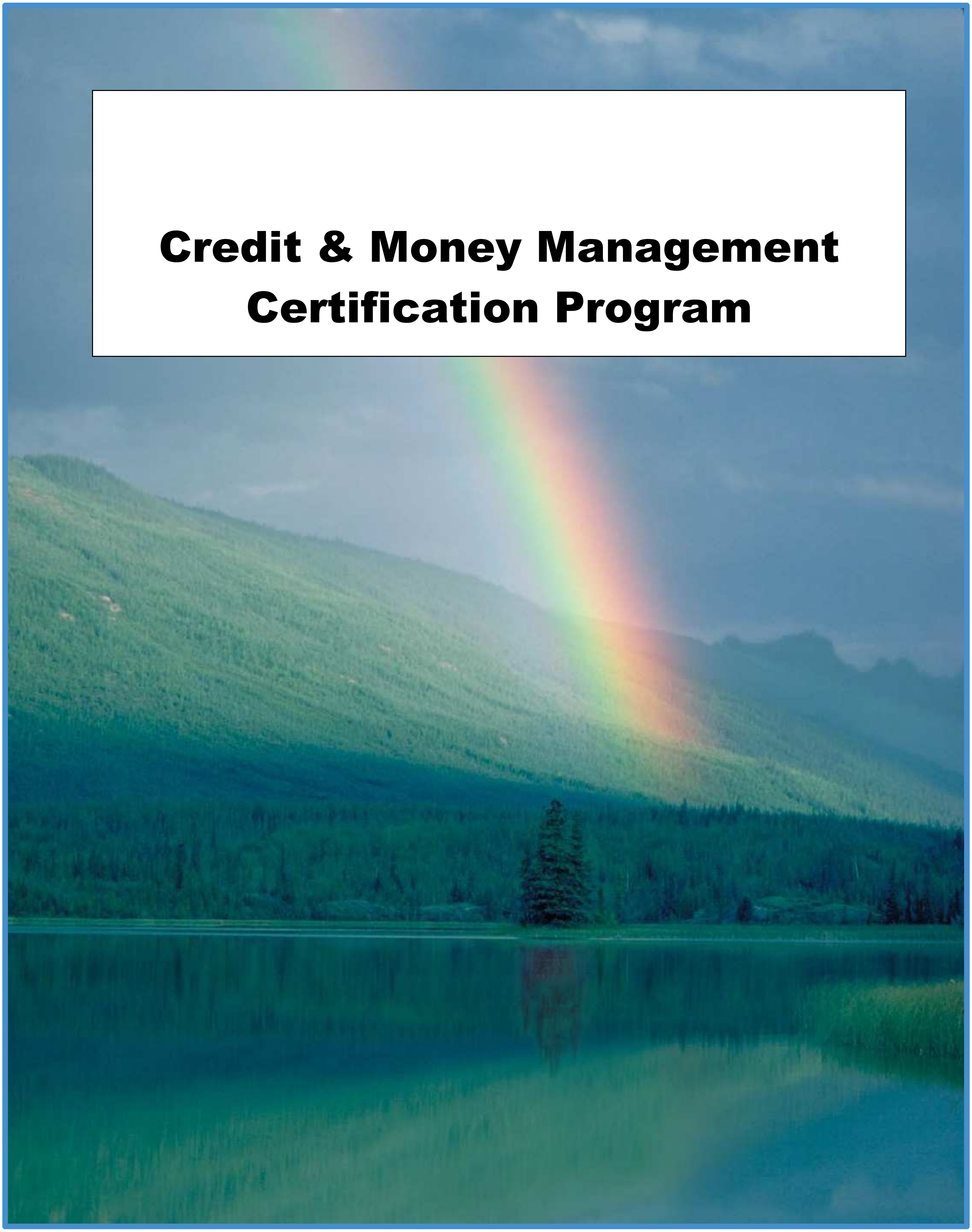
Credit & Money Management Certification Program



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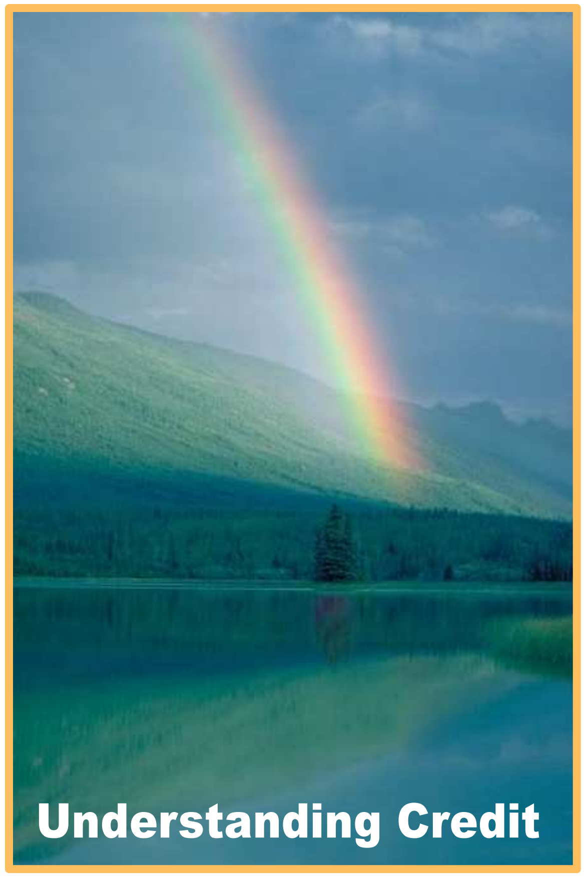


Chapter 1 Organizing Your Financial Life

Chapter 2 Building Budgeting Skills

Chapter 3 Basics of Credit Cards

Chapter 1 - ORGANIZING YOUR FINANCIAL LIFE

These educational key points will provide answers to the following questions:

Why is it important to get organized?
What are the most important areas to organize?
What are financial goals?
Why should I keep a budget?
How can I control my spending?
Why should I use credit with caution?
Why is it important to protect my credit rating?
Why is it important to keep my family apprised of financial matters?
Why is it important to organize my financial records?

Why is it important to get organized?

Answer: Getting organized with your finances will help you make better decisions about what to do with your money. Many of us believe that a higher income ensures financial stability. Unfortunately, poor spending habits carry over regardless of salary. Being organized with your financial affairs requires proper planning, discipline and sometimes, significant changes to your everyday life.

What are the most important areas to organize?

Answer: There are seven basic areas for getting your financial life organized.

- Your financial goals
- Your budget
- Your spending
- Your credit use
- Your credit rating
- Your communication with family members
- Your financial records

What are financial goals?

Answer: Most people who have money didn't get it overnight. They set goals and worked hard to reach them. Setting financial goals like (taking a vacation, paying off a debt or buying a car) takes planning, patience and a willingness to work toward them. Setting goals requires discipline and sometimes changes to your lifestyle. There are three types of goals:

Short-term goals - These are goals you'll set and accomplish within **one month to one year**. Goals can include birthday gifts, holiday gifts, taking a family vacation, paying off a credit card or buying a new TV.

Mid-term goals - These are goals you'll set and accomplish within **one to five years**. Goals can include paying off all your credit cards, purchasing a new car, remodeling your kitchen or saving for orthodontic work.

Long-term goals - These are goals you'll set that will take **five years and longer** to accomplish. For example buying a new house, saving for a child's education (college or trade school) or saving for retirement.

Tips to achieve goals:

1. Write down your short-term, mid-term and long-term goals.
2. Set due dates for attaining your goals.
3. Be realistic. (Don't increase financial stress in your life when setting goals and dates.)
4. Be flexible. (It's ok to adjust your goals and strategies.)
5. Review your goals. (Go back and look at your goals after six months to check your progress.)
6. **Refer to Appendix 1** - Setting Financial Goals Worksheet on page 46. You should make copies of this worksheet before using. Your goals will change from time to time.

Why should I keep a budget?

Answer: We live in a society that has taught us to "buy now, pay later." This method has caused consumers to overspend and allowed them to become knee-deep in debt. Consumers need to take control of their spending and realize that their financial situation can be overcome with proper budgeting. Unless you're tracking your money, it's probably not going where you really need and want it to go. The goal to proper budgeting is to make sure that your monthly expenses do not exceed your monthly take-home income.

Tips to budgeting:

1. Write down your total monthly take-home pay. Then list your monthly expenses. At the end of the month subtract those expenses from your total take-home pay.
2. Look for places to cut back and save.
3. Use this information to set a monthly budget that includes 5% to 10% savings.
4. Review how things are going each month. By doing this you'll be able to see where overspending is occurring and adjust it accordingly.

How can I control my spending?

Answer: First, you need to control the emotions and impulses that stimulate your desire to spend money. Second, you should keep close track of what you spend so you can stretch those dollars as far as they can go, whether it's buying food, clothes, or paying monthly household bills. Ask yourself, "What can I realistically do without?" In addition, you should always be able to cut back on personal care, hobbies and entertainment.

Tips to saving money:

1. Cut back on home energy consumption. (Turn lights off more frequently, eliminate unneeded options on your phone plan and wrap your water heater. In addition, most utility companies have "load management" and "off-hour" programs in which you can enroll.)
2. Shop at outlet stores or wholesale clubs. (When shopping, always shop by a list, not by impulse. Sticking to a list will control your spending. Try to use coupons when possible and buy generic brands instead of brand names.)
3. Bring your lunch to work more often.
4. Take advantage of free or low-cost activities in your community.

Why should I use credit with caution?

Answer: Borrowing can help you meet your long-term goals for education, car or home. But borrowing for day-to-day needs and wants gets many people into financial trouble. Before using your credit cards, obtaining a payday loan or borrowing against your home's equity, ask yourself if you really need to borrow the money. You should always use credit with caution.

Tips to using credit with caution:

1. Avoid spur-of-the-moment purchases.
2. Set a monthly limit on credit card purchases.
3. Don't allow credit payments to exceed 20% of your monthly take-home income.
4. Don't borrow from one credit account to pay another account.
5. Pay more than the minimum on your credit card bill. Example: It would take 37 years to payoff a $3,000 credit card balance with an 18% interest rate if you make only the minimum monthly payment of $60 (2% of the outstanding balance). *(Source: Bankrate.com)*

Why is it important to protect my credit rating?

Answer: Credit card companies, lenders and other financial institutions use credit reports as a main reference when deciding to issue you a credit card, increase a credit line or loan you money. Insurance companies, landlords and employers also check credit reports. If your credit report shows late payments (30, 60 or 90 days), collections or charge-offs, this could have a negative affect on your chances of obtaining additional credit.

Tips to protecting your credit:

1. Pay your bills on time.
2. If you're having trouble paying bills, consider getting help from a reputable credit counseling agency before you become delinquent.
3. Check your credit report every six months from both bureaus to make sure that payments, balances and accounts are being accurately posted on your report. Credit bureaus can sometimes make mistakes if the information that is supplied to them is wrong from the creditor.
4. Alert the two credit bureaus if you see mistakes in your report.

Why is it important to keep my family apprised of financial matters?

Answer: Having financial troubles doesn't make you a bad person. Being honest about your financial situation with your spouse and children will help ease some of the emotional pressure. Talking to your children about financial problems that may impact them can help alleviate their fears and encourage them to be supportive of any changes that may occur.

Tips when talking to family:

1. Explain how much income is coming into the household. Go over options of obtaining additional income (getting a second job, etc.).
2. Create a family budget together. This will help them understand how much money can be spent each month on entertainment, gas for the car, utilities, food. etc.
3. Help from your children. If your children are old enough (16+) don't be afraid to ask for their help in bringing in additional income.

Why is it important to organize my financial records?

Answer: Have you ever applied for an auto loan but couldn't find your paycheck stubs to prove your income? Keeping your financial records organized where you can get to them can make your life easier. Here are the main items that you should keep organized:

1. ***Household documents -*** Such as paycheck stubs, monthly bills, bank statements and canceled checks. You should create a file folder for each item. These file folders should be stored in "banker boxes" which can be purchased at your local office supply store.
   Note: You will use a new box for each year.

2. ***Financial documents -*** Such as tax records, mortgage notes, lease notes, auto contracts, divorce agreements, child support agreements, military papers, etc. You should create a file folder for each item. These file folders should be stored in a fireproof safe.

3. ***Estate documents -*** Such as wills, life insurance policies, stock certificates, bonds certificates, family trust papers, managed account portfolio statements, business agreements and other investments. You should create a file folder for each item. These file folders should be stored in a fireproof safe.

4. ***Family documents -*** Such as social insurance cards, birth certificates, marriage certificates, nationalization records, citizenship papers, passports and copies of driver licenses. These file folders should be stored in a fireproof safe.

Tips to getting organized:

1. Use a computer. You should consider purchasing a financial software package like "Quicken." This program can organize your paychecks, monthly bills you pay, itemize your home furnishing, assets, bank accounts, and investments. In addition, it will outline what you have spent on specific areas (like food, clothes, etc.) throughout the year.
2. Make sure to set aside time every week, two weeks or month to file all your records into their designated file folder and place.
3. Household documents should be stored for at least five years.
4. For Financial, Estate and Family documents you should place all originals in a fireproof safe and a copy of those documents in a safe deposit box at your local bank.
5. Always shred your documents before you dispose of them.
6. Make sure a loved one has the combination to the safe and knows where the safe deposit keys are located.
7. **Refer to Appendix 2 -** Organizing Records Check List on page 47. You should make copies of this worksheet before using. This check list will help you get organized.

Chapter 1 - ORGANIZING YOUR FINANCIAL LIFE

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***Getting your financial life organized can help you…***

A. Make better financial decisions
B. Spend more money
C. Obtain new loans
D. All of the Above

Question 2: ***Which of the following is <u>not</u> a basic area for getting organized?***

A. Keeping a budget
B. Using credit with caution
C. Starting a family
D. Control of your spending

Question 3: ***Short-term goals should be accomplished between 1 to 5 years.***

A. True
B. False

Question 4: ***The goal of a budget is to make sure that expenses do not exceed income.***

A. True
B. False

Question 5: ***Which of the following can have a negative affect on your credit rating?***

A. Paying your bills on time
B. Paying a bill in full
C. Being 30 days late
D. All of the above

Question 6: ***What is the best way to control your spending?***

A. Cut back on utility usage
B. Shop at outlet stores
C. Bring your lunch to work more often
D. All of the above

Chapter 2 - BUILDING BUDGETING SKILLS

These educational key points will provide answers to the following questions:

What is a budget?
What is cash flow?
What is disposable net income?
What is a deficit?
What is the best way to keep track of my spending?
How do I figure out what my living expenses are each month?
What types of accounts do I need to save money?

