

YOUR FUTURE CREDIT Jo Anne Symonette

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In 2008 the global economy hit some major roadblocks. Daily we were hearing reports about how the lenders couldn't lend anymore credit was at a standstill. What this crisis did was serve as a wakeup call, not just to America but to the global economy. Shoddy lending practices were put into the public view, credit issues became the number one discussion and we now see that the year's prior lending practices were the cause of the economic crisis. Many Americans I have talked to are angry, that our financial institutions created this problem. But also there is anger towards the people who were pulled in to the bad loans, their wants seemed to outweigh their ability to pay back the credit they were offered. The anger Americans are expressing just doesn't just end with the financial institutions, but also directed at the government and the great "2008 bailout". We are asked to be more diligent, held to tougher standards yet the very institutions that require that of us as consumers don't practice it themselves. In simplified terms, part of the problems that caused the credit crisis of 2008 is the lack of knowledge the consumer had in regards to credit. I firmly believe that had more consumers fully understood the importance of credit and how it works, we could have avoided a large part of this crisis.

When you are finished reading this book you will understand many elements about credit. You will understand it's importance to you and why you should monitor it and make sure you fully understand how to use it. Credit is important to have, Your Future Credit will help you learn the ABC's of credit. My goal is to make sure that we all are aware of the importance of credit and learn how to protect it, repair it and build it. Let's get started!

## Chapter 1: What is Credit?

We all know what credit is right? It may surprise you to know that depending on who you ask the question, “What is credit?” will get you a slew of different answers. So take a moment, grab a pen and write down what you think credit is.

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See if your answer compares to any of the examples that I have here.

- Credit is borrowed money that you can use to purchase things you need when you need them and then repay the funds back at an agreed on time.
- You are granted credit when an organization or individual makes a sum available for you to borrow.
- Credit is defined as confidence in a borrower's ability and intention to repay.
- money available for a client to borrow
- an accounting entry acknowledging income or capital items
- arrangement for deferred payment for goods and services
- have trust in; trust in the truth or veracity of
- A promise to pay at a later date for goods or services purchased today.
- Time allowed for the payment of goods or services sold on trust as well as confidence in the buyer's ability and intention to fulfill their financial obligations.
- A privilege granted for the purpose of extending time to make payment on a debt.
- A bunch of problems that I want to avoid
- I DON'T KNOW – I just know that it is a bunch of points that can go against me.

So are you close to any of these answers?

For the purpose of our discussion and your reading I am going to define credit as “Time allowed for the payment of goods or services sold on trust as well as the confidence in the buyer’s ability and intention to fulfill their financial obligation”. I prefer this definition as it can be applied to any type of credit you may get no matter the size of the obligation. Now don’t confuse credit with credit score. Your credit score will be discussed in later chapters. Your credit score is the measurement tool financial institutions use to measure your credit worthiness. I will go into further detail in later chapters but wanted to make sure that you understand that credit and credit score, while tied together they are not the same thing. You must fully understand what credit is and how it works in order to fully understand your credit score and how to take care of your credit.

Sooner or later everyone uses credit in one form or another. Do you know anyone that says I don’t believe in credit I pay everything in cash? They are proud that they stay away from the credit trap, they live within their means and that is a good thing, but they don’t fully understand credit either. What they are really saying and don’t know it, is I don’t use credit cards and live within my means, but they do use credit and just don’t know it. If they have a home loan, they are using credit but even simple services that we all take for granted are based on credit. The utilities you use daily are based on a form of credit, we all use it whether we know it or not.

Do you fully understand what credit is? Take this small easy quiz to find out.

### Activity

Do you think having ...

a cell phone is using credit?  Yes  No

a loan is using credit?  Yes  No

an account with a power company?  Yes  No

a lease with a landlord?  Yes  No

You should have answered yes to all of these questions. If you didn't realize that a form of credit is used every day, don't worry about it. The goal of "Your Future Credit" is to bring your awareness of what credit is and encourage you to use it wisely. Remember that when you are buying something on credit you are borrowing against future income.

### Why do you need credit?

Credit is in our everyday lives whether we realize it or not. There are larger expenses that only the wealthy would be able to afford without credit. Without credit some people couldn't be able to go to college, people would have to save for years to buy their first home if they ever could get to that point. I don't know about you, but the average person doesn't have the money to pay full price for a home up front until in their later years.

Credit is a necessity in today's society. Not only is it used to determine whether you can obtain loans, credit cards, cell phones and many more. Credit is now being used in hiring practices. Employers want to make sure that they are hiring people who can manage their affairs, if they are responsible and reliable or to confirm their identity.

**The benefits of a credit card:** A credit card gives a number of benefits you don't get when paying with cash or checks:

- Convenient, hassle-free shopping. When you use a credit card to make a purchase, you don't have to carry a lot of cash, pay by check, or present additional identification. A credit card also simplifies and speeds up catalog ordering and currently is virtually the only way to make Internet purchases.
- Emergency protection. Credit cards are the ultimate financial security blanket. They can get you through nearly any emergency situation.<sup>1</sup>
- Easier budgeting. With a credit card, you can make purchases and pay them off on a schedule that fits your budget.
- Credit cards also allow you to take advantage of sales and special offers.<sup>2</sup>
- Security. If you lose cash, it can be used by anyone. If you lose a credit card and report the loss to the card's issuer before it is used, the issuer cannot hold you responsible for

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<sup>1</sup> Only to be used in an emergency situation if you can afford to pay it back on time. Do not use as a replacement for lost income.

<sup>2</sup> Do not buy an item on sale just because it is a great deal. If you don't have use for it, don't buy it.

any unauthorized charges. If a thief uses your card before you report it missing, the most you will owe is \$50.<sup>3</sup>

- Travel expenses. You'll find that a credit card is almost essential for renting a car, purchasing an airplane ticket, or booking a hotel room. Whether you're across town or on another continent, a credit card is the universal guarantee of your good financial standing. And if you need cash, you can get it at ATMs or banks around the world that accepts your credit card.<sup>4</sup>

**The drawbacks of a credit card:** A credit card can be beneficial if used wisely, but there are also drawbacks too.

- Buying on credit will add additional charges on it, such as interest rates and processing fees.
- Failure to pay more than the minimum payment could keep you in debt for years.
- It is easy to get into trouble if not used wisely.
- It is easier to buy on impulse.
- It is easy to get too many credit cards.
- They use the credit card as extra money.

Credit is a privilege and a convenience and should be used wisely. It is especially important to make sure you are aware of your credit as it could even cost you employment.

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<sup>3</sup> This depends on the amount your credit card company has set, it may vary.

<sup>4</sup> Most rental agencies for cars and such will require large deposits if you don't have a credit card. A debit card is not the same thing.

So now that you know that you use credit on a daily basis, how well do you use it? Answer these simple questions to see if you are using your credit wisely.

1) How do you pay your bills?

- a. When I receive them
- b. As close to the due date as possible
- c. I skip some payments

2) What portion of your credit card bills do you pay each month?

- a. Most of what I owe, if not all
- b. Minimum payment due
- c. I don't pay the bill

3) How much of a balance do you carry on each of your credit cards?(average)

- a. None – I pay it all off each month
- b. Less than half of my available credit
- c. I'm maxed out

4) How much of your monthly income goes to pay credit card bills?

- a. Less than 10%
- b. Approximately 11-20%
- c. More than 20% or someone else pays my bills

5) Do you know how much total credit card debt you are carrying?

- a. Yes
- b. I have a rough estimate
- c. I'm afraid to add it up

If you answered “a” to all of the questions then you are using your credit wisely.

If you answered “b” to all of the questions you are at risk. You should evaluate your budget to identify ways to reduce your debt. Make sure that you set aside money so you are prepared for what life sends your way, prepare for emergencies. You can afford your bills now, but what happens if you lost your income or any part of your income – you could be in trouble.

If you answered “c” to all of the questions you are in trouble. **STOP** and do not use your credit card until you have examined your budget, financial priorities and credit obligations. If you are not the person paying the bill, you should still plan your spending with the person who is paying your credit card bills to make sure they can afford to pay – both your credit history and theirs are at risk if it hasn’t taken a hit already.

## Chapter2: What is a Credit Report?

A consumer credit report is a record of an individual's personal credit payment history. Its main purpose was designed to help creditors quickly and objectively decide whether to grant you credit. Currently credit report uses have expanded and are at times being used in hiring practices.

