

PERSONAL FINANCIAL MANAGEMENT PROGRAM

STANDARDIZED CURRICULUM

CHAPTER 7: **Credit and Debt Management**



INTRODUCTION

Credit and Debt Management is a 75-minute program to help educate Marines and their families about effective techniques and behavior necessary to establish and maintain good credit and avoid excessive debt.

LEARNING OBJECTIVES

Upon completion of this course, learners should be able to:

- Identify the specific behavior necessary to establish credit.
- Describe how to maintain good credit.
- Describe actions that will reduce the cost of credit.
- Calculate a debt-to-income ratio.
- Determine a safe debt load, based on income.

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PREPARATION AND PROCEDURES

Optional Activity with Handout:

“Credit — You Got It!”: Fifteen questions providing a means to review the content after presentation.

Additional Handouts:

- “Credit Reports”
- “Choosing Credit Cards”
- “Debt-to-Income Ratio”
- “Credit — You Got It!”
- “Laws and Acts for Financial Protection”
- “Session Evaluation”

Materials:

- Credit and Debt Management PowerPoint slides
- Pens, pencils and markers
- Chart paper or a whiteboard
- Calculators

Registration:

1. Registration ensures that you have an adequate number of materials on hand and that guest speakers are prepared if they have handouts or giveaways for their audience. Program registrants should be contacted by phone or e-mail two to three days before the program to verify participation. Sign-in is advised to track attendance.
2. To receive free access codes for the participants to access their credit report during the class, apply through Creditscore@finra.org. If Creditscore@finra.org no longer supplies free access codes for the class then contact the participants ahead of time, have them bring in a copy of their credit report from <http://www.annualcreditreport.com>

Target Audience:

The target audience is Marines and their family members with a basic to intermediate knowledge of personal financial management.

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KEY TERMS

Annual percentage rate (APR): A measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you become obligated on a loan and shown on your account statements.

Armed Forces Disciplinary Control Board (AFDCBS): Established at installations to advise on and make recommendations to commanders about matters and conditions that may affect the health, safety, morals, welfare, morale and discipline of the service members.

Beacon Score: The Beacon score is a credit score which is determined through a complex algorithm.

Deferred payment plan (DPP): The Army & Air Force Exchange Service (AAFES) has a deferred payment plan for deployed account holders. The plan offers reduced interest and no payments for those that are deployed for at least 90 days.

FICO score: The FICO score is used to provide a credit rating for individuals. The Fair Isaac Corp. (FICO) is the best known of the companies that offer credit scores for sale alone or as part of a package of products.

QUALITY ASSURANCE PROCEDURES

To assure accurate and current information as well as a quality presentation:

- Headquarters (HQ) and installation PFMs will review the curriculum annually or when there have been consequential changes to content regarding laws, regulations or military programs that could have a significant impact on Marines and their families. HQ will then update the curriculum.
- Distribute session evaluations to participants at the end of each workshop. Results should be tabulated and retained to measure the effectiveness of information provided at the session, in the program content, and of the delivery of the presentation.

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CONTENT OUTLINE (75 MINUTES TOTAL)

1. Welcome and Introduction (10 minutes)
 - a. National Statistics
 - b. Overview
2. Getting and Using Credit (10 minutes)
 - a. Types of Credit
 - b. Wise Uses for Credit
 - c. Unwise Uses of Credit
 - d. Qualifying for Credit
 - e. Establishing Credit
3. Credit Reports (10 minutes)
 - a. What's on a Credit Report?
 - b. What is NOT on a Credit Report?
 - c. Who Can View Your Credit Report?
 - d. Correcting Your Credit Report
 - e. Credit Scores
 - f. What is a Good Credit Score?
4. The Cost of Credit (15 minutes)
 - a. Where to Borrow
 - b. How Much to Borrow
 - c. Comparing the Costs
 - d. How Long to Repay
 - e. Minimum Monthly Payment
 - f. Minimizing Interest Charges
 - g. Amortization Schedules
 - i. Interest-Only Loan or Mortgage
 - ii. Traditional Mortgage or Vehicle Loan with Simple Interest
 - iii. ARM or Credit Car with Variable Interest

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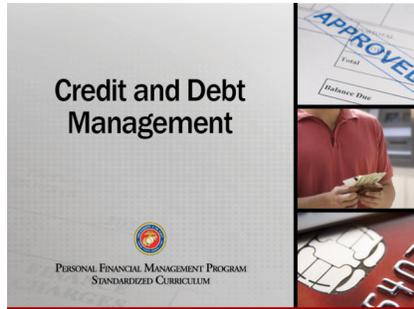
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5. Choosing and Using Credit Cards (15 minutes)
 - a. Credit Card Terminology
 - b. Annual Percentage Rate
 - c. Grace Period
 - d. Credit Card Fees
 - e. Finance Charges
 - f. Finance Charge Example
 - g. Balance Transfer Offers
 - h. Other Costs and Features
 - i. Cutting Credit Card Costs
 - j. Military Star Card
 - k. Government Credit Cards
 - l. Card Security
 - m. Identity Theft
 - n. Cash vs. Plastic
6. Debt Management (10 minutes)
 - a. Debt-to-Income Ratio
 - b. Calculating Debt-to-Income Ratio
 - c. Warning Signs of Too Much Debt
 - d. Consequences of Poor Financial Management
 - e. Recovering from Debt
 - f. Debt Recovery Options to Avoid
7. Resources and Summary (5 minutes)

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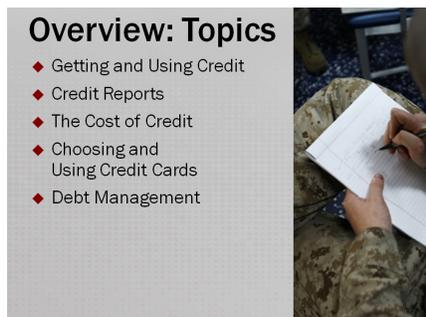
SLIDE 1: INTRODUCTION



SLIDE 2: NATIONAL STATISTICS



SLIDE 3: OVERVIEW: TOPICS



INSTRUCTOR NOTES:

1. Introduce yourself and have the participants introduce themselves.
2. Discuss the statistics on Slide 2, which have been included as a point of interest and motivation. The statistics are current as of January 2011.
3. Introduce the topics to be covered in this session.

SECTION BACKGROUND INFORMATION

On the whole, Americans seem to be comfortable establishing and maintaining debt. Unfortunately, this can become a problem when people have more debt than their income can support. It has become a daily occurrence to read in the news that more people are in financial crisis or are facing foreclosure on their homes. Let's take a look at some recent statistics on credit and debt.

- 75 percent of American households have at least one credit card.
- Average American adult consumer debt (as of 2010) was \$3,752.
- Average American household debt (as of 2010) was \$7,394.
- Total U.S. consumer debt (as of 2010) was \$2.4 trillion.
- Total U.S. consumer credit card debt (as of 2010) was \$800 billion.
- Total number of personal bankruptcies for 2011 is on track to approach 1.6 million.

Using credit, and accumulating the associated debt, has become the new "normal" for the average American as they manage the day-to-day financial aspects of their life. Credit, when used appropriately, can be an excellent tool; but used the wrong way, it can wreak havoc on your financial situation, eventually affecting your ability to make future purchases such as vehicles, household appliances and even a home. Credit itself is neither good nor bad, but how you use your credit can determine whether you have good or bad credit.

Learning how to distribute your net income to pay cash for the majority of your spending can dramatically reduce your credit card and other debts placing you in a much better road to financial success. Attend our Managing Income, Expenses, Savings and Credit class to learn how to avoid using credit and debt.

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To learn credit and debt management, topics in this module include:

- Getting and Using Credit
- Credit Reports
- The Cost of Credit
- Choosing and Using Credit Cards
- Debt Management

SLIDE 4: TYPES OF CREDIT

Types of Credit

Installment or closed-end credit

- ◆ Specific amount
- ◆ Equal monthly payments
- ◆ Specific repayment term
- ◆ Examples: mortgages, car loans, personal loans

Revolving or open-end credit

- ◆ Credit limit
- ◆ Variable monthly payments
- ◆ Open-ended repayment term
- ◆ Examples: credit cards and lines of credit

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Credit comes in two basic types: installment and revolving. Each has different features and each has a place and purpose in the credit world.

Installment credit, also called closed-end credit, is credit issued for a specific amount and has equal monthly payments with a specific repayment term. Credit products which best represent installment credit are mortgages, car loans and personal loans.

Revolving credit, also called open-end credit, is issued up to a specific credit limit, however not all of the credit limit must be used at any given time. Revolving credit has variable monthly payments and the repayment term is open-ended. Credit products which best represent revolving credit are credit cards and lines of credit.

SLIDE 5: WISE USES OF CREDIT

Wise Uses for Credit

- ◆ Planned purchases
- ◆ Assets: home or education
- ◆ Pay off each month

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Whether or not you have a successful relationship with money depends much more on appropriate spending behavior than it does on the amount of money you have. Using credit wisely is the result of good planning and controlling your behavior.

The best use of credit is for a planned purchase of an asset, something that will grow or increase in value over time, such as a home or an education.

Wisely researching, preparing and purchasing a home within your financial means after ensuring your finances are under control and you can afford the monthly payments is a wise use of credit.

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An education is a wise use of credit since an education can lead to a career, promotions, transfers to new positions and can give you the competitive advantage in the search for a job.

Using credit to purchase items on sale with the intent to pay it off can lead to a snowball effect if you don't pay it off at the end of the month. Furthermore, these purchases can add up quickly and surprise you at the end of the month resulting in you having to use your savings to pay off the credit card to avoid interest vs. having extra funds to place in the savings account. Sale items may look like a great savings; however, you must evaluate is it a "need" or a "want" and the interest paid will erase the savings from the sale. The saying "I have to spend money to save money" can cause future problems if the item is not evaluated as a true need. Using a debit card would be a better choice as long as you have the funds and "need" the item.

Some may believe it is necessary to build credit by charging large items or that carrying a balance is required however, this is incorrect. To establish history one only needs to show a responsible payment history. Example: Pay for a single gas purchase, once per month. Pay the purchase off immediately so that interest is not incurred. This will show as positive payment history on your credit however, the purchase is manageable and may be paid off with ease. The best use of credit is trying to avoid using credit as a convenience for everyday purchases.

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SLIDE 6: UNWISE USES OF CREDIT

Unwise Uses of Credit



- ◆ Impulse buying
- ◆ Spending for status
- ◆ Retaliatory spending
- ◆ Spending to feel good
- ◆ Purchasing consumables
- ◆ Everyday living expenses

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Unwise uses of credit typically revolve around uncontrolled behavior, having poor or no planning, or participating in emotional spending. Unwise uses of credit include:

Impulse buying: Easy access to credit often leads to a “buy now, pay later” mentality. These types of impulse purchases can occur when we are experiencing emotions we are uncomfortable with. Impulsive purchases may be made when facing deployment and emotions such as guilt from leaving your family, anger at having to deploy for long periods of time, or even excitement upon returning from a long deployment. Consumers buying an item on impulse tend to pay about one-third more than they would if they first compared prices at other locations where the same item might be on sale. By nature, impulse items are not planned expenses. We have all seen someone make a large purchase with money earned while deployed. The wiser choice is to spend this money on a planned purchase you have saved for, or one that would increase in value over time.

Spending for status: Too often people believe they need to spend money to impress others. Advertising in general often appeals to these emotions. Even ads for credit cards often portray the people who use these particular credit cards as attractive, powerful and having a special status. The message these ads send is that if you use their card, you will be able to do great things, have more fun, attract others and be more successful.

Retaliatory spending: In a family where there is not a clear spending plan each partner has agreed upon, the tendency is to spend on one’s self first. After all, you work hard, so why shouldn’t you treat yourself to something nice occasionally? This has the possibility to spin off into retaliatory spending, where each partner buys more for themselves to even the score with the other.

