

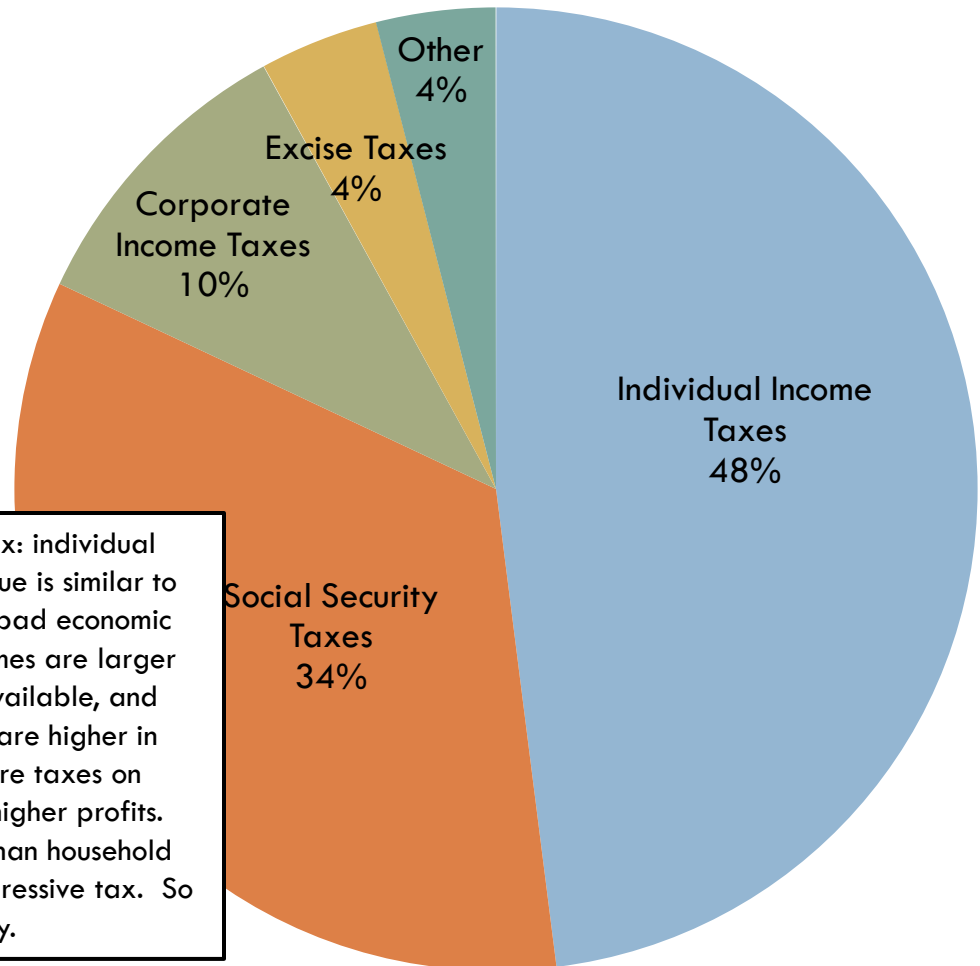
GOVERNMENT REVENUE AND SPENDING



Revenue Sources

□ Taxes

- ▣ Individual Income
- ▣ Corporate Income
- ▣ Excise taxes
- ▣ Social Security
- ▣ Other



Over 90% of revenue comes from only 3 major categories of tax: individual income, corporate income and social security. Government revenue is similar to family revenue. Income is higher in good economic times than in bad economic times, such as in a recession. When times are good, family incomes are larger because it is easier to find work, overtime work may be more available, and business profits are higher. Similarly, the government's revenues are higher in good times because more people are working and they pay more taxes on their larger incomes, and corporations pay more taxes on their higher profits. When times are good, government revenue rises more rapidly than household revenue. This is because our federal income tax system is a progressive tax. So as people's income rises, so does the percentage of tax they pay.

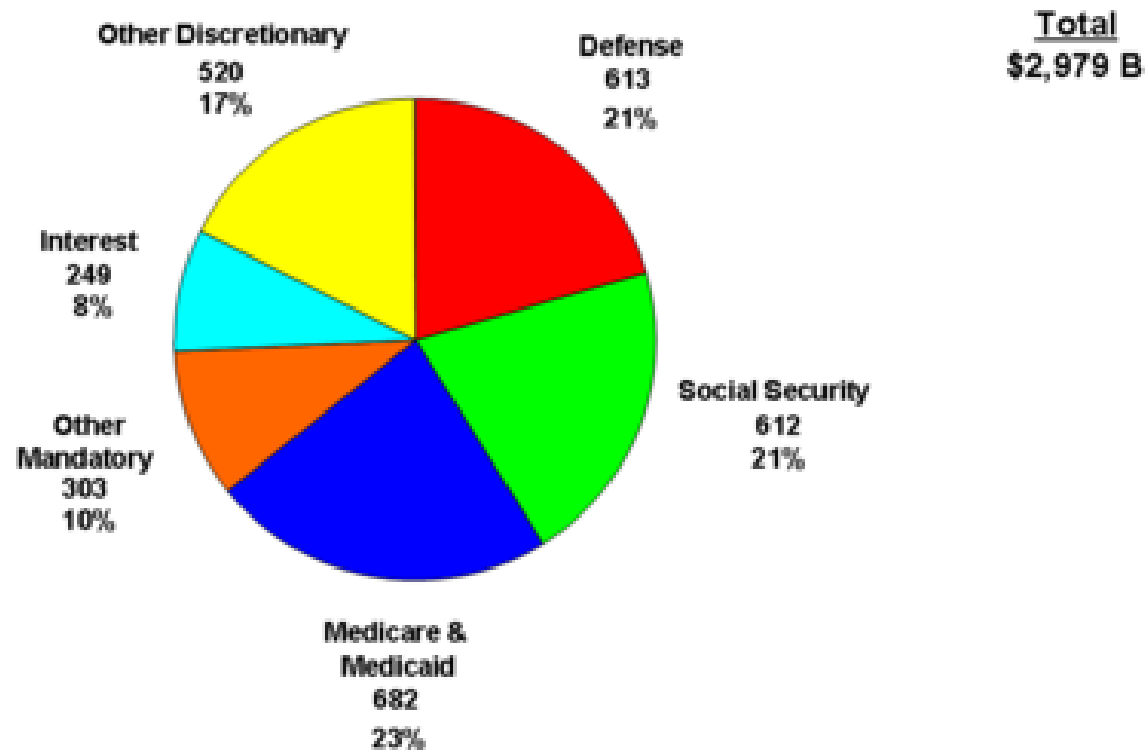
Spending

- Government Expenses Include:
 - ▣ National Defense
 - ▣ Social Security
 - ▣ Medicare & Medicaid
 - ▣ Interest

Just as households have to pay bills and buy food, the government also has purchases that are necessary. These expenses are broken up into mandatory and discretionary expenses which we will cover later.

Spending

U.S. Federal Spending – Fiscal Year 2008 (\$ Billion)



Source: Congressional Budget Office

Creating the Budget

- Fiscal year
 - ▣ Runs October 1 until September 31

- Begins in February for the following year
 - ▣ President submits budget to Congress
 - ▣ Budget outlines funding recommendations

The President can submit the budget no earlier than the 1st Friday of Jan and no later than the 1st Monday of Feb. They usually submit it the 1st Monday of Feb.

- House and Senate changes

After the President submit the budget, the House and Senate must agree on a budget resolution to establish an outline for all expenditures and revenues. The spending side of the budget is divided into two different expenses: mandatory and discretionary.

Creating the Budget

- Mandatory Spending

- ▣ House Ways and Means

- ▣ Senate Finance

- ▣ Reconciliation Bill

Mandatory spending is the spending that is uncontrollable. The government, by law, has to pay Social Security benefits and Medicare benefits to those entitled. Another mandatory expense is the interest paid on debt the government has. After the President submits his proposal to Congress, the House Ways and Mean Committee and the Senate Finance Committee deal with revenue and entitlement issues. Each committee comes up with a bill. The Budget Committees then put together the bills and make one bill.

Creating the Budget

- Discretionary Spending
 - ▣ Appropriations Committee
 - ▣ 13 subcommittees
 - ▣ 13 final bills

Discretionary spending is spending the government has more say in. Unlike Social Security and Medicare in mandatory spending, no one is entitled benefits from discretionary expenses. The government is free to spend it how they please. To do this, they have set up 13 committees. Each have a different expenses and come up with a bill for that expenses. Between the House and Senate committees, 13 final bills are produced.

Creating the Budget

- Final approval
 - ▣ Congress votes
 - ▣ Must pass by October 1
 - ▣ Sent to President

After each bill has been voted on and approved by Congress, the approved bill is sent to the President to veto or sign. If the President vetoes the bill, it can be sent back to Congress where it can be passed with a two-thirds majority vote.

Budget Principles



The U.S. Constitution (Article I, section 9, clause 7) states that the "[n]o money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of Receipts and Expenditures of all public Money shall be published from time to time."

Budget Principles

□ Cash basis

The budget is on the cash basis, which means that revenues and expenses are recognized as they occurred, not necessarily when the expense is used to create the revenue.

