

Digging Out of Debt:

Taking Control

In this session, you will learn how you can dig out of debt if you need to. You will:

- ✓ Learn five important tips for getting out of debt.
- ✓ Understand bankruptcy.
- ✓ Know where to find credit counseling.

What tools can **you** use?

As many people know, it's easy to get into debt.

And it's much harder to get out of debt again. But if you are in debt, you can get out! It will take work, and you'll have to stick to it.

But you can do it. Want to know how?

Five Tips for Digging Out of Debt

Here are five important tips for digging out of debt:

- 1.** The most important rule: *pay off your loans and credit card debt before other expenses*. Look at how much interest each debt charges. Pay off the highest-interest debt first. (However, if paying your credit card debt means you might lose your car, make the car payment first. Or if a lender has taken legal action against your house, make the house payment first.)
- 2.** Pay your rent and household expenses on time. If not, you may risk being evicted. Or your lights or phone might be turned off.
- 3.** Use only one credit card. Use it only in emergencies. Pay it off in full every month. If that's too hard to do, cut up the card and call the company to cancel it. You'll still owe what you've already charged, but you won't be tempted to charge more. Credit card debt is expensive. It's much better to wait and save for something.
- 4.** If you know you won't be able to pay a bill on time, call the company you owe money to (your *creditor*). Call before you miss a payment. That's hard. But it's not as embarrassing as getting calls demanding payment. Talk with the company about your options. Maybe you can pay less for a few months. Perhaps there is a fund to help low-income families; many utility companies have such a fund.

5. If you owe a lot of money, think about getting expert help. A nonprofit credit-counseling organization can help you set up a repayment plan. The counseling should be free. You may find *credit counseling* through banks, credit unions, housing authorities, or a college.

Stay away from *credit repair companies* that charge money to help you. They may offer to “fix” your credit history for a fee. Promises such as, “We can erase your bad credit” are not true. Only you can fix your bad credit.

To find free credit counseling and information:

- National Foundation for Credit Counseling, 1-800-388-2227, www.nfcc.org
- American Consumer Credit Counseling, 1-800-769-3571, www.consumercredit.com
- Myvesta Foundation, www.myvesta.org

Bankruptcy

You may have heard of *bankruptcy*. It is a legal process. People use it when their debt is so high they cannot make the payments they promised to make. It can erase their debts and it can help give them a fresh start.

While bankruptcy can look like an easy way to get out from under debt, it has serious consequences. You can lose most of your assets (things you own, including cash). It can keep you from getting credit in the future. Or if you get credit, it may be at a high interest rate.

Before you consider bankruptcy, make an appointment for free credit counseling.

Only you can fix your bad credit.



Maria's Story

Maria had three credit cards. She used them to buy a lot of things. When she couldn't pay the bills, interest was added. Then more interest was added on top of that. Soon she was deeply in debt. So she went for free credit counseling. The counselor helped her combine her debt into a fixed interest loan. He helped her plan ways to pay off her debt. She is improving her credit record.

Now Maria uses a debit card. She has no credit cards. She doesn't owe any money. Maria is very happy about that!



Action Plan

Based on what I learned in this session and if I have heavy debt, before the next class I will:

- Contact a free credit counseling organization.
- Explore how I can reduce my debt.

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Building Your

Assets

This session will help you build your physical assets. You will:

- ✓ Understand the difference between personal and physical assets.
- ✓ Know some of the ways you can invest in physical assets.
- ✓ Learn about insurance to protect your future. Know how to protect against identity theft and scams.

*What assets do **you** have?*

**Everyone has two kinds of assets—
physical assets and personal assets.**



Personal assets include your skills and experience. They help you get a good job. Getting a college education or job training is an investment in your personal assets.

Physical assets are things you own that can be turned into cash.

There are many different ways to build physical assets. One is by saving. Another is by *investing*. That is using the money you have to build more money.

People invest in a lot of things. They invest in property, stocks, bonds, or a business. They invest because they want to make a profit. Some investments are safer than others.

