Financial Empowerment Curriculum
Moving Ahead Through Financial Management

Module Three:
Mastering Credit Basics
Reviewing, Understanding and Improving Your Credit
Module One: Understanding Financial Abuse

Module Two: Learning Financial Fundamentals

Module Three: Mastering Credit Basics

Module Four: Building Financial Foundations

Module Five: Creating Budgeting Strategies

Financial Empowerment Curriculum
Module Three Objectives

- Explain how to access and review your credit report.
- Identify the factors that control your credit report and credit score.
- Recall strategies that will help you increase your credit score.
- Describe the impact of bankruptcy.
Before we begin to discuss basic financial fundamentals, I want you to take a moment to reflect on your personal experience.

On a scale of 1-10, how well do you understand your credit report?

Have you ever requested a copy of your credit report? What about your credit score?

Be prepared to share your ideas and thoughts with the class.

You have five minutes.
Module Three:
Mastering Credit Basics

**Reviewing Your Credit Report**

Understanding Your Credit Score
Improving Your Credit Score
Understanding Bankruptcy
Reviewing Your Credit Report

To master your credit you need to obtain your credit report.

- Each of the three credit reporting agencies must provide you with a free copy of your credit report every 12 months (upon request).
- A central Web site handles requests for the three agencies and you may order your reports online, by phone or by mail.
- Annual Credit Report Request Service
  P.O. Box 105281
  Atlanta, GA 30348-5281
  1-877-322-8228
  http://www.annualcreditreport.com
- Equifax: 1-800-525-6285  www.equifax.com
  Experian: 1-888-EXPERIAN (397-3742)  www.experian.com
  TransUnion: 1-800-680-7289  www.transunion.com
  Don’t be misled by other sites.
Reviewing Your Credit Report

Why is your credit score so important regarding rate?

<table>
<thead>
<tr>
<th>FICO Score Range</th>
<th>30-Yr. Fixed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>5.892%</td>
</tr>
<tr>
<td>700-719</td>
<td>6.017%</td>
</tr>
<tr>
<td>675-699</td>
<td>6.555%</td>
</tr>
<tr>
<td>620-674</td>
<td>7.705%</td>
</tr>
<tr>
<td>560-619</td>
<td>8.531%</td>
</tr>
<tr>
<td>500-559</td>
<td>9.289%</td>
</tr>
</tbody>
</table>

Source: Informa Research Services and MYFICO.com. Interest rates as of 9/15/03
Reviewing Your Credit Report

What does a credit report look like anyway?
Reviewing Your Credit Report

Does checking your credit report lower your credit rating?

- Checking your credit score or pulling your own credit report does not hurt your credit rating.
- In addition, credit inquiries made by companies checking your credit report to send you pre-approved offers do not count either.
- However, if you respond to those offers, and the credit card company or mortgage lender pulls your credit report to do a more thorough investigation, it does count.
- Each credit inquiry can lower your score by five points.
- However, the FICO scoring system counts multiple inquiries made in a 14-day period as just one inquiry for large purchases like home or car loans, allowing you to shop for the best interest rate.
Module Three:
Mastering Credit Basics

Reviewing Your Credit Report
Understanding Your Credit Score
Improving Your Credit Score
Understanding Bankruptcy
Understanding Your Credit Score

How is your credit score determined?

- Payment history: 35%
- Amounts owed: 15%
- Length of credit history: 30%
- New credit: 10%
- Types of credit used: 10%
Understanding Your Credit Score

How do these five factors impact my credit score?

- Your credit score takes into consideration all these categories of information, not just one or two.
  The importance of any factor depends on the overall information in your credit report.
- The information in your credit report changes, so does the importance of any factor in determining your credit score.
- It's impossible to say exactly how important any single factor is in determining your score since they are different for everyone.
- Different debt is “weighted” differently.
  Example: Revolving debt (i.e., credit cards) is weighted heavier than school, medical and mortgage debt.
Module Three:
Mastering Credit Basics

Managing Your Debt and Liabilities
Reviewing Your Credit Report

**Improving Your Credit Score**

Understanding Bankruptcy
What are some payment tips to improve my credit score?

- Pay your bills on time. Delinquent payments and collections can have a major negative impact on your FICO score.
- If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your credit score.
- Be aware that paying off a collection account will not remove it from your credit report and it will stay on your report for seven years.
- If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.
Improving Your Credit Score

What are some payment tips in regard to the amount owed?