□ Funds must be approved and authorized

Federal agencies can not spend money without it passing the vote in Congress and being signed by the President.

□ “Emergency” funds

Some spending can be deemed “emergency” and does not have to pass through certain Congress red tape. This is usually for relief aid or war expenses.

THE FEDERAL RESERVE



History

- 1913 – decentralized central bank was form
 - ▣ Bank under public control, not banker control

- Banking Act of 1933
 - ▣ Placed open market operations under Federal Reserve
 - ▣ Holding companies now examined by Federal Reserve

- Bank Act of 1935
 - ▣ Changed Federal Reserve structure
 - ▣ Removed open market operations from Fed control

Structure

□ 12 Federal Reserve Banks

Located in 12 major cities. Also have branches within their region.
Called a “banker’s bank” because it stores currency and coin and processes checks and transactions

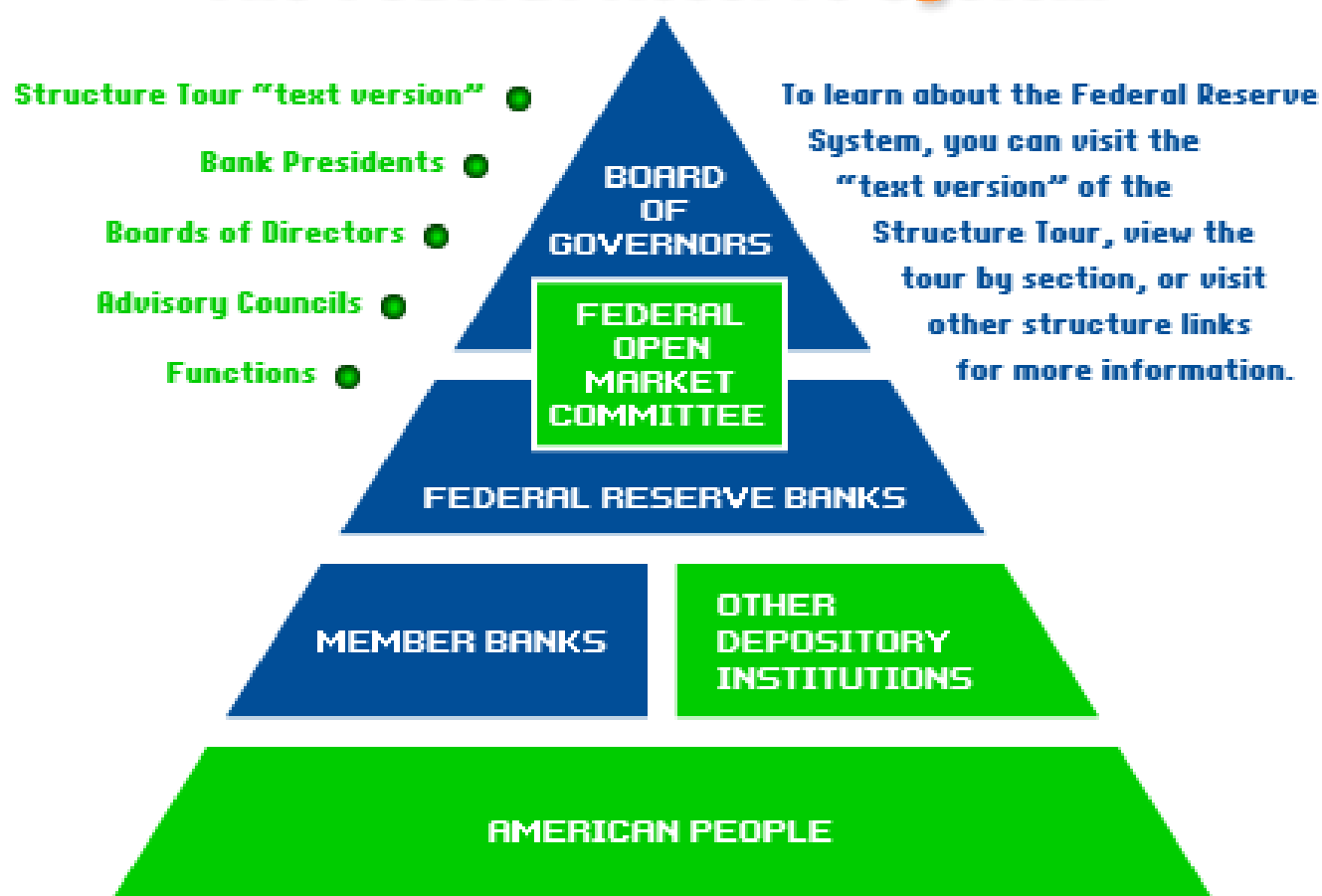
□ Federal Open Market Committee

Makes Fed’s monetary policy for that year

□ Board of Governors

Structure

The Federal Reserve System



Duties of Federal Reserve Banks

- ▣ processing checks and electronic payments
- ▣ issuing Federal Reserve Notes
- ▣ holding reserves of banks and other depository institutions
- ▣ monitoring regional economic conditions
- ▣ advising the Board of Governors
- ▣ helping make monetary policy
- ▣ Supervise member banks in district
- ▣ Administer discount window

Most important duty of the Board of Governors is to participate in the Open Market Committee

Duties of Board of Governors

- ❑ Set reserve requirements
- ❑ Recommend discount rate
- ❑ Set margin requirements
- ❑ Supervise the 12 reserve banks
- ❑ Regulate bank holding companies
- ❑ Write banking regulations
- ❑ Regulate foreign banks in US
- ❑ Supervise the overseas activities of US banks
- ❑ Provide information to the public - the Beige Book

Goals of the Federal Reserve



- Full employment

- Price stability

Fed uses monetary policy to achieve it's goals

- Sustained economic growth

- Stability in exchange rates

Independence

- Federal Reserve does not answer to Congress or the President
- Appointed by President
- Congress can modify what it creates

Fed does not answer to the President, however the President appoints its leaders. The Fed doesn't answer to Congress either, but it was created by Congress and can be modified by Congress

Monetary Policy

what the Federal Reserve, the nation's central bank, does to influence the amount of money and credit in the U.S. economy

-federalreserveeducation.org

Monetary Policy

□ Tools

▣ Open market operations

The process by which the central bank buys or sells securities in the open market to control monetary growth or interest rates

▣ Discount rate

Discount rate is the rate at which the Fed lends to other banks

▣ Reserve requirements

Reserve requirements are rarely used to obtain goals. It has been set at 10% for a long time now and will not be reset soon.

□ Uses tools to obtain Fed's goals

BANKING

An introduction to banks and banking

Introduction

A bank is a business that sells financial services.

Profit

Interest Earned on Loans – Interest Paid

Discuss that a bank is just like any other business. Instead of selling cars, for example it is selling financial services. A used car dealer purchases a car from you and then sells it at a higher price to someone else. Just like the used car dealer (except more reliable!), a bank pays you to borrow your money and then charges someone else more to use that same money. This is how they make a profit.

Types of Banks

□ Commercial banks

These banks began with a focus on serving commercial clients. They provided large loans and a place for businesses to keep their cash. They still worked with individuals but gave the best benefits to businesses.

□ Savings banks

These banks were created in response to individuals' needs for saving. They were a secure place for blue-collar workers to put away money for a rainy day.

□ Savings and loan associations

These were established in order to help working class citizens become homeowners. They would accept savings deposits and then use those deposits to make mortgage loans.

□ Credit unions

These institutions were created in order to meet the emergency borrowing needs of individuals who did not qualify to borrow from other banks. Credit unions were often started by individuals who had some common connection (working in the same factory, for example). They would pool their savings and make small loans to one another.

**Most of these institutions are essentially
the same today.**

Over time banks have evolved, and now most banks offer very similar services to both commercial and individual clients.

<http://www.bos.frb.org/education/pubs/banking2.pdf>

Choosing a Bank

Four Things to Consider

□ Interest rates and fees

Interest rates are going to be similar between most banks. Be sure to ask for the APY (annual percentage yield) at each bank. Other methods of measuring the interest, like APR (annual percentage rate) vary in the way that they are calculated, but APY is calculated consistently everywhere.

Look at the fees charged by the bank. Continually ask your bank about discounts on these fees (based on age or changing family situation for example). Be sure to ask about the requirements of “free” accounts. There are usually some minimum balance requirements involved and you could be charged if you fall below the minimum balance. Also, see if there is free overdraft protection. This could save you \$20 to \$30 if you accidentally overdraft your account. If you do accidentally overdraft your account, be sure to go and talk to someone. If it is your first time, they may very well refund the fee.

□ FDIC insurance

Make sure any bank you choose is FDIC insured. This will protect your savings in the event that the bank fails. We will talk more about this later.

□ Convenience of location and hours

It is best to have a bank that is in a convenient location and open during the hours that you need to access it. This will keep you from having to make too many ATM transactions that could be costly.

□ Quality of service

Of course you want a bank that will serve you well. Ask acquaintances about their banks; walk in to a bank and see how efficient and courteous they are.

