



Get Out Of Debt!
Repair Your Credit!
Accumulate Wealth!©

Presented by *The Bold Approach*

Get Out Of Debt, Repair Your Credit, and Accumulate Wealth!©

Presented by The Bold Approach

Provider of Success Systems for Life© Programs

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Get Out Of Debt, Repair Your Credit, and Accumulate Wealth!©

**Do you find yourself constantly worrying about your financial future?
Do you never seem to have quite enough money to make both ends meet?**

We want to help you improve your standard of living, repair your credit, get out of debt, learn about borrowing, and help you make good financial decisions so that you can accumulate wealth!

Perhaps, while successful in many ways, you are a very poor manager of your own finances? Perhaps you are finding it hard to pay your bills every month? Worry about your financial situation keeps you up at night? Perhaps you are a young married couple with children and few cash reserves available for emergencies? Or you're not building solidly for your retirement years?

The cost of living...of procuring food, shelter, and clothing, is one of the few topics that commands universal interest. We all worry that the earnings of any month in the future will be sufficient to meet the needs of that month. Consider your income or salary, and be honest in what that sum will cover, and what it will allow you to spend. With concern for the welfare and happiness of our families uppermost in our minds, now is the time to consider your financial position and do what you can to improve it.

No one is more immediately or vitally interested in the continuance of their financial prosperity than those of us who labor for wages. Upon us and our families must always fall the most disastrous consequences of a monetary crisis, and we, too, are always the last to realize the benefit of a return to prosperous times. Our wages are always the first to fall when a crisis comes and last to rise when it passes away. A glance at the household bills in almost any family today, when the figures are compared with those of five years ago, for example, shows an increase in the cost of almost every article enumerated. The increases are so many and so varied that it is impossible to state with any exactness what the average increase in the cost of living has been.

Wealth is accumulation, and the aggregate of that accumulation depends on the net surplus left after we pay the "costs of living." Thanks to these days of easy credit, many of us have allowed our debt to far exceed our capability to repay. So we think the accumulation of wealth is impossible. We are here to say that you, too, can be independent of financial worries and accumulate wealth. You, too, can be in a position to sleep well at night, knowing that you have taken care of the well-being and advancement of you and your family.

We want to help you replace the stress of being in debt with the contentment of having your debts under control!

We want to help you accumulate wealth, not just "get by" month after month!

TIMES DEMAND INDIVIDUALS and FAMILIES SEIZE THEIR FINANCIAL REINS.

The American family senses financial danger. Predictions of recession add little comfort to those of us whose economic lives are threatened by actual or possible job cuts, pay reductions, and mushrooming debts. These calamities could threaten your home directly, or indirectly. With the price of oil escalating, and doubt over employer's commitments, the reversal of pension programs, and questions about the country's financial future, it's time to get a grip on your family balance sheet and income, and prepare for turbulent times.

Today, the range of individuals and families with financial trouble is broad. With soaring gas costs, health care costs, and fluctuations in even such staples as the cost of food, it is up to us to take control of our financial future.

Add to those woes our use of credit as a means of extending income, and you have a possible house-of-cards. We have spent recklessly; have leveraged our incomes through credit - with resultant high interest costs taking a substantial portion of our salary. Even our hopes for a happy retirement dwindle as Social Security totters, and company pension plans have become stingy or dried up.

We are scared about losing our jobs or about not getting a raise. If we get that raise, it may not be enough to keep up with inflation. But no matter what cycle the economy is on, we must do what we can to safe-guard our futures.

We must learn to be financially independent, and to keep some of our money at home! There are steps you can take to protect your financial well-being. Meet today's assault on that well-being with determined, long-term financial discipline. High on the list of priorities are sincere budgeting and saving regimens, precise and pragmatic expense controls, sharp-eyed financial and career vigilance, and a commitment to seeking efficiency and personal profit from whatever special talents and insights you and your family have to offer in a risky financial climate.

The most urgent and pernicious concern for many individuals and families today is managing personal debts. Many people are in over their heads, in part because they were persuaded by the aggressive marketing of banks and other firms offering credit cards and other personal credit services that it was alright to accumulate credit card debt.

We've become "free spenders," spending more than we earn, leaving us with little to show for our work.

It's hard to remember that personal indebtedness once was a source of embarrassment. And few would dispute the wisdom of exploiting prudently an individual's or family's capacity to take on and manage debt for satisfying long-term needs. But recent statistics on the rise in mortgage, auto loan, and credit card delinquencies suggest that prudence must be redefined.

Perhaps you don't think that what happens to the nation's economy affects you? But you can be sure that as government debt goes up, costs will go up, and nobody's dollars will go as far as they go today. There is also the correlation between labor and management... if productivity increases faster than wages, prices decline. On the other hand, if wages go up faster than productivity, prices rise. So, just as we might feel dependent on our government, our government is dependent on us. If we don't give a full measure of productivity, we only cheapen our own dollars in the long run.

To be prosperous, a nation must be productive. Productivity comes from two sources: government spending and consumer spending. It is both government spending and the tremendous rise in consumer spending that has substantially increased our standard of living so markedly over the past several generations. The American spirit of “the opportunity is there if you want to make something of it” that has driven our standard of living to startlingly high levels.

But there are serious dangers inherent in consumer spending. Adequate personal, as well as corporate, standards of financial conduct have been lacking. Like the prodigal son, many have awakened to find they have spent all their resources and are right back where they started years ago.

Many have used their home’s equity to pay debt. Lending institutions generally offer home equity loans at a lower interest rate than other consumer loans, which has made them very attractive in today’s debt ridden society. But the ease of borrowing against the value of a home can lead to trouble. They have fooled many into thinking they can run up debts. Most home equity loans also have floating interest rates, which often move up and down with a bank’s prime lending rate. A move down in the prime lowers payments on existing home equity loans, but rising interest rates can push payments above the original level, and beyond someone’s ability to make payments.

But building equity in a home has traditionally been the main way middle class families built wealth in America, and frequent use of home equity loans or lines of credit can build “hidden liabilities” that subtract from their one hidden form of savings. So we’ll discuss home ownership, and it’s benefits to you. We’ll also make sure you are informed about home loans, and discuss dangers you should be aware of.

There are steps you can take to improve the state of your finances! We want to make it easy for you to determine your course, and steer your financial future into safe waters! Don’t be afraid to get a handle on your spending and your income. You want to enjoy life, not spend time worrying about where you are financially, or how much debt you have!

Make a plan! Very few people take the time to plan their life, even though they’ll take the time to plan a vacation! So make a plan with the goals you hope to achieve. Set a time frame for reaching each goal, and the benefits of reaching them. Consider the obstacles that could prevent you from reaching your goals, but also list the ways you can overcome them.

Let’s keep this positive! Instead of grieving about your financial situation, learn to look at your money management in a more positive light. Think of the rewards you’ll gain by learning to control your spending. No more late notices. No more overdraft charges at the bank. You can save your money to buy something special, instead of always wondering where your money went. Most of all, you’ll enjoy the benefits of being in control of your money, and your life.

There is no one ‘magic bullet’ that will improve your credit rating, or get you out of debt. But you can do both if you will only take the time to learn what we are teaching. Take control of your life and your finances. Quit blaming your problems on someone else... only YOU can make a difference to your financial life. We’ll give you the information you need to make a difference!

BUDGET!

Are you afraid to be honest with yourself about how much you spend? This probably sound boring to you, but you are going to have to make a budget! Many people want to overlook this important first step when reviewing their finances. A budget allows you to control your personal and family's spending so you will have enough money to pay your bills, and also save for things such as vacations, retirement, and your children's education. Budgets help you realize areas where you might be overspending.

Know how much you have to spend! Make a list of your regular monthly expenses for housing, car payments, credit cards and any other bills you may have. Include those bills that don't come due every month, things like insurance for your car, but spread the expense over several months, or even the year, depending on when occasional payments are due. Instead of panicking every ninety days, learn to budget and save so you have the funds available when it's time to make the payment. Even if you don't write the check every month, you should still act as if these funds have already been spent.

Use this opportunity to be totally honest (with yourself and your family) about your spending. You want to be aware of the exact amount of money you have to spend so you can evaluate whether you really want to spend it! It doesn't take long to determine your budget. And we provide you with a quick and easy form to help you get this first step out of the way at the end of this book. However, let's consider the information you need to prepare a budget:

- First, determine your *average* monthly income. You may need to determine your income over several months in order to come up with an average. Be sure to include all sources of income, whether from wages, interest income, child support or alimony. First consider all income you *regularly* receive. Then, if you know you will receive income from various sources, perhaps only a couple of times a year, include that but average it over the entire year to come up with a monthly amount.
- Deduct *taxes and insurance* withheld. Now is a good time to examine the amount of *taxes* and *insurance* you know are regularly withheld from any wages you earn. A word about withholding taxes.... Does your employer withhold more than is usually needed to pay your income taxes at the end of the year? In other words, do you usually expect a large refund after filing your taxes? Consider this.... If you *over-withhold* on your taxes, you are not earning interest on any of those overpayments during the year. Perhaps you need to reconfiguring your withholding to be the amount absolutely necessary to pay your taxes, and put the difference, the amount you have been overpaying, into savings where it can earn you money! If your family situation has changed, perhaps a new addition to the family, then the old guidelines you used to determine your withholding changed, too. Your employer won't recommend any changes for you, you must tell them. You can look at the IRS tax tables at www.irs.gov.

After giving taxes a little thought, enter the total amount of taxes and insurance that you know will be coming out of any earnings. The difference between what your gross income is - minus taxes and insurance - is your *net income*. The *spendable* income you have.

- Third... *housing expenses*: Gather several month's worth of bills, and come up with your *primary housing expenses*. These housing expenses include your rent or mortgage amount, plus the cost of

utilities and the cost(s) of insurance, *setting aside* an amount for probable maintenance and repairs. By *setting aside*, we mean an amount of money to be saved from spending for anticipated needs.

- Fourth, determine your *car expenses*. We all know how much we depend on our cars every day. So don't leave it out of your expenses! How much is your car payment? How much do you spend per month, an *average*, on gas? What amount do you think needs to be *set-aside* for necessary maintenance and repairs?
- Fifth, your *credit cards*. What is the total balance owed on each credit card you have, and how much must you pay per month on each? We will go into more detail about credit card balances, but want you to take this opportunity to honestly think about how much you owe each and every *credit lender* you owe. What is the minimum amount you must pay every month, and how much would you prefer to pay or need to pay to eliminate these debts entirely?
- And finally all those *miscellaneous expenses* that crop up every month.... clothing, child care, charitable donations, gifts. We include food in this category, for while it is certainly basic to our survival, it is also an amount that can fluctuate drastically depending on the size of your family, and your spending habits!

So know where your money is going! You might be surprised to learn how much you spend on things like coffee, snacks, newspapers that you don't read. Start keeping an expense journal. For one week, carry around a notepad and write down every dime you spend. You'll be surprised how quickly a few dollars here and there can add up. Looking at a budget will help any individual or family spend more appropriate amounts for current living expenses, while saving and investing for long-term financial security.

Budgeting will also help you to set goals that are realistic, goals you can achieve! Use your budget to...

- Identify your current spending habits and patterns.
- Identify and prioritize your personal and financial goals.
- Identify the steps you can take and the resources you need to achieve your goals.
- Create a personal budget that will help you achieve your goals.
- Understand why you need to budget.
- Identify those areas where you can spend less.
- Determine how much you can save so you can get what you want!
- Opens a dialogue with your family about everyone's spending habits.

Just keep in mind that the main purpose of a budget is to determine *where your money comes from, and where it goes!* Don't be discouraged by what you may find. The information you learn from your budget is an important first step in improving your financial picture.

Use your budget as an opportunity to remind not only yourself, but your family, as well, that they need to be aware of how they spend money. Perhaps your family has a goal you can all work towards *together* to achieve. Consider your budget as a way of learning more about the goals of the family group.

Use it as a learning tool for children... what resources do they need to achieve their goals? Is it personal abilities and skills, time, or perhaps it is education that will help them achieve their goals? Use this time

to increase their awareness early in life about earning, spending, and saving; about learning how to succeed financially.

Keep in mind that you may have to re-work your budget as you learn to control your spending habits. And when that happens, it will be *fun*!

CREDIT CARDS!

There is no other way to say it... you are over-spending if you use credit cards! Even though you may not realize it at the time, credit cards cause us to overspend... the statistics say by as much as 30%! While credit cards can be useful and allow us to pay over time for important things, we habitually depend on them too much for making purchases. So if you want to get out of debt, and improve your credit rating, DESTROY THEM! What you are actually doing when you use them is paying more money for items than they are worth. Remember, using credit makes things cost more. STOP USING CREDIT CARDS!

We recommend that to get out of debt and improve your credit rating, destroy all but one “all-around” card, for instance a Visa® or Mastercard®. There are some situations where having a credit card is a necessity, such as if you need to rent a car. In emergencies, a credit card may be a necessity. But having multiple cards only invites you to use them, and many people use them to the maximum amount allowed, causing staggering debt.

Another pitfall with credit cards is that they encourage *recurring debt*. For example: if you have a membership that regularly drafts your account, cancel it!

We are bombarded with seemingly great offers to buy things... those ads that say “buy now, don’t make a payment until next year!” AVOID THEM! Most likely you really don’t need what they are selling, or you really can’t afford it.

Interest rates on credit cards: As we all know, the interest rates on credits cards can be absolutely exorbitant. Interest rates can go as high as 22-24%! So while we have recommended you have only one credit card, try to get a better deal on the one credit card you keep. It never hurts to ask your bank or the credit card company for the best interest rate they can give. But you have to ask for it. It never hurts to negotiate.

We are all bombarded with credit card companies offering special interest rates. Just be careful if you decide to transfer you credit card debt from one company to another. You can bet those low rates will jump, at some point. You should also make sure that the low interest rate touted on the card applies to any new charges you may make, not just the balance you “roll over.” Rates can also increase sharply if you’re late on a payment, even one day late! Be careful of a credit card company’s grace periods if you pay your balance off in full every month ... some charge interest from the time of purchase, some may be for 20 days.

Just remember, you are paying interest on any balance you carry-over on credit card debt! You may be offered a choice between a fixed and variable rate, by your credit card company, with the fixed rate being slightly higher. But if you'll read the fine print on the disclosure statements they send, you'll find that "fixed" isn't fixed, at all. All "fixed" means is that when the interest rate changes, the company has to let you know 15 days in advance. Variable rates can change without notice. Most variable rates are tied to the national interest rate, like the prime rate, so you shouldn't be completely caught off guard.

Want to reduce your credit card debt? Try this approach:

1. List your credit card debts in order of lowest balance to highest balance.
2. Designate a certain amount of money to pay toward each debt, each month.
3. Pay at least the minimum payment on all debts except for the one with the lowest balance.
4. Throw every other penny at the debt with the lowest balance.
5. When that debt is gone, do not alter the monthly amount used to pay debts, but throw all you can at the debt with the next-lowest balance.
6. ALWAYS PAY MORE THAN THE MINIMUM DUE!

In the end, the main thing is that to reduce your credit card debt, you must stop using them, or use them only when absolutely necessary.

Ways to pay off credit card debt:

First and foremost: pay more than the minimum due each month. When paying only the minimum, you are paying much more for any item you purchased in interest! Remember, interest on credit card debt can be 15%, 18%, 22%, and more! Other ways to reduce your credit card debt are:

- Look for a lower interest rate credit cards, and transfer any balances from a high interest rate card to a lower interest rate card. Keeping the cautions we mentioned above in mind, take advantage of one of the low interest rate cards you are offered. It might help, when you are paying 18% per month in interest, versus a substantially lower rate on the same balance.
- Use your savings to pay credit card debt. A drastic step, but one worth considering if you are paying exorbitant interest rates, is to use your savings to pay off credit card debt. The rates of interest you are paying on credit cards will always be much higher than what you are earning on savings. So pay off the credit card debt, don't run up any more debt, and then rebuild your savings!
- Borrow from the cash balance of your life insurance, or 401(k) plans. Most of these policies have borrowing terms... you are borrowing from yourself, and the interest rates are usually much lower than those on your credit card. There are some down-sides to these options, such as you may end up paying taxes twice, depending on the terms of distribution; or if you borrow from your 401(k) plan, and leave your current employer, the balance may become due and payable immediately. So consider all factors before you do either one of these options.

- Renegotiate terms with your creditors! Your credit card companies don't want to have to "write-off" your debt. Neither you nor your creditors think bankruptcy is the answer.... they don't want to see this happen. So try negotiating with them for repayment terms, with more favorable rates. It can't hurt to try, and all it takes is a little of your time. But you *must* made good on the promises you make with creditors.

And be aware that if you are only paying the minimum due on a credit card, it may mean you are only paying on the interest! Consequently, your minimum payment may only minimally decrease what you already owe. If possible, increase your monthly payment above the minimum required. The higher you can make the payment, the faster you will pay off the debt.

By the way, don't be taken in by offers for Credit Card Loss Protection Insurance. Telephone scam artists will scare you with tales of computer hackers accessing your account, or they'll tell you the law has changed to make you liable for all unauthorized charges. Taking advantage of consumer ignorance and uncertainty, these scam artists will push you to buy credit card loss protection insurance. But you already have protection in the law. According to the Federal Trade Commission, your liability for unauthorized credit card charges is limited to \$50.

Credit fraud (the illegal use of your accounts) and identity theft (opening new credit using information about you) are two of the fastest-growing crimes today. You can catch problems such as this if you are constantly aware of the state your finances. In many cases, you may not know you've been victimized until it's too late. Here are some indicators of these crimes:

- A creditor informs you that it received an application in your name
- You've been approved for or denied credit you didn't apply for
- You no longer get your credit card statements in the mail
- Your credit card statements include purchases or cash advances you never made

To minimize the chances of being victimized, **take precautions to safeguard your credit account information.**

- Don't carry credit cards you don't use often.
- Be sure to sign your cards, and never sign a blank charge slip.
- When you use the card, try to keep it within your sight.
- Save your receipts, and obtain and destroy any carbons.
- Don't allow a sales clerk to write your credit card number on a check "for identification."
- Finally, never give out your account number over the telephone unless you initiated the call and know the organization to be reputable.

Opening a new credit card account: When opening a new account, always check to see how the finance charge is calculated. Here are some of the methods used:

- **Adjusted balance method:** Balance due at the beginning of the billing cycle less any payments made during the cycle; excludes new purchases made during the cycle
- **Previous balance method:** Balance due at the beginning of the billing cycle
- **Average daily balance method:** Total of the balances due each day in the billing cycle divided by the number of days in the cycle; payments made are subtracted as posted to determine daily balances; new purchases may or may not be added in
- **Two-cycle average daily balance method:** Same as the average daily balance method, but over two consecutive billing cycles

The amount of your finance charge can vary widely from method to method. Because finance charges result in higher interest charges, creditors favor either of the last two methods mentioned above.

And remember, if you have two different interest rates on one account (e.g., a lower rate for purchases, a higher one for cash advances), the creditor will post the payments toward the lower interest rate balance, not the higher. To avoid this, use two different cards if possible--one for purchases you will pay off when the bill comes (thus incurring no interest charge) and the second, lower-rate card if you have to carry a balance.

Don't fool yourself that just because you can afford the average 'minimum due' each month on a credit card balance it means you can afford to spend more! You will never pay off a credit card by only paying the minimum due, and the total you pay in interest will be staggering. And while credit cards allow people to buy things sooner than if they saved up and bought them... the truth is they are buying things they cannot afford. Those people that save to make purchases will, in the long run, be able to afford to buy more. So if you want more.... don't use credit cards!

