

your money

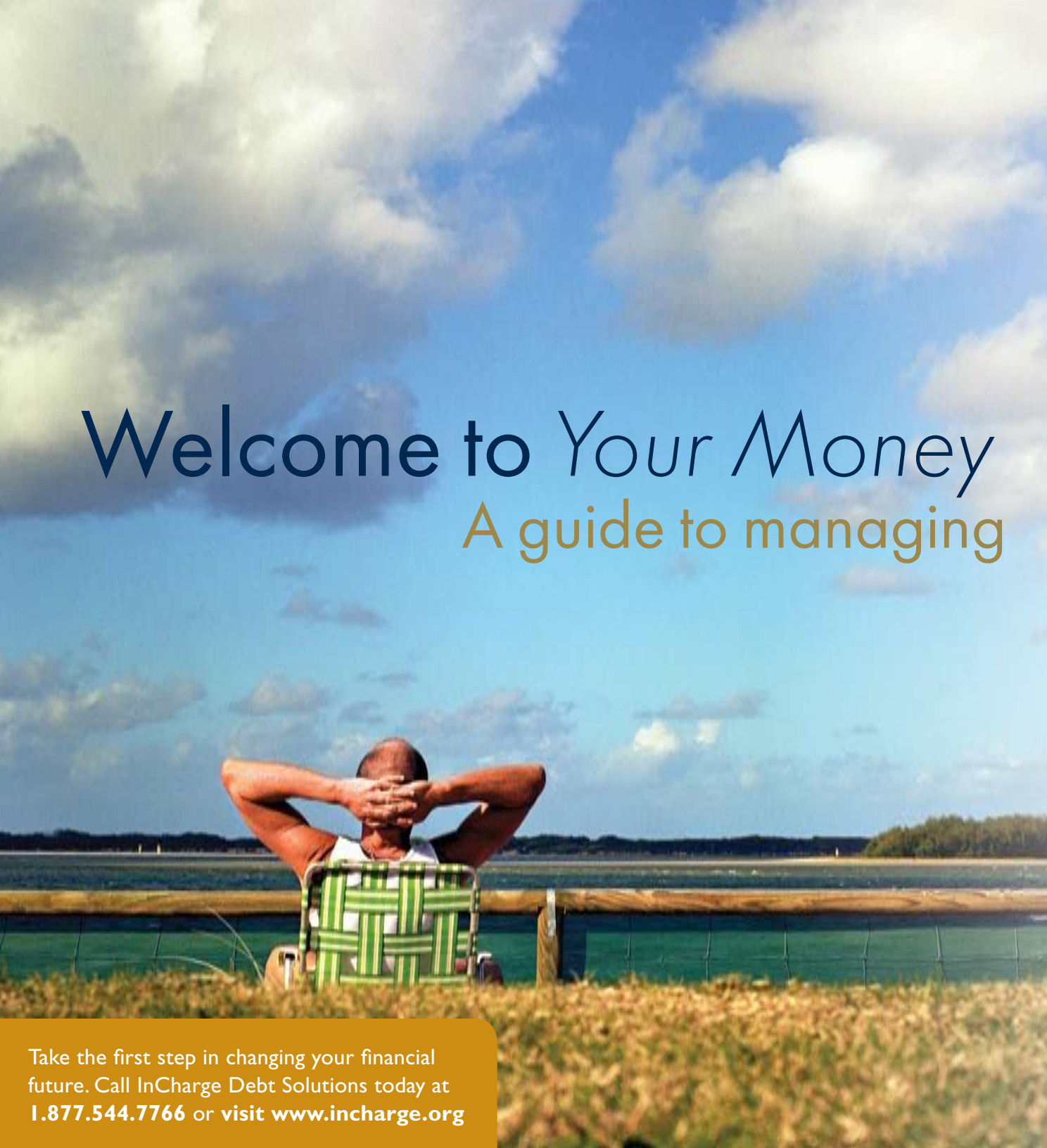
a guide to managing your credit and debt

Volume 1

Taking the first steps



INCHARGE[®]
DEBT SOLUTIONS

A man is seen from behind, sitting in a green and white striped folding chair. He has his hands clasped behind his head, suggesting relaxation. He is positioned on a grassy bank overlooking a body of water. In the background, there is a wooden railing, a line of trees, and a bright blue sky with scattered white clouds.