Types of Accounts

□ Savings accounts

Savings accounts are for people who would like a place to save their money. They offer relatively low interest rates; it doesn't require very much money to open a savings account, and there are few restrictions on the withdrawal of funds.

□ Checking accounts

Checking accounts are great for making purchases and paying bills. Because checking accounts track all of your transactions, you can use them to double check the figures in your transaction log book. It also provides evidence that you made a payment. If you lose your checkbook or check card you can simply open a new account and protect your funds. There are sometimes fees associated with maintaining a checking account. Some may pay interest.

□ Certificates of Deposit (CDs)

CDs are savings arrangements where you agree to deposit a specific amount of money for an agreed upon amount of time. The longer you agree to leave the funds deposited, the higher the interest rate is. If you withdraw funds before the maturity date, however, you will have to pay a fee.

□ Money market accounts

Money market accounts are similar to checking accounts. The key difference is that they all pay interest, may limit the number of checks that can be written per month and may require a higher minimum balance.

□ Individual Retirement Accounts (IRAs)

IRAs are like savings deposits that are great for long term saving. There are often penalties if you withdraw your money before a certain age (usually 59). You do not have to pay taxes on the funds that you deposit until you withdraw them.

Choosing an Account

Consider the following when choosing an account:

- ▣ How much money will I leave in the bank?

If you have a large amount of cash you might consider putting into an account that requires a higher minimum balance and also offers a higher interest rate.

- ▣ How many checks will I write per month?

If you do not write many checks or do a lot of small transactions, you might consider something like a money market. Otherwise, you want to make sure that your account allows unlimited transactions

- ▣ How many related banking services will I need?

It is okay to have multiple accounts! For example, if you do write a lot of checks you can keep most of your money in a money market and transfer enough money for your monthly expenses into a standard checking account.

Opening an Account

- Choose the account(s) you would like to open

- Have the minimum balance

You will need the minimum balance available in cash or transferrable from another account in order to open your new account.

- Read the paperwork and ask questions

At the bank, they will give you a lot of paperwork to read and sign. Some of the language is very difficult to understand. Read through the paperwork that they give you and feel free to ask them questions about anything that is unclear.

Checks

□ Checks are safer than cash.

If your cash is stolen or lost, you will most likely never see it again. However, if your checks are stolen you can simply cancel your account and open a new account. It takes checks so long to process that if you recognize that they are missing relatively quickly, you can close your account before anyone can take your money.

□ Checks are less expensive than money orders.

Many companies (like utility, cable and cell phone companies) do not accept cash as payment. Many people who do not have checking accounts get money orders in order to pay these bills. In most cases it is less expensive to pay for checks than to pay for money orders.

□ Buy checks independently.

Order your checks from a catalog instead of the bank. The bank might charge \$25 for 200 checks, whereas you could get the same checks for \$10 from an independent company.

<http://money.cnn.com/magazines/moneymag/money101/lesson3/index4.htm>

Electronic Banking

□ Automated Teller Machines

ATMs are most often used for cash withdrawals from checking accounts, but they can also be used for making deposits and checking your balance. If you have a savings account you can usually request a bank card from your bank for use at ATMs. While they are convenient, be sure to know about the fees you may have to pay when using an ATM. Usually, you can use your bank's ATMs for free but may have to pay \$2 or \$3 to use an ATM sponsored by another bank.

□ Direct Deposit

Many employers offer direct deposit as a service to their employees. This service is great because it does not cost you anything and saves you the time of going to the bank and depositing your check. It also lessens the risk of your money being stolen. It is very easy to steal a paper check but nearly impossible to interfere with a direct deposit. If you opt for direct deposit, be sure to check your account to see that your funds have been deposited before you attempt to make any major withdrawals.

□ Electronic Fund Transfers

EFTs are often used to pay vendors online. EFTs save you the time of writing and mailing a check. Making payments in this way is safer than mailing a check or cash because checks/cash can get lost/stolen in the mail. You can also use EFTs to ensure that your payment is made on time. Advances in technology have made it very safe to participate in these online payments as well as online banking in general.

□ Online Banking

Online banking can be as simple as using your bank's website to track what is happening in your account(s). You can also do great things like set up automatic EFTs so that your bills will be paid at the same time each month.

Bank Failure and Theft

□ Failure

Although it is relatively uncommon, banks, like any other business, could fail. There are two main reasons that banks fail.

□ Due to bad business decisions or fraud

Banks usually fail due to bad business decisions (making risky loans for example). Sometimes, even if a bank is very careful, a significant fraud can occur that the bank cannot recover from.

□ Many accounts covered by FDIC up to \$100,000

If your bank does fail (and you were careful by choosing a bank with FDIC insurance) most of your accounts will be covered by FDIC up to \$100,000. Some accounts, like money markets, are not covered by this insurance, but most CDs, checking and savings accounts are. Ask your bank if you are unsure.

□ Theft

Banks are clearly a popular target for theft due to the large amounts of cash that they hold. Banks know this and take precautions to protect themselves and you.

□ Elaborate protection for banks

Banks today have very elaborate security systems and vaults. They have cameras in place in order to catch perpetrators. Most thieves are caught, and the government prosecutes these criminals severely which makes bank robbery a very unattractive profession.

□ Private insurance protects your funds

Most banks carry private insurance that will cover stolen funds.

SAVING AND INVESTING

The foundation of your future

Important Terms

□ Savings

- ▣ Low risk, interest
- ▣ Easy access

These are funds that you put into FDIC insured accounts (usually at a bank) like savings accounts, checking accounts and certificates of deposit. Because the accounts are insured, there is very little risk that you will lose this money. However, because the risk is so low, the interest rates paid are very low (under 5%). Often these rates are even lower than inflation. Let's say you save a dollar when it can buy a loaf of bread. But years later when you withdraw that dollar plus the interest you earned, it might only be able to buy half a loaf. That is why many people put some of their money in savings, but look to investing so they can earn more over long periods of time.

□ Investing

- ▣ Securities, mutual funds, etc.
- ▣ More risk, return

Investing involves exchanging your money for stocks or bonds. This trade is riskier because if the company you invest in fails, you will lose all of your money (although, you may have received some. In the long term, the stock market pays about 10% annually.

□ Diversification

- ▣ Spread money
- ▣ Lowers risk

The greater the risk, the greater the reward will be. However, some unnecessary risks can be avoided. By investing in multiple companies and type of investments, you can protect yourself. If you invest \$100 in 100 companies and 10 fail, you only lose 10 dollars. If you invest \$100 in one company and it fails, you will lose everything. There are also some products that are less risky to invest in, like government bonds.

□ Risk Tolerance

- ▣ Choosing products
- ▣ Different for everyone

Investing involves exchanging your money for stocks or bonds. This trade is riskier because if the company you invest in fails, you will lose all of your money (although, you may have received some. In the long term, the stock market pays about 10% annually.

Stocks

□ Owning part of a company

□ Return

▣ Sale

▣ Dividends

One type of investment is stock. When you purchase stocks, you are essentially purchasing a piece of the company. If the company were to have 100 stocks and you owned 10 (most companies have hundreds of thousands of common stock out there) you would own 10% of the company. People who own lots of stock in a company even get a say in major decisions made by that company. You make a profit on stocks by purchasing them at a low price and selling them at a higher price. Some stocks also pay dividends. Dividends are simply portions of a company's income that the company decides to distribute to its shareholders. A strong dividend paying stock might pay about 3.5% of its stock value in dividends each year. So, if you own 100 shares of \$100 stock, you might receive \$350 per year in dividends. These payments are often paid at consistent intervals. These stocks will not grow as quickly in share price as non-dividend paying stocks.

Stocks

□ Profit Example:

Joe buys 10 shares of stock in Apple for \$1 per share. People start buying a lot of Apple computers and the company is doing well. The stock becomes more valuable. 2 years later people are willing to pay \$10 per share of Apple stock. Joe sells his stock.

$$\text{Joe's profit} = (10 \times \$10) - (10 \times \$1) = \$90$$

□ Loss Example:

Jane buys 10 shares of stock in Genuine Motorcycles for \$10 per share. There is a downturn in the economy and fewer people are buying leisure vehicles like motorcycles. Genuine Motorcycles is not doing so well. A lot of people begin selling their stock in this company and the stock becomes less valuable. So much stock is available that the price is driven down to \$5 per share. Jane sells her stock.

$$\text{Jane's loss} = (10 \times \$5) - (10 \times \$10) = -\$50$$

Bonds

- Loan to a company
- Return
 - ▣ Interest Payments
 - ▣ Principal

Another type of investment is called a bond. Bonds work like loans. You loan a company money, they pay interest on the loan and at the end of the term they return all of the money that you loaned to them. You make a profit on the regular interest payments. The risk with bonds is that the company might go out of business. If they do, there is a chance you will not get your money back at all.

Mutual Funds

□ Collection of stocks and bonds

It is very difficult for the average person to become an expert on enough companies to make a lot of stock and bond purchases. For this reason, there are mutual funds. A mutual fund has an advisor that picks stocks and bonds of companies and puts them into a fund. Investors can buy shares of the fund. As the stocks and bonds in the fund go up and down in value, the value of your shares in the fund go up and down.

