



Basics of Financial Literacy: “Common Cents” for Independence

A guide to money management
for people with disabilities.



CENTER ON DISABILITIES AND
HUMAN DEVELOPMENT

live learn work play



University of Idaho

College of Education,
Health and Human Sciences



University of Idaho
Extension

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BUILDING A PARTNERSHIP WITH YOUR MONEY

Section 1

Is this workbook for you?



Are you living with a disability?
Do you live in Idaho?

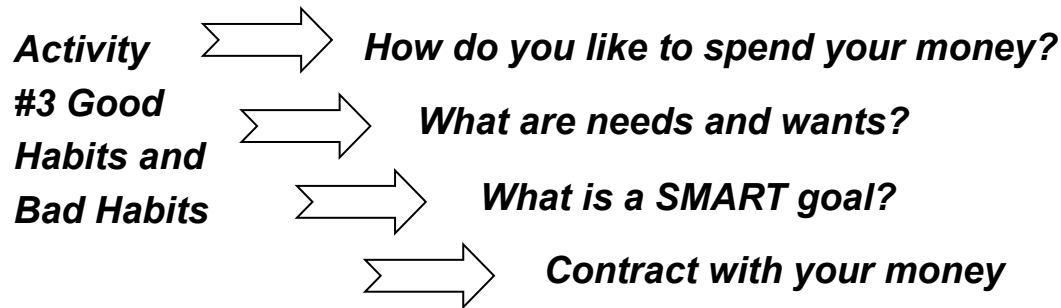
If you said yes to both of these questions, then this workbook is for you!

**It is about how YOU manage your money, instead of letting
your money manage you.**

Everyone needs financial skills to make smart decisions about money. As a person with a disability, there are some additional things you need to know to be sure you can get what you need to live independently.

At the end of this workbook you will find a glossary that will define some of the terms that you will see. The glossary starts on page 47.

Overview



Building a partnership with your money is an important aspect of financial stability. In this section, you will learn about some different ways to think about your money and your spending habits.

- Do you know how you spend your money each day? Each month?
- Do you understand the difference between needs and wants? You cannot develop a plan to reach your goal until you're clear about the difference between what you need and what you want.
- What is your money personality? Do you need to change some habits so that you can accomplish your financial goals?
- Are you ready to make a contract with your money?

There are activities and quizzes to complete as you read sections of the workbook. We encourage you to do each of these activities—they will help you understand your money better!



What are Needs and Wants?

On the previous page, you wrote down some of the ways you have recently spent your money. Now we will talk about your values. Your **values** are those ideas and beliefs that really matter to you. Your values determine what you will do with your money. Asking yourself, “How do I use my money now?” will tell you a lot about *your* money values. Your values will help you decide what your needs are and what your wants are.

People use money two ways:

1. They buy things they need or want now,
2. They save for things they may need or want later.

It is not about how much money you have, but how you use your money. It is all about the choices you make.





The Difference between Wants and Needs

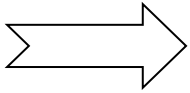
Here is a good rule about money: It is very important to make your needs come first. That is why it is important to know the difference between your needs and wants. Before you start planning how to use your money, you need to be clear about the difference between needs and wants.

- A **need** is something you must have to survive, like a place to live and enough food to eat.
- A **want** is something you might like to have, but you do not have to have it right away. You can save and buy it later.

Now, think about needs and wants in terms of a “bucket list.” A bucket list is a list of experiences, achievements, or things a person hopes to have or accomplish in their lifetime. What types of experiences, achievements, or things do you hope to have or accomplish? Are they needs or are they wants?

On the next few pages you will take a quiz that will help you determine your money personality, or how you think about your money. Understanding how you think about your money, will help you think a little differently about your needs and wants. After you take the quiz and see the results, you may move some things from your need list to your want list.

QUIZ



What is your money personality?

One way to recognize how you think about money is by asking yourself, “What is my money personality?” Are you carefree when it comes to money? Or do you associate money with security?

You really need to know how you feel about money and how you spend it before you can build a strong relationship with it. To do that, you need to figure out which money personality fits you the best. By knowing how you think about money, you can form a plan to protect and stabilize your financial future.

The quiz on the following pages will ask five questions. Circle the answer that best fits how you would answer the questions.

At the end of the quiz, there will be a description of each money personality type.

QUIZ

1. My feelings towards spending and saving my money are:

- A. I live paycheck to paycheck and spend my money when I have it. I know someone will always help me if I run low.
- B. I spend more than I have so I can have nice things.
- C. Money is not everything. There are more important things than money and it doesn't buy happiness.
- D. I love to spend money and as soon as I get it, I buy whatever I want.
- E. I have enough money to live comfortably. I watch my spending but I do not follow a budget.
- F. I stick to my budget. Having an emergency fund is important to me and I try to have one on hand all the time.

2. If there were an emergency, I would:

- A. Get by; It is not important to save a lot of money. It always seems to work out. My money challenges either go away or take care of themselves.
- B. Stall; It is important to me that people do not know that I am struggling. Appearance is important to me.
- C. Ask for help; Money is not the most important thing to me. My family would help me get by.
- D. Freak out; I do not have savings but I really like to spend money when I have it.
- E. Stress a little; I have a small emergency fund but it could be bigger.
- F. Be at ease; I always have enough money in the bank for emergencies.

QUIZ continued

3. Using credit to pay for day-to-day bills is:

- A. A normal occurrence for me; I know that tomorrow will come and charging items today helps me get the things that I want.
- B. A necessity for me; I love buying name brands. Being successful means having nice things and being able to shower friends and family with gifts.
- C. Great; There are so many things that I want. Being able to buy something today and pay for it tomorrow is my motto.
- D. Not really a need for me; If I do not have the money, I either do without or find another way to get what I need.
- E. I use credit for day-to-day purchases but I have the money to cover the charges and pay the bill in full every month.
- F. Not in my vocabulary; I think that every debt should be paid, cash should be used and purchases should be made when you have saved the funds to make them.