- Keep balances low on credit cards. High outstanding debt can affect a credit score.
- Pay off debt rather than moving it around.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Don't open a number of new credit cards that you don't need, just to increase your available credit. This approach could backfire and actually lower your credit score.
- Consider following the 30% rule (i.e. if your limit is $1,000, try to keep your balance below $300). See sample exercise on next slide.
Improving Your Credit Score

Exercise: Debt/Limit

CARD A: $500 balance/$1,000 limit
CARD B: $100 balance/$1,000 limit

TOTAL $600 balance/$2,000 total limit = 30% balance/limit

- Note that if you pay off Card B and close the account, then you would now have a 50% balance/total limit.
What are some payment tips in regard to new credit?

- Rate shop for a loan within a specific period of time.
- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your credit score in the long-term.
- Apply for and open new credit accounts only as needed.
- Use credit cards but manage them responsibly.
- In general, having credit cards and loans (and paying timely payments) will raise your credit score.
- Someone with no credit cards, for example, is at higher-risk than someone who has managed credit responsibly.
Improving Your Credit Score

If you discover an error on your report, do the following:

- Make a copy of your credit report and circle incorrect information.
- Write a letter to the agencies detailing the inaccurate information.
- Explain each dispute and request an investigation for resolution.
- Send a similar letter to the creditor reporting the incorrect information.
- Send all materials by certified mail with return receipt.

OR

- Dispute online using a reputable company, such as www.myfico.com
Improving Your Credit Score

If you discover an error on your report, do the following:

- The reporting agency will initiate an investigation by contacting creditors to verify the accuracy of the information; usually within 30 days.
- It is the creditor’s responsibility to prove the debt is yours in writing. If they do not, it should be removed.
- Note, if you dispute a debt that you owe, it may reappear later.
Module Three:
Mastering Credit Basics

Reviewing Your Credit Report
Understanding Your Credit Score
Improving Your Credit Score

Understanding Bankruptcy
Understanding Bankruptcy

What is bankruptcy?

- Bankruptcy is a last resort.
- It cannot clean up a bad credit record and will be part of your credit record for up to 10 years.
- Before considering bankruptcy, consult a nonprofit credit counselor.
- There are different forms of bankruptcy.
  - Chapter 7 wipes out all debts and provides certain personal-property exemptions.
  - Chapter 13 is a court-approved repayment plan. The debtor keeps all property and makes regular payments on the debts after filing for bankruptcy.
Understanding Bankruptcy

What are the long-term effects of bankruptcy?

- It is a very long process to reestablish credit your credit after filing for bankruptcy.
- It could determine whether or not you get the job you want. Some businesses use credit reports to make employment decisions.
- Your insurance rates may increase.
- It may be difficult to rent an apartment or qualify for a home loan.
- Bankruptcies stay on your credit report for 10 years.
- Phone companies and other utility and service providers may look at your credit history before providing service.
Understanding Bankruptcy

Before filing bankruptcy, consider the following strategies:

- Reduce monthly expenses; if you reduce spending, you may be able to find the money to repay your debt.
- Talk with your creditors. Creditors are often willing to work out a payment plan to help you pay off what you owe.
- Consider a debt consolidation loan. To pay your debt, you may be able to borrow against your workplace retirement plan or other securities.
- Talk with a nonprofit counseling agency. These agencies can help you create a plan to handle all of your debts.
- Talk to an attorney. Expert advice can help you understand the consequences of declaring bankruptcy.
Module Three Review Exercise

- Think about what we have discussed during the past hour.
- What do you believe was the most important piece of information you learned today?
- What is one action item you will commit doing to improve your current situation?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.
Financial Empowerment Curriculum
Moving Ahead Through Financial Management

THANK YOU!
Financial Empowerment Curriculum
Moving Ahead Through Financial Management

Module Four:
Building Financial Foundations
Homes, Loans and Automobiles
Financial Empowerment Curriculum

Module One: Understanding Financial Abuse

Module Two: Learning Financial Fundamentals

Module Three: Mastering Credit Basics

Module Four: Building Financial Foundations

Module Five: Creating Budgeting Strategies
Module Four Objectives

- Explain the various types of financial paperwork that exist.
- Recall the various home options to consider when seeking financial living independence.
- Describe the difference between various loan options.
- Apply for a loan and recall how to prepare for the application process.
- Describe the path to achieve home ownership.
Module Four Opening Exercise