Even if you pay your credit card bills off totally every month... quit using your credit cards! Why? Because you spend more money – buy more – if you use credit cards to make purchases!

The only way to really improve your credit rating is to pay off all your debt balances, and don't create more!

Be careful of "credit repair" services. These credit repair services can use strategies that run the gamut from not completely honest, to downright fraudulent. And the use of one could do more damage to your credit rating than if you simply take control yourself and systematically begin to reduce your debt and repair your credit rating yourself. And the cost of their "help" can be very expensive. The most many do is arrange for "debt consolidation," which you can do yourself. You can contact your creditors yourself. Don't be afraid to pick up the phone and call them, or write them a letter explaining temporary problems. But don't expect to "sell them a sob-story" and have them "give you a break." Credit lenders are a business, and they will have little sympathy for those who aren't willing to work to correct a financial problem.

We hope we have helped you considered all the problems created by using credit cards, and are now prepared to stop using them, and to start reducing your credit card debt!

STOP CREATING MORE DEBT!

CURB YOUR SPENDING. Always spend less than you earn! Avoid splurging! Want some ideas on how to do that? This is surely something you already know... but you must get serious about how you spend your money.

Thrift is the basis of all great fortunes. And savings begin in small amounts. We want to save in big chunks, and being unable to do that, we waste countless small sums. Thrift not only means financial security, it imparts poise, moral stamina, courage, ambition, independence, and confidence. It is not possible to practice thrift in the saving of money without receiving benefits in other ways, such as the conservation of time, health, energy, the uplifting of moral instincts, and the development of mental capabilities.

With thrift comes peace of mind. It relieves the mind from worry, and makes one confident of the future, and thus removes one of the main leaks of vitality when old age begins to creep over one. Out of your current conditions a prosperous, solid future can be started.

Ways to curb your spending:

- Re-learn frugal habits.
- Quit using your credit cards!
- Stop eating out at lunch, bring it from home instead.
- Give up happy hour.
- Make a few sacrifices.
- Make sure your car is gas efficient.
- Frozen or processed foods usually cost more than fresh foods or more than you making meals yourself.
- Make sure your home is energy-efficient.
- Don't over heat or cool your home, especially when you're not there.
- Do without!
- Don't buy books you read for entertainment, get them from the library.
- Don't buy DVD's or video's.... rent them instead.
- Forget that expensive cup of coffee.
- Buy good but basic clothing and shoes that won't go out of style soon and that will last.
- Don't bounce checks! In addition to the *very high fees* per bounced check the bank will charge you, you are liable for serious legal problems and are charged additional fees from the person or company you gave the check to! *If the money isn't in the bank... don't write that check!* And remember that now most of the checks we write will clear a bank almost immediately. Once again, if the money isn't in the bank, don't write that check!
- Don't place luxury items such as an expensive automobile or television set ahead of the important basics you need!
- Don't think that just because they offer incredible, long-term, low-cost financing options, that you really need what they are selling!
- Save money on grocery bills by planning your meals ahead of time and using a grocery list

- Buy items in bulk at warehouse clubs and discount stores. A good idea might be to shop at these types of places with another person or family that can split the quantity and cost of items.
- Shop around for the cheapest long distance carrier or cellular telephone company.
- Don't forget coupons! May sound silly, but the savings they offer can add up. You can even take advertisements as proof of current pricing, and get some stores – such as Wal-Mart – to match the pricing offered elsewhere.
- Take good care of the items you do own. Don't throw clothing on the floor. Hang it up or fold it and put it away; it will last longer.
- Think before you buy something. Do not buy on impulse.
- Give handmade cards and gifts. People really do appreciate the time and thoughtfulness that you might spend doing this, versus the cost of a gift.
- Shop at consignment or second-hand stores. There really are bargains to be found.
- Watch what young children may want to buy – such as when you are checking out at the grocery store. Say 'no,' and teach them a good financial lesson why, while saying 'no.'
- Don't be afraid to let your children know when you think you can't afford something. They should understand early the value of money.
- Practice “managed spending” – only buy those things you have predetermined you need.
- Avoid those commercials that urge you to *buy now!*
- Avoid the salespeople in the grocery store handing out free samples and wanting you to buy something you really hadn't consider buying before then! They are usually more expensive, and if it wasn't on your list, you don't need it!

If you put your mind to it, we're sure you will realize where you spend money needlessly. Stop it!

Our parents more than likely tried to instill in us good financial habits. The habits they tried to live by are:

- Avoiding debt
- Always reading the small print
- Checking bank and credit card balances and statements (and balance your checkbook)
- Saving regularly so they always have a bit of cash put aside for a rainy day
- Never borrowing money from friends or colleagues

Still good lessons to keep in mind!

BALANCE YOUR CHECKBOOK EVERY MONTH!

You wouldn't think it needs to be said, but we're going to say it anyway..... balance your checkbook at least once a month. Be careful of your checkbook! Always enter ALL transactions in a register. You may have a 'checking account debit card' that allows you to just 'swipe' your card at stores where you are

making purchases. Remember, those funds are coming out of your checking account immediately... so always know exactly how much is in your checking account!

Each month, your bank (or credit union) will send you a statement of your account either in the mail or by e-mail if you prefer. The statement will list all of your transactions as well as any fees charged to your account. In order to make sure you didn't forget to write down any withdrawals and/or deposits (and also to double-check the bank's activities) you should go through each entry in your register and compare it with the bank statement. They should match up -- this process is called **reconciling**. If they don't, you'll need to find your mistake and correct it in your register (unless it is a bank error, but that isn't very likely). On the back of most checking account statements they provide you with an easy to use form to assist you with this task.

And as we always say.... Don't write that check if there is not enough money in the bank to cover it! It is extremely costly, it is illegal, it damages your credit standing with both the bank and the person or business you gave it to, and it's just plain dumb!

BORROWING MONEY!

ONE BASIC RULE: Don't borrow for anything that has a useful life shorter than the term of the loan. And remember, you are borrowing even when you use a credit card.

When you borrow, you are using *Other People's Money* to buy things for yourself. "Other People" will demand a very high cost for loaning you money!

That being said, while we are urging you to NOT ACQUIRE MORE DEBT, there are instances when you have to borrow. So we want you to be informed about borrowing money... when to borrow, how to borrow. Firstly, understand that this means you have to realign your attitude about borrowing money, and understand that financial products (loans, credit cards) do not make you any richer, they cost you money, but have the advantage of allowing you to have what you think you can afford, quicker.

Set priorities for acquiring debt. Borrow money for things that provide long-term and lasting value. Borrowing for college costs is probably good. Charging another extravagant vacation on your credit card is probably not a good use of debt.

When you have to borrow money – as most of us do at some point in our lives – there are various legal and financial ramifications to making the wrong decision. The last thing you want to do is let borrowing money *ruin your credit score* or set you up for legal action.

Consider these things about borrowing money:

Borrowing Money: **Be careful about if you can pay the debt off early.** Many loan agreements have penalties for paying the loan off too early, so be sure to read the fine print. If you have enough money to pay the loan off early, consider putting that sum into a high-interest savings account so you earn a little

extra as you continue to pay off the principle of the loan. Also try to get a loan that has no early prepayment penalties. It may just be a matter of requesting it.

Borrowing Money: Bankruptcy should not be an option. Many people rely on bankruptcy like a security blanket that chases the bad debt away. With the new bankruptcy law, many debts are not covered by bankruptcy, and if you file now, you can't file again for another 6-8 years. Bankruptcy is NOT something you want to have to do.

Borrowing Money: Be careful of grace periods. Cash advances from credit card accounts usually have no grace period, which means that interest will begin to accrue from the moment you take the cash from the bank or ATM. That means that even if you pay off the cash advance before the next billing cycle, you'll still pay interest on the cash you were given.

Borrowing Money: Be wary of your ratings. Failing to pay your debts on time is the number one reason for a drop in credit ratings. When you borrow money, make sure that you'll be able to pay it back on time. Further, creditors can take you to court for unsatisfied debts, which means even more money down the toilet.

Borrowing Money: Follow the 80% rule. Credit experts advise that you not charge business expenses if your credit card debt is more than 80% of your limit.

YOUR FICO SCORE

What is a FICO score? Banks use what is called the FICO score as the basis for loan determination. FICO stands for Fair, Isaac and Company, who in the 1980's devised a mathematical model to predict the credit risk of consumers based on information in their credit report. Today, the Fair, Isaac system -- known as FICO® -- is the scoring model most widely used by lenders.

Your FICO score is your *grade*... it is the result of your habits, both spending, saving, and EARNING. A bank or other lender uses all of your financial information to arrive at your grade. So can you pass such a "test" or not?

They will not only look at your credit rating, although that is an important component. They will especially take into consideration your total income. Can you "cash flow" the loan you want? Do you earn enough money to comfortably make the loan payments to the lender? What typically drives a borrower to the bank is that there is a 'credit crisis.' If you get to that point, it is too late to ask someone to loan you money, and they probably won't lend it anyway. So know the factors that impact your FICO score.

Things that impact your FICO score:

The first and foremost thing that impacts your FICO score is your employment history. If you frequently change jobs, it will negatively impact your score. Lenders want to see that you are steadily employed and are capable of earning, and thus capable of paying your bills.

The other things that impact your FICO Score, and the percentage that they contribute to the scoring:

1) **Payment History: 35%** Payment history is considered the most important factor in the determining process. This history is provided by credit reporting agencies and collectors. The information is not confirmed by the reporting bureau; it is merely recorded. You want to show that you can pay your bills on time. There are a lot of facts compiled:

- Payment history on each individual account.
- The number of accounts paid on time, as agreed.
- The presence of adverse public records, such as tax liens, lawsuits, bankruptcy, judgments, collection items, and wage attachments.
- The severity of delinquencies.
- The total amount past due on delinquent accounts.
- How long it has been since accounts became past-due or delinquent.
- The number of past due items.

2) **Total Amount Owed: 30%** The amounts still owed off of the amount that was originally extended (in either credit card limit availability or lump sums). The larger the difference between the two the more favorable this matters to your score. Things considered are the total amount owed on accounts and the types of accounts, and the number of accounts with balances.

3) **Length of Credit History: 15%** The longer you show a relationship with a creditor, the better. Consider this before you close or open accounts.

4) **New Credit: 10%** Applying for new credit lines can have a negative impact on your credit score. When you get those special offers in the mail and apply for several of them, consider that this will negatively affect your credit score first!

5) **Types of Credit Used: 10%** Some types of credit lines are considered a lower risk than others. Your home mortgage or auto loan are the best types, while credit cards or retail accounts are less favorably viewed.

What your FICO Score numbers mean:

- 720 or higher – Class A - you are viewed as an Excellent risk
- 660 to 720 – Class B – you are viewed as an Acceptable risk
- 620 to 669 – Class C – you are viewed as an Uncertain risk
- less than 620 – Class D – you are considered a High risk, and it will be

You might need to verify that your report contains the right information. Things you should look for when verifying your report are:

- Your name, address, and social security number are correct.
- Check the company names that are reporting to make sure you have a relationship with them.
- Check the account numbers to be sure they are yours and that the account type is correct.

- Check the account status; is that account really “open” or “closed,” or “charged off.”
- Check that the current account balance is correct.
- Check that the terms and limits of the accounts are correctly stated.

CREDIT RATINGS!

Your credit rating is one of the most important factors that lenders will look at when they are trying decide if they will loan you money!

What is a Credit Rating?

A credit score is a tool used by a lender to help determine whether you qualify for a particular credit card, loan, or service. Based on information in your credit file, the credit reference agency analyses your information using a complex mathematical model to yield your credit score.

“Most credit scores estimate the risk a company incurs by lending you money or providing you with a service -- specifically, the likelihood that you'll fail to make payments in the next two to three years. The higher the score, the less risk you represent. Your score is calculated by a mathematical equation that evaluates many types of information found in the credit file.” *(quote from Equifax – one of the three leading credit reporting agencies)*

You will have a **LOW** credit rating if you have **NOT PAID YOUR BILLS ON TIME!** So for goodness sake, please make timely payments. The ratings also look at the **TOTAL AMOUNT OF DEBT** you owe.

By law, you are entitled to obtain your credit score, but usually there will be a fee to obtain it. Many different formulas are used to calculate credit scores, but most are based on the following factors, which each scoring model weighs differently.

You can contact any of the big three credit reporting agencies to obtain a copy of your credit report & rating:

Equifax

PO Box 105873
Atlanta, GA 30348
800-685-1111

Experian

PO Box 2002
Allen, TX 75013
Consumer Credit Questions
888-EXPERIAN (888-397-3742)

TransUnion
Post Office Box 2000
Chester, PA 19022
(800) 888-4213

Key factors considered when making up your Credit Rating:

- 1. Payment history.** A record of late payments on your current and past credit accounts will lower your score.
- 2. The amount of balances owed.**
- 3. The length of your credit history.** In general, a longer credit history is better.
- 4. The types of credit you use.**
- 5. Accounts in use.** The presence of too many open accounts can lower your score, whether you're using the accounts or not.
- 6. Number of new lines of credit within the last few months.** Opening multiple new accounts in a short period of time may lower your score.
- 7. Number of inquiries about your credit history.** Whenever someone else gets your credit report -- a lender, landlord, or insurer, for example -- an search is recorded on your credit report. A large number of recent searches may lower your score.
- 8. Public records.** Matters of public record such as bankruptcies, judgments, and collection items may lower your score.

If you have lots of inquiries about your credit card rating, it will be reflected in your rating. You will lose some points if there a number of credit inquiries over time for applications such credit cards, auto loans, department store credit cards, etc. that you have initiated. You will lose some points if there a number of credit inquiries over time for applications such credit cards, auto loans, department store credit cards, etc. hurt your overall credit score. Think about this next time you get an offer for 10% off your purchase just for signing up for a store credit card, and just say no! You should never apply for credit if you are not very confident that you will get approved. You might save \$20 now, but you could lose much more than that later due to a worse credit score. Plus if you forget to make payments, it will really negatively effect your credit, and you might be charged late fees, etc.

Also, if you are shopping for a car or mortgage, try and keep all the inquiries to within two weeks since credit scoring companies will only treat all these as one "inquiry" on your credit report, instead of multiple inquiries.

Another key thing to remember is your Credit Score is not based on how "clean" your Credit Report looks. You may have many things on your credit report that drag on for years, but remember these are good things since they show credit history. As long as they don't show late payments, they are adding points to your score since you have proven to be a reliable consumer who can pay back debts in a timely matter.

Don't contact these vendors and close accounts since it might hurt your score. The items you are very interested in are late payments, judgments, delinquencies, etc. You can close accounts that are less than a year old, however we recommend focusing our energy on things that can really make a big difference.

What your Credit Rating numbers mean:

- 780 + = Perfect
- 720 – 780 = Excellent
- 675 – 720 = Average
- 620 – 690 = Fair
- Below 620 = Poor

Having a bad credit rating is not the end of the world. But what it *does* mean is that you are likely to get worse deals, and ultimately pay more for borrowing money. Interest rates you are quoted will be higher than for they quote to those people who have a good credit rating. A bad, or low, credit rating will affect a business's likelihood of contracting with you. And remember this: it can take from six to seven years before bad credit reports to drop off of your credit rating!

What you should do about a bad credit rating:

1. **Ensure that you pay all debts off on time and that you do not use credit as a means of long term financing.** This is what bank loans are for.
2. **Make sure that you deal with reputable companies** that operate on a large scale as they will be more likely to sell positive data to credit checking agencies.
3. **Look for offers that you are applicable for,** and then price them to find out which is the cheapest. Once you have chosen a credit card that suits your needs, and the one that is most cost-effective for your spending habits, then follow the rules – pay your bills on time - to improve your credit rating and reduce the cost of borrowing over time.
4. **Start now on developing long-term relationships with the credit lenders you do use.** Don't open or close a lot of accounts. Pick a few credit lenders, and stick with them. You can always renegotiate interest rates with your current lender, especially after you show good faith by paying on time.
5. **Settle disputes quickly.** Don't allow problems to become legal judgments or lawsuits. Take charge of your financial disputes and negotiate with lenders before they take legal action.
6. **Get in the habit of paying on all of your bills at least twice monthly.** Bills are usually either going to be come *due-and-payable* either by within first part of the month or the later part of a month. So set a schedule for yourself when you pay bills that will allow them time to be mailed and be received by the vendor in time for their deadline. Sit down, compile your bills, determine the amounts you are going to pay, and *pay them!* You may need to contact some of your creditors and *change the payment due date,*

depending on when you receive your paycheck and when other vendors expect payment. Even make sure you are current on things like your phone bill and water bill.

7. **Know how much cash you have at all times.** Keep a notebook and record any cash expenditures. Know where your cash is going! And keep the correct current balance available in any checking accounts. Never bounce a check. If the money isn't in the account at the time you want to write a check.... don't write it! *'Bounced' checks are legal and financial disasters.*

8. **Don't over-react to a bad credit rating.** Take a deep breath, and start repairing the damage over time. Even small steps taken to repair your credit will eventually show up on a credit report. Learn more about your finances, and educate yourself over the pitfalls that get you in trouble. Once you are aware of the problems, you have a better chance of correcting them.

The uneasy truth is that for those who have the most need to borrow money, they also find they are in a position where they cannot borrow as much as they need. If you are in a position where you need to borrow money and you cannot, then the chances are that you have had the wrong approach in the past. What do we mean by this? You have seen getting credit as a way to borrow money in the long term, where the chances are you have not seen this as a short term fix, or a burst of liquidity that you will be able to finance by either expecting an increase of money in the coming months, or expecting a decrease in expenditure. As a result of this you may have found that, where as before you could borrow money easily, you are now in a position where you cannot gain credit. This may have become apparent when you tried to get a loan for a car, or maybe you tried to get finance from your bank or a retailer. The fact is that if you have a bad record of paying debts, businesses inevitably see you as more of a risk, and credit card companies are no different.

Always keep in mind that something could happen that might hinder your ability to make payments on things you have borrowed for. What if you break your leg and can't work for a month? We assure you that businesses who have offered you credit don't care about your problems. They will still send your record to credit reporting agencies.

Remember, there is no credit 'blacklist'. Your name is not on a 'do not lend' database – and your home address is all they need to find out how well you have behaved with other credit agreements. And it's all true. If it is not true, you can easily amend your credit history and then re-apply for your loan etc. The best thing to do is before you miss any payments on your first ever credit agreement, *i.e.* the phone bill, gas bill, credit card, store card – is get another credit agreement. The more good records on your credit history the better – and this potentially involves borrowing more money. So how could another credit card possibly mean good news?

Having a credit card improves your credit rating, particularly if there are no missed payments. If you get a fee-free credit card, and then destroy the card itself and never make any transactions, this will still bolster your credit history. It costs you nothing. But don't have too many credit cards! A lender will look at the maximum amount you could charge, your credit 'limit' – and could include those limits as liabilities against making you a loan.

Remember that with self-control, you can live without credit. But the odds are we will all need to borrow money, and having a good credit rating is essential.