□ Diversification

Because there are so many different stocks and bonds behind the value of a mutual fund, mutual funds are usually considered diversified investments (although some mutual funds are very focused on a certain type of industry or company and some mutual funds are designed to have higher risk than others).

□ Fees

Investors may typically pay a fee when they buy or sell their shares in the fund, and those fees in part pay the salaries and expenses of the professionals who manage the fund. Even small fees can and do add up and eat into a significant chunk of the returns a mutual fund is likely to produce, so you need to look carefully at how much a fund costs and think about how much it will cost you over the amount of time you plan to own its shares. If two funds are similar in every way except that one charges a higher fee than the other, you'll make more money by choosing the fund with the lower annual costs.

Advisors and Financial Planners

Advisors and financial planners can certainly help you as you invest. It is usually a good idea to have some support when you first begin investing.

- Many services
 - ▣ Financial planning
 - ▣ Strategies for meeting financial goals

Some financial planners and investment advisers offer a complete financial plan, assessing every aspect of your financial life and developing a detailed strategy for meeting your financial goals.

- Registered with SEC

You should only work with an advisor or planner that is registered with the SEC. If they are registered they should have a “Form ADV”. Ask to see it in order to make sure they are registered.

- Fees

They may charge you a fee for the plan, a percentage of your assets that they manage, or receive commissions from the companies whose products you buy, or a combination of these. You should know exactly what services you are getting and how much they will cost.

Brokers

- Recommendations
- No Financial Planning
- Two types
 - ▣ Discount brokerage
 - ▣ Full-service brokerage

Someone else who can help you invest is a broker. Brokers usually make suggestions about specific investments. They do take into consideration your overall financial goals, but will not usually provide you with a detailed financial plan. Brokers usually get commission when you buy or sell investments through them. You'll want to find out if a broker is properly licensed in your state and if they have had run-ins with regulators or received serious complaints from investors. You'll also want to know about the brokers' educational backgrounds and where they've worked before their current jobs. To get this information, you can ask either your state securities regulator or FINRA to provide you with information from the CRD, which is a computerized database that contains information about most brokers, their representatives, and the firms they work for.

There are many types of brokerage firms that offer different levels of services and prices. Discount brokers usually have much lower commissions and fees but you usually have to research your own investments. Full-service brokerages often cost more, but they can give you excellent advice on where you should invest.

Opening an Account

□ Account agreement

The first thing that you will have to do when opening a brokerage account (whether online or in person) is sign an account agreement. Make sure you understand the agreement before signing. Ask questions about anything you are unclear of. The agreement is going to ask you to make three important decisions about the management of your account.

□ Three important questions

▣ Who will make final decisions about what you buy and sell?

You should always have the final say! The only time this is different is if you choose to hand over “discretionary authority” to your broker. This could be risky!

▣ How will you pay for your investments?

Most brokers will require to pay cash (or equivalent) for any securities that you purchase. It is possible to open a “margin” account that essentially allows you to take out a loan from the broker in order to buy new securities. This can be very risky and have terrible consequences...it is not a recommended method for new investors.

▣ How much risk should you assume?

You must let the brokerage firm know what level of risk you are willing to assume. Risk categories could be labeled as “income”, “growth” or “aggressive growth”. Make sure that your choice is appropriate for your age. Discuss this with your broker before making a decision. If you are younger you may be ok with “aggressive growth”. As you get closer to retirement, you may prefer to be in the “growth” category. For those who are already retired, “income” might be most appropriate.

□ Ask questions!

If there is ANYTHING you do not understand about the paperwork, ASK! Brokers understand that it is complicated and sometimes you may not be familiar with the jargon. Your broker should be prepared to answer any question you may have.

Monitoring Investments

When you have invested your money, it is now at work for you, just like an employee might work for you. If your money is your employee then that makes you the boss. As the boss, it is your duty to check up on how your employee (your money) is doing.

□ Check often, not too often

Some people only check on their investments once a year. This probably is not often enough. However, others follow stock quotes daily. This is probably way too often because you will get caught up in the temporary highs and lows of the investment and not the long term picture. Keep an eye on your investments, but it is not necessary to follow them closely every day.

□ Make comparisons

Do not just look to see if your investments have gone up. Look at other investments as well. You want your investments to be performing as well as or better than other investments. If they are not (over a long period of time), it may be time to switch your investments.

□ Confirmation slips

Every time a trade is made related to your account (when using a brokerage) you should receive a confirmation slip. Make sure that your instructions were followed when your investments were traded. Make sure that the price and fees are what your broker said they would be. If you receive a confirmation slip for a transaction that you did not authorize, call your broker immediately. It may have been a mistake, but it could be fraud. If your broker refuses to fix it, make a formal complaint in writing.

□ Make sure advice matches goals

Always be sure to ask your broker how buying/selling an investment fits in with your financial goals. It is illegal for your broker to make recommendations that do not fit your goals only in order to make a commission. This is called churning and you should make a complaint if you find that it is happening to you.

Avoiding Problems

□ Get recommendations

Before choosing a broker, get recommendations from friends, family or news sources. If other people have been successful with this broker, you might as well.

□ Check for registration

Make sure that the broker you have chosen is registered and has a clean history. You can get this information from the website of the North American Securities Administrators Association.

□ Ask questions!

And of course, always ask questions! Research your investments thoroughly and be sure to ask your broker all of these questions before purchasing a new investment.

- ▣ How will the investment make money?
- ▣ How is the investment consistent with my goals?
- ▣ What must happen for the investment to increase in value?
- ▣ What are the risks?
- ▣ Where can I get more information?

Dealing with Problems

No matter how careful you are, there is always a chance that a problem will arise. When it does, be sure to be prepared.

□ Take notes

Always write down everything your broker tells you. This can come in very handy in the event that a problem arises.

□ Call and write

Sometimes resolving a problem is as easy as calling your broker. Remember, for serious complaints it is always a good idea to send them to your broker in writing. Keep a copy of this complaint for yourself!

□ Take action quickly

Investments will sometimes lose money. That is part of the risk of investing. However, if your investments are losing money because you have been cheated, you must take actions quickly. Immediately contact a lawyer (your local bar association can put you in touch with someone who is familiar with securities) and the Securities and Exchange Commission (www.sec.gov). The SEC cares about your complaints. Often, if there is a true problem, you will not be the only one experiencing it.

This video shows in a comical way the importance of obtaining credit reports and how your credit report can affect the things you want to do in life, such as own a home or a car.

CREDIT REPORTS

FreeCreditReport.com

What is a Credit Report?



According to Boston College, a **credit report** is a record of your credit history. It shows the amount you have borrowed through credit cards and loans and how well you repay your debts. Credit reports are made up of information that banks, credit card issuers, retailers, and others report about your bill payment history.

The amount you borrow, your limit on credit cards and number of missed and late payments are all on your credit report. All this information on your credit report is then sent to a credit bureau.

Credit Reports

□ How long does your credit activity stay on the report?

▣ Negative Activity

Negative credit activity will stay on your credit report for 7-10 years.

▣ Positive Activity

Positive activity can stay on the report longer than that.

Credit Report

□ Divided into six main sections

- Consumer information

- Consumer statement

- Account histories

- Public records

- Inquiries

- Credit contacts

Consumer Information: Credit reports include personally identifying information such as your full name, Social Security number, etc

Account History: includes any borrowing activity, such as amount of loan, timing of payments, and amount of payments.

Public Records: include state and county records. This can be any bankruptcies and/or tax liens you've had.

A inquiry is when a credit agency asks to see your credit report.

Credit Bureau

- A credit bureau:
 - ▣ collects and stores consumer payment information.
 - ▣ For a fee, these agencies will provide credit reports to credit grantors.

Credit bureaus collect information from credit cards and lending institutions and analyze the information to assign a credit score. These same lending institutions then pay a credit bureau a fee to look at the complete credit reports.

Credit Bureaus

- Three major Credit Bureaus

- Equifax
- Experian
- Transunion

- Larger lending institutions vs. Smaller

Most larger lending institutions report regularly to all three major credit bureaus. Smaller lending institutions may only report to one of the three, so each of your credit reports from the three major credit bureaus may differ a little. This is why it is important to obtain a copy of all three reports.

FACTA

- Fair and Accurate Credit Transactions Act
 - Took effect January 1, 2004
 - Entitles you to one free credit report a year
 - Freecreditreport.com is not free

This website is not associated with the FACTA and in fact is not free.

Obtaining a Credit Report

□ Go to
annualcreditreport.com

□ Or:
**Equifax Credit
Information Services,
Inc**

P.O. Box 740241
Atlanta, GA 30374
1-800-685-1111
www.equifax.com

Experian

P.O. Box 2002
Allen, TX 75013
1-888-397-3742
www.experian.com

Trans Union Corporation

P.O. Box 1000
Chester, PA 19022
1-800-888-4213
www.transunion.com

Annualcreditreport.com is associated with the federally-mandated free credit report program. Each of the three major credit bureaus will also give you a free score. However, any report requested over the federally-mandated free one will cost you around \$15 each.