Spending to feel good: Many times people do not even recognize they are participating in this behavior. Using

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spending as a temporary fix to feel better can become addictive. Like other addictive behaviors, the good feelings are temporary. But the debt can last a long time. Before charging any purchase, decide whether this item is being bought because it is needed or in an attempt to feel better. People who spend to feel good or to get a “fix” sometimes will not even open the package or use the items, because it is not about the item purchased but rather about the feeling they get from the transaction.

Purchasing consumables: Credit becomes more dangerous when it is used to purchase consumables such as food, clothing, entertainment and vacations — items that lose much or all of their value immediately after purchase.

Everyday living expenses: If you cannot meet your everyday living expenses, this is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, it is most likely that you will not be able to meet these financial obligations tomorrow.

Living beyond your means, increasing your debt from month to month, is not a wise use of credit. At some point, you will have to pay for all purchases. What initially started off as a small purchase, say dinner and a movie, can compound quickly and turn into a financial disaster.

SLIDE 7: QUALIFYING FOR CREDIT

Qualifying for Credit

- Character** • WILL you repay the debt?
- Capacity** • CAN you repay the debt?
- Collateral** • WHAT IF you don't repay the debt?

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

When financial institutions make decisions to extend credit to a consumer, they look for both the ability and the willingness to repay debts. The factors they use to evaluate a borrower can be summarized by the three C's of credit: character, capacity and collateral.

Character: WILL you repay the debt? Creditors look at your credit history: how much you owe, how often you borrow, whether you pay bills on time and whether you live within your means. They also look for signs of stability: how long you have lived at your present address, whether you own or rent your home, and the length of your present employment.

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Capacity: CAN you repay the debt? Creditors ask for employment information: your occupation, how long you have worked and how much you earn. They also want to know about your expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.

Collateral: WHAT IF you don't repay the debt? Creditors want to know what you have that can be used to back up or secure your loan, any other resources you have for repaying debt besides income, such as savings, investments or property. "Collateral" is sometimes called "capital." Whichever term is used, both refer to a borrower's assets that can be used to back up the loan, such as savings or a home.

Creditors use different combinations of these factors to reach a lending decision. Several creditors may reach different conclusions based on the same set of facts. One may find a borrower an acceptable risk, whereas another may deny the same borrower.

SLIDE 8: ESTABLISHING CREDIT



Establishing Credit

- ◆ Maintain checking and savings accounts
- ◆ Pay bills on time
- ◆ Savings-secured loan
- ◆ Co-signed loan
- ◆ Obtain credit from a retailer

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Young Marines should start building their creditworthiness early, so they will be able to get credit if they need it. Lenders look for evidence of financial responsibility and stability. However, a Marine needs to be careful managing their credit as this affects their clearances, promotional opportunities and more. It does not take large purchases or large amount of charges to establish credit. Credit can be established just by purchasing gas on a card once or a few times a month and then paying it off at the end of the month. Good credit can be achieved by:

- **Maintaining a checking and savings account at a financial institution.** Make regular deposits into an account and don't incur any overdraft fees.
- **Paying bills on time.** Pay your utility bills and rent on time, and avoid late fees that will adversely affect your credit.

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- **Using a savings-secured loan.** Credit unions and banks will usually give a loan for an amount less than or equal to the amount of money in a related savings (or shared savings) account. The money in the savings is frozen until a predetermined amount is paid off. Since the financial institution knows it will get its money even if the borrower defaults, the interest rate on the loan is normally very low, usually only slightly more than the interest rate they are giving for the savings. In a way, the borrower is paying to borrow their own money, but the idea is to help establish credit, and a savings-secured loan is a tool with which to do that.
- **Using a co-signed loan.** This is a good option for borrowers with little credit history, but it requires someone willing to co-sign for the loan. For someone who already has a good credit history, caution should be used if considering co-signing a loan for a friend or a relative. Statistically, more than half of these types of loans end with the co-signer paying back at least part of the money owed.

While all on-time payments will be positively reflected on both signers' credit reports, any late or missing payments also will be reported for both parties. Additionally, co-signing on a car loan can add potential liability in the event of an accident. It is possible for the co-signer to be pursued in legal action as well as the primary owner.
- **Getting a charge card from a retailer.** This is often the easiest type of credit card to get. Encourage individuals to start small, using just one card to make small purchases and pay the bill in full at the end of the month. Additionally, they need to guard against overspending, as interest rates for these cards are normally high.
- **A good example of using a credit card to build credit is a gas card.** You can use a gas credit card each time you fill up at the pump. You can earn points on your card, save pennies on the gallon and build credit all at the same time. This is only a good

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example if you remember the Golden Rule. You must pay this card off every single month. If you fail to do so and you carry a balance, you can expect to pay at least 20-25% more for your gas. That is what the interest will cost you. You will negate any positive aspect if you fail to follow this practice. It is important to remember why you have this card and what your long term plan is, to build your credit, and not increase your debt.

After establishing a good credit history with this type of credit you can eventually qualify for a Visa or MasterCard from a major bank. More than 6,000 banks issue these cards. Consumers must be aware that terms and rates will vary considerably. There are secured cards that require a cash deposit, others that have low credit limits and high rates, and premium cards (often called gold or platinum) targeted at consumers with the best credit ratings.

Keep in mind that financial institutions want to see a pattern of consistent monthly payments. Typically, at least three to six months of payments are needed for the financial institution to report positively to the credit reporting agencies. However, any late or missing payments will be automatically reported.

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SLIDE 9: CREDIT REPORTS



INSTRUCTOR NOTES:

1. Distribute the “Credit Reports” handout to the participants. Much of the information covered on the slides is included in this handout.
2. To receive free access codes for the participants to access their credit report during the class, apply through Creditscore@finra.org.
3. If Creditscore@finra.org no longer supplies free access codes for the class then contact the participants ahead of time, have them bring in a copy of their credit report from <http://www.annualcreditreport.com>.
4. If a classroom Internet connection is available, you can show them the website.

SECTION BACKGROUND INFORMATION

A credit report is a detailed account of the credit, employment and residence history of an individual. The report is used by a prospective lender to help determine the person’s creditworthiness. Credit reports also list any judgments, tax liens, bankruptcies or similar matters of public record entered against the individual.

The industry is dominated by three credit-reporting agencies: Equifax, Experian and TransUnion. These agencies maintain independent databases and compete with one another to sell information to lenders, insurance companies and employers. For the most part, they do not share information with one another and may not have identical information about an individual.

It is important to review your credit report at least once a year, to verify that the information is correct and complete. If you have moved a lot, your information may be incorrect with all three agencies. Mistakes happen, and if undetected, they can prevent you from obtaining future credit. Many times instances of identity theft are uncovered by reviewing credit reports.

The major credit reporting agencies all have websites and toll-free numbers at which consumers can request a copy of their credit report. Under current law, every American with a credit history can receive one free credit report each year from each of the big three credit reporting agencies. They are available online at <http://www.annualcreditreport.com>.

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SLIDE 10: WHAT'S ON A CREDIT REPORT?

What's on a Credit Report?

- ◆ Identification information
- ◆ Employment information
- ◆ Residence history
- ◆ Payment history
- ◆ Inquiries
- ◆ Public record information
- ◆ Accurate negative information



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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

When you get a copy of your credit report, you will see that it includes the following information in one form or another.

Identification and employment information: Your name, birth date, Social Security number, current and previous addresses, employer and spouse's name are routinely noted. The credit reporting agency may note information about your employment history, home ownership and income.

Credit History: There are many items that are included in your credit history. Such as how long you have had credit, a record of your past borrowing and repaying habits. Do you utilize more than 25-30% of available funds on your credit card? Do you go over your credit limit? How often you open new accounts and any recent requests for new credit. The types of credit included in your credit history are signature loans, mortgages, car loans, credit cards, cellular phones. This is a lot to manage, but it is important that you are knowledgeable about what is in your credit records.

Payment history: Your accounts with different creditors are listed, showing how much credit has been extended and whether you have paid on time. Payment history is listed for two years. Related events, such as referral of an overdue account to a collection agency, may be noted. This data is referred to as "trade lines."

Inquiries: Credit-reporting agencies must maintain a record of all creditors who have asked for your credit history within the past year, as well as a record of people or businesses requesting your credit history for employment purposes for the past two years. The two types of inquiries are:

Soft inquiry: A soft inquiry on your credit report is when you or a business you already have an account with checks your credit report. It is important for you to monitor your credit and you can do this without impacting your credit score. Another type of soft inquiry is when a business pulls your report for promotional purposes. Employers can also make a soft inquiry. This

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type of credit inquiry is not typically associated with making a decision to extend credit to an individual and thus generally has no impact on your credit score.

Hard inquiry: Hard inquiries appear on your credit report whenever you make an application for a credit card, loan or any other credit based service. Hard inquiries will typically impact your credit score and will account for 10% of your credit score. It is important to remember that too many hard inquiries on your credit report can indicate your risk as a borrower. Too many inquiries at one time might indicate to a borrower that you're taking on too much debt or that you're in some kind of financial trouble and are looking for credit to help you out. Having said that, it is important when you are making large purchases such as a new automobile to shop around for the best interest rate available. As you compare rates, you may have several inquiries in a short period of time. This would be considered as one hard inquiry. This is different than making several inquiries on a variety of loan products such as multiple credit cards and or loans these types of hard inquiries can reduce your credit score.

Public record information: Events that are a matter of public record, such as bankruptcies, foreclosures or tax liens, may appear in your report.

Accurate negative information: When negative information in your report is accurate, only the passage of time can assure its removal. An agency can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is a standard method for calculating the reporting period. Generally, the period runs from the date that the event took place. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than \$75,000 a year; and information reported because you've applied for more than \$150,000 worth of credit or life insurance.

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SLIDE 11: WHAT IS NOT ON A CREDIT REPORT?

What is NOT on a Credit Report?

- ◆ Checking or savings accounts
- ◆ Bankruptcies after 10 years
- ◆ Unpaid debts after 7 years
- ◆ Medical history
- ◆ Criminal records
- ◆ Protected demographic information:
 - Gender
 - Ethnicity
 - Religion
 - Political affiliation
- ◆ Actual credit score

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

A credit report does not include information about your checking or savings accounts, bankruptcies that are more than 10 years old, charged-off debts or debts placed for collection that are more than seven years old, medical history or criminal records. Protected demographic information — such as gender, ethnicity, religion or political affiliation — is illegal to include on your credit report. Additionally, your credit score is generated by information on your credit report but is not part of the file itself.

Credit reports will only show bills if they are negative and/or past due but typically, payments on bills and living expenses such as insurance or rent will not show on your credit report unless you have been turned in to a collection agency. Any delinquencies in paying your bills on time will show up on your credit report. This can include utilities, cell phone bills, gym memberships and doctor bills. That is why it is very important to pay all of your bills on time.

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SLIDE 12: WHO CAN VIEW YOUR CREDIT REPORT?



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

A variety of individuals and/or entities with a legitimate business need can view your credit report. Creditors, both current and potential, can access your credit report.

- Current creditors will typically review your credit report annually to determine that your financial situation is still acceptable within their guidelines.
- Potential creditors fall in two categories: those who want to solicit you for business and those you have requested to issue you credit. Those who want to solicit you do not see your report in advance. They receive a list of names and contact information from the credit reporting agency of all individuals who meet at least the minimum criteria they have selected. This is why pre-approved credit offers contain the disclaimer that you “may qualify” for the offer. They have not seen your complete report yet. The creditors you have requested to issue you credit will have access to your complete credit report in order to make the lending decision.
- Insurance companies will review your credit report as part of their decision-making and pricing process when issuing and renewing insurance policies.
- Civilian employers considering you for employment, promotion, reassignment or retention may view your credit report with your written approval. A positive credit report can work for you, while a negative credit report can work against you.
- Government agencies that are reviewing your financial status or government benefits can view your credit report.
- Landlords, utility companies and cell phone companies are among the others who can legally review your credit report.
- The credit reporting agencies furnish reports if required by court orders or federal jury subpoenas or to a third party if you request this in writing.