Have you ever bought something simply because it ‘made you feel good?’ Buying something just because it makes you ‘feel better’ for some reason is a very bad habit, and a very poor excuse for spending your money! Take this exercise, and you’ll see what we mean:

I was feeling _____ because _____

I bought the following _____

But this is how I felt when the bill came! _____

Ways to improve your credit rating:

- If your credit needs some quick boosting, and you have extra cash, **pay down as much of your debt as possible**. The lower your ratio of current debt to available credit limits the better you look to a lender, and the higher your credit score will be. The flip side of this is to call existing credit card accounts you may have and **ask them to increase your limit**, though you won't actually use it. You should do this as often as possible, even if you don't need the credit. This will also increase your credit score. **Note:** Do *not* open additional credit card accounts to increase this ratio, since that may hurt your credit. But increased credit limits on existing accounts will help since you will be lowering your overall debt ratio.
- **Watch your ratios.** For example, if you have 10K in debt with a 15K credit limit, your ratio is 2/3 or 67%. However, if you increase your credit limit or pay down your 10K, you will lower your ratio 50% or less, which will help your Credit Score. Also, be very careful of Capital One credit cards, for some reason Capital One will sometimes report a \$0 Credit line which might cause a lower Credit Score in some instances.
- Cancel some cards if you have too many, but if you are carrying debt try to **keep the ratio of debt to available credit limits at around 30%**, with about four cards for the best Credit Score. Don't cancel cards if it will put you below this ratio, and if you have to cancel cards make sure you only cancel ones with less than one year of history. Do not cancel cards that are older than one year, remember your Credit Report does not get points for being clean of old accounts. Focus on doing the right things in order to increase your score, not cleaning up your report of old accounts. Cleaning up may actually have a negative impact on your Credit Score!
- Another great way of helping your score is by **spreading your debt to different cards**. Although you may pay more interest, your Credit Score will improve since not all your debt will be on one card that is close to its credit limit. For example, if you have 20K limit on one card with 18K of debt, and have another card with a 15K limit with 2K of debt, its better to move 8K of debt from the higher card to the lower card. By doing this you will lower your ratio of debt to available credit on the one card, helping

your Credit Score even though you haven't really paid anything down! Of course, we don't recommend you having a lot of cards, so be careful with this one!

- **If you have no debt and have had no credit history within two years, go get some!** Even though you don't need to fix your Credit Score, you do need to create some credit history. This may sound strange to take on debt, but it works very well since it shows you can borrow and pay back large amounts of cash. Begin *responsibly* using a credit card for as much as possible and pay it back in full every month, or you can even leave a little bit of debt on it, (less than 30% of the limit). Or take out one of those promotional low % point loans from one of your credit cards for up to 50% of your credit limit, put the cash into an account, and pay it back slowly (but before the special interest rate expires -- and don't spend it!). You will notice your scores dramatically improve after you have paid back the debt since you have created a good credit history. Remember, it's never too late to start building your credit.
- If you have a partner/spouse or relative with good credit, have them **add you to their credit card**. This works very well since you will get credit for their payment of bills, and this will create more positive credit history for you. Anybody can add you to their credit card as an authorized user, and you get part of their good credit history.
- **Pay your bills on time** by having them **automatically deducted** from your bank account or paid online before they are due. Being consistently late with payments is the easiest way to lower your score, and also the easiest way to keep your credit improving month after month - just pay your credit card bills on time or early! Even if you can only swing the minimum payment, get the payment there before the due date. Most credit card companies allow you to pay online, so make sure you take advantage of this and don't waste time and money on stamps and mailings. Keep the amount of credit cards you have to a minimum, so you don't forget to pay them. (Store credit cards are easier to obtain, but far too easy to get in the habit of using! Keep them to a minimum.) Remember: only apply for cards that you really think you will get approved for.

You should do everything you can to increase your credit score and remember to check it before making a big purchase (house, car) so you can minimize your interest costs.

There are better things in life to spend your money on than high interest costs that make financial institutions more money.

You can be your own “Debt Manager.” We are giving you the tools you need to get out of debt, repair your credit, and grow your own personal net worth. Use these tools to get a hold on your finances. Credit counselors are not only paid by you, but they are also paid by the creditors with whom they are negotiating. So they may not advise you of all of your options, as they have to keep the creditors happy, too. And consulting credit counselors can have a negative impact on your credit rating.

Debt settlement is a more honorable alternative to bankruptcy. Creditors are aware of the tactics of debt settlement companies. As a result, they often offer stiffer terms to a professional debt settlement agency than they might offer to directly to you. A debt settlement company should be one of the last things you consider before bankruptcy. They should be able to protect your rights under federal legislation provided through the Fair Debt Collections Practices Act and the Fair Credit Reporting Act. They should offer legal representation. But the best thing you can do for yourself is be educated about your alternatives.

KNOW YOUR RIGHTS WHEN DEALING WITH DEBT COLLECTORS:

Laws that govern debt collection:

You can read more about the laws that are designed to protect consumers at www.ftc.gov. Here is a broad overview of the laws:

The **Fair Debt Collections Practices Act** was designed to protect consumers and prevent the use of “abusive, deceptive, and unfair debt collection practices” by debt collectors. Creditors still have the right to contact you about a debt, but they must follow the guidelines.

The guidelines state that the debt collectors must:

- 1) identify themselves
- 2) not state that such consumer owes any debt;
- 3) not communicate with any such person more than once unless requested to do so by such person or unless the debt collector reasonably believes that the earlier response of such person is erroneous or incomplete and that such person now has correct or complete location information
- 4) not communicate by post card;
- 5) not use any language or symbol on any envelope or in the contents of any communication effected by the mails or telegram that indicates that the debt collector is in the debt collection business or that the communication relates to the collection of a debt; and
- 6) after the debt collector knows the consumer is represented by an attorney with regard to the subject debt and has knowledge of, or can readily ascertain, such attorney's name and address, not communicate with any person other than that attorney, unless the attorney fails to respond within a reasonable period of time to the communication from the debt collector.

In communicating with a debtor, the collector may not communicate with a consumer:

- 1) at any unusual time or place or a time or place known or which should be known to be inconvenient to the consumer,
- 2) if the debt collector knows the consumer is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney's name and address
- 3) at the consumer's place of employment if the debt collector knows or has reason to know that the consumer's employer prohibits the consumer from receiving such communication.
- 4) Communicate with third parties without the prior consent of the consumer.
- 5) Cease communication if the consumer wishes the debt collector to cease further communication (with some exceptions)

Debt collections may not engage in any conduct that the consequence of which is to harass, oppress, or abuse any person in connection with the collection of a debt. Violations include:

- 1) the use or threat of use of violence or other criminal means to harm the person, reputation, or property of any person.
- 2) the use of obscene or profane language
- 3) the publication of a list of consumers who allegedly refuse to pay debts, except to a consumer reporting agency.

- 4) the advertisement for sale of any debt to coerce payment of the debt.
- 5) causing a telephone to ring or engaging any person in telephone conversation repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number, or placing telephone calls without disclosing their identity.

A debt collector may not use any false, deceptive, or misleading representation or means in connection with the collection of any debt. This includes threats to take any action that cannot legally be taken or that is not intended to be taken; any attempts to disgrace a consumer; falsely representing that a consumer committed a crime; communicating false information or using a false name,

A debt collector may not use unfair or unconscionable means to collect or attempt to collect any debt. Such as...

- 1) The collection of any amount (including any interest, fee, charge, or expense incidental to the principal obligation) unless such amount is expressly authorized by the agreement creating the debt or permitted by law.
- 2) The acceptance by a debt collector from any person of a check or other payment instrument postdated by more than five days unless such person is notified in writing of the debt collector's intent to deposit such check or instrument not more than ten nor less than three business days prior to such deposit.
- 3) The solicitation by a debt collector of any postdated check or other postdated payment instrument for the purpose of threatening or instituting criminal prosecution.
- 4) Depositing or threatening to deposit any postdated check or other postdated payment instrument prior to the date on such check or instrument.
- 5) Causing charges to be made to any person for communications by concealment of the true propose of the communication. Such charges include, but are not limited to, collect telephone calls and telegram fees.

A debt collector may not use any false, deceptive, or misleading representation or means in connection with the collection of any debt.

A debt collector may not use unfair or unconscionable means to collect or attempt to collect any debt.

If any consumer owes multiple debts and makes any single payment to any debt collector with respect to such debts, such debt collector may not apply such payment to any debt which is disputed by the consumer and, where applicable, shall apply such payment in accordance with the consumer's directions.

The Fair Credit Reporting Act was designed to provide for accuracy and fairness of credit reporting. It regulates the collection, dissemination, and use of consumer credit information.

Consumer reporting agencies (CRAs) are entities that collect and disseminate information about consumers to be used for credit evaluation and certain other purposes. They hold the databases which are the origins of a consumer's credit report. CRAs have a number of responsibilities under FCRA, including the following:

Provide a consumer with information about him or her in the agency's files and to take steps to verify the accuracy of information disputed by a consumer. Under the Fair and Accurate Credit Transactions Act (FACTA), an amendment to the FCRA passed in 2003, consumers are now able to receive one free credit report a year.

- 1) The free report can be requested by telephone, mail or through the government authorized website, annualcreditreport.com.
- 2) If negative information is removed as a result of a consumer's dispute, it may not be reinserted without notifying the consumer within 5 days, in writing.

CRA's may not retain negative information for an excessive period of time. The FCRA spells out how long negative information, such as late payments, bankruptcies, tax liens or judgments may stay on a consumer's credit report - typically 7 years from the date of the delinquency. The exceptions: bankruptcies (10 years) and tax liens (7 years from the time they are paid).

An information furnisher, as defined by the FCRA, is a company that provides information to consumer reporting agencies. Typically, these are creditors, with which a consumer has some sort of credit agreement. (credit card companies, auto finance companies and mortgage banking institutions, to name a few). However, other examples of information furnishers are collection agencies (third-party collectors), state or municipal courts reporting a judgment of some kind, past and present employers and bonders.

Under the FCRA, these information furnishers may only report to a consumer's credit report under the following guidelines:

- 1) They must provide complete and accurate information to the credit rating agencies.
- 2) The duty to investigate disputed information from consumers falls on them.
- 3) They must inform consumers about negative information which has been or is about to be placed on a consumer's credit report within 30 days.

(This notice doesn't have to be sent as a separate notice, but may be placed on a consumer's monthly statement. If sent as part as the monthly statement, it needs to be conspicuous, but need not be in bold type. Required wording (developed by the US Federal Treasury Department):

Notice before negative information is reported: "We may report information about your account to credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report."

'Notice after negative information is reported: "We have told a credit bureau about a late payment, missed payment or other default on your account. (This information may be reflected in your credit report.)"

BANKRUPTCY! People used to use bankruptcy as a means of eliminating debt, thinking they could just "walk-away" from their financial obligations. Recent laws have drastically changed the ability to simply declare bankruptcy and do that. While the laws still try to protect debtors with financial difficulty and offer them an opportunity for a fresh start, they also were strengthened to help those who are owed money receive a just return. Bankruptcy laws provide for the development of a bankruptcy plan that allows a debtor to resolve his debts through the *division of his assets* among his creditors. This court

supervised division provides an orderly manner for the debtor's non-exempt assets to be dispersed among the creditors with some measure of equality. It also provides the debtor with assurance that when the bankruptcy is discharged they will have a fresh start free from the financial obligations incurred previous to the bankruptcy. But in essence, *declaring bankruptcy could just be a way of being forced to budget!* Plus you would be forced to give up some of your important assets. It can take years to settle, with the court system mandating payments, sometimes over long periods of time. Then the stigma of bankruptcy will follow you for many years, perhaps prohibiting you from buying a home or sending your children to college. So don't let your financial affairs come to the point where bankruptcy seems to be the only way out of debt! Take control of your own affairs, and become financially independent!

There are two options you can choose:

Chapter 13 Bankruptcy is sometimes referred to as "reorganization," and is like a debt settlement program. The consumer and creditor reach an agreement for a reduction of the balances owed, and then the consumer begins to pay the creditor and those payments are supervised by the U.S. Trustee's office. The Chapter 13 bankruptcy can "cease & desist" all collection activity. All payments are made through the trustee's office each month, and the trustee's office distributes those funds each month to the consumer's creditors.

Chapter 7 Bankruptcy is a process that "wipes the slate clean and provides the consumer with a fresh start." In cases where the consumer has a home with a mortgage, or a car that hasn't been paid off, the consumer can "reaffirm" those debts and preclude them from being discharged through the bankruptcy. This just means that the creditor holding the note on those possessions will still get paid and the consumer can maintain the privilege of owing them the money.

The Bankruptcy Abuse and Prevention and Consumer Protection Act of 2005 requires the consumer to "qualify" for bankruptcy protection in a more stringent fashion. The consumer can't just choose to file a bankruptcy petition without first seeking options approved by the U.S. Trustee's office.

Some of the more significant (and controversial) changes introduced to bankruptcy doctrine include:

- Increasing the amount of paperwork which must be filed by every debtor, requiring pre-filing Credit counseling and post-filing financial education for debtors whose debts are primarily consumer debts, increased filing fees, and increasing attorney obligations in a manner that, collectively, will increase the cost of filing for bankruptcy. On the other hand, filing fees can now be waived for debtors earning below 150% poverty level. However, if there is no qualifying credit counseling agency in a debtor's area, the bankruptcy trustee can waive this requirement.
- Making it more difficult for individuals to receive a Chapter 7 discharge. A means test is to be imposed on would-be filers to test if they have enough disposable income to fund a Chapter 13. Debtors whose debts are not primarily consumer debts (e.g. business or tax debts) are not subject to this test. Debtors whose gross income (based on the six month period prior to filing), is at or below the median income in the state.

And some final words about bankruptcy... If you find you simply must declare bankruptcy, it's not the end of the world. Time will eventually erase the serious blow to your credit standing, if you follow the

rules and start to rebuild the state of your finances. Our goal is to keep you from getting to the point of bankruptcy, however!

BUY A HOME!

We recommend that everyone buy a home; either a single family home or a condominium/town home, because it will accumulate in value; it will become worth more money than you paid for it... if you are wise in the home your purchase, and take care of it. If you are just starting out and have never owned a home, you may not be able to buy the exact home you want right at first. But buy a home! Start small, even buy one that you can, over time, repair and improve yourself. A home is the best appreciating item you can buy. Buy in a location that will likely continue to have good home appreciation values. Maintain your home. Don't neglect small repairs items, as they will likely become large repair items. There is distinct pride in owning your home, and the financial benefits are always there... from tax advantages to the appreciation value.

An individual or family that owns its home takes a pride in it, maintains it better, gets more pleasure out of it, and has a more wholesome, healthful and happy atmosphere in which to live. The home owner has a constructive aim in life. He or she works harder outside the home; spends leisure time more profitably; and lives a finer, more stable life, enjoying more of the comforts and cultivating influences of life. A home owner is more apt to save, and even have more of an interest in the advancement of our social system, and a more active part in local government. Moreover, the love of a home is one of the finest instincts we can have, promoting our personal progress in the right direction. Home ownership is good for communities, and good for business. Own a home, and you can make alterations as you see fit, and money spent for improvements adds to the value of your own property. You feel a sense of security and find a stimulant in earning and saving to pay for the home and making it attractive.

It may take only a few days or weeks to assemble the information any home seeker should have in hand before you take the decisive step of buying a home. It is usually the largest investment you will make, so plan wisely. It pays to make a careful decision and avoid worries in relation to buying a home. But don't be afraid. Prospective homeowners should use common sense in considering the real needs of your family and yourself, and your ability to pay; and consult with experienced people; then proceed with confidence.

Buying or building a home requires the use of sound judgment in seeing that the personal needs of the family are best met with the funds available. It involves not only carrying out the transactions of financing, and buying or building, but also the proper determination of location with respect to school, work, and neighborhood.

What you should consider when buying:

Before you buy, there are a number of things to consider in about your future home...

- Price of home and potential for appreciation
- Location or neighborhood
- Quality of construction, age, and condition of the property

- Style of home and lot size
- Number of bedrooms and bathrooms
- Quality of local schools
- Crime level of the area
- Property taxes
- Proximity to shopping, schools, and work

There is a general rule of thumb that you can afford a house that costs two and a half times your annual salary. However, the amount you can afford is really dependent not only on how much you earn, but on any long-term debts you may have. Any bank or lending institution should have tables to assist you in determining how much you can afford. There are also many websites available to help you.

As with all loans, once you have determined the amount you can afford to borrow, shop around for the best interest rates. And we recommend that you find a real estate agent to guide you through the process of buying a home. It will make the process much easier, and might even save your money. An agent can...

- Help you determine your housing needs
- Show you properties and neighborhoods in your price range
- Suggest sources and techniques for financing
- Prepare and present an offer to purchase
- Act as an intermediary in negotiations
- Recommend professionals whose services you may need (e.g., lawyers, mortgage brokers, title professionals, inspectors)
- Provide insight into neighborhoods and market activity
- Disclose positive and negative aspects of properties you're considering

What you will need to have with you when you applying for a mortgage:

- The name and address of your bank, your account numbers, and statements for the past three months
- Investment statements for the past three months
- Pay stubs, W-2 withholding forms, or other proof of employment and income
- Balance sheets and tax returns, if you're self-employed
- Information on consumer debt (account numbers and amounts due)
- Divorce settlement papers, if applicable, including any children support or alimony agreements

DIFFERENT TYPES OF MORTGAGES:

While home mortgages used to be pretty straightforward, today they are more complicated, and thus you need to be more informed and wary about the type of mortgage you obtain. Mortgages used to be 30 year agreements with a fixed rate, and required 10 to 20% down payment. Now lenders have become very creative in responding to the changing marketplace.

Conventional Fixed Rate Mortgage:

The most common type of mortgage, and the kind most of us are familiar with, is the conventional fixed rate mortgage. Property taxes and insurance may increase, but generally your monthly payment stays very stable. These types of mortgages are available from 10 years, 15 years, 20 years, or 30 years. The shorter the term the higher the monthly payment will be, but you will pay much less interest over the life of a shorter term loan. Get the shortest possible term you feel you can safely manage. The savings could amount to hundreds of thousands of dollars! While your payment may be slightly higher, it is well worth cutting back on something else so you can obtain these huge savings on a very high dollar item.

Some of these loans can be obtained with a “bi-weekly” payment option. This means you pay on your mortgage every two weeks, instead of making one payment a month. The good thing about this type of loan is that it *automatically means you will make one more week of payments on your loan per year.* This could cut several years off the term of your loan!

Typically, 90 percent of your monthly payment in the early years of the loan is paid toward interest. As the loan is paid down over the years, more of the monthly payment is applied to the principal. But after seven years, you still typically owe about 92 percent of the original amount of the loan. That is why it is a generally a very good idea to obtain the shortest termed conventional loan you possibly can.

- Low risk
- 10- to 40-year terms
- Interest rate doesn't change
- Large down payment (compared to government mortgages) may be required
- Payment remains the same

Adjustable Rate Mortgages (ARM):

We urge you to think carefully before you get an adjustable rate mortgage. In general, lenders came up with this option as a way to get consumers to spend more than they can afford! It might give you lower initial payments, as generally people obtain these types of loans when interest rates are low; but the rates can change drastically, even to the point where you cannot afford the payments. This, obviously, could cause severe problems... either in your being unable to afford your home, or it could cause you to have to refinance... which could entail not only more closing costs, but which would also lengthen the term of your loan.

These interest rates tied to indexes. The lender can only raise your interest rate with the indexed interest rates go up. It is far more likely that the indexes will go up, instead of going down. These indexes could be based on various types, such as the 6 month rate of Certificate of Deposits, the one year Treasury Spot ARM, or the six month or twelve month Treasury Average ARM.

- Higher risk
- Initial interest rate often lower than conventional fixed rate mortgage
- Interest rate may go up or down
- Interest rate usually adjusted annually
- Rate adjustments may be limited by cap(s)
- Payment caps can result in negative amortization in periods of rising interest rates

Getting government help toward home ownership:

Government Mortgages:

The United States government offers many home-loan assistance programs.

