BASIC MONEY MANAGEMENT

A FINANCIAL LITERACY CLASS OFFERED BY THE TEMPO PROGRAM

TEMPO

CITY OF TALLAHASSEE

City of Tallahassee
Housing and Community Resilience

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BASIC MONEY MANAGEMENT

INTRODUCTION

"Basic Money Management" is a financial literacy course offered to Tallahassee Engaged in Meaningful Productivity for Opportunity (**TEMPO)** program participants. The course provides basic financial knowledge needed to make positive financial decisions. The course covers many topics, including predatory lending practices, work-related benefits, general banking concepts, saving for emergencies, basic investment strategies and understanding interest rate calculations. Classes are held in a low-stress environment with an adaptable work pace to ensure each participant retains the content. The goal is for participants to gain the sound financial knowledge needed to build good money habits and avoid financial mistakes that often lead to lifelong money struggles.

"Basic Money Management" targets five principles of basic finance: General Banking Practices, Budgeting, Bill Paying, Credit Utilization and Debt Management. Participants receive a "Basic Money Management" notebook at the completion of the course. This is a useful reference guide for participants as they begin their journey to financial freedom.

Statistics show the majority of U.S. workers live paycheck to paycheck. Most households have no savings and no emergency fund and lack the financial knowledge to manage debt. Young adults who complete a financial literacy course tend to begin their careers with higher salaries. They are also less likely to accumulate credit card debt and usually know the difference between wants and needs.

To help young adults learn about finances, it has been mandated by the State of Florida that all students entering high school in the 2023-2024 school year complete a financial literacy course prior to graduation (the Dorothy L. Hukill Financial Literacy Act). Florida is the seventh state in the nation to require high school students to complete a financial literacy course. Before it became state law, the City of Tallahassee's **TEMPO** program was already developing this program to ensure participants gained vital financial literacy.

After a delay due to the COVID-19 pandemic, TEMPO proudly began offering this financial literacy course in 2023. Each participant enrolled in the GED Cohort VI class will be required to complete the course, which will cover 50 financial topics, including the required material set by the new legislation.

Talgov.com/TEMPO

HOW TO ESTABLISH A BANKING RELATIONSHIP

1.1 Topics of Discussion

- Checking Account and Savings Account
- Direct Deposit and Manual Deposit
- Debit Transaction and Credit Transaction
- Debit Card
- Check Writing
- Account Balancing
- Overdraft and Non-Sufficient Funds (NSF)
- Access Funds
- Online Banking
- Identity Theft and Identity Fraud

1.2 Discussion

♦ Establishing relationships is important in all aspects of life. Establishing one with a financial institution is no exception. Gaining trust on both ends is a must. A consumer needs to trust their financial institution will be able to meet their financial needs. The financial institution needs to trust the consumer will be able to meet their financial obligations. Over time, the relationship will lead to benefits such as better interest rates, loan terms, fewer fees, added convenience and higher levels of customer service.

♦ Community banks and local credit unions are often good options for consumers.

♦ **Consider the following when choosing a financial institution:**
- Online banking features
- Convenient branch and ATM locations
- Customer service
- Availability of funds
- Fee structure
- Security of your funds
- Interest rates
- Minimum balance requirements

♦ A **checking account** is primarily used to access money for daily use and is considered a transactional account. Employers can deposit payroll checks electronically into a checking account. This account can be linked to payment apps such as Venmo, PayPal and others. It can be used to pay monthly bills, which will be discussed later in Lesson 3.

♦ A **savings account** is primarily used as a safe place to store money while paying interest on the account balance. Money can be kept in this account long-term and be used for future needs and goals. **Depositing a percentage up to 20% of net income into a savings account is a good budgeting goal.**

♦ A **direct deposit** is a deposit of money made electronically by a payer directly into a payee's bank account. The payer enters reference information to make it easy for the payee to recognize the transaction details. **Benefits of direct deposit include:**
- Convenience
- Saves valuable time
- More secure than paper checks
- Offers instant availability on funds
- Keeps money safe and protected

- A **manual deposit** is a deposit of money made physically by a consumer taking cash or checks to a bank teller or an ATM. This deposit is normally accompanied by a deposit slip and receipt. This method is not as convenient as direct deposit, and the funds may not be instantly available.
- A **debit transaction** is when money is taken from an account causing the balance to decrease. (Example: buying groceries, paying house payment, etc.)
- A **credit transaction** is when money is added to an account causing the balance to increase. (Example: payroll deposit, tax refund, etc.)
- A **debit card** is a payment card that deducts money directly from the checking account. This card can be used to buy goods and services, pay bills online and access money from an ATM. A debit card will be issued to a consumer once they open a checking account.
- **Check writing** is rapidly becoming an obsolete banking practice. However, 20% of Americans still pay their bills with checks. A check is a written, dated and signed instrument that directs a financial institution to pay a specific sum of money to the bearer. The person writing the check is known as the payor and the person to whom the check is written is known as the payee. The drawee is the financial institution on which the check is drawn. **(The course will include check writing skills on the blank check template located in the back of this notebook.)**
- **Account balancing**, also known as reconciling an account, is the process of calculating the debits and credits (deposits and withdrawals), then comparing the balance to the financial institution's balance. Consumers should monitor their account on a weekly basis. Tracking income and expense will prevent overdraft fees. Finding mistakes, sooner than later, will save time and stress. Be aware of identity theft when reviewing accounts. **(The course will include practicing account balancing skills on the check register template located in the back of this notebook.)**
- An **overdraft** is a loan provided by a consumer's financial institution that will allow the consumer to pay bills and expenses when their account reaches zero. An overdraft fee will be charged by the financial institution for each transaction that exceeds the available balance. The transaction will be covered by the financial institution as part of an overdraft protection service.
- **Non-sufficient funds (NSF)** refer to the status of a checking account that does not have enough funds to cover a transaction. An NFS fee will be charged by the financial institution for each transaction that exceeds the account's available balance. Unlike an overdraft, the financial institution doesn't cover the transaction. A consumer may also get charged an additional fee from the entity they were paying.