A credit report typically contains four types of information

1. There is identifying data such as;
  - a. Name
  - b. Social security number
  - c. Past addresses
2. Payment History – used to determine how a person pays their debts, such as:
  - a. Credit cards
  - b. Personal loans
    - i. Car payment
    - ii. Student Loans
    - iii. Mortgage Payments
    - iv. Other loans
  - c. How much credit a person has been given.
  - d. Late payments or collection accounts
3. Indicate who has requested a credit report

4. Report public records such as;
  - a. Judgments
  - b. Liens
  - c. Bankruptcy

A credit report has the potential for errors and it is advisable that you check your own credit report on a regular basis to ensure that all errors are removed as this could affect potential loans or employment. The consumer is protected by the Fair Credit Reporting Act(FCRA) which is designed to promote accuracy and ensure the privacy of information used in consumer reports. Recent amendments to the act expand your rights and place additional requirements on Credit Reporting Agencies (CRAs) businesses that supply information about you to CRA's and those that use consumer reports also have new responsibilities under the law.

### **What are your rights on a credit report?**

The Fair Credit Reporting Act can be viewed online. As a public service the Federal Trade Commission (FTC) has prepared the complete text of the FCRA. To view this report in its entirety you can go to the following website - [FCRA](#). This PDF document will outline all your rights that you have as a consumer. The CRA must be fair and report accurate information. You can get free reports once a year, or anytime you have been turned down for credit.

### **Who can access my credit report?**

Currently credit bureaus can only provide information to the following requestors:

1. Creditors who are considering granting or have granted you credit.

2. Employers considering you for employment, promotion, reassignment or retention<sup>5</sup>.
3. Insurers considering you for an insurance policy or reviewing an existing policy
4. Government agencies reviewing your financial status or government benefits
5. Anyone else with a legitimate business need for the information such as a potential landlord.

Checking your credit report regularly will allow you to see who is accessing your credit and why.

There can be unauthorized inquiries on your credit report. These inquiries can be removed and should as they can lower your overall credit score<sup>6</sup>.

### **Where does the information come from?**

Typically CRAs get their information from creditors who have extended you credit. They report how you payback the credit that has been offered to you and if the payments were on-time.

Sometimes collection agencies will report on accounts that have been turned over to them for collection. If you have a judgment issued against you, the agency that the judgment is benefiting will also report to the CRA. I recommend that you check your credit report regularly to ensure the accuracy of the information.

### **How employers use a credit report:**

There is still controversy about the use of credit reports for hiring practices because a credit report may not determine how a person can perform their job. Employers should approach the use of credit reports with caution, and have policies and procedures in place to ensure that the use of credit information is relevant and fair. The three major CRAs have joined together and

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<sup>5</sup> Employers see a special format of your credit report, they do not see all your information.

<sup>6</sup> This will be discussed in detail in a later section.

formulate a special report for employers inquiring into credit. This will help ensure the safety of information that is deemed irrelevant for an employer to see. This report is called the Employment Credit Report (PEER) and there are 5 major differences between PEER and credit reports.

1. Employment Credit Reports will display up to four employment sets, when available. Currently a credit report will display only the two most current employment sets.
2. Trade line and bank set account numbers are suppressed on an Employment Credit Report. Suppression protects the consumers file from potential fraud.
3. The age/date of birth does not appear on Employment Credit Reports.
4. A letter will automatically generate to the consumer state a public record was present on a file accessed for employment purposes.
5. Employment Credit Report posts a special inquiry type of EM. This will not be used against you as an inquiry and lower your score.

## What is a credit score?

From your credit report a score is calculated. A **credit score** is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness of that person.

A credit score is primarily based on credit report information typically sourced from credit bureaus.

Lenders, such as banks and credit card companies, use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt. Lenders use

credit scores to determine who qualifies for a loan, at what interest rate, and what credit limits. The use of credit or identity scoring prior to authorizing access or granting credit is an implementation of a trusted system.

Many companies can have their own system for determining a credit score. The most widely used one has been the FICO score and is still used by many mortgage lenders. The FICO credit score was developed by FAIR Isaac Corporation. In 2006 the big three credit bureaus developed the VantageScore.

### **The FICO SCORE:**

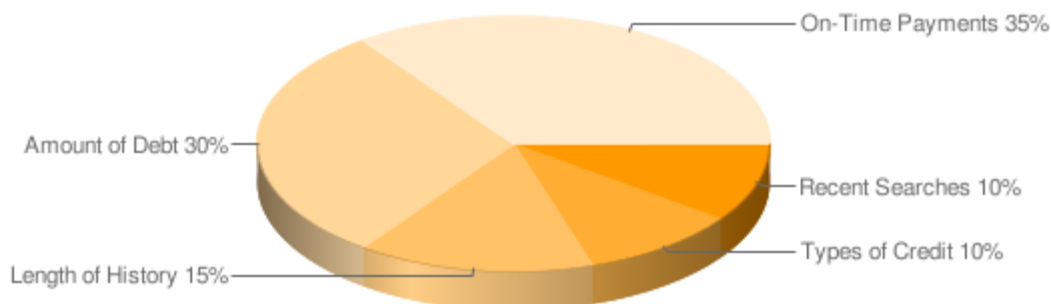
FICO is an acronym for the Fair Isaac Corporation. This company created the best-known and most widely used credit score model in the United States. The FICO score is calculated statistically, with information from your credit report. The FICO score is typically used in credit decisions by banks and other credit providers of secured and unsecured credit. The FICO score will allow the creditor to make decisions on the credit request. They may deny credit, charge higher interest rates, demand more collateral or require income and asset verification. This is especially true if your score is low. The FICO score traditionally ranges from 300 to 850.

### **The Fico Score Calculation:**

Credit scores are designed to measure the risk of default by taking into account various factors in a person's financial history. Although the exact formulas for calculating credit scores are closely-guarded secrets, the Fair Isaac Corporation has disclosed the following components and the approximate weighted contribution of each:

- 35% — punctuality of payment in the past (only includes payments later than 30 days past due)
- 30% — the amount of debt, expressed as the ratio of current revolving debt (credit card balances, etc.) to total available revolving credit (credit limits)
- 15% — length of credit history
- 10% — types of credit used (installment, revolving, consumer finance)
- 10% — recent search for credit and/or amount of credit obtained recently

The above percentages provide very limited guidance in understanding a credit score. For example, the 10% of the score allocated to "types of credit used" is undefined, leaving consumers unaware what type of credit mix to pursue. "Length of credit history" is also a murky concept; it consists of multiple factors — two being the oldest account open and the average length of time other accounts have been open. Although only 35% is attributed to punctuality, if a consumer is substantially late on numerous accounts, his or her score could fall far more than 35%. Bankruptcies, foreclosures, and judgments affect scores substantially, but are not included in the somewhat simplistic pie chart provided by Fair Isaac.



Credit scores are not the sole underwriting factor used by lenders. Other loss mitigation tools and data are used in addition to a score to gauge an individual's creditworthiness. For instance, current income and employment history, which are not part of a score, are weighed when applying for credit, along with tenancy status (rent or own) in some cases. An unemployed individual with no sources of income will not usually be approved for a home mortgage, regardless of his or her FICO score.

There are other special factors which can weigh on the FICO score.

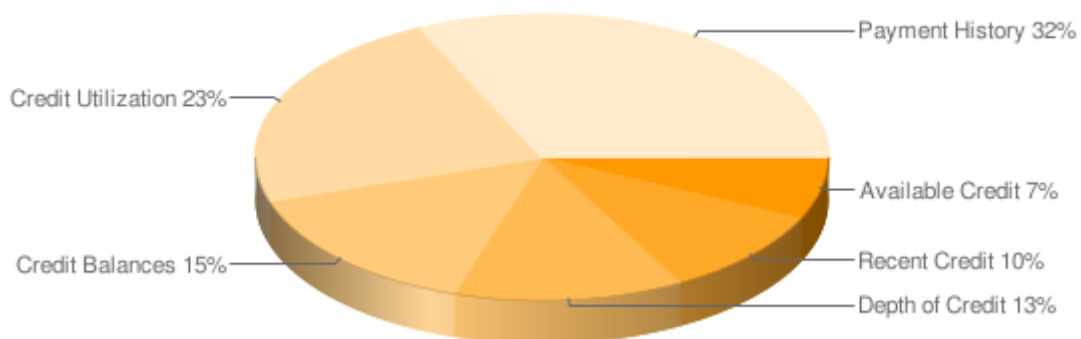
- Any money owed because of a court judgment, tax lien, or similar carry an additional negative penalty, especially when recent.
- Having more than a certain number of consumer finance credit accounts also carries a negative weight (critics say that this causes a vicious cycle, locking people into continuing to use consumer finance companies).
- The number of recent credit checks also can weigh down the score, although credit agencies usually claim to allow for credit checks made within a certain window of time not to aggregate, so as to allow the consumer to shop around for rates. While all credit inquiries are recorded and displayed on your credit report for a period of time, credit inquiries that were made yourself (to check your credit), by your employer (for employee verification) or by companies initiating prescreened offers of credit or insurance do not have any impact on your credit score.