4. I spend my money on:

- A. I have no clue; I do not worry about my money...it never helps. And trying to keep track of it would be useless.
- B. Anything expensive—Cheap stuff doesn't last. I want people to see what I have and drool over it.
- C. My family—I would rather spend more time with my family than worry about things. Lots of money would be great but it is not really necessary.
- D. All the nice things in life—Happiness is truly going shopping and buying whatever I want, whenever I want.
- E. Groceries and necessities. I do not have extra money to buy things I do not need.
- F. Things I want and need—It is a great feeling to have the money I need for the things that I want and need. I make sure that I save up and shop around for bargains so that my money goes farther.

QUIZ continued

5. When I think of money, I:

- A. Am not concerned. It is not my top priority.
- B. Am excited. It means I get something I want.
- C. Feel it is a means to an end.
- D. Am out the door to the nearest mall.
- E. Feel anxious and upset. I live crisis to crisis and hate thinking about money.
- F. Feel secure and in charge.

QUIZ continued

How did you answer the questions?

- **If you answered mostly A's**, you might want to work on your partnership with money. It is not a big issue for you and you aren't worried about it because things always seem to work out. But wouldn't it be nice if you didn't have to ask someone else for help when you needed cash? Something to consider about your money personality type is that by saving some of your money every week, you could avoid "getting by" and borrowing money from family and friends or using credit to pay for day-to-day expenses.
- **If you answered mostly B's**, you LOVE your money. Your relationship is out of balance a little. It is nice to have things you want but what about the things you need? By spending money that you have not earned yet, you risk the chance of financial disaster. Something to consider: By creating a simple spending plan, you would know where your money needed to go first before you hit the malls. This would help with running low and paycheck to paycheck problems too.
- **If you answered mostly C's**, you do not have a partnership with money right now. Your personal relationships are the most important to you (which is great) and the thought of paying bills makes you a little sick. By making a plan for your money, you could spend more time with your family and friends and make sure you have everything you need and some of the things that you really want. Something to consider: Your money is not really working for you right now. By tracking your spending habits and knowing where you are spending your money, you could actually rid yourself of the feeling that "money is a means to the end" and start making your money work for you instead.

(continued on next page)

QUIZ continued

- **If you answered mostly D's**, you have a partnership with your money...for a little while. You like to spend your money as soon as you get it. This is ok if you do not have anything else you need to pay for. Saving for your purchases might mean getting something really important later. How would that feel if you had some cash on hand for later? Something to consider: Money doesn't buy happiness and neither does stuff. Consider "visiting" your purchases before you buy them the first time. You may find that you really do not need the item that you were so excited about the first time you saw it, and there is always the possibility that it will go on sale and save you more money for something else.
- **If you answered mostly E's**, you are so close to having a great partnership with your cash. You do not have all the cash you need to live the lifestyle you would like but you could. You are on your way. Something to consider: Revisit your budget. Think about some of your expenses that vary every month. Is there a way to reduce, adapt or eliminate some of those expenses? You might find that it is easy to get rid of an expense that you do not really need right now and save some money or pay a bill that has been bugging you.
- **And, if you answered mostly F's**, you have a great partnership with your money! Keep it up.



SMART Goals

Before you can create goals for your wants and needs, you need to think about what your “bucket list” is according to your wants and needs.

On a piece of paper, write down three “bucket list” items and rank them in the order of importance to you. Keep in mind that the “bucket list” item that you rank as most important will be used as you learn how to set a **SMART** goal. Decide if your number one Bucket List item is a need or a want.

Once you’ve determined if your goal is a want or a need and how long you have to work towards it, it is time to decide if it is a **SMART** goal. Having a **SMART** goal will help you plan the direction of your financial goals, maintain the dream as you work towards it, and reach it when you expect to.

SMART stands for **S**pecific, **M**easurable, **A**ttainable, **R**ealistic, and **T**imeline.

When making a goal remember to ask yourself, are your goals **SMART**?

- Do you know exactly what you want or need? Can you define it?
- Do you know how much it will cost? What about the costs associated with having it (e.g. the car insurance required when you have a car)?
- Is it affordable and something that you can work towards?
- Is it a reasonable purchase that will fit easily into your life?
- Can you realistically save for it in the time you’ve allowed?

If you answered yes to **all** of these questions, you have a **SMART** goal. A **SMART** goal can be used to set any goal that you would like to achieve no matter how big or small.

Putting all of these parts of **SMART** together can help you create a strong goal that keeps you on track for the things you find most important in your life.

On the next page, you will see an example of a **SMART** goal.



SMART Goals

This information can be a lot to think about at one time and may be confusing at first but, with practice, you will achieve solid results.

Here is an example of what a SMART goal could look like:

My SMART Goal:	I will cut extra spending on my daily coffee to save \$2.00 per day to add to my savings account for an emergency fund. In 1 year, from today, I will have saved \$730 for my emergency expense fund.
Specific	I plan to save \$2.00 per day by not stopping for coffee at a local coffee shop.
Measurable	I will be able to save \$730 in 1 year, from today.
Attainable	This is an expense that I can easily cut out and it is a goal that I can achieve.
Relevant	This is an important goal to me because I need an emergency fund in case something were to come up.
Timeline	I will accomplish my goal in 1 year, from today.



Contract with Your Money

Throughout this section you have identified your various spending decisions.

- You have learned the difference between wants and needs.
- You have determined your money personality and thought about things for your “bucket list” or what you value the most in your life.
- You have also learned how to set your own SMART goals based on your wants and needs.