♦ Accessing money from an account is convenient. Ways to access money held in an account include:
  - Debit Card
  - Online Transfer
  - Cash Check
  - ATM
  - Withdrawal Slip

♦ **Online banking**, also known as internet banking, is an electronic payment system that enables consumers to conduct a wide range of financial transactions through their financial institution's website. These transactions include deposits, transfers and online bill payments.

♦ **Identity theft** is the act of stealing personal, private or financial information.

♦ **Identity fraud** is the use of this stolen information. This crime affects both the individual whose identity has been stolen and the business where the fraudulent transaction occurs.

♦ **Follow these tips to help protect yourself from identity theft:**
  - Keep mail safe
  - Review account statements
  - Check credit reports
  - Shred unneeded personal documents
  - Store needed personal documents at home
  - Be wary of unknown phone calls or emails
  - Create difficult logins and passwords
  - Use one credit card for online shopping
  - Keep computer security, virus and spyware software up to date
  - Be social media savvy

1.3 Notes

1.4 Review

Fill in the blanks with the correct financial term.

1. A ___________________ will provide services such as accessing money for daily transactions, paying bills and receiving payroll via direct deposit. A ____________________ is primarily used to hold money safely, while paying interest on the account balance.

2. A ___________________ refers to a deposit made electronically, where the funds are instantly available for use. A _________ _________ refers to a deposit made physically by the consumer.

3. A __________________ is when money is taken from an account causing the balance to decrease. A _________________ is when money is added to an account causing the balance to increase.

4. A ________________ is a payment card that deducts money directly from a checking account.

5. ___________________ is rapidly becoming an obsolete banking practice. However, 20% of Americans still pay their bills with checks.

6. ____________________ is the process of calculating an account's debits and credits then comparing the balance with the financial institution's balance.

7. An ____________ is a loan provided by the financial institution that allows a consumer to pay bills and expenses when their account reaches zero. _________________________ refers to the status of a checking account that does not have enough funds to cover a transaction.

8. A consumer can _______________ by means of debit card, ATM, cashing check, withdrawal slip, online transfer, etc.

9. _________________ is an electronic payment system that enables consumers to conduct a wide range of financial transactions through their financial institution's website.

10. ________ ______ is the act of stealing personal, private or financial information. ________ ______ is the use of this stolen information.

1.5 Financial terms used to fill in the blanks

- **Online Banking**
- **Overdraft**
- **Non-Sufficient Funds (NSF)**
- **Check Writing**
- **Direct Deposit**
- **Manual Deposit**
- **Identity Theft**
- **Identity Fraud**
- **Access Funds**
- **Account Balancing**
- **Debit Card**
- **Debit Transaction**
- **Credit Transaction**
- **Checking Account**
- **Savings Account**

HOW TO CREATE A BUDGET

2.1 Topics of Discussion

- Understanding a Paycheck Stub
- Gross Income and Net Income
- Earning Extra Money
- 50/30/20 Plan
- Ramsey Four Walls
- 401K Plan
- Roth IRA
- Savings
- Emergency Fund
- Giving

2.2 Discussion

- A personal budget is a financial plan that allocates future personal income towards expense, savings and debt repayment. A budget helps control bad spending habits by tracking monthly expenses. A budget will assist the consumer in making better financial decisions, preparing for emergencies and staying focused on long-term financial goals.

- A realistic budget begins with determining income and calculating monthly expenses. The income figure will be the amount of income left after taxes and deductions. When calculating expenses, place the items into categories. Don't record what you think you should be spending on items. The budget process can be frustrating in the beginning. Once spending habits are controlled, the consumer will appreciate having less financial stress. The percentages shown on the following table can be adjusted to fit the consumer's lifestyle.

Following is an example of budget categories and percentages of income given to each:

TYPE	DESCRIPTION	PERCENT
Housing	Mortgage/rent	25-30%
Food	Groceries, eating out	10-15%
Transportation	Car payments, gas, repair and maintenance	10%
Utilities	Electric, gas, water, sewer trash, phone and internet	5-10%
Personal	Clothing, hair/salon and home goods	5-10%
Giving	Charitable donations, tithe	5-10%
Savings	General savings and emergency fund	20%
Entertainment	Activities, gym, hobbies and vacations	5-10%
Healthcare	Copays, medications and doctor/dental visits	5-10%
Insurance	Health, car, homeowner,renter and life	10-20%
Miscellaneous	Any other monthly expense	5-10%

- ♦ Before creating a budget, the consumer will need help understanding a paycheck stub. Every paycheck will have a pay stub containing important financial information. Information included on a paycheck stub includes:
    - Gross wages
    - Employee taxes
    - Deductions
    - Employer contributions
    - Employer taxes
    - Net pay (amount of income listed on a budget)

- ♦ Gross income is the amount of income before taxes and deductions are taken out. Net income is the amount of income remaining after taxes and deductions are taken out. Net income will be used in setting a budget.

- ♦ A consumer can increase the amount of monthly net income by earning extra money. Theseearnings will be added to the net income amount recorded from regular employment. Ways to earn extra money include:
    - Taking surveys
    - Driving for Uber or Lyft
    - Delivering groceries
    - Providing car washing or detailing services
    - Delivering for Amazon
    - Delivering food
    - Babysitting or pet sitting
    - Starting a blog
    - Advertising on your car
    - Providing lawn maintenance services

- ♦ The 50/30/20 plan is a great place for beginners to start a budget process. This budgeting method divides your spending and saving into three categories: needs (50%), wants (30%) and savings (20%). This method makes it easy for consumers to see where their money is being spent.

- ♦ The budgeting process is a good financial tool for consumers to follow; however, family should always come first. If a consumer is struggling to make ends meet, they should always cover the Ramsey Four Walls first and foremost, which include food, utilities, shelter and transportation.

- A 401(k) plan is a company-sponsored retirement account that allows employees to make annual contributions. Employers may match employee contributions up to a certain percentage. The employee contributions are deducted tax free and will reduce the employee's taxable income. An employee should always take advantage of the employer match in a 401(k) plan. This is often considered to be "free money."

- A Roth IRA is an individual retirement account which allows a consumer to set aside after-tax income up to a specified dollar amount each year. Both earnings on the account and withdrawals after the age of 59 ½ are tax-free.

  Consumers should set a goal of depositing 20% of net income into savings.
  This should be the first transaction completed when receiving a paycheck. It is important to start this routine early in a budget process.