## The Vantage Score:

The VantageScore is an attempt to compete with the FICO Score. The VantageScore goes from 501 to 990. It is also important to note that the VantageScore may not be exactly the same from each credit bureau, because the data each credit bureau collects may still vary. In theory, though the VantageScore should be more consistent across all three because the same calculation formula is used.

## VantageScore Calculation

The exact details of how the score is calculated are unknown to the public. There are categories that the VantageScore has released. What contributes to a positive score in each category, and to what degree particular data affect the score, is unknown. It should be noted, however, that the score is meant to determine how likely a given customer will pay the loan back on time and in a consistent manner, so values which show behavior contrary to these are more likely to affect the score negatively and vice versa.



- Payment History (i.e. how timely and consistent your payments are)
- Credit Utilization (i.e. debt-to-credit ratios and how much credit is available)

- Credit Balances (i.e. what your total debt is; most likely, delinquent debt is counted more harshly than current debt)
- Depth of Credit (i.e. length of credit history.)
- Recent Credit (i.e. how recent and many new hard inquiries and new accounts there are)
- Available Credit (i.e. how much credit can be accessed, for example, could you spend \$50,000 of credit tonight or within the next week).

### **How to get a copy of your credit report:**

You are entitled to receive one free credit report every 12 months. The three largest CRAs have joined together and set up a site [Annual Credit Report](#) where you can go to get your free yearly credit report. You also have the right to request a copy of your credit report from the reporting agency a creditor used if you are denied credit based on information contained in the report.

To process your request, you will need to provide specific information, such as your name, current and previous addresses, telephone number, social security number, and date of birth. Also, to verify your identity, other information such as a copy of your driver's license, utility bill(s), or bank statement may be required. Keep in mind that the three large bureaus do not necessarily share information with each other. The content of your credit report can be different at each bureau, so it's a good idea to request copies from each one.

To contact the three major credit bureaus:

Equifax	Trans Union	Experian (formerly TRW)
P.O. Box 105873	Consumer Disclosure Center	P.O. Box 2104
Atlanta, GA 30348	P.O. Box 1000	Allen, TX 75013-2104
<a href="http://www.equifax.com">http://www.equifax.com</a>	Chester, PA 19022	<a href="http://www.experian.com">http://www.experian.com</a>
(800) 685-1111	<a href="http://www.transunion.com">http://www.transunion.com</a>	(888) 397-3742
	(800) 916-8800 or (800) 888-4213	

### **Chapter 3: Getting Started (Building your Credit)**

Establishing your credit has never been more important than ever before. Since credit is being used for more than just the traditional reasons (like getting credit), it is important you start building your credit as soon as you can. You can't legally obtain a credit card or enter into a contract for debt until you are 18 there are ways you can start building your credit. For parents I can't stress enough how important it is that you teach your children the importance of good financial responsibility.

Often I hear complaints about how schools don't teach these life skills that will fit into everyday life. But I think that parents have an obligation to teach their children fiscal responsibility, that way you can be ensured that you are raising responsible adults. Many schools have started programs to teach our youngsters how to handle money and checkbooks,

but even with that I still say it is the parent's responsibility to follow this even further and teach good practices while they are young<sup>7</sup>.

### **Establishing a bank account:**

The first place you want to start building your credit is to establish a checking and savings account. This step is often overlooked but having a bank account is a good indicator of stability. I recommend that you create a savings account for your child at an early age. You can start building this slowly over time. When your child gets his first job, I recommend helping them get a checking account jointly with you. This way you can monitor and make sure they are practicing fiscally responsible spending.

Opening a checking and savings account is one of the few things you can do as a minor to start building a financial history. I have friends who as adults don't have bank accounts and I can't imagine why. I usually get the story that the bank takes my money, but you know if you have a bank account and manage it properly you won't get the bounce check fees. I find that adults that do not have a bank account also aren't practicing fiscally responsible spending and don't know about establishing or building credit. If you are serious about building your credit the first step you must take is to establish a stable financial history and do it with a bank account.

### **Establishing New Credit:**

The first step you need to do when establishing new credit is to obtain some credit. As a person new to the credit industry consider some of these methods.

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<sup>7</sup> Check out the section on raising fiscally responsible adults.

1. Apply for a gas card or department store card. Usually these types of cards are easier to get than major bank credit cards.<sup>8</sup>
2. Consider taking out a small personal loan from your local bank or credit union and paying the money back over time. You may have to have some collateral, or your bank can required you to deposit into your savings the same amount as you are borrowing. Make sure the loan will be reported before you borrow the money, or it is worthless to get it. Remember you are getting the loan to establish your credit, not because you need the money.
3. Apply for a secured credit card(s). These are similar to the loan described above, but you have a major credit card such as Visa or MasterCard with a credit limit equal to the amount you deposited. Over time with good practices, the company you have the card from may increase your credit limit. The money you put up for the secured card is usually earning you interest, so it is like another savings account. If you choose this option be sure to avoid any card that has a big upfront fee for processing your application or a high annual fee.
4. Piggyback on someone else's good credit. This is the fastest way to establish a credit history. If you know someone willing to put their name out there for you, you can quickly and easily establish good credit history by adding you to a credit card as a joint account holder. You can also have them co-sign on a loan for you. If you take this measure it is important to remember that if you fail to pay on-time or charge recklessly,

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<sup>8</sup> Each time you apply a credit check will be done so make sure you watch this as this could affect your score.

you aren't the only one who is affected negatively. I would caution on doing this for anyone, but it is the fastest way to establish a credit history.<sup>9</sup>

Once you have obtained some credit here are some rules to follow:

1. Always pay your bills on time. If you are struggling to pay your bills on time now – I recommend that you get these under control first before you add more debt.
2. Charge small amounts on your card. Never charge more than you can pay off each month. You will need to use your credit card regularly to help establish your credit history. If you only use your card for what you can pay off each month you can avoid paying interest on those charges.
3. Don't apply for too much credit. Applying for too much credit can actually hurt your credit score rather than help it. A rule of thumb you should stick to is when trying to establish a credit history is to limit the number of cards you have. Most people only need one or two bank cards, a gasoline card and a department store card acquired over a year or more.
4. Don't max out your credit cards. I would recommend that you don't even come close. A good rule of thumb is to avoid using more than 30% of the credit available to you. I would suggest using less if you can. One component in figuring a credit score is the difference between the credit available to you and what you're actually using. The smaller that gap, the more it will hurt your score. Lenders start to worry that you are becoming overextended and won't be able to pay your bills if you charge too much.

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<sup>9</sup> You must be a joint account holder as being a signer on the account will no longer help you build a credit history.

## Applying for a Loan basics:

Every lender and lending program is different. Depending on the type of loan you are trying for the company will require different information. With that being said however there is basic information that you can keep handy for a personal or business loan application.

- Business and personal information, including banking information and your other accounts.
- Copies of your business and personal income tax returns for the past three years (must be signed). Be aware that the lender will confirm with the IRS the accuracy of the tax return submitted.
- Company financial statements for the past three years (including income statement and balance sheet).
- Personal Financial statement.
- Business Plan and projections (generally required for start-up businesses, term loans or other special conditions).
- Listing of accounts receivables and payables aging.

## Student Loan Basics

Federal student loans are designed to assist students in paying for tuition and other expenses.

They have advantages over other loans and do not have to be paid back until you are done with school. The rates and terms of a student loan are much more lenient. Here are some items you should consider when making a decision to obtain a student loan.

What are your living expenses?

To answer this question you need to make a budget that includes all the expenses you incur on a monthly basis. Make sure you include rent, utilities, car payments, gas, food, other loans or credit cars. You will then need to multiply your monthly budget by the number of months in the school year. Then add the cost of tuition and other college related fees. This will give you a good idea of the total financing you will need for the year.

Are you going to work?

I would recommend that you only work part-time as your need to focus on your education, or see what the school you are going to attend has in the way of work-study programs. This will keep your overall debt down and undergraduate funding is limited and may not always cover all your expenses.

### **Home Loan Preparation**

To qualify for a mortgage, you generally need to present a slew of paper work to your lender. Some of the basic documents include your credit history and proof of income. Lenders need to examine your credit history to gauge whether you're worthy of risk. Although your FICO score is important to your lender's calculation, it's not the only piece of evidence underwriters consider when evaluating credit risk.

Lenders will take a look at any red flags or complaints in your credit report, creditor explanations, and so forth. Be aware that you'll have to hand over critical personal information,

such as your social security number and your birthday, so take care to ensure the confidentiality of this info to avoid identity theft.

Lenders will also want to check out your recent income history to make sure that you're going to have enough funds to make good on your loan. You might have to compile W-2 forms, as well as verification that you are employed. The proof of income documents required can vary from lender to lender, and you may have to provide information for both you and your spouse if you're buying the house together.