What is a budget?

Answer: A household budget is a spreadsheet that shows you the flow of money in your everyday life. A budget can help you determine where you are overspending as well as help you adjust bad spending habits. A budget is comprised of three areas:

Net income - Includes your salary, wages, child or alimony support, social security, pension, investment earning, etc. Net income is the amount you bring home after deductions (such as taxes, insurance, pension contributions). Net income is used to maintain a household budget, which pays all your living expenses in your everyday life.

Living expenses - Includes your house or rent payment, food, utilities, insurance (auto, life & health), education, auto payments, gasoline, entertainment, etc.

Debts - Includes your credit cards, department store cards, bank and personal loans.

Note: Refer to Appendix 3A - Household Budgeting Worksheet on page 48. You should make copies of this worksheet before using. By doing this you can update your budget from time to time.

What is cash flow?

Answer: When you prepare a household budget you can predict monthly net income and monthly living expenses. When you minus monthly living expenses from monthly net income you can monitor your cash flow. Understanding your cash flow will allow you to have “disposable net income” each month for savings, vacations, gifts, etc.

What is disposable net income?

Answer: Disposable net income is the amount of money that you are left with after you pay all your monthly living expenses from your monthly net income. Most consumers have a “deficit” each month instead of disposable net income.

What is a deficit?

Answer: A deficit is where your monthly living expenses are more than your monthly net income. Many consumers use their future paycheck to pay for past-due bills and living expenses. Sticking to a well-planned household budget can help you avoid a deficit.

What is the best way to keep track of my spending?

Answer: The most common and simplest way to track spending is to take a piece of paper (or use a computer) and write down all your monthly living expenses and other monthly bills. Based on your monthly net income you should set “target amounts” per expense (such as $200 for food, $100 for entertainment, etc.). By setting target amounts, you can monitor each month where you are overspending. Overspending leads to financial problems. **Refer to Appendix 3B -** Household Spending Plan Worksheet on page 49. You should make copies of this worksheet before using. By doing this you can update your spending plan from time to time.

How do I figure out what my living expenses are each month?

Answer: You can start by listing all of your fixed expenses each month (such as housing, auto, insurance, food, etc.) as well as non-fixed expenses (entertainment, personal care, auto repairs, medical, travel, etc.). The best way to predict your non-fixed expenses is to look at your check register for the past 6 months. This will give you a rough idea where to set target amounts for non-fixed expenses.

What types of accounts do I need to save money?

Answer: Checking accounts should only be used to pay monthly living expenses and other bills as they become due. It is recommended that you set up several accounts for different uses of your monthly net take-home income. Here are the following accounts that you should consider setting up.
See "Cash Flow Chart" below on how money gets distributed to the various accounts.

Personal Checking Account - This account should be used to pay all monthly living expenses and other household bills. You should always deposit all your monthly net take-home income into this account and transfer to the three listed below each pay cycle.

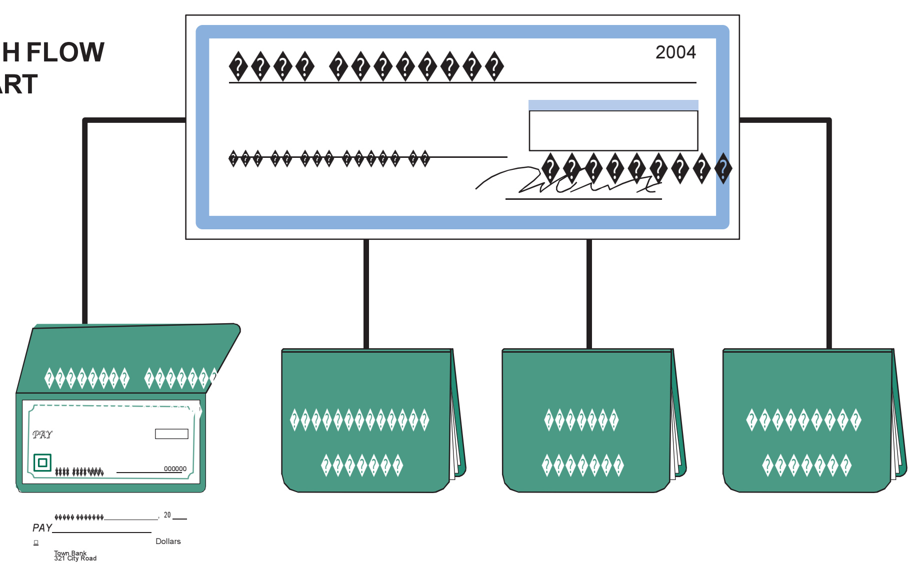
Entertainment Fund Account - Each month you should transfer from your personal checking your "target amount" that you allocated for your entertainment into this account. The main reason for this is so you don't overspend your entertainment amount. If you know that there is only x-number of dollars in your entertainment account you will adjust your spending and your lifestyle.
Note: This is the only account that should be linked to your ATM card.

Money Market or Savings Account - Each month you should transfer from your personal checking a minimum of 10 percent of your take-home income into this savings account. This money can be used to pay car registration, auto insurance, holidays & birthdays, fund an education, pay for a wedding, purchase a new car or pay for a vacation. Whatever it may be, you can rest assured that each month you are building a nest egg for the future.

Emergency / Miscellaneous Fund Account - Each month you should transfer from your personal checking a minimum of 5 percent of your take-home income into this emergency account. You never know when an emergency will strike (loss of job, death in family, car repairs, etc.). It is always recommended that you plan for an emergency. The most common emergency that may occur in your life is a loss of job. As a rule of thumb you should set aside "two times" your monthly living expenses. Meaning, if your monthly living expenses are $1,500 a month you need to have $3,000 saved in your emergency fund account.

Note: All these accounts can be set-up at any major bank to be automatically transferred each pay cycle. Ask your bank representative for details. **Refer to Appendix 4 -** Bill Paying and Saving Money Worksheet on page 50. You should make copies of this worksheet before using. By doing this you can update your worksheet each week, bi-weekly or monthly as needed.

CASH FLOW CHART



Chapter 2 - BUILDING BUDGETING SKILLS

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***A budget can help you control your overspending.***

A. True
B. False

Question 2: ***The amount of money you have left after paying expenses is considered a deficit.***

A. True
B. False

Question 3: ***Which of the following is <u>not</u> used in creating a budget?***

A. Income from your job
B. Household expenses
C. Your home address
D. Credit card debt

Question 4: ***Which item is <u>not</u> considered a living expense?***

A. Food
B. Utilities
C. Credit card debt
D. Rent

Question 5: ***A checking account is the only account that you need to pay bills and save money.***

A. True
B. False

Question 6: ***What is the minimum percentage of your income you should try to save each month for an emergency?***

A. 1%
B. 3%
C. 5%
D. 10%

Chapter 3 - BASICS OF CREDIT CARDS

These educational key points will provide answers to the following questions:

What is a credit card?
What are the different types of cards?
How do you qualify for a credit card?
What are the costs associated with credit cards?
What should I know about a credit card statement?
How many credit cards should I have?
Should I pay more than the minimum monthly payment on my credit cards?
What protections do I have when using credit cards?
What is credit card blocking?

What is a credit card?

Answer: Credit cards make it convenient in our everyday lives to purchase almost anything for sale: jewelry, computers, clothes, groceries, etc. They are accepted worldwide. Each time you take a "cash advancement" on your credit card or "purchase an item with it," you're actually signing a contract between you and the credit card issuer for a loan, which consists of repayment of that loan plus interest on the unpaid balance. For example, if your credit card carries a credit limit of $2,500, you can purchase an item for $600 one week and purchase another item for $1,000 next week and so on, as long as you make the minimum payments called for on your creditor's statement.

What are the different types of cards?

Answer: There are several different credit cards available for consumers today. Let's review below the different types of credit cards and how they work:

MasterCard and Visa credit cards - These credit cards are unsecured and are considered a revolving open line of credit that doesn't have to be repaid in 30 days. These unsecured accounts allow you to carry a balance each month, while borrowing additional money (credit) at the same time you're making minimum payments back to the credit card issuer on your revolving balance.

Department store credit cards - These credit cards are considered revolving charge unsecured accounts that allow you to purchase many items on credit (clothes, cosmetics, etc.) only from their store. These credit cards give you the complete flexibility to make monthly installment payments while adding new purchases to the account, as long as payments are made and you stay within your granted credit limit that the store has issued.

Oil company credit cards - These credit cards are not, in most cases, revolving charge accounts. They are unsecured and usually must be paid in full within 30 days. They are limited to that specific oil company gas station for purchasing gasoline and, in some cases, tires, repair work, batteries, car washes and other items offered by that gas station.

Travel and entertainment cards - These credit cards are not, in most cases, revolving charge accounts. Traditionally, they do not allow you to carry a balance each month. They require payment in full within 30 days. Examples of these cards are: American Express and Diner's Club. Travel and entertainment credit cards are unsecured and offer a grace period with no interest.

ATM credit cards - These cards are called automated teller machine (ATM) cards. These cards are issued by your bank. These cards allow you to obtain cash (increments of $20.00) from almost any bank 24 hours a day, 7 days a week. ATM cards work just like cash. Each time you use your ATM card you're really using your own cash that is in your checking or savings account. As you purchase an item with your ATM card, the bank, in return, will draft the money out of your bank account and pay the merchant from whom you purchased the item. These ATM cards, however, will not help the consumer build credit.

Secured credit cards - These secured credit cards are the complete opposite of an unsecured credit card. Secured credit cards are secured accounts that require you to deposit an amount of money (typically $300, $500 or $1,000) into a savings or CD account at the bank that is issuing the secured credit card to you. In reality, you're putting your own money into an account as collateral against anything you purchase on that secured credit card. If you don't make the agreed payments each month, that credit card issuer has the right to draft your payments against your deposit (in savings). Once you have deposited money into a savings account as collateral, you cannot withdraw the principal or interest accumulated on your principal without canceling your secured credit card.

How do you qualify for a credit card?

Answer: In order to qualify for a credit card you must be at least 18 years old and have a steady source of income. Credit companies will run your credit report with your written permission and your credit report will show other debts on which you are making payments such as car loans, student loans, other credit cards, etc. These payment histories, if current, will show how responsible you've been in paying your bills while helping the credit card company decide how much credit (limit) to extend to you on a credit card.

What are the costs associated with credit cards?

Answer: There are 6 costs associated with using credit cards. Let's review below the different costs and how they work.

1. ***Interest -*** This is added to your credit card. Interest is usually around 18.9 percent and is compounded on a daily basis against the balance that you carry on your credit card. Interest is how credit card issuers make money. Interest is also what makes up the finance charge.
2. ***Annual fees -*** Some credit card issuers charge these fees ($75 or higher) to your credit card each year. Annual fees are also sometimes called membership fees. Credit cards that don't charge an annual fee will usually charge a higher interest rate. They charge high interest to consumers in order to cover losses due to non-payments, collections or bankruptcy. Each time a consumer doesn't pay, all cardholders suffer by increased interest rates.
3. ***Cash advancement fees -*** These fees are quite simple. As you borrow cash against your credit card, the credit card issuer will charge you a fee. Cash advancements will accumulate interest just like a revolving balance on a bank credit card. The only difference is that credit card issuers don't waive interest if the balance is paid in full within 30 days.
4. ***Transaction fees -*** These fees are sometimes charged to your credit card account if you change your payment due date, use your credit card, ask to lower your interest rate, transfer money, etc. Each credit card issuer has their own guidelines. These fees are rare and are not standard with national banks.
5. ***Late fees -*** Late fees are charged to your credit card account if your payment has not been received by the credit card issuer's due date which is stated on the credit card statement. The fee can range from $20 to $35. These fees are very common and can add up quickly. Sometimes they can actually increase your overall balance.
6. ***Over-limit fees -*** Credit card issuers have the right to charge you a fee if you charge in excess of your credit limit. This fee can range from $20 to $40 depending on the credit card issuer. If you go over your credit limit, most credit card issuers may request that you pay the amount you're over the limit in addition to the minimum monthly payment called for on your credit card statement.

What should I know about a credit card statement?

Answer: A credit card statement can be hard to understand because each credit card company has different requirements and a different looking statement. Here is the basic information that all credit card companies share and include on their monthly credit card billing statements.

1. ***New purchases and charges.*** This is where the credit card company should outline what you purchased (such as clothes) or had charged (such as Internet service) to your credit card during the month or billing cycle. Note: You should always check what items were charged to your account. This way you can make sure that you were not double charged for the same item.
2. ***Previous balance.*** This is the amount you owed on your credit card statement before you made a payment to the card. Note: You should always check your current statement each month to make sure that your previous balance matches with your last month's bill. Your current balance should be less than your previous balance, unless you have made new purchases or charges during the month.
3. ***Payments and credits.*** This is where the credit card company should outline what you paid or what items were returned for credit. You should always look at your statement to make sure that your monthly payment was received and applied correctly against your outstanding balance due. Also you should make sure that you were credited for returning any items.
4. ***Cash advances.*** This is where the credit card company should outline what you borrowed against the credit card limit. Note: Most cards allow you to obtain cash from bank ATM's using a PIN number supplied by the credit card company. These cash advances will usually have a higher interest rate than regular purchases.
5. ***APR.*** This stands for Annual Percentage Rate. The APR is the rate used when calculating the finance charge amount outlined on the statement.