LEGALLY IMPROVING YOUR CREDIT

Managing Your Credit Score

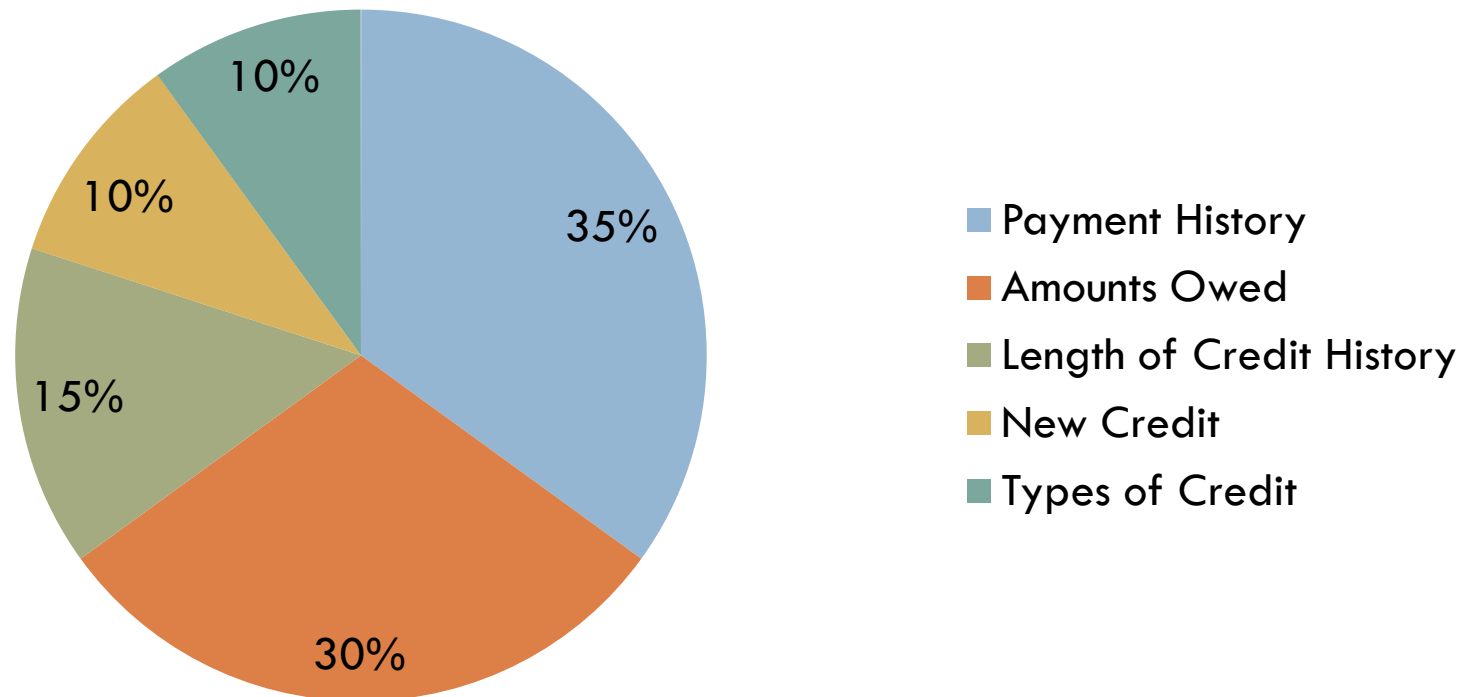
Review

- Credit Activity is reported to three major credit bureaus.
- Credit bureaus take information report, analyze it, and assign a credit score.
- Credit score is used by lending institutions to determine what rates to offer.

Most used credit score is the FICO score. According to CreditReporting.com, FICO is registered trademark for Fair Isaac and Company, or Fair Isaac for short. Fair Isaac is a company who constructs 'credit score' tools for lenders who use them to evaluate the credit of their customers and prospects. However the FICO score is separate from the scores given by each of the major credit bureaus.

What's In Your FICO Score

Column1



These percentages are based on the general population. If your credit is newer, or you've never owed much, these percentages can change.

What's Not in Your FICO Score

- Your race, color, religion, national origin, sex, age and marital status.

Under the Consumer Credit Protection Act, this information is prohibited from affecting your credit score.

- Your salary, occupation, title, employer, date employed or employment history.

Your salary is not factored into your credit score, however, many lending companies may ask for this information when determining what rate to offer.

- Certain types of inquiries

Certain inquiries, such as consumer-initiated inquiries do not affect your score. When you ask for your annual free credit report, this does not affect your score. Neither does it affect your score when companies inquiry to “pre-approve” you for a credit card or when banks inquire to check the status of your loan.

Reporting Inaccuracies

□ Fair Credit Reporting Act

Under the Fair Credit Reporting Act, you have a right for your credit report to be free from errors.

□ Finding Inaccuracies

If any inaccuracies are found, first try to contact the company with error is associated with. Most of the time they can correct the error and report the correction to the credit bureaus.

□ Reporting inaccuracies

If the creditor the error is associated with does not change the error, you can directly contact the credit bureau. However, since they did not report the information, they can not change it.

Changes in FICO Score

□ Only changes with new information

The score is updated with any new information provided on the credit report. This change in score can depend on the change being reported and how quickly the information is being reported.

□ Different at each inquiry

The FICO score is calculated at each inquiry for the information that is on the credit report at that time. So the score can vary from each time it is requested.

□ Small changes can be important

Small changes can be very important, especially when you are trying to reach a certain “cut-off” score to receive a loan or a better rate.

Improving Your Credit Score



It's important to note that raising your FICO credit score is a bit like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire.

-myfico.com

Payment History Tips

□ Pay your bills on time.

Being late on your payments can have a major negative effect on your score.

□ Get current and stay on time.

If you have missed or late payments, catch up and try to stay on time with your payments. The longer you make payments on time, the better effect it will have on your credit score.

□ Paying off a collection account will not remove it from your report.

An account with a collection agency will stay on your report for 7 years. Try to avoid accounts like this by staying on time or making partial payments.

Amount Owed Tips

- Keep balance low on credit cards.

Try to only have an outstanding debt of no more than 35% of your limit.

- Pay off debt rather than moving it around.

Having few accounts outstanding will look better for your credit

- Do not open many credit card accounts to raise your available credit.

This can actually hurt your score by having many open accounts.

New Credit Tips

- ❑ Do rate shopping for a loan within a short amount of time.

The FICO score tries to distinguish between searching for a single loan and searching for many loans. One way they do this is by the length of time inquiries are made.

- ❑ Reestablish credit history if their have been problems in the past.

Open up very few accounts and pay them off on time to establish better credit history.

Protecting Your Credit Score

□ Protect your mail from thefts.

Never leave your mail unattended in your mailbox. If you are gone for a while, or can't check your mail, have a trusted neighbor collect it for you. Also, shred any junk mail that contains any personal information.

□ Protect your personal information.

Be cautious about giving out any personal information such as card number. Ask if it is mandatory and check to make sure the organization is reputable. Shred any documents that contain personal information before trashing them.

□ Never carry your Social Security card.

Keep it stored at home safely.



CREDIT CARDS



What is a credit card?

□ According to Investopedia.com,

A credit card is a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

How to qualify

- Must be 18 years or older

- Have some kind of income

- Alternatives

Alternatives:

If you are not 18 or do not have any income, then you can:

1. Have a parent co-sign for your card
2. Get a card on your parent's account
3. Open a checking or savings account at a depository institution and agree to maintain one months credit limit in your account.

Types of Credit Cards

□ Bank cards

Most popular form of credit cards. These cards are sponsored by individual banks and accepted by most businesses. Examples include Visa, Mastercard, Discover.

□ Travel or Entertainment Cards

These are primarily used by businesses and consumers for travel and entertainment expenses and have an annual fee. Examples include: American Express and Diner's Club.

□ Retail Store Cards

These are sponsored by individual stores and gas stations. You can only use them at that particular company or gas station. Typically don't have an annual fee, but can have higher interest rates than bank cards.

What to look for in a credit card

□ Annual Fee

Some companies charge no annual fee. However some credit card companies charge a membership, or annual fee ranging from \$15 to \$55.

□ Annual Percentage Rate (APR)

This is the annual interest rate charged to the cardholder if payments are outstanding. The APR is a measure of the cost of credit and is expressed as a yearly interest rate.

□ Finance charges

This is the total amount you pay to use your credit card, including interest rates, annual fees and any other charges applied to your account.

What to look for in a credit card

□ Grace Period

This is the time between when you make your purchases and when the card company will start charging you interest for your outstanding balance. Most companies give you a 30-day grace period.

□ Transaction fees

Fees other than interest charges. Any charge other than a purchase usually carries an extra fee, such as a cash advance, late payment, or going over your credit limit. Some credit cards even charge a monthly fee if you haven't used your card at all

□ Customer Service

Most companies have toll-free numbers that operate 24 hours a day for customers to call and discuss their account.

Establishing Credit History

- Apply for a retail credit card and pay your bill on time

With a retail card, you can only use it at the issuer's store, reducing chances of overspending or large "emergency" purchases.

- Apply for a bank card and have parents or someone with an established credit history co-sign if you're not 18.