To help you achieve your goals and dreams, you need a Money Contract. This contract is an agreement between you and your money. Think about how you can make your money work for you.

You will find a Money Contract on the next page. Take the time to fill in the blanks. Once you have filled it out, keep it to remind you of the great partnership you are building with your money.



Contract with My Money

I, _____, hereby agree and commit to take the following steps to improve my accountability to increase my wise spending choices to myself and to my money:

I will not let one small slip-up convince me that I have failed. I will focus on the positive and will continue to practice money and spending habits that currently work for me like:

I am aware of the obstacles that stand in my way to reach my financial goals and I will work diligently to remove them from my financial plan. My spending habits that do not work for me are:

I vow that I will do the following things to help my money attain its highest potential in my spending/savings plan:

In return, I ask that my money will help me to:

My money and I will work together to build the foundation to reach our SMART goal. We know that it is our priority and other goals and expenses will have to wait for their turn:



What's Next?

Now, we are going to take all that you have learned and talk about how to put it together to create your own savings and spending plan.

- Why is it important to have a good relationship with your money?

By knowing where your money is, you can create a spending and savings plan. With a plan you will be able to stretch your dollars and get more for your money, make your money last longer than the month, pay your bills on time, set aside money each month for savings and emergencies, and, most importantly, a plan will let you have peace of mind knowing that you and your family are financially secure.

A savings and spending plan will give you more control of your money. A savings and spending plan will help you pay your existing day-to-day expenses and also help you achieve your big goals and dreams.

In the next section, you will learn about:

- Budgeting
- Tracking your expenses
- Types of income and expenses
- How to create a spending plan

BUILDING A FINANCIAL SUCCESS PLAN

Section 2

In this section you will take all you have learned about your wants, needs, SMART goals, and your money personality and begin to develop your financial success plan. You will learn about:

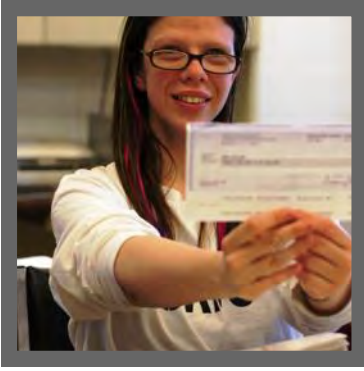
- Budgeting
- Tracking your money
- Types of income
- Types of expenses
- Spending and savings plan
- Savings
- Spending leaks
- How to step-down your spending



Are you going to be able to correct everything overnight and build a financial success plan just like that? It is not that easy. Like most things, it takes practice and time. It is said that if you do something for 21 days, it will become a habit. So, as you work toward building your financial success plan, it will get easier to make good money choices.

It is important to stay positive and visualize yourself succeeding when it comes to building good money habits. It is also important to not get discouraged when you slip and make a mistake with your money! The important thing is that you noticed you made a mistake and you work to correct the habit.

“...if you do something for 21 days, it will become a habit.”

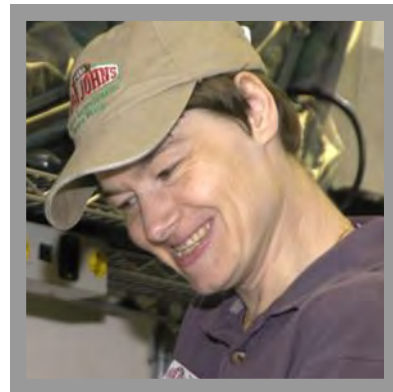


My Monthly Income and Spending

Now, we will talk about budgeting: where you spend your money...

Do you know where your money goes? Do you know where you spent your money last month? What about last week?

Regardless of how you answered the questions, it is important that you know how you spend your money. Understanding how much income you have and where you spend your money every month will help you take control of your finances.



Learning Check:

Take a moment and think about how you spent your money in the past week. Did you spend most of it on wants or needs? Do you know where your money went?



Tracking Your Money

There are several ways to keep track of your spending. The five most popular ways to track expenses include **receipts**, **envelope**, **calendar/notebook**, **checkbook/debit card**, or the **computer**. The goal is to choose one, or a combination, and keep a record of where every penny goes for a set period of time. Start by tracking your expenses for seven days. Then track for a month to get a more accurate picture of where you spend your money.

Receipts

- Keep all receipts; if you do not get one, make one
- Put receipts in a box, envelope, file cabinet, or other container

Envelope

- Label envelopes with spending categories, amount, and the date the bill is due
- Divide cash into envelopes
- Save any unused money in a separate envelope

Calendar or Notebook

- List income on the date received
- Write bills and expenses on the due date
- Mark off bills as they are paid

Checkbook or debit card

- Use checks or debit card for all bills
- Record check or debit card transaction(s) in check register
- Total all spending categories at the end of each month

Computer

- Use personal finance software or a spreadsheet
- Regularly enter transactions in categories



Tracking Your Money

After tracking your expenses for a month, you can:

- Categorize your purchases
- Set target amounts for spending
- Separate your needs from your wants
- Communicate about how to reduce your expenses and reach your goals
- Identify spending mistakes

Your money habits can positively or negatively affect the way you spend your money. You have learned about five ways to track your spending. By identifying where your money goes, you will learn where to make spending changes. Tracking your expenses is the first step to controlling your spending.



Learning Check:

Take a moment and think about how you keep track of your expenses. Do you keep your receipts in one place? Do you write your income and expenses down? OR, do you just hope that you will have enough money each month???



Types of Income

There are two types of income, **earned income** and **unearned** income.