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You are allowed a free annual credit report from each of the three credit reporting agencies and taking advantage of this is a good way to maintain a watch over your credit report and how your purchases, debt and credit are affecting the report. The credit score is not free and must be purchased.

SLIDE 13: CORRECTING YOUR CREDIT REPORT

Correcting Your Credit Report

1. Dispute in writing and keep copies
2. Credit bureau investigates and sends dispute to information provider
3. Credit bureau provides results and a free credit report (if changed)
4. Notices of correction sent
5. If unresolved, request that it be included in your file

The FCRA says the responsibility to correct is that of both the credit bureau and the provider of the incorrect information.

INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. If time is short, refer participants to the “Credit Reports” handout and do not spend a lot of time on this information.

SECTION BACKGROUND INFORMATION

Under the Fair Credit Reporting Act (FCRA), both the credit reporting agency and the information provider (the person, company or organization that provides information about you to an agency) are responsible for correcting inaccurate or incomplete information in your report. To take advantage of your rights under the FCRA, contact the credit reporting agency and the information provider if you see inaccurate or incomplete information. Dispute forms are available on the credit reporting agencies’ websites or you can request a hard copy from them. Here is the basic sequence of events regarding a dispute of an item on your credit report:

1. Tell the agency, in writing, what information you think is inaccurate. Include copies (save the originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the agency received. Keep copies of everything you send.
2. Credit reporting agencies must investigate the items in question, usually within 30 days, unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the incorrect information. After the information provider receives notice of a dispute from the agency, it must investigate, review the relevant information and report the results back to the agency. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide agencies so they can correct the information in your file.

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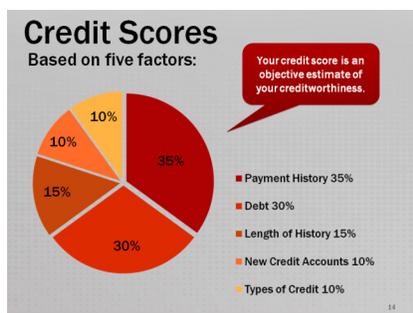
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3. When the investigation is complete, the credit reporting agency must give you the written results and a free copy of your report, if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the agency cannot put the disputed information back in your file unless the information provider verifies that the information is indeed accurate and complete. The agency must send you written notice that includes the name, address and phone number of the information provider.

4. If you request it, the agency must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy during the past two years for employment purposes.

5. If an investigation does not resolve your dispute with the credit reporting agency, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the agency to provide your statement to anyone who received a copy of your report in the recent past, but expect to pay a fee for this service.

SLIDE 14: CREDIT SCORES



INSTRUCTOR NOTES:

Discuss the information on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Credit scoring is a system creditors use to help determine whether to give you credit and at what interest rate. Information about you and your credit experiences, such as your payment history, the number and type of accounts you have, late payments, collection actions, outstanding debt and the age of your accounts is collected from your credit application and your credit report. Using a statistical formula, creditors compare this information to the credit performance of other people with similar profiles. A credit scoring system awards points for each factor. The total number of points is your credit score. This score helps predict how creditworthy you are; that is, how likely it is that you will repay a loan and make the payments on time. Generally, consumers considered to be good credit risks have higher credit scores. Your credit score is an important piece of your future financial equation.

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You can get your credit score from the three nationwide credit reporting agencies, but you will have to pay a fee for it. Many other companies offer credit scores for sale, alone or as part of a package of products. Two well-known credit score companies are the Fair Isaac Corp. (FICO) and Beacon.

The FICO score takes into account five areas of information and weights each category:

1. 35 percent: payment history
2. 30 percent: amounts owed
3. 15 percent: length of credit history
4. 10 percent: types of credit in use
5. 10 percent: new accounts

The Beacon score is a credit score which is determined through a complex algorithm. These numbers tell the lender how likely a borrower is to repay their loan. Mathematical criteria involved in calculating a Beacon Score can include late payments, current debts, length of time account has been open, types of credit and new applications for credit. Beacon scores and other credit scores affect the interest rate on a loan.

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SLIDE 15: WHAT IS A GOOD CREDIT SCORE?

What is a Good Credit Score?

FICO Score	Category	% of US Population	Meaning
700 and up	Excellent	60%	Qualify for very best interest rates and terms
600-699	Good	27%	May not qualify for very best interest rates and terms
500-599	Risky	12%	May have to pay at least 2 percentage points more than those in "Excellent" category
400-499	Very Risky	1%	Will probably have to pay maximum rate allowed by law

INSTRUCTOR NOTES:

Discuss the information on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

What is a good credit score? Credit scores vary, depending on the product offered and the range of scores the creditor is using. Generally, the following is true for FICO scores:

700 and higher: Considered excellent; about 60 percent of the U.S. population falls within this credit range. These individuals qualify for the best interest rates and terms.

600-699: Considered good credit. Individuals may not qualify for the very best interest rate and terms. About 27 percent of the U.S. population falls within this credit range.

500-599: Considered risky credit. Individuals may qualify for a loan but may have to pay at least two percentage points more than the group in the excellent category. About 12 percent of the U.S. population falls within this credit range.

400-499: Considered very risky credit, usually with foreclosures, liens and/or credit judgments in their reports. Individuals who fall into this category probably will have to pay the maximum interest rates allowed by law if given credit at all. About 1 percent of U.S. population is in this range.

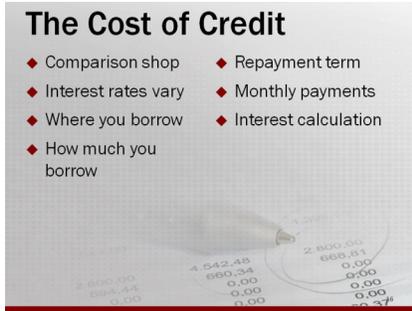
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SLIDE 16: THE COST OF CREDIT

The Cost of Credit

- ◆ Comparison shop
- ◆ Interest rates vary
- ◆ Where you borrow
- ◆ How much you borrow
- ◆ Repayment term
- ◆ Monthly payments
- ◆ Interest calculation



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Using someone else's money is almost always going to cost you money. The better your credit history, the better your chance of qualifying for lower interest rates. If you have a history of slow or no payments in your credit report, you may be denied credit or you may be charged more for the credit that lenders are willing to offer you. Paying your existing bills on time and maintaining a spotless credit record can improve your creditworthiness and lower the overall cost of using other people's money.

Even if you have an excellent credit score, you should do some comparison shopping just as you would for a car or a home appliance. Since the amount of interest that can be charged on various types of credit differs from state to state, it is important to shop carefully. Try to get pre-approved by arranging financing for large items before you go shopping. This will help you get a firm idea about what you can afford to pay. Compare options from different lenders to get the best deal. Besides your personal creditworthiness, the cost of credit is determined by factors such as where you borrow, how much you borrow, how long you take to repay, how much you pay each month and how interest is calculated. We will look at each of these in more detail.

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SLIDE 17: WHERE YOU BORROW



INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Emphasize to the participants that they should avoid predatory lending practices. Explain that one guideline they can use to tell whether they should get the credit is by considering who is willing to lend to them. If their own bank or credit union will not lend to them, that is a danger sign. Extensive additional information on predatory lending can be found in the Consumer Awareness module.

SECTION BACKGROUND INFORMATION

Where you borrow will affect your cost. Here are the most common places to borrow:

Credit union: Owned by its members; lends to members only; normally offers the most attractive rates.

Commercial banks: Offer a wide variety of products; average rates; for lower-risk people.

Savings banks and savings and loan associations: Focus on mortgages and often offer other services; similar to banks.

Consumer finance companies: Accept higher credit risks; rates often high.

Retail merchants: In-store loans and credit cards; often have promotional introductory rates that rise rapidly after 90 to 180 days. Rates often are unattractive. Whether you are buying a car, a television or anything else, usually the most expensive place to finance any consumer purchase is the place you are buying it. You pay for the convenience.

Many people classify rent-to-own stores under the category of retail merchants; however, when analyzing the nature and costs of these types of transactions, they more accurately fall under the category of predatory lending. Typically, at rent-to-own stores, items cannot be purchased outright. They must be purchased using the store's installments plan. The item's actual cost is not disclosed; only the periodic payment amount and terms are easily obtainable; once purchased, accelerated payments are not allowed resulting in paying more for the item than in some cases it is worth or you could have purchased elsewhere.

Predatory lenders: Advance-fee loans, payday loans, subprime mortgages, title pawn lenders, rent-to-own, refund-anticipation loans: Just say no! These types of lenders charge excessive interest rates and fees, include unnecessary insurance and often have pre-payment penalties. This is the most expensive money to borrow. Although the Military Lending Act provides some

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protection, not all predatory lending practices are covered by it. If Marines find themselves contemplating getting money from this type of lender, they should talk to a Marine Corps Community Services (MCCS) Personal Financial Management (PFM) Specialist or their Command Financial Specialist immediately.

Legitimate banks have developed tactics to get customers to increase their debt or accept additional services beyond the original line of business the consumer requested. One popular tactic is when the consumer calls to activate their credit card the institution will place them on hold for a representative to activate their card. When the truth of the matter is the card is activated upon calling in. The underlying purpose of putting a person on the phone is to entice the caller into signing up for additional services. This can be an offer for credit protection, balance transfers or additional credit accounts. Thus increasing the fees the banks can charge you. Be careful of these offers of add on services.

If a Marine is aware of a predatory lender that has taken advantage of other Marines or Marine family members or believes that they themselves been the victim of a predatory lender, contact the local office of the Armed Forces Disciplinary Control Board and pursue having the establishment placed on the “off limits” list to deter others from patronizing the business and perhaps effecting change in the merchant’s business practices.

One role of the Armed Forces Disciplinary Control Board to assist Commands in educating Service Members in avoiding conducting business with any business that has the intent to provide predatory lending around military communities to include; payday lending, internet lending, car title lending, military installment lending, rent-to-own programs, tax refund anticipation loans, and coercive collection actions. They are also working with Congress to change laws and have been developing strategies to reduce the prevalence and impact of predatory lending on the military community.

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SLIDE 18: HOW MUCH TO BORROW

How Much to Borrow

Interest rate of 9% on a 5 year loan

Down Payment	Amount Financed	Monthly Payment	Finance Charge	Total Cost
\$0.00	\$10,000	\$207.60	\$2,456	\$12,456
\$2,000	\$8,000	\$166.08	\$1,965	\$11,965
\$5,000	\$5,000	\$103.80	\$1,228	\$11,228

Bigger down payment = less cost

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

How much you borrow has a big influence on the total repayment cost. A down payment often can result in substantial savings. The bigger the down payment, the less the total repayment cost. The extra funds you pay them also means less money you have for your future.

In this example, you can see the impact of making different down payments on a five-year loan at a 9 percent interest rate.

Down Payment	Amount Financed	Monthly Payment	Finance Charge	Total Cost
\$0.00	\$10,000	\$207.60	\$2,456	\$12,456
\$2,000	\$8,000	\$166.08	\$1,965	\$11,965
\$5,000	\$5,000	\$103.80	\$1,228	\$11,228

SLIDE 19: COMPARING THE COSTS

Comparing the Costs

	Rent-to-Own	Credit Card	Layaway	Cash
Payment	\$18 weekly	\$15 monthly	\$86 monthly	\$258 once
Number of payments	78 weeks	20 months	3 months	1
APR	220%!	21%	0%	0%
Total price	\$1,404.00	\$303.00	\$258.00	\$258.00

*** Interest rate on the retail price**

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Consider paying cash rather than borrowing. This table illustrates how much money you would save by paying cash.