- An emergency fund is a cash reserve that is specifically set aside for unplanned expenses or financial emergencies. Most financial experts recommend a minimum amount of three months of a consumer's living expenses. This account balance is different from a checking or savings account. Many consumers keep this money in an interest-bearing account.

- Giving is a category that many people include in their budget. This category is often dependent on an individual's personal preference or religious belief. The percentage amount of this category is usually 10% of your net income.

2.3 Notes

2.4 Review

Fill in the blanks with the correct financial term.

1. Before creating a budget, the consumer may need help ___________________________________.
2. _______________ is the amount of income before taxes and deductions are taken out.

   _________________ is the amount of income after taxes and deductions are taken out.
3. A consumer can increase their monthly net income by _____________________________
4. The ___________________ plan is a great place for beginners to start a budget process
5. The _______________________include food, utilities, shelter and transportation.
6. An employee should always take advantage of the employer match in a s______________.
7. A ____________ is an individual retirement account which allows a consumer to set aside after-tax income up to a specific dollar amount each year.
8. Consumers should try to deposit 20% of their net income into ______________
9. An _____________________ is a cash reserve that is specifically set aside for unplanned expenses or financial emergencies
10. _______ is a budget category where consumers donate money to their favorite charity. Tithing is another item included in this category. The percentage of allocation is normally 10%.

2.5 Financial terms used to fill in the blanks

- **Giving**
- **Net Income**
- **Gross Income**
- **Savings**
- **Roth IRA**
- **401(k) Plan**
- **50/20/30 Rule**
- **Earning Extra Money**
- **Understanding a Paycheck Stub**
- **Emergency Fund**
- **Ramsey Four Walls**

DEVELOPING A SYSTEM TO PAY BILLS

3.1 Topics of Discussion

- Bill Payment Ledger and Bill Payment App
- Bill Dates and Payroll Dates
- Online Bill Payment
- Biller Direct Payment
- One Time Payment and Recurring Payment
- Automatic Payment
- Grace Period
- Late Fee
- 30 Days Past Due
- Billing Errors

3.2 Discussion

♦ The main goal of developing a bill payment system is to always pay on time. Developing an organized system to coordinate invoices, due dates and payment methods will help relieve financial stress, eliminate late fees and increase credit scores.

♦ There are several ways to make monthly payments. Understanding the payment options and their operating mechanics will help a consumer decide the best payment option for them.

Bill payment options include:

Checks - Checks are paper instruments that are filled out to pay for something from a checking account.

Benefits:

- Convenient once the account is set up and open
- Easy to prove payment if there is a dispute
- Funds are held in checking account until cleared
- Money is protected if check is lost or stolen

Risks:

- Fees if the check amount exceeds balance
- Must remember the due date (not automatic)
- Postage cost of mailing the payment
- Check may arrive after the due date

Automatic debit or direct debit - The consumer provides the merchant or provider their account information and a consent to debit funds. The funds will be pulled from the account automatically by the merchant or provider to make the payment. Once this payment option is set up, the consumer simply records this transaction in their ledger each month. Many merchants and providers will offer a discount to consumers who use this payment option.

Benefits:

- Convenient, saves time and is typically free
- May get lower interest rate on loans
- Easier with bills that are frequent and consistent
- Reduces chance of being late

Risks:

- May get a fee if debit is more than balance
- To stop the merchant must be called
- Forget transaction when balancing account
- May not realize if bill amount changes

Online bill-payment – The consumer provides the financial institution the billing information for each merchant and provider. Once these accounts are set up, the financial institution will send these payments for the consumer. This payment option is popular among consumers because all transactions are completed from one portal. A **biller-direct payment** is also an online payment option. This option provides ability to make your electronic payment directly to the merchant or providers secured website.

Benefits:

- Convenient and saves time
- Easier with bills that are frequent and consistent
- Choose one-time payments or recurring
- Reduces chance of being late

Risks:

- Takes time to set up and learn
- Fees if amount exceeds balance
- Set up recurring and amount changes
- No phone or computer access

Money order – A money order can be used instead of a check. A money order can be purchased to pay a business or other party.

Benefits:

- Easy to understand
- Can be mailed
- No personal banking information listed
- Funds are guaranteed

Risks:

- Inconvenient to buy money order
- Cost of buying money order and mailing
- Funds are difficult to recover if lost or stolen
- Must remember the due date (not automatic)

Credit card – A credit card allows a consumer to borrow money up to an approved credit limit. They will pay interest if they carry a balance and can expect to pay a minimum monthly payment. A consumer should strive to pay more than the minimum payment each month, to save on the interest expense.

Benefits:

- Can pay bills online and over phone
- Easy to prove payment if there is a dispute
- Can be set up to pay automatically
- Can help build credit history

Risks:

- Costs more if credit card balance is not paid in full
- Creates another bill to pay
- Creates debt by borrowing money to pay bills
- Creates bad habits if goal is to be debt free

Cash – Cash is money that a consumer has on hand.

Benefits:

- No fees
- Not incurring debt
- No risk of overdrawing account
- No personal information needed

Risks:

- Not all bill payments can be made in cash
- Inconvenient to pay bill in person
- Proof of payment unless you have receipt
- Difficult to recover if lost or stolen

♦ A bill payment ledger is a collection of account information used to organize monthly bills. The categories included on this ledger include account name, due date, payment amount, payment status, account balance and interest rate. There are electronic bill payment apps that will also store this account information, however; the consumer must input the correct information for accuracy. (In this course, participants will practice bill paying skills on the ledger template located in the back of your notebook.)

♦ A consumer will list each of their monthly bills in order by the due date. It is important that the bill due dates coincide with payroll dates. A consumer can call the merchant or provider to request a change in due date to coincide with their bill payment system.

♦ A consumer must choose one designated area in their home to store bill invoices. Many consumers use an envelope system which includes the account name and due date. Once a bill is received, either by mail or electronically, it is placed into the specified envelope.

♦ The consumer must set a designated time each month for bill paying. Many consumers pay their bills on their payroll dates, which is often bi-monthly. An organized and consistent bill paying system will help a consumer pay on time, avoid late charges and build their credit score.