FHA loans have been helping people become homeowners since 1934. FHA might be just what you need. Your down payment can be as low as 3% of the purchase price, and most of your closing costs and fees can be included in the loan. FHA has a loan that allows you to buy a home, fix it up, and include all the costs in one loan. Or, if you own a home that you want to remodel or repair, you can refinance what you owe and add the cost of repairs - all in one loan. You can include the costs of energy improvements into an FHA Energy-Efficient Mortgage. They even offer reverse mortgages for those over 62 who have equity in the home they own. FHA has financing for mobile homes and factory-built housing, in the form of two loan products – one for those who own the land that the home is on and another for mobile homes that are - or will be - located in mobile home parks.

If you're a first-time home buyer, you might qualify for an FHA loan, and put only 3-5% down. The loan is still made by the bank, not FHA. FHA just guarantees part of the loan. That means they pay the bank if you fail to make your mortgage payments. However, if you fail to make your mortgage payments the bank will still take the house back. The benefit of the loan being partially guaranteed is that it's easier to get the loan, because the bank doesn't take on much risk by loaning you the money if the FHA is guaranteeing part of the loan. Another benefit of FHA loans is that they're easier to get than conventional loans if you have credit problems. However, not all sellers will agree to an FHA loan, because there's a little more red tape involved, and because the house can't be a fixer-upper -- the house has to be in excellent shape to pass an FHA inspection

You can learn more about FHA loans from their website: <http://www.hud.gov/fha/loans.cfm>

Advantages of government-backed mortgages are:

- Interest rate sometimes lower than conventional fixed rate mortgage
- Variety of programs available
- Low down payment requirements
- Liberal qualifying ratios – easy credit qualifying
- Attractive to first-time homebuyers
- Higher insurance costs may apply for FHA loans
- Payment remains the same
- Low closing costs

Types of Government-Backed Loans:

Freddie Mac: Freddie Mac is an agency that purchases conventional first mortgages as well as secondary mortgages guaranteed by the FHA or VA from members of the Federal Reserve System and the Federal Home Loan Bank System, and then sells them to investors in order to generate funds for lenders to grant new loans.

Fannie Mae: Fannie Mae is also chartered by Congress, and is the largest provider of home mortgage finances. Like Freddie Mac, they purchase residential mortgages and then resell them, providing lenders with cash to make new loans. They are a privately owned corporation, but are under the oversight of the Federal Housing and Urban Development Office (HUD).

Ginnie Mae Loans: Lenders might offer Ginnie Mae backed loans. Ginnie Mae helps make affordable housing a reality for millions of low- and moderate-income households across America by channeling global capital into the nation's housing markets. Specifically, the Ginnie Mae guaranty allows mortgage lenders to obtain a better price for their mortgage loans in the secondary market. The lenders can then use the proceeds to make new mortgage loans available.

VA Home Loans: If you're a veteran, you might qualify for a VA loan and put *nothing* down. Just like with FHA loans, the VA itself doesn't lend money, it just guarantees part of the loan so lenders feel comfortable lending the money. VA Home Loans are made to eligible Veteran's by private lenders such as banks, mortgage brokers and direct lenders. The VA guarantees a portion of the loan so the lender is protected against losses if the borrower does not make the payments and defaults on the loan. This VA guarantee effectively replaces the security a lender normally receives by requiring a down payment on the property.

What this means for a participating eligible Veteran is they are able to obtain favorable financing for their home purchase. This includes 100% / no down payment financing for the purchase of a home, without having to pay monthly mortgage insurance. They will also receive a competitive interest rate similar to that of a conventional loan that requires a down payment.

VA Home Loans may be used to purchase homes, town-homes, and condominiums (must be a VA approved condo project) including new homes that are to be built. The cost limit for VA loans was recently increased to \$417,000 for the 48 mainland states and Washington DC and up to \$625,000 in Alaska and Hawaii.

VA Home Loans are intended for personal home purchases only and are not eligible to be used on rental or investment properties. The Veteran borrower must certify that they or their immediate family intend to personally occupy the home within 60 days of the closing date.

The VA Loan underwriter will analyze a Veteran borrower's credit in order to determine approval. VA Home Loan approval is not completely driven by credit score, but focuses more on the borrower's timely payments and credit history over the past 12 months. Under certain extenuating circumstances, the borrower can provide a letter of explanation for the underwriter to review and consider when looking at credit issues during the previous 12 month period. Veterans concerned about issues on their credit should contact a VA Loan Specialist to help them determine their eligibility for a VA loan.

Even when utilizing 100% financing the Veteran borrower will still have closing costs that include lender, title and recording fees, as well as pre-paid escrow account items for homeowner's insurance and property taxes. The VA Loan Program allows for the seller to pay up to 4% of the loan amount towards the Veteran borrower's closing costs which enables the borrower to purchase the home with less "cash out of pocket" at closing. Seller paid closing costs should be negotiated and written in to the purchase contract for the home.

You can read more about VA loans at their website at: <http://www.valoancenter.net/>

There is another government program that might assist you in becoming a homeowner. One program is the Homeownership Voucher Program. Call you local Public Housing Agency (PHA) for more information about this program. These programs are governed with strict guidelines, and perhaps have waiting lists. But if you are serious about homeownership, and feel you might qualify for assistance, explore all of your options.

Some of the requirements families must meet for these vouchers are:

- First-time homeowner or cooperative member.
- No family member has owned or had ownership interest in their residence for at least three years.
- Except for cooperative members, no member of the family has any ownership interest in any residential property.
- Minimum income requirement. Except in the case of disabled families, the qualified annual income of the adult family members who will own the home must not be less than the Federal minimum hourly wage multiplied by 2,000 hours. For disabled families, the qualified annual income of the adult family members who will own the home must not be less than the monthly Federal Supplemental Security Income (SSI) benefit for an individual living alone multiplied by 12. The PHA may also establish a higher minimum income requirement for either or both types of

families. Except in the case of an elderly or disabled family, welfare assistance is not counted in determining whether the family meets the minimum income requirement.

- Employment requirement. Except in the case of elderly and disabled families, one or more adults in the family who will own the home is currently employed on a full-time basis and has been continuously employed on a full-time basis for at least one year before commencement of homeownership assistance.
- Additional PHA eligibility requirements. The family meets any other initial eligibility requirements set by the PHA.
- Homeownership counseling. The family must attend and satisfactorily complete the PHA's pre-assistance homeownership and housing counseling program.

Balloon Mortgages:

Balloon loans are short-term mortgages with some of the features of a fixed-rate mortgage. They offer a level payment during the term of the loan, but the scheduled payments won't pay off the amount of the loan. They can have various maturity lengths, but generally they are first mortgages with a term of five to seven years. Instead, at the end of the term, you will be expected to make one payment for the entire balance of the loan. This usually requires someone to obtain a loan on the balance due, refinancing the principal, with a more conventional type of loan.

Once again, we don't recommend this type of loan. The only acceptable reason someone may consider this type of loan is if they expect their financial situation to greatly improve by the end of the balloon mortgage. But it might prompt others to buy a home they really cannot afford.

Interest-Only and Negative-Amortization Loans:

These loans were instituted by creative lenders to supposedly make it easier for people to buy homes. But they are very dangerous loans that allow you to borrow more than you can afford. We urge you to avoid them!

Interest-only loans are just that... all you pay (in monthly payments) is interest. Nothing is applied to the principal of the loan. You really aren't 'buying your home'... you are just making interest payments! In essence, you are just renting, with the lender as your landlord; with the added disadvantage that you are responsible for the upkeep and maintenance of the home instead of a landlord.

The idea behind the loans is that your house is going to appreciate in value. And it probably will. But you either have to sell the home to capture that value, or you will eventually have to refinance the loan to a more conventional type of loan in order for you to be actually purchasing the home.

Negative-amortization loans are even worse. They offer payments that don't even cover the interest cost. So each month you are involved in this type of loan, the more you owe the lender. These types of loans can be disastrous financially.

Home Owners Insurance: Keep in mind that no matter what type of mortgage you obtain, you will have to have homeowners insurance on the structure. Homeowners insurance provides coverage in the event of damage to your property, as well as liability for injuries and damage you cause to other people. Insurance rates may vary depending on the materials used in the building, and the fire protection afforded in the construction and the location of the house. But it is always required by the bank, trust company, or building association making the loan - to protect the amount of money they loaned. Plus you need it to protect your equity in the house.

DOWN PAYMENTS:

Typically, lenders required a down payment of 20 percent of the cost of the home you are buying. However, there are several mortgage programs that allow you to purchase a home with a much smaller down payment. Programs that offer such mortgages are the Federal Housing Administration (FHA) and Veterans Administration (VA) mortgages (for qualified vets). Some FHA mortgages require down payments of as little as 3 percent.

If these government mortgages don't answer your down payment needs, there are conventional mortgages available with down payments of less than 20 percent with the additional cost of Private Mortgage Insurance (PMI), which is required for mortgages of more than 80% of the value of the home you are purchasing. PMI insurance can substantially increase your monthly mortgage payments, but it could help you into home ownership when you don't have a large cash down payment. Just remember that this increased monthly payment will affect the amount you qualify for when obtaining your loan, and is not tax deductible. Some lenders offer low – or no - down payments (without PMI), but you will generally pay higher interest rates and closing costs.

Home ownership is the major source of wealth accumulation in the United States. Mortgage down payment, rather than minimum income requirements, is the toughest barrier to home ownership. But saving for the down payment on a home is the first and foremost thing you can do to start accumulating wealth!

TAX ADVANTAGES OF HOME OWNERSHIP:

One of the most important tax advantages of home ownership is that you get to deduct the mortgage interest. If you itemize deductions on Schedule A of your Federal Income Tax return, you can generally deduct the qualified residence interest that you pay on your home mortgage for your principal residence. You may be able to deduct the interest you've paid to buy, build, or improve your home.

Just keep in mind that, while this is a plus to home-ownership, it should not be used as a reason to not payoff your loan. What the deduction does, in essence, is to slightly reduce the cost of your interest rate.

Up to \$1 million of acquisition mortgage debt (\$500,000 if you're married and file separately) qualifies for interest deduction. (Different rules apply if you incurred the debt before October 14, 1987.) If your mortgage loan exceeds \$1 million, some of the interest that you pay on the loan will not be deductible.

Although this deduction also applies to certain home equity loans secured by your home, the rules are different. Home equity debt involves a loan secured by your main or second home that exceeds the outstanding mortgages on the property. Home equity debt is limited to the lesser of:

- The fair market value of the home minus the total acquisition debt on that home, or \$100,000 (or \$50,000 if your filing status is married filing separately) for main and second homes combined.
- The interest that you pay on a qualifying home equity loan is generally deductible regardless of how you use the loan proceeds. For more information, see IRS Publication 936.

Along with mortgage interest, you can generally deduct the real estate taxes that you've paid on your property *in the year* that they're paid to the taxing authority. Only the legal property owner can deduct the real estate taxes.

Home improvements and repairs are generally nondeductible. Improvements, though, can increase the tax basis of your home (which in turn can lower your tax bite when you sell your home).

Improvements add value to your home, prolong its life, or adapt it to a new use. For example, the installation of a deck, a built-in swimming pool, or a second bathroom would be considered an improvement. In contrast, a repair simply keeps your home in good operating condition. Regular repairs and maintenance (e.g., repainting your house and fixing your gutters) are not considered improvements and are not included in the tax basis of your home. However, if repairs are performed as part of an extensive remodeling of your home, the entire job may be considered an improvement.

If you make certain improvements to your home that will improve your home's energy efficiency, you may be eligible for one or more federal income tax credits.

Deducting points and closing costs:

Buying a home is confusing enough without wondering how to handle the settlement charges at tax time. When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These usually include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. You'll need to know whether you can deduct these fees (in part or in full) on your federal income tax return, or whether they're simply added to the cost basis of your home.

Points are costs that your lender charges when you take a loan secured by your home. One point equals 1 percent of the loan amount borrowed. As a home buyer, you can deduct points in the year that you buy your home if you itemize your deductions. However, you must meet certain requirements. You can even deduct points that the seller pays for you. More information about these requirements is available in IRS Publication 936.

Refinanced loans are treated differently.

The points that you pay on a refinanced loan generally must be amortized over the life of the loan. In other words, you can deduct a certain portion of the points each year. There's one exception: If part of the loan is used to make improvements to your principal residence, you can generally deduct that portion of the points in the year that the points are paid.

And what about other closing costs?

Generally, you cannot deduct these costs on your tax return. Instead, you must adjust your tax basis (the cost, plus or minus certain factors) in your home. For example, if you're buying a home, you'd increase your basis with certain closing costs. If you're selling a home, you'd decrease your amount realized from the sale (i.e., your sale price). For more information, see IRS Publication 530.

REFINANCING YOUR MORTGAGE:

When you refinance your mortgage, you take out a new home loan, and use some or all of the proceeds to pay off the existing one. If you obtain a lower interest rate on your new loan than you had on your old one, you'll be saving money. Remember that if you don't have a good payment record on your existing mortgage, it will probably be very difficult to refinance. If that is the case, be prepared to present your case!

When to do it:

Generally, there are two good times when it's wise to refinance your mortgage. If you've got an adjustable rate mortgage, one of those times is during periods of rising interest rates. If you refinance to a fixed rate mortgage, particularly to a rate similar to your present low adjustable rate, you'll avoid the higher costs when the adjustable rates start going up.

The other time it's a good idea to refinance is when you'll save money by getting a lower interest rate. In this case, you'll want to make sure that your monthly savings will pay back your refinancing costs while you're still living on the property. If you sell your home before your refinancing has paid for itself, you won't be saving anything.

If you are experiencing cash flow difficulties, you may be tempted to lower your monthly mortgage payments by refinancing to extend the term of the loan. From a savings perspective, this is not a good reason to refinance. Unless you get a lower interest rate on the new loan as part of the bargain, you're not really saving any money; in fact, the reverse will be true. If you extend the term of your mortgage without changing anything else, you might loosen your tight cash flow situation, but you'll actually pay more total interest on the mortgage in the long run.

The cost of refinancing:

Your refinancing cost is the total of any points, closing costs, and private mortgage insurance (PMI) premiums that you pay when you take out the new loan. In addition, any lost tax savings must also be regarded as part of the cost of refinancing.

There are times when lenders offer "no points, no closing costs" refinancing deals. Check the terms of the offer carefully to make sure that you understand what's involved.

Points are prepaid fees. One point equals 1 percent of the amount you're borrowing, and any points you're charged are usually deducted from the mortgage proceeds you receive. Mortgage lenders typically charge one point as a loan origination fee. Beyond that, lenders may charge additional points on loans with interest rates below the current market rate. By doing so, the lender makes a little more money up front, and you get a lower interest rate on your mortgage. So, if you're going to stay in your house for a long time and can afford to do so, paying more points in the beginning may get you a better interest rate and save you more money in the long run.

Your closing costs include a variety of fees, such as an appraisal fee, a title search fee, recording fees, and other fees associated with processing and finalizing your mortgage. If your loan-to-value ratio is greater than 80 percent of the appraised value of your property, you may also be required to carry PMI. The premiums for this insurance usually become a portion of your new monthly mortgage payment and thus reduce your savings from refinancing. In addition, you may discover hidden costs. For example, if you're paying less interest on your new mortgage, you'll have less to deduct on your income tax return. If this makes your tax payments higher, your savings will be further offset.

Once you've determined what your refinancing costs will be, you can then determine how long it will take for your refinancing to pay for itself. To do so, divide the total of the points and closing costs that you paid by the net monthly savings that the new loan provides you. Your net monthly savings will be your interest savings less any PMI premiums and tax advantage losses expressed as monthly figures.

For example, assume you refinanced \$200,000. You paid two points and total closing costs of \$1,800. You got a great interest rate on the loan, so you'll save \$80 a month in interest charges. However, your PMI premiums are now \$10 per month higher, and you've lost tax savings of \$120 a year, or \$10 per month. Your refinancing costs are \$3,800--two points of \$1,000 each and \$1,800 in closing costs. Meanwhile, your net savings are \$60 per month--\$80 per month saved interest less \$10 per month increased PMI premiums and \$10 per month lost tax savings. If you divide \$3,800 by \$60, you'll find your refinancing will pay for itself in a little over 63 months.

No cash-out versus cash-out refinancing

No cash-out refinancing occurs when the amount of your new loan doesn't exceed your current mortgage debt (plus points and closing costs). With this type of refinancing, you can typically borrow up to 95 percent of your home's appraised value.

A cash-out refinancing occurs when you borrow more than you owe on your existing mortgage. In this case, you are often limited to borrowing no more than 75 to 80 percent of the appraised value of your property. Any excess proceeds remaining after you've paid off an existing mortgage can be used in any way you see fit, but the best use might be to pay off other outstanding high-interest debt, such as credit card debt.

Cash-out refinancing has certain advantages and disadvantages . The interest rate that you'll pay on the mortgage proceeds will usually be less than the interest rate on the other debts (e.g., car loans, personal loans, credit cards, and even some student loans). Moreover, the interest paid on your refinanced mortgage is generally tax deductible, whereas the interest on consumer debt is not. But this mortgage is still secured by a lien on your home. If you can't make the mortgage payments, your lender can foreclose on your home. Credit card or automobile lenders can't take your house away in this fashion. Moreover, unless you're well disciplined, you could pay off the high-interest (credit card) debt only to run it up again, further damaging your financial position.

If you're going to explore *cash-out refinancing*, do it only if all of the following are true:

- Your savings make the refinancing worthwhile, even if it wouldn't give you the chance to repay other debt
- Your savings are "real," due to a lower interest rate or a shorter loan term, and not due solely to tax factors, since tax laws may change
- You're sure that you can afford the new monthly mortgage payment
- You trust yourself (and your spouse) not to run up the repaid debt again

Even if the rate on a new mortgage would be only slightly lower than what you've got now, refinancing is a good idea if your savings will outweigh the costs of refinancing during the time you own the home. If you're unsure how much longer you might live in a particular locale, use recouping your refinancing costs in five years or less as a good rule of thumb.

Home Equity Loans.

Obtaining a credit-line against the equity (paid value) of your home has become a very popular way of paying consumer debt. The loan is based on the equity you have in your home, versus the current market value of your home. And depending on the amount of any first mortgage you may have, perhaps obtaining one to consolidate and eliminate your credit card debts may be a good option for you. But always remember you are using your home to do this, therefore your home could be at risk! If you should default on the terms of a home equity loan, you are just as liable to lose it as if you were to default on a first mortgage.

Most of these loans come with variable interest rates, some with low introductory rates, and a very few come with fixed rates. But almost all of them come with large up-front, one time fees, others have closing costs, and some have continuing fees. Some may have large balloon payments at the end of the term of the loan, others have no balloons, but have required much higher monthly payments. Most home equity loans are for shorter terms than a home mortgage. So while you may borrow against your home to pay off high interest debts, you need to almost immediately begin to reduce the amount of your home equity loan! And if you are prone to spend too freely, you could run up a debt against your home that you are unable to pay.

Think carefully before you consider a home equity loan. Do you really want to increase the debt against your home just to buy a new car or television?! It could greatly increase the number of years you end up paying on these loans before your house could possibly be paid for. You may never get to retire!

Some sources don't even recommend this type of loan to send children to college. The key there is: secure your own future first!

The amount you can borrow on a home equity line would depend on your creditworthiness - your income, credit rating, and the amounts you have outstanding on other debts. Most home equity lenders may let you borrow up to 85% of the appraised value of your home, minus the amount you still owe on a first mortgage. Ask a lender about the length of the home equity loan, whether there is a minimum or maximum withdrawal amount or requirement. Is there a fixed "draw" period when you can make withdrawals? Ask about the repayment terms.... Once the draw period expires, you may be able to renew your credit line. If not, you cannot borrow additional funds. You may have to repay your full outstanding balance at the end of that term, or you may be able to repay the balance over a fixed period of time.