Some investments are:

- *Certificates of deposit (CDs)*. These are issued by credit unions and banks. They earn more interest than regular savings accounts. But you have to put in a larger amount of money to start than in a regular savings account. And you need to leave the money in for a longer length of time.
- *Money market accounts*. These are similar to savings accounts, but they earn higher interest. You have to put more money into these to start than a typical savings account. And you have to keep a certain amount in the account to earn higher interest. Be sure you know the rules if you open such an account.

You
can
grow your assets

- *Real estate.* Buying a house is one kind of real estate investment. You usually need a good credit rating to get a home loan. You may need to have a fairly large down payment. Talk with your bank or credit union about programs that help families buy a home. Land and commercial buildings are other kinds of real estate investments.
- *Bonds.* These are issued by corporations, governments, public utilities, and other large entities. Bonds promise to pay back your money, with interest, over a set period of time. Bonds have ratings that tell how risky or safe they are.
- *Stocks.* When you buy stocks, you become a part owner of the company. Stocks can go up or down in value very quickly.
- *Mutual funds.* The professionals that manage the mutual fund buy stocks and bonds and put them into the fund. You, and other investors, buy shares in the fund. The value of the shares goes up or down based on the value of the stocks and bonds held by the mutual fund. Mutual funds are a good way to *diversify* your investments. That means spreading your money among different kinds of investments, not “putting your eggs in one basket.” Diversifying lowers your risk.
- *Compound interest.* Another way to invest is to put your money into a savings account, a CD, or a money market account. Then leave it there! Your money earns more and more interest over time. This is called *compounding*. Compounding earns you interest on your interest!

Every investment choice has risks.

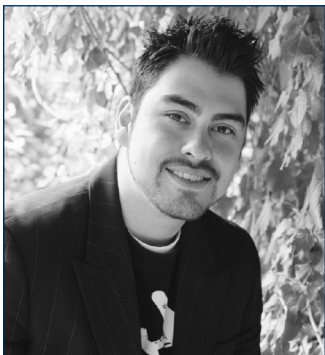
**But it's also risky to keep your money in a cookie jar
or under a mattress. Understanding risks and investing
wisely can help build your assets.**

Insurance to Protect Your Assets

Insurance helps protect your physical assets. It helps protect the “big stuff” you own.

- *Homeowner’s insurance* is important. It helps protect your house. It pays if your house is damaged or destroyed.
- *Renter’s insurance* pays if the things you own inside your apartment are damaged or destroyed.
- *Life insurance* can help bring peace of mind for you and your family. It helps support your loved ones if you die. The cost of life insurance depends on many things. It depends on your age. It also depends on how much money you want to leave your family.
- *Auto insurance* is also very important.
- *Liability insurance* pays if you hurt someone or something with your car.
- *Replacement insurance* pays if your car is damaged. It can help you replace your car. Take the highest *deductible* you can afford. That’s the amount you pay before insurance pays.
- Ask about *discounts* on auto insurance for being a safe driver or for getting good grades in school. You might pay less.

Insurance agents can help you find the right insurance. That’s their job. They want your business. They are happy to answer questions. You can ask questions without buying any insurance.



Phillip’s Story

Phillip bought a new car. He was very proud of it, and bought replacement insurance for it. Not long after, a careless driver hit his new car. It was hit hard and destroyed.

Phillip had to pay a deductible of \$500. That was hard. But he was glad he had replacement insurance. The insurance paid more than \$2,000 so he could get another car. Without the insurance, Phillip would not have been able to afford another car.

Protecting Against Identity Theft and Scams

While most people are honest, there are those who want to steal your money! They want to steal your identity. And they want to steal by scamming (cheating) you.

Identity theft happens when someone gets your personal information. They use it to get credit cards to buy things and charge them to you. They use it to withdraw money under your name. Identity theft is a crime, but it's very hard for police to stop. People whose identities are stolen sometimes have to spend a lot of money and time to get the problem straightened out.

Be very careful with your personal information! Here are some tips for keeping your information safe.

- Keep your checkbook, credit card, drivers' license, and Social Security card in a safe place.
- Never loan anyone your credit card or debit card.
- When you use an ATM machine, be sure no one can see what PIN numbers you punch in.
- Don't share personal information with anyone you don't know well.
- Never give anyone your PIN.
- Shred papers that contain personal information such as your bank account number. Thieves can pull this information out of the trash and use it.
- Never give your personal information to someone who has called you on the phone.
- Never answer an e-mail that asks for any personal information. That includes your Social Security number and numbers on your driver's license, credit card, or bank account.