In addition, if you have information about assets, such as 401k plans, mutual fund investments, and stocks, you can provide this data to the lender to support your claim that you are a worthy risk. Lenders want to know that you have lots of assets on hand to manage financial crisis.

A beefed up asset portfolio can help you qualify for lower rates -- even if you don't have an incredibly stable income history. (For instance, if you're a freelance writer and editor, you can get on the lender's good side by demonstrating a healthy asset portfolio.)

You have to include paperwork relevant to the purchase. Lenders will want to see homeowner's insurance paperwork as well as title insurance documents. You'll also have to supply what's known as an earnest money deposit document. Basically, this piece of paper demonstrates that you have deposited enough cash down to afford the house.

Now that you are prepared to present the paperwork necessary for obtaining a home loan I recommend you make sure all that other items relevant to a home loan are in place. This will save you costly mistakes down the road.

1. Check and fix your credit. Obtain copies of your credit scores at least three to four months before hunting for a home. By doing this, you can make sure that any errors are corrected. You can also work to repair the negative items. I would not recommend trying to get a mortgage loan unless your credit is repaired. There are companies that will lend to people with bad credit; however, with the fall of the mortgage industry at the end of 2008 this practice is becoming less common. Also this practice is a high risk one for the borrower as it opens them up to high interest, ballooning mortgage payments and home foreclosure.
2. Get Pre-Approved – Pre-approval involves you asking for the mortgage loan and enter in a strict procedure. In order to be pre-approved, you will have to submit your tax returns, payment records as well as much more information. If there are no problem with your case, you will get a loan.
3. Do not exceed your limits. Do not make the mistake of asking for more money than you can afford to pay. The region in which I live, I see many young couples entering into large homes that they cannot afford. All their income goes to their house payment and they end up being on the cusp of financial ruin. Buy the home you can afford and live within your means. Make sure your monthly payments do not exceed a third of your monthly wage.
4. Check out interest rates and terms. Shop around for the right interest rate. A home loan is a large purchase and you will be paying for it quite a number of years. Choosing the wrong interest rate or terms could cost you large amounts of money in the long run. Also avoid the interest only loans, these loans keep your payments low for the first two

years but as it matures you have to pay the full amount you could be in danger of losing your house if you cannot afford the payment.

## **Chapter 4: Using Credit Wisely**

Now that you have established your credit you need to make sure that you use it wisely. Often people who are just starting out don't understand the full power of the credit they have obtained. The use of credit cards can be an easy way to find yourself in trouble and in more debt than you can imagine. Be diligent in making sure you limit the amount of credit you use, monitoring your credit and avoiding the credit trap. Just because you are offered the credit doesn't mean you have to use it. Over using your credit could cost you points on your credit score.

Earlier I mentioned that a good rule of thumb is to never go above 30% on a particular card. I would recommend that if you have multiple cards you don't go above 30% of your entire credit available to you. There are many ways you can use your credit wisely and make sure that you avoid the pitfalls of credit overuse.

### **Credit Card Use:**

1. Restrict the number of cards you get. Don't have more than two major credit cards.
2. Limit your purchases. When you are shopping ask yourself a couple of questions before you buy it.
  - a. Is this something I need?
  - b. Do I need it now?
  - c. Can I repay the charge?
  - d. How long will it take me to repay?

- e. How much will it ultimately cost me? (if something is on sale today will the item still be considered a bargain if it a couple of months of interest have been added into the cost of the item)<sup>10</sup>.
3. Make sure that monthly debt payments do not exceed 20% of your monthly net income.
4. Shop around for credit cards with low rates, low fees and reasonable grace periods before finance charges begin.
5. In order to avoid interest fees, pay the entire balance when it's due. If you can't do this, take a moment to review your spending habits and make cuts on unnecessary purchases.
6. Pay your bill as soon as you get it and if you can't pay the entire balance, pay more than the minimum payment.
7. Treat credit purchases as if they come out of your bank account. Mark them down in your banking information and subtract it from your funds. This will ensure that you can pay the balance at the end of the billing cycle.
8. Be careful on where you leave your credit card receipts and never lend a friend your card.
9. Think ahead! Be proactive, not reactive about your finances.
10. Keep a list of credit card account numbers and phone numbers in a safe place in case a card is lost or stolen. Report the lost or stolen card as soon as you notice it is missing.

Use the form below to list your credit cards and the contact information and keep it in a safe place.

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<sup>10</sup> Most people overlook this. If it is on sale they make sure they have to have it now, not realizing that with interest and such they didn't get a bargain.



## Evaluating your credit cards

If you already have credit cards I would suggest that you evaluate them to make sure you are using them wisely and they are cards worth keeping. It doesn't take long to evaluate your cards, but it could end up saving you money in the long run. Follow these easy steps.

1. Review your spending and payment history.
  - a. Do you pay your debt down each month?
  - b. Do you have a continual balance?
  - c. What are the fees being charged each month?
  - d. How long will it take me to pay down the balance?
  - e. Do I pay more than the minimum balance?
2. Review the terms on your credit card.
  - a. Did your terms change?
  - b. Are there cards that you can get with better terms?
3. Shop around for cards that offer good rates. If you find a card with better rates, call your current credit card company. Sometimes the credit card company will offer you better rates that may match or beat what the new card is so you don't transfer your balance to a different provider. Negotiate with them, if they don't want to negotiate then switch to the better credit card and move your balance.

Once you have reviewed your spending and payment history, evaluate the information you have found. If you found that you can't pay your debt down each month, I recommend you do the following:

1. Don't make any new charges until you have it paid down.<sup>11</sup>
2. Pay more than the minimum each month; in fact if you can, try and pay 1/3 of the balance until it is an amount that you can pay off each month.

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<sup>11</sup> It is important to show that you can manage your credit each month. So paying down your debt might halt your growth during this time but in the long run you will be better off.

If your fees are high it is especially important that you pay down your balance and shop around. You may have trouble finding another card provider if your balances are high and your spending history leans towards that. Check your credit report before you start to shop around and make sure your information is accurate. If there are inaccuracies talk to the company that reported it first. If that doesn't work then write a letter to the credit reporting agency explain why the information is inaccurate and provide any proof of the invalidity of the bill if you have it. They will investigate and write the company that reported it, if they do not respond within 30 days check back as it has to be removed from your credit report.

It is especially important to always remember that when you use credit you are really borrowing against projected income. If you are worried about layoffs in your company I would advise that you avoid acquiring new debt. If you are having a hard time paying your current level of debt and normal household bills I would recommend that you don't get into any new debt. The only time I would recommend new debt is if you are consolidating old debt to reduce your payments, the terms are better and if you do not begin the old spending habits which caused the problem in the first place. If you are a disciplined person and can manage your debt effectively then consolidate if the rates are better.

### **Home loans and credit use:**

Most people have the dream of owning their own home. This dream is one that we work towards and some will do almost anything to get that first loan. Owning a home is not a bad financial risk but there are pitfalls to home ownership and finding the right mortgage that you should be aware of. In 2008 we saw the rise of home foreclosures at a rate higher than even in the great depression. Most people are quick to blame the economy, job losses and such for this fast rate of foreclosure, but there is even a more sinister cause to this problem, it is called bad loans. In late 2008 and early 2009 the Federal government stepped in to help financial giants and home loan companies like Fannie Mae and Freddie Mac because the bad loans were causing their downfall. The goal was to help save the company, but more importantly to keep people in their homes.

There were questionable loan practices going on, but even more so if people were educated about the type of loan they were getting themselves into the lenders would not have been able to get so many bad home loans out there. Now I am referring to those interest rate only loans, ARM loans and other loans that really should never have been issued to a segment of people because their income didn't warrant such a high loan amount. I am for home ownership, but you must know what you are getting yourself into before you tie yourself to a 30 year mortgage.

My recommendations for obtaining a home loan is to go over in detail with your mortgage broker each aspect of your loan. You don't want surprises and you certainly don't want to experience an issue such as this example:

A person that I know obtained a modest size home loan for 185,000. The rule of thumb is to normally award a home loan for 3x the income level a person has. The mortgage broker helped *fix* some of their income so that they could qualify for the home loan. Their income at the time was about 45,000.00 per year. This couple also had questionable credit to top it off. They didn't understand the terms in their loan but they were getting the house they wanted, and in the market in the area they lived it wasn't overpriced. But they should never have been offered the home loan for the following reasons:

1. Their income level should have only allowed them to get a loan for about 120,000.00.
2. Their house payments made their debt to income ratio 75% to the home 25% to live off of.
3. Their credit should have barred them from any type of loan.

Needless to say their house payment started off at 1200.00 per month. It was a struggle but they managed to make it. Then their ARM kicked in and their house payments kept rising first to \$1500.00 then to \$1800.00 per month. One of them lost their job so they are only living off of one income. They can't get into a re-finance loaned because although they have made their house payment some of their other bills have been late, so you guessed it their credit is shot.