♦ An electronic online payment is the most convenient way for consumers to make payments. Electronic payment options include:
- Online bill-payment - all accounts paid from one portal
- Biller-direct payment - paid through providers website
- Automatic payment – automatically paid from account

♦ An automatic payment works differently than the recurring payment feature. In a recurring payment, a consumer gives permission to their financial institution to send payments. With automatic payment, a consumer gives permission to their provider to take payments.

♦ A grace period is a set length of time after a bill's due date during which payment can be made without penalty. A consumer should know which of their creditors have a grace period. Making a payment during this period does not affect a credit score.

♦ A late fee is a charge imposed on a consumer who fails to make the payment on a debt or other financial obligation by the due date. All late fees must be explicitly outlined to the borrower and must be reasonable.

♦ A payment status of 30 days past due means the payment is between 30-59 days past the payment due date. A late payment will not reflect on a credit report until it reaches the 30th day after the due date. Once a payment reaches this point, it can negatively affect a credit score by as much as 100 points.

♦ A consumer should review their billing invoices each month to check for billing errors. It is not uncommon for service providers of cable, internet, cell phones, etc., to gradually start increasing monthly charges for a service.

3.3 Notes

3.4 Review

Fill in the blanks with the correct financial term.

1. A ________________________ is a collection of account information used to organize monthly bills.
2. When paying bills, it is important that the _______________ coincide with the ___________________.
3. A ________________________ is an electronic system offered by a company providing a good or service that that gives consumers the option to pay bills directly from the company's website.
4. A _____________________ is a payment that is made on a consumer's account in which the creditor automatically charges the consumer's checking account on a pre-arranged schedule.
5. An ______________________ is an electronic system in which consumers provide their financial institution the billing information for each service provider. Once these accounts are set up, the financial institution will send these payments for a consumer. All accounts are paid from one portal.
6. An ______________________ is a transaction in which the consumer gives permission to the creditor to take payments from their banking account.
7. A ______________ is a charge imposed on a consumer who fails to make payment on a debt or other financial obligation by the due date.
8. A __________________ is a set length of time after the due date during which payment can be made without penalty.
9. A payment status of ________________________ means the payment is between 30-59 days past the payment due date
10. A consumer should review their billing invoices each month to check for _________________.

3.5 Financial terms used to fill in the blanks

- **Grace Period**
- **Recurring Payment**
- **Automatic Payment**
- **Biller Direct Payment**
- **Online Bill Payment**
- **Bill Dates**
- **Payroll Dates**
- **Bill Payment Ledger**
- **30 Days Past Due**
- **Late Fee**
- **Billing Errors**

HOW TO BUILD A CREDIT SCORE

4.1 Topics of Discussion

- FICO Score
- Credit Reporting Agency
- Free Credit Report
- Credit Score Calculation
- Establishing Credit
- Hard Inquiry and Soft Inquiry
- Installment Credit and Revolving Credit
- Items Excluded from Credit Report
- Negative Information on a Credit Report
- Credit Freeze

4.2 Discussion

♦ Many consumers do not understand the credit scoring system, much less their credit score, until they attempt to buy a home or take out their first loan. A credit score is a three-digit number, on a scale of 300 to 850, that estimates how likely a consumer can repay borrowed money and pay bills.

Following are the general credit score ranges and description:

- **A score of 629 or below** **Poor credit**
- **A score between 630 and 689** **Fair credit**
- **A score between 690 and 719** **Good credit**
- **A score of 720 or higher** **Excellent credit**

♦ A good credit rating will save a consumer money over time. Good credit management creates higher credit scores. The borrowers who have the higher credit scores will receive better loan interest rates and more favorable loan terms. Building a good credit score is the first step a consumer should take on their journey to financial freedom.

Entities that may look at a consumer's credit report include:

- **Utility companies:** When a consumer first sets up their housing utility account, the utility company may pull a credit report. Many states have laws that keep utility companies from denying service due to bad credit; however, a consumer may be required to pay a higher deposit amount.
- **Insurance companies:** An insurance company may pull a credit report to determine a consumer's insurance rate. Statistics show that consumers with poor credit are more likely to file claims.
- **Landlords:** Potential landlords may pull a credit report to see if a consumer has a history of making payments on time. Consumers who have poor credit may be required to get a co-signer to sign the lease agreement or could be denied for the lease.
- **Employers:** An employer must get consumer consent to pull a credit report; however, the employer can deny employment based on the credit report information.

♦ A **FICO score** is a consumer's credit rating calculated with software from Fair Isaac Corporation. Lenders use FICO scores along with other details on a credit report to assess credit risk and determine whether to extend credit to consumers.

♦ A **credit reporting agency** is a business that maintains historical credit information on individuals. **The well-known credit reporting agencies are Equifax, Experian and TransUnion.** Credit scores may vary between the three agencies. Each agency uses their own scoring model and slightly different approaches in evaluating a credit report.

- A consumer should review their credit report at least once per year for accuracy and mistakes. Consumers are entitled to one **free credit report** every twelve months from each of the three credit reporting agencies. **Order online from annualcreditreport.com, the only authorized website for free credit reports, or call 1-877-322-8228. Consumers will need to provide their name, address, social security number, and date of birth for identity verification.**

- A **credit score calculation** is derived from five key components. **The five components and the percentage effect on the credit score include:**

  • **Payment history** - Payment history is the most important ingredient in credit scoring, and even one missed payment can have a negative impact on a credit score. **Payment history accounts for 35% of a FICO Score**.

  • **Amounts owed** - A consumer's credit usage is the next most important factor in a credit score. This ratio is calculated by dividing the total number of revolving credit accounts by the sum of the credit limits on these accounts. This ratio looks at the amount that a consumer utilizes on their lines of credit. Using more than 30% of available credit is considered to be negative by creditors. **Credit utilization accounts for 30% of a FICO Score**.

  • **Credit history length** - How long a consumer has held certain accounts. This percentage includes the age of the oldest account, the age of the newest account and the average age of all accounts. **Credit history length accounts for 15% of a FICO Score**.

  • **Credit mix** - A diverse portfolio of credit accounts may include a car loan, credit card, student loan, mortgage and other credit products. Credit scoring models consider the account type and the number of accounts. This percentage indicates how well a consumer can manage a wide range of accounts. **Credit mix accounts for 10% of a FICO Score**.