As with all loans, it pays to check with several lenders for the lowest interest rate. Fixed interest rates, if available, may be slightly higher than an initial variable rate, but fixed rates offer more stable monthly payments over the life of the credit line. Some lenders offer temporarily discounted interest rates, but after the introductory period ends your rate (and thus your payments) increase to high rates. Find out how long the discounted rate will last, and find out how often and how much your rate, and thus your payments, may change. Be prepared to include your payments in your budget!

Second Mortgage Installment Loans.

Second mortgages are a type of mortgage refinancing that allows you to pull cash out of your home with minimal monthly interest payments. Due to the high risk usually associated with second home mortgages, lenders usually charge a higher interest rate compared to the first mortgage, as well as a higher percentage of the loan in lenders fees. Second mortgages vary in length depending on the type of home loan you have (fixed rate or adjustable rate), as well as the type of mortgage company you are dealing with. In general, a second mortgage can last as little as 1 year or can extend up to 20 years. These plans don't have large balloon payments due at the end of what is basically a short-term home equity. They are for a set amount of money, in a lump sum. Interest rates and payments are usually "fixed." You would know the amount you have to pay every month, and it won't change.

Both types of loan offer certain tax advantages over other types of loans. Check with a tax adviser before you obtain a loan, so you understand what the tax advantages might be.

BUYING A CAR!

Another thing you may acquire debt for is the purchase of a car. For most of us, owning an automobile is a necessity. We use one in our everyday life to get to work. For those who live in big cities where mass transportation is available, it may not be. You should give careful thought before you make a such large purchase, as this usually is. And buying a car may be the second largest purchase you every make.

A few comments about buying a car: Many of us feel we simply *must* have a NEW car. But remember that cars depreciate very quickly. They take the largest depreciation 'hit' in the first year or two... meaning the value drops considerably in those first years; thereafter the depreciation slows. Buying a nice used automobile may be the best answer. You can still finance your purchase. Automobile dealerships and banks will loan money on used cars, as well.

If you decide on a new car, be prepared to keep it for awhile, if you don't want to have to absorb those first couple of year's depreciation; trying to finance a loss on one car by adding that loss into the next car you buy; if it's even possible to do without coming up with a large cash down payment. Where many people get into trouble on their automobile financing is buying frequently, and having to 'roll over' the debt between what the depreciated value of car compared to what they owe on it! This will only get you deeper and deeper into debt.

And remember our ONE BASIC RULE: Don't borrow for anything that has a useful life shorter than the term of the loan.

No matter whether you are buying a new or a used car, here are some tips to help make the car-buying process a bit easier.

Choosing a car

As you try to decide what type of car you want to buy, consider the following:

- If you already have a car, what do you like and dislike about it?
- Do you want a lot of passenger space?
- Do you want two doors or four?
- Do you prefer a standard or an automatic transmission?
- How much does prestige, or the look, really matter?
- What about better fuel economy?
- How much can you afford to spend?

You'll also want to keep in mind such factors as resale value, maintenance, and insurance costs. It may be helpful to consult one of the many car-buying guides to help you choose a vehicle and give you information on pricing, reliability, and safety. Many are available on-line.

Once you have narrowed down your choices, you'll want to visit some dealerships and take those cars for a test-drive. When you get behind the wheel, ask yourself:

- Is there plenty of legroom and headroom?
- Is it easy to load passengers and cargo?
- Is the seat comfortable?
- Is the control panel visible and accessible?
- Is there enough trunk space?
- Does the car ride smoothly?
- Does the car have good acceleration and handling?

Determining your target price

Once you've settled on a car model, you should do some research on the invoice price if for a new car, including the cost of any options that you want. Standard pricing on various models of used cars are also available, on line. Or you can “shop” to see what used cars of a similar type and year are selling for in your area. That way, you can negotiate the price based on the approximate cost of the vehicle to the dealer, rather than try to bargain down their price. Keep in mind that on new cars, the dealer's cost is often less than the invoice price because of factory-to-dealer incentives. That's why a good target price is approximately 3 percent above the invoice price (what the dealer pays) and sticker price, although this will vary depending on the car model.

Going to the dealership

Armed with your target price, you should be ready to begin shopping around for the best purchase price. Try to visit more than one dealership, since prices vary. At the dealership, you'll want to be sure to negotiate, keeping in mind the following tips:

- Don't set your sights on just one car model. Many manufacturers offer similar models, and one may be much more affordable than another.
- If you're trading in your old car, don't discuss the trade-in price until you have established a purchase price for the new car. You don't want to negate a good purchase deal by accepting far less than your trade-in vehicle is worth.
- If the dealer isn't willing to give you a deal that you're happy with, don't hesitate to take your business elsewhere.
- If you want to avoid negotiating over price, you may want to consider a dealer with a no-haggle policy.

Closing the deal

After you and the dealer have settled on a purchase price, you may need to sign some preliminary paperwork and give the dealer a deposit. If you need a loan to purchase the car, you'll also need to obtain financing. If you don't mind making financing arrangements ahead of time, many banks, credit unions, and auto clubs offer favorable interest rates on car loans, both new and used.

At the dealership, you have a couple of financing options. First, you'll want to ask about special financing programs available through the car manufacturer. These are usually the best deals, offering low interest rates. Unfortunately, though, qualifying for these programs can be hard because special restrictions often apply (e.g., large down payment, limited payment terms).

You can also apply for a traditional car loan through the dealer, who makes additional money by arranging on-the-spot financing. But don't assume you're getting the best deal available. The interest rate on dealer-sponsored loans is usually higher than the interest rate that you would receive on your own.

Around this time, the dealer will try to sell you extras such as an extended warranty, service contract, or rust-proofing. Watch out--these extras are expensive and often overpriced. If you're interested in purchasing them, be sure to negotiate a favorable price, or look into buying them elsewhere.

The dealer can also help you arrange proper insurance coverage of your car and make sure that the registration and plates are in order, or you can choose to do this yourself. In either case, once all the paperwork is signed, the dealer will hand you the keys, and the car will be yours!

Remember to include the ongoing cost of maintenance in your budget. An automobile, as with most things, will maintain its resale value better, and give you better performance for less cost, if you regularly maintain it, such as changing the oil regularly. As with your home, don't allow small problems to become big ones that will cost much more money to repair.

STUDENT LOANS:

There are basically two types of student loans, Federal program loans or private loans. Federally sponsored programs are the single largest source of education loans. The easy availability of these loans makes it possible, for everyone who really wants to, to go to college. Colleges and universities will be glad to help you in learning more about obtaining these loans.

There are two types of Federal loans:

- **Federal Family Education Loan Program (FFELP)**
- **William D. Ford Federal Direct Loan Program (FDLP)**

Federal loans start with the same terms. However, with the Federal Family Education Loan Program, your bank, credit union, or school is the lender. In the Federal Direct Loan Program, the U.S. Department of Education is the lender.

FFELP is a public-private partnership created by Congress in 1965 to deliver and administer guaranteed education loans for students and their parents. FFELP offers the following types of loans:

Stafford loans. Stafford loans represent the largest component of the FFELP, supplying nearly \$46.8 billion in aid for college each year. Subsidized Stafford loans are available to students who demonstrate financial need. The federal government pays the interest on these loans while the student is in school, during a six-month grace period after the student leaves school, and during authorized periods of loan deferment. Unsubsidized Stafford loans are available to students regardless of their financial need; however, the student is responsible for all interest that accrues on the loan.

PLUS loans. Parents can borrow up to the total cost of their children's undergraduate education, less financial aid from other sources. Beginning July 1, 2006, graduate and professional students also may take out PLUS loans. The FFELP annually supplies nearly \$8.3 billion in PLUS loans to parents.

Federal Consolidation loans. Borrowers can consolidate their federal education loans into one loan with a single monthly payment and, depending on their outstanding loan balance, extend their repayment period. During fiscal 2006, borrowers combined more than \$72.8 billion in existing education debt through Federal Consolidation loans.

You can read more about these types of loans at the following website: www.ed.gov

Six months after the student leaves school, repayment on the loan begins. FFELP borrowers can select from several flexible repayment options, including equal monthly installments, payments that gradually rise over the repayment term, payments linked to the borrower's current income, and extended repayment terms. Borrowers who face temporary financial problems may qualify to defer or reduce their loan payments for a designated period.

The **FDLP - Federal Direct Loan Demonstration Program** was first authorized by the Higher Education Amendments of 1992 as a pilot program. This program, which eventually became the FDLP, was designed to improve the delivery of loans to postsecondary education students in need of financial assistance. You can read more about these types of loans at www.ed.gov, as well.

If you, or your child, obtain more than one of these types of loans, after graduation it might be helpful to consolidate them into one loan and make a single monthly payment for them. The following is a good website to learn more about this process: www.loanconsolidation.ed.gov

LOAN CONSOLIDATION:

Questions that should be asked before you consider loan consolidation are:

Are your monthly payments manageable? If you have trouble meeting your monthly payments, have exhausted your deferment and forbearance options, and/or want to avoid default, a Consolidation Loan may help you.

Too many monthly payments driving you crazy? If you send payments to more than one lender every month, and want the convenience of a single monthly payment, consolidation may be right for you. With a Consolidation Loan, you will have a single lender.

What are the interest rates on your loans? If you have variable interest rates on your Federal education loans, you may want to consolidate. The interest rate for a Consolidation Loan may be fixed for the life of the Consolidation Loan.

How much are you willing to pay over the long term? Like a home mortgage or a car loan, extending the years of repayment increases the total amount you have to repay.

How many payments do you have left on your loans? If you are close to paying off your current loans, it may not be worth the effort to consolidate or extend your payments.

WAYS YOU BENEFIT FROM LOAN CONSOLIDATION:

One Lender and One Monthly Payment: With only one lender and one monthly bill, it is easier than ever for borrowers to manage their debt. Borrowers have only one lender.

Flexible Repayment Options: Perhaps you can obtain more flexible repayment options than the options available on the loans you currently have. Perhaps they have no minimum or maximum loan amounts or fees.

Reduced Monthly Payments: A Consolidation Loan *may* ease the strain on a borrower's budget by lowering the borrower's overall monthly payment.

Interest Charge May Be Tax Deductible if the New Loan is Security by a Mortgage.

FINANCIAL ADVISERS

While most of us don't regularly or normally need Financial Advisers for the every day money issues we are confronted with, there may be times when it is wise to consult one. The complexity of some financial transactions, and knowledge of the laws and regulations that govern them, might best be handled by someone experienced. While it's true that you may have the knowledge and ability to manage your own finances, the financial world grows more intricate every day. A qualified financial advisor has the expertise to help you navigate a steady path towards your financial goals. Some advisors do only take on clients with a minimum amount of assets to invest. Many, however, only require that their clients have at least some discretionary income.

There are many reasons for hiring a financial adviser, and when you might consider doing so. In many cases, a specific life event or a perceived need may prompt you to seek professional financial planning guidance. Such events or needs might include:

- Help in setting financial goals and determining the state of your current financial affairs.
- Make recommendations about specific products and services (many advisors are qualified to sell a range of financial products)
- Getting married or divorced
- Having a baby or adopting a child
- Paying for your child's college education
- Buying or selling a family business
- Changing jobs or careers
- Planning for your retirement
- Developing or examining an estate plan
- Receiving an inheritance or a financial windfall

A financial advisor can help you develop an overall strategy for approaching your financial goals that not only anticipates what you'll need to do to reach them, but that remains flexible enough to accommodate

your evolving financial needs. A consultant can help you be unemotional about some important financial decisions.

Paying for a Financial Adviser. Here are the various ways a Financial Adviser can be paid:

- Salary based--You pay the company for which the advisor works, and the company pays its advisors a salary.
- Fee based--You pay a fee based on an hourly rate (for specific advice or a financial plan), or based on a percentage of your assets and/or income.
- Commission based--The advisor receives a commission from a third party for any products you may purchase.
- Commission and fee based--The advisor receives both commissions and fees.

The world has become a more complex place, especially when it comes to your finances. And if you think you would feel more comfortable by consulting a profession, do so! Also remember that you may already be working with financial professionals--an accountant or estate planner, for example--each of whom advises you in a specific area. But if you would like a comprehensive financial plan to help you secure your future, you may benefit from the expertise of a financial advisor.

We hope we have helped you to think about all the ways you spend money and get into debt. We have urged you to make a budget, consider those spending habits that lead to debt, and given you pointers on obtaining loans. The dangers of credit cards have been explored, and you have learned how your credit rating is determined. Various types of loans were explored so you can be better informed and more knowledgeable, and can also avoid borrowing pitfalls. We have urged you to buy a home, if you haven't already. It is the largest single *investment* anyone can make, and is the first step to accumulating wealth and securing you and your family's financial security. And we have urged you to curb your spending.

**Remember this: *A dollar spent unwisely is gone forever!*
*A dollar saved is your working partner... it never sleeps – always growing.***

The main thing we want is for you to be aware of your spending habits, to make good decisions when you do spend money, and to consider where you want to be financially. We want you to 'seize the reins' of your finances. Don't be afraid or ashamed of your finances. Don't settle for mediocrity in yourself; and don't believe that you can get as much as you want with little effort. No matter what your earnings, you too can build for the future and be prepared for eventualities.

We have all heard of the "American Dream." It's not gone, but flourishes in the hearts and hopes of each of us. A part of that dream is the American ideal of owning our own home and enjoying financial security. It can enrich our lives and the lives of our children. We live in a land of plenty, sometimes too much plenty! So the decisions are many, larger and more difficult than at any time in the past. Accept the dream and purpose of the future. Be prepared to "accept its responsibilities, the liberty of mind and will and purpose to which you are entitled."

ACCUMULATING WEALTH!

Okay, we have discussed debt and your credit; let's now move on to you accumulating wealth! We have tried to point out that the accumulation of "things" is not accumulating wealth. Driving an expensive car does not make you wealthy. Having more *things* does not make you wealthier than the person next door.

Accumulating wealth is a personal decision and goal you must make. You must keep this goal uppermost in your mind on a daily basis, and it must be evident in your daily actions. It requires motivation. So determine what motivates you, what sort of life you want. Your ability to sustain enough motivation to meet your goal may soon disappear after a few months or possibly after a few days, unless you create and internalize a 'compelling reason' (true desire) to meet a specific goal. You have to make this desire a 'must-have' instead of just a 'want.' We allow *wants* to overcome our good sense; stop this! You must have a compelling reason to meet your goal.

And never forget that you can change your goals. Perhaps your first goal is to get out of debt. This increases your net worth, too. Then set a goal on the amount of money you want to accumulate. Don't set it so high it seems totally impossible. But set a goal! You can always increase it, and feel a sense of accomplishment with every goal met. Set a time limit for yourself. You need this for motivation, too... use it!

Determine your Net Worth:

Your net worth is your total *assets* minus your total *liabilities*. So determine your net worth:

Assets: Assets are those things you own that have a value. Assets include any cash you have in the bank, savings, and things that can be converted into cash, or sold. A home you own is most definitely an asset. Any properties, as in land or buildings, are assets. Cash values on life insurance policies are assets. Retirement account balances, 401(k)'s are assets. Other assets include short or long-term investments, or even things like fine jewelry or antiques. Put a value on all of the assets you have, less depreciation or plus appreciation. Be honest about the amount of money you would receive if you were to sell each asset, call it their *fair market value*. The car you own has value, although perhaps not as much as you think. Do not put a value on things you own such as clothing or household goods. The odds are they have little or no market value.

Liabilities are negatives, those things that have a negative impact on your net worth. Debts are your biggest liability. Be sure to list all of your debts. These are obligations you have. The lower your debts the more your net worth.

Subtract your liabilities from your assets, and you have your net worth. This is what we want to work on!

INCREASING YOUR NET WORTH!

First, You must earn more than you spend. Your income must exceed your expenses. So cut expenses and earn more money! It's really very simple, when you think about it. Live within your means. Don't try to impress someone by purchasing things you cannot afford; it is foolish. It is far more impressive to save your earnings and, if anything, people will be more impressed by your frugal habits than by your spending habits.

Second, you will need to invest the 'excess' money you have. Various investments will be discussed.

Third, you will have to be patient as the money you've invested earns by compounding.

Earning Money. Just in case you don't know it, you must work to earn money in this life! If you don't have the knowledge you need in order to have a job and earn money, learn it! Education is key to your advancement in life. There is a reason our parents wanted us to have a good education. Didn't get as far as you wanted to in your formal education? Educate yourself, and never stop learning. Never stop improving your skills and your abilities. Work hard. If you work for someone else, show them constantly that you can do a good job. Have a good attitude about it, and be willing to contribute more than is asked of you. If you are not in the right job now, change it.

Earning More Money. While you work and spend less, **do whatever else you can to increase your income.** If possible, sell some of the *things* you bought that you got into debt. Get an extra job. (But don't neglect your studies if you are in school, for the sake of earning more. Your studies are most important.) Perhaps there is a part-time job that you can do in your spare time; it doesn't necessarily have to be a permanent thing, just something you do occasionally. Even earning a few hours more per week than usual, if you can get paid for them, can give you the extra money you need to set aside, to accumulate wealth.

Stumbling blocks to accumulating wealth. Here are some things to look-out for:

1. **Having a Thirty-year Mortgage:** Look at your mortgage. Millions of Americans think nothing of paying for their home over 30 years, even though the average homeowner ends up paying two-and-a-half times the purchase price of the home by stretching the payments out this long. Having a 15-year or 20-year mortgage instead of a 30-year mortgage can save you large sums of money and help you build wealth.
2. **Not Being in Control of Your Own Finances:** If you're not involved in your day-to-day family finances, you're putting yourself at risk. If you're married and you let your spouse handle all the financial matters, you're at risk if your spouse dies or becomes seriously ill or if you divorce. Know the details of your family's finances, investments, debts, retirement savings, etc. Don't turn your investments and financial affairs over to a broker or financial consultant without keeping abreast of what is being done with your money and being involved in investment decisions. Never give total control of your money to someone else.

3. **Not Controlling Spending Leaks:** We have mentioned this before, but it is always worth repeating; the reason so many people in America are in so much debt is because they dribble their money away in small, barely noticeable amounts. Like drops of water dribbling through the hole in the dike, the loss is barely noticeable, but over time the hole in the dike gets bigger and bigger. By the time the water is gushing through, the damage is done. The same is true with spending leaks. It's a lot easier to plug a small hole than to ignore the drips and look over your shoulder later and see a huge tidal wave of water coming your way in the form of unmanageable debt. If you're ever going to accumulate wealth, you must control spending leaks.
4. **Incurring Too Much Debt:** We have said this before, but if you're spending all your money paying interest on credit cards and installment debt, you won't have enough left for savings. When you buy on credit and don't pay the balance off at the end of the month, you end up paying much more for your purchases. A \$1200 big-screen TV can end up costing you \$2500, but you'll never know it because the true cost is hidden in your credit card payments. Pay cash and stay away from credit card debt if you want to accumulate wealth.
5. **Not Saving Enough for Retirement or Starting Too Late:** When you're in your 20s and 30s, it's easy to think you have all the time in the world to accumulate wealth and save for retirement. The truth is, you'll have to save a lot less if you start now and give your earnings time to compound. If you're over 40 and you're behind on your retirement savings, you'll have to save much larger sums to ever catch up to where you should be. Start saving early, and save at least 10 to 15% of your income, and you'll be well on your way to accumulating wealth.
6. **Cashing Out Retirement Funds:** Half of all Americans end up cashing out their 401(k) balances when they change jobs. Still others take out loans against their 401(k) balances, permanently reducing the amount of earnings they would have accumulated. If you want to accumulate wealth, tax-deferred retirement plans like 401(k) plans are a great way to do it, but resist the urge to tap those funds before retirement.

BEGIN SAVING and INVESTING!