I think home ownership is important but before you buy a home you must realize that you need to be in a position where you can afford the home and all the costs associated with it. These people were not knowledgeable about buying a home, it was their life's goal and if they can hang on they will have met that dream but at a cost of living that is stressful. To get the best home loan you can, make sure your credit will show you in the best possible light. Work to ensure that you get the best rates, because over time you will be paying far more than the home is worth. You won't have any money to enjoy your life.

### **Keeping up with the Joneses**

Have you ever heard of the saying keeping up with the Joneses? Well in American culture it seems many of us have this driving need to have the biggest and best and to compete with our next door neighbors. This can lead to problems especially when the consumer really can't afford the items they are purchasing. I have been guilty of asking myself how someone can afford the newest car, a boat, the house, the travel trailer and 4 wheelers when I knew that their income wasn't much better than mine. I questioned myself, am I using my money right? I certainly can't afford that stuff. After much learning, I realized that it wasn't that I couldn't afford it; I just refused to get myself in so much debt that I would be paying off these types of toys for years.

This ideal of keeping up with your neighbor, family members or others to look good or to simply have the biggest, baddest toy can cause a lot of problems for you down the road. So ask yourself the questions previously mentioned about using credit wisely and scale back. I am not saying don't buy those things because they can be fun to use. We are guilty of having our toys too, but usually we save up and have 50% down before we buy those items and make extra payments to ensure that we pay it off quickly.

To me keeping up with the Joneses is much the same as saying if I look successful people will think that I am. Sometimes this attitude works, but too many times I have seen it backfire too. There is a company that I know about whose financial well being is now at risk because looking good and making an impression gave way to fiscally responsible behavior. The dream they had was if they moved to the nicest building in the city, had the biggest furniture, bragging

rights to all they owned (or furniture they bought on credit and a lease that potentially could break them) their business would improve. Soon after they went on their spending spree, they lost their biggest client. In short, they got into debt based on their future income, now they are struggling. But even with that lesson, and the fact that they had layoff their employees in order to just survive, they still work on the basis that if they look successful they will be successful. When the reality is, now that they have this large debt, they should focus on taking care of their customers and focusing on the quality of the services provide, something that allowed them to grow in the first place. My point is, that, even if you learn the hard way to use your credit wisely, make sure that you truly learn the lesson and avoid the pitfalls again. Whether in business or on a personal level, appearance shouldn't replace your desire to use credit wisely and this is definitely a trap you must avoid.

## **Chapter 5: Effectively managing credit and debt**

Several times in each chapter I have talked about the importance of managing your credit and using it wisely. This chapter will review the techniques you need to do in order to effectively manage your credit and debt. Whether you are just starting out by building your credit or you have already established your credit, this chapter can save you money and make sure that you don't fall into the credit trap or you establish a plan to climb your way out of the trap. In order to effectively manage your credit and debt there are some things that you need to do in preparation for this activity.

### **Set your budgetary goals:**

I recommend that you develop long term and short term goals. Your goals can range from the simple to the complex, it doesn't matter, remember they are your goals. Make your goals realistic and make sure that you can identify steps that you need to do in order to achieve that goal. You don't want to make your goals so general that you have no way to measure them, for example: I want to become a millionaire in 6 months. While this goal is specific, it really isn't realistic or attainable. When making your goals I recommend that you set S.M.A.R.T goals.

The first step you need to do is sit down and write out your budgetary goals<sup>12</sup>. Below is a worksheet that you can print off to do this step: Just double click on it and a PDF document will open up.

## **S.M.A.R.T Goals**

Goal: \_\_\_\_\_

Specific: *Who and What?*

Measurable: *How will I know when it is accomplished?*

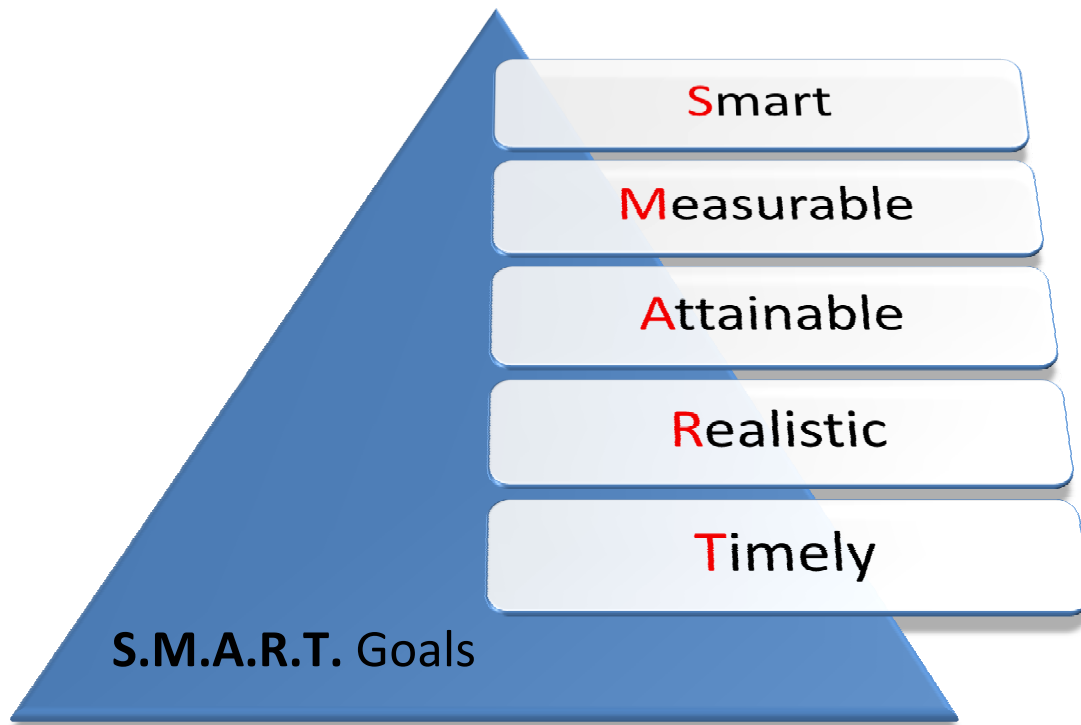
Attainable: *How do I go about making happen?*

Realistic: *Is it do-able?*

Timely: *How long will it take?*

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<sup>12</sup> S.M.A.R.T principles can be applied to setting other goals as well. For the purpose of our discussion we are going to use them in relation to budget.



**Specific** - A specific goal has a much greater chance of being accomplished than a general goal.

To set a specific goal you must answer the six "W" questions:

\*Who: Who is involved?

\*What: What do I want to accomplish?

\*Where: Identify a location.

\*When: Establish a time frame.

\*Which: Identify requirements and constraints.

\*Why: Specific reasons, purpose or benefits of accomplishing the goal.

**EXAMPLE:** A general goal would be, "Create my budget." But a specific goal would say, "Create my budget and review it each week."

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**Measurable** - Establish concrete criteria for measuring progress toward the attainment of each goal you set. When you measure your progress, you stay on track, reach your target dates, and experience the exhilaration of achievement that spurs you on to continued effort required to reach your goal.

To determine if your goal is measurable, ask questions such as.....How much? How many? How will I know when it is accomplished?

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**Attainable** - When you identify goals that are most important to you, you begin to figure out ways you can make them come true. You develop the attitudes, abilities, skills, and financial capacity to reach them. You begin seeing previously overlooked opportunities to bring yourself closer to the achievement of your goals.

You can attain most any goal you set when you plan your steps wisely and establish a time frame that allows you to carry out those steps. Goals that may have seemed far away and out of reach eventually move closer and become attainable, not because your goals shrink, but because you grow and expand to match them. When you list your goals you build your self-image. You see yourself as worthy of these goals, and develop the traits and personality that allow you to possess them.

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**Realistic** - To be realistic, a goal must represent an objective toward which you are both *willing* and *able* to work. A goal can be both high and realistic; you are the only one who can decide just how high your goal should be. But be sure that every goal represents substantial progress. A high goal is frequently easier to reach than a low one because a low goal exerts low motivational force. Some of the hardest jobs you ever accomplished actually seem easy simply because they were a labor of love.

Your goal is probably realistic if you truly *believe* that it can be accomplished. Additional ways to know if your goal is realistic is to determine if you have accomplished anything similar in the past or ask yourself what conditions would have to exist to accomplish this goal.

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**Timely** - A goal should be grounded within a time frame. With no time frame tied to it there's no sense of urgency.