  • **New credit** - The number of accounts that a consumer has opened recently and the number of hard inquiries pulled by a creditor. **New credit accounts for 10% of a FICO Score**.

- **Establishing credit** and understanding the importance of credit should begin at a young age. **Following are several ways to establish credit for the first time:**

  • **Get a secured card** - A secured card is backed by a cash deposit and the credit limit is usually the same as the deposit amount. A consumer will use this card like any other credit card to purchase items and then pay off the balance each month. Secured cards are not meant to be used forever. The purpose is to increase a consumer's credit rating to a point where they qualify for an unsecured card. This process can take about six months.

• **Credit-builder loan** – A consumer will take out a small installment loan and secure the loan with cash as collateral. The cash will be held by the financial institution until the loan is paid off in full. This process can take about six months.

• **Use a co-signer** – A consumer can take out an unsecured loan or credit card using a co-signer. The co-signer must understand that they are responsible for the full amount of the balance if the consumer fails to pay.

• **Become an authorized user** - A family member or significant other may be willing to add a consumer as an authorized user on their credit card. Doing so will add the card's payment history to a consumer's credit file. A consumer will want a primary user that has a long history of paying on time.

- ♦ A **hard inquiry** is a credit rating term used when a financial institution pulls a consumer's credit report to make a loan decision.

- ♦ A **soft inquiry** is a credit rating term used when a company pulls a consumer's credit report as part of a background check.

- ♦ **Installment credit** is a type of agreement or contract involving a loan which has a set number of scheduled payments. The common types of installment loans include mortgages, car loans and personal loans.

- ♦ **Revolving credit** is a type of agreement or contract involving a loan which does not have a fixed number of scheduled payments. The common types of revolving loans include credit cards and HELOCs (home equity lines of credit).

- ♦ There are several items excluded from a consumer's credit report.
  Items excluded from a credit report include:

  • **Marital status**

  • **Medical information** (not medical bills)

  • **Income information**

  • **Bank account balances**

  • **Criminal records**

  • **Level of education**

- ♦ **Negative information on a credit report** are items such as late payments, delinquent accounts, charge-offs, collections and bankruptcy. Negative information is data which decreases a consumer's credit score. Negative information will eventually drop off a credit report after seven years. The other accounts on a credit report that are in good standing will reduce the impact of negative information even before they drop off a credit report. **Medical bills** will not appear on a credit report until they are 180 days past due. A consumer should contact their health insurance company or the service provider before a medical bill reaches this point.

♦ Statistics show that one in three consumers discover **errors on their credit report** which negatively affects their credit score. Disputing credit report errors and getting those negative items removed can be a quick route to a better score.

Follow this process to dispute an error on a credit report:

• **Check all three credit reports for errors** – A consumer is entitled to one free credit report per year from all three agencies by using the website annualcreditreport.com.

• **Gather materials to dispute errors** – The documents needed to dispute the error are credit card statements, bank statements, loan documents, birth certificates, driver's license, death certificates, divorce decrees, etc. The agency will also request the following information from the consumer: proof of identity, social security number, date of birth and current address.

Contact information for each credit reporting agency:

♦ **<u>Equifax credit report errors</u>**
_Use the Equifax online portal
Write to Equifax P.O. Box 740256 Atlanta GA. 30374
Call Equifax and ask for an agent 866 349 5191

♦ **<u>Experian credit report errors</u>**
Use the Experian online dispute form.
Write to Experian P.O. Box 4500 Allen TX 75013
Call Experian and ask for an agent 866 200 6020

♦ **<u>TransUnion credit report errors</u>**
Use the TransUnion dispute online help page.
Write to TransUnion P.O. Box 2000 Chester PA 19016
Call TransUnion and ask for an agent 800 916 8800

♦ A **credit freeze** will temporarily prevent anyone from accessing a consumer's credit report. This process can help prevent identity thieves from opening new accounts using a consumer's information. It does not prevent them from committing fraud with a consumer's existing accounts. Since a credit freeze is free and has no impact on credit scores, many consumers are taking this extra security measure. **If you want to freeze your credit, you will need to contact all three credit reporting agencies: Equifax.com (800) 349 9960, Experian.com (888) 397 3742, and TransUnion.com (888) 909 8872.**

4.3 Notes

4.4 Review

Fill in the blanks with the correct financial term.

1. A __________________ is a consumer's credit rating, based on a calculation created by the Fair Isaac Corporation.
2. A _______________________is a business that maintains historical credit information on individuals.
3. A consumer is entitled to a _____________________ every twelve months from each of the three credit reporting agencies.
4. _________________ is the most important ingredient in credit scoring and accounts for 35% of a FICO Score.
5. ______________________ and learning to use it wisely when a consumer is young can make the transition to the financial world much easier.
6. A ________________is a credit rating term used when a financial institution pulls a consumer's credit report when making a loan decision. A _________________is a credit rating term used when a company pulls a consumer's credit report as part of a background check.
7. A __________________ will not appear on a credit report until it reaches 180 days past due.
8. _____________________ on a credit report include items such as late payments, delinquent accounts, charge-offs, collections and bankruptcy.
9. _____________________ is a type of agreement or contract involving a loan which has a set number of scheduled payments. _____________________ is a type of agreement or contract involving a loan which does not have a number of scheduled payments.
10. A ________________ will temporarily prevent anyone from accessing a consumer's credit report.

4.5 Financial terms used to fill in the blanks

- **Credit Freeze**
- **Medical Bill**
- **Payment History**
- **Revolving Credit**
- **FICO Score**
- **Credit Reporting Agency**
- **Establishing Credit**
- **Soft Inquiry**
- **Hard Inquiry**
- **Installment Credit**
- **Free Credit Report**
- **Negative Information**

HOW TO Manage Debt

5.1 Topics of Discussion

- Good Debt and Bad Debt
- Debt-To-Income Ratio (DTI)
- Principal and Interest
- Secured Loan and Unsecured Loan
- Long Term Debt and Short-Term Debt
- Credit Card Debt
- Debt Consolidation Loan
- Debt Snowball Method
- Debt Management Plan
- Bankruptcy

5.2 Discussion

Statistics show that 65% of Americans cite money as a significant source of stress. **Debt stress syndrome** is the name that doctors have given to a condition where concerns over debt have caused mental, emotional and physical health problems.