- Before we begin to discuss how to apply for a loan, buy a car or purchase a home, I want you to take a moment to reflect on your personal experience.
- On a scale of 1-10, how comfortable are you with the loan application process?
- Why would you rate yourself the way you did? What life experiences have provided you the opportunity to apply for a loan?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.
Module Four:
Building Financial Foundations

Financial Paperwork
Housing Options
Loan Options
Loan Application Process
Home Ownership
Financial Paperwork

Consider storing documents in the following categories:

- Financial Records
  - Retirement, life insurance
- Legal Documents
  - Child support or custody papers, divorce decree
- Property Documents
  - Record of repairs, large purchases, lease agreements
- Health Records
  - Immunizations, statement from doctors
- Expense Documents
  - Credit card statements, utility bills
Financial Paperwork

Prior to applying for a loan, you should have the following:

- Birth Certificate or Social Security Number. If you cannot access either, you can use your driver’s license or state ID card to request a copy.

- The most recent copy of your bank, investment or credit card statements. If you cannot find paper copies of documents, request an electronic copy be sent to a private email account or pick it up in person.

- Don’t worry if you can’t access your utility or other monthly expenses. Your most recent bank statement will provide information about monthly expenses (or if you pay via money orders, make copies of the statements).
Module Four:
Building Financial Foundations

Financial Paperwork
Housing Options
Loan Options
Loan Application Process
Home Ownership
Housing Options

Housing options for survivors:

- Transitional housing programs can be an option for someone who is leaving an emergency shelter or is not yet in a position to afford living completely independently.

- Before you rent, determine how much you can afford. It is recommended that your rent to 25%-30% of your income.

- If you have a lease or rental agreement with the abuser, lease bifurcation may allow for removal of the survivor’s name or have the abuser’s name removed from the lease.

- The Section 8 program makes privately owned rental housing affordable to low-income households. It provides rent subsidies (either rental certificates or vouchers) for eligible tenants.
Housing Options

Consider the following before signing a lease:

- Do not put money down unless you’re sure you want the unit.
- Calculate the anticipated costs of utilities (i.e., heat, electricity) when determining whether you can afford an apartment.
- Check the apartment to ensure that it’s in acceptable condition and put all agreements for repairs in writing.
- Evaluate how the superintendent or landlord responds to emergencies.
- Talk with prospective neighbors about the landlord.
- Visit the property at night and during the weekend to become more familiar with the community.
Module Four:
Building Financial Foundations

Financial Paperwork
Housing Options
\textbf{Loan Options}
Loan Application Process
Home Ownership
Loan Options

What is an unsecured loan?

An unsecured loan is a loan obtained without collateral (such as a house or car). This loan is also called a signature loan. There are three main types of unsecured loans:

- I Owe You (I.O.U.) Loan
- Credit Card Loan
- Personal Loan
Loan Options

What is an secured loan?

Secured loans are those loans that are protected by an asset or collateral of some sort (such as a car or house). From a lender’s point of view, these types of loans are less of a risk because the lender can recover their loss by the asset used for the loan.

- Debt Consolidation Loan
- Car Loan
- Mortgage Loan
Loan Options

Before you buy a car, consider the following:

- The primary difference between loans for new and used cars is that new care loans tend to come at a lower interest rate.
- You should be very careful when shopping for a car loan to ensure that they get the best loan for their needs.
- Visit [www.edmonds.com](http://www.edmonds.com) to determine how much of a car loan you can afford.
- As a general rule, loans with short terms are better because borrowers pay less interest, and the lower the interest rate, the less costly the used car financing. However, the monthly payment will be higher.
The following chart provides an overview on mortgage loans.

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Loan Features</th>
<th>Perfect if You:</th>
</tr>
</thead>
</table>
| Fixed-Rate Loan (e.g., 30, 20, 15, or 10 years) | • Fixed interest rate and monthly payment over the entire term of the loan  
• Higher interest rate and monthly payment than adjustable rate loans | • Don’t plan to sell or refinance for 10 years or more  
• Prefer the security of having the same monthly payment with no pressure to refinance later |
| ARM Loan (e.g., 1, 3, 5, 7, or 10 years) | • Lower starting interest rate and monthly payment than fixed-rate loans  
• May eventually go higher than a fixed-rate loan | • Want the lowest possible interest rate and monthly payment  
• Are comfortable with changing interest rates and monthly payments |
| Balloon Loan (e.g., 5 or 7 years)    | • Lower starting interest rate and monthly payment than fixed-rate loans  
• Full balance of loan is due at end of term (5 to 7 years) | • Plan to only live in your home for a short time but want a stable interest rate |
| Sub-Prime Loans (e.g., 2, 3, 15 or 30 years) | • May contain a prepayment penalty | • Want a home, but don’t qualify for the lowest rate and best terms and can afford paying more for the loan |
Loan Options