	Rent-to-Own	Credit Card	Layaway	Cash
Payment	\$18 weekly	\$15 monthly	\$86 monthly	\$258 once
# of payments	78 weeks	20 months	3 months	1
APR	220%!	21%	0%	0%
Total price	\$1,404.00	\$303.00	\$258.00	\$258.00

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SLIDE 20: HOW LONG TO REPAY

How Long to Repay

Interest rate of 9%

Term of Loan	Amount Financed	Monthly Payment	Finance Charge	Total Cost
1 Year	\$10,000	\$874.50	\$494	\$10,494
3 Years	\$10,000	\$318.00	\$1,448	\$11,448
5 Years	\$10,000	\$207.60	\$2,456	\$12,456

Shorter repay period = Less total cost

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

If you do decide to borrow, consider the length of repayment. Borrowing for a longer period lowers your monthly payment but results in a higher repayment cost. The shorter your repay period, the less the total cost. What could you do with the difference rather than giving it to the bank's profits?

In this example, you can see the impact of the length of the terms of repayment and the difference in the overall total cost.

Term of Loan	Amount Financed	Monthly Payment	Finance Charge	Total Cost
1 Year	\$10,000	\$874.50	\$494	\$10,494
3 Years	\$10,000	\$318.00	\$1,448	\$11,448
5 Years	\$10,000	\$207.60	\$2,456	\$12,456

SLIDE 21: RULE OF 78s

Rule of 78s

Month	Start Balance	Interest	Monthly Rate	Principle	End Balance	Cum. Int. Paid	Interest Left to Pay
1	\$1,000.00	\$30.77	36.9231%	\$69.23	\$930.77	\$30.77	\$169.23
2	930.77	28.21	36.3636%	71.79	858.98	58.98	141.02
3	858.98	25.64	35.8207%	74.36	784.62	84.62	115.38
4	784.62	23.08	35.2959%	76.92	707.70	107.70	92.30
5	707.70	20.51	34.7822%	79.47	628.21	128.21	71.79
6	628.21	17.95	34.2854%	82.05	546.16	146.16	53.84
7	546.16	15.38	33.8024%	84.62	461.54	161.54	38.46
8	461.54	12.82	33.3332%	87.18	374.36	174.36	25.64
9	374.36	10.26	32.8766%	89.74	284.62	184.62	15.38
10	284.62	7.69	32.4319%	92.31	192.31	192.31	7.69
11	192.31	5.13	31.9996%	94.87	97.44	197.44	2.56
12	97.44	2.56	31.5776%	97.44	0.00	200.00	0

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Unless you work in the banking industry, you may not have heard of the Rule of 78s, even though it is commonly applied to many consumer and business loans. The rule of 78s is a method used to calculate interest. It means that the interest payments decrease disproportionately during the course of the loan period. Although the method appears fair at first glance, it favors the lender and means the borrower will be penalized for early repayment. The rules of 78s process makes no practical difference to somebody who pays the loan off across the agreed timescale. This is because they wind up paying the same amount of interest. Where the rule of 78s becomes noticeable is when the borrower wants to pay off the loan early. This is because they will have already paid a disproportionate share of the total interest, which will not be refunded. In other words, you pay most of the interest before you begin to make substantial repayment of principal. See the slide for an example of taking a loan out for 1000 dollars for 12 months at a payment of 100 dollars per month.

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SLIDE 22: MINIMUM MONTHLY PAYMENT



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible.

If you have a \$1,000 balance on an 18 percent credit card and pay only the minimum, say 2 percent of the balance, it will take 19 years to pay off and \$1,931 in interest paid. However, increasing the payment to 5 percent of the balance results in a two-year payoff and \$382 in interest paid.

The Credit Card Accountability, Responsibility and Disclosure Act requires that your monthly credit card bill includes information on how long it will take you to pay off your balance if you only make minimum payments. It will tell you how much you would need to pay each month to pay off your balance in three years. This makes it more important than ever that you read your bill each month.

SLIDE 23: MINIMIZING INTEREST CHARGES



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Two common ways to calculate interest on loans are:

Simple interest: The finance charge is computed by applying a percentage rate to the balance outstanding during each payment period. This is the most attractive method. As you make payments, the interest charged decreases along with the loan balance due. Credit unions always charge simple interest; banks normally do as well. Ask for it!

Pre-computed interest: The finance charge is calculated on the amount financed and then added on to it. The sum total has to be repaid. No matter how many payments you have made, the interest charged always will stay the same. Read all financing contracts carefully before signing!

Example: \$1,000 at 12 percent for one year. Using simple interest, you will pay \$66 in interest. Using pre-computed interest, you will pay \$120 in interest.

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Paying extra works for all types of debt, not just revolving credit. Let's look at the following example of a fixed-rate car loan: For a \$12,000 fixed-rate car loan, financed at 9.9 percent for 60 months, the monthly loan payment would be \$254.37 and the total loan price including interest would be \$15,262.47. If you added \$45.63 a month to your payment, rounding the payment up to \$300 a month, you would save \$646.25 on the loan interest and pay the loan off in 48 months. That's an entire year early! That might not initially seem like a large sum of money, but that is the Marine's hard-earned money that can be used to work for the Marine, rather than the finance company.

SLIDE 24: AMORTIZATION SCHEDULES

Amortization Schedules

- ◆ Chart
- ◆ How much to principal
- ◆ How much to interest
- ◆ Use to compare different types of financing

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Although not an interest calculation method, an amortization schedule is a chart that shows how much of each monthly payment is allocated to paying down the principal balance and how much is the interest. Whether for a credit card, a vehicle loan or a mortgage, an amortization chart can be a good tool when comparing different financing terms or models such as fixed interest, variable interest or interest-only financing.

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SLIDE 25: AMORTIZATION SCHEDULE: INTEREST ONLY MORTGAGE

Amortization Schedule
Interest Only Mortgage

Month	Beginning Balance	Interest Rate	Payment	Principle	Interest	Ending Balance
Jan	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Feb	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Mar	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Apr	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
May	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
June	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
July	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Aug	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Sept	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Oct	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Nov	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00
Dec	\$5,000.00	8%	\$33.33	\$0.00	\$33.33	\$5,000.00

INSTRUCTOR NOTES:
Use the information in the column to the right to guide your discussion.

SECTION BACKGROUND INFORMATION

An interest-only loan or mortgage is one in which the borrower is required to pay off the interest that arises from the principal that is borrowed over a fixed term such as 5-7 years. Because only the interest is being paid, the interest payments remain fairly constant throughout the term of the mortgage and they are usually lower than a conventional loan payment. However, interest-only mortgages do not last indefinitely. At the end of the mortgage interest-only term you either need to refinance the principal, pay the balance (lump sum), or start paying the principal which can jump your payments. An additional consideration is that no equity is being built by the borrower.

Many people during the boom took advantage of this type of loan thinking that home prices would only go up and continue to go up. They could not qualify for a fixed rate loan and instead used the interest-only loan to qualify. This meant most likely they were buying a home above their financial capability. Their gamble of the market continuing to rise or hoping for a better paying job has now turned into a financial crisis and in a lot of cases losing their homes.

SLIDE 26: AMORTIZATION SCHEDULE: TRADITIONAL MORTGAGE OR VEHICLE LOAN WITH SIMPLE INTEREST

Amortization Schedule
Traditional Mortgage or Vehicle Loan with Simple Interest

Month	Beginning Balance	Interest Rate	Payment	Principle	Interest	Ending Balance
Jan	\$5,000.00	8%	\$156.68	\$123.35	\$33.33	\$4,876.65
Feb	\$4,876.65	8%	\$156.68	\$124.17	\$32.51	\$4,752.48
Mar	\$4,752.48	8%	\$156.68	\$125.00	\$31.68	\$4,627.48
Apr	\$4,627.48	8%	\$156.68	\$125.83	\$30.85	\$4,501.65
May	\$4,501.65	8%	\$156.68	\$126.67	\$30.01	\$4,374.98
June	\$4,374.98	8%	\$156.68	\$127.51	\$29.17	\$4,247.47
July	\$4,247.47	8%	\$156.68	\$128.36	\$28.32	\$4,119.11
Aug	\$4,119.11	8%	\$156.68	\$129.22	\$27.46	\$3,989.89
Sept	\$3,989.89	8%	\$156.68	\$130.08	\$26.60	\$3,859.81
Oct	\$3,859.81	8%	\$156.68	\$130.95	\$25.73	\$3,728.86
Nov	\$3,728.86	8%	\$156.68	\$131.82	\$24.86	\$2,597.04
Dec	\$2,597.04	8%	\$156.68	\$132.70	\$23.98	\$3,464.34

INSTRUCTOR NOTES:
Use the information in the column to the right to guide your discussion.

SECTION BACKGROUND INFORMATION

For these types of loans, the payment is fixed for the term of the loan, at the end of which the principal and interest have both been paid off.

Qualifying for a fixed loan allows you to know exactly what your payments will be for the term of the loan with no worries of future events in the economy that can change the interest rate or your payments. This allows you to manage your budget for the long term. Fixed loans on homes can be in terms such as 10, 15, 20, 25, or 30 years. Extra payments can be placed against the principal, which allows for additional equity to be built.

Making sure your loan has no pre-payment penalty allows you to take advantage of future refinancing.

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SLIDE 27: AMORTIZATION SCHEDULE: ARM OR CREDIT CARD WITH VARIABLE INTEREST

Amortization Schedule
ARM or Credit Card with Variable Interest

Month	Beginning Balance	Interest Rate	Payment	Principle	Interest	Ending Balance
Jan	\$5,000.00	8%	\$156.68	\$123.35	\$33.33	\$4,876.65
Feb	\$4,876.65	9%	\$155.06	\$118.49	\$36.57	\$4,758.16
Mar	\$4,758.16	10%	\$153.50	\$113.88	\$39.65	\$4,644.28
Apr	\$4,644.28	12%	\$154.25	\$107.81	\$46.44	\$4,536.47
May	\$4,536.47	10%	\$146.36	\$108.56	\$37.80	\$4,427.91
June	\$4,427.91	12%	\$147.07	\$102.79	\$44.28	\$4,325.12
July	\$4,325.12	10%	\$139.56	\$103.52	\$36.04	\$4,221.60
Aug	\$4,221.60	9%	\$134.26	\$102.59	\$31.67	\$4,119.01
Sept	\$4,119.01	8%	\$129.07	\$101.61	\$27.46	\$4,017.40
Oct	\$4,017.40	8%	\$129.07	\$102.29	\$26.78	\$3,915.11
Nov	\$3,915.11	10%	\$126.33	\$99.70	\$26.63	\$3,821.41
Dec	\$3,821.41	9%	\$121.51	\$92.85	\$28.66	\$3,728.56

INSTRUCTOR NOTES:

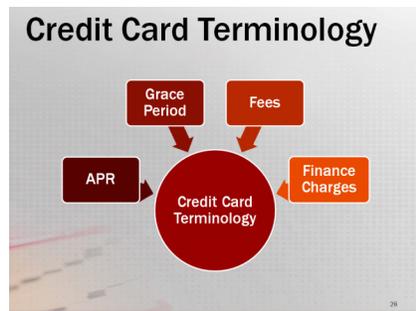
Use the information in the column to the right to guide your discussion.

SECTION BACKGROUND INFORMATION

An adjustable rate mortgage (ARM) is a loan that has an interest rate that will be reset in periodic intervals. These intervals can vary from months to years and will cause payments to fluctuate more than a traditional mortgage. This is comparable to a variable rate credit card, where the interest rate can fluctuate monthly.

This type of loan is the riskiest, as it is a gamble on the future market. You build less equity using this type of loan, than a fixed rate mortgage. Many banks have placed buyers on an ARM loan because that was the only loan they could qualify for, rather than advising that the buyer investigate homes that were more affordable to them and which they could then qualify for a fixed rate mortgage. ARMs can carry hefty pre-payment penalties which could hinder the person from refinancing to a fixed rate mortgage.