Welcome to *Your Money*

A guide to managing

Take the first step in changing your financial future. Call InCharge Debt Solutions today at **1.877.544.7766** or visit **www.incharge.org**



your credit and debt

Thanks for calling us to request *Your Money*, our free series of educational newsletters created for people who want to take control of their financial lives. Over the next few months, you'll receive additional volumes, each packed with important topics like **budgeting, managing cash flow, credit reports, using credit effectively** and **avoiding bankruptcy**. Financial fitness can be yours—read on and learn how to make it a reality!

The road to financial freedom isn't always a smooth one, and debt is often one of the biggest bumps we encounter along the way. But financial success can be yours—if you know how to achieve it. We can help. We've created *Your Money: A Guide to Managing Your Credit and Debt* series to inform and enlighten people just like you: people who want to be in charge of their financial lives—and who want freedom from debt and the stress that comes with it. Over the next few months, you'll receive newsletters, each packed with:

- Important information and advice from industry experts
- Handy worksheets for your computer or to do by hand
- Interactive Web materials and links to expand your resources
- Action plans to jump start your journey
- And so much more

Every issue is designed to give your financial life a makeover, providing the tools you need to make financial freedom a reality—for you.

You can do it. You can overcome your credit and debt issues. Aren't you ready to live a life free from collection calls, debt anxiety, and overwhelming stress? All it takes is some knowledge and dedication. And the first step is committing to a strategy and sticking to it. Think of this series as your guide to leading a more financially successful life. We'll help you explore your options, examine your situation and spending habits, and make important decisions about your financial well-being. No one deserves it more than you.



The Road to

The stacks of late credit cards bills. The frustrating phone calls from collection agencies. Let's face it, getting credit seems easy. It's keeping up with it that can prove challenging, and these days, it's easier than ever to incur unmanageable debts. Millions of honest, hard working Americans experience this problem and suffer serious financial and emotional burdens because of it.

How serious is your debt situation? If you answer yes to two or more of the questions below, you may be able to benefit from a credit counseling agency:

- Do you carry a high balance on your credit cards?
- Do you find it difficult to pay your bills on time?
- Do you pay only the minimums on your credit cards?
- Have you been burdened with debt for more than 6 months?
- Are you receiving calls from collection agencies about late payments?

How To Calculate Your Debt-To-Income Ratio

One of the easiest ways to get a picture of your current financial standing is to calculate your debt-to-income ratio. Monitoring your debt-to-income ratio can help you manage your

personal finances, while lenders will often use it when considering your credit worthiness

What is a debt-to-income ratio?

Your debt-to-income ratio compares the amount of your debt (excluding your mortgage or rent payment) to your income. The ratio is best figured on a monthly basis. For example, if your monthly take-home pay is \$2,000 and you pay \$400 per month in debt payment for loans and credit cards, your debt-to-income ratio is 20 percent ($\$400$ divided by $\$2,000 = .20$).

Why is monitoring your debt-to-income ratio important?

Keeping track of your debt-to-income ratio can help you avoid "creeping indebtedness," or the gradual rising of debt. Impulse buying and routine use of credit cards for small, daily purchases can easily result in unmanageable debt. By staying aware of your debt-to-income ratio, you can:

- Make sound decisions about buying on credit and taking out loans.
- See the clear benefits of making more than your minimum credit card payments.
- Avoid major credit problems.

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Overcoming Debt

Creditors look at your debt-to-income ratio to determine whether you're creditworthy. Letting your ratio rise above 20 percent may:

- Jeopardize your ability to make major purchases, such as a car or a home.
- Keep you from getting the lowest available interest rates and best credit terms.
- Cause difficulty getting additional credit in case of emergencies.

Debt-to-income ratios are powerful indicators of credit-worthiness and financial condition. Know your ratio and keep it low.

How do I calculate my debt-to-income ratio?

The first step in calculating your debt-to-income ratio is figuring your monthly take-home pay, which is the amount you earn after all deductions. If you're paid every other week, multiply your take-home pay by 26, then divide by 12. This is your monthly take-home pay. If your income is inconsistent, estimate your monthly take-home pay by dividing last year's annual take-home pay by 12.

Remember to include:

- Regular income from alimony and child support.
- Conservative averages of bonuses, commissions, and tips.
- Earnings from dividends and interest.

The second step is figuring your total monthly debt payments. Add your current minimum monthly payments for all credit accounts and loans, excluding mortgage or rent payments. Be sure to include:

- Car payment(s)
- Loan payment(s) (furniture, appliances, etc.)
- Bank/credit union loan(s)
- Student loan