6. ***Finance charges.*** If you carry a balance on your credit card statement the credit card company will apply finance charges to your outstanding balance. Finance charges are how a credit card company makes profit when they issue you credit to purchase items.
7. ***Grace period.*** This is the time you have before the credit card company charges you interest on the outstanding balance. Note: Not all credit card companies have grace periods. It's important to know if your card has a grace period on purchases or cash advances and the timeframe for the grace period.
8. ***Minimum payment.*** This is the amount that the credit card company requires that you pay on the outstanding balance. Note: Minimum payments usually range from 2 percent to 4 percent of the outstanding balance. If you owe $2,500 your minimum payment could range from $50 to $100.
9. ***Due date.*** This is considered the date that the credit card company must receive your payment at their office and record it in their computer. Note: Most credit card companies have a billing cycle of 29 to 31 days and give you a due date that is 20 to 30 days from when your credit card bill was printed.
10. ***Credit limit.*** This is where the credit card company should outline the maximum amount of credit that you have to spend on the card.
11. ***Late fee.*** This is where the credit card company should outline the fee for paying your minimum payment late. Note: Most credit card companies will apply a late fee ($29 to $35) to your statement if your payment is not received by the required due date on the statement.
12. ***Over-limit fee.*** This is where the credit card company should outline the fee for spending over your credit limit. Note: Most credit card companies will apply an over-limit fee ($29 to $35) to your statement if you charge beyond your credit limit. If this happens, in most cases, your charging privileges will be suspended until you pay down your balance.
13. ***Other fees.*** Sometimes your statement will reflect other fees on things that you purchased from the credit card company, like credit insurance.

How many credit cards should I have?

Answer: We believe that you should have **no more** than 4 credit cards. For example;

- Bank Credit Card (Visa or MasterCard)
- Gas and Oil Company Credit Card
- Department Store Credit Card
- ATM Bank Debit Card

Having more than 4 credit cards may affect your credit rating with other companies to whom you are applying for credit. Some companies may view you as someone who needs credit. This could send a message that you have no available cash and that you could be having or beginning to have financial problems. Having too many credit cards makes it easy for you to charge on all of them, and before you know it, you're in over your head! Having too much debt can affect your credit rating (Debt-to-Income Ratio) when purchasing large items like a house or a car.

Should I pay more than the minimum monthly payment on my credit cards?

Answer: If you make the minimum monthly payment called for on your credit card statements it could take you years and thousands of dollars in finance changes to pay that card off. The minimum payment is calculated as a percentage of your current balance. The minimum payment drops each month as your balance is paid down, therefore keeping you in debt for a long time. The scenarios below will show you the "true cost" of making minimum payments versus paying a fixed payment each month. To illustrate our point, let's say you owe $3,000 on a MasterCard with a minimum payment of $60 dollars and an interest rate of 18%. Let's review the different scenarios:

Scenario 1 - If you paid the minimum monthly payment of $60 dollars with an interest rate of 18% it will take you about 451 months (about 37 years) to payoff the $3,000 balance. And furthermore, you will have paid about $7,930.60 in interest charges.

Scenario 2 - If you paid a fixed payment of $100 dollars with the same interest rate of 18% it will take you about 41 months (about 3.5 years) to payoff the $3,000 balance. And furthermore, you will have paid about $1 ,015.49 in interest charges.

THE SOLUTION: **Scenario 2 is the best solution.** By adding $40 dollars and fixing your monthly payment at $100 dollars each month you could payoff that $3,000 balance in about 410 months (about 34 years) sooner and save about $6,915.11 in interest charges. As you can see making the minimum payment (outlined in Scenario 1) is not the best way to get out of debt. If possible, you should always pay a fixed amount each month per credit card until paid in full. Once paid off, shift that fixed payment to the next card with the highest interest rate. Continue this process until you have paid all your accounts in full. This is the quickest way to eliminate your credit card debt. *(Source: Bankrate.com)*

What protections do I have when using credit cards?

Answer: Federal law provides protection to consumers on their use of credit cards. Here are some of the following protections when a consumer uses a credit card.

1. ***Errors on your bill.*** If you find a mistake on your bill, you have the right to dispute the charge. Whatever the reason might be, you must still pay the amount of the bill that's not in dispute, including finance and other charges.

2. ***Unauthorized charges.*** If someone uses your credit card without your permission, you can be held responsible for up to $50 per card. If you report your credit card lost before it is used, the credit card company cannot hold you liable for any unauthorized charges.

3. ***Prompt credit for payment.*** The credit card company must credit your account balance the day they receive your payment. Mailing to the wrong payment address could delay crediting on your account and your account could result in a late payment charge.

4. ***Refunds of credit balances.*** When you make a return or pay more than the total balance, you can keep the credit on your account or request in writing a refund. For a refund the amount must be more than a dollar. If a credit stays on your account for more than six months, the credit card company will send you a refund.

5. ***Disputes about merchandise or services.*** As a cardholder you have the right to dispute any charges for unsatisfactory goods or services.

What is credit card blocking?

Answer: Credit card blocking works like this. If you use your credit card to check into a hotel or rent a car that company will contact your card issuer and give them an estimated total for your amount needed. If your card issuer approves it, available credit on your card is reduced by a specific amount. That's a "block." For example: If you check into a hotel that costs $80 per night and you plan to stay 7 days, the hotel will "block" around $700 on your credit card, which includes costs and other anticipated charges like food and/or beverages.

Chapter 3 - BASICS OF CREDIT CARDS

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***When you purchase an item with your credit card you actually create a contract for a loan.***

A. True
B. False

Question 2: ***Using an ATM card is the same as withdrawing money from your bank account.***

A. True
B. False

Question 3: ***Which item is used to calculate a finance charge on a credit card statement?***

A. Annual fee
B. Debt balance
C. Interest rate
D. Transaction fee

Question 4: ***Making minimum payment is the fastest way to payoff a debt.***

A. True
B. False

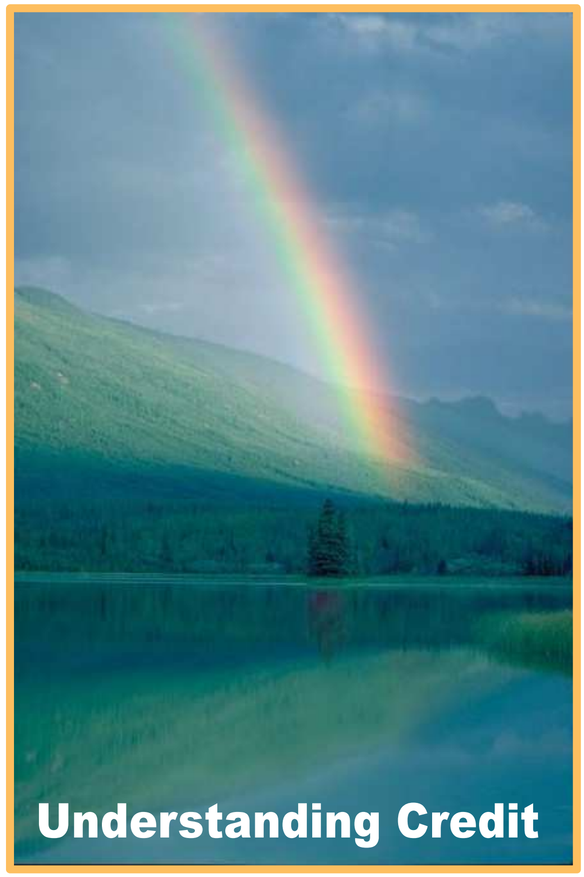
Question 5: ***If you don't make a payment within the due date on a credit card, what fee will be applied?***

A. Transaction fee
B. Cash advancement fee
C. Over-limit fee
D. Late payment fee

Question 6: ***Reducing your available credit on a credit card by a specific amount is considered a block.***

A. True
B. Fals

STUDY SECTION 2



Chapter 4 - FOCUS ON DEBT

These educational key points will provide answers to the following questions:

What are the types of consumer debts?
What is secured debt?
How does secured debt work?
What are the advantages and disadvantages of secured debt?
What is unsecured debt?
How does unsecured debt work?
What are the advantages and disadvantages of unsecured debt?

What are the types of consumer debts?

Answer: Almost every consumer in Canada today owes some money to someone else on an "extended credit program." Extended credit makes it possible for consumers to start businesses as well as purchase items from people, merchants or companies with no money out of pocket. There are two basic types of consumer debt: secured debt and unsecured debt.

What is secured debt?

Answer: Secured consumer debt is debt that is tied to a specific piece of real property. The most common secured debts are houses and automobiles. A house or car is considered the property that you will put up for collateral to the lender for the amount of money you plan to borrow, which guarantees repayment of the debt.

How does secured debt work?

Answer: Let's say that you are applying for a line-of-credit at your local bank for $20,000. As part of your line-of-credit approval you will have to put up your house as collateral to "secure" the repayment of the $20,000. Your line-of-credit is now secured by your property (house). If for any reason you experience financial troubles and you cannot pay the bank your agreed upon monthly payment, the bank can take the collateral property (house) and sell it to pay the balance you owe on the line-of-credit.

What are the advantages and disadvantages of secured debt?

Answer: If you have no credit history or a bad credit history then securing a loan with your property is sometimes the only way possible. Secured debts usually have structured payment amounts and terms. In addition, you can usually obtain lower rates if your credit is good. The downside to a secured loan is that you can lose your property if you cannot repay the loan. In addition, if you file bankruptcy against your unpaid secured loan your property will be included in the bankruptcy. On secured debt the only way to win is to repay the loan in full.

What is unsecured debt?

Answer: Unsecured consumer debt is debt that is not tied to a specific piece of property. The most common unsecured debts are credit cards and medical bills. When you use a credit card to purchase items or see a doctor for medical attention there is no property to take from you if you don't pay the creditor or hospital.

How does unsecured debt work?

Answer: Let's say you have been approved for a credit card with a spending limit of $5,000. You activated the card and began purchasing items (furniture, clothes, jewelry, etc.) with that card. The minute you purchased any item with that credit card the card created an unsecured debt. The card is considered unsecured because: (1) it was issued to you based on your credit and payment history and (2) there is no property securing your purchases. If for any reason you cannot make payments to the credit card company, the credit card company must resort to: (1) sending you to collections, where a collection agency tries to collect from you, or (2) suing you in court and convincing the judge to grant them a judgment against you for the amount you owe them. Once a judgment has been granted, the credit card company may be able to garnish your wages (up to 25%) depending on the Provincial law.

What are the advantages and disadvantages of unsecured debt?

Answer: Creating unsecured debt can only be obtained by having an average to good credit rating (FICO score) and payment history. Unlike secured debt, unsecured debt usually comes with flexible payment amounts and terms and credit limits. If you cannot pay your unsecured debts (credit cards, medical bills, etc.) these debts may be eligible to discharge in a bankruptcy. Overspending on credit cards is the leading cause that creates unsecured debt.

Chapter 4 - FOCUS ON DEBT

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **“Test and Registration Form”** at the end of the workbook.

Question 1: ***Secured debts are debts that are not tied to property.***

A. True
B. False

Question 2: ***What is considered a secured debt?***

A. Credit card
B. Medical bill
C. Car loan
D. All of the above

Question 3: ***If you default on a payment with a secured debt you could lose your property.***

A. True
B. False

Question 4: ***When you purchase an item on a credit card you have created an unsecured debt.***

A. True
B. False

Question 5: ***If you don’t pay the balance on an unsecured debt a creditor can:***

A. Send you to collections
B. File suit against you
C. Cancel your credit privileges
D. All of the above

Question 6: ***Unsecured debt can only be obtained by having good credit.***

A. True
B. False

Chapter 5 - UNDERSTANDING DEBT

These educational key points will provide answers to the following questions:

What is Debt Load?
What is a Debt-to-Income Ratio?
How do I calculate my Debt-to-Income Ratio?
How do creditors view my Debt-to-Income Ratio?
How can I change my Debt-to-Income Ratio?
Why should I monitor my Debt-to-Income Ratio?
What is the 20/10 Rule?
What is the 28/36 Rule?

What is Debt Load?

Answer: Debt Load is a creditor term that is used to profile the total amount of debt that a consumer is carrying. This profile will determine if a consumer is carrying a safe or excessive amount of debt. Creditors and other lenders use various methods to calculate your debt load. The most common method is called the Debt-to-Income Ratio.

What is a Debt-to-Income Ratio?

Answer: A Debt-to-Income Ratio is the simplest method that a creditor or lender may use to compare the amount of your take-home income with the amount of your overall debt, excluding your mortgage or rent payment. This method will tell the creditor or lender what percentage of your take-home income is being used to pay for non-mortgage related debt.

How do I calculate my Debt-to-Income Ratio?

Answer: There are three parts to calculate your Debt-to-Income Ratio. Let's review below.

Part 1 - Take-home income:
This is the amount your paycheck reflects after all your deductions. Take-home income can come from your job, sales commissions, company bonuses, alimony, child support, tips, interest on money, company dividends, social security, pensions and other government assistance. Below are four methods that can help you to calculate your take-home income.

- If you are **paid weekly** then you must multiply your weekly take-home income by 52, then divide by 12, giving you your monthly take-home income.
- If you are **paid bi-monthly** then you must multiply your bi-monthly take-home income by 26, then divide by 12, giving you your monthly take-home income.
- If you are consistently **paid the same amount monthly** then simply use, that amount.
- If you are **paid a salary plus commissions** that fluctuate up and down each month, the best way to calculate your monthly take-home income is to add up your take-home salary with commissions over the last 12 months (January 1st to December 31st), then divide by 12.

Part 2 - Monthly debt payments:
This is the amount you owe to your creditors each month, excluding mortgage, rent, utilities, and taxes. Monthly debt payments include:

- Credit card payments
- Student loan payments
- Auto or other vehicle loan payments
- Bank or Credit Union loan payments
- Medical or dental bills payments
- Computer or electronic items loan payments
- Furniture or appliance items loan payments

Part 3 - Debt-to-Income Ratio formula:
Take your calculated total "take-home income" and divide it by your calculated total "monthly debt payments" and this will give you your Debt-to-Income Ratio percentage.

Here's an example:

Step 1 - Monthly take-home income is $2,000
Step 2 - Monthly debt payments are $700 (auto loan, credit cards, etc.)
Step 3 - Take $700 (debt payments) divide by $2,000 (take-home income) = 35%

35% is your Debt-to-Income Ratio percentage

Note: Refer to Appendix 5 - Debt-to-Income Ratio Worksheet on page 51. You should make copies of this worksheet before using. By doing this you can update your Debt-to-Income Ratio from time to time.