SLIDE 28: CREDIT CARD TERMINOLOGY



INSTRUCTOR NOTES:

Distribute the “Choosing Credit Cards” handout to the participants. Note that a lot of the information you are about to cover is on this handout, including many helpful websites. If time is short, you can spend less time on this information.

SECTION BACKGROUND INFORMATION

There are many choices when shopping for a credit card. Credit card companies, like the credit cards they offer, vary in products, services, charges and fees. Credit card terminology can be confusing. We will discuss in detail the following terms:

- Annual percentage rate
- Grace period
- Credit card fees
- Finance charges

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SLIDE 29: ANNUAL PERCENTAGE RATE

Annual Percentage Rate

- ◆ Cost of credit as a yearly rate
- ◆ Must be disclosed
- ◆ Periodic rate – the rate used for each billing period
- ◆ Variable rates
- ◆ Fixed rates

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

The annual percentage rate (APR) is a measure of the cost of credit, expressed as a yearly rate. The APR must be disclosed before you become obligated on the account and it must be shown on your account statements. You must also be given your credit limit and information about whether your rate will change and how often. Additionally, the card issuer must disclose the periodic rate, which is the rate applied to your outstanding balance to figure the finance charge for each billing period.

Variable rates: Some credit card plans let the issuer change the APR when interest rates or other economic indicators, called indexes, change. Because the rate change is linked to the index's performance and can vary, these plans are called variable-rate programs. Rate changes can raise or lower the finance charge on your account. If you are considering a variable-rate card, the issuer must tell you that the rate may change and how the rate is determined.

Fixed rates: By federal law, credit card companies cannot increase a fixed APR in the first 12 months after an account is opened, unless you are more than 60 days past due on your minimum monthly payments. If your credit card company does raise your interest rate after the first year, the new rate will apply only to new charges you make. If you have a balance, your old interest rate will apply to that balance. Any rate-change information must be provided at least 45 days before the change takes place and must give you an opportunity to opt out of the rate change by closing the account. If there is a balance on the account, you will pay the balance at the current rate until it is paid off.

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SLIDE 30: GRACE PERIOD

Grace Period



- ◆ Avoid finance charges if paid by due date
- ◆ Bills must be provided 21 days before due
- ◆ Same due date each month

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

The grace period lets you avoid finance charges by paying your balance in full before the due date. Knowing whether a card gives you a grace period is especially important if you plan to pay your account in full each month. Of course it is more important that you do not use this grace period as an excuse for paying after the due date. Paying BY the due date shows financial responsibility. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

By law, your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. In addition, your due date should be the same date each month (for example, your payment is always due on the 15th or always due on the last day of the month). The payment cut-off time cannot be earlier than 5 p.m. on the due date, and if your payment due date is on a weekend or holiday (when the company does not process payments) you will have until the following business day to pay.

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SLIDE 31: CREDIT CARD FEES

Credit Card Fees

- ◆ Membership/participation
- ◆ Monthly, annually or one-time
- ◆ Reduce your available credit
- ◆ 25% of credit limit maximum
- ◆ Cash advance fees
- ◆ Late payment penalties
- ◆ Over credit limit fee
- ◆ International transaction fees

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Many credit cards charge membership or participation fees. These fees may be called such things as “annual,” “activation,” “acceptance,” “participation” or “monthly maintenance” fees.

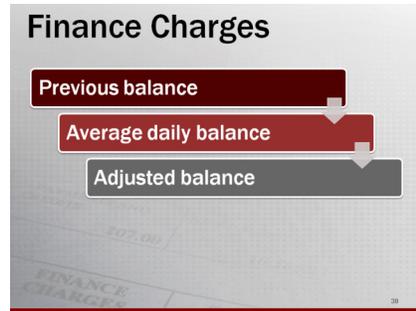
These fees may appear monthly, annually or as a one-time charge. Fees can have an immediate effect on your available credit. For example, a card with a \$250 credit limit and \$50 in fees leaves you with \$200 in available credit. However, these fees cannot total more than 25 percent of the initial credit limit. So, if your initial credit limit is \$500, the fees for the first year cannot be more than \$125. (This limit does not apply to penalty fees, such as penalties for late payments).

Some issuers charge a fee if you use the card to get a cash advance, make a late payment or exceed your credit limit. Some charge a monthly fee whether or not you use the card. And most credit cards will charge foreign or international transaction fees when using the card outside the country; these fees are calculated as a percentage of your overall purchase price (typically 1 percent to 3 percent).

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SLIDE 32: FINANCE CHARGES



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

If you do not have a grace period or if you expect to pay for purchases over time, it is important to know what method the issuer uses to calculate your finance charge. This can make a big difference in the finance charge you will pay, even if the APR and your buying patterns remain relatively constant.

Examples of balance computation methods include the following:

Previous balance: This is the amount owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors exclude unpaid finance charges.

Average daily balance: This is the most common calculation method. It credits your account from the day payment is received by the issuer. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, depending on your plan, cash advances typically are included. The resulting daily balances are added for the billing cycle. The total is then divided by the number of days in the billing period to get the “average daily balance.”

Adjusted balance: This is usually the most advantageous method for cardholders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included. This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.

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SLIDE 33: FINANCE CHARGE EXAMPLE

Finance Charge Example

- ◆ APR = 18%, monthly rate = 1.5%
- ◆ Previous balance = \$400
- ◆ Payment = \$300 on 15th day
- ◆ Purchase = \$50 on 18th day
- ◆ Finance charge
 - Previous balance method = \$4.05
 - Average daily balance method = \$3.75
 - Adjusted balance method = \$1.50

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

How do these methods of calculating finance charges affect the cost of credit?

Suppose your APR is 18 percent, your monthly interest rate is 1.5 percent and your previous balance is \$400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of \$300. On the 18th day, you make a \$50 purchase. Listed below are the finance charges calculated by the various computation methods:

Previous balance method: Including new purchases, your finance charge would be \$4.05.

Average daily balance method: Excluding new purchases, your finance charge would be \$3.75.

Adjusted balance method: Your finance charge would be \$1.50.

If you do not understand how your balance is calculated, ask your card issuer. An explanation must appear on your billing statements.

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SLIDE 34: BALANCE TRANSFER OFFERS

Balance Transfer Offers

- ◆ Balance transfer fees
- ◆ Low introductory rate
- ◆ Retroactive interest charges or rate increase if late payment
- ◆ If pay more than minimum, excess must apply to highest interest rate amount
- ◆ Deferred interest plan

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Many credit card companies offer an incentive for balance transfers; moving your debt from one credit card (Card Issuer A) to another (Card Issuer B). Not all offers are the same, and their terms can be complicated. For example, many credit card issuers offer transfers with low introductory rates. Some issuers charge balance transfer fees. If Card Issuer B charges 4 percent to transfer \$5,000 from Card Issuer A, your fee would be \$200. In addition, if you make a late payment or fail to pay off your transferred balance before the introductory period ends, Card Issuer B may raise the introductory rate and/or charge you interest retroactively. Credit reports watch the number of credit cards opened and transfers of balances, these numbers can affect your credit score.

By law, if you make more than the minimum payment on your credit card bill, your credit card company must apply the excess amount to the balance with the highest interest rate. There is an exception: If you made a purchase under a deferred interest plan (for example, “no interest if paid in full by March 2012”), the credit card company may let you choose to apply extra amounts to the deferred interest balance before other balances. Otherwise, for two billing cycles prior to the end of the deferred interest period, the credit card company must apply your entire payment to the deferred interest rate balance first.

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SLIDE 35: OTHER COSTS AND FEATURES

Other Costs and Features

- ◆ Credit terms vary among issuers
- ◆ Credit limit
- ◆ Affinity cards
- ◆ Over the limit transactions
- ◆ Default
- ◆ Special delinquency rates



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Credit terms vary among issuers: When considering a credit card, think about how you plan to use it. If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, and whether there is a grace period for purchases. If you use the cash advance feature, many cards do not permit a grace period for the amounts due, even if they have a grace period for purchases. That makes considering the APR and balance computation a good idea. But if you plan to pay for purchases over time, the APR and the balance computations are the major considerations.

If you pay off your balance each month, get an account with a low or no annual fee. If you carry a balance, look for low APR and low or no fees. Avoid high-priced add-ons such as credit life, credit disability or credit unemployment insurance.

Credit limit: You will want to consider whether the credit limit is a realistic amount needed where you do not potentially have the ability to overextend yourself, how widely the card is accepted, and the plan's services and features. It is also important to note that credit scores can be negatively impacted when you use more than 1/3 of your available credit. You should take this into consideration when you make decisions regarding the credit limit you need to have set on your cards. Remember, it is important to look at what you need, not what you think you want.

Affinity cards: These are all-purpose credit cards sponsored by professional organizations, alumni associations and some members of the travel industry. An affinity card issuer will often advertise that they will donate a portion of the annual fees or charges to the sponsoring organization or you can qualify for free travel or other bonuses/rewards. To recapture the costs of offering a group's affinity credit card, issuers often prefer working with large organizations that allow direct access to members. There is a reason that these types of cards like working with large groups. This provides the

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issuer with the group's implied endorsement and access to members for the purpose of cross-marketing credit cards and other financial products. They will play on the emotions of the group often capitalizing on the idea that the members all have something in common. It is also important to remember that you do not get any tax benefit for any claimed gifts made on the group's behalf. You also have no control on how much of the donations are earmarked for program services versus administrative fees. There can also be fees associated with this card such as a yearly membership fee, higher interest rates and other unfavorable terms.

Over-the-limit transactions: The new credit card laws have several new features that it is important you are aware of. One new feature is that you must “opt in” to allow your credit card company to charge you over the limit fees. The new law imposes limits to what your credit card company can charge you. What you may like about this feature is that if you allow your credit card company to issue this additional fee, they will approve your purchase. There are several negative impacts this can have on your financial health. Your interest rate can increase and your credit score can take a hit. When you are at your credit limit, this has a negative impact on your credit score. Another negative impact can be if you are ever a victim of identity theft and a thief gets a hold of your credit card information, they can also have unlimited over the limit spending. In order to protect yourself from these negative impacts there are several things you can do:

- Don't opt in
- Know Your Credit Limit
- Enroll in Balance Alerts
- Keep your credit card balance low
- If you're not sure how close you are to your limit, check!

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Default: Your credit card agreement explains what may happen if you default on your account. For example, if you are one day late with your payment, your issuer may be able to take certain actions, including raising the interest rate on your card.

Special delinquency rates: Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

Sales Tactics for additional features: Credit card companies may try to sell you on additional features such as the balance transfers, additional credit card accounts for other users, loans, so-called “Credit Protection” to add to their profits and make you believe this is a great feature of the credit card. These can add to your additional debt.

SLIDE 36: CUTTING CREDIT CARD COSTS



Cutting Credit Card Costs

- ◆ Annual fees
- ◆ Interest rates
- ◆ Introductory rates
- ◆ Grace periods
- ◆ Cash advance terms
- ◆ Additional fees
- ◆ Call your existing credit card company

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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

If you feel you must have a credit card then inquire about issues such as these listed below, so you can make comparisons.

Is there an annual fee? If so, how much? Can it be waived?

What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?

What is the grace period on purchases? (Some cards have a zero grace period.)

What are the terms for a cash advance? Most cards charge a higher interest rate for cash advances, and the interest starts to accrue immediately.

What additional fees apply, such as late payment, over credit limit, cash advances and others? Are there other hidden charges, such as an increase in the interest rate in the event of a late payment?

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It is important to understand that the credit industry has gotten very creative in their attempts to make a profit off the consumer's use of credit. The cost of using credit can turn out to be very expensive. When you use credit, you take the risk of incurring unexpected expenses. For anyone who is just getting into the work force and acquiring their first credit cards and loans you need to be very careful and aware of the attempts by the credit industry to make money off of you by charging you high interest and add on fees. It is also important to understand what types of safeguards are out there for your protection.