Begin saving at once! You can start small... but put aside some money every week or every month. Decide on a systematic saving plan, and save on a regular basis. A good way to begin saving is to pay yourself first. One way to do this is to have your employer automatically deduct money from your paycheck and deposit it directly into your savings or investment account. You'd be surprised--over time, a small amount of regular savings can really add up.

We repeat... Put a part of *every* pay check into savings before spending any of your income for *anything* else. Do without that expensive coffee you buy every morning, and put aside that money instead. Look for one small thing in your life that you regularly spend money on, and do without it. Put the money in savings.

Build Up Your Cash Reserves: A lot of our sleepless nights are caused by worry over what should happen if we are unable to work for a period of time, either through loss of job or illness. In times of crisis, you don't want to be shaking pennies out of a piggy bank. Having a financial safety net in place can ensure that you're protected when a financial emergency arises. One way to accomplish this is by setting up a cash reserve, a pool of readily available funds that can help you meet emergency or highly urgent short-term needs. This pool of funds is your first goal in saving. It, too, can be earning money through interest; you just want to be able to access it if the need arises. That is what we mean by the use of the word "cash." It can be in some form of savings account or investment, as long as you can access it without incurring penalties for early withdrawal.

We recommend that you have three to six months' worth of living expenses in your cash reserve. The actual amount, however, should be based on your particular circumstances. Do you have a mortgage? Do you have short-term and long-term disability protection that will kick in should you become ill, hurt or disabled? Are you making car payments? Other factors you need to consider include your job security, health, and income. The bottom line: Without an emergency fund, a period of crisis (e.g., unemployment, disability) could be financially devastating.

You'll want to make sure that your cash reserve is readily available when you need it. However, an FDIC-insured, low-interest savings account isn't your only option. There are several excellent alternatives, each with unique advantages. For example, money market accounts and short-term CDs typically offer higher interest rates than savings accounts, with little (if any) increased risk. All of these will be discussed further.

It's important to note that certain fixed-term investment options (i.e., those that pledge to return your principal plus interest on a given date), such as CDs and Treasury securities, impose a significant penalty for early withdrawals. So, if you're going to use fixed-term investments as part of your cash reserve, you'll want to be sure to ladder (stagger) their maturity dates over a short period of time (e.g., two to five months). This will ensure the availability of funds, without penalty, to meet sudden financial needs.

Steps to Building a Cash Reserve:

- Determine how much money you would need if you were *without income* for 3 to 6 months. This is the amount of *cash* reserve you should build.
- Save aggressively: If available, use payroll deduction at work; budget your savings as part of regular household expenses
- Reduce your discretionary spending (e.g., eating out, movies, lottery tickets)
- Use current or liquid assets (those that are cash or are convertible to cash within a year)
- Use earnings from other investments (e.g., CDs, stocks, mutual funds) Remember that CD's, etc. are invested for set amounts of time, and you would incur penalties for early withdrawal of the cash
- Check out other resources (e.g., do you have a cash value insurance policy that you can borrow from?)

Your personal and financial circumstances can often change --a new child comes along, an aging parent becomes more dependent, or a larger home brings increased expenses. Because your cash reserve is the

first line of protection against financial devastation, you should review it annually to make sure that it fits your current needs.

A final note: Your credit line can be a secondary source of funds in a time of crisis. Borrowed money, however, has to be paid back (often at high interest rates). As a result, you shouldn't consider lenders as a primary source for your cash reserve.

Know Your Rate of Return: All savings or investment accounts have an 'annual rate of return.' Some of them may be 'estimated,' and some may be 'fixed.' Ask what it is! Banks are required to disclose the annual rate of interest they are paying on savings accounts and CD's. Some savings accounts at a bank pay as little as 1% or less. In some investments, the actual rate of return is largely dependant on the type of investments you select. It is important to remember that future rates of return can't be predicted with certainty and that investments that pay higher rates of return are subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. But of course there are secure ways on earning interest on your money.

TYPES OF SAVINGS ACCOUNTS:

PASSBOOK SAVINGS ACCOUNTS: Savings accounts are generally the same as they have always been. They are easy to open, they are convenient and can be opened at any bank, you can set up automatic payment options into the account, and they allow you instant access to your money. While they do pay interest, they generally pay the lowest rate of return. Passbook savings accounts can sometimes be tied to checking accounts. Some institutions will tie your savings account to your checking account as a form of overdraft protection. But tell them that's not a service you want -- one impulse-shopping spree could wipe out all your good intentions. And naturally it is FDIC insured.

On average, the interest earning rate on passbook savings accounts, just recently (2006), was around 1.2%. Savings accounts can act as a temporary parking spot for money you're accumulating to invest while you make more long-term strategy decisions. But, even in the best-case scenario, it's not the ideal place to leave large sums of money long term, because rates will usually just about cover inflation.

Consider this the account to use while you are accumulating the three to six months recommended cash reserve. But don't consider it for long-term savings and investing. You want your money to be earning more than a regular savings account will pay!

MONEY MARKET ACCOUNTS: Another form of Savings Account: Once you've accumulated those three to six-months' worth of cash reserves, you'll have enough to move it to a money market account. MMA, is an interest-earning savings account offered by a FDIC-insured financial institution

with limited transaction privileges. It is more formally known as a money market deposit account. For both investors and non-investors, money market accounts are typically used as an alternative to checking and savings accounts.

It is just another form of savings account offered by banks and credit unions, insured by the Federal Deposit Insurance Corp (FDIC), and requiring a minimum balance -- averaging between \$100 and \$2,500. This type of account will usually pay you more interest on your money than a normal savings account. Experts think money market accounts are the best way to save.... Combining good rates of return with Federal limits on withdrawals. You just have to keep the minimum balance in mind, should emergency strike and you need to withdraw money. You can open them at most financial institutions.

Regulation D, Reserve Requirements of Depository Institutions, spells out the transaction limitations, but in broad terms you are limited to six transfers or withdrawals per month with no more than three transactions as checks written against the account. The discipline you derive is from this cap. By law, you are allowed to make no more than six withdrawals and transfers per month if the transactions are overdraft protection transfers, automatic bill deductions, wire transfers, telephone transfers and PC banking transfers. However, money market account holders are usually allowed to make unlimited free deposits and withdrawals from ATMs in their network.

We don't recommend you use this type of account casually. When you take funds from a money market account, you want to do some planning first. That makes it better for one-time or special uses, such as making a down payment on a car or house. And if it's your rainy day fund, you're in the middle of a financial hurricane and you have to live out of the money in the account, just use the transaction privileges you have to transfer money to a checking account, where you can write all the small checks you need.

The interest rate paid by a financial institution on a money market account is usually higher than its passbook savings rate. The average rate of return for MMA's in 2006 was around 4%, some earning less, some more. Some families use the interest that their money market accounts earn each month to pay off credit card bills or handle emergencies. Money market accounts provide a higher rate of return than a regular savings account. For money that you feel you may need within a short period of time, say 3 months to a year, money market accounts are the best deal.

Interest on money market accounts is usually compounded daily and paid monthly. The great thing about compounded interest is that the bank is paying you interest on the money they've paid you in interest!

Interest rates paid by money market accounts can vary quite a bit from bank to bank. So shop around! That's because some banks are trying harder to get people to open an account with them than others -- so they offer higher rates.

When you are shopping around for a Money Market Account, ask about:

- Fees and services charges on the account
- Minimum balance requirements
- Interest rate paid on your balance

Another difference you'll sometimes find with money market accounts is that the more money you have in the account the higher the interest rate you get. Always check with the bank about how the interest rate may change.

We'll look at mutual funds next, but in conclusion on money market funds....a money market is more or less a mutual fund that attempts to keep its share price at \$1. Professional money managers will take your cash and invest it in government t-bills (aka "treasuries"), savings bonds, certificates of deposit, and other safe and conservative short term commercial paper. They then turn around and pay you, the owner of the money market, your portion of the interest earned on those investments. Most banks offer money market accounts to their customers, although the amount of interest paid will vary by account size; the more you have in the fund, the higher the rate of interest you earn!

- These funds offer many advantages that savings accounts, checking accounts and CD's can't beat. Money market funds are very liquid, meaning you can take money out of them on short notice.
- There is no penalty for taking money out of your money market fund, unlike Certificates of Deposit (CD's) that impose large fees for withdrawing your money. You can also write checks from your money market account (typically three a month).
- Low Risk: Money market funds are not FDIC insured, but they are still very secure because they are holding very safe investments like t-bills. Government debt securities are considered very safe because the government has the ability to raise taxes to meet its obligations. It is virtually impossible to lose your principle in money market funds. To top it off, most mutual fund companies carry some sort of insurance to cover your assets.
- Interest rates in money market funds will be more than competitive with CD's, without the high penalty for early withdrawal. Money market funds return an average of 4 to 6 percent a year, which rivals the return of CD's. The interest is calculated daily, but only paid out at the end of the month unless you sell the fund, then it is paid at that time.

Money market funds are clearly a smart place to hold your money. If you are between investments, saving for a house, saving for a vehicle purchase, or just looking for a safe place to put money, consider putting the money in a money market fund. There is no reason to hold large amounts of money at the bank. Your money will earn money... and you can access your money on favorable terms.

Money Market MUTUAL FUNDS. MMMFs usually are purchased through brokerage houses. A hybrid of saving and investing, they usually require a larger initial deposit. Depending on your fund, you can also reap a higher rate of return. This option is not always the best for most of us. It is a more sophisticated form of investing. Learn all you can before you invest in these types of funds.

Money market mutual funds, or money funds, carry no FDIC insurance and is simply a collection of short-term debt investments held by that mutual fund. Money market investments are debt securities that mature in 13 months or less. Money market investments are also called cash investments because of the short maturities.

The SEC requires the average maturity of investments in a money market fund to be less than 90 days, which also serves to limit risk when investing in money market funds.

When you own shares in a mutual fund, you own fractional interest in the investments held by the mutual fund. The value of a share of a money market fund should always be \$1 -- it's the interest rate that fluctuates, not the share price.

The mutual fund industry strives very hard to protect the value of a share. That doesn't mean you can ignore the risk of the investments held by the fund, just that money fund managers will strive to preserve the share value.

Money market funds are classified by the type of debt they purchase. Government money funds invest in U.S. government and agency securities. Some government money funds are Treasury-only funds, while others buy a full range of government and agency securities.

Corporate (non-government) money funds invest in money market securities issued by businesses. Finally, tax-free money funds invest in money market securities issued by municipalities.

Money market funds typically quote a seven-day average yield versus an annual percentage yield, but the effective rate on a money market fund is comparable to the APY on a money market deposit account.

The problem with investing – say \$2,000 - in a money fund is that the annual account fee, along with the annual expense ratio, is going to decimate the account's return.

If you earn 3 percent on the fund, you'll get \$60 in interest. If the account charges a \$25 annual fee and half a percent in annual expenses, which is pretty reasonable for professional money management, you'll give back \$35 of that return to the money market fund.

CERTIFICATES OF DEPOSIT (CD's)

If you just want to invest your money, and never feel you might need access to it for a given period of time, then a CD might be the right saving mechanism. But we urge you be use caution, and consider carefully before you invest you money in certificates of deposit. They are most often 'locked in' to a fixed period of time, and there are substantial penalties if you *cash-in* your CD before the maturity date! If you know you aren't going to be using the money, even for emergencies, then a CD is fine. But you must remember the rules, or it could cost you dearly.

A "CD" is a savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC. The term of a CD generally ranges from one month to five years.

A certificate of deposit is a promissory note issued by a bank. It is a *timed* deposit that restricts holders from withdrawing funds on demand. Although it is still possible to withdraw the money... this action will often incur a hefty penalty.

A CD is a special type of deposit account with a bank or thrift institution that typically offers a higher rate of interest than a regular savings account. Unlike other investments, CDs feature federal deposit insurance up to \$100,000.

Here's how CDs work: When you purchase a CD, you invest a fixed sum of money for fixed period of time – six months, one year, five years, or more – and, in exchange, the issuing bank pays you interest, typically at regular intervals. When you cash in or redeem your CD, you receive the money you originally invested plus any accrued interest. But if you redeem your CD before it matures, you may have to pay an "early withdrawal" penalty or forfeit a portion of the interest you earned.

Although most investors have traditionally purchased CDs through local banks, many brokerage firms and independent salespeople now offer CDs. These individuals and entities – known as "deposit brokers" – can sometimes negotiate a higher rate of interest for a CD by promising to bring a certain amount of deposits to the institution. The deposit broker can then offer these "brokered CDs" to their customers.

At one time, most CDs paid a fixed interest rate until they reached maturity. But, like many other products in today's markets, CDs have become more complicated. Investors may now choose among variable rate CDs, long-term CDs, and CDs with other special features.

Some long-term, high-yield CDs have "call" features, meaning that the issuing bank may choose to terminate – or call – the CD after only one year or some other fixed period of time. Only the issuing bank may call a CD, not the investor. For example, a bank might decide to call its high-yield CDs if interest rates fall. But if you've invested in a long-term CD and interest rates subsequently rise, you'll be locked in at the lower rate.

Before you consider purchasing a CD from your bank or brokerage firm, make sure you fully understand all of its terms. Carefully read the disclosure statements, including any fine print. And don't be dazzled by high yields. Ask questions – and demand answers – *before* you invest. These tips can help you assess what features make sense for you:

- **Find Out When the CD Matures** – As simple as this sounds, many investors fail to confirm the maturity dates for their CDs and are later shocked to learn that they've tied up their money for five, ten, or even twenty years. Before you purchase a CD, ask to see the maturity date in writing.
- **Investigate Any Call Features** – Callable CDs give the issuing bank the right to terminate-or "call"-the CD after a set period of time. But they do not give you that same right. If interest rates fall, the issuing bank might call the CD. In that case, you should receive the full amount of your original deposit plus any unpaid accrued interest. But you'll have to shop for a new one with a lower rate of return. Unlike the bank, you can never "call" the CD and get your principal back. So if interest rates rise, you'll be stuck in a long-term CD paying below-market rates. In that case, if you want to cash out, you will lose some of your principal. That's because your broker will have to sell your CD at a discount to attract a buyer. Few buyers would be willing to pay full price for a CD with a below-market interest rate.
- **Understand the Difference Between Call Features and Maturity** – Don't assume that a "federally insured one-year non-callable" CD matures in one year. It doesn't. These words mean the bank cannot redeem the CD during the first year, but they have nothing to do with the CD's maturity date. A "one-year non-callable" CD may still have a maturity date 15 or 20 years in the

future. If you have any doubt, ask the sales representative at your bank or brokerage firm to explain the CD's call features and to confirm when it matures.

- **For Brokered CDs, Identify the Issuer** – Because federal deposit insurance is limited to a total aggregate amount of \$100,000 for each depositor in each bank or thrift institution, it is very important that you know which bank or thrift issued your CD. Your broker may plan to put your money in a bank or thrift where you already have other CDs or deposits. You risk not being fully insured if the brokered CD would push your total deposits at the institution over the \$100,000 insurance limit. (If you think that might happen, contact the institution to explore potential options for remaining fully insured, or call the FDIC.) For more information about federal deposit insurance, visit the Federal Deposit Insurance Corporation's web site at <http://www.fdic.gov/index.html> and read its publication *Your Insured Deposit* or call the FDIC's Consumer Information Center at 1-877-275-3342.
- **Find Out How the CD Is Held** – Unlike traditional bank CDs, brokered CDs are sometimes held by a group of unrelated investors. Instead of owning the entire CD, each investor owns a piece. Confirm with your broker how your CD is held, and be sure to ask for a copy of the exact title of the CD. If several investors own the CD, the deposit broker will probably not list each person's name in the title. But you should make sure that the account records reflect that the broker is merely acting as an agent for you and the other owners (for example, "XYZ Brokerage as Custodian for Customers"). This will ensure that your portion of the CD qualifies for up to \$100,000 of FDIC coverage.
- **Research Any Penalties for Early Withdrawal** – Deposit brokers often tout the fact that their CDs have no penalty for early withdrawal. While technically true, these claims can be misleading. Be sure to find out how much you'll have to pay if you cash in your CD before maturity and whether you risk losing any portion of your principal. If you are the sole owner of a brokered CD, you may be able to pay an early withdrawal penalty to the bank that issued the CD to get your money back. But if you share the CD with other customers, your broker will have to find a buyer for your portion. If interest rates have fallen since you purchased your CD and the bank hasn't called it, your broker may be able to sell your portion for a profit. But if interest rates have risen, there may be less demand for your lower-yielding CD. That means you would have to sell the CD at a discount and **lose some of your original deposit** –despite no "penalty" for early withdrawal.
- **Thoroughly Check Out the Broker** – Deposit brokers do not have to go through any licensing or certification procedures, and no state or federal agency licenses, examines, or approves them. Since anyone can claim to be a deposit broker, you should always check whether your broker or the company he or she works for has a history of complaints or fraud. You can do this by calling your state securities regulator or by checking with the National Association of Securities Dealers' "Central Registration Depository" at 1-800-289-9999.
- **Confirm the Interest Rate You'll Receive and How You'll Be Paid** – You should receive a disclosure document that tells you the interest rate on your CD and whether the rate is fixed or variable. Be sure to ask how often the bank pays interest – for example, monthly or semi-annually. And confirm how you'll be paid – for example, by check or by an electronic transfer of funds.
- **Ask Whether the Interest Rate Ever Changes** – If you're considering investing in a variable-rate CD, make sure you understand when and how the rate can change. Some variable-rate CDs

feature a "multi-step" or "bonus rate" structure in which interest rates increase or decrease over time according to a pre-set schedule. Other variable-rate CDs pay interest rates that track the performance of a specified market index, such as the S&P 500 or the Dow Jones Industrial Average.

The bottom-line question you should always ask yourself is: Does this investment make sense for me? A high-yield, long-term CD with a maturity date of 15 to 20 years may make sense for many younger investors who want to diversify their financial holdings. But it might not make sense for elderly investors.

Don't be embarrassed if you invested in a long-term, brokered CD in the mistaken belief that it was a shorter-term instrument—you are not alone. Instead, you should complain promptly to the broker who sold you the CD. By complaining early you may improve your chances of getting your money back. Here are the steps you should take:

1. Talk to the broker who sold you the CD, and explain the problem fully, especially if you misunderstood any of the CD's terms. Tell your broker how you want the problem resolved.
2. If your broker can't resolve your problem, then talk to his or her branch manager.
3. If that doesn't work, then write a letter to the compliance department at the firm's main office. The branch manager should be able to provide with contact information for that department. Explain your problem clearly, and tell the firm how you want it resolved. Ask the compliance office to respond to you in writing within 30 days.

Banks like this type of account, and often promote it. They have a guaranteed 'hold' on your money for their investment purposes. But it might not be the best plan for you.

INDIVIDUAL RETIREMENT ACCOUNTS (IRA's):

Starting to properly plan for retirement begins with asking the most basic of questions: What type of account do you want to open? Your answer is critical—so critical that it can affect your whole retirement picture in the future. Different types of retirement accounts provide you with different ways to deposit money, invest money, keep the money earned, and even to use the money you accumulate. So be sure to consider the differences among the types of accounts and choose the one(s) that work best for you.

Individual Retirement Accounts, or IRAs, are special accounts with tax advantages to help you save for retirement. AARP gives the following information on the two types of IRAs:

1. **Traditional IRAs** allow you to save money without paying taxes until you withdraw it. The money you put into the IRA can lower your taxable income and grows tax-free while it's in the IRA account.
2. **Roth IRAs** offer a slight twist on the traditional IRA. There are differences in the tax advantages and who can open a Roth IRA. The most attractive part of Roth IRAs is that your money is withdrawn without paying federal taxes.