Many financial experts use the 50/20/30 rule when creating a budget. They believe 50% of net income should go toward needs and obligations, 20% should go to savings and 30% should be used for other expenses or wants. The importance of budgeting and bill payinghas a huge effect on a consumer's debt load.

If a debt increases a consumer's net worth or has future value, it's considered **good debt**. The following loan types are examples of good debt: mortgage loan, student loan and debt consolidation loan. A debt consolidation loan may limit a consumer initially but can help their financial condition will improve over time.

Bad debt is debt that allows a consumer to purchase a product which loses its value the moment they take ownership. Bad debt includes borrowing money to purchase items such as new brand name clothes, new automobiles and electronics.

How does a consumer know if they have too much debt? A **debt-to-income ratio (DTI)** is a measure of debt calculated by comparing monthly expense to monthly income. This ratio includes gross income, rent, mortgage, auto loan, credit cards and any account that would appear in a credit report. Lenders often use this ratio and credit score to make loan decisions.

The steps used to calculate a debt-to-income ratio include:

Step 1:
Add up monthly bills such as: rent or house payment, student loan, auto loan, credit cards (use the minimum payment) and other debts which appear on a credit report.

Step 2:
Divide the total amount of monthly expense by gross monthly income (income before taxes and deductions).

Step 3:
The result is a DTI ratio which appears in the form of a percentage. The lower the DTI ratio, the better the credit risk of the borrower. **A debt-to-income ratio over 43% is a red flag to creditors.**

The **principal** amount of a loan is the amount of money that was borrowed. The **interest** is the cost of borrowing that money. When making a loan payment, the payment is applied to the loan in this order: any fees that are due, accrued interest, then principal. Making additional principal payments will shorten the term of a loan and reduce the amount of interest paid. **Referencing a mortgage**

loan with a principal amount of $200,000, a 30-year fixed rate term, and the interest rate of 4%: if a consumer pays $100 extra each month towards principal, they will reduce the loan term by 4.5 years and reduce the amount of interest paid by $26,500. If a consumer pays $200 extra each month towards principal, they will reduce the loan term by 8 years and reduce the amount of interest paid by $44,000.

A **secured loan** requires the borrower to pledge collateral, while an **unsecured loan** does not. A secured loan is the most common way to borrow a larger amount of money. The purpose of a secured loan is purchasing a house, vehicle, or other big expense item. If a consumer fails to repay the loan, the financial institution will repossess the collateral securing the loan. This collateral will be sold by the financial institution and the proceeds will be applied to the unpaid loan balance. This amount rarely covers the full balance of the loan. The financial institution will then file a suit against the borrower for the remaining balance. This situation will create major damage to the borrower's credit rating. An example of an unsecured loan is a credit card, student loan, or personal (signature) loan. A lender takes on more risk when making an unsecured loan. There is no asset to recover in case of default, and the interest rates are much higher.

A **long-term loan** is required for larger loan amounts with the purpose of purchasing of a house or an automobile.

A **short-term loan** is associated with a need for quick money with smaller loan amounts. It is easier to obtain approval on a short-term loan; however, the interest rate and loan terms are less favorable.

A **credit card** is a type of payment card in which charges are made against an unsecured line of credit. When a credit card is used to make a purchase, the line of credit accrues a balance that must be paid off each month. A credit card is the most common way to access a line of credit. The card allows a consumer to make purchases on credit rather than cash. It also gives a consumer more time to gather the amount of money to cover the purchase. The term credit limit refers to the maximum amount of money that a lender will allow a borrower to use on a credit card or line of credit**.**

Pros and cons of credit cards:

Pros:

- Provides a means to buy items you need now
- Offers the ability to purchase big-ticket items more readily
- Reduces the need to carry cash
- Creates a record of your purchases for better tracking
- Provides added protection on purchases

Cons:

- Pay more for items bought on credit, because of interest and credit card fees

- Higher risk for financial difficulty if a consumer spends beyond their means using credit cards
- Increased risk of impulse buying

Debt consolidation is a form of debt refinancing which allows the borrower to take out one loan to pay off all other unsecured debt. This loan will simplify the payment process for the borrower and often reduces the interest amount. This loan will not be effective if the borrower continues to purchase items on credit.

The **debt snowball method** is a debt reduction strategy which concentrates on the smaller balances first. Once the smallest balance is paid in full, the extra money will be applied to the next balance amount. Continue this process until all debt is eliminated. This method is often used to repay revolving debt such as credit cards. This method usually takes more time to pay off the debt and has no settlement reduction benefit on principal, interest or fees.

A **debt management plan** is a plan that allows a consumer to make a single monthly payment to cover all their unsecured debts that are included in the plan. It is not a loan and will not allow a consumer to make late or partial payments. The key ingredient in a debt management plan is a consumer credit counseling agency. A reputable agency will provide free information about the services it offers. These services should include: a debt management plan, a budget and information on financial literacy. The agency will charge a fee for the service; however, the fee should be reasonable and disclosed in writing. The agency will negotiate with creditors, on the consumer's behalf, attempting to waive fees, lower high interest rates and reduce the principal.

Pros and cons of a debt management plan include:

Pros:

- One automatic payment to multiple creditors
- Lower monthly payment to service debts
- Faster elimination of debt
- Budgeting and other financial education
- Lower interest rate and waiver of late fees
- No long-term negative credit score impact
- No more calls from creditors

Cons:

- Will not help with secured debt
- Some creditors may not accept plan
- Must stay current or risk voiding plan
- Can't get new credit cards or other loans during the term of the plan
- Requires three to five years to pay off debt
- Often lowers credit scores

Bankruptcy is a generalized term for a federal court procedure that helps consumers with major debt problems**. There are two types of bankruptcy that consumers can file: Chapter 7 and Chapter 13**.

Chapter 7, which is known as liquidation bankruptcy, involves selling some or all of a consumer's property to pay off their debt.

Chapter 13, also known as reorganization bankruptcy, gives a consumer the chance to keep their property and other secured assets if they successfully complete a court-mandated repayment plan.