**Be very careful with your
personal information!**

Scams are another way people try to steal from you. Scams come through mail, phone calls, and e-mail. Remember:

- You cannot win a lottery if you have not bought a ticket for it!
- Never respond to an e-mail asking for account information.
- Never send money to a stranger, even if he or she promises to send a lot of money back.
- If someone sends you a check, make sure the bank says it's good. Wait two weeks before spending a refund.



Action Plan

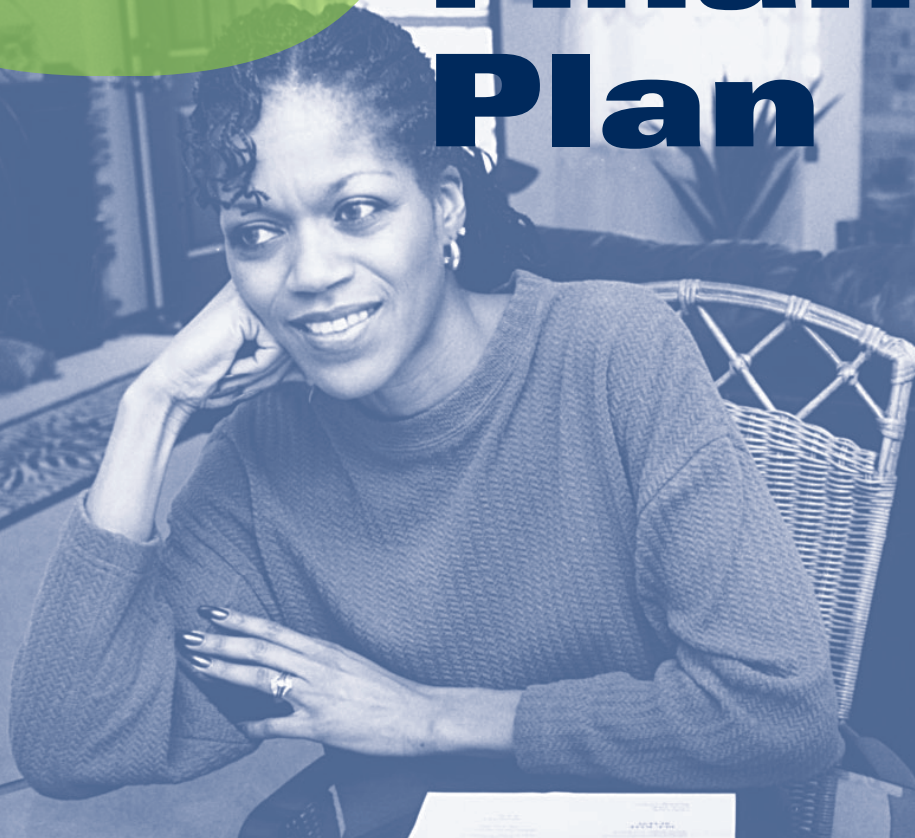
Based on what I learned in this session, before the next class I will:

- Make sure my personal information is kept in a safe place.
- Shred any personal information that I throw away.



Creating a Personal

Financial Plan



In this session, you will learn how to figure out:



The value of your assets combined.



How long it will take you to save to meet your dreams.

What is **your** financial plan?

We have to work and save for what we want.

And there is no better time to start saving than right now!

Saving Essentials: Starting NOW!

We would all like to have good things today. No one likes to wait for new clothes or a better car. But life doesn't work that way. We have to work and save for what we want. And there is no better time to start saving than right now!

Savings are important for a lot of reasons:

- For emergencies, so you won't have to take out a loan.
- To reach your goals.
- To buy expensive items, such as a car or a home.
- For peace of mind. When you save for what you want, you don't have to worry about paying off a loan.