How do creditors view my Debt-to-Income Ratio?

Answer: As a general rule of thumb, creditors and lenders may follow these Debt-to-Income Ratio percentages when pertaining to credit approval.

- ***Level 1 - Debt-to-Income Ratio is less than 10%:***
  This is the best range for obtaining credit. You are in great financial shape. You should continue applying your financial methods for staying out of debt.

- ***Level 2 - Debt-to-Income Ratio is greater than 10%, but less than 20%:***
  You are still in a good range where a creditor will see you as a potential candidate for extending credit. With these ratios you could easily accelerate your debt payments, therefore decreasing your Debt-to-Income Ratio to level 1. Suggested Solution: You may want to develop a monthly spending plan to help payoff debt earlier and avoid taking on new debt payments.

- ***Level 3 - Debt-to-Income Ratio is greater than 20%, but less than 35%:***
  Your range for obtaining credit will be questioned at this level. At these ratios, creditors will take a good look at your take-home income and monthly debt payments. Supporting documents may have to be supplied to the creditor or lender to verify take-home income.
  Suggested solution: At this level you should take a serious look at your spending habits and either increase your take-home pay or decrease your debt payments. If not, you may not be able to pay bills, which could cause serious financial problems in your family life. A credit counseling agency may be the best solution to help you regain control of your financial life.

- ***Level 4 - Debt-to-Income Ratio is greater than 35%:***
  You are considered a high credit risk. Your chances of obtaining credit will be slim to none. At this ratio or higher creditors will consider that your take-home income is not enough to support your current debt payments and monthly bills.
  Suggested solution: At this level you need the help of a credit counseling agency to help you develop a livable household budget and spending plan to help get you out of debt.

- ***What is my Debt-to-Income Ratio goal?***
  Ideally, the lower you can get your Debt-to-Income Ratio percentage the better your chances are for obtaining credit. Your goal is to obtain and maintain a Debt-to-Income Ratio between 10% to 19%. Anything above 20% could be questionable for credit.

How can I change my Debt-to-Income Ratio?

Answer: It is possible to change your debt-to-income ratio for the better. Changing your Debt-to-Income Ratio can be accomplished by:

- Increasing your monthly take-home pay
- Decreasing your monthly debt payments.

HERE ARE SOME SCENARIOS TO REVIEW:

Scenario 1

Take-Home Income:	*Monthly Debt Payments:*		*Debt-to-Income Ratio:*
$2,000	Auto loan	$375	$700 divided by $2,000
	Credit cards	$150	**35% is your ratio**
	Student loan	$50	
	Personal loan	$125	
	Total Payments	**$700**	

Scenario 2

Take-Home Income:	*Monthly Debt Payments:*		*Debt-to-Income Ratio:*
$2,000	Auto loan	$275	$325 divided by $2,000
	Credit cards	$0	**16% is your ratio**
	Student loan	$50	
	Personal loan	$0	
	Total Payments	**$325**	

SUMMARY OF DEBT-TO-INCOME RATIO SCENARIOS:

Scenario:	*Monthly Debt Payments:*	*Debt-to-Income Ratio:*
1	$700	35% (high credit risk)
2	$325	16% (good credit risk)

Note: As you can see by lowering your monthly debt payments you can improve your Debt-to-Income Ratio, therefore improving your chances of obtaining credit. The key is to keep your monthly take-home income steady or increase it while reducing monthly debt payments.

Why should I monitor my Debt-to-Income Ratio?

Answer: As you can see from the different scenarios outlined above, keeping track of your monthly debt payments is very important to your Debt-to-Income Ratio and creditworthiness. By creating a livable spending plan you will be able to allocate the necessary monthly payments to all debts, therefore giving you a clear picture of your available spendable income. Knowing your spendable income will help you:

- Make good financial decisions when applying for a new loan, credit card or purchasing a more expensive automobile.
- Keep your Debt-to-Income Ratio in line (below 20%).
- Keep you and your family from having financial problems that could lead to collections, wage garnishments, lawsuits and eventually, bankruptcy.

What is the 20/10 Rule?

Answer: The 20/10 Rule is another method that lenders use to grant consumer credit. The 20/10 Rule has two parts with the “20” dealing more specifically with total debt as opposed to the monthly payments associated with such debt, while the “10” deals with the payments.

The 20 refers to: Your total household debt (excluding your mortgage) should not exceed 20% of your net take-home income. Net take-home income is what you actually take-home after taxes and deductions.

Here’s an example:

- Your total net take-home income is $48,000 a year
- ***The formula:*** Take $48,000 (times) 20% = $9,600
- Your total consumer debt under the “**20**” Rule shouldn’t exceed $9,600

The 10 refers to: Your total monthly debt payments (excluding your mortgage payments) should not exceed 10% of your net take-home income.

Here's an example:

- Your total net take-home income is $48,000 a year
- ***The first formula:*** Take $48,000 (divide by) 12 = $4,000
- ***The second formula:*** Take $4,000 (times) 10% = $400
- Your total monthly payment under the "**10**" Rule shouldn't exceed $400 per month.

What is the 32/40 Rule?

Answer: The 32/40 Rule is another method that mortgage lenders use to grant credit. The 32/40 Rule has two parts and works like this:

The 32 refers to: Your total mortgage payment (principle and interest), including taxes, insurance, mortgage insurance and homeowner's dues **should not exceed 32%** of your gross monthly income. Gross monthly income is what you actually make before taxes and deductions are taken out.

Here's an example:

- Your total gross income is $72,000 a year
- ***The first formula:*** Take $72,000 (divide by) 12 = $6,000
- ***The second formula:*** Take $6,000 (times) 32% = $1,920
- Your total monthly payments under the "**32**" Rule shouldn't exceed $1,920 of your $6,000 gross monthly income.

The 40 refers to: Your total mortgage payment (principle & interest), including taxes, insurance, mortgage insurance, homeowner's dues plus other debts (e.g. auto loans, student loans, credit cards, etc.) **should not exceed 40%** of your gross monthly income.

Here's an example:

- Your total gross income is $72,000 a year
- ***The first formula:*** Take $72,000 (divide by) 12 = $6,000
- ***The second formula:*** Take $6,000 (times) 40% = $2,400
- Your total monthly payments under the "**40**" Rule shouldn't exceed $2,400 of your $6,000 gross monthly income.

Chapter 5 - UNDERSTANDING DEBT

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***The term "Debt Load" is used by creditors to determine a consumer's total debt.***

A. True
B. False

Question 2: ***How is a Debt-to-Income Ratio calculated?***

A. Total monthly net income (minus) total monthly debt payments
B. Total monthly net income (divided by) total monthly debt payments
C. Total monthly debt payments (minus) total monthly net income
D. Total monthly debt payments (divided by) total monthly net income

Question 3: ***Your goal is to maintain a Debt-to-Income Ratio of no more than:***

A. 10% to 20%
B. 20% to 25%
C. 25% to 30%
D. 30% to 35%

Question 4: ***Increasing your monthly debt payments is a great way to lower your Debt-to-Income Ratio.***

A. True
B. False

Question 5: ***Monitoring your Debt-to-Income Ratio could help save your credit.***

A. True
B. False

Question 6: ***A creditor may use the 20/10 rule when granting credit.***

A. True
B. False

Chapter 6 - GETTING OUT OF DEBT

These educational key points will provide answers to the following questions:

How can I tell if my credit card debt is out of control?
What do I do if I fall behind on my credit card payments?
What do I do if a creditor is harassing me?
Can a creditor take me to court if I fail to make payments?
What does it mean when an account is charged-off?
How can I settle a charged-off account?
What are my options in getting out of debt?

How can I tell if my credit card debt is out of control?

Answer: Many times we don't see the signs of a financial crisis until it's too late. A financial crisis doesn't occur overnight. There are five warning signs, which indicate that your credit card debt may be getting out of control:

- Paying bills late
- Transferring balances from one account to another in order to obtain lower interest and payments
- Depending on overtime at work to cover minimum monthly bills
- Hoping that checks you've written don't clear the bank before payday
- Borrowing from friends and relatives to cover basic living expenses

What do I do if I fall behind on my credit card payments?

Answer: You should contact your creditor(s) and explain your financial situation honestly before your account becomes seriously past-due and/or gets referred to a collection agency. The earlier you contact your creditor the better it will be for you in solving your financial problem. Here are some suggestions you can present to the creditor:

Suggestion 1 - Before you call your creditor, try to come up with a realistic monthly payment plan that fits into your budget… a payment that you can afford to pay each month.

Suggestion 2 - You can suggest that they defer (postpone) your payments for a specific time (3 or 4 months) until you get your finances back on track.

Suggestion 3 - If suggestions 1 & 2 don't work and your creditor is unwilling to work with you, we recommend that you contact a credit counseling agency for help. A credit counseling agency, in most cases, has pre-arranged agreements with creditors for structuring a repayment plan to bring your accounts current.

What do I do if a creditor is harassing me?

Answer: As a card holder and consumer you can do several things if a creditor is calling your house and work harassing you and your family several times a day and night. We suggest that you:

Step 1 - Tell the creditor or collection agency to stop calling you at your home and/or work.

Step 2 - If they continue to call your home and/or work after you have verbally told them to stop calling, you need to send a certified letter to their collections department reiterating your early conversations not to call your home and/or work.

Note: For either Step 1 or 2 you may need to contact a credit counseling agency for help. In most cases they can contact the credit or collection agency and workout a repayment plan that will stop the harassing calls. Remember, the calls may go away, but your debt won't!

Can a creditor take me to court if I fail to make payments?

Answer: Yes. If your debt is large enough a creditor may refer your account to an attorney and take you to court. Nine out of ten times a creditor will win if they file a lawsuit against you in court. The only time they would not win is if they file suit and do not appear at the hearing on the specific court date. Creditors realize that court can be a scary place so they file knowing that you won't show up at the hearing date. Therefore, they win their case by default and may have the ability to garnish your wages (up to 25% or more) or take your property. Keep in mind that a creditor has nothing to lose, but only to gain by taking you to court. Try to avoid this if possible.

What does it mean when an account is charged-off?

Answer: This is when a creditor has tried every angle to collect payment on your past-due account from written notices, to phone calls to having a collection agency contact you. At this point the creditor has given up, and rather than take you to court, they write off your uncollected debt as bad debt. This is known as a charge-off. These charged-off accounts are charged against the creditor's revenue on their income taxes. Even though your account is charged-off, you still owe the money and a charge-off will be noted on your credit report. This is a negative mark that could keep you from obtaining credit or purchasing a car or renting an apartment. A charged-off account will haunt you until you pay it in full or settle.

How can I settle a charged-off account?

Answer: Settling a charged-off account can take some work and patience on your part. Follow these guidelines to deal with a charged-off account:

Step 1 - Come up with a payment amount (a lump sum) that fits into your budget that you can pay to the creditor for that charged-off account. In most cases a creditor will accept between 30% to 60% of the charged-off debt.
Step 2 - Contact the creditor and make them an offer to settle the charged-off debt. This may take some negotiating and patience before you reach a settle amount. **Refer to Appendix 6 -** Sample Debt Settlement Letter on page 52. This sample letter can be used as a reference when drafting up a settlement with a creditor.
Step 3 - Once you have reached a settled amount, make sure before you send the payment that you obtain it in writing from the creditor outlining the settled amount and a signed statement that the agreed amount is for payment in full.
Step 4 - Once you have the signed statement and have paid the settled amount you can send copies of that statement to the two credit bureaus. Doing that may change your negative rating on that account to a positive rating.

What are my options in getting out of debt?

Answer: Everybody has their own theory when it comes to getting out of debt. Getting out of debt takes discipline and sometimes significant changes to your spending habits. The first and most important step a person can take is to realize they are in debt and sincerely want to eliminate that debt. Here are two strategies that you can follow to power down your debt:

Strategy 1 - For people that are making the minimum payment or paying more than the minimum payment.
Stop using your credit cards and create a spending plan to pay them off. You should start by making a list of your credit cards with an outline of their balance, minimum payment and finance charge. Next take the minimum payment called for on the statement and add it with the finance charge. By doing this you now will create your "new" minimum payment that will be fixed each month until your debt is eliminated. Remember, by adding the finance charge to the minimum payment you are satisfying the creditors profit each month and any overpayment will go directly to the principal balance. If you can stick to this method for each of your cards you will be debt free before you know it.

Strategy 2 - For people that are having trouble making the minimum payments each month.
Contacting a credit counseling agency, in most cases, is the best solution. A credit counseling agency has certified credit counselors trained to help consumers create livable household budgets, spending plans and repayment plans. Here are the basic steps a credit counseling agency will take to get your finances under control so you can create a plan to eliminate your debt.

Step 1 - Creating a household budget is key to determine where all your money is going each month.
Step 2 - Once you determine where the money goes you can create a spending plan to meet your monthly living expenses, secured debts (auto, house) and unsecured debts (credit cards).
Step 3 - Consolidate all your unsecured debts (credit cards) into a debt management program which could help you:

- Lower your monthly payments 30% to 50%
- Re-age past-due accounts to current status
- Stop collection calls and demands letters
- Lower or eliminate interest
- Develop a repayment plan to get out of debt.

Chapter 6 - GETTING OUT OF DEBT

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***If I fall behind on my credit card payments I should:***

A. Not worry about it
B. Pay when I can
C. Contact the creditor for help
D. File bankruptcy

Question 2: ***If a creditor is harassing me because of non-payment I should:***

A. Change my phone number
B. File a lawsuit against them
C. Contact a credit counseling agency
D. None of the above

Question 3: ***A creditor can sue me in a court of law if I fail to make payments on my credit card.***

A. True
B. False

Question 4: ***If a credit card has charged-off a balance it means that I don't have to repay the debt.***

A. True
B. False

Question 5: ***Getting out of debt takes:***

A. Discipline
B. Planning
C. Change to spending behavior
D. All of the above

Question 6: ***What type of person is oftentimes best suited to help me get my financial life organized?***

A. An Attorney
B. A CPA
C. A Certified Credit Counselor
D. Insurance Agent

Chapter 7 - DEALING WITH UNPAID DEBTS

These educational key points will provide answers to the following questions:

What are the consequences of unpaid debts?
Who can legally contact me to collect on an unpaid debt?
Do I have rights as a consumer?
What is the best way to settle an unpaid debt?
Should I consider bankruptcy as an option?
How can a credit counseling agency help me with unpaid debts?