Before you apply for a mortgage, be familiar with:

- Prepayment penalties are monetary penalties should a borrower payoff a loan earlier than was originally agreed.
- Negative Amortization (Neg Am) may be appealing to first time buyers who can’t afford huge upfront mortgage payments, however may result in unmanageable monthly payments in the end.
- Predatory lending is the practice of using unfair, deceptive, and abusive tactics in lending money.
- Payday loans or car title loans are short-term loans are offered to individuals without regard to credit. Though these loans are relatively easy to obtain, they are granted at unreasonably high interest rates.
Module Four:
Building Financial Foundations

Financial Paperwork
Housing Options
Loan Options
Loan Application Process
Home Ownership
Loan Application Process

The following are used to evaluate loan applications:

- **Employment History:** Most lenders look for two consecutive years of employment within the same industry.

- **Credit History:** You must demonstrate that you can manage credit responsibly. Lenders look for a history of on-time payments.

- **Outstanding Liabilities:** Your total monthly payments for debts should not exceed 42% of your monthly earnings.

- **Cash and Asset Reserves:** Lenders may request information about your cash available (checking and savings).
Loan Application Process

The following is good to know before applying for a mortgage:

- Loan prequalification is a process that pre-approves a homebuyer for a specific loan amount when purchasing a home. It helps you look for homes you can afford and gives you a competitive advantage.

- The mortgage application not only asks for information about you but also requires information about the property (since it will be used as collateral). The property information can be found in the appraisal.

- Before submitting a mortgage application, check your credit.
Home Ownership

Before buying a home, ask yourself these questions:

- Do you have a steady income and a stable job?
- Do you plan to stay in the same city for at least three to five years?
- Do you have a budget? Do you stick to it?
- Do you have a good credit history?
- Do you have savings for a down payment and closing costs?
- Have you researched programs that offer down payments and closing costs for survivors of domestic violence?
- Have you looked at low- and moderate-income mortgage programs?
- Have you taken homebuyer-education classes?
Below are some additional tips when looking to buy a home:

- **Get help before you sign.** If you’re concerned about being a victim of predatory lending, contact the Better Business Bureau regarding the lender.

- **Read the fine print.** Watch for balloon payments, high interest rates and fees, and credit life insurance.

- **Shop around.** Comparison shop to get a loan with the best terms.

- **Avoid high-pressure sales.** Take your time when comparing lenders.

- **Review total costs.** A low monthly payment isn't always a deal.

- **Watch what you sign.** Never sign a blank document or any document the lender promises to fill in later.
Module Four Review Exercise

- Think about what we have discussed during the past hour.
- What do you believe was the most important piece of information you learned today?
- What is one action item you will commit doing to improve your current situation?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.
Financial Empowerment Curriculum
Moving Ahead Through Financial Management

THANK YOU!

STAND UP & SPEAK OUT
Financial Empowerment Curriculum
Moving Ahead Through Financial Management

Module Five:
Creating Budgeting Strategies
Saving and Investing
Insurance and Education
Module Five Objectives

- Recall strategies that will help you save money short- and long-term.
- Describe the various options to invest your money.
- Explain the various insurance options available.
- Recall the important of a solid education and how to pursue a college degree.
Before we begin to discuss how to budget and prepare for a brighter future, I want you to take a moment to reflect on your personal experience.

On a scale of 1-10, how comfortable are you with budgeting, saving and investing money, and continuing your education?

Why would you rate yourself the way you did? What life experiences have provided you the opportunity (or taken away the opportunity) to allow you to become financially independent?

Be prepared to share your ideas and thoughts with the class.

You have five minutes.
Module Five:
Creating Budgeting Strategies

Savings Strategies
Investment Options
Insurance Overview
Education Opportunities
Savings Strategies

Why is saving money so important?