So, how can you save to reach your goals? An important rule is to *always pay yourself first!* If you make \$100 a week, set aside \$10. Or set aside more, if you can. *No matter how much or little, set aside some money every pay period.* Even a few dollars can add up over time. (Remember—even pennies matter!) Sometimes, you can have money automatically put into your savings account from your checking account or from your paycheck. This will help you save money.

You
can

make this work

Like losing weight, saving money isn't easy. You have to keep doing it week after week. If you make a mistake one day, get back on track the next day. Don't give up your goals!

My Net Worth

Have you ever figured out your physical assets? You might be surprised. You might have more assets than you think.

Let's list them now.

Write down all the things you own that could be turned into cash. Next to them, write down how much they are worth. The things you own are the PARTS. The "total assets" at the end is the WHOLE.

My assets (Things I own that have value)

House	Value \$ _____
Land	Value \$ _____
Other property	Value \$ _____
A business	Value \$ _____
Cars	Value \$ _____
Stocks	Value \$ _____
Bonds	Value \$ _____
Certificates of deposit	Value \$ _____
Savings account	Value \$ _____
Checking account	Value \$ _____
Investment fund	Value \$ _____
Pension/retirement fund	Value \$ _____
Jewelry/personal items	Value \$ _____
Coins/collections	Value \$ _____
Whole life insurance policy	Value \$ _____
Other	Value \$ _____
Total Assets	\$ _____

Now list all of your *debts* (what you owe). Again, the things you owe are the PARTS, and they add up to the WHOLE. The WHOLE is the same as (it equals) your total debts. Your debts might include:

My debts (<i>Money that I owe others</i>)	
Credit card	Amount \$ _____
Home loan (mortgage)	Amount \$ _____
Car loan	Amount \$ _____
Furniture loan	Amount \$ _____
Educational loan	Amount \$ _____
Loan from a friend	Amount \$ _____
Other	Amount \$ _____
Total debts	\$ _____

Your Total Assets minus your Total Debts is called your *net worth*. Write your net worth here:

Total Assets \$ _____	– Total Debts \$ _____	= Net Worth \$ _____
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Don't feel bad if you don't have a lot of net worth right now. In this course, you are learning to manage money. You are taking steps to make your net worth grow.

Remember, net worth is not the same as self-worth. Rich people are not "better." It's what is inside you that counts. It's what you give to the world that counts. You are important to many people. You are important to your friends, your family—and yourself.

What I Want to Have Next

In the first class, you wrote down your goals. Go back and look at your short-term goals on page 2. Also look at your one-year goals. You can reach them! It just takes planning. It takes saving. It takes one step at a time.

To learn how to reach your goals, do four things:

1. Write your goals in the form on page 66.
2. Write down the cost of each goal.
3. Write down how much money you can save each month and each week toward that goal.
4. Figure out how many months it will take you to reach that goal.

For example, Jan's one-year goal is to buy a computer. The computer will cost \$1,000. Jan can save \$100 each month. She divides \$1,000 by \$100 (the amount she can save each month) to find the number of months it will take to reach her goal. There are 10. It will take Jan 10 months to buy the computer.

$$\$1,000 \div 100 = 10 \text{ months}$$

Goal	Cost	Amount to save each month for this goal	Amount to save each week for this goal	Number of months to reach my goal
Short-term goal <i>Buy a computer</i>	<i>\$1,000</i>	<i>\$100</i>	<i>About \$25</i>	<i>10 months</i>

Use the form below for each of your short-term and one-year goals. Figure out how long it will take you to reach your goals.

Goal	Cost	Amount to save each month for this goal	Amount to save each week for this goal	Number of months to reach my goal
Short-term goal				
Short-term goal				
Short-term goal				
Short-term goal				
One-year goal				
One-year goal				
Five-year goal				
Many years from now				



Action Plan

At the end of this session, I will have figured out:

- My net worth.
- How long it will take me to save to reach my goals.

Conclusion



Congratulations! You are taking important steps in mapping your career path. You are learning to manage your money.

You have learned several important steps to manage your money:

- *Pay yourself first! Save something every single month.*
- Set your goals and save up to reach them. You can do it!
- Find and plug your spending leaks.
- Create a spending plan and stick to it.
- Know the difference between wants and needs.
- Have only one credit card. Use it only for emergencies or major purchases.
- Get help if your debt is high.