- Earned income is the wages or salary you receive from a job. You may be paid weekly, every other week, or monthly.
- Unearned income is money you receive that does not come from a job. This type of income may come from:

Supplemental Security Income (SSI)

Social Security Disability Insurance (SSDI)

Workers' compensation

Veteran benefits

SNAP (Supplemental Nutrition Assistance Program or food stamps)

Gifts from family or friends

To make your SMART goals a reality, you need to know how much money you have each month and how you spend it. We will begin by looking at how much money you receive each month from income sources such as: paychecks, tips, commissions, overtime, child support and alimony, public assistance (TANF), advanced earned income credit (EIC), social security and pensions, unemployment and disability compensation, veteran's benefits, interest and dividends, and other income not listed here.



Learning Check:

Take a moment and think about your income. Where does it come from? Do you only have income from a job? Do you receive regular income from another source? Make a list of your income sources and the monthly amounts of each.



Types of Expenses

Fixed Expenses

A fixed expense is for something that must be paid at a regular time each month. Fixed expenses include things like:

- **Rent**
- **Utilities**
- **Car payments**

Late or missed payments can cause money problems such as late fees, legal action, utility shut offs, or even eviction. Think about what you learned earlier about wants and needs. For example, what if you buy a car? A car payment is a fixed expense until you pay off the loan. Do you really need a car? Do you have access to other forms of transportation?

Flexible Expenses

A flexible expense is one that you can adjust. It is much easier to cut spending in the flexible expenses category. You can decide how much to spend and when to spend it. Flexible expenses are not frivolous or unimportant, though.

Flexible expenses can include:

- **Food, clothing**
- **Education**
- **Recreation/entertainment, transportation**
- **Phone or cell phone**
- **Personal expenses (make-up, tanning, hair-cuts)**
- **Cable TV or internet**



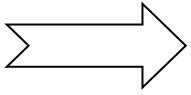
Spending and Savings Plan

A spending and savings plan helps you:

- Get more for your money
- Make money last longer
- Spend wisely
- Work toward your goals
- Pay your bills on time
- Set aside money regularly for savings and emergencies

You will take control of your money when you create a spending and savings plan. It helps you get more for your money, make your money last longer, spend wisely, work toward your goals, pay your bills on time, and set aside money each month for savings and emergencies.

Activity



Spending and Savings Plan

A spending plan can look any way you want it to, as long as it works for you. A spending plan also requires you to track your expenses so that you know how you spend your money. Making a spending plan or budget is the next step in building your financial success plan. These 6 steps will help you do just that.

1. List your monthly income and total it.
2. Add all of your fixed expenses for one month.
3. Subtract your fixed expenses from your monthly income. The remainder is what you have left for flexible expenses.
4. Add your flexible expenses and total.
5. Subtract the flexible expenses from the total you have left after paying for your fixed expenses.
6. How much do you have left at the end of the month? The amount you plan to spend monthly should not be greater than your monthly income.

Total Monthly Income	\$
- Total Fixed expenses	\$
= Subtotal	\$
- Total Flexible expenses	\$
= Subtotal	\$
This amount should be less than your monthly income.	



Learning Check:

After completing the activity, are your fixed and flexible expenses less than your monthly income? If not, think about where you might cut back.



Savings

Savings should be a fixed expense because it is so important to your spending and savings plan. Here are a few things to consider saving for:

- Pay Yourself First or PYF
- Save for emergencies
- Save for future goals

Pay Yourself First (or PYF) means that when you get paid, you will place money into a savings account for emergencies, goals, and future needs, before paying your other expenses.

One savings need is an emergency fund which is cash that you can easily access in case of an emergency such as an accident, illness, or unexpected repairs. If you receive SSI or SSDI, it is a good idea to talk to a benefits planner to see how savings may impact your benefits.

Another saving need is for future expenses. Future expenses may include things like college education or a vacation.

Small amounts saved regularly can add up to large amounts. By saving as little as \$20 a month, you can build considerable savings.



Learning Check:

Can you think of other ways to increase your income? How could you reduce your expenses? Are you paying yourself and putting money into savings?



Spending Leaks

A spending leak is money you spend on a want when you should have spent it on a need. When you do this, you may be unable to pay for an item in your budget. It is important to understand spending leaks and how to stop them.

Some examples of spending leaks include:

- Unnecessary daily purchases—like coffee from a coffee shop
- Unnecessary fees and extras
 - ⇒ Fees on your checking account
 - ⇒ Cell phone services
 - ⇒ Cable services
 - ⇒ Unnecessary insurance—for example on appliances and technology devices
- Impulse spending

There are many ways that you can increase your income or reduce your expenses. Be creative! Consider eating out less, going to the library instead of buying books, take the bus instead of driving your car, adjust the heating and cooling temperatures in your house.

Try talking to friends or relatives to get ideas. Chances are, they have needed to cut their expenses or increase their income too.



Learning Check:

Take a moment and think about where you spent your money during this past week. Did you spend your money on things you need? Did you make a purchase on impulse that you didn't necessarily need?



Identifying and Decreasing Spending Leaks

So, you've tracked and found out that you're not able to always pay for things you've put in your budget. What can you do now? There are two choices, either increase your income or decrease your expenses.

Not having enough money for savings or regular monthly expenses creates stress and uncertainty.

Increasing Income

- Get a second job
- Volunteer to work overtime
- Rent out an unused bedroom or garage
- Have a yard sale
- Sell unused items on Craigslist

Decreasing Expenses

- Stop turning wants into needs
- Pay your bills on time
- Identify and plug spending leaks
- Step-down your spending

Step-down your spending!



Step-down Your Spending

Step-down spending is a different way to look at how you spend your money. Here is an example:

Think about going out to dinner and a movie.