### Review your budget.

Now that you have set your goals and you created your budget you need to review it. This is especially important if you are having money troubles. Remember if you don't pay your bills as they go in you should take this step seriously. Are there ways to cut your budget? Review each item and determine the need for it, if it is needed is there a cheaper alternative? Review each of your bills and ask yourself if you are getting the best deal for the product or service you are buying. Just as you made sure that your credit cards had the best rate, make sure your other services offer them as well. These items are things like:

1. Insurance
  - a. Auto
  - b. Home
  - c. Life
2. Mortgage
3. Bank fees and rates
4. Retirement accounts

As a consumer you want to make sure you are getting the best value for the money you are spending. Ultimately there are many ways to make sure your budget is right for you evaluate your spending habits and make sure you are using your money wisely.

## Evaluate your Debt.

Now that you have reviewed your budget it is time for you to evaluate your debt. You need to understand how much debt you have and what your debt to income ratio is. The debt to income ratio is another tool that creditors use in evaluating your credit worthiness, so it is important that you understand it. For example: In order to qualify for a mortgage for which the lender requires a debt-to-income ratio of 28/36:

- Yearly Gross Income = \$45,000 / Divided by 12 = \$3,750 per month income.
  - \$3,750 Monthly Income x .28 = \$1,050 allowed for housing expense.
  - \$3,750 Monthly Income x .36 = \$1,350 allowed for housing expense plus recurring debt.

To evaluate your debt-to-income ratio follow these simple instructions.

**Step 1** ➤ Add up your total net monthly income. This includes your monthly wages and any overtime, commissions or bonuses that are guaranteed; plus alimony payment received, if applicable. If your income varies, figure the monthly average for the past two years. Include any monies earned from rentals or any other additional income.

**Step 2** ➤ Add up your monthly debt obligations. This includes all of your credit card bills, loan and mortgage payments. Make sure to include your monthly rent payments if you rent.

**Step 3** ➤ Divide your total monthly debt obligations by your total monthly income. This is your total debt-to-income ratio.

**Step 4** ➤ Take action if your ratio is higher than 0.36, which industry professionals would call a score of 36. The lower your debt to income ratio, the better. Any score higher than 36 may cause an increase in the interest rate or the down payment on a loan you apply for.

Tips:

- When you tally your total monthly debts, use the minimum payment on your statements.

- When calculating your income, a lender will only consider money from a job that you've been at for at least two years.
- Unreported earned income cannot be used in the calculation.

### **Good and Bad Numbers**

Your debt-to-income ratio tells you a lot about the state of your financial health. Lower numbers are indicative of a better scenario because less debt is generally viewed as a good thing. After all, if you don't have debts to service, you will have more money for other things. From exotic vacations to saving for retirement, most people can think of a million ways to spend a few extra dollars. Unfortunately, a high debt-to-income ratio often means that there aren't many extra dollars left at the end of the month.

So, what is a good ratio? Traditional lenders generally prefer a 36% debt-to-income ratio, with no more than 28% of that debt dedicated toward servicing the mortgage on your house. A debt-to-income ratio of 37-40% is often viewed as an upper limit, although some lenders will permit ratios in that range or higher. Although they are willing to give you the loan, that doesn't mean that you should take it.

Keep in mind that an increasing number of people are in the 41-49% range, a zone where financial trouble is imminent. Nearly all experts agree that a debt-to-income ratio above 50% is living dangerously. For many people, the best ratio is as close to 0% as possible, a number that represents debt-free living. While everyone has bills to pay and most of us have at least some recurring debt, unless your income source is unlimited and guaranteed, a lower debt-to-income ratio is almost always better than a higher ratio.

### **Conclusion**

Keep in mind that the more you add in debts, either housing or recurring debts, the higher your ratio will be. The higher your ratio, the more likely you are to be in financial danger. To make sure you're on the path to financial freedom, you can calculate this ratio each quarter to keep your finances moving in the right direction.

## Chapter 6: Repairing Bad Credit

This section is for those people who have had credit stumbles along the way. It is important to remember that just because you experience bad credit does not mean you are a bad person. In dealing with people with bad credit, a large majority of people have internalize their credit issues and feel overwhelmed at times or feel like they have failed. Even if you have credit problems there is no reason to internalize these feelings. You need to think about what led you into the problems and analyze whether they could have been prevented. Once you have done this make sure you learn from the past and where possible avoid the same mistakes.

If you are feeling overwhelmed that is to be expected, but you can't allow those feelings to be in control. Take charge of your finances and rule them, don't let it be the other way around. Use these easy steps to start fixing your credit.

- ☀ Get a copy of your credit report.
- ☀ Review you report and identify anything that isn't correct.
- ☀ Write a letter to the company that has listed incorrect information. If they don't respond within 30 days, write to the credit agency to report the error.
- ☀ Look at the rest of your debts. Start with the most recent bills and work your way back. Your goal should be to take care of your debt, don't claim bankruptcy. Most companies will work with you as they would rather see some money than none. Focus first on the last 3 years and get them all cleared up first. All your bills affect your credit but these are the ones creditors pay attention first.
- ☀ Look at the inquiries. If you didn't request an inquiry you can write to the credit agency and let them know these were unauthorized. After an investigation the CRAs will remove them and this will help increase your credit score.
- ☀ Look at the bills that you have paid off. Sometimes if you write these creditors they will remove the negative items from your account if it has been paid off. This will help your credit score.

- ☀ Above all – Do not apply for credit or add more credit until your other debt is current and paid down. Make sure you check your debt-to-income ratio as we discussed earlier in this guide and never get more debts if you are at 36% debt-to-income ratio.

This is not a quick fix to your credit and it isn't meant to be. But this is a lasting effect to your credit designed to restore your credit, but also to get you out of debt. You can hold your head high knowing that you and you alone got yourself out of the credit trap. You can teach others how to do it and spread the word.

**Warning:** There is no legal way to remove your bad debt in a day or less. If you are told that someone can do this for a fee, be very skeptical. This process will take time and if you follow the principles we have talked about in 6 months to a year your credit score will improve dramatically. You don't have to open yourself up and show others what you have done; you can keep this information to yourself and rely on yourself to clean up your credit.

## **Chapter 7: Raising Fiscally Responsible Adults:**

Since the credit crisis of 2008 and beyond we have been bombarded with warnings to live within our means. It is up to the people to make sure they aren't overspending. I agree with this warning but also I think this needs to apply to more than just the people. We have to start setting examples for our youth. If we don't do this then we will have another generation of fiscal irresponsibility. The world leaders, the business leaders and parents need to set examples to our younger population. Ultimately however it is up to the parents to instill in their children fiscally responsible behavior.

As I said earlier, I hear parent complain that these principles aren't taught in school. But again I have to stress, if our schools aren't teaching it, our government isn't practice it where else will our youth learn it? It is from the parents. A child can begin to learn at an early age the value of money, spending and saving. They may not have all the principles down, but they will be well on their way to fiscally responsible behavior. Now teaching your child how to be responsible requires you to do more than just set up a savings program with them. It will also

require you to teach them how to be frugal when it is required, how to invest wisely, how to manage credit too.

I recommend to every parent that if your child wants a big ticket item, i.e. a computer, PS3, X-Box, car that they are required to work and pay for at minimum half of that item. Now they don't have to get a job out of the home or anything if they are too young, however you can assign them an hourly wage to do chores normally outside of their normal duties. This concept teaches the child how to work for their money and they tend to value their money more. Also when a child helps to contribute to their high ticket item they are more likely to take better care of it.

## **Learning the Value of Money**

### **5-10 years Old**

Young children love to collect and save pennies. They rarely learn to understand their value until they get toward the older end of this age range. To help them out, families can talk about the family's budget together. This doesn't mean worrying children about the bills or making them feel guilty for costing you so much. What it does mean is explaining that there is a certain amount of money that comes into the household and that there are some expenses, such as food, utilities and clothing that must be paid for from that money.

There is also a set amount (you don't need to say how much) that must be saved for emergencies and future expenses. By setting up a "family piggy bank" you can illustrate what it is to save for something fun for the whole family.

Children who get an allowance should have it explained to them what they will be required to use it for. You can teach children to always put 10% of their allowance in savings, another amount toward a charity, and then the rest is for their spending. Let the children see when they earn interest on their bank accounts too.

## **11-15 Years Old**

Children in this age group may have more opportunities to earn some money. If they are asked to feed the neighbor's cat and earn \$10, teach them again to put a percentage away into savings. This is also a good age to take the child to the bank and open their own savings account.

If the habit of putting money into savings each time they are paid is established early then it will be more likely to become a lifelong way of managing money. Allowances may or may not be tied into chores, but it is important that children this age understand the importance of "earning" their incomes just like Mom and Dad do. The allowance can also be approached as their share of the family's income. Again it should be explained what they must buy for themselves from this income – music CDs, movie tickets, extra unnecessary clothing, etc.

