a company's stock earnings.

Because credit unions generally have fewer customers and fewer employees than banks, the interpersonal connections between the two are often stronger than those in banks. And credit unions often offer higher interest rates to depositors and lower loan rates to borrowers than their commercial counterparts.

Credit unions can be both federally and locally chartered and are federally insured. They are exempt from federal taxes and place various restrictions on membership. Though members once were required to share membership through work or religion, many credit unions now are open to people who live or work in geographical areas.

Congress created the National Credit Union Administration to charter, regulate and supervise federal credit unions. The NCUA also insures deposits of up to $250,000 in both federal and state credit unions.

- **Online Banks.** Online banks resemble other commercial banks but lack physical branch offices. When online banking debuted as a feature of the internet age, it was touted as an alternative that offered higher deposit and lower loan rates. As mainstream banking has increasingly moved online, the rate gaps have narrowed.

  Among widely recognized online banks are Ally Bank, Bank of the Internet and Simple Bank.

  In addition to favorable rates, many online banks dispense with requirements like minimum checking balances. But for those who use ATMs frequently, costs can rise since most internet banks don't own their own machines, forcing customers to pay out-of-network charges to other banks.

Types of Accounts

- **Savings accounts.** Savings accounts are often the first accounts many people ever have. Children often open savings accounts under parental supervision to deposit gifts and allowances. Adults use savings accounts to store emergency funds or park money that they expect to need in the near term. Savings accounts typically pay interest, though in recent years returns have been negligible. In many cases, banks limit the number of withdrawals customers can make from savings accounts, and they don't link the accounts to debit cards.

- **Checking accounts.** Checking accounts are often used for basic cash-flow. They deposit wages into them and pay bills from them. Checking accounts allow customers to write paper checks and make payments online. They also usually offer debit cards, allowing customers to withdraw funds from ATMs and transact purchases. Some checking accounts pay interest, while many impose significant fees for no-nos like failing to maintain a minimum balance or writing overdrafts.

- **Money market accounts.** Money market accounts pay somewhat more interest than either savings or checking accounts. Typically, they come with substantial average balance requirements. They are a good place to deposit funds in excess of $5,000, and can often be linked to checking accounts so that money can be moved when needed.

- **Certificates of deposit**. Certificates of deposit (or CDs) pay more than other types of accounts with a caveat: They require a commitment not to touch the deposited funds for a fixed amount of time. In general, the longer the term of deposit, the more interest the CD earns. When interest rates are low or falling, this can be a significant advantage, but when rates paid on deposits are increasing, the opposite can be true. If CDs are cashed in early, all or part of the interest they earned is often forfeited. In some cases, banks might not even permit early withdrawals. Check the terms before investing.

Selecting the Right Institution

If convenience and accessibility in person and online are top priorities, a bank is the safest bet. Commercial banks also generally offer a greater range of services than other financial institutions.

The largest banks offer local branches and ATM services throughout the country and might have connections abroad for international travelers.

Credit unions, on the other hand, are smaller and may have fewer ATMs or branches. In fact, this type of a financial institution usually focuses on one geographic area, so it can be harder to access funds when outside of that area.

Customers often say credit unions offer better service than commercial banks. Credit union employees work for their members, so customers are the top priority. Commercials banks, especially the very large ones, are cutting back on branch offices, turning instead to online and telephone services. Smaller credit unions are less likely to use complex voicemail trees or use automated email than their competitors. For customers uncomfortable with the move to online banking, credit unions offer an alternative.

Credit unions often pay higher interest rates on deposits than their for-profit rivals, a benefit of returning surplus earning to the business. The not-for-profit structure can also mean lower fees and free checking without the restrictions commercial banks impose.

A big difference between for-profit banks and their credit union rivals comes in the loan department. Credit unions, which are membership organizations, often have less red tape for borrowers than commercial banks, which tend to be large and bureaucratic. And credit unions can often afford to charge less interest on loans than their profit-driven counterparts.

A savings bank can a better bet for mortgages and other real estate services as these were the category's historic specialties.

If you want to consolidate debt, banks and credit unions are equally useful. Banks may offer more options, but credit unions are often more likely to lend.

Finally, potential customers should ask themselves questions before deciding on a financial institution to use. First, honestly assess your financial needs and abilities. Are you a customer with big money to deposit, or do you spend most of your income as it comes in?

If you plan to spend most of your deposits right away and maintain a small balance, look for institutions and account types with lower balance requirements. Often this means higher fees, but those also vary.

Visit several banks' websites and compare their fee schedules. Fees and charges can pile on quickly if you don't play by the rules, so if you're likely to maintain a small balance, find a bank that accommodates that.

Conversely, if you have $100,000 to deposit and no short-term need to withdraw it, look for institutions that offer jumbo CDs. If you have more than $250,000 to park, find ones that offer insurance protection that exceeds the FDIC's.

Also consider interviewing a bank's branch manager before making a choice, and educate yourself on what banks don't tell you. A cooperative and engaged manager often has the power to negotiate lower fees and pay higher yields. Online banking can also lower fees, so study the bank's fee schedules.

Consider bundled accounts. Many banks offer special deals to customers who maintain several accounts, or who have both loans and deposits with their institutions. Look at the offerings before you decide.

And always read the fine print before you enter into contracts with banks. Banks often include language that requires disputes must be settled through arbitration instead of jury trials. That might not sound like a big deal until it is, so understand the terms.

FINISHED!

After you complete the free credit class click finished. It will take you to a contacts page that you will need to fill out and submit. You will then receive a test from Troy Daniels. Complete the test and email it back to Troy Daniels at tdaniels@swaplease.com. your test will be graded and your scores will be email back you. You must score 70% or higher to be co-signed

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