There are several avenues available to a service member to reduce the cost of credit. The Service Members Civil Relief Act allows service members to reduce the cost of interest in certain cases. You may be entitled to have the interest rate on some of your loans reduced to 6% for the time you are on active duty. You should talk to someone in legal to assist you in determining if you are eligible for this benefit.

One easy way to save money is to call your existing credit card company, tell them you plan to switch to a card with a lower interest rate, and ask what they can do for you. In many cases, they will lower your interest rate to keep you as a customer. This can be effective if you have been a client with an account in good standing for a year or more, carry a balance and are being charged more than 14 percent.

The government has intervened as they have seen how predatory lenders have taken advantage of service members. The Military Lending Act was enacted by Congress to protect service members, against high-cost lending, irrespective of what creditor issues it, or what form the credit takes. They have imposed a 36% cap on the amount you can be charged for credit. This act requires that the 36% cap be all-inclusive of fees and costs of credit. These are just some of the ways you can reduce the cost of using credit. If you have any further questions you can speak to your PFM Specialist or your Command Financial Specialist.

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SLIDE 37: MILITARY STAR CARD

Military Star Card

- ◆ Regular credit card
- ◆ Variable interest rate
- ◆ Debt owed to government
- ◆ Uniform purchases – no interest
- ◆ Deferred options during deployment
 - 6% interest, no payment and continued usage
 - 0% interest, no payment and no usage
- ◆ Shows on your credit report
- ◆ If don't pay balance in full, will incur interest charges



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

The Military Star Card (formerly NEX, AAFES and Deferred Payment Plan [DPP] cards) is a credit card that can be used at all military exchanges. This is a regular credit card, and the government does not run the program. The card allows you to make purchases and defer payment over time just like any other credit card. The application and screening process is similar to other credit cards, and finance charges will be assessed if the bill is not paid in full each month. The interest rate is variable, which means it will change with changes in overall interest rates.

There is a uniform-purchase plan available under the Military Star Card. Under this plan, you can purchase uniforms and uniform-related items, pay for them over time, and no interest will be charged.

Military Star Card debts are considered debts owed to the government. This means it is easy for them to reach into your paycheck to get the money you owe if you are delinquent in paying your bill.

One special feature of the Military Star Card is the ability to defer payments during a deployment period. The plan offers deployed account holders a reduced interest rate and no payments for those who are deployed for at least 90 days in conjunction with a Joint Chiefs of Staff deployment order. The plan provides the Military Star Card deployed account holders whose account is in good standing two options:

1. A 6 percent interest rate and the ability to continue to use the account during the deployment period while making no payments.

OR

2. A zero percent interest rate during the deployment period, while making no payments. Under this option, no charges can be made against the account during the period of deployment.

However, be prepared to resume your payment schedule upon return.

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We've covered some of the benefits of using the Military Star Card, but it is important to remember there are going to be consequences to these "perceived" benefits. Remember that it will be an extra credit card showing up on your credit report. You must be diligent in saving your money while deployed so that you save enough to pay all balances in full for the no interest account. If you do not pay off the balance, you will incur the interest and that will negate any positive impact the deferment provided. Also, it is important to note if you are accruing interest while you are deployed and making no payments, this will ultimately end with a larger debt. This can also impact your credit report. You are probably noticing a trend here ... All decisions ultimately lead to your credit report.

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SLIDE 38: GOVERNMENT CREDIT CARDS

Government Credit Cards

- ◆ **Official government travel**
 - Reimbursable expenses
 - Payment in full by due date
 - Delinquent after 60 days
- ◆ **Split disbursement**
 - Reimbursement to card contractor
 - Remainder sent to traveler
- ◆ **Credit check**
 - Inquiry will show to credit bureaus
 - Account and limit does not show
- ◆ **Misuse**
 - Personal household expenses
 - Cash withdrawal not related
 - Intentional failure to pay in a timely manner
- ◆ **Dispute charges**
 - Use form
- ◆ **Salary offset**
 - Delinquent funds can be taken from salary

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INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Unless otherwise exempted in accordance with the provisions of the relevant sections of the Financial Management Regulation (FMR), all DoD personnel are required to use the government-sponsored, contractor-issued travel charge cards for all expenses arising from official government travel. Failure to use the government travel charge card shall not be a basis for refusing to reimburse the traveler for otherwise appropriate charges or the traveler's responsibility to pay for the travel charges. Such failure, however, may subject the traveler to appropriate administrative or disciplinary action. Cardholders are responsible for making full payment of the balance on the monthly billing statement by the due date. Accounts are considered delinquent if they remain unpaid 60 days after the billing date.

There are several provisions related to these cards:

Credit checks: Title 10 U.S.C. 2764a requires the evaluation of creditworthiness before issuing a government travel charge card to an individual. The card contractor will perform a credit check on each new card applicant. Depending on their credit score, applicants will receive a standard card, a restricted card or may not be eligible for a card. If the applicant agrees to a credit check, the fact that a check has been performed will appear on the credit bureau's record for the applicant. The issuance of a travel card and the credit limit on the card are not reported to credit bureaus. This process is similar to instances when the applicant personally applies for credit, except that the only information evident to subsequent credit grantors is that an inquiry was made and has little influence on a credit score. Applicants who refuse to permit a credit check may be asked to self-certify to their creditworthiness to obtain a restricted travel card.

Misuse of government travel cards: Government travel cards are issued only for official travel-related expenses. Examples of misuse include but are not limited to: (1) expenses related to personal family or

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household purposes; (2) cash withdrawals from ATMs or banks when not related to official travel requirements; and (3) intentional failure to pay undisputed charges in a timely manner. Cardholders who misuse their DoD travel cards shall be subject to administrative or disciplinary action, as appropriate. While these cards generally shall be used only for reimbursable expenses associated with official travel, certain expenses that are not reimbursable are still considered related to official travel. Guidelines should be consulted for specific details.

Split disbursement: To help travelers with card payments, DD Form 1351-2 (Travel Voucher or Subvoucher) has been modified to permit reimbursement to the card contractor with the remainder of any entitlement sent to the traveler. This process is known as split disbursement. All military personnel are required to split-disburse the total outstanding charges against the travel charge card.

Disputed charges: Should there be a dispute about charges, the traveler can obtain a dispute form or use the dispute form included with monthly account statements sent to each cardholder. The cardholder should complete and send the form to the travel card contractor.

Salary offset: Under regulations published in Volumes 7A and 8 of the FMR, and upon written request of the government travel charge card contractor, the department will use salary offset to deduct from a cardholder's pay any delinquent funds owed to the contractor as long as they are not disputed. Specifics on the procedures are contained in FMR Volume 7A.

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SLIDE 39: CARD SECURITY

Card Security

- ◆ Keep record of card in a safe place
- ◆ Carry only the cards you need
- ◆ Sign card and write "ask for ID"
- ◆ Use PIN whenever possible
- ◆ Check statements regularly
- ◆ Report missing card ASAP



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

In today's fast-paced society, and with the prevalent use of credit and debit cards, security and vigilance are especially important. There are several simple steps to take to guard your cards and identity.

- Keep a record of card numbers, issuer and company contact number for lost or stolen cards. This information is typically on the card, but if you do not have possession of the card, you do not have the information. This information should be kept in a secure location in your home.
- Carry only the cards you need. This will protect you in two ways — from yourself and from others. If you are not carrying the card on you, you cannot succumb to impulse credit purchases. If your wallet is lost or stolen, fewer accounts will be compromised.
- Sign your card and write "Ask for ID" on the card using permanent ink. Most card issuers require that your card be signed as part of the credit agreement; however, nothing requires that the merchant request ID at the time of purchase. The addition of "Ask for ID" on the card encourages the merchant to confirm the identity of whoever is using the card.
- Use PIN-based transactions when possible, but do not carry your PIN number in your wallet. Also, if allowed to choose your PIN number, do not use an obvious combination such as birthday, Social Security number or anniversary.
- Check your bank account and card statements at least monthly. Balance the transactions on record with your receipts. When purging receipts, cross shred them to minimize the chance of the information being stolen.

If your credit or debit card is lost or stolen, report this to the issuer as soon as possible. Follow this up with a letter detailing the account number, when you noticed it missing, and when you reported it to the company. Follow the company's instructions and monitor your account for activity.

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SLIDE 40: IDENTITY THEFT



INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Extensive additional information on identity theft can be found in the Consumer Awareness module.

SECTION BACKGROUND INFORMATION

If you have reason to believe that your identity has been stolen, there are four steps you must take:

1. Call the three credit reporting agencies and place a fraud alert on your credit report. Then ask for the free credit report to which you are entitled.
2. Close any accounts that you suspect have been tampered with or opened fraudulently. Start by calling the security or fraud department of each company. Follow up in writing, and include copies of supporting documents.
3. File a police report.
4. Contact the Federal Trade Commission (FTC). Your information also helps law enforcement officials across the country track down and stop identity thieves.

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SLIDE 41: CASH VS. PLASTIC

Cash vs. Plastic

Cash:

- ◆ Accepted everywhere
- ◆ No fees
- ◆ May help you control your spending
- ◆ No PIN to remember or credit check to pass

Card:

- ◆ Allows flexibility for unplanned purchases
- ◆ May earn you rewards
- ◆ Does not require trips to ATM or bank
- ◆ Some protection against theft and fraud
- ◆ Can incur debt

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Consider the differences between using cash and using a credit card.

Cash:

- Accepted everywhere
- No fees
- May help you control your spending and stay on your budget plan as you will see exactly how much money you are spending as you spend it.
- No PIN to remember or credit check to pass. You don't have to worry about a credit card thief stealing your card and racking up debt.

Card:

- Allows flexibility for unplanned purchases
- May earn you rewards
- Does not require trips to ATM or bank
- Some protection against theft and fraud
- The Negative impact of using credit cards is you can get yourself in debt with unplanned spending and you can incur even more debt if you do not pay off your balance at the end of the month. You may also over spend as you may not realize exactly how much money you are spending each time you pull out your credit card for wants rather than needs.

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SLIDE 42: DEBT-TO-INCOME RATIO

Debt-to-Income Ratio

- ◆ < 15% Proceed with caution
- ◆ 16% to 20% Fully extended
- ◆ 21% to 30% Overextended
- ◆ >30% Seek help



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Calculating your debt-to-income ratio is an important part of avoiding excessive debt. This ratio tells you what portion of your income is used to pay debt each month. Lenders will want to know this figure before they decide whether to give you a loan. The following guidelines are used to determine a safe level of debt:

- **Less than 15 percent:** Use caution when taking on more debt.
- **16 percent to 20 percent:** Fully extended; refrain from taking on additional debt.
- **21 percent to 30 percent:** Overextended; do not take on additional debt and establish a plan to pay down existing debt.
- **More than 30 percent:** Seek help to reduce debt from a reputable debt-management source.

SLIDE 43: CALCULATING DEBT-TO-INCOME RATIO

Calculating Debt-to-Income Ratio

Net Income: **\$3750**
Total Minimum monthly payments: **\$725**

Step 1:
Divide minimum payments by net income

Step 2:
Take the total from Step 1 and multiply by 100



$\$725/\$3750 \times 100 = 19.33\%$ (Fully extended)

INSTRUCTOR NOTES:

1. Read the scenario to the class and go through the calculations with them by reviewing the information on the slide.
2. Distribute the “Debt-to-Income Ratio” handout to participants. Explain that this will be a helpful calculation to know throughout their lifetime.

SECTION BACKGROUND INFORMATION

Let’s look at an example of how to calculate a debt-to-income ratio.

Corporal Smith is an E-4 with dependents and has a net income (after taxes) of \$3,750. The total of his minimum monthly payments is \$725 a month. The debt-to-income ratio calculation would be:

$$725/3750 = .1933$$

$$.1933 \times 100 = 19.33$$

Corporal Smith’s debt-to-income ratio is 19.33 percent.