What are the consequences of unpaid debts?

Answer: When financial problems arise, consumers need to understand the consequences of the different types of debts and how they can be affected if not paid. Below is a brief description of what can happen if either "secured" or "unsecured" debts are not paid.

SECURED DEBTS - Most secured debts are backed by collateral. Collateral is property that can be seized in the event debt goes unpaid. **Examples:**

Secured credit cards - If you don't pay on your secured credit card the card issuer who has control of your collateral (savings deposit) can seize your savings deposit and suspend your privileges to charge on that card in the future.
Home mortgage - If you should fall behind on your mortgage payments, the mortgage lender can seize your home (foreclosure), leaving you with nothing. All current and future equity accumulated in the property would now belong to the mortgage lender.
Automobile loan - If you should fall behind on your car payments, the bank or financial institution has the right to legally repossess your car without your permission. If the car is repossessed, the car is now the property of the bank or financial institution that holds title.

UNSECURED DEBTS - When dealing with unsecured debts, like credit cards, department store cards and medical bills, there are three basic things that can happen if your debt goes unpaid. **Examples:**

1. ***Cancellation of your credit charging privileges.*** This means that you will not be able to use your credit card or credit for purchasing items or services. All charging privileges are terminated.
2. ***Damage to your credit rating.*** Most collection agencies will tell you that your credit will be ruined unless you make a payment to them. If you are behind on your payments, the creditor you owe money to has already reported your late payments (30, 60 or 90 days) to the credit bureaus. Therefore, your credit has already been damaged from non-payment.
3. ***Being sued for the unpaid debt.*** Most creditors and collection agencies use this tactic to scare the consumer into paying the unpaid debt. Litigation is very expensive and most creditors and collections agencies cannot afford this expense. Other threats you may hear from creditors or collection agencies are: "we are going to garnish your wages and seize your home or car and sell it at auction in order to pay the unpaid debt off!" In order for a creditor or collection agency to garnish your wages, seize your home or car, they first must file suit in court, obtain a judgment and a court order. This process could take months, and threats like these are illegal without a signed court order.

Who can legally contact me to collect on an unpaid debt?

Answer: Following are the three types of people that are authorized to call you and collect on your unpaid debts:

1. ***Credit grantors -*** Credit grantors are companies that grant you credit (like a credit card company). Most credit grantors have a collection department within their company that handles all collections on delinquent debts.
2. ***Collection agencies -*** These agencies are hired by the creditor to collect on the unpaid debt from the consumer. In other cases, the creditor will sell your unpaid debt at a discounted rate to a collection agency. In either case, the collection agency has the right and power to collect on the unpaid debt.

3. ***Attorneys -*** If your unpaid debt has gone to an attorney, your financial problems have only just begun. Collection agencies will usually try to collect on your unpaid debt for 60 days using every legal tactic possible. If unsuccessful in collecting, and the unpaid debt is substantial ($7,500 plus), the unpaid debt could go to an outside law firm (attorney) for final collection and/or legal action against you in a court of law.

Do I have rights as a consumer?

Answer: In 1990 the Ontario government passed the Collection Agencies Act as a law that protects consumers and debtors from harassment or unfair treatment by debt collectors. All debt collectors must abide by the rules of the Collection Agencies Act when collecting on an unpaid debt. Many debt collectors don't follow the rules and use underhanded scare tactics, which violate the rights of a consumer. Here is what a debt collector "may not do" and "must do."

Debt collectors may not:

- Give false or misleading information on your debt to you or others.
- Notify you by telephone after 9:00pm or before 8:00am within your time zone.
- Disturb your work duties at your employment.
- Make excessive calls to your home or work. This is considered harassment.
- Send you a letter that looks like an official government document.
- Threaten you or a family member with physical harm.
- Threaten or imply to damage your property.
- Deposit a post-dated check before the date on the check.
- Tell you that they are from a law firm, or a government agency, when in fact, they are not.
- Continue to harass you over the telephone after you have sent them written notice to cease all calls.
- Ask you for personal information. You have the right not to respond to their questioning.

Debt collectors must:

- Call between the hours of 8:00am and 9:00pm and they can be forceful in a normal tone when asking for payment. They cannot harass, threaten you with physical harm, or annoy you in anyway.
- Identify themselves, their company and explain the nature of the call to you. You have the right to know who is calling you and why.
- Let you know that legal actions may be used against you in order to collect on the debt. In addition, the debt collector can explain the consequences if a lawsuit is filed and a judgment is entered on behalf of the creditor.
- Ask you in advance to cancel the existing agreement and negotiate a new one. You have the right not to comply or negotiate a new agreement.
- File a creditor's claim against the estate if the debtor is deceased.
- Obtain verbal permission from you or someone else in your household in order to telephone you at work.

What is the best way to settle an unpaid debt?

Answer: You should never ignore an unpaid debt from a creditor you owe money to. If you are having financial problems meeting your payment obligation to a "secured" or "unsecured" creditor it is a good idea to notify that creditor and work an affordable payment plan that fits into your budget.

- ***Solution for secured debts -*** Keep in mind that creditors with secured debts are in the business of collecting money. They do not want to repossess property unless it is absolutely necessary. Oftentimes, a secured creditor (mortgage or auto lender) can place your past-due payments at the end of your loan. Therefore, bringing your account current.
- ***Solution for unsecured debts -*** Settling unsecured debts before it becomes a problem, such as wage garnishment or litigation is always your best solution. In most cases, if your delinquent account goes unpaid for more than 90 days, the creditor will usually send you a settlement offer by mail lowering your unpaid balance by as much as 50%. This type of settlement usually requires you to pay the lowered settlement amount in full. If you are unable to pay the full amount, ask to set-up an installment payment plan that fits into your budget.

Should I consider bankruptcy as an option?

Answer: Bankruptcy should only be considered as a last option. A bankruptcy can destroy your credit rating for as long as 10 years. Before filing bankruptcy you should seek the help of a reputable credit counseling agency. If an agency decides that bankruptcy is the only available solution, there are two different types of personal bankruptcy that an individual may utilize:

- ***Chapter 7 -*** This chapter is the full liquidation more commonly known as "straight" bankruptcy. This is the most common bankruptcy form that an individual will file. Chapter 7 is only for individuals, not businesses or partnerships. In most cases, all your property is normally exempted and therefore kept out of your bankruptcy. Most individuals file Chapter 7 to completely eliminate large credit card debt, personal loans and other unsecured debts.

- ***Chapter 13 -*** This chapter is best for people who have too much disposable income and also have the kind of consumer debt (like student loans, taxes, etc.) that cannot be included in a Chapter 7 bankruptcy. People that are behind in their mortgage payments and want to avoid foreclosure on their property may also file a Chapter 13. Chapter 13 allows a person to set-up a 3 to 5 year repayment plan in order to make up past-due payments, therefore reinstating the creditors original agreement.

How can a credit counseling agency help with unpaid debts?

Answer: In most cases, a credit counseling agency can work with the collection agency to structure a payment schedule for repaying the unpaid debt. Once an unpaid debt has been consolidated into a consumer credit counseling program the consumer can expect these benefits:

- Creating a livable household budget and spending plan which can help you and your family meet everyday living expenses as well as monthly bills.

- Referring all creditor phone calls and letters to the credit counseling agency for customer service on your behalf.

- Most creditors, after 3 consecutive payments into the program, will stop all collection activities, which includes harassing phone calls and payment demand letters. In addition, past-due accounts could be re-aged to a current status, therefore improving one's credit.

- Provide budgeting help and money management education through certified credit counselors.

Chapter 7 - DEALING WITH UNPAID DEBTS

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***If I default on my car payment the lender can repossess my car.***

A. True
B. False

Question 2: ***If I purchase a TV on my credit card and can't make the payment, the credit card company can repossess the TV.***

A. True
B. False

Question 3: ***A creditor can call you anytime of the day and night in order to collect on an unpaid debt.***

A. True
B. False

Question 4: ***A collection agency has the right to call you if you owe money on an unpaid debt.***

A. True
B. False

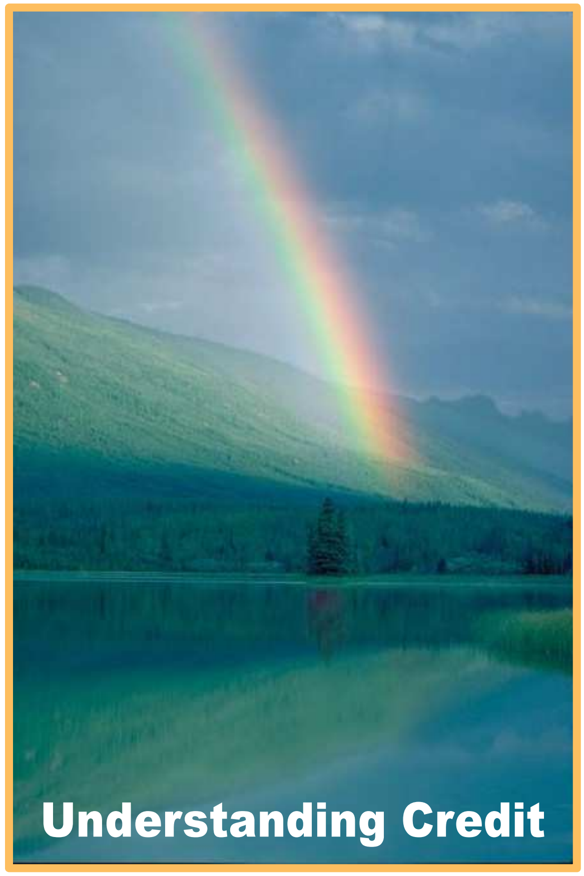
Question 5: ***A bankruptcy can destroy your credit rating for:***

A. 5 years
B. 7 years
C. 10 years
D. 12 years

Question 6: ***A credit counseling agency helps people:***

A. Avoid paying bills
B. Settle debts for pennies on the dollar
C. By loaning money
D. To create budgets and spending plans

STUDY SECTION 3



Chapter 8 The Basics of Credit

Chapter 9 Understanding Credit Reports

Chapter 10 Credit Scores and Their Effects

Chapter 8 - THE BASICS OF CREDIT

These educational key points will provide answers to the following questions:

What is credit?
What are the different types of credit?
What is the cost of credit?
How is credit granted?
What are the advantages and disadvantages of using credit?

What is credit?

Answer: We live in a credit-based society. Credit has become a convenient way to pay for things while using other people's money. It allows us to purchase items and services today, though we don't have pay for them until later. Without credit in our lives it would be very hard to obtain the things we need and want, like cars, houses, electronics, jewelry, etc. Credit is a "promise" for repayment on a debt. The promise is an agreement between you and the credit card company, or lender.

What are the different types of credit?

Answer: There are five types of credit available to consumers today. Let's review:

- ***Revolving credit -*** Credit cards are considered revolving credit. They allow you to pay for all or part of your debt balance on a credit card. They are considered unsecured and require no collateral when purchasing items and services. When revolving credit is extended to you the credit card company or lender is trusting you to repay the debts you have created using their money. Issuing revolving credit can be very risky for the lender and usually carries a high interest rate.
- ***Installment credit -*** Installment credit is used when purchasing automobiles, household appliances, furniture, education, etc. Installment credit is considered a type of "closed-end" because the borrower and the lender have outlined the specific amount of money needed, a specific monthly payment, and a specific time in which the loan will be repaid.
- ***Open charge credit -*** This type of credit is usually issued from small retailers. It's an open-end line of credit for 30 days. It's also referred to as "30 days same as cash." If you have this type of credit set-up you can purchase a specific item, sign a sales slip (merchant agreement) and go home with that item the same day. At the end of 30 days, the retailer will send you a bill. This bill is due and must be paid in full. There are no payment terms available.
- ***Service credit -*** This type of credit is issued by utility companies. In most cases you have already used the credit during the month... like telephone, electricity, gas and water before you have paid for it. Service credit usually requires payment in full and is issued without finance charges, but you could receive a late fee if payment is not received by the due date.
- ***Mortgage credit -*** Banks, credit unions and other financial institutions issue this type of credit. People obtain this type of credit for the purchase of a home, condo or other real property. Mortgage credit is more complex than the other types of credit. Mortgage credit works like installment credit but credit approval is harder to obtain.

What is the cost of credit?

Answer: Credit can be very costly. If you don't need it, don't use it. If you borrow money on credit you will pay the lender a finance charge (their profit) for the use of their money. The finance charge is the total dollar amount you will pay which includes interest rate costs and other cost such as service charges and possible credit insurance.

Example of the cost of credit: Let's say that you borrow $10,000 from the bank to purchase a car. The interest is 12% on the auto loan and your monthly payment is $222.44 for 5 years. Your total cost for borrowing $10,000 is **$3,346.67 or 33.4% of the original amount borrowed.**

Solutions to reduce your cost: By shopping that $10,000 auto loan through other banks and credit unions you could reduce your total payback cost by either reducing the interest rate or years to pay. Review the comparison chart below. As you can see **Bank C** is the best possible loan to obtain. *(Source: Bankrate.com)*

COMPARISON CHART

	Loan APR	Loan Term	Monthly Payment	Total Cost of Loan	Total Payback Cost
Bank A	12%	5 years	$222.44	$3,346.67 or (33.4%)	$13,346.67
Bank B	12%	4 years	$263.34	$2,640.24 03 (26.4%)	$12,640.24
Bank C	9.6%	5 years	$210.02	$2,601.12 or (26%)	$12,601.12

How is credit granted?

Answer: When you're ready to apply for credit you need to understand how a creditor qualifies you for credit. Creditors look for the ability to repay a loan, willingness to do so and security. Creditors refer to these factors as the three Cs of credit: "capacity, character and collateral."