You're on your way to a more secure future!

Useful Resources

There are a number of good Web sites to help you manage money.

For information about saving money:

- Federal Citizen Information Center, 1-888-878-3256, or www.pueblo.gsa.gov
- www.smartsource.com
- www.stretcher.com
- www.cheapskatemonthly.com

For information about smart buying:

- www.consumer.gov
- www.consumerworld.org
- www.consumersunion.org

For information about low-cost, tasty meals:

- Share Our Strength, 1-800-969-4767, or www.strength.org

For information about financial planning and investing:

- Alliance for Investor Education, or www.investoreducation.org

- National Association of Investors Corporation (investment clubs), www.better-investing.org
- Find a Certified Financial Planner or get a free kit on financial planning, www.cfp.net

For help with federal income taxes:

- Internal Revenue Service, 1-800-829-1040, or www.irs.gov
- American Association of Retired Persons (AARP), 1-888-687-2277, or www.aarp.org

For free credit counseling:

- National Foundation for Credit Counseling, 1-800-388-2227, or www.nfcc.org
- American Consumer Credit Counseling, 1-800-769-3571, or www.consumercredit.com
- Myvesta Foundation, www.myvesta.org

For referral to low-cost lawyers:

- Legal Services Corporation, 1-202-295-1500, or www.lsc.gov

Glossary of Terms

Auto insurance. Helps pay if your car is in an accident.

Automated Teller Machines (ATMs). Machines that let you take cash out of your checking or savings account without writing a check. You need a special plastic card and a personal identification number (PIN) to use an ATM.

Bank. A financial institution, open to anyone, that offers services such as checking and savings accounts, loans, and credit cards.

Bankruptcy. A legal process used by people when their debt is overwhelming. It can erase their debts and help give them a fresh start.

Benefits. Things that help you (are of benefit to you). Some common employer benefits are vacation time and sick leave.

Bonds. An asset issued by governments, companies, banks, public utilities, and other large entities. They promise to pay back your money, plus a fixed rate of interest, at a specific end date.

Bounced check. A check written for more money than you have in your checking account. Extra fees are charged for bounced checks. Also called an *overdraft*.

Certificates of Deposit (CDs). Investments issued by banks, credit unions, and savings and loans that

pay interest for use of your money for a set period of time. Also known as “time deposits.”

Checking accounts. A bank account that lets you pay for things without cash.

Checks. Pieces of paper that you write on to pay for things. The money is taken out of your checking account at the bank or credit union where you have an account.

Check register. A small book to help you keep track of money in your savings and checking accounts.

Compound interest. Interest on money you invest, which continues to earn interest itself.

Credit card. A plastic card that lets you take out a loan to buy things without cash. These loans must be paid back. If they're not paid back within a month, you pay interest.

Credit counseling. Free counseling by a nonprofit organization to help people who owe a lot of money.

Credit rating. A score of how well a person uses credit. It covers the previous seven years.

Credit repair companies. For-profit companies—to be avoided—that charge money and often make untrue claims about helping people in debt “fix” their credit history.