Pros and cons of bankruptcy:

Pros:

- Gives a consumer a fresh start by closing out this life chapter
- Stops harassment from creditors and collection agencies
- May be able to save the house

Cons:

- Credit penalty can remain on a credit report for ten years
- More difficult to obtain a new line of credit, house, or vehicle
- Credit report may be considered when applying for new employment

5.3 Notes

5.4 Review

Fill in the blanks with the correct financial term.

1. _____________ is a legal proceeding involving a consumer who is unable to repay their outstanding debt.
2. The ______________________is a debt reduction strategy where the smaller loan balances are paid off first.
3. A ________________ is a type of payment card in which charges are made against an unsecured line of credit.
4. A __________________ requires a borrower to pledge collateral, while an __________________ does not.
5. A ________________________ is a ratio that is calculated by adding a consumer's monthly debt payments then dividing the total by the consumer's monthly gross income.
6. If a debt increases a consumer's net worth or has future value, it is considered _______________. ______________ is debt that allows a consumer to purchase a product which loses its value the moment they take ownership.
7. When borrowing money, the ________________ is the amount of money that was borrowed. The _______________ is the cost of borrowing that money.
8. A ___________________ is required for larger loan amounts with the purpose of purchasing a house or an automobile. A _________________ is associated with a need for quick money with smaller loan amounts.
9. A ________________________ is a form of debt refinancing which allows the borrower to take out one loan to pay off several accounts.
10. A ________________________ is a formal agreement between a debtor, a credit counseling firm and creditors.

5.5 Financial terms used to fill in the blanks

- **Good Debt**
- **Bad Debt**
- **Principal**
- **Interest**
- **Long Term Debt**
- **Short Term Debt**
- **Debt Consolidation Loan**
- **Debt Management Plan**
- **Bankruptcy**
- **Debt Snowball Method**
- **Credit Card**
- **Secured Loan**
- **Unsecured Loan**
- **Debt-To-Income Ratio (DTI)**

GLOSSARY

An **automatic bill payment** occurs when money is automatically transferred on a scheduled date to pay a recurring bill, such as a mortgage, credit card, or utility bill. Individuals can set up an automatic bill payment through their online checking account, brokerage, or mutual fund to pay their monthly bills.
investopedia.com/automatic bill payment

Bankruptcy is a legal proceeding involving a person or business that is unable to repay their outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditors, which is less common.
investopedia.com/bankruptcy

Biller Direct is a type of bill payment model that allows customers to be billed directly by merchants electronically through their own web portals or websites.
creditcardprocessing.com/billerdirect

Checking accounts are used for day-to-day cash deposits and withdrawals. They are offered by banks and credit unions, and you can access your money with a debit card, through online transfers or by writing checks.
nerdwallet.com/checkingaccount

A **credit card** is a financial tool offered by a bank as a type of loan, with a line of revolving credit that you can access with your card account. The loan behind your credit card has a limit — known as a credit limit — that you can use for everyday expenses or large purchases.
bankrate.com/creditcard

A **credit freeze**, also known as a security freeze, is an anti-fraud measure in which a credit bureau refrains from sharing a consumer's credit report with any third parties. Credit freezes are often initiated at the request of consumers who suspect that their identities may have been stolen.
investopedia.com/creditfreeze

A **credit report** is a detailed breakdown of your credit history prepared by a credit bureau.
investopedia.com/creditreport

A **credit reporting agency** is a business that maintains historical credit information on individuals and businesses.
investopedia.com/creditreportingagency

Credit: When money is added to your account, it increases your checking account balance.
accountingcoach.com/credit

Debit: When you use funds from the account for a payment, money is taken out of the account. Debit decreases your checking account balance.
accountingcoach.com/debit

A **debit card** is a payment card that deducts money directly from a consumer's checking account when it is used. Also called "check cards" or "bank cards," they can be used to buy goods or services; or to get cash from an automated teller machine or a merchant who'll let you add an extra amount onto a purchase.
investopedia.com/debitcard

Debt consolidation is when a borrower takes out a new loan and then uses the loan proceeds to pay off their other individual debts. This can include everything from credit card balances, auto loans, student debt and other personal loans.
forbes.com/debtconsolidation

A **debt management plan** lets you make a single monthly payment that covers all of your unsecured debts that are included in the plan. It's not a loan and it won't allow you to pay less than you owe, but a debt repayment plan can simplify the repayment process and shorten the time it takes you to get out of debt.
forbes.com/debtmanagementplan

The **debt snowball method** is a debt-reduction strategy where you pay off debt in order of smallest to largest, gaining momentum as you knock out each remaining balance. When the smallest debt is paid in full, you roll the minimum payment you were making on that debt into the next-smallest debt payment.
ramseysolutions.com/debtsnowballmethod

A **debt-to-income, or DTI, ratio** is derived by dividing your monthly debt payments by your monthly gross income. The ratio is expressed as a percentage, and lenders use it to determine how well you manage monthly debts -- and if you can afford to repay a loan.
bankrate.com/debttoincomeratio

The term **direct deposit** refers to the deposit of funds electronically into a bank account rather than through a physical, paper check.
investopedia.com/directdeposit

The term **“emergency fund”** refers to money stashed away that people can use in times of financial distress. The purpose of an emergency fund is to improve financial security by creating a safety net that can be used to meet unanticipated expenses, such as an illness or major home repairs.
investopedia.com/emergencyfund

A **FICO score** is a credit score created by the Fair Isaac Corporation (FICO). Lenders use borrowers’ FICO scores along with other details on borrowers’ credit reports to assess credit risk and determine whether to extend credit.
investopedia.com/ficoscore

A **grace period** is a set length of time after the due date during which payment may be made without penalty. A grace period, typically of 15 days, is commonly included in mortgage loan and insurance contracts.
investopedia.com/graceperiod

Gross income refers to the total earnings a person receives before paying for taxes and other deductions.
bankrate.com/grossincome

A **hard inquiry**, or a “hard pull,” occurs when you apply for a new line of credit, such as a credit card or loan. It means that a creditor has requested to look at your credit file to determine how much risk you pose as a borrower.
experian.com/hardinquiry

Identity fraud is the use of this stolen information to impersonate someone or to commit unlawful activities, such as opening new accounts or making fraudulent transactions.
trueidentity.com/identityfraud