- ***Capacity -*** Do you have enough income to repay the loan? They also will compare your total income with all of your monthly living expenses and other obligations you might have. A creditor needs to know your capacity of disposable income (after all expenses are paid).
- ***Character -*** Are you a good credit risk? Creditors will run your credit report (with your permission) to see if you have repaid other debts on time and how long and how often you borrow money and whether you live within your means. They also look for stability like length at current home address, if you rent or own your home and the length of time at your employment.
- ***Collateral -*** Will the creditor be protected if you don't repay the loan? Creditors want to know what assets or collateral (security for the loan) you may have other than income for repaying the loan, such as a home, savings, investments, or other real property.

What are the advantages and disadvantages of using credit?

Answer: When using credit, it should be done wisely and only if needed. Let's review the advantages and disadvantages of credit.

Advantages:
- Can purchase items now and pay later
- Does not require using your own cash at that time
- No need to write a check.

Disadvantages:
- You pay high cost to borrow money (finance charges)
- You increase your debt load and Debt-to-Income Ratio
- You decrease the amount that you should be saving in the bank.
- You may put your property at risk (if you can't pay)
- Less money each month for household expenses
- Can easily overspend and create financial difficulties.

Chapter 8 - THE BASICS OF CREDIT

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***What type of debt is considered revolving credit?***

A. Auto loan
B. Home loan
C. Credit card
D. All of the above

Question 2: ***Installment credit is where you have a specific payment and pay-back time.***

A. True
B. False

Question 3: ***When you borrow money on credit, the finance charge is considered the creditor's profit.***

A. True
B. False

Question 4: ***Service credit is issued by:***

A. Bank
B. Credit union
C. Utility company
D. Department store

Question 5: ***When applying for a loan your monthly payment should not exceed:***

A. 10% of your take-home income
B. 15% of your take-home income
C. 20% of your take-home income
D. 25% of your take-home income

Question 6: ***Obtaining new credit can lower your Debt-to-Income Ratio.***

A. True
B. False

Chapter 9 - UNDERSTANDING CREDIT REPORTS

These educational key points will provide answers to the following questions:

What is a credit report?
Who manages my credit reports?
Are there different types of credit reports?
How does my information get on my credit report?
How do I read the information on a credit report?
Who can access my credit report?
How can I obtain a credit report?

What is a credit report?

Answer: A credit report is a history of everything you are doing with your credit now and everything you have done in the past. This report is a computerized file that contains information about you. Information such as:

- ***Identifying information -*** Your name, address, social insurance number, date of birth, employment address and income are used to identify you. These factors are not used in scoring. Updates to this information come from information you supply to creditors and/or lenders.
- ***Trade lines -*** These are your credit accounts. Creditors and/or lenders report on each account you have established credit with them. They report the type of account, such as credit card, auto loan, mortgage, etc. (revolving or installment), the date you opened the account, your credit limit or loan amount, the account balance and your payment history.
- ***Inquiries -*** Inquiries are a list of everyone who accessed your credit report within the last two years. The report you see lists both "voluntary" inquiries, spurred by your own requests for credit, and "involuntary" inquires, such as when lenders order your report so as to make you a pre-approved credit offer in the mail.
- ***Public record and collection items -*** Credit reporting agencies also collect public record information from provincial and county courts, and information on overdue debt from collection agencies. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens and judgments.

Who manages my credit report?

Answer: There are two major credit bureaus, **Trans Union** and **Equifax**, that collect and maintain personal and financial information. These two bureaus are affiliated with hundreds of smaller credit reporting agencies that gather information for them. These bureaus are not affiliated with the government in any way. They are for-profit corporations that make money by selling your personal and financial information. Not all creditors report to both bureaus. Each credit bureau will have different information on your credit history.

Are there different types of credit reports?

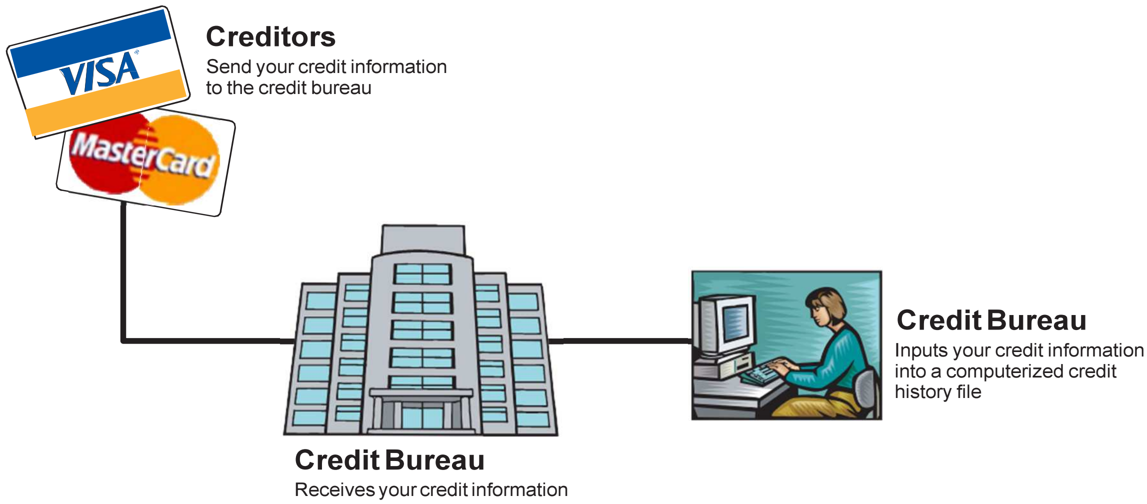
Answer: Yes. There are two basic types of credit reports kept on you: consumer reports and investigative reports.

- ***Consumer type report*** - This report contains your personal data, creditor accounts, public records, inquiries and can be accessed by any legitimate business or person who is extending you credit. There is a small fee paid to the credit bureau for this type of report.
- ***Investigative type report*** - This report is used for employment or insurance purposes. This report will be much more detailed than a "Consumer Report," and often will be based upon interviews with acquaintances about your lifestyle, character and reputation. If a business or insurance company requests this type of report, you will be notified by the credit bureau. You will also be informed of your right to ask for additional information about the report from the company you applied to.

How does my information get on my credit report?

Answer: When you apply for credit or purchase items or services on credit, that creditor will send account information to the credit bureau which will be placed in your computerized credit history file. Information can also come from other sources, such as provincial and federal courts that maintain your public records.

CREDIT FLOW CHART



How do I read the information on a credit report?

Answer: Credit reports can be very difficult to understand, especially when each credit bureau has their own credit report look and the way they display information. Each credit bureau is required by law to provide sample explanations on how your credit report works and what the information means. When you obtain a credit report there will be sample explanation sheets so you can understand what's on your report.

Who can access my credit report?

Answer: Prospective money lenders will always review at least one of your credit reports before granting you credit. Your credit report can legally be reviewed by:

- Any creditor or lender to whom you have applied for credit
- A prospective employer
- A mortgage lender, when you have applied for a home loan
- A property management firm, when you have applied to rent an apartment, condo, or house
- Any current employer on a need-to-know basis
- Any person, firm, or agency to whom you have given permission
- Any person, firm, or agency with a legitimate need to know (permissible purpose)
- An insurance company, when you have applied for any type of insurance
- You, as a consumer.

How can I obtain a credit report?

Answer: The fastest and best way to obtain a credit report is to contact the credit bureaus directly by telephone or on-line and request a copy of your credit report. There usually is a cost of around $14.50 (without Beacon Score) per report. The two main credit bureaus are:

EQUIFAX CANADA INC.
1-800-465-7166
www.equifax.ca

TRANSUNION CANADA
1-866-525-0262 (all provinces except Quebec))
1-877-713-3393 (for Quebec residents)
www.tuscores.ca

Chapter 9 - UNDERSTANDING CREDIT REPORTS

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***A credit report is a computerized file that contains financial information on you.***

A. True
B. False

Question 2: ***Credit reports are managed by:***

A. The province
B. Revenue Canada
C. The government
D. Independent credit bureaus

Question 3: ***There are three types of credit reports.***

A. True
B. False

Question 4: ***Equifax is considered a credit bureau.***

A. True
B. False

Question 5: ***Who reports information on you to a credit bureau?***

A. Mortgage lenders
B. Banks
C. Federal courts
D. All of the above

Question 6: ***Anyone that grants you credit can access your credit report.***

A. True
B. False

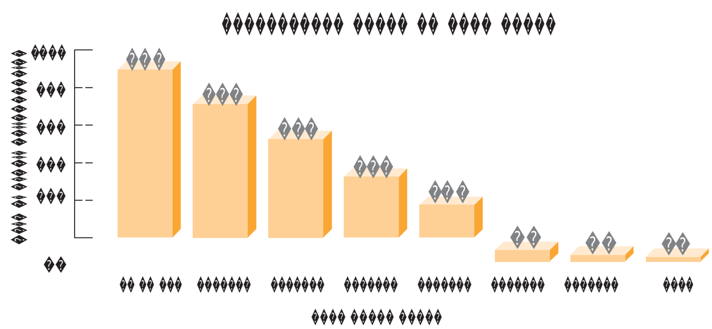
Chapter 10 - CREDIT SCORES AND THEIR EFFECTS

These educational key points will provide answers to the following questions:

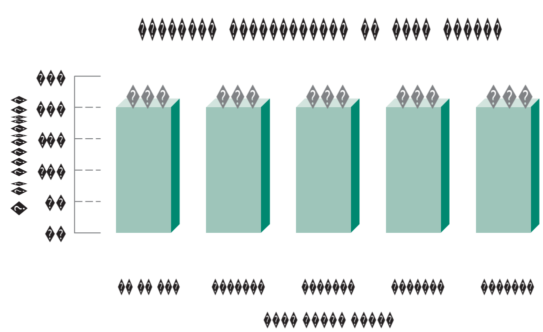
What is a credit score?
How is my credit score calculated?
How can I improve my credit score?
Does a credit score determine whether or not I get credit?
Will a poor credit score haunt me forever?
Could my credit score ever be wrong?

Answer: Credit scoring is a number generated by mathematical formulas which helps lenders determine if you are a good risk for credit. The most frequently used version of the credit score is the FICO score created by Fair Isaac & Company. A FICO score is a snapshot of your credit risk picture at a particular point in time. The scores can range between 300 and 850. The higher your score, the lower the risk to lenders. Below are two charts that illustrate national information on FICO scores.

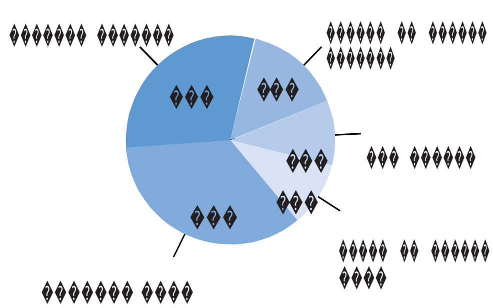
A. ***FICO Delinquency Chart -*** The chart below is based on consumers' FICO scores and what their percentage of delinquency is on a credit card or loan payment. As you can see, FICO scores that are above 700 are considered very low credit risk. This means that for every 100 borrows only 5 will be delinquent. FICO scores below 700 can be considered high credit risk and the delinquencies become greater as the FICO score gets lower.



B. ***FICO Distribution Chart -*** The chart below is based on the percentage of consumers within a FICO scores range. As you can see about 20% of the Canadian population has a FICO score of 750 and higher.



Answer: Creditors, for years, have used a "FICO scoring" system. FICO scores are calculated from a lot of different credit data and grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your score.
Let's review:



How can I improve my credit score?

Answer: Improving your credit score is like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time. Here are some suggestions that could help improve your credit score:

- ***Pay your bills on time -*** Delinquent payments and collections can have a major negative impact on your score.
- ***If you have missed payments, get current and stay current -*** The longer you pay your bills on time, the more your score will increase.
- ***Pay down balances -*** By paying down your balances you are reducing your outstanding debt. Try to keep your balances within 50% of the credit limit. This could increase your score.
- ***Do not take on new debt -*** Taking on new debt means "inquiries" will appear on your credit report plus new debt. Both can decrease your score.

According to Fair Isaac and Company, here are some examples of what can increase and decrease a FICO score:

Increase FICO score:

- If you can **pay your bills on time for 6 months** you could raise your FICO almost 20 points. If your FICO score is 650 it would now be 670.
- **Pay down the balances on your credit cards by 34%** and you could raise your FICO score almost 20 points. If you owe $2,230 on a credit card, paying $750 (34%) alone could raise your score.

Decrease your FICO score:

- If you **miss monthly payments** by the due date on all of your credit card accounts your FICO score could decrease between 75 to 125 points. If your FICO score is 650 it will now lower to 575 to 525.
- If you **max out your credit cards** to the limit your FICO score could decrease between 20 to 70 points. If your FICO score is 650 it will now lower to 630 to 580.

Does a credit score determine whether or not I get credit?

Answer: Lenders use a number of facts to make credit decisions including your FICO score. Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history. Based on their perception of this information, as well as their specific underwriting policies, lenders may extend credit to you although your score is low, or decline your request for credit although your score is high.

Will a poor credit score haunt me forever?

Answer: Just the opposite is true. A score is a "snapshot" of your risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current score when you submit a credit application so they have the most recent information available. Therefore, by taking the time to improve your score, you can qualify for more favorable interest rates.

Could my credit score ever be wrong?

Answer: Yes! Your credit report could have errors on it, therefore affecting your score. When a credit report contains errors, it is often because the report is incomplete, or contains information about someone else.

This typically happens because:

- The person applied for credit under different names (Robert Jones, Bob Jones, etc.)
- Someone made a clerical error in reading or entering name or address information from a hand-written application
- The person gave an inaccurate social insurance number, or the number was misread by the lender
- Loan or credit card payments were inadvertently applied to the wrong account.

Important Note: You should request a copy of your credit report from all credit bureaus at least once a year to make sure the information in your credit report is correct, especially before making a large purchase, like a house or car.

Chapter 10 - CREDIT SCORES AND THEIR EFFECTS

SELF-EDUCATIONAL TEST:

We have created six questions to cover all lessons that you have studied in this chapter. To pass this self-educational test you will need to attain an 80% score (5 out of 6) or higher. Please read all of the following questions carefully and mark the correct answers using the **"Test and Registration Form"** at the end of the workbook.