In this example, the corporal is in the “fully extended” category and should refrain from taking on further debt. Additionally, Corporal Smith should work to start paying down the debt by making extra payments or working with the PFM specialist to set a plan in action.

Knowing your debt ratio and maintaining it at the appropriate level will help you when you purchase a home or car and the interest rate you receive.

Did you know that per SECNAV Instructions 1740.4 and the new MCO 1700.37, E4 and below cannot have a debt ratio above 30% prior to overseas orders?

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SLIDE 44: WARNING SIGNS OF TOO MUCH DEBT

Moderate	Serious	Severe	Extreme
<ul style="list-style-type: none"> • Trouble paying for seasonal or unexpected expenses • No savings • Anxiety and arguments • Rising balances • Using credit to pay credit 	<ul style="list-style-type: none"> • Difficulty paying for essentials • Money runs out • Making minimum payments • Late notices • Using cash advances • Denied additional credit 	<ul style="list-style-type: none"> • Rotating unpaid bills • Threat of losing housing or utilities • Creditors threatening legal action • Negative cash flow • Dishonesty with family 	<ul style="list-style-type: none"> • Survival endangered • Legal actions • Repossession • Foreclosure or eviction • Bankruptcy

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Credit cards make spending easy and may encourage you to spend more than you can repay. Be aware of the warning signs of too much debt. Seek financial counseling if you experience any of these indicators; try to rectify the problem early on, rather letting it get to the extreme.

Moderate:

- Trouble paying for seasonal expenses
- Difficulty paying for unexpected events or repairs
- Little or no savings
- Worry, anxiety, family arguments about money
- Increasing balances on credit
- Using credit to pay credit

Serious:

- Difficulty paying for the essentials
- Money often runs out before payday
- Paying only the minimum on credit cards
- Receiving late notices
- Using cash advances to pay regular living expenses
- Being denied additional credit

Severe:

- Rotating bills or the inability to pay bills
- Possibility of loss of housing or lack of utilities
- Legal action threatened by creditors or collection agencies
- Negative cash flow
- Hiding bills, dishonesty with family

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Extreme:

- Physical survival endangered
- Legal action by creditors in process or wage garnishment
- Repossession or of assets
- Foreclosure or eviction
- Filing or decision to file bankruptcy

As a Marine, you are held to a higher standard than your civilian counterparts. Whether that seems fair or not, it is a fact. As such, you can face both military and civilian ramifications for poor financial management or financial mistakes. DOD Instructions 1344.09 “Indebtedness of Military Personnel” refers to responsibilities governing delinquent indebtedness of members of the Military Services.

If your ability to meet a financial obligation is materially affected by your active duty obligation you may be protected under the SCRA. Certain conditions must be met such as the obligation originated prior to entry on active duty; and you must have paid, prior to entry onto active duty, a deposit or installment under the contract. You should meet with legal to discuss your situation, as each situation is unique and you will be best served with the appropriate legal advice.

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SLIDE 45: CONSEQUENCES OF POOR FINANCIAL MANAGEMENT

Consequences of Poor Financial Management

- ◆ Collections
- ◆ Garnishment
- ◆ Settlement
- ◆ Loss of security clearance
- ◆ Repossession
- ◆ Bankruptcy
- ◆ Foreclosure
- ◆ Career Opportunities

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Collections: If you are delinquent with credit payments, you can be contacted directly for payment. Debt collectors fall into two categories: first-party and third-party. First-party debt collectors are agents for the company that owns the debt. Example: You owe money to ABC Bank. ABC Bank employs Jane Dough as a collections specialist. Jane Dough is a first-party debt collector. Although first-party debt collectors are not required to abide by the Fair Debt Collections Practices Act, most do. Third-party debt collectors are collecting for someone else. Their company has either contracted for the debt collection or they have purchased the debt from the previous creditor.

When dealing with creditors, the first step is to validate the debt if there is any question as to whether it is owed and/or if the collector has the legal right to collect. Every collector must send you a written “validation notice” telling you how much money you owe within five days after they first contact you. This notice must include the name of the creditor to whom you owe the money, and how to proceed if you don’t think you owe the money. If you don’t think you owe the debt, that the amount is incorrect or you question whether the collector is authorized to collect the debt, you must send the debt collector a letter stating that you don’t owe any or all of the money or asking for verification of the debt within 30 days of receiving the validation notice. That collector must stop contacting you at that time. The collector can begin contacting you again if it sends you written verification of the debt, like a copy of a bill for the amount you owe.

Under the FDCPA, debt collectors cannot:

- Contact you at inconvenient times or places, such as before 8 a.m. or after 9 p.m., unless you agree to it.
- Contact you at work if they are told (orally and in writing) that you are not allowed to get calls there.
- Oppress or abuse you or any third parties they contact.

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- Lie when they are trying to collect a debt.
- Declare that you will be arrested if you do not pay your debt.
- State that they will seize, garnish, attach or sell your property or wages unless they are permitted by law and intend to do so.
- Declare that they will take legal action against you if doing so would be illegal or if they do not intend to take legal action.
- Give false credit information about you to anyone.
- Send anything that falsely appears to be an official document from a court or government agency.
- Use a false company name.
- Try to collect any interest, fee or other charge on top of the amount you owe unless the contract that created the debt or your state law allows the charge.
- Deposit a postdated check early.
- Contact you by postcard.

If a collector contacts you about a debt, you may want to talk with them at least once to see if you can resolve the matter – even if you don't think you owe the debt, can't repay it immediately or think that the collector is contacting you by mistake.

Garnishment: Military pay is subject to garnishment for a civilian debt; however, before a garnishment can take place, the creditor must have obtained a judgment from a civilian court in the state where the debt exists. All garnishment orders must be processed through the Defense Finance and Accounting Service (DFAS). Federal law limits the amount that can be garnished from a Marine's pay at 25 percent of disposable pay or the amount allowed by state law, whichever is less. For garnishment purposes, disposable pay includes basic pay, special pay (including re-enlistment bonuses), incentive pay, accrued leave payments, readjustment pay, severance pay, lump-sum reserve bonuses and inactive-duty training pay. Disposable pay does not

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include retired pay, retainer pay, separation pay and allowances such as Basic Allowance for Housing (BAH).

Settlement: Debt settlement involves negotiating a lower payoff to resolve an outstanding debt. However, there are pros and cons of settling a debt versus paying the full amount owed. If the creditor agrees to accept a settlement amount less than the full balance owed, get this agreement in writing prior to making the payment. Some collectors may even agree to delete any negative information from your credit report, but again, get this in writing in advance. Additionally, you will no longer show an open delinquent item on your credit report and you will not be subject to collection calls or legal action.

If you do not negotiate for the negative information to be removed, this account will appear on your credit report as a settled debt rather than paid in full. If you do not get a written statement from the collector that the debt is paid in full, the collector may sell the balance to another collection agency. Additionally, the collection agency is required to report any savings of \$600 or more to the IRS as forgiven debt which is considered a form of income.

If you decide to try to settle a debt, do so yourself. Do not engage a debt settlement company because they cannot do anything that you can't do yourself and they will charge significant fees.

Loss of security clearance: One of the factors considered during initial evaluation and periodic reevaluations for security clearances is financial stability and history. Remember that a security clearance is a representation of trust, honesty and character. If you are having financial difficulties, seeking help such as financial counseling through your chain of command or the MCCS PFM Specialist and taking positive steps toward improving your financial situation speak positively about your character. Avoiding or not acting to resolve financial issues can be seen to speak negatively about your character.

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The Personal Security Appeals Board (PSAB) does not consider what you “plan” on doing as a just cause for not revoking your clearance. They want to see “what you are doing to pay the funds due”. Working with a Personal Financial Management Specialist, showing you have negotiated with the company and are making some sort of payment is looked upon more highly when reviewing the clearance.

Repossession: Most automobile purchase contracts and many large-ticket item purchase contracts contain a repossession clause. Essentially, the item is considered collateral for itself. This clause will spell out the conditions for the item to be subject to repossession as well as any fees or penalties. In the short term, having an item repossessed is, at the least, inconvenient. In the long term, repossession can be very costly and affect your credit report and score for up to seven years. Here is an example of the cost of having a car repossessed:

Lance Corporal Mike White purchased a vehicle for \$20,000. In the purchase contract it states that if he falls 91 days or more delinquent on the loan, the lender has the right to repossess the vehicle and sell it at auction. The clause also states that Lance Corporal White will be responsible for any expenses, legal fees and any deficiency from the sale. He made payments on the vehicle for about 10 months (paying off \$3,000 of the principal balance of the loan) before falling behind three payments, invoking the repossession clause. The lender hires Haul 'Em Off Towing to repossess and store the vehicle prior to sale. Haul 'Em Off charges \$250 to recover the vehicle plus \$75/day for storage fees. The vehicle remains at the storage lot for 20 days until it is sold at auction for \$10,000. The lender continues to pursue Lance Corporal White for collection but rather than seeking to collect the missed payments, they are now seeking a lump-sum payment for the deficiency of \$7,000 (\$20,000-\$3,000-\$10,000), plus the \$250 recovery fee, plus the \$1,500 storage fees, plus the \$250 legal fees, plus the \$250 administrative costs, for a grand total of \$9,250 for a vehicle he no longer owns.

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Bankruptcy: This is not an action to enter into lightly. Bankruptcy should be considered as a last resort after other actions have been taken or when there are no other viable alternatives. Filing bankruptcy will stop creditor calls and collection actions; however Marines are strongly encouraged to seek guidance from leadership, Personal Financial Management Specialists, on base financial institutions, and legal counsel so that all potential military and personal ramifications can be examined and understood prior to pursuing bankruptcy. Additionally, with limited exceptions, people who plan to file for bankruptcy protection must get credit counseling from a government-approved organization within 180 days before they file. They also must complete a debtor education course to have their debts discharged. You can find a list of approved credit counseling agencies under the U.S. Trustee Program on the Department of Justice's website (www.justice.gov). Factors for considering this legal remedy, basic processes, forms, resources, and more can be found at <http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics.aspx>.

Under U.S. law, personal bankruptcy is defined in two forms: Chapter 7 and Chapter 13. Under Chapter 7, all or part of your debts can be discharged after you use your liquid assets (assets that can be quickly converted into cash, such as checking and savings accounts) to repay some of the debt. To qualify for Chapter 7, you must pass a means test proving that your income is less than the median income for your family size in your state. If you cannot pass the means test, you will not be allowed to file for Chapter 7.

Chapter 13 has been described as a court-ordered debt management plan where all or part of the debts are repaid under terms prescribed by the court, typically using a three- to five-year repayment plan paid through the court. At the completion of the plan, any remaining debt is discharged and you are no longer liable for the discharged debts.

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All bankruptcies are a matter of public record, are reported to credit reporting agencies and remain on your credit report for up to 10 years after the filing which could affect your credit score. Because your credit score is based on a number of factors, the negative impact a bankruptcy may have on your score varies. For example, if you have a good credit score with only minor blemishes, you may see a more noticeable drop in your credit score than an individual that already had a low score. Additionally, not all debts can be included in a bankruptcy filing. Some common exceptions are taxes, student loans, child support and alimony. Meeting with a base legal attorney to discuss bankruptcy in more detail on exemptions and more is highly recommended.

Foreclosure: When an individual cannot afford to make payment on their residence, they may be facing a foreclosure. Foreclosure is the legal process in which an owner's right to a property is ended, usually due to default. This typically involves the forced sale of the property at public auction with the proceeds applied to the mortgage debt. Foreclosure is a lengthy process with long-lasting ramifications in that it stays on your credit report for seven years. Banks generally do not like foreclosures because they are expensive, take a considerable amount of time and are difficult. As a rule, they would prefer to work with the homeowner, if possible. Options to explore with your lender to prevent foreclosure can include various forms of loan modification, such as extending the loan term, interest-only payments for a period, forgiving some of the late payments, deferring payments and refinancing. It is generally in the best interest of both the lender and the homeowner if foreclosure can be prevented. If you are facing difficulties with mortgage payments or real estate issues due to relocation, contact your MCCS PFM Specialist or Housing to speak with or get a referral for a Certified Housing Counselor to explore your available options.