## **16 and Older**

Many teens have part-time jobs and can really understand what it means to earn a living. They will also be introduced to the concept of paying taxes. This is a good time to teach them to manage a checking account and ATM card. They can also be taught to plan ahead for major expenses such as their first car or education. Teens can become more responsible for buying some of their own clothes and other necessities. It will help them appreciate how much things cost and perhaps take better care of their belongings.

No matter the age of your children, they can be part of a family meeting to decide how some of the discretionary income is to be spent. Having a part in the decision making will help them understand the value of money and that there are often limits on spending so some purchases must be deferred.

## **Job Ideas for Kids**

### **BABY SITTER**

If you child likes younger kids, then a baby sitter is a popular choice. Parents often need a good and reliable baby sitter to watch their kids. This position can be even expanded into a

babysitting service, by joining together a group of people who can offer babysitting services to all the parents in the neighborhood.

### **PARENTS HELPER**

A parent's helper is similar to a baby sitter. However, if your child is too young to baby sit on their own, then a job helping parents is a good opportunity. They can help watch someone's kids, assist with the feeding, playing, or doing chores around the house. Later, once your child is older, they would likely have gained some references for regular babysitting work.

### **HOUSE CLEANING**

Instead of a parents helper, your child could simply do house cleaning. There are many chores that would be suitable such as vacuuming, dusting, etc.

### **LEMONADE STAND**

Everyone is familiar with the old fashioned lemonade stand. Of course, this is a seasonal business, depending on your location. During other times of the year, it could be a warm apple cider business -- but be careful if your child needs to handle hot items. Also try selling coffee, donuts, snack bags, or other food items. If possible, set up a booth at a local community fair, or sale if allowed.

In addition to food, there is the possibility of selling other types of items. Is your child good at crafts? Then have them make their own artwork to sell. Sometimes, a combination of food and items makes a good business.

### **CAR WASHING**

Car washing is a needed service in many communities. Have your child get together with a few friends to offer to wash local cars. As an addition to this business, they can sell items mentioned in the lemonade stand section above while people wait for their car to be washed. See what other professional car washes charge in your area, and price the services competitively.

## **ANIMAL CARETAKER**

If your child enjoys animals, then try an animal caretaker business. This might involve walking dogs, dog washing, or general grooming.

## **HOUSE AND PET SITTING**

If a neighbor is taking a trip or vacation, then taking care of their house and/or pets may be an opportunity. This may include watering plants, and any other chores they may need.

## **LANDSCAPING**

Cutting grass, weeding, trimming, planting flowers, and other landscaping jobs are abundant. Scan the neighborhood for homes that need landscaping services. In the spring, offer to plant flowers, or do winter clean-up.

## **SNOW REMOVAL**

In the winter time, many people need to have their driveways or sidewalks shoveled. This job works best when a group of kids can work together shoveling several houses. Create a business, and make arrangements to shovel people's houses before the snow storm.

## **ADDITIONAL IDEAS**

- Ask what kids can do in their own home, such as writing little stories that they can sell to their family and friends.
- Kids can create their own jewelry to sell, or decorate interesting rocks.
- Raking leaves.

## **TIPS FOR RUNNING THE BUSINESS**

For many of these jobs, have your child print and hand out flyers to be distributed in the neighborhood. As the business grows, references or work previously done could be quoted.

Giving out free samples is always a good way to attract business. For services, offer coupons for new potential customers.

## **SAFETY AND OTHER POINTS**

Most important for any of these jobs, is making sure your child is safe, so make sure they are old enough to follow these important safety guidelines:

- ☀ Make sure you always know where they are.
- ☀ Avoid going door to door by themselves.
- ☀ Recommend that they do jobs that they like to do. Be sure they are mentally prepared and committed to do the work they need to do and promise to do.
- ☀ If there is a cost in setting up the business, make sure they have enough money and know where the money is going to come from.
- ☀ All these jobs should not interfere with normal school work or completing homework for school.
- ☀ Help them set fair prices for the work they are doing.
- ☀ Tell them to come to you for advice if they need it.

## **Chapter 8: Tools**

This section is dedicated to the tools that you will need in order to manage your budget, watch your credit report, write letters to the credit agencies and more.



Credit Tracking: [Access Credit Capital](#)



This membership program on the web will allow you to do the following:

1. Monitor your credit scores
2. Update your credit scores and watch your averages
3. Track your letters to creditors and CRAS
4. Generate a letter to all credit agencies and the creditor with one click of the button.
5. Learn about debt management.
6. Learn how to get business credit.
7. Learn how to get funding for you business
8. Apply for credit cards to suit your needs

This site is constantly updating and growing. To check it out [click here!](#) I know the owners of this are planning on adding a budget center, a knowledgebase and a business opportunity area.

## Cease Contact Letters for Creditors

There are two kinds of creditors:

1. Your Original Creditors -- this is the party you originally borrowed money from or owe money to
2. A Collection Agency -- this is third party that bought your debt from the original creditor or was hired by the original creditor to collect the debt.

Creditors and Collection Agencies have to follow certain laws.

Your original creditor, by law, CANNOT:

1. contact you early in the morning or late at night.
2. contact you at work, especially if you write a letter asking them to stop. (HRS §480-D)

Collection agencies, by law, CANNOT:

1. contact you early in the morning or late at night;
2. contact you at work, especially if you write a letter asking them to stop;
3. contact you at all, IF you write a letter asking them to stop contact you. (15 USCA §1692)

There are three sample "Cease Contact" letters for you to follow:

1. The "Don't Contact Me At Work" letter can be used for both creditors and collection agencies.
2. There is a cease contact letter to creditors and a cease contact letter to collection agencies that you can also use. Remember, collection agencies must stop contacting you once they receive your letter, BUT your original creditors do not have to stop.

Mail the letters "Certified Mail with a Return Receipt Requested." When you mail like this, the postal worker will have the creditor/collection agency sign for the letter to receive it and you will get a receipt back with a signature. This will be your proof that the creditor/collection agency received your letter.

If you receive any correspondence from collection agencies after you mail the cease contact letter, call

Legal Aid. We may be able to help you.

**SAMPLE LETTER TO CREDITOR THAT IS NOT A COLLECTION**

**AGENCY**

\_\_(Put your address here)\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_(Date)\_\_\_\_\_

(Put name and address of creditor here)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Re: (Put your account # here)\_\_\_\_\_

Dear Sir/Madam:

I am writing to you to request that you stop communications to me about my account  
with \_\_\_\_\_(put creditor's name here)\_\_\_\_\_

\_\_\_\_\_  
(IF YOU WANT, INSERT PERSONAL INFORMATION HERE.)

\_\_\_\_\_  
Your cooperation and understanding will be appreciated.

Sincerely,

(Sign your name)

(Type or print your name legibly here)

**SAMPLE LETTER FOR USE WITH COLLECTION AGENCIES**

**(NOT CREDITORS)**

\_\_\_\_\_(Put your address here)\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_(Date)\_\_\_\_\_

\_\_\_\_\_(Put name and address of \_\_\_\_

\_\_ collection agency here)\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Re: \_(Put your account # here)\_\_\_\_

Dear Sir/Madam:

I am writing to you to request that you stop communications to me about my account with \_\_\_\_\_(put agency's name here)\_\_\_\_\_ -

The Fair Debt Collection Practices Act, 15 U.S.C.A. Section 1692 requires that you honor my request.

\_\_\_\_\_  
(IF YOU WANT, INSERT PERSONAL INFORMATION HERE.)

\_\_\_\_\_  
Your cooperation and understanding will be appreciated.

Sincerely,

(sign your name)

(Type or print your name legibly here)

**SAMPLE LETTER TO CREDITORS AND COLLECTION AGENCIES**

**DON'T CONTACT ME AT WORK**

CERTIFIED MAIL

RETURN RECEIPT REQUESTED

\_\_(Put your address here)\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_(Date)\_\_\_\_\_

\_\_(Put name and address of \_\_\_\_\_  
\_\_ creditor here)\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Re: \_\_ (Put your account # here)

Dear Sir/Madam:

I am writing to you to request that you stop communications to me at my place of work. My employer does not permit personal phone calls. Therefore, I will consider any further calls to my place of work to be harassment.

The Fair Debt Collection Practices Act, 15 U.S.C.A. Section 1692, the Hawai'i Revised Statutes Section 443-B, and/or Hawai'i Revised Statutes Section 480-D, require that you honor my request.

Your cooperation and understanding will be appreciated.

Sincerely,

(sign your name)

(print your name)

## Sample Debt Verification Letter (Strong)

Collection Agency Name

Address

CITY/Town, STATE ZIPCODE

Re: Acct Ref. # XXXXX and XXXXX

To Whom It May Concern:

This letter is being sent to you in response to a notice a couple entries by your company on my credit reports. Be advised that this is not a refusal to pay, but a notice sent pursuant to the Fair Debt Collection Practices Act, 15 USC 1692g Sec. 809 (b) that your claim is disputed and validation is requested.