Question 1: ***A credit score can help a creditor determine if you are a good credit risk.***

A. True
B. False

Question 2: ***29% of the U.S. population has a FICO score of:***

A. 450 +
B. 550 +
C. 650 +
D. 750 +

Question 3: ***A credit score is grouped into four categories.***

A. True
B. False

Question 4: ***Paying your bills on time for 6 months straight could raise your FICO score:***

A. Almost 10 points
B. Almost 15 points
C. Almost 20 points
D. Almost 25 points

Question 5: ***I am guaranteed credit if my score is high.***

A. True
B. False

Question 6: ***If I max out my credit cards it will have no affect on my FICO score.***

A. True
B. False

GLOSSARY – Complete Listing of Credit Terms

The financial world has a language that is specific to their industry. It is important that you understand their language and what it means. Knowledge is power—and power is the key to success.

Acceleration clause - If you default on a loan, this clause allows a lender to require entire repayment of the loan in full.

Account - This means an agreement between a consumer and a credit lending company. An account can either be an installment loan (closed-end agreement) or a department store revolving credit card (open-end agreement).

Actuarial method - This is the interest on the outstanding balance. Also known as simple interest financing.

Add-on interest - Most lenders use this method of calculating installment loan finance charges, with interest calculated on the full amount of the loan. Lenders must give you annual interest rates, so you can compare the cost with simple interest financing. For example: a loan for 36 months at an 8 percent add-on interest is equal to an annual simple interest rate of 14.54 percent.

Adjusted balance - This method is considered an open-end finance charge, which is found in a charge card account. Charge card companies will subtract your payments during the billing period and apply the interest rate to the balance.

Amount - This is the original amount of a loan for installment accounts, credit limit, or high balance for revolving accounts.

Annual Percentage Rate (APR) - This is the interest rate charged on an account on an annual basis by the creditor. To determine the monthly interest, you can divide the APR by 12 (for example the APR is 18% of an unpaid balance of $1,000, then the monthly interest is 1.5%, or $15). A creditor will not add interest during the grace period of an account.

Applicant - This is a person who has applied for or has received credit from a creditor, or become liable for an extension of credit.)

Application - This is a document for credit that is established by the creditor. A completed application is an application, which the creditor has received all your personal and financial information needed in evaluating your application for the amount and type of credit requested. An application allows the creditor to obtain additional information on you, including, but not limited to, credit reports, reports from government agencies or other persons that are necessary to guarantee for the credit or collateral. Creditors must obtain and use your information with reasonable diligence.

Available credit - This is the unused dollar amount of a person's credit limit. On credit cards, it is the difference between the outstanding balance and the credit limit that was granted to you.

Average daily balance - A method of computing the amount on which the finance charge is based for credit cards. On credit cards, the creditor will total the credit card balance for each day in the billing period and divide by the number of days in the period. This will give the average daily balance.

Balance to limit - This is the ratio of an original loan amount or high credit limit to the accounts outstanding balance.

Balance - This is the amount of outstanding funds on a credit account.

Balloon payment - This is considered a final lump-sum payment to the creditor on any unpaid balance.

Bank card - This is a credit card that is issued by a bank or credit union, which has a pre-approved credit limit on it for purchasing items or services or drawing cash advances. Bank cards can also act as debit cards, which are tied to your checking or savings account for the purpose of withdrawing funds.

Charge-back - This is when a merchant must reverse a credit card transaction and payback the credit card (cardholder) with the original transaction amount.

Charge-off - This is a term that a lender uses when a balance of an uncollectable debt cannot be collected and is written off as a bad debt from the lender's account receivable books.

Closed - Means, when a credit card is no longer open or does not allow you to purchase items or services on that account.

Collateral - This is property that is put up (also known as security) for a loan and becomes the lenders property if the loan is not paid back in full.

Co-maker - This is a person who enters into a loan agreement with you, guaranteeing the loan and monthly payments. If you fail to make the monthly scheduled payments, your co-maker is responsible for making them. People usually have co-makers when they need to establish credit, or they have poor credit and cannot obtain a loan with their own credit rating.

Co-signer - Is just another name for a “co-maker.” Also see Co-maker for explanation.

Consumer - A consumer is considered any private individual.

Consumer credit - This is the type of credit that is issued to an individual for personal, family or household purposes.

Contractually liable - Means, a group of people that are obligated equally together to repay all debts arising from a loan agreement.

Credit - Is granted by a creditor to an applicant for the purpose of deferring payment on purchased items, property or services.

Credit bureau - This is a credit reporting agency that compiles personal and financial information on you, the borrower, which allows creditors and lenders to access your information and determine if you are credit worthy.

Credit disability insurance - This type of insurance is optional for the consumer on a loan or credit card and if the consumer cannot make their payments due to an illness or accident, the insurance protection will make the payments for the cardholder. This type of insurance is usually added to your loan payment or charged monthly on your credit card. Sometimes credit disability insurance is combined with credit life insurance.

Credit life insurance - This type of insurance is optional for the consumer on a loan or credit card, and if the consumer dies the insurance protection will pay off the remaining balance on the loan or credit card. This type of insurance is usually added to your loan payment or charged monthly on your credit card.

Credit limit - This is the maximum amount on your credit card or loan that the lender has granted you for purchasing items, property or services on credit.

Credit line - This is the dollar amount that a consumer has available on their credit card or loan for use.

Credit report - This report is compiled by a credit reporting agency, which includes your personal information, payment history, including on-time and late payments, debt amount, type of account and credit rating score. In addition, a credit report will outline if you have judgments, liens, collection accounts, charge-offs or have filed bankruptcy. A credit report retains negative credit information for 7 years, 10 years for bankruptcy. Federal law requires credit-reporting agencies to remove negative information after 7 years. A 30-day late, collection account, etc. are considered negative information.
You the consumer, under federal law, have the right to request your credit report and dispute any negative information you feel is not true.

Credit score - This score is calculated by the credit reporting agencies based on several factors, not limited to payment history, credit history, debt load, credit time, available credit, etc. Creditors and lenders use these credit scores to determine your credit worthiness.

Credit transaction - This encompasses all aspects of a consumer’s dealings with creditors and lenders concerning, but not limited to: application for credit, extension of credit, terms of credit, revocation, collection procedures, alteration, or termination of credit.

Creditor - This is a person or company that has made an agreement with you to extend credit to you for deferred payments on items or services. Credit card companies are considered creditors.

Creditworthiness - This is the creditor’s or lender’s opinion, if they should extend credit to you based on your credit history or your credit score.

Current - If an account like a credit card has a good payment-on-time history each month with the creditor, it is considered current by the creditor's terms.

Date opened - This is the date when a creditor initially granted you credit.

Date reported - This is the date when a credit reporting agency listed your credit account status on your credit report.

Default - When you fail to make the agreed payment terms on the credit card or loan each month.

Delinquent - This is the same as "Default." See Default for an explanation. Also, an account is considered delinquent after 30 days and will be reported as a delinquent rating on your credit report.

Demand feature - This feature allows a lender to call for repayment of the full loan amount owed under the loan agreement and, if needed, to seize any property that was placed as collateral for the loan.

Derogatory - This is a rating that a credit reporting agency assigns to your account that is delinquent and requires special assistance, such as collections, charge-off, repossession, etc.

Disclosure statement - Is a document provided to a consumer by a creditor or lender, providing an explanation of their credit terms, interest rates, finance charges, payment schedule, minimum payment amount, etc. This document is required by federal or provincial laws.

Dispute - Means to question an error on your credit profile. You or the creditor can dispute an error.

Elderly - Means an individual age 62 or older.

Extend credit - Means the granting of new or existing credit in any form to a consumer from a creditor or lender.

Finance charge - This is the cost you pay in exchange for a creditor lending you money on credit to purchase items or services on a deferred payment plan. The total outstanding balance and the current interest rate charged on the account is what determines the finance charge. Finance charges will appear on your credit billing statement separately from your outstanding balance and interest rate.

Good faith - Means that you make a payment to a creditor even if it is not the required minimum payment.

Grace period - This is the time between the statement date and the payment due date. During this period no finance charges will accrue, provided no previous balance exists.

High balance charge - A fee is charged by the creditor when your credit limit on an open account is exceeded.

High balance - This is the dollar amount utilized on a credit line. This is also know known as "high credit."

Incidental credit - This is credit that is extended to you for professional services by a medical or dental office.

Installment - A credit account where set payments are established and agreed upon for a specific period between you and a creditor. Payments are made at agreed dates each month until paid in full.

Interest - This is a charge that the creditor will charge you for borrowing money on a credit card or for a loan. Interest is calculated at a percentage of the total outstanding balance you borrowed. **See also finance charge.**

Judgment - An award granted by the courts to a creditor, lender or individual for collection on a bad debt. A judgment creates an obligation granted by the courts to the debtor to pay the full amount of the judgment to the creditor, lender or individual.

Lien - When you fail to pay your agreed upon obligation for an outstanding debt, a creditor can obtain a court order to place a lien against your property. The lien acts as a collateral against the outstanding debt you owe the creditor.

Loan value - This is the total amount that a lender will loan you for a specific item. If you are purchasing a used car, the lender will lend you only the blue book value on that used car.

Merchant - A business or an individual that accepts credit cards for payments on items or services.

Monthly payment - This is the amount that a creditor has set for borrowing money on credit. A monthly payment usually combines two payments into one; principal and interest.

Net payoff - This is the amount of a loan, excluding prepaid interest and insurance premiums.

Never delinquent - This is an account that has never missed a payment within the statement due date.

NSF charge - This means that your checking account had non-sufficient funds at the time your check was written for items or services. When this happens the bank will charge you or the depositor a NSF fee. If you continue to obtain NSF charges, the bank will close or freeze your account.

Obligor - A person who binds himself or herself to another under contract or agreement. Obligee - One to whom another is bound by contract or agreement.

Open-end credit - Consumers who use credit cards to purchase items or services from time to time are considered as using "open-end credit."

Open - This is an active account (credit card) that is available for purchases or items or services on credit.

Paid - This means that an account (credit card or loan) is current and paid to date.

Periodic rate - This is the Annual Percentage Rate (APR), which is divided by the days, weeks, or months in a year. An APR of 21 percent has a monthly periodic rate of 1.75 percent and daily periodic rate of 0.0575 percent.

Prepayment penalty - This is a fee charged by a lender for early payoff of a loan balance.

Public record - This is information recorded by the courts, including bankruptcy, judgments, tax liens and civil cases, and can be obtained by any one person or company from the courts.

Revolving - These are credit card accounts where the outstanding balance fluctuates depending on the usage on the card. Most revolving credit card accounts are tied to the account balance as a percentage of the balance. Most revolving accounts have credit limits tied to them. Revolving accounts will charge a service fee each month if the balance is not paid in full.

Security interest - A lender will request you to put up collateral for a loan. This is known as "security interest." If you default on the loan, the lender can sell the collateral (property) to recover the money owed on the outstanding debt balance.

Signature loan - This is a loan that a lender will grant you without putting up collateral. This is also known as an unsecured debt.

Simple interest financing - A creditor will charge you interest on your outstanding balance. This is known as "simple interest financing."

Suit - This is a legal action that a creditor will file in court for the recovery of a right or claim.

APPENDIX 1 - Bill Paying & Saving Money Worksheet

Photocopy this sheet first before using it

SHORT-TERM GOALS – LESS THAN 1 YEAR

What is your goal to accomplish	Total cost of your goal	Number of months to reach your goal	Amount needed to save each month for your goal
1. ______________	$ ________	________	$ ________
2. ______________	$ ________	________	$ ________
3. ______________	$ ________	________	$ ________
4. ______________	$ ________	________	$ ________
5. ______________	$ ________	________	$ ________

Note: Short-term goals are goals you'll set and accomplish within one year. Goals can include birthday gifts, holiday gifts, taking a family vacation, paying off a credit card or buying a new TV.

MID-TERM GOALS – BETWEEN 1 to 5 YEARS

What is your goal to accomplish	Total cost of your goal	Number of months to reach your goal	Amount needed to save each month for your goal
1. ______________	$ ________	________	$ ________
2. ______________	$ ________	________	$ ________
3. ______________	$ ________	________	$ ________
4. ______________	$ ________	________	$ ________
5. ______________	$ ________	________	$ ________

Note: Mid-term goals are goals you'll set and accomplish within one to five years. Goals can include paying off your credit cards, purchasing a new car, remodeling your kitchen or saving for braces that your child needs.

LONG-TERM GOALS – OVER 5 YEARS

What is your goal to accomplish	Total cost of your goal	Number of months to reach your goal	Amount needed to save each month for your goal
1. ______________	$ ________	________	$ ________
2. ______________	$ ________	________	$ ________
3. ______________	$ ________	________	$ ________
4. ______________	$ ________	________	$ ________
5. ______________	$ ________	________	$ ________

Note: Long-term goals are goals you'll set that will take five years and longer to accomplish. Goals can include buying a new house, saving for a child's education (college or trade school) or saving for retirement.

APPENDIX 2 - Organizing Records Check List

Photocopy this sheet first before using it

It is important that you organize your personal records into four categories. Keeping your personal records organized where you can get to them can make your life easier. Please review each category below.

CATEGORY 1 – HOUSEHOLD DOCUMENTS

Income stubs & statements	Monthly bills	Bank records
▪ Paychecks ▪ Social Insurance Number ▪ Unemployment ▪ Pensions ▪ Bonuses ▪ Profit Sharing ▪ Other: ______________	▪ Utility Bills ▪ Auto Payment ▪ Personal Loan Payments ▪ Credit Card Payments ▪ Student Loan Payments ▪ Medical Bills ▪ Other: ______________	▪ Checking Statements ▪ Savings Statements ▪ Money Market Statements ▪ Cancel Checks ▪ Credit Card Payment Slips ▪ ATM Withdrawal Slips ▪ Other: ______________

Note: You should create a file folder for each item. These file folders should be stored in "banker boxes" which can be purchased at your local office supply store. You will use a new box for each year.