If some form of loan modification is not possible or you are in a position where you do not want to maintain ownership of the property, you might consider a short

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sale. In a short sale, you get permission from your lender to sell the home for less than the amount owed on the mortgage. However, this will leave you with a deficiency (the difference between the amount owed on the mortgage and the amount received from the sale). It is preferable to get the lender to agree in writing in advance to forgive any deficiency. This means that they will not sue you to recoup the difference. It is always a good idea to consult a lawyer prior to undertaking a short sale so that you can understand all of the financial and legal aspects of this type of transaction, including any possible tax implications.

Another option to avoid foreclosure can be a deed in lieu of foreclosure (or forfeiture). With a deed in lieu, you turn over your home (you can no longer live in it) to the lender in exchange for the lender cancelling the loan. The lender promises to not begin or to cancel any foreclosure action. Again, it is preferable to get the lender to agree in writing in advance to forgive any deficiency and to consult a lawyer prior to taking action.

SLIDE 46: RECOVERING FROM DEBT

Recovering from Debt

- ◆ Develop a workable budget
- ◆ Use a power payment plan
- ◆ Talk to your creditors
- ◆ Change your behavior



INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

If you find yourself on the brink of financial destruction, all is not lost. There are options for you.

Budget: Develop a workable budget and a spending plan. Do what is necessary to establish a positive monthly cash flow. Prioritize debts. Major items, such as your mortgage and car payment, should be a top priority. While prioritizing your debt you need to evaluate the need for that debt. For example, do you need that Acura or can it be sold to pay off the loan and get a less expensive vehicle.

Our Managing Income, Expenses, Savings and Credit class can help you proceed on a path to recovery.

Use a power payment plan: After budgeting to get a positive cash flow, ensure that minimum payments are made on all monthly bills and then apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the next bill on your

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list and keep the others the same. Again, when that bill is paid off, apply all the money used for the payment to the next bill on your list. In this manner, you will “power pay” down your debt. The PFM can help evaluate this method and possibly offer other solutions and methods.

Talk to your creditors: Stay in contact with your creditors; let them know if there is a problem. Once you have determined how much you can pay to a creditor, approach them with a plan. Be careful about promising more than you can deliver.

Change your behavior: Spend time thinking about how you got into debt to begin with. ... Are you living beyond your means? Are you satisfying all your wants and sacrificing all your needs? Are you an emotional spender or an impulse shopper? Should you not use credit at all?

Becoming and staying debt free is achievable with a bit of effort and self-discipline. The careful examination of spending coupled with a power payment plan can get you to that debt free status. Once debt free, there are several practical alternatives to using credit and acquiring debt, including planning your spending carefully and purposeful saving for specific events, wants and needs.

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SLIDE 47: DEBT RECOVERY OPTIONS TO AVOID

Debt Recovery Options to Avoid

- ◆ Credit repair services
- ◆ Debt consolidation loans
- ◆ Debt settlement companies
- ◆ Bankruptcy

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Credit clinics/credit-repair services: Many of these services charge up-front fees promising to “clean up your credit report” fast and get you out of debt. These services cannot do anything you cannot do for yourself. It is illegal for a company to charge a fee (up front) for this service. Violations should be reported to the FTC at: <http://www.ftc.gov>.

Debt-consolidation loans: In a consolidation loan, you take out one loan large enough to pay off several or all smaller loans. Consolidation loans may reduce the total amount of dollars expended each month on indebtedness, but the cost of credit (the interest paid) will increase because the repayment time has been extended — possibly at a higher interest rate. If indebtedness can be managed without a consolidation loan, it usually will save money in the long term. Note especially that behavior modification is critical for consolidation loans to work. Studies have shown that more than 70 percent of people who take out a consolidation loan have a higher debt-to-income ratio 18 months later than before they took out the loan.

For a small percentage of people, a debt consolidation loan can be a good tool IF they can qualify for the loan from a quality financial institution (bank or credit union), IF they qualify for an interest rate that is better than the average of the rates they are consolidating, IF the total repayment period is equal to or less than the average repayment period of the debts being consolidated, and the biggest factor of all is IF they can refrain from charging on the consolidated cards and/or taking on new debt. As the statistic above shows, most people fail on that last behavioral factor.

Debt settlement companies: Debt settlement companies promise they will negotiate with your creditors, on your behalf, and get your debt reduced. Debt settlement occurs when the company or lender holding a delinquent account offers to “settle” the amount — i.e., they take less than the actual amount owed and “charge off” or settle the rest. Debt settlement

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companies advise you to stop making payments on current debt and have you send them payments, which they hold until they have enough that they can negotiate with your creditors, hoping to get them to settle. This is rarely a viable option to resolving debt issues. Your better option is to talk to a professional credit counselor. To locate a reputable company, the U.S. Justice Department has a website which lists approved credit counseling services (<http://www.justice.gov/ust/eo/bapcpa/ccde/index.htm>), as does the National Foundation for Credit Counseling (<http://www.nfcc.org/>).

Bankruptcy: This often has been the last-resort option for protection from bill collectors, lawsuits and foreclosures, but legislative reforms are making it much harder to use this option to get a fresh start. Bankruptcy does not allow you to walk away from problems. It may severely affect your ability to get credit in the future. It could have a potential negative impact on your career.

SLIDE 48: LIVING DEBT FREE

Living Debt Free

- ◆ Manage your income
- ◆ Track your spending
- ◆ Budget appropriately
- ◆ Change your attitude

If you can't afford it, don't buy it!

INSTRUCTOR NOTES:

Discuss the points on the slide using the information in the column to the right.

SECTION BACKGROUND INFORMATION

Now that we have had an opportunity to discuss managing your credit and debt, let's talk about how to become debt free -- not just how to reduce your debt, but how to live debt free.

There are several things you can do to live debt free. The first thing you must do is manage your income. You have to know exactly how much money you have coming into your home each month. This is your disposable income. Then you have to know exactly how much money basic living expenses cost you each month. Expenses that include items like your rent or mortgage, utilities, transportation costs, and food and medical expenses. These are the necessities of your living expenses.

Then ask yourself how much money you spend each month on non-essential items like cell phones, internet, cable, or dining out. Once you determine what your monthly income and expenses are you can develop a monthly budget. You then should have an idea of what your discretionary income is each month. This is the

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income that you can allocate a portion for wants rather than needs. You must have a clear understanding of what your monthly budget is before you can begin to manage your financial future and learn to live debt free. These are the practical aspects of living debt free. But you need to have an understanding of more than that. You have to adjust how you think about spending money. Here are some ideas that people with a debt free attitude use to manage their thoughts:

- Live by this powerful rule: if you can't afford it, don't buy it.
- Save up for big purchases.
- Pay off existing debt.
- Change your attitude. Don't think of it as going without. Realize that you are empowering yourself to have what you really want tomorrow.
- Find out if anyone you know lives by this philosophy and get examples and advice from them. Seek out a friend or family member whose money management allows them to live debt free.
- Instant gratification is what gets people into trouble with debt. Patience and persistence is what gets you out.

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SLIDE 49: RESOURCES

Resources

- ◆ MCCS - PFM
- ◆ CFS
- ◆ Base Legal Services
- ◆ Defense credit unions
- ◆ Non-profit credit counseling and debt management plans



INSTRUCTOR NOTES:

1. Discuss the points on the slide using the information in the column to the right.
2. Distribute the “Laws and Acts for Financial Protection” handout to the participants.

SECTION BACKGROUND INFORMATION

Credit cards are often used for wants rather than emergencies or planned needs that have been saved for. This, along with impulse spending, gets many people into the “overextended” debt range. If you find yourself with too much debt, there are resources available to you. Your MCCS PFM or your CFS can help you analyze your situation, provide assistance in disputing a bill, correct your credit report, improve your credit score, and advise you as to how to change your behavior so that you move in the direction of building wealth, not debt.

For more help with your credit-related questions or concerns, you have additional resources at your disposal:

- Base Legal Services Office may be able to provide assistance in a dispute over a bill or contract. They strongly encourage Marines who are considering any major purchase to come in with a copy of the contract before signing it. They may help you with any defenses you may have under federal or state laws, such as the Truth in Lending Act, the Servicemembers Civil Relief Act, the Equal Credit Opportunity Act, the Fair and Accurate Credit Transactions Act, the Fair Debt Collections Practices Act, the Fair Credit Billing Act, the Military Lending Act of 2007, and the Credit Card Accountability, Responsibility and Disclosure Act of 2009.
- Your local defense credit unions often have financial counselors available who provide a range of services to members, up to and including full-scale debt management programs
- Non-profit consumer credit counseling agencies provide low- or no-cost financial counseling and debt management.

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SLIDE 50: SUMMARY



INSTRUCTOR NOTES:

1. Distribute the “Session Evaluation” handout to participants. Ask that they complete it and return it to you before they leave.
2. Recap the discussion you’ve had during the session.
3. Answer any remaining questions the participants may have.
4. Optional summary method: Conduct the activity as described below.

Optional Summary Activity:

Credit — You Got It!

Purpose: To review the material covered in class.

Time: 20 minutes

Materials: “Credit — You Got It!” quiz.

Procedure: Distribute the quiz and ask the participants to answer the 15 questions. Allow them a few minutes to answer the questions and then go over the answers to review the material.

SECTION BACKGROUND INFORMATION

With all the money companies stand to make by extending credit, it is no wonder it has become a regular part of our financial life. Managed correctly, credit, whether loans or credit cards, can be a great tool. When abused, they can lead to higher costs, credit denials, less job opportunities, and even bankruptcy.

Remember, there are practical alternatives to using credit:

- Have a working budget or financial plan, keep it up-to-date and live within your means. Your PFM can assist you with developing a budget
- Control your spending and don’t spend money before you have it. If it is not on your budget, do not purchase it. Do not make impulse purchases just because something is on sale. Budget for anticipated purchases such as car or home repairs.
- Have realistic expectations of what you can afford. Don’t try to keep up with your neighbors.
- Have and keep an emergency fund.
- Be thrifty with your food budget. Clip coupons and plan your menus. Don’t purchase prepared foods. Cook at home and limit eating out. Pack your lunch.
- Prioritize your spending on what you can afford and what you need. Not what you want. Don’t worry about what others have. Plan for purchases and spend wisely.
- When making major purchases it is especially important to look at what you can afford and not to go over budget as you may have to live with you payment plan for a long time. If you’re purchasing a car, remember to do your homework and buy an affordable car. The same principle applies to purchasing your home.
- Calculate your current debt-to-income ratio and keep monthly payments at 15 percent or less of your net income.

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Answer Key:

1. c) Capability
2. a) True
3. d) Purchasing assets like a home or education
4. b) Credit unions
5. d) Average daily balance
6. a) The card with the highest rate
7. a) True
8. b) Grace period
9. c) Add-on interest
10. a) Open a bank account
11. b) False
12. b) False
13. d) Two-cycle balance
14. d) To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.
15. b) The military consumer has no safeguards against predatory lenders.

- Evaluate and plan all credit purchases; make sure they fit into your budget if you must make the purchase.
- Shop around for credit; it is just like any other product you would buy. Look for the best deal.
- Check your credit report regularly but at least annually and keep it spotless.
- Use all of your available resources to help you plan and to help you get out of debt.
- Keep a spending journal of what you buy each day. This may seem tedious, but it will track each expenditure and encourage conscious spending.

Remember, financial success is more about behavior than it is about money. If you're in financial distress, figure out why and change your behavior so you can build wealth, not debt.