Identity theft is the act of stealing someone’s personal information, such as their name, date of birth, or address.
trueidentity.com/identitytheft

Installment credit is a loan that is repaid back in fixed payments, usually monthly payments, during a set term.
possiblefinance.com/installmentcredit

Interest is the cost of borrowing money. It begins to accrue, or add up when loan disbursements are made or credit is issued.
brown.edu/interest

The term **late fee** refers to a charge that lenders and other companies often impose on consumers when they fail to make an on-time payment on a debt, such as a loan or credit card, or any other type of financial agreement, such as an insurance or rental contract.
investopedia.com/latefee

Net income refers to the amount an individual or business makes after deducting costs, allowances and taxes.
bankrate.com/netincome

Non-sufficient funds (NSF), or insufficient funds, is the status of a checking account that does not have enough money to cover all transactions.
investopedia.com/nsf

Online banking allows you to conduct financial transactions via the Internet. Online banking is also known as Internet banking or web banking. Online banking offers customers almost every service traditionally available through a local branch including deposits, transfers, and online bill payments.
investopedia.com/onlinebanking

An **overdraft** is an extension of credit from a lending institution that is granted when an account reaches zero. The overdraft allows the account holder to continue withdrawing money even when the account has no funds in it or has insufficient funds to cover the amount of the withdrawal.
investopedia.com/overdraft

The **principal** amount is the initial sum of money borrowed in a loan. It's the starting point for all the calculations that go into figuring out your loan's interest rate and monthly payments.
commonscreditportal.org/principal

Revolving credit is a type of credit that does not have a fixed number of payments, in contrast to installment credit. Credit cards are an example of revolving credit used by consumers.
wikipedia.org/revolvingcredit

A **Roth IRA** is a special type of tax-advantaged individual retirement account to which you can contribute after-tax dollars. The primary benefit of a Roth IRA is that your contributions and the earnings on those contributions can grow tax-free.
investopedia.com/rothira

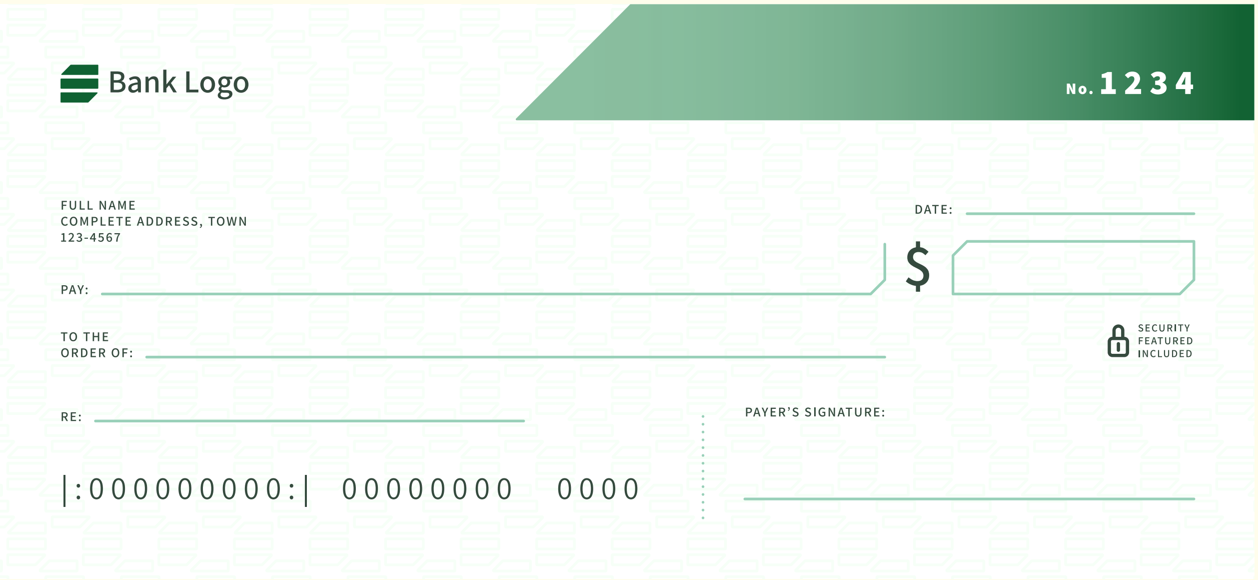
A **routing number** is a nine-digit bank identification number. Think of it as a numerical address that allows a bank to send and receive money from other financial institutions. The routing number identifies the financial institution responsible for the payment and ensures that funds go to the right place.
bankrate.com/routingnumber

A **savings account** is an interest-bearing deposit account held at a bank or other financial institution. Though these accounts typically pay only a modest interest rate, their safety and reliability make them a good option for parking cash that you want available for short-term needs.
investopedia.com/savingsaccount

Secured loans are business or personal loans that require some type of collateral as a condition of borrowing. A bank or lender can request collateral for large loans for which the money is being used to purchase a specific asset or in cases where your credit scores aren't sufficient to qualify for an unsecured loan.
investopedia.com/securedloans

Soft inquiries (also known as "soft pulls" or "soft credit checks") typically occur when a person or company checks your credit as part of a background check. This may occur, for example, when a credit card issuer checks your credit without your permission to see if you qualify for certain credit card offers. Your employer might also run a soft inquiry before hiring you. Unlike hard inquiries, soft inquiries won't affect your credit scores.
creditkarma.com/softinquiry

BLANK CHECK TEMPLATE



CHECK REGISTER TEMPLATE

CHECK NUMBER	DATE	TRANSACTION DESCRIPTION	PAYMENT/ DEBIT	DEPOSIT/ CREDIT	BALANCE	

REFERENCE LIST OF WEBSITES

Relationship Banking
https://www.investopedia.com/terms/r/relationship-banking.asp

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https://www.ramseysolutions.com/banking/how-to-balance-your-checking-account

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https://www.forbes.com/advisor/banking/overdraft-fees-vs-nsf-fees/

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https://www.fnbo.com/insights/2021/personal-finance/how-to-withdraw-money-bank-account

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https://midpennbank.com/how-to-manage-your-monthly-bills/

Paying Bills on Time: Ways to Manage Your Bill
https://bettermoneyhabits.bankofamerica.com/en/saving-budgeting/how-to-manage-bills

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