CATEGORY 2 – FINANCIAL DOCUMENTS

▪ Tax Returns ▪ Auto Contracts ▪ Home Insurance Policy	▪ Mortgage – 1st deed loan papers ▪ Mortgage – 2nd deed loan papers ▪ Lease Agreements ▪ Household Inventory	▪ Military Papers ▪ Divorce Agreement ▪ Child Support Agreement ▪ Other: ______________

Note: You should create a file folder for each item. These file folders should be stored in a fireproof safe.

CATEGORY 3 – ESTATE DOCUMENTS

▪ Life Insurance Policies ▪ Annuity Policies ▪ Mutual Funds ▪ Other: ______________	▪ Copy of Driver Licenses ▪ Citizenship Papers ▪ Passports ▪ Other: ______________	▪ Birth Certificates ▪ Marriage License ▪ List of Credit Cards & Account Information

Note: You should create a file folder for each item. These file folders should be stored in a fireproof safe.

CATEGORY 4 – FAMILY DOCUMENTS

▪ Social Insurance Cards ▪ Naturalization Records ▪ Medical Records ▪ Stock Certificates	▪ Stocks, Bonds & CD's Certificates ▪ Wills ▪ Real Estate Investments ▪ Investments (Metals or Jewels)	▪ Business Agreements ▪ Family Trust Papers ▪ Retirement Plan Papers ▪ Other: ______________

Note: You should create a file folder for each item. These file folders should be stored in a fireproof safe.

APPENDIX 3A - Household Budgeting Worksheet

Photocopy this sheet first before using it

Make sure that you include all take-home income and expenses as accurately as possible. The information you provide will be used to compute your Budget & Spending Plan. Try not to inflate the numbers, but do not underestimate either. If a monthly expense is automatically deducted from your take-home pay, do not enter it below. The goal each month is to maintain your "target amount" that you allocated. Photocopy this sheet first before filing in your numbers.

Monthly take-home income	
Salary/Wages	$ ______________
Salary/Wages (Spouse)	$ ______________
Social Security	$ ______________
Military Pay	$ ______________
Pension Plan/Retirement	$ ______________
Interest Income	$ ______________
Alimony/Child Support	$ ______________
Real Estate (rent)	$ ______________
Dividends (investments)	$ ______________
Unemployment/Food Stamps	$ ______________
Royalties/Other Income	$ ______________
TOTAL INCOME	$

Monthly secured debts	
Rent (Apartment, etc.)	$ ______________
1st Mortgage	$ ______________
2nd Mortgage	$ ______________
Trailer Park Space Rent	$ ______________
Student Loans	$ ______________
Auto Loans/Leases	$ ______________
Recreation Toys (Watercraft, etc.)	$ ______________
Past-Due Taxes	$ ______________
Other Secured debts	$ ______________
Other Secured Loans	$ ______________
TOTAL SECURED DEBT	$

Monthly living expenses	
Food	$ ______________
Household Items	$ ______________
Clothing	$ ______________
Laundry/Dry Cleaning	$ ______________
Telephone (Home, Page, Cell)	$ ______________
Internet Service	$ ______________
Electric	$ ______________
Gas/Oil	$ ______________
Water/In-Home Service	$ ______________
Cable TV/Satellite	$ ______________
Trash	$ ______________
Auto Gas/Maintenance	$ ______________
Auto Insurance	$ ______________
Health & Dental Insurance	$ ______________
Life & Disability Insurance	$ ______________
Homeowners/Renters Insurance	$ ______________
Education (Tuition, Supplies)	$ ______________
Personal Care (Hair, Nails)	$ ______________
Medical Care (Prescriptions etc.)	$ ______________
Child Care (Nanny, Day Care)	$ ______________
Children's Activities (Sports etc.)	$ ______________
Alimony/Child Support	$ ______________
Gardener/Pool Service	$ ______________
Alarm Service	$ ______________
Homeowner Dues	$ ______________
Subscriptions	$ ______________
Health Club Membership	$ ______________
Contributions/Donations	$ ______________
Other Expenses (Misc.)	$ ______________
TOTAL EXPENSES	$

Monthly unsecured debts	
Credit Card	$ ______________
Credit Card	$ ______________
Credit Card	$ ______________
Credit Card	$ ______________
Credit Card	$ ______________
Credit Card	$ ______________
Personal Loan	$ ______________
Personal Loan	$ ______________
Medical Bills	$ ______________
Other Unsecured Loans	$ ______________
TOTAL UNSECURED DEBT	$

Instructions: Now that you have completed each section, take the totals from each section and enter them into the Summary of Budget below.

Summary of budget	
Total Take-Home Income	$ ______________
	(Minus)
Total Living Expenses Payments	$ ______________
Total Secured Debts Payments	$ ______________
Total Unsecured Debts Payments	$ ______________
	(Equals)
Your Disposable Income or Deficit	$

Note: *If you have a "Deficit" you should seriously seek the help of a credit counseling agency to help you reduce expenses. The goal is to have Disposable Income of 5 to 10% of your total income.*

Budgeting Notes:

APPENDIX 3B - Household Spending Plan Worksheet

Photocopy this sheet first before using it

Creating a Spending Plan can help keep your finances in order, pay your bills on time and control your overspending. Start by filling in the "target amounts" for each item. Target amount is the amount you can expect to receive and spend each month. Your goal each month is to maintain your "target amount" that you allocated. Photocopy this sheet first before filing in your numbers.

	Target Amount	Month ______	Month ______	Month ______	Month ______	TOTAL Months_____To_____
MONTHLY INCOME						
Salary/Wages	$	$	$	$	$	$
Salary/Wages (Spouse)	$	$	$	$	$	$
Social Security	$	$	$	$	$	$
Military Pay	$	$	$	$	$	$
Pension Plan/Retirement	$	$	$	$	$	$
Interest Income	$	$	$	$	$	$
Alimony/Child Support	$	$	$	$	$	$
Real Estate (rent)	$	$	$	$	$	$
Dividends (investments)	$	$	$	$	$	$
Unemployment/Food Stamps	$	$	$	$	$	$
Royalties/Other Income	$	$	$	$	$	$
TOTAL INCOME	$	$	$	$	$	$
LIVING EXPENSES						
Food (Home, Work, School)	$	$	$	$	$	$
Household Items	$	$	$	$	$	$
Clothing	$	$	$	$	$	$
Laundry/Dry Cleaning	$	$	$	$	$	$
Telephone (Home, Cell, Internet)	$	$	$	$	$	$
Electric/Gas/Oil	$	$	$	$	$	$
Water/Trash	$	$	$	$	$	$
Cable TV/Satellite	$	$	$	$	$	$
Auto Gas/Maintenance	$	$	$	$	$	$
Auto Insurance	$	$	$	$	$	$
Health & Dental Insurance	$	$	$	$	$	$
Life & Disability Insurance	$	$	$	$	$	$
Homeowners/Renters Insurance	$	$	$	$	$	$
Education (Tuition, Supplies)	$	$	$	$	$	$
Personal Care (Hair, Nails)	$	$	$	$	$	$
Medical Care (Prescriptions etc.)	$	$	$	$	$	$
Child Care (Nanny, Day Care)	$	$	$	$	$	$
Children's Activities (Sports etc.)	$	$	$	$	$	$
Alimony/Child Support	$	$	$	$	$	$
Gardener/Pool Service	$	$	$	$	$	$
Alarm Service	$	$	$	$	$	$
Homeowner Dues	$	$	$	$	$	$
Subscriptions/Gym Membership	$	$	$	$	$	$
Contributions/Donations	$	$	$	$	$	$
SECURED/UNSECURED DEBTS						
Rent/Mortgage (1st & 2nd)	$	$	$	$	$	$
Trailer Park Space Rent	$	$	$	$	$	$
Student Loans	$	$	$	$	$	$
Auto Loans/Leases	$	$	$	$	$	$
Recreation Toys (Watercraft, etc.)	$	$	$	$	$	$
Past-Due Taxes	$	$	$	$	$	$
Credit Cards	$	$	$	$	$	$
Personal Loans	$	$	$	$	$	$
Medical Bills	$	$	$	$	$	$
Other Expenses or Debts	$	$	$	$	$	$
TOTAL EXPENSES	$	$	$	$	$	$
MONTHLY CASH FLOW						

Total Income $ ______ (Minus) Total Expenses $ - $ ______ $ ______ $ -

____________			$___________	$ _______________		
$___________	$_____________	$ ____________	$___________	$ _______________		
Disposable Income/Deficit	$	$	$	$	$	$

Note: *At the end of each month you should have Disposable Income that equals 5 to 10% of your total income.*

APPENDIX 4 - Bill Paying & Saving Money Worksheet

Photocopy this sheet first before using it

The idea of this worksheet is to help you get organized when paying bills. Take a moment and fill-in all your bills that are due within the different due dates. Using this worksheet will help you remember what and when bills are due.

DUE DATES — 1st to 15th

Bills to pay	Due date	Payment
1 ________		$ ________
2 ________		$ ________
3 ________		$ ________
4 ________		$ ________
5 ________		$ ________
6 ________		$ ________
7 ________		$ ________
8 ________		$ ________
9 ________		$ ________
10 ________		$ ________
11 ________		$ ________
12 ________		$ ________
13 ________		$ ________
To		$ ________

DUE DATES — 15th to 31st

Bills to pay	Due date	Payment
1 ________		$ ________
2 ________		$ ________
3 ________		$ ________
4 ________		$ ________
5 ________		$ ________
6 ________		$ ________
7 ________		$ ________
8 ________		$ ________
9 ________		$ ________
10 ________		$ ________
11 ________		$ ________
12 ________		$ ________
13 ________		$ ________
To		$ ________

Bill Paying & Saving Money Calculations

$ ________ (Minus) $ ________ (Equals) $ ________

Total Monthly Net Take-Home Income | **Total Monthly Bills To Pay** | **Total Disposable Income**

Note: Take your "Disposable Income" and divide it up into the three accounts below

$ ________ | $ ________ | $ ________

Entertainment | **Account** (Allocate 5% of net income) | **Savings**

Accoun t
(Allocate 10% of net income)

Emerge ncy Accou nt
(Allocate 5% of net income)

APPENDIX 5 - Debt-to-Income Ratio Worksheet

Photocopy this sheet first before using it

This worksheet has been created to help you calculate your Debt-to-Income Ratio.
Instructions: Please start by filling in all your monthly take-home income. Then begin filling in all your monthly debt payments. Once done, input your income and debt payments in the "Calculate My Debt-to-Income Ratio Chart."

MONTHLY TAKE-HOME INCOME

	You	Spouse	Total
Salary/Wages	$ ______	$ ______	$ ______
Salary/Wages (Spouse)	$ ______	$ ______	$ ______
Social Security	$ ______	$ ______	$ ______
Military Pay	$ ______	$ ______	$ ______
Pension Plan/Retirement	$ ______	$ ______	$ ______
Interest Income	$ ______	$ ______	$ ______
Alimony/Child Support	$ ______	$ ______	$ ______
Real Estate (Rent)	$ ______	$ ______	$ ______
Dividends (Investments)	$ ______	$ ______	$ ______
Unemployment/Food Stamps	$ ______	$ ______	$ ______
Royalties/Other Income	$ ______	$ ______	$ ______
	TOTAL TAKE-HOME INCOME		**$ ______**

MONTHLY DEBT PAYMENTS

	You	Spouse	Total
Credit Cards Payments	$ ______	$ ______	$ ______
Student Loan Payments	$ ______	$ ______	$ ______
Auto Payments	$ ______	$ ______	$ ______
Other Vehicle Payments	$ ______	$ ______	$ ______
Bank/Credit Union Loan Payments	$ ______	$ ______	$ ______
Medical/Dental Bill Payments	$ ______	$ ______	$ ______
Computer/Electronic Bill Payments	$ ______	$ ______	$ ______
Furniture/Appliance Bill Payments	$ ______	$ ______	$ ______
Other Credit Loans or Accounts	$ ______	$ ______	$ ______
	TOTAL DEBT PAYMENT		**$ ______**

Calculate Your Debt-to-Income Ratio Chart

$	(Divided By)	$	(Equals)	%
Input Your Total Monthly DEBT PAYMENT		**Input Your Total Monthly TAKE-HOME INCOME**		**YOUR DEBT-TO-INCOME RATIO PERCENTAGE**

How Does Your Debt-to-Income Ratio Measure up to Creditors?

Debt-to-Income Ratio	***less than 10%***	Your are in great financial shape
Debt-to-Income Ratio	***10% to 20%***	A good credit risk
Debt-to-Income Ratio	***20% to 35%***	Credit could be questionable at these ratios

Debt-to-Income Ratio	***35% and higher***	You are considered a high credit risk

APPENDIX 6 - Sample Debt Settlement Letter

YOUR NAME
ADDRESS
CITY, PROVINCE, POSTAL CODE
HOME TELEPHONE

(Creditor's Name)
(Address)
(City, Province, Postal Code)

RE: (Your Name) (Date)
(Creditor's Account Number)
(Social Insurance Number)

I **(Your Name),** would like to settle the outstanding debt with **(Creditor's Name). (Give explanation why you have not paid the debt. Loss of job, illness, etc.)** I have a strong interest in paying back the debt.

Currently, there is an outstanding debt balance owed in the amount of (Input dollar amount). I am prepared to settle the outstanding debt for (input the lump sum amount you can afford to pay). As part of my settlement offer, I am requesting the following conditions listed below:

SETTLEMENT CONDITIONS:

1. My account will show paid in full with no future monies owed associated with the account number listed above.
2. Any litigation filed against me is dropped and no future litigation in any state will be filed against me associated with the account number listed above.
3. Delete all negative listings pertaining with the account number listed above from the bureaus below.

EQUIFAX Credit Information Services
TRANS UNION Corporation

Upon an acceptance letter from **(Creditor's Name)** regarding settlement amount and settlement conditions, I **(Your Name),** will over-night a Money Order in the amount of **(Input settlement amount)** paid to **(Creditor's Name)** for settlement of the debt in full associated with the account number listed above.

(Creditor's Name) agrees to forward that settlement letter to all credit bureaus and any other credit bureaus that we deal with for deletion of negative listings, which are listed above in settlement conditions.

(Print Your Name) Date

(Sign Your Name) Date

YOUR GUIDE TO MONEY, DEBT AND CREDIT

Unlock your financial world

Achieve financial wellness

Maintain independence

Change financial behavior