This is NOT a request for verification or proof of my mailing address, but a request for VALIDATION made pursuant to the above named Title and Section. I respectfully request that your offices provide me with competent evidence that I have any legal obligation to pay you

- What do I need you to provide as the debt validation.
- What the money you say I owe is for
- Explain and show me how you calculated what you say I owe
- Provide me with copies of any papers that show I agreed to pay what you say I owe
- Provide a verification or copy of any judgment if applicable
- Identify the original creditor
- Prove the Statute of Limitations has not expired on this account
- Show me that you are licensed to collect in my state
- Provide me with your license numbers and Registered Agent
- Proof that the collection company owns the debt/or has been assigned the debt. (You are legally entitled to collect this particular debt from me.) This is basic contract law.
- Complete payment history, starting with the original creditor. (I need to have proof of my payment history with original Creditor, what the amount of the debt was when the creditor assigned the debt to your company, and what fees/interest has been tacked on to this debt and how you/they determined these fees.) This requirement was established by the case Fields v.

Wilber Law Firm, Donald L. Wilber and Kenneth Wilber, USCA-02-C-0072, 7th Circuit Court, Sept 2004..

- Copy of the original signed loan agreement or credit card application. (My contract with the original creditor establishing the debt between us.) This is also basic contract law.

At this time I will also inform you that if your offices have reported invalidated information to any of the 3 major Credit Bureau (Equifax, Experian or TransUnion) this action might constitute fraud under both Federal and State Laws. Due to this fact, if any negative mark is found on any of my credit reports by your company or the company that you represent

I will not hesitate in bringing legal action against you for the following:

Violation of the Fair Credit Reporting Act

Violation of the Fair Debt Collection Practices Act

Defamation of Character

If your offices are able to provide the proper documentation as requested in the following Declaration, I will require at least 30 days investigating this information and during such time all collection activity must cease and desist.

Also during this validation period, if any action is taken which could be considered detrimental to any of my credit reports, I will consult with my legal counsel for suit. This includes any listing any information to a credit reporting repository that could be inaccurate or invalidated or verifying an account as accurate when in fact there is no provided proof that it is. If your offices fail to respond to this validation request within 30 days from the date of your receipt, all references to this account must be deleted and completely removed from my credit file and a copy of such deletion request shall be sent to me immediately.

I would also like to request, in writing, that no telephone contact be made by your offices to my home or to my place of employment. If your offices attempt telephone communication with me, including but not limited to computer generated calls and calls or correspondence sent to or with any third parties, it will be considered harassment and I will have no choice but to file suit. All future communications with me MUST be done in writing and sent to the address noted in this letter by USPS.

It would be advisable that you assure that your records are in order before I am forced to take legal action. This is an attempt to correct your records; any information obtained shall be used for that purpose.

Please read the enclosure for an opinion regarding matters such as these from the Federal Trade Commission

Best Regards,

Your Name Here.

## Medical Hardship Letter

If you have medical bills you can't afford to pay, you should write hardship letter to the hospital and/or your medical provider, and do it before you are sent to collection agency. Trying to explain the situation shows your good faith and desire to satisfy your bills. Hospitals and medical professionals are very likely to meet you half way, instead of trying to collect through the third party. So writing a short and right to the point medical bills hardship letter is certainly worth while, as long as you intend to pay. Send it by registered mail with return receipt required. Here is the sample.

*Date {MM/DD/YYYY}*

*Hospital/Provider*

*Hospital/Provider Billing Department address*

*Your name*

*Your address*

*Your Social Security #*

*RE: Date(s) in the hospital or of medical procedure {MM/DD/YYYY}*

*Dear Sir or Madam,*

*This is the medical hardship letter to state my inability to pay the bill for amount of \$\$\$\$ for the procedure performed on the {MM/DD/YYYY} (or my hospital stay from {MM/DD/YYYY} to {MM/DD/YYYY}). Please understand that this is neither a refusal to pay nor a dispute of the charges, but simply an explanation of my financial situation.*

*My current income is just enough to cover basic necessities, and by paying your charges at once as required, would lead to a serious financial hardship for my family and myself. With that said, I want to pay for the medical services performed and my stay in the hospital. I would like to propose paying you the entire amount in monthly installments for the next 12 months (or you can suggest to pay 50% of the bill at once). I am truly hoping for your favorable response.*

*Thank You for your understanding*

*Your signature*

*Your printed name*

## Dispute Letter Sample #1

Date

Your Name

Your Address

Your City, State, Zip Code

Complaint Department

Name of Credit Reporting Agency

Their Street Address

City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are encircled on the attached copy of the report I received.

This item (identify the specific items disputed by name, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your full legal name

Enclosures: (List what you are enclosing)

## Dispute Letter Sample #2

*Enter Your Name Here*

*Enter Your Address Here*

*Enter Your City, State, Zip Here*

*Enter Today's Date Here*

VIA Certified Mail

Return Receipt Requested

*Enter Credit Reporting Agency's Name Here*

*Enter Credit Reporting Agency's Address Here*

*Enter Credit Reporting Agency's City, State and Zip Here*

Re: Complaint Letter to Delete Inaccurate Information

Dear Sir or Madam:

I formally request that the following inaccurate items be immediately investigated. They must be removed in order to show my true credit history, as these items should not be in my report. By the provisions of 15USC section 1681i of the Fair Credit Reporting Act, I demand these items be reverified and deleted from my record.

<u>Item No.</u>	<u>Company Name</u>	<u>Account Number</u>	<u>Comments</u>
-----------------	---------------------	-----------------------	-----------------

Since 30 days from the receipt of this letter is your allotted time under the law to reverify these entries, it should be understood that failure to do so within that 30 day period constitutes reason to promptly delete the information from my file (FCRA 15 USC s1681i (5)(A) ).

Also, pursuant to 15 USC s1681i (6)(A) of the Fair Credit Reporting Act, please notify me when the items have been deleted. You may send me an updated copy of my credit report to the above address. According to the provisions of 15 USC section 1681j, there should be no charge for this notification. Also, please send me names and addresses of individuals you contacted so I may follow up.

Enclosed please find a copy of my driver's license, a billing statement or utility bill with my current address clearly stated.

Yours truly,

*Sign Your Name Here*

## Late Payment Letter Sample

*Enter Your Name Here*

*Enter Your Address Here*

*Enter Your City, State, Zip Here*

*Enter Today's Date Here*

VIA Certified Mail

Return Receipt Requested

*Enter Credit Reporting Agency's Name Here*

*Enter Credit Reporting Agency's Address Here*

*Enter Credit Reporting Agency's City, State and Zip Here*

Re: Explanation For Delinquent Payment

Dear Sir or Madam:

It has recently come to my attention that several of my payments to your account have been labeled "late" on my credit report.

They were missed due to:

I have been prompt in paying in the past, and since the late payments occurred for the above excusable reason, please correct the payment history for my account at the following credit bureaus, which carry your account histories:

It is important that my credit report reflect the good relations I have had with your company in the past. The corrections in the credit report will make it more representative of my financial habits.

I appreciate your assistance.

Yours truly,

*Sign Your Name Here*

## Creditor Settlement Agreement

*Enter Your Name Here*

*Enter Your Address Here*

*Enter Your City, State, Zip Here*

*Enter Today's Date Here*

VIA Certified Mail

Return Receipt Requested

*Enter Credit Reporting Agency's Name Here*

*Enter Credit Reporting Agency's Address Here*

*Enter Credit Reporting Agency's City, State and Zip Here*

Re: Creditor Settlement Agreement

Dear Sir or Madam:

I am writing to confirm our agreement regarding the settlement of a debt that I previously owed to your company. The terms we agreed upon were:

- 1) "I", \_\_\_\_\_, agree to pay \_\_\_\_\_ ("You"), the amount of \$ \_\_\_\_\_ in full satisfaction of all the amounts that I previously owe to You, and You agree to accept this amount in full satisfaction of all amounts that I previously owed you.
- 2) I agree to pay the above amount in \_\_\_\_\_ monthly installments of \$ \_\_\_\_\_, without interest. The first payment to begin on \_\_\_\_\_ and each remaining payment on the \_\_\_\_\_ day of each following month. I will mail these payments to your office located at:

- 3) If I do not pay the full amount of each payment when it is due, I will be in default. If I am in default, You may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the entire unpaid balance will be due within 30 days after the date on which the notice is delivered or mailed to me.
- 4) Upon discharging this debt, you agree to notify each credit-reporting bureau to which You report credit information that any adverse credit information regarding my account with You is no longer verifiable and should be deleted from my credit report.

If you agree to the foregoing terms and conditions, please sign the Agreement and the enclosed copy in the places provided, and return the documents to me at the above address.

Yours truly,

Accepted and Agree:

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

*Sign Your Name Here*