- The most expensive option (which is the top step of the staircase) would be going to a sit-down restaurant and a movie theater and paying around \$40-\$50 for the night.
- The next step down would be to go out to a fast food restaurant that's cheaper and to a movie theater; you will probably pay around \$20.
- Go down another step on the staircase and you decide to go to a fast food restaurant and a discount movie theater; this option will cost you approximately \$15.
- The second to last step down might be to get delivery or take-out and rent a movie; this may cost about \$10.
- At the floor of the staircase would be the cheapest method of all, which would be preparing food that you already have at your home and watching a movie that you already own, but have not watched in a while. The groceries are already in your house as part of the weekly shopping and you already have the movie—this option is FREE!

Sit Down Restaurant and Movie Theater...\$40 - \$50

Fast Food and Movie Theater...\$20

Fast Food and Discount Movie Theater...\$15

Take-Out and Rental Movie...\$10

Make Food at Home and
Watch Movie you Already Own...\$FREE



Step-down Your Spending

Stepping down your spending in this way can help you reduce how much you spend on certain things you may want. This in turn helps you save your money for your needs and for any future goals you may have.



Learning Check:

Take a moment and think about other ways you can step down expenses in your life. How much can you save by stepping down expenses? For instance, can you buy a used car instead of a new car? Can you take the bus instead of driving a car? Can you carpool?

CREDIT BASICS

Section 3



So far, you have learned about how to build a partnership with your money. You have learned:

- What your money personality is
- SMART goals
- How to make a contract with your money

You also learned about building a financial success plan and:

- The difference between needs and wants
- How to create a spending and savings plan

Now we're going to talk about the basics of credit. In this section, you will learn:

- Myths about credit
- Why credit is important
- What a FICO score is and how it is used in obtaining credit to make purchases.
- Different types of loans
 - ⇒ Finance company loans
 - ⇒ Installment loans
 - ⇒ Revolving loans

Do you know your credit score? Do you know how your credit score can affect your everyday life? Do you know why having a good credit score is important?



Credit Myths

Information about credit and credit scores seems to be everywhere.

There is often a lot of misinformation as well. We are going to begin by busting some of the myths you may have heard!

- You have to carry a balance from month to month in order to build credit on a credit card.

FALSE...the best way to build credit is by using a credit card and paying off the balance every month which also avoids any interest charges.

- Getting an auto loan is the best way to build credit.

FALSE...there are other options that build credit faster and cheaper.

- Payday lenders do not do credit checks, so they are great places to get a first loan.

FALSE...payday lenders will not build your credit, and are very expensive.

- I will need many different types of loans in order to build a good credit score.

FALSE...while a perfect score is only attained by a combination of loan types, by using only inexpensive revolving loans, you can still build a strong credit score.



FICO Score

There are many types of credit scores in the world; however, there is only one type of score that is used almost universally throughout the United States.

FICO, which stands for Fair Isaac Corporation, is the company that calculates this score. It is called a FICO score. This is THE score used in the vast majority of all professional credit score checks. Any other score that you may get on a bank statement, or from a website, is just a guess and can be misleading.

To calculate your scores, FICO uses information from the three major credit bureaus that collect and share your borrowing history. These companies are Experian, Equifax and TransUnion.

FICO scores range between 300 and 850; the higher the score the better. Those with less than perfect scores will pay an increasing amount of money for things like loans and auto insurance premiums.

Fico Credit Score Scale



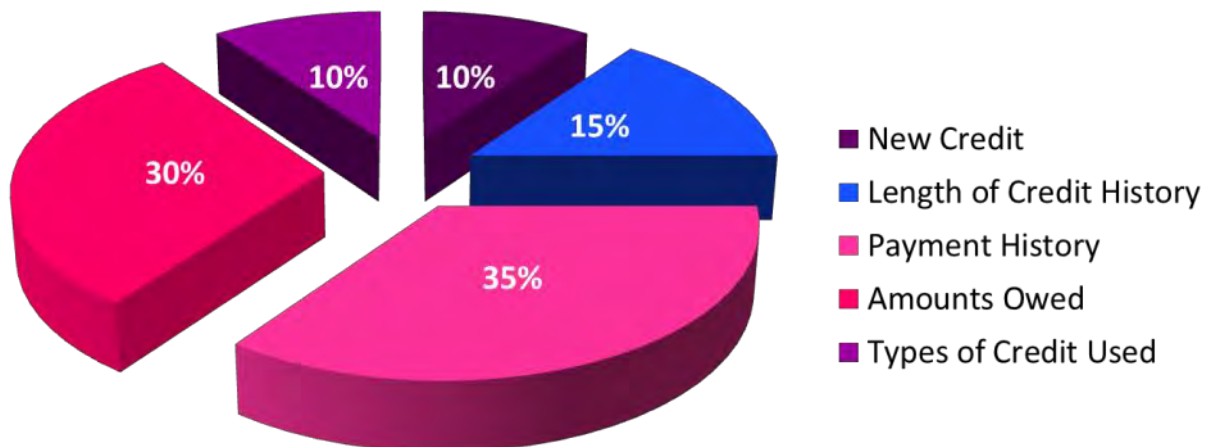


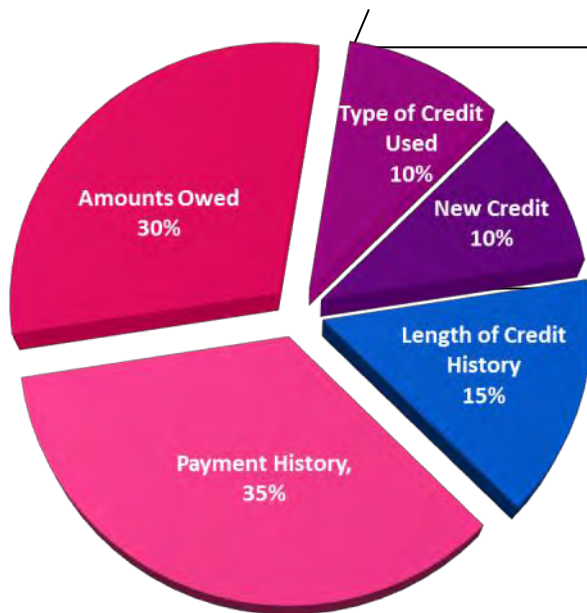
FICO Score

There are five factors that make up your FICO score:

1. Types of credit used
2. New credit
3. Length of credit history
4. Payment history
5. Amounts owed

Each of these factors affects your score in some way.