- An emergency savings fund should have enough money to pay three to six months of living expenses such as repairs on a car or leaky roof.
- It’s important to put money away consistently.
- It’s better to save $10 every month than to save $25 only occasionally. Put money aside by making a deposit to your account as though you were paying a monthly bill.
- The secret to saving money is the miracle of compound interest.
- Example, if a 20-year-old makes a one-time $5,000 contribution to her retirement account with eight percent return, it will grow to $160,000 by the time she retires at age 65.
- But if she waits until she’s 39, that $5,000 would only grow to $40,000.
Savings Strategies

How do I make compounding work for me?

- **Start early.** The younger you start, the more time compounding can work in your favor. If you didn’t start early, don’t despair, there is still time. Put away as much as you possibly can. Federal regulations allow older workers to put more money into retirement plans.

- **Make regular investments.** Remain disciplined and make saving for retirement a priority. Do whatever it takes to maximize your contributions. If you work for a company that provides a match, make sure that you enroll to equal the highest match from the company.

- **Be patient.** Do not touch the money. Compounding only works if you allow your investment to grow. The results will seem slow at first, but persevere. Most of the magic of compounding comes at the very end.
Savings Strategies

Below is a summary of the typical types of savings accounts.

- **Interest-Earning Savings Accounts:** You’ll earn about two percent interest on your savings and receive a monthly statement in the mail. Funds can be withdrawn at any time.

- **Money Market Accounts:** These pay about one-half percent higher interest than savings accounts, but may require a higher minimum balance. You can usually make as many deposits as you like for free, but you can only write three checks each month.

- **Certificates of Deposit:** If you have money that can be tied up for three months to six years, certificates of deposit will offer the highest interest rates, depending on the term you choose. There are stiff penalties for early withdrawals, so choose a term you can live with.
Module Five:
Creating Budgeting Strategies

Savings Strategies
Investment Options
Insurance Overview
Education Opportunities
Investment Options

What are the different ways I can invest money?

- Put money into stocks, bonds or mutual funds using a personal financial representative (PFR).
- Buy real estate.
- Start your own business.
- Sometimes people refer to these options as "investment vehicles“.
- Each of these vehicles has positives and negatives.
- The point is that it doesn't matter which method you choose for investing your money, the goal is always to put your money to work so it earns you an additional profit.
Investment Options

The following are ways to save for your retirement.

- **Individual Retirement Accounts (IRAs)** are retirement savings accounts that provide tax advantages when you save for retirement. There are different types of IRAs, some provided by employers and others are set up by individuals.

- **Pensions** are retirement plans set up by employers to provide benefits to retired employees.

- **401(k) Plans** are retirement plans that defer income taxes on retirement savings and any interest they may earn until withdrawn. Most plans are sponsored by employers.
Investment Options

To plan for your retirement needs, consider these questions:

- **How long will your retirement last?** When do you plan to stop working? Will you retire early or are you planning to work at least part-time as long as you can? How long are you likely to live?

- **How much will a dollar be worth?** During times of inflation or rising prices, you’ll need more income to support your current lifestyle. When calculating how much money you’ll need for retirement, assume inflation rates of three to four percent.

- **How much will you spend?** What type of retirement do you envision? Do you plan to stay in your current home? Do you plan to retire to a beach community in Florida? The first lifestyle will probably cost less than the second.
Investment Options

What are other asset-building programs available?

- Individual Development Accounts (IDAs)
- Micro-Enterprise Development
- Financial Literacy Programs
- Federal and State Earned-Income-Tax Credits (EITCs)
- Emergency Assistance Funds
- Miscellaneous Savings Programs
Module Five: Creating Budgeting Strategies

Savings Strategies
Investment Options
Insurance Overview
Education Opportunities
Insurance Overview

What types of insurance is available?

- Health and Medical Insurance
- Health Savings Accounts (HSAs)
- Auto Insurance
- Homeowners or Renters Insurance
- Life Insurance
- Long-Term Care Insurance
- Disability Insurance
Module Five:
Creating Budgeting Strategies

Savings Strategies
Investment Options
Insurance Overview

Education Opportunities
Education Opportunities

Are there any programs to help fund my education?

- State-Sponsored College Savings (529) Plans
- Education IRAs
- Prepaid Tuition Plans
- Financial Aid, Scholarships and Grants
- Free Application for Federal Student Aid (FAFSA)
- Federal Pell Grants
- Federal Stafford Loans and Federal PLUS Loans
- Tuition Reimbursement
- The Allstate Foundation Education and Job Training Assistance Fund
Module Five Review Exercise

- Think about what we have discussed during the past hour.
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