- Credit report.** A report that describes your use of credit.
- Credit union.** Similar to a bank except it is a nonprofit. Credit unions are usually formed by a church, a company, or a community. You have to be part of the church, company, or community to join a credit union.
- Debit card.** A plastic card that lets you buy things without cash. Unlike credit cards, you don't take out loans when you use a debit card. Instead, the money is taken out of your checking account.
- Deductions.** Items that are subtracted. For example, taxes are taken out of (deducted from) your paycheck before you receive it.
- Diversifying.** Spreading your money among different kinds of investments. Diversifying lowers your risk.
- Equal sign.** A sign (=) meaning "is." It shows a different name for the same thing.
- Gross pay.** The total amount you earned in the pay period.
- Homeowner's insurance.** Insurance that pays if your house is damaged or destroyed.
- Identity theft.** Theft of your personal information (credit card numbers, Social Security number, etc.) that is then used to steal money from you.
- Interest.** Money you are paid for an investment. For example, interest is paid by a credit union or bank where you have a savings account.
- Investing.** Using the money you have to build more money.
- Life insurance.** Helps support your loved ones if you die.
- Loans.** What you take out when you ask someone to give you money. Loans from banks and credit unions require that you pay back the money that you borrowed plus some extra money (interest).
- Money.** A token that people will accept for what they have to trade.
- Money market accounts.** Savings accounts that have many of the same services as checking accounts. Usually managed by a bank or a brokerage.
- Mutual funds.** Pools of stocks and bonds run by professionals. You can buy shares in the funds.
- Net pay.** What is left in your paycheck after taxes and other deductions are subtracted. The amount you get to take home.
- Net worth.** What you own when your total debts are subtracted from your total assets.
- Overdraft protection.** A plan you sign up for at your bank or credit union. For a fee, the plan will cover the amount of a check written for more than you have in your account, so the check doesn't bounce.
- Over-limit fee.** A fee that may be added to your credit card bill if you charge more than the limit on your credit card.
- Pay stub.** A record of what you earned and what is taken out of your paycheck.
- Personal assets.** Your personal characteristics, including your skills and experience.
- Physical assets.** Things you own that can be turned into cash.
- Quest card.** A debit card given to people receiving TANF that lets them withdraw money from an ATM.
- Real estate.** Land, houses, condos, and commercial buildings are all real estate.
- Renter's insurance.** Pays if the things you own inside your apartment are damaged or destroyed.
- Repossessed.** If you get too far behind in paying for an item you bought with a loan, the lender can take the item back.
- Savings accounts.** Like a piggy bank, except your money is kept safe in a bank, credit union, or savings and loan, and you earn interest on it.
- Scams.** A way that people try to steal from you.
- Secured credit card.** A card with a low limit, which is "secured" by money you deposit in a savings account in advance.
- Secured loan.** A loan on property such as a car or house. It's called "secured" because the property can be taken away if the person taking out the loan misses loan payments.
- Spending diary.** A record of all the things you buy in a week.
- Spending plan.** A budget. A comparison of income and spending to ensure that you are not spending more than you earn.
- Stocks.** Shares in a company. The value of stocks rises or falls as the value of the company rises or falls.
- Tax credits.** Reduction in your income tax for having children, paying for child care, or paying for an education.

Acknowledgments

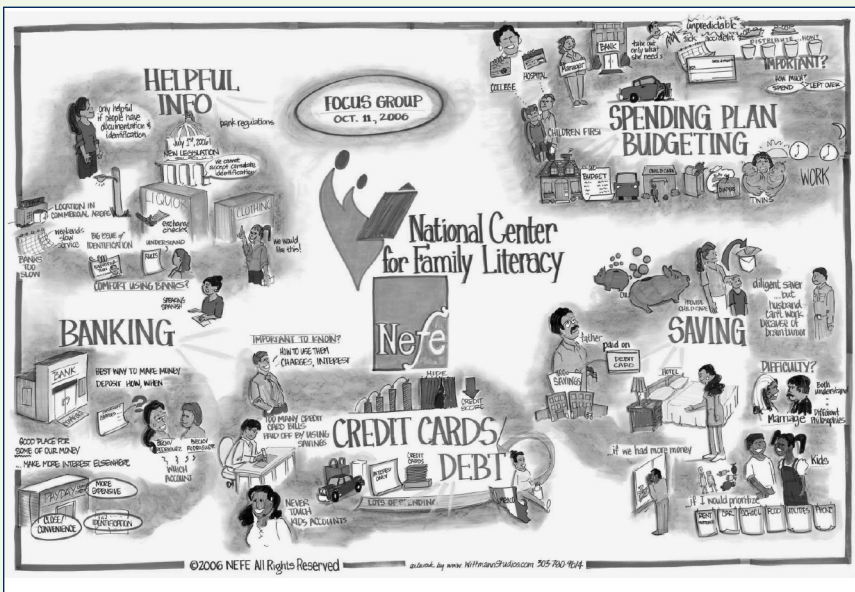
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NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being



Life teaches us many things.

One is that we have to take care of ourselves.

That means exercising, eating right, and getting enough sleep.

It also means making good choices. Good choices about friends.

Good choices about how we spend time.

And good choices about money.