FICO Score

1. “Types of credit used” measures which types of loans you currently have in use. This effects your overall credit score by **10%**. The choices you make on which type of credit to use can positively or negatively affect this factor.
2. “New credit” measures how many times you have had your credit checked, and how many loans you have opened in the last year. This factor also effects your overall score by **10%** percent. Every time you open new accounts, this factor in your credit score will drop. After 12 months the account will no longer be considered new and will no longer negatively impact your score.
3. “Length of Credit History” is the factor that looks at the age of each account, or how long the account has been open and actively used. This makes up a total of **15%** of your overall credit score. This factor is positive-ly affected when your credit accounts have been open for a long time, and it is negatively affected by newer loans.
4. “Payment History” is the factor that measures whether or not loan payments are made on time. It affects your overall score by **35%**. If you do not make your payments on time, your credit score will drop significantly.
5. “Amounts Owed” is the factor that compares your loan balance to your maximum loan limit, or beginning balance. This factor will affect your credit score by **30%**. The closer your loan balance is to the maximum loan limit or beginning balance of the loan the more your credit score will drop.



Learning Check:

Do you know what your credit score is today? Do you know how to check your credit score?



Why Credit Scores are Important

This is the point where some people might say, “Why bother with a credit score at all? I do not plan on borrowing money, so why should I even worry about my score?”

These are excellent questions, because it is very wise to avoid borrowing and going into debt; however, using that as an excuse to not build your credit can be a very costly mistake, especially considering that you do not actually have to go into debt to build a score—if you do it correctly.

The most important thing to remember is that in the world today, credit scores are used for much, much more than just borrowing. Your credit score is used for many things including:

- Loans
- Leases/Rentals
- Insurance:
 - Home, Auto, Life
- Utility Services
- Elective Medical Services
- Private Schools
- Employment



Types of Loans

Finance Company Loans

Now, we will take a look at what a finance company loan would do for your credit. First, finance company loans are extremely easy to get—even without any credit history! That’s the key marketing point for payday lenders, check cashers, rent-to-own businesses and other similar places. No credit? No problem. Unfortunately, all of this quick and easy money comes with a BIG catch!

First, these loans are considered “**high risk**” loans, and are extremely **expensive**. The costs of payday loans average about **600% APR**. That means that the cost to borrow \$500 over a year’s time is, get ready, \$3,500! Yikes! That’s seven times the original amount borrowed. This is what we call, in the financial world, a really crummy deal....and if you think that the bad news ends there, think again. Aside from the outrageous upfront costs of a finance company loan, these loans also cost you because of their **effect on your credit score**.

Finance company loans negatively impact most of the areas of your credit score (think about the pie chart and each piece that is part of your credit score).

Payment history, which makes up **35%** of your score, simply indicates whether or not you make your payments on time.

Simply getting a finance company loan does not automatically damage this factor in your score, as it often does with the other four factors, but, because many customers often underestimate the costs of these loans and their short payment periods, missed payments are much more common with these types of loans than with others. It only takes two or three missed payments to significantly drop a credit score.

Finance companies will not help you build positive credit history. In fact, they only build negative credit history.



Types of Loans

Installment Loans

Examples of installment loans are **auto** loans, **student** loans, **home** loans and **personal** loans.

With an installment loan, you borrow a large amount of money up front, then agree to make fixed monthly payments over a specific period of time in order to fully pay off the loan. For example, an auto loan of \$15,000 at a 7% interest rate, would require monthly payments of \$300 for five years to completely pay the loan off.

Installment loans can negatively impact your credit initially. The 30% of your score that measures "Amounts Owed" takes a significant hit when an installment loan is first opened. This is because the beginning balance of an installment loan, like our auto loan example, is usually at the maximum balance, putting our debt ratio at 100%.

The good news is that as you begin to pay down the balance, the ratio gets lower and lower, which helps this portion of your score. Unfortunately this takes time, and once the account is paid off and closed, it no longer contributes to recent activity to your score.

Installment loans provide you some benefit but may impact your credit negatively as well.



Types of Loans

Revolving Loans

Revolving loans are open ended loans. This means that you can borrow any amount of money you choose at any time, as long as you do not go over the maximum available amount. If you pay down the balance on these types of loans, you can go right back out and borrow some more. Examples of revolving loans include **credit cards**, **department store cards**, and **personal lines of credit**.

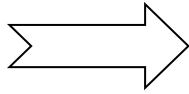
There are a few ways to get a revolving loan.

1. To get your first revolving loan, you can start by applying for a credit card with a low maximum limit. Most national credit card companies are willing to take a small chance on people with no credit by offering high interest cards with low maximum limits.
2. If you have poor or no credit consider using a cosigner. A cosigner is someone who adds their name to your loan, and agrees to become responsible for your debt if you do not make timely payments. This is a good deal for you, but potentially hazardous for your cosigner because he or she will be responsible for your spending if you do not make the payments on time.
3. Open a "secured credit card." A secured credit card requires that you give the credit card company a lump sum of cash that can be used as collateral against any charges you make on the secured card.