TRADITIONAL IRA's:

A traditional IRA allows you to save money without paying taxes until you withdraw it. The money you put into the IRA can lower your taxable income and grows tax-free while it's in the IRA account.

Who Can Contribute

Anyone who earns income is eligible for an IRA. You can have an IRA and a retirement plan at work, but you may not be able to deduct your IRA contributions on your tax return.

In general, if you are covered by an employer plan, you can deduct the full amount you contribute to an IRA if your modified adjusted gross income is less than \$50,000 (\$75,000 or less if married filing joint). Deductibility phases out if your modified adjust gross income is between \$50,000 and \$60,000 (if single); or \$75,000 and \$85,000 (if married, filing jointly, and both spouses have a plan at work). If one spouse is covered by a retirement plan at work and the other is not, and your combined modified adjusted gross income is more than \$150,000, the amount you can deduct may gradually decrease until it reaches zero at \$160,000.

Contribution Limits

You can contribute up to \$4,000 of your earned income annually. This amount is increasing (see table). You may be able to exclude that amount from your gross taxable income on your tax returns. If you're married and both you and your spouse earn income, you can both contribute to the maximum.

Catch Up if You're 50+

If you're 50 or older, you can make an additional "catch-up" contribution of \$1,000 annually for a total contribution limit of \$5,000.

How/When to Contribute

There are several ways to make contributions:

- You can write an annual check to your IRA for the maximum contribution.
- You can make small contributions to an IRA throughout the year.
- You can even wait until April 15 of the year following a particular tax year to make your contribution. For example, you can wait until April 15, 2006 to make IRA contributions for the 2005 tax year. Just make sure that your IRA statement credits the contribution to the proper year.
- You can't contribute any more money to your IRA after you reach age 70 1/2.

You don't have to deposit the same amount of money in your IRA each year. And, you can make contributions to more than one IRA. However, each person's total IRA contribution can't be more than the maximum contribution allowed per person for that year.

Making Investments

The IRA is not an investment itself. It's an account into which you invest your money. You can invest the money you contribute in stocks, bonds, bank CDs, mutual funds, and other investments, including real estate. Pick investments that match your retirement goals.

Money Grows Tax-Free

A great feature of an IRA is that you won't pay taxes on the money earned from investments until you withdraw the money from the account. This means that everything you earn stays in the account to continue earning more money over the years. The more years you leave the money in, the more your money can accumulate and grow.

Because your money grows tax-deferred in a traditional IRA, don't invest in something that grows tax-free in a regular account, such as a municipal bond. Instead, choose investments that would be taxed if in a regular account, such as a stock mutual fund.

Loans and Withdrawals

You can't take a loan from your IRA. Any other withdrawals prior to age 59 1/2 may be subject to income taxes and a 10% IRS early withdrawal penalty, with these exceptions:

- You have unreimbursed medical expenses that are more than 7.5% of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of an annuity.
- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the qualified plan.
- You must start withdrawing money from your IRA when you turn 70 1/2. You'll pay income taxes on any money you withdraw at the tax rate you have at that time.
- All withdrawals from an IRA and any other type of tax-qualified plan are considered ordinary income, not capital gains.

Taking Distributions

When you reach age 59 1/2, you can begin withdrawing money for any reason without a tax penalty, but your earnings will still be subject to income taxation.

Once you reach 70 1/2, you'll have to take at least a minimum withdrawal from your IRA each year. Distributions-withdrawals must begin starting April 1 the year after you turn 70 1/2. If you fail to take distributions by that time, you will be taxed at a 50% rate on the amount that should have been withdrawn. Dividends, interest and capital gain growth within an IRA are not taxable until they're withdrawn from the account. Your tax rate and other factors at that time will determine the amount of tax you owe.

How much to take.

To calculate your minimum required distribution for a given tax year, divide the value of your account at the end of the previous year by the number of years in your life expectancy.

Here's an example. Let's say your Traditional IRA account is worth \$60,000 on December 31, 2020. Your life expectancy was 10 years. You should have withdrawn \$6,000 from your Traditional IRA account in 2021. (The \$60,000 IRA divided by your 10-year life expectancy equals \$6,000.) Your minimum withdrawal will change every year, as your account balance and your life expectancy change.

Changing Your Account

Here are some changes you can make:

- **Switch financial institutions.** You can move your account from one institution to another without a penalty, but be aware there may be sales charges.
- **Convert to a Roth IRA.** For some people, Roth IRAs may be better savings vehicles than traditional IRAs. You may be able to convert some or all of your IRA money into a Roth IRA. It's a two-step process. First, you must withdraw your money from the Traditional IRA and pay taxes on the withdrawn money. Then, you can use that money to open a new Roth IRA. Consult with a financial expert to make sure such a conversion is beneficial to you. Roth IRAs are described below.
- **Convert between an IRA and employer plan.** If your money is in an IRA and you get a job that has a good 401(k) plan, you can roll your money into that. And the reverse is also true: If you have a retirement plan at your employer and leave the company, you can transfer your retirement plan funds to a traditional IRA in order to keep earning tax-deferred money and avoid paying penalties and income taxes (but check to see whether you can keep your money in the company plan even after you leave). There's no annual contribution limit for transfers, so you can transfer all your money in one year.
- **Transfer funds directly.** When you transfer funds between IRAs or between a company plan and an IRA, you can request a direct transfer from one account to another.

Or, you can have the money sent directly to you. If you take the money, you have 60 days to reinvest the funds in an IRA. But if you fail to reinvest some or all of your money on time, you'll have to pay taxes on your withdrawal. You may even have to pay an early-withdrawal penalty.

Do yourself a favor. Request a direct transfer so you don't risk losing your IRA's tax-deferred status and find yourself paying penalties and taxes.

IRAs for Kids

You may want to get your children or grandchildren in the habit of saving money as early as possible. Give them an incentive to learn how to save. Open an account for them. The only requirement is that they

have earned income equal to or greater than the IRA contribution. That means you may be able to pay them for work and then put it into an IRA. Consult a tax advisor.

ROTH IRA's

Roth IRAs offer a slight twist on the traditional IRA. There are differences in the tax advantages and who can open an account. The most attractive parts of a Roth IRA are that your money grows tax-free, and your money is withdrawn without paying federal taxes. Here are some of the main features of a Roth IRA.

Contribution Rules

Unlike traditional IRAs, you can't deduct contributions to a Roth IRA from your income taxes. Instead, you contribute money that has already been subject to taxation. You can contribute up to \$4,000 (non-deductible) a year of earned income into the account. If you're 50 or older, you can also make an additional "catch up contribution" of up to \$1,000 in 2006.

Here are some other rules:

- You can contribute to a Roth IRA as long as you have income from work or alimony.
- Your annual contributions are not tax-deductible (as they would be if contributed to a traditional IRA)
- No matter how old you are, you can keep contributing money to a Roth IRA as long as you earn income.

Eligibility

To qualify for the maximum Roth contribution in 2005, your modified adjusted gross income (AGI) must be less than \$95,000 (single). If it's between \$95,000 and \$110,000 (single), you will qualify for partial contributions. For married couples filing jointly, your modified AGI must be less than \$150,000 to qualify for full contributions. If it's between \$150,000 and \$160,000, you will qualify for partial contributions.

Making Investments

The IRA is not an investment itself. It's an account into which you invest your money. You can invest the money you contribute in stocks, bonds, bank CDs, mutual funds, and other investments, including real estate. Pick investments that match your retirement goals.

Money Grows Tax-Free

Money that you put into a Roth IRA grows tax-free. This means that everything you earn stays in the account to continue earning more money over the years. The more years you leave the money in, the more your money can accumulate and grow.

Because your money grows tax-free in a Roth IRA, don't invest in something that already grows tax-free in a regular account, such as a municipal bond. Instead, choose investments that would be taxed if in a regular account, such as a stock mutual fund.

Withdrawals are Tax-Free

A great feature of Roth IRAs is that you can withdraw contributions tax-free, once you have the account for 5 years and are at least 59 1/2 years old. Unlike a traditional IRA, however, you aren't *required* to withdraw money from the account (or pay additional taxes) once you turn 70 1/2. In other words, the account can be held until death and passed on tax-free to a spouse, children, or other heirs.

Penalties

There is no early withdrawal penalty on the money you contributed to a Roth IRA. But there may be a penalty for early distributions from the Roth IRA unless you meet the same exceptions that apply to Traditional IRAs (see the comparative table). For example, you may withdraw money without penalty to pay health insurance premiums after losing your job.

Converting to a Roth IRA

For some people, Roth IRAs provide better savings vehicles than traditional IRAs. You may be able to convert some or all of your IRA money into a Roth IRA. It's a two-step process. First, you must withdraw your money from the Traditional IRA and pay taxes on the withdrawn money. Then, you can use the remainder of the money to open a new Roth IRA.

The entire amount converted is subject to income taxes. In other words, the amount converted is added to your other income for the year and taxes are due on that new total gross amount at whatever tax bracket rate you end up in. Note: You cannot withdraw money from the Roth IRA to pay the taxes.

Transfers can be tricky, so consult with a financial expert to make sure such a conversion is beneficial to you.

We have given you the most frequently used methods of saving your money. There are also tips to be learned should you progress beyond any of these methods, and truly want to 'invest' your money with a brokerage house.

INVESTING IN THE STOCK MARKET

Once you own your own home, your car is paid for, your credit card debt is under control, and you have obtained the standard of living you want, it is time to consider investing your money with a brokerage house. We won't go into a lot of detail about investing. It is a huge undertaking, involving a clear understanding of the stock market and the knowledge that all forms of investing are for the long-term. You should be prepared to be in control of your investments, and not leave all investment decisions to someone else.

The trick to accumulating wealth is to invest your excess funds. You need to invest your excess funds to meet your personal financial goals. Investments can range from real estate, stocks & bonds, CDs or possibly investing in a small business. Whichever route you choose, create a systematic approach to investing, change direction if necessary, but don't stop. Investment diversification is important to help ensure that you can ride through the normal up-and-down cycles of the stock market or the real estate market. Personally, I started with investing in a 401K, then stocks and bonds and eventually real estate. While other young people decided to spend all their weekly paycheck, I made a choice to first, put a few dollars away each week into a 401K and other investment vehicles. I **'paid myself' first** and then I spent money on the other entertainment activities.

Top 10 Investing Mistakes

Before investing, it is imperative that you have money to set aside for such purposes. This means income beyond that needed for your living expenses. Once you have an amount that you can invest, it is up to you to focus on your investment objectives. Common reasons why people begin their investment portfolios are retirement, or college tuition for your children. Below are some common investing mistakes.

1. **Lack of diversification.** Rule of thumb, if you put all of your eggs in one basket you are taking a much greater risk than if you diversify. Spread your investment money around.
2. **Looking for instant results.** Most investments take time to grow, particularly if you are invested in the stock market. Too many investors make the mistake of getting easily frustrated and selling quickly. While there are successful day traders, it is not recommended for most people and not the way to build an investment portfolio.
3. **Chasing results.** Yesterdays hottest stocks or funds are not necessarily today's. Research investment vehicles and look for those that you anticipate will do well based on past results and indicators of future performance.
4. **Not thinking of allocation first.** Buying a stock, bond, fund or other investment before determining your asset allocation is a very common mistake. Too many people put the cart before the horse. The first step toward successful investing should be determining how much you plan to invest in each asset class (i.e., bonds, stocks) to meet your goals.
5. **Not doing your homework.** No matter what type of investment instrument you are considering, it is important to do the research. There are numerous web sites and publications in which to research and compare companies.

6. **Deviating from your investment objective.** One of the biggest mistakes investors make is not sticking to their original investment strategy. Do not let yourself get diverted by a hot tip, a sudden trend or a sudden down market.
7. **Not understanding a particular investment.** We have all heard stories of individuals who have been talked into investing in futures or other investment vehicles that they did not fully understand. Make sure you have an understanding of the type of investment and you are comfortable with the risks involved before proceeding.
8. **Blindly following the advice of a broker.** If brokers knew all of the best stocks and mutual funds they would have made enough money to retire. Therefore, you should still do some research even once it is recommended by a broker. You also have to work only with a broker whom you feel you can trust implicitly.
9. **Not following your investments.** Many people pay attention to their investments for a while and then make the mistake of getting sidetracked or losing interest. You should keep track of your investments on a regular basis.
10. **Not assessing your level of risk.** Essentially, you have to consider how much money you can comfortably afford to lose without losing too much sleep. Investors frequently make the mistake of jumping into high risk investments for which they were not prepared.

Anyone with money to invest can buy and sell stocks. Stock market investing has its own specialized vocabulary but once you have the basics under your belt you can understand better how the market works. As with any investment, the more knowledge you have about stock trading the more successful you are likely to be.

Basics about Stock Market investing: This type of investing is usually done through a broker – an intermediary who takes orders and executes them. Brokers also offer advice on stock market investing strategy - about which stocks to trade and the condition of the market. These 'full-service' brokers charge a relatively high commission. Investing in the stock market can also be done through discount brokers who charge significantly less. You don't get advice, but to some, that is an advantage.

Common stock market investing services commonly offered by brokers include online trading, broker assisted trading, stock market investing advice etc. Some brokers also offer options like Interactive Voice Response System for placing orders by telephone and wireless trading systems for making orders by using web-enabled cellular phones or other handheld devices.

Some brokers have their own proprietary software for placing orders over the Internet while others allow you to access their order department through their website with a password. No matter what system they use, almost every established broker offer stock market investing advice and a variety of charting options that allow you to track movements on the stock market. Analysis software may also be included in their service or available for an extra fee. Some brokers also offer personalized stock market investing strategy to clients as per their risk profile.

A 'market order' is an instruction to buy or sell at the current market price. The order is usually executed very near the price you are quoted at the time of your order. However, if the stock price is fluctuating or is

not actively traded there may be a difference between the quote and the actual transaction.

A 'stop order' or 'limit order' can be placed if you expect the stock price to move and wish to buy or sell at a certain price above or below the current market price. A stop order instructs the broker to trade at a certain price, while a limit order is an instruction to trade at a specified price or better.

A stop order helps to limit losses or protect profits. They become effective when the market hits the stop price but may trade above or below the stop price because they are traded at market price after they become active. Limit orders may not be placed at all even if the market reaches the limit price. If the market moves quickly there may not be time to execute your order before the price falls out of the limit price range.

Limit orders and stop orders are a good stock market investment strategy to follow if you want to limit your stock acquisition costs or cut down your losses

For example: You buy a stock at \$50 and then put in a stop order of \$45. If the price of that stock falls to \$45 your stop order will become effective and your stock will sell at market price. Conversely, if you place a limit sell after buying the stock for \$60, when the price rises to that level your stock will be sold at a profit. You could also buy the stock with a limit buy order for \$45. This allows you to (possibly) buy stock at less than current market. If the price does not fall to your limit buy price, however, you will not buy any of that stock.

All orders can be placed as 'good 'til cancelled' (GTC) or as a 'day order.' GTC orders remain in effect until they are cancelled but day orders remain effective only until the end of the current trading day.

Stocks are usually traded in 'round lots' – lots of multiples of 100. It is possible to trade other amounts of stocks, but this kind of trade is called an 'odd lot'. Trading software can handle both types of orders, but odd lot orders are slightly more difficult to fill than round lot orders.

This is just a broad outline of how investing in the stock market works. We strongly suggest you start your learning process today, if you want to invest in the stock market tomorrow! Being well informed about the general trends of the market, and being aware of the overall state of the economy at large, are important for you to be a good investor of your money.

INVEST IN THINGS THAT ACCUMULATE IN VALUE! We have discussed how real estate... your home, perhaps a second home, land, or commercial property are all fairly guaranteed to increase in value over the years, and are known far and wide as “good investments.” Here is one other form of investing:

Buying and selling of antiques, art, coins, jewelry, and perhaps ‘collectables’. This very personal form of investing is wholly dependent on your knowledge and expertise. Many of us find ourselves, at one time or another, ‘collecting’ something with the thought in the back of our mind that these things

might be worth more in the future. The problem is that it is very easy to lose money on these types of investments unless you are very knowledgeable about what you are collecting.

True antiques, whether large pieces of furniture or small collectable items, can certainly be considered an investment. But how wise this investment is depends on many things. The market for the item can fluctuate... styles that *others may be willing to buy* change. And its value will certainly also depend on its *quality*. There is also the fact that you then have to sell the item(s) to realize any gains on your investment, not keep these items for your own use and pleasure.

If you are willing to spend the time and effort to learn the market of what you are interested in collecting, then these can be good investments. And “collections” are important in this type of investment, as they most often appreciate in value over a mix of items. If you are not already involved in this type of investing, be prepared to spend a lot of time learning all you can.

Just be smart and be careful!

BE PATIENT and LET YOUR MONEY GROW!

This is the final thing we want you to learn, and the easiest! On the whole, you just sit back, be patient, and let your money grow! This is the most important you can do for yourself and your family.

Compounding! Let your money earn – compounding is earning interest on your investment plus previous interest. Compound interest is paid on the original principal **and** on the accumulated past interest.

The magic of compounding. You'll often hear the phrase, "The rich get richer." While this phrase can mean different things in different situations; in the context of compounding it has a major impact. Let me share a few examples on how you can accumulate \$1,000,000, based on average investment return of 10% (stock market average).

- Let's say you are 40 years old and you have \$20,000 to invest. To accumulate \$1,000,000 by the age of 65, you would need to contribute \$567 per month.
- If you're 30 and have \$5,000 to invest, you'll need \$218 per month to reach \$1,000,000 by age 65.
- Let's say you are only 20 years old and you have no money to invest. *You can start with absolutely \$0 and still only have to add \$94 per month to reach that same \$1,000,000 goal by age 65.*

Wealthy individuals understand the benefits of compounding. Here are examples that show how the rich get richer.

A. If you have accumulated \$10,000 and your investments yield a fantastic 20%, you will have earned

\$2,000 for that year.

B. If you have accumulated \$100,000 and your investments don't do as well and you only earn 10%, you still outpace the person with only \$10,000 and you'll earn \$10,000 for the year.

C. OK, let's say you met your goal of accumulating \$1,000,000 and your investments do even worse at 3% for the year. You will still make over \$30,000 for the year. If your investments performed well (10%) you will have made an unbelievable \$100,000 for that year.

Simple interest is the interest that is derived from only the investment in a principal amount. When money is placed on deposit to earn interest, the interest can be paid out periodically as it is earned, or it can be left on deposit. If interest left on deposit does not itself earn interest, the deposit is said to earn simple interest. In practice, simple interest is rarely used for deposits held more than a year.

In a "compound" investment, the interest is not paid out to the holder, it is built up within the investment. Compounding is to credit interest, not based upon the initial value of the deposit, but based on its accumulated value. This approach is called **compound interest**. With it, interest is earned on both the initial deposit and on any interest that has already been earned but left on deposit—interest is earned on interest.

Once you earn some interest on an investment over a period of time, the next rate period your earned interest will also gain some more interest so your total interest payment gets larger. Compound interest really does work if you give it long enough... even if you can only invest at 5% typically the stock market has returned about 10% over long periods of time. Better rates will make a huge difference. Getting 10% will make you much more than double what 5% will.

The size of the interest payment you get each period grows at an exponential rate with time. That is, the longer you hold, the larger the interest payment.

The more frequent the compounding periods, the faster the money in your account grows. Different accounts have different compounding periods, the time that goes by before they pay the interest. They can be daily, monthly, quarterly, or annually.

The reasoning is simple: if today's interest earnings start earning interest tomorrow, you're going to make more in the long run than you would if today's interest earnings don't start earning more interest until next month.

The name of the game is to invest early and to invest often, even if in small amounts.