The cosigner will be responsible for your debt if you do not pay. However, you want to pay on time to establish credit to be able to get your own card in the near future.

- PAY BILLS ON TIME

Again, paying your bills on time can not be stressed enough. This not only establishes good credit, but is also cheaper in the long run when you pay no interest charges.

Advantages

□ Convenience

Credit cards are more convenient than carrying around cash and allows cardholder to make purchases online.

□ Emergency situations

A credit card can give you a large sum of money needed faster than going to the ATM to withdraw cash, or even more cash than you have at the time needed. With most credit cards, you usually have a 30-day grace period to repay the purchase.

□ Traveling

Most hotels and car rental companies will not take reservations without a credit card.

□ Security

Once cash is gone, there is no way to get it back. However, if your credit card is stolen, you can cancel the card and you can be sent a new card. Also, you're only liable up to \$50 for a reported stolen credit card.

Disadvantages

❑ Overspending

It is easier to spend beyond your means with a card, even to the point you can't pay the bill when it is due.

❑ Paying off minimum balance

If you only pay off minimum payments each month, the debt will stick around for years and become very costly with the high interest rates credit card companies charge.

❑ Not realizing it's cash

Using a card can help you forget it is actually money you are spending and buy on impulse.

❑ Poor use of credit card can hurt credit score

If not used properly by paying all of payment due on time, credit cards can hurt your score.

Being Responsible

- Keep card in a safe place
- Never give out card number to disreputable organizations

This is a way others can get your card number and make purchases with the stolen number.

- Notify card company immediately if card is lost or stolen

If you notify card issuer of card being lost/stolen immediately before any fraudulent charges are made, you are liable for \$0.

- Pay on time

Again, its very important to use the card wisely and pay all payments on time. By doing this, you can possibly be paid to have the card since some of the company have rewards programs.

DEBIT CARDS VS CREDIT CARDS



Credit Cards

A credit card is a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

Debit Cards

A debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the need for checks as the debit card immediately transfers money from the client's account to the business account.

How a Debit Card Works

□ Swipe card

□ Run as Debit or Credit

If you choose to run your card as Debit, you have to enter your PIN number but the transaction processes more quickly. Running it as credit only makes you sign the receipt, but the transaction could take a few days to process and banks charge the retail store 2% of the charge to take credit transactions.

□ Enter PIN if Debit

If used at a gas station, a \$50 or \$100 block is put on the account, even if you only buy \$5 worth of gas. This is because they do not know how much you will purchase when you swipe your card. This \$50 or \$100 hold on your account can be held for 3-4 business days since it is run as credit and is an off-line transaction.

□ Funds taken from account

Either quickly if run as debit or funds are blocked for a few days if run as credit

How a Credit Card Works

- Swipe card

You don't actually pay for purchases at the time you swipe the card. You are not billed until the end of the month or the billing cycle.

- Sign receipt

- Receive bill at end of month

- Pay for all credit transactions that month with one check

Debit Card

□ Advantages

▣ Little to no cost

To both the consumer and business, if a consumer runs his/her card as credit, it's an online transaction and the bank has to pay a small fee. Most debit cards do not have an annual fee for consumers.

▣ No worries of monthly payments or interest rates

Debit card holders do not have to worry about making a payment late and being charged interest. The payment is taken directly out of their account.

▣ Security

Have to know PIN number to run as debit. If PIN number is kept secure, then this is safer than a credit card because not many retailers ask for ID.

Debit Card

❑ Disadvantages

▣ Risk of overdrawing

If a debit cardholder spends more than is in his/her account, then they can be charged a hefty overdraft fee.

▣ More liability if stolen

If your debit card is stolen, you are only liable up to \$50 *if it is reported within two days of the theft* and up to \$500 if reported after two business days.

▣ Not taken everywhere

Some places, like car rental companies only take a credit card because a debit card is not as credit worthy.

Credit Card

□ Advantages

▣ 30-40 days of keeping your money

You don't have to pay at the time of purchase, but you get to keep your money and earn interest on it for 30 more days.

▣ Little to no cost *if* paid on time

A credit card can cost almost nothing if all payments are made on time and paid in full.

▣ Less liability

If your credit card is stolen, you are only liable up to \$50 of fraudulent charges if reported.

Credit Card

❑ Disadvantages

▣ Risk of overspending

Since you are not paying at the time of purchase, credit cards can not seem like real money, making it easier to overspend.

▣ High interest rates

If not paid on time, the interest on payments can add up.

▣ Large monthly payments

You have to be careful to save enough money during the month to pay off the credit card bill.



COMMON FINANCIAL MISTAKES





It's not so much how much money we make — but rather, what we DO with that money that makes a difference.

-thesmarterwallet.com

No matter what your income is, it's how you wisely spend your money that is important. Even with a smaller income, you can save up for the things you want. It just takes planning and time. The lesson is about common financial mistakes to avoid so that we can stay debt free and be able to save up for the things we want.

Common Mistakes

❑ Overspending

▣ Impulse shopping

▣ Buying without shopping for better prices

Shop around at stores and compares prices, *especially* with big ticket items.

▣ Using the credit card

Using a credit card makes it easier to spend money you don't have. Only use one if you can control your spending with it.

Common Mistakes

□ Too much

▣ Buying too much house

One of the quickest ways to struggle month-to-month is having a mortgage payment you can't afford every month. Before buying a house, look at monthly income to see how much of a mortgage payment you can afford.

▣ Buying too much car

Same with a car. Before buying a car, look at monthly income to see how much of a car payment you can afford.

Common Mistakes

❑ Not keeping track

▣ Using a budget

Knowing where the money goes is key. Know how much you bring home each month (your income minus taxes, 401k contributions and healthcare costs) and how much you spend each month

▣ Financial Software

Using financial or budgeting software, such as Quicken, can make it easy. You can set up categories for your expenses and the software can make charts to see what percentage you spend each month on auto costs, groceries, etc.

Common Mistakes

❑ Never-ending payments

Are the monthly payments for cable, subscription radio, video games or movies necessary? Look for ways to cut back, like buying the basic cable package instead of the premium.

❑ Living Paycheck-to-Paycheck

Save aside each month for retirement and emergency funds

❑ Making a Payment vs. Affording a Purchase

Before making a purchase, look at your budget to see if you can afford it *and* still make your monthly payments.

Common Mistakes

❑ Living on Borrowed Money

Borrowing at high interest rates can really add up versus only buying what you can afford.

❑ Letting Your Credit Score Drop

This is very important to ever get another loan or house, or even a job. Missed or late payments can hurt your score.

❑ No emergency fund

When an unexpected payment comes up, its easier to have money set aside than try to borrow on top of loan you already have.

Tips to avoid common mistakes

- ❑ Set aside a little money each month/week for your emergency fund

The rule is to set aside at least 3 months salary in case of losing your job or unexpected medical expenses, needed home repair or car repair.

- ❑ Save 20% of gross income in a 401k or Roth IRA.

Take advantage of any employer matching contributions.

- ❑ Buy a house with 20% down.

This helps you buy a house you can afford.

Tips to avoid common mistakes

- Pay with cash or pay with a debit card.

This will keep you from spending money you don't have. If you do use a credit card, make sure to pay all payments in full and on time.

- If you do have debt, pay off the loan with the highest interest first.

Pay the loan with the highest interest rate as aggressively as you can while still at least making minimum payments on other loans.



In 2007, the outstanding consumer credit debt (NOT including mortgages) was \$2.6 trillion. This works out to be \$8, 500 for every man, woman and child living in the US.

DEALING WITH DEBT

Signs of Debt

- ❑ Frequently spending more than you earn
- ❑ Making only minimum payments on debt
- ❑ Maxing out limits on credit cards
- ❑ Have to skip payments on some bills to pay others

Each of these are common signs that you are on your way to being in debt. Frequently spending more than you earn and having to skip some payments to pay other bills are clear signs that you are not in a position of possessing more than you owe. Making only minimum payments will keep you in debt because the high interest rates can sometimes double the amount you owe.

Signs of Debt

- Recently been turned down for credit or a loan

This could mean your credit score is too low due to not paying bills on time or having missed payments.

- Receiving calls from creditors about overdue bills.

Calls from creditors is a sign of missing payments due to not having enough to pay all your bills.

- Owning more on your car than its worth

- Panicking when faced with large unexpected expense

If you panic when faced with an unexpected medical bill or car payment because you don't have enough to pay it or already maxed out your cards, then you're in debt.

Mistakes in Dealing with Debt

❑ Ignoring the situation

Ignoring the situation will not make it go away. Debt can go away with careful planning and budgeting and some time.

❑ Lying

Sometimes its easy to say “The check’s in the mail” or “I get paid next week” when collectors or lenders call. However, when the check doesn’t arrive, collectors will only call more frequently and not believe what you say.

❑ Allowing creditors to deduct money directly from your bank account

They will take the whole payment you owe, which could be your whole paycheck. Instead send them a payment by money order or some way that gives you confirmation you paid.

Mistakes in Dealing with Debt

❑ Bouncing checks

Your checks will no longer be accepted in stores.

❑ Paying off one debt with another

This only leads to a cycle of continually taking a new loan to pay off old ones. This can also hurt your credit score.