Revolving loans provide the most benefit to all five (5) areas of your credit score.

Of the three types of loans, revolving loans provide the most benefit to your credit score.

QUIZ



Types of Loans

True or False

1. Finance Company Loans are easy to get. **TRUE**
2. Finance Company Loans help build good credit. **FALSE**
3. Finance Company Loans are cheap loans. **FALSE**

Multiple Choice

An installment loan usually starts with what type of balance?

- a) High
- b) Low

Which of the following is NOT a consequence of making late payments?

- a) Drop in Payment History section of your score.
- b) Drop in Amounts Owed section of your score
- c) Account going to collection
- d) **Automatic closing of your accounts**

True or False

1. Revolving loans can be the most effective and cheapest way to build a good credit score. **TRUE**
2. A co-signer is NOT at risk of harming their own credit score. **FALSE**
3. Making a minimum payment is the best way to use a credit card. **FALSE**
4. Paying my entire balance every month will cost me interest. **FALSE**

IDENTITY THEFT

Section 4

In the 1990's a new variety of crooks, called identity thieves, began looking at your personal information. Millions of Americans, including **Oprah Winfrey**, **Bill Gates**, and **Tiger Woods** have been victims.

Identity theft is a serious crime and **you** could be next.

Do not be a victim! People whose identities have been stolen can spend months or years – and their hard earned money – cleaning up the mess thieves have made of their good name and their credit record.

In this section we are going to review:

- What is identity theft?
- How does it happen?
- What do they do with the information?
- How do you know when it has happened?
- What can you do to protect yourself?
- What if you are a victim?

The first topic we will discuss is what identity theft is.





Identity Theft Facts

What is it?

An Identity Thief **STEALS your information**, without your knowledge, to commit fraud. Nationally, there were over 360,000 identity theft complaints. Often, since we live in a state with a small population, Idahoans feel safe. Unfortunately, identity theft **DOES** happen in Idaho.

How does it happen?

Personal information can be stolen from many places including your **purse** or **wallet**, from inside your **house** and even at your place of **work**. Thieves will also steal your **mail** and go through your **garbage** to get your credit card and bank statements. They will even use camera cell phones to **take pictures** of credit cards in lines at grocery stores, stores, banks, and restaurants.

What do they do with the information?

Identity thieves **open new credit card accounts**, or **take out loans** using your name, date of birth, or your Social Security Number. When they do not pay the bills, the delinquent account is reported on your credit report. If the thief changes the mailing address on your credit card account they can run up charges on the account without you noticing because the bills are being sent to a different address.



Identity Theft Facts

What can I do to protect myself?

- Do not give out personal information unless you are positive it is safe. Remove your phone number from telemarketing lists. If you receive a call from a telemarketer hang up immediately.
- Be careful giving your information over the phone. Even if someone is posing as an authority, offer to go their office. You have a right to say no to giving your personal information over the phone.
- When receiving emails beware of misspellings or errors that would not be in a professional email. If someone is asking for personal information from a financial institution call their number and ask if it is real. It is better to wait on giving your information than to give it to a fraudulent company.
- Remember to ask questions! Why is your information needed? What is it going to be used for? Who will have access to your information?

How do I know when it has happened?

You may be a victim of identity theft if you...

- Have activity on your credit report that was not caused by something you did – like a job search, shopping for a home or car loan, or other financial type activity.
- Are seeing activity on your financial statements that are not yours or appear to be suspicious in nature.
- Stop receiving mail that you typically get every month, especially mail related to your financial accounts like credit card statements, bank statements, or other loan statements.
- Receive credit cards you did not apply for.
- Receive calls from debt collectors even though you have no past due accounts that you are aware of.
- Know you have a good credit rating and suddenly are denied credit.



Identity Theft Facts

What if I am a victim?

1. You need to file a police report immediately and get a copy of the report. The police will usually not have the ability to pursue Identity Theft Crimes BUT you will probably need to provide copies of the police report to creditors, the credit reporting agencies, etc. to prove that you were a victim.
2. Use the copies of your account information to call the credit card companies, banks, etc., to report a false change of address or suspicious account use. Tell your creditors that you are a victim of identity theft and be sure to stop payment on checks, request new debit and credit cards, and change all passwords and pins.

Under the Electronic Funds Transfer Act, and the Fair Credit Billing act your losses are limited to \$50 if you report your ATM card/Credit Card/Debit Card lost or stolen within two business days of discovering the loss. If you wait between two and 60 days of discovering the loss, you can be held responsible for up to \$500 of what a thief withdraws. If you wait more than 60 days after receiving a bank statement that includes an unauthorized transfer, the law doesn't require your bank to reimburse you for any losses.

3. You need to contact each credit reporting agency and report being a victim of identity theft. The three agencies are Equifax, TransUnion, and Experian.

Under the Fair Credit Reporting Act, if you think your file contains incorrect information you're entitled to an investigation by the credit bureau. Ask the credit reporting companies to block fraudulent information from appearing on your credit report.

Request a free copy of your credit report to check for additional affected accounts. If you are an Identity Theft victim, you are entitled to an additional free credit report if necessary.

RESOURCES

Below are a few resources where you can find additional information about your finances.

Websites:	
Able to Work	http://abletowork.idaho.gov/
Disability Rights Idaho	www.disabilityrightsidaho.org
Idaho Assistive Technology Project	http://www.idahoat.org/
Possibilities: Financial Resources for Parents of a child with a disability	http://www.pacer.org/publications/possibilities/what-you-need-to-know/76-get-and-read-your-credit-report.html
Social Security Administration	www.ssa.gov

GLOSSARY

B

Balance: The amount of money you have in your checking or savings account or, the amount that is owed on a credit card or another type of loan.