There is a wonderful story that **Benjamin Franklin**, the sage who brought us so many amusing homilies that remind us of the common sense approach to life, said that "Compound interest is the eighth wonder of the world!" Over his life, Franklin amassed a good deal of savings (after all he was the author of the quote "a penny saved is a penny earned.") He left most of his wealth to his daughter Sally, but he also left bequests for various public works. In his will he left \$5,000 each to the cities of Boston and Philadelphia. Each city was to have a fund that would last for 200 years. The money was to be loaned to needy young people at 5% interest. After 100 years each city could withdraw \$500,000 from the fund, leaving the rest to work for the second 100 years. The cities managed to deviate only slightly from Franklin's plan. They clearly demonstrated the benefits of compound interest!

SAFEGUARDING YOUR FINANCIAL SECURITY - INSURANCE

Life insurance is necessary when it comes to protecting the financial security of your family. Simply put, a life insurance policy gives you the peace of mind that your family will be able to carry on financially after you're gone. As with all purchases, shop around!

Of course, no one likes to think about death or dying. Life, however, is full of risks, and you have to mitigate them. If you should die unexpectedly, would your family be able to cope, in the midst of everything else, with the fiscal repercussions?

By buying life insurance, you can minimize those financial uncertainties. No matter whether it's a spouse, parent, business partner, child, or anyone else who relies upon you for financial support, life insurance can help them carry on with their lives and reach their goals without the financial hardship that might otherwise result from your death.

Life insurance gives you and your family peace of mind. Life insurance also underpins any effective financial strategy for dealing with loss. Simply put, life insurance exists so that if you die, your family will have needed cash. So when it comes to safeguarding your family for when you're not there, choosing the right life insurance policy now is one of the most important decisions you'll ever make.

What insurance does for you:

1. Supplement your retirement income
2. Continue taking care of your family after you die
3. Help your family replace lost income
4. Cover any expenses related to your death
5. Bolster family finances to protect against unexpected future obligations
6. Give your survivors flexibility for dealing with the future. Proper finances prevent them from having to alter their living or job situations immediately after your death
7. Help maintain your family's standard of living by paying for such everyday expenses as groceries, bills, rent or mortgage
8. Contribute towards ongoing child-rearing expenses
9. Pay for your children's education

10. Provide peace of mind for you and your family

Remember that you're not only buying life insurance for your peace of mind today, but also to protect your loved ones for the future.

Determine how much insurance you need: There are several things to consider when you are trying to decide how much insurance you need. Consider these things:

- Marital status
- The number of children you have
- Any outstanding debts, such as mortgages, college tuition bills, or installment loans
- Your current level of savings
- Any future income needs
- How much of an estate you want to leave your heirs
- How much you can afford to pay for premiums

Some financial experts recommend that you carry an insurance policy worth five to 10 times your annual salary. Of course that ballpark figure is no substitute for working through your own financial needs. Remember, too, that your life insurance needs can increase or decrease in the future, so consider carefully exactly what you feel you might need, and for how long you want to carry it. If you have young children at home, you might need more now, than when your children are grown.

When evaluating your life insurance needs, ask yourself these questions:

- How much would your dependents receive if you died tomorrow, and how much would they actually need? Your insurance policy should come as close to making up the difference as you can afford.
- Will there be any immediate family needs at the time of your death, such as medical expenses, burial costs, or estate taxes?
- What would be adequate funds for a readjustment period, to finance a move, or to provide time for family members to find a job?
- What are ongoing or future financial needs, such as monthly bills and expenses, daycare costs, college tuition, or a spouse's retirement savings?

Most insurance boils down to two kinds: term life insurance, and whole life insurance.

Term Life Insurance covers you for a specific period of time — a term. If you die during the term, then we pay a death benefit.

Whole life insurance covers you for your whole life, so long as you continue to pay an annual premium. The plans also accumulates value, which you can take as cash or use to increase the value of the plan itself.

Each kind of insurance has its own benefits and drawbacks. The kind of coverage you select will of course revolve around your own, unique circumstances. Remember that your financial protection needs might be best met through a combination of different kinds of insurance.

TERM INSURANCE is a basic, no-frills life insurance that protects you for a specific period of time. If you die during the policy term, then we pay benefits to your beneficiaries. Unlike other kinds of insurance, however, term insurance does not pay dividends, and you may not borrow against it.

Term Insurance is the cheapest of all life insurance and the best policy for a relatively low-wage earner who wants maximum protection at the lowest cost while his children are growing up. A man of 30, for example, can buy a \$10,000, fifteen-year term policy for only \$100 a year, about half the cost of straight life insurance. The one trouble is that term insurance builds up no equity for the policyholder. Once he stops paying premiums, he gets no cash, has no insurance, though he can convert to straight life insurance at higher premiums at the end of his term. (*Time Magazine*)

Term insurance is a good choice for ensuring the availability of funds to pay for significant financial events such as mortgage or college tuition, or for budget-conscious families seeking the most affordable, initial premium payments. Term insurance offers the most coverage at the lowest initial cost.

- **Level Premium Term** policies have premium payments that remain the same for a period of time. . Some companies even offer even lower rates on term life insurance with guarantees that extend for a portion of the term.
- **Yearly Renewable Term** policies give you protection for a year at a time; you can automatically renew it each year, with no continued proof of good health needed. Your premiums will usually increase every year, for as long as you keep the life insurance policy. This type of policy will often give you the lowest initial cost for getting life insurance.

Advantages to Term Insurance:

- In general, when comparing an equivalent amount of coverage between term and whole life insurance plans, term insurance premiums are lower.
- Term insurance is good for covering specific needs that will eventually disappear, such as your children's college tuition, or a mortgage.

Disadvantages to Term Insurance:

- Unless you buy level premium term insurance, your insurance premiums will increase as you grow older.
- If you need your term insurance plan for a greater length of time than you initially estimated, your coverage may become very expensive

Limited Payment Life Insurance is a combination of straight and term insurance, which provides lifetime protection but limits payments to 15, 20 or 30 years. Though premiums are high, limited life is best for the man who wants lifetime protection but wants to confine payments to his best earning years. A man of 23 with \$10,000 worth of 20-year limited life must pay \$320 a year until he reaches the age of 43. Cost of the same policy, if he takes it out at 33: \$390 annually.

Endowment Life Insurance is one of the "savings-type" policies designed for people who want life-insurance protection plus a source of income to provide for their old age. A big favorite of unmarried career women and family men who have other insurance, one form of a \$10,000 endowment policy pays \$10,000 in insurance if the policyholder dies before the age of 65, a lump sum of \$10,000 when he reaches the age of 65, or an income of \$65 monthly for the rest of his life. The drawback is that because endowment policies build up big cash values, premiums are the highest of all. Cost of a \$10,000 endowment for a man aged 30: about \$300 per year for a monthly income of \$65 after the age of 65. Since actuarial tables show that men die sooner than women: a woman would only get about \$55 a month for the same premium payment.

Annuity, a less expensive savings policy, which differs from an endowment in that it provides income for the policyholder after a certain age but upon his death only pays back the policyholder's own equity. Annuities are best for people who are already covered by standard life insurance but want a steady income in their old age. An annuity providing \$100 a month at the age of 65 would cost \$350 *a year* for a man starting out at 30, while a woman would have to pay \$400 annually for the same income at 65.

WHOLE LIFE INSURANCE is just like it sounds — it protects you for your whole life. In other words, you don't buy a whole life insurance policy and expect to let it lapse. Here's how it works: As long as you keep paying the premiums, the death benefit will always be there. These policies are designed to provide coverage over a long period, and are a good choice if you do not expect your life insurance needs to diminish over time.

We recommend that you at least have an inexpensive Straight-Life insurance policy!

The definition of **Straight-Life insurance** is that it is on the life of the insured for a fixed amount at a definite premium that is paid each year in the same amount during the entire lifetime of the insured.

“Straight Life insurance provides a lump-sum payment to a policyholder's beneficiaries upon his death—and at a relatively low premium. Another feature is that policyholders can stop paying premiums whenever they choose, get the equity they have put into the policy in cash, or take a reduced paid-up policy. A young man of 23, for example, can buy a \$10,000 straight-life policy at a premium cost of about \$180 annually. His beneficiaries would get \$10,000 when he dies; if he wants to stop paying premiums at 65. He can get an accumulated cash equity of \$6,140 or a reduced paid-up policy of \$8,150.” (*Time Magazine*)

How it works:

When it comes to whole life insurance, the most common type is Straight Life Insurance. With Straight Life insurance, you pay an annual premium for as long as you live. Other types of whole life insurance let you pay a premium for a shorter period of time, or just once.

In addition to a death benefit, most whole life policies have a feature known as "cash surrender value." An insurance policy's total cash surrender value is made up of two components: cash value and dividends. The cash value will increase each year in accordance with the schedule contained in the insurance policy. Our whole life insurance plans also pay dividends, which you can also use to increase the policy's cash value.

In general, you won't pay income tax on the cash value increase, unless you cancel the insurance policy. In that case, you'll only owe taxes on the amount greater than the total of the premiums you've paid less any dividends received. If you hold the life insurance policy until you die, no one will owe income tax on the policy proceeds.

Choosing a whole life insurance policy:

When choosing a whole life insurance policy, make sure you:

1. Pick an insurance policy that, starting the very first year, has a guaranteed cash surrender value, and choose the one with the highest cash surrender value in the very first year.
2. Consider "participating" insurance policies, since they can pay dividends which increase your plan's value by boosting both the total cash surrender value and the death benefits — the money paid to your beneficiaries when you die.
3. Give preference to a plan that lets you cancel the insurance policy and receive the dividend and cash value as one lump sum. (In insurance industry parlance, canceling a policy is sometimes referred to as "surrendering" the policy.) Be wary of any insurance policy that levies "surrender charges" when you cancel.
4. Study the product illustrations carefully — especially the guaranteed cash values.
5. If you ever need to stop paying premiums on your insurance policy for any reason — and you may need to — you want a plan that lets you use the accumulated cash value of the life insurance policy to pay the premiums, thus keeping your coverage current.
6. Evaluate whether the policy lets you borrow from the life insurance company, using the cash value in your life insurance as collateral. Note that in all cases, if you do not repay the loan, then the value of your insurance policy decreases, and your beneficiary will receive a reduced death benefit.

Advantages

- With whole life insurance, as long as you continue to pay the required premiums when due, your policy is guaranteed to remain in force for your whole life. The death benefit never decreases. Moreover, no federal income taxes are charged upon death. If you desire, death benefit can be taken as a monthly income instead of a lump sum.

- With fixed premium plans, your premiums won't increase as you get older. Term life premiums increase at the time of renewal. Use of dividends can minimize the premiums that you pay and contracted for.
- Your whole life insurance policy can accumulate a cash value free from current taxes, which you can borrow against.
- Surrender your whole life insurance policy for its cash value at any time. Unlike other life insurance policies, whole life insurance accumulates cash reserves. This increase can be used to pay premiums, and also accumulates tax deferred.
- Use the policy's dividends to automatically increase the amount of life insurance you own (its face value) or receive the dividends as cash. You are eligible to earn dividends if you own a participating whole life insurance policy. You receive these dividends in cash, which you can further use to either purchase a paid up addition, to minimize premiums or you can keep it within the policy to generate interest.

Disadvantages

- To buy the level of protection you need, the cost of the required premium payments may be too high.
- As your needs change over time, you may ultimately require less insurance.

IN CONCLUSION:

We are a nation with bountiful resources, but that alone won't make anyone rich. One of the reasons our country has such resources has to do with personal liberty. Personal liberties such as we enjoy offers greater protection and respect for both the person and his property. People feel free to engage in the peaceful and voluntary exchange of goods. Where there is the rule of law, you have the tendency for higher moral standards, and that produces an important side benefit – the freedom to acquire greater wealth.

The key, basic success factors that the American economy rewards are integrity, discipline, getting along with people, being supportive, hard work, skills, enjoyment of career, and strong leadership qualities. Of all of these, hard work is much more important in achieving economic success than high intellect! A successful person learns much more from life's experiences than he/she ever learned in school. – or rather, *they continue to learn through those experiences.*

No other topic seems as fraught with emotional baggage, as packed with confusion, nor as interlocked with human happiness as the subject of money. Marriages break up because of it, businesses fail for lack of it, and some people can't get enough of it. We respect people who have shown they have the ability

to earn money; those who have shown they can achieve that shared dream that drives the free-enterprise system – that with hard work... anyone can be rich.

But work alone won't make you rich. You have to be wise with the fruits of your labor. To be rich you must have a net surplus of money that will grow and accumulate for you. The only way to do that is to not spend all of the money you earn, but to put a net surplus to work earning money *for you*. All of us can, to one degree or another, have a net surplus if we spend wisely, make a habit of saving even a little of our hard earned dollars, and make smart financial decisions.

We believe we have given you the information and tools you need to begin getting out debt. You are now aware of how your credit is either built or destroyed, and if it's in poor shape - ways to start improving it. You have a substantive idea of the benefits and dangers of borrowing money. You have been given good advice of the various ways to invest your money. You have even been given ideas on ways to spend less. Taking the time to read this information is, we believe, proof that you want to make changes. It is now up to you to take the initiative and begin making real changes and improvements in your financial life!

We wish you much success!

FORMS

SENDING DISPUTE LETTERS

Know the facts before you send letters regarding mistakes or errors on either credit reports, or for credit card disputes.

- Just because information may be wrong on one credit bureau's report, it may not be wrong on others.
- Always address letters to each company individually. Never 'lump' several companies together in one letter (when you need to contact several).
- Always be sure to give your complete name, address, and any account numbers that will help the company identify you. And always be sure to date your letters. This information should always be at the top of any letter you send.
- If you have spoken with someone at a particular company about a problem, get their name and address the letter to them; or ask them to whom you should address the letter. If you don't know a name, the salutation should read "To Whom It May Concern."
- Be sure to send any supporting evidence/documents to prove your point. Perhaps you need to send copies of cancelled checks to prove exactly when you made a payment, or for how much payment you made.
- In the event supporting documents are hard to locate, send a letter anyway if you feel you are in the right!
- Always be specific about what the problem is, and what you have done or plan to do to correct it.
- Try to be as specific as possible as to what remedies you expect. Ask that you be kept informed of any appeals process.
- If a request cannot be granted, ask to be informed why it can't be, and what you might need to do to correct a situation.

Also provided is a basic form to use when preparing your budget.

Sample Letters:

We give you two example letters. One is to be used should you need to contact a Credit Reporting Bureau when you see misinformation on your credit report. The second is to report a dispute about credit card charges to the credit processor.

Always contact the credit bureau should you find any misinformation on your report. State the nature of the problem and, if possible, provide proof of your ascertain. Your dispute will probably need to be investigated and verified. The more information you can provide that will help in that process the sooner any misinformation can be removed. Adapt the following letter to suit the purpose of your complaint, whether concerning reports of late payments, reports of negative public filings, or balance disputes.

Credit Bureau Account Dispute Letter:

Your name
Your address
Your city, state, zip
Your telephone numbers
Your Social Security Number (if you feel it's necessary)
Your Account Number

Date

Credit Bureau
Their street address
Their city, state, zip

To Whom It May Concern:

After reviewing a recent copy of my credit report, I noticed an error. Listed on my report (is an account that cannot be verified because the creditor failed to do so after receiving a written request to do so.) (or) (Listed on my report was a public filing, i.e. "judgment" in the amount of \$_____. etc I have never had any such action taken against me. This needs to be deleted from my credit report) (*etc*) in accordance with the Fair Debt Collections Practices Act.

The account name is:
The account number is:

In view of the foregoing, I am disputing the balance shown in my report and request an investigation into the matter in accordance is [15 U.S.C. Section 1681i] of the Fair Credit Reporting Act regarding the completeness or accuracy of any item of information contained in a consumer's file at a consumer reporting agency that is disputed by the consumer and the consumer notifies the agency direction of such dispute.

Please send me a free copy of my corrected report and send a copy of my corrected report to any companies that have made inquiries into my credit history in the last six months.

Sincerely,

(your signature)

Your Name

More frequently there might be a need to dispute the amount of a credit card charge. You should first contact the merchant that processed the charge with any questions or disputes, and allow them the opportunity to correct it. Should you fail to get appropriate satisfaction, you should report any disputed or fraudulent charges to your credit card processing company as soon as you are aware of it.

Credit Card Charge Account Dispute Letter (about a recent charge):

Your name
Your address
Your city, state, zip
Your telephone numbers
Your Social Security Number (if you feel it's necessary)
Your Account Number

Date

The company name of the retailer or service provider
Their street address
Their city, state, zip

To Whom It May Concern:

I hereby send notice that I dispute a recent charge as shown on my latest statement. I (did not make the charge) *or* (returned the item) *or* (did not authorize the charge) *or* (received defective merchandise and will return the item) *or* (was assured of satisfaction in this product but am not satisfied and plan to return it). (*etc.*)

Charge #
Date of charge:
Store or merchant:
Amount of charge:

Please take the appropriate actions to correct this erroneous charge. I contacted the merchant and was unable to receive an appropriate response to my problem.

Please advise me of any actions to take on my behalf, and the resolution of this issue.

Sincerely,

(your signature)

Your Name

Total Monthly Gross Income		\$	<input type="text"/>
- Taxes, Health Ins. & Other Payroll Deductions	\$	<input type="text"/>	
- Savings, 401K, etc.	\$	<input type="text"/>	
Total Monthly Net Income		\$	<input type="text"/>

Housing Expenses		Monthly Payments
Rent or Mortgage	\$	<input type="text"/>
Utilities	\$	<input type="text"/>
Insurance	\$	<input type="text"/>
Repairs	\$	<input type="text"/>
Taxes (determine a monthly amount)	\$	<input type="text"/>
Sub-Total Housing Expenses	\$	<input type="text"/>

Car Expenses	
Loan Payment(s)	\$ <input type="text"/>
Gas	\$ <input type="text"/>
Insurance (determine a monthly amount)	\$ <input type="text"/>
Maintenance & Repairs (average monthly amount)	\$ <input type="text"/>
Sub-Total Car Expenses	\$ <input type="text"/>

Debts	
Creditor #1 _____ Balance _____	\$ <input type="text"/>
Creditor #2 _____ Balance _____	\$ <input type="text"/>
Creditor #3 _____ Balance _____	\$ <input type="text"/>
Creditor #4 _____ Balance _____	\$ <input type="text"/>
Sub-Total Creditor Expenses	\$ <input type="text"/>

Miscellaneous	
Church Tithes & Offerings	\$ <input type="text"/>
Other Charitable Contributions	\$ <input type="text"/>
Groceries, Lunches, Meals Out	\$ <input type="text"/>
Childcare	\$ <input type="text"/>
School Tuition/Supplies	\$ <input type="text"/>
Medical Bills and CoPays	\$ <input type="text"/>
Prescription Medicines	\$ <input type="text"/>
Pet Supplies & Vet Exams	\$ <input type="text"/>
Entertainment, Cable, Video Rentals	\$ <input type="text"/>
Club Dues (Homeowner's Assoc., Fitness, etc...)	\$ <input type="text"/>
Clothing	\$ <input type="text"/>
Gifts	\$ <input type="text"/>
Cash	\$ <input type="text"/>
Other	\$ <input type="text"/>
Sub-Total Miscellaneous Expenses	\$ <input type="text"/>

Monthly Expense Totals	
Housing	\$ <input type="text"/>
Car	\$ <input type="text"/>
Debts	\$ <input type="text"/>
Miscellaneous	\$ <input type="text"/>

TOTAL EXPENSES	Deduct from Income	\$ <input type="text"/>
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Monthly Surplus or Shortage	\$ <input type="text"/>
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