❑ Becoming intimidated

Even if you owe money, you are human and deserve to be treated with respect. Don't let collectors bully you.

Managing Debt

□ BUDGET!

▣ Start a weekly or monthly budget

Look at what you make and subtract your expenses.

▣ Be realistic

Don't lie to yourself about your spending habits. Being realistic will help you stick to your budget

▣ Start an emergency fund

This way when an unexpected expense comes up, you won't have to panic or get a paycheck advance.

▣ Pay more than the minimum payments

If your budget allows, pay more than the minimum payment. You will end up paying a lot less interest this way.

Managing Debt

□ Debt Reduction

- ▣ If you have a savings(that is not your emergency fund), use it to pay off your debt.

The interest rates you are paying on those loans or credit cards is a lot higher than the interest income you are receiving from the savings account.

- ▣ Ask to work overtime

This little bit of extra cash a week can help you pay off debt faster.

- ▣ Cut back on expenses

Eat at home more. Stop going to Starbucks and make your coffee at home. Get the cheaper cable package. Use the free Wi-Fi at local restaurants or the library.

Managing Debt

□ Debt Reduction

▣ Go cash only

Once you may your bills, withdraw cash for your groceries, gas, etc. according to your budget. Once the cash runs out, so does the spending.

▣ Don't borrow from your 401k.

The closer you get to retirement, the more you'll regret it. You also lose the tax benefits by withdrawing early.

▣ Skip credit-repair clinics that cost money.

That's hundreds of dollars that could be going towards your debt.

Staying Debt-Free

□ Stick with your budget

Now that you're out of debt, stay that way by sticking with your budget. You can rework it to fit your new payments, but stick with it and don't spend more than you make.

□ Make payments on time

This improves your credit score and is much cheaper in the long run with no interest payments.

□ Credit cards

Stop charging. If you do continue to use a credit card, pay all payments in full and on-time.



INSURANCE



Risk

hazard: a source of danger; a possibility of incurring loss or misfortune

Risk is the probability of something going wrong. We drive and get a flat tire; we ski and break our leg; we go to the mall and get lost. Things happen. Insurance is a way to protect yourself against some of that risk.

Insurance

coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril; the sum for which something is insured; a means of guaranteeing protection or safety

Shopping for Insurance

- Finding a reputable insurance company

- ▣ Ask friends or family who is their provider

- ▣ Research online

The key here is to find a insurance company that gives you enough coverage for a reasonable price and isn't too hard to deal with. By asking people who have had to deal with the company, you can find out what customer service is like.

- ▣ Talk to a sales representative

How Insurance works

□ Pay a premium to an insurance company

Insurance premium is simply the amount you pay for an insurance policy. It can be paid monthly, quarterly, semi-annually, or annually. You pay the company a yearly, monthly or quarterly fee and in exchange, they give you protection in case of an accident.

□ Coverage

In exchange for the yearly, monthly, quarterly fee you pay the company, they give you a certain amount of coverage. Coverage is what they will pay you back for when an accident happens.

□ Insurance policy

An insurance policy is a written contract detailing what an insurance company will cover, how much it will pay, and how much you will pay. Before you begin paying a company, you will want to have signed a contract stating the benefits you will receive in case of an accident.

How Insurance Works

□ Premium factors for Auto Insurance:

- Age
- Marital status
- Make of car
- Driving record
- Gender
- Claim history
- Location

Insurance companies decide on an amount for the premium based on your risk. They analyze your stats and decide how much of a risk you might be. Then they charge you according to your risk.

How Insurance Works

- When an accident happens, report it.

- Charge you a deductible.

A deductible is the amount you have to pay before the insurance will pay the rest. This amount is decided by your insurance company and written in your insurance policy.

- Cover your costs

After you have paid the deductible, the insurance company pays the rest of the costs.

What to look for

□ Buying an insurance policy

- Degree of coverage

- Amount of deductible

Check out all of these things before deciding on a policy. That way you get a good deal for pretty good coverage.

- Customer service

- Price

Pay less for Insurance

❑ Choose a reasonable coverage amount

You probably need more than the minimum, but you probably don't need the maximum either.

❑ Get a higher deductible

A higher deductible will cost more at the time of an accident, but it will keep your monthly of quarterly payments down.

❑ Ask sales representative if you can lower your risk

Ask if there is anything you can do to lower your risk and therefore have a lower premium. Things like going to driving school or installing a safety feature can sometimes lower your risk.

What to keep

- Keep filed at home:
 - ▣ Copy of your current policy
 - ▣ Premium statements
 - ▣ Any deductible bills you've paid
 - ▣ Any claims you've filed

Keep these files as proof you've paid in case of a mistake at the insurance company.

- Keep with you:
 - ▣ Proof of insurance

This usually means your insurance ID card. Keep it in your wallet or your auto insurance ID card in your car.

PAYING FOR EDUCATION



Scholarships

Scholarship is an award of access to an institution, or a financial aid award for an individual student scholar, for the purpose of furthering their education. Scholarships are awarded based on a range of criteria which usually reflect the values and purposes of the donor or founder of the award.

Scholarship is the award of money based on some kind of merit and does not have to be paid back. Usually scholarship goes towards tuition or any school-related costs.

Loans

Type of financial aid that must be repaid, with interest.

A student loan is the lending of money to a student for higher education expenses. It does have to be paid back. Typically, interest is not charged until after the student graduates.

FAFSA

- Free Application for Federal Student Aid
 - ▣ Need to complete the form:
 - Your W-2
 - Your parents' W-2
 - Mortgage Statements
 - Bank Statements
 - Investment Statements
- Find out the deadline
 - ▣ Federal Online application: Midnight by June 30, 2010
 - ▣ State deadlines differ

FAFSA

□ Student Aid Report

$$\text{Financial Need} = \text{Tuition} - \text{Expected Family Contribution}$$

About 2-4 weeks after submitting the completed FAFSA, the student should receive a Student Aid Report. This report will give the Expected Family Contribution(EFC). Subtracting the EFC from tuition amount, financial need will be determined. Universities will try to offer a package to meet your financial need. This is usually made of federal loans.

Packages

- Each package from a university is different
- Bargain with a school's financial aid office using another package offer

If you really want to go to Private U, but Public U gave you a better package, write a letter or call Private U's financial aid's office saying why Public U's package works better for your family.

□ Private vs. Public

Remember, you are more likely to get funding from a private university with lots of endowments instead of a state university.

Finding Scholarship

Many scholarships are geared toward an interest on the endower. This could be a geographic region, left-handedness, cheerleading, certain majors, etc. Ask yourself questions such as:

- Start with a personal inventory
 - ▣ What activities/organizations am I involved in?
 - ▣ What will my major be?
 - ▣ What career do I want to pursue?
 - ▣ What sets me apart from others applying for college?
 - ▣ Do I want to study abroad?

Finding Scholarship

□ Start by looking for regional scholarships

Are there scholarships for residents of your town, county or state? Many larger corporations will give scholarship to those graduating in the county where they are located.

□ Parents' employers

Check to see if your parents' employer give scholarship to children of their employees.

□ Check organizations

If any of the organizations you are a part of in high school are national, there's a chance they give out scholarship. Also, places like churches and not-for-profits can award scholarships.

Finding Scholarship

□ State awards

□ Contact your State Department of Higher Education.

Does your state give out an automatic scholarship for a certain GPA or ACT score? Check with your State Department of Higher Education. Sometimes these scholarships can be for those who stay in-state only though.

□ Free scholarship search websites

■ Collegeboard.org

http://apps.collegeboard.com/cbsearch_ss/welcome.jsp

■ Sallie Mae

http://www.collegeanswer.com/paying/scholarship_search/pay_scholarship_search.jsp

■ FastWeb

<http://www.fastweb.com>

Applying for Scholarships

- **Keep organized**

Keep all applications and essays together. Make a list of the requirements of each application. Make a calendar of due dates. Late forms or forms with missing information can hurt your application.

- **Apply early**

Start applying early to give yourself time to gather transcripts, letter of recommendation or anything else the application requires.

- **Be thorough**

Make sure to have all letters of recommendations, transcript and essays ready by the due date.

- **Never pay**

You should never have to pay to apply to a scholarship..

STUDENT LOAN BASICS



Student Loan

Money issued to a student on the understanding that it will be repaid upon the completion of a student's studies.

After you graduate

□ Grace period

▣ 6 to 9 months

Most student loans give you a 6 to 9 month grace period before you will need to start repaying your loans.

□ Time to get settled

This gives you time to get settled, find a job, a place to live and before you have to worry about the student loan. This also gives you time to start saving part of your income for the repayments.

□ Beginning budgeting immediately

Start budgeting as soon as you have a job and factor in the student loan even if you do not have to start paying yet. The more you pay upfront, the less interest you will have to pay.

Payment Options

□ Standard repayment option

This is the original repayment plan. With a standard plan, you generally pay a fixed amount each month for up to 10 years.

□ Graduated repayment option

This plan allows your payments start out low in the early years of the loan but increase in later years (the term is still 10 years). However, this plan costs more than the standard plan because interest accumulates in those first few years.

□ Extended repayment option

With an extended plan, you extend the time you have to repay your loan, usually from 12 to 30 years, depending on the loan amount. Your fixed monthly payment is lower than it would be under the standard plan, but again, you'll ultimately pay more for your loan because of the interest that accumulates under the longer repayment period

Payment Options

□ Income-sensitive repayment option

With an income-sensitive plan, your monthly loan payment is based on your annual income. As your income increases or decreases, so do your payments. If you're married, your joint income is used to calculate your required monthly payment. Not every lender offers this option.

□ Loan consolidation

This plan allows you to combine several student loans into one loan, sometimes at a lower interest rate. Thus, you can write one check each month. You need to apply for loan consolidation, and different lenders have different rules about which loans qualify for consolidation.

If you can not pay

□ Deferment

Deferment allows you to defer your repayment due to certain circumstances, such as unemployment disability, etc. For a federal loan, the government pays the interest during the deferment period so your loan balance does not increase.

□ Forbearance

Forbearance is like a deferment in that the lender grants you permission to reduce or stop your loan payments for a certain period of time at its discretion (one common reason is economic hardship). However, interest continues to accrue, even on federal loans

□ Cancellation

With a cancellation, the student becomes totally free on that loan obligation. However, it is very hard to get a cancellation.

Be organized

- Keep track of paperwork:
 - ▣ Promissory note
 - ▣ Coupon booklets
 - ▣ Letters from lender
 - ▣ Deferment/Forbearance paperwork

- Pay on time

Keeping track of all paperwork saves you from panicking if anything goes wrong. This also can help you keep track of interest paid, which can be deducted on your taxes.

Student Loan Interest Deduction

□ Tax Deduction

- In 2009, if you're a single filer with a modified adjusted gross income (MAGI) under \$60,000 or a joint filer with a MAGI under \$120,000, you can deduct up to \$2,500 of student loan interest that you pay during the year.

■ Form 1098-E

You should receive a Form 1098-E if you have paid \$600 or more in interest to a single lender.

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Do not move into an unsatisfactory neighborhood simply because it is all you can afford. You will regret it, you will be unhappy and then you may not be able to sell your home. A home is a big investment and you should take into consideration its location before making the purchase. This is all within reason of course; you may desire a 10 million dollar home...but in actuality you would be fine with a \$150,000 home in a nice neighborhood.

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Before you begin looking for a home and a mortgage, it is important to understand how much you can afford. With this information, you will be able to decide whether you can afford the mortgage quoted to you. This link takes you to a calculator and will give you an estimate and explanation of how approximately how much you can afford when looking for a home.

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Example

- One person rents for \$800/month with yearly increases of 5%
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UNDERSTANDING YOUR PAYCHECK



Gross vs. Net

- Gross pay:
 - ▣ Amount of paycheck before any tax or expense is taken out.

- Net pay
 - ▣ How much you will actually take home

Items on Your Paycheck

- Federal Income Tax
- State Income Tax
- Medicare
- Social Security
- Health Insurance
- Life
- Retirement Fund
- FSA
- ESOP

This are the items you see taken out of your paycheck each period.

Federal Income Tax

□ Withholdings

As part of federal law, employers withhold a calculated amount of tax from each paycheck and send it to the government

□ W-4

This is the form you fill out when you first start working for your employer. This form basically states how many personal exemptions you can take and tax is withheld from your paycheck according to the number of exemptions you put on this form.

□ Income Bracket

This also determines how much tax will be withheld from your paycheck. Since your employers knows how much you make, they can do this for you.

State Income Tax

- **Similar to Federal Tax**

Works the exact same way as federal tax only on a small percentage scale.

- **Withheld**

State income tax owed on the income you just made is taken out of each paycheck

- **Locality Income Tax**

Your locality, or city, could also have an income tax, but this is rare.

FICA

- Social Security Tax

Federal law states you have to pay 6.2% out of your first \$106,800 of income.

- 6.2% of paycheck

- Employer matches your contribution

The law also requires you employer to pay 6.2% of FICA tax for every employee.

Medicare

- Helps elderly with medical expenses

You can become eligible at a certain age based on income, health benefits from employers, etc.

- 1.45% from your paycheck

- Employer matches your contribution

Employers are required to pay 1.45% of your salary for your Medicare tax.

Healthcare

- Payment for health insurance

Your employer usually offers a health insurance plan that may require you to pay some

- May be taken pre- or post-tax

- Employers pay most of you healthcare costs

Even if you do pay some health care cost, employers pay much more.

Life Insurance

□ Optional

Employers may offer a policy for you to purchase. If you choose to do so, payments for it will be taken out of your paycheck.

□ Usually for small amount

A large life insurance policy is not necessary for most unless they have children at or under college age.

Retirement Fund

- Depends on what employer offers

Typically, employers offer participation in a 401k.

- You choose how much to put in

At the beginning of your employment, HR has you designate how much you want to contribute to your retirement fund and will automatically deduct the specified amount from your paycheck for you.

- Sometimes employer matches

After a certain time period of working for an employer (usually 6 mos. to 1 year), the employer will start matching contributions you make.

Flexible Spending Account

- Medical costs

Let's you set aside money for medical costs for the year. Can't rollover amount to next year.

- You choose how much

There are tax benefits to putting money into an FSA, but since you can not rollover to the next year, you do not want to put too much in there or you will lose it.

Employee Stock Ownership Plan

- If employer offers

Not all employers offer this plan

- Used to purchase company stock
- Some employers match contribution

TAXES

Understanding Tax Law

Why pay taxes?

- Government has a large budget
- Provides services to citizens
 - ▣ What are some of the government services?
- Government created law to raise revenue

Who makes the laws?



- The President and Congress write tax regulations and code
- Internal Revenue Service (IRS) administers tax law
- U.S. Treasury receives revenue

Federal vs. State and Local

- Federal government collects an income tax
- State governments collect an income or sales tax
 - ▣ Tennessee only collects sales tax
- Local governments can collect their own sales tax

Income tax rates

- Federal income tax rate is progressive.

A progressive tax rate means the higher the income bracket (the more you make), the higher the rate of income tax charged.

- Different Rate charged to qualified dividends and

While anywhere from 10% to 35% is charged on earned income, either 0% or 15% is charged on qualified dividends and long-term capital gains, depending on your income bracket. Qualified dividends come from stock held more than 60 days. Long-term capital gains are investments held longer than one year. This different tax percentage is to encourage citizens to invest long-term.

- Website Calculators

- http://www.moneychimp.com/features/tax_brackets.htm

This website calculates your income tax rate if you provide your filing

Deductions and Credits

□ Deductions

A deduction is when the government allows taxpayers to exclude some of their income from taxes. Some major deductions are: the standard deduction, itemized deductions, interest on a student loan, contributions to an IRA or health savings account.

□ Credits

A credit reduces the amount of your tax bill directly. After the amount of taxes you owe is calculated, a credit is taken to reduce that amount. Some credits include: earned income credit, child-related tax credits and education tax credits.

□ Which is better?

Credits are better because they reduce your tax bill dollar for dollar. Deductions reduce amount of income taxed.

Basic Deductions and Exemptions

□ Standard Deduction

- ▣ Standard Deduction OR itemized deductions
- ▣ \$5,450 per person (\$8000 if H of H) in 2008

You can only take the standard deduction OR the itemized deductions. It is smart to figure your tax balance with both, then choose the cheaper one.

□ Personal Exemption

- ▣ \$3,500 a person
- ▣ Phased out if AGI is higher than \$250,000 (MFJ)

Everyone receives a \$3,500 exemption. If you are a dependent, the exemption goes to who you are dependent on.

Withholdings

- Corporations required to withhold taxes from your paycheck

At the beginning of employment, employees fill out a W-4 form stating how many exemptions they want calculated into their withholdings.

- Withhold according to your W-4

Filling out the W-4 form correctly is very important. Putting the correct exemptions on the W-4 means you're not paying too much throughout the year and giving the government an interest-free loan or you're paying too little and will have to write a big check on April 15th. Consider adding a copy of a W-4.

- Filling out W-4

Income Tax Return Basics

□ File by April 15th

File (complete and mail to the IRS) by April 15th or file for an extension to not received the penalty.

□ Filing Status

There are five different filing statuses. 1) single – if not married, divorced, or legally separated. 2) Married Filing Jointly – If married on last day of year 3) Married filing separately – same requirements as MFJ 4) Head of Household – unmarried and have maintained at least half the cost of living for yourself and a dependent. 5) Qualifying Widower – if your spouse has died within the past two years, you have a dependent child and meet a few other conditions

□ Voluntary

Called voluntary because people are free to rearrange financial situation to manage how much taxes they pay and to take advantage of any tax benefits offered.

Tax Software

□ Easy

Most software give you blanks to fill in and transfer information to other forms automatically.

□ E-file

Most software also let you e-file which means you do not have to print a hard copy of your return and mail it in; you electronically send it to the IRS.

□ Prices

Software prices are under \$35, although you have to buy software for the federal return and the state return separately. The IRS provides free online filing software. Also, VITA sites provide free income tax preparation services to qualified individuals.