Benefits: Many people need help paying for food, housing, utilities, medical care and other basic items. The state and federal government have developed programs that can help pay for these things. These programs are called government benefits.

Budget: A plan for saving and spending your money.

C

Cash: Cash is the currency (paper bills) and coins you have on hand. You use cash to pay for something immediately.

Checking Account: A service, offered by a bank or credit union, which allows you to put your cash in a safe place and then use it whenever you need it. You get your money from your checking account by writing checks, or using your ATM or debit card.

Countable Resources: Certain assets are not counted when the Social Security Administration determines financial eligibility for SSI, or when Idaho determines financial eligibility for Medical Assistance. For a complete list of assets that are not counted, go to <https://secure.ssa.gov/apps10/poms.nsf/lnx/0501110210>

Credit: Money that you can borrow with the promise to repay it at a later date. If you pay with cash, you pay immediately. If you use credit, you agree to pay in the future.

C

Credit Bureau: A company that collects information on your credit history and provides information on a person's borrowing and bill-paying habits.

Credit Card: A plastic card issued by a bank or business that allows you to purchase items now and pay for them later.

Credit History: A record of how you have managed your money in the past. It includes information on borrowing and repayment of credit cards, bank and car loans, mortgages and any other debt owed to someone. An individual's credit history will include open accounts and accounts that have closes. It lists late payments, defaults on loans and bankruptcies.

Credit Limit: The maximum amount of credit (money) that a financial institution will authorize for your use. The credit is based, in part, on your credit history.

Credit Report: A report of your credit history. A credit report is a system lenders use to decide whether or not to give you credit, or a loan, and how much interest they will charge you. Your credit report will include such information as where you live, your work history, your repayments on loans, whether you've filed and been discharged from a bankruptcy, and if you have any tax liens.

Credit Score: A number that represents the credit-worthiness of a person. Often a FICO (Fair Isaac Corporation) score is reported on your credit report. The higher the number, the better your credit score.

Credit Union: A non-profit, community based financial company that provides its members with checking and savings accounts, loans, financial education, access to debit cards and online banking. Many credit unions also provide services and grants that support community development.

D

Debit Card: A plastic card that is connected to your credit union or bank account. When you use it to buy something in a store, money is taken directly out of your checking or savings account. Debit cards can also be used for the withdrawal of cash. Debit cards work the same way as paying for something with cash.

Debt: Money that you borrow and must repay.

Deduction: Money that is taken out of your earnings by an employer to pay taxes, health insurance, retirement benefits, and other items.

Deposit: To put money into a checking or savings account.

Due Date: The date on the calendar when your bill must be paid.

E

Earned Income: The money you receive from a job.

Expenses: What you spend money on, whether you pay in cash or with a check or charge to a credit card.

F

Finances: This is another word for everything that has to do with your money, including your checking and savings accounts, and your income and expenses. It is important to learn how to manage your finances, instead of letting your money manage you.

Food Stamp Programs: Now called SNAP (Supplemental Nutrition Assistance Program), this is a government program available to families and individuals who are low-income, to help with the cost of food.

I

Income: This is the money you have to live on. Your money can come from sources such as earnings from a job, Supplemental Security Income, a pension, and SNAP (Supplemental Nutrition Assistance Program or food stamps).

Insurance: This is a word meaning protection. If you buy an insurance policy for your belongings (homeowners or renters insurance) or your health (health insurance) you are paying an insurance company to pay your expenses if something bad happens. Most banks and credit unions insure the money you deposit into an account.

Interest: A fee you pay when you borrow money, such as a loan. When you deposit your money into a bank or credit union savings account, the bank pays interest to you.

M

Minimum Monthly Payment: The lowest payment the credit card company, or other lender, will accept toward your balance owed each month.

N

Need: Something you must have to survive, like a place to live and enough food to eat.

P

PIN code: A PIN (Personal Identification Number) or the secret code you use to gain access to the money in your accounts. Never share your PIN with other people.

R

Receipt: Usually a paper, or an online itemization, that lists the items you purchases and the amount you paid for these items. A receipt is proof you paid for an item.

Refund: A repayment of a sum of money, typically to a customer who is not satisfied with something that was purchased. This means that a store promises to give back all or some of the money that was spent if you're not happy with what you bought. To get a refund, you usually need to show a receipt.

Revolving Credit: A type of credit that the borrower may use to withdraw funds up to a preapproved amount. The amount of available credit decreases and increases as funds are borrowed and then repaid. The credit may be used repeatedly. The borrower makes the payments based only on the amount that is actually used or withdrawn, plus interest. The borrower may repay over time, or in full.

S

Salary: The amount of money an employer agrees to pay an employee.

Savings Account: A secure place to keep your money for future use. Money deposited in a savings account earns interest over time.

U

Unearned Income: The money you receive that does not come from a job.

User ID: This is a made-up name you choose to identify yourself when you are signing in to an account. Never share your username with anyone. If you must share your username because you need assistance, be sure you trust that person.

Utilities: Services such as electricity, gas, water, and heating oil.

V

Values: Those ideas and beliefs that really matter to each of us.

Veteran Benefits: These are benefits received by a person who has served in the United States Military.

W

Wages: This is what you earn when your job pays you by the number of hours you work or for each piece of work you complete.

Waivers: Programs funded with a combination of Idaho and federal government dollars that provides supports and services to people with disabilities who live in the community. Services include, assistive technology, accessibility adaptations (home modifications), vehicle adaptations, habilitation, personal assistance services, community integration, and transportation. People who live in a nursing home or in another institution cannot receive waiver services.

Want: Something you might want to have, but you do not have to have right away. You can save to have it later.

Withdrawal: When you take money out of your bank or credit union account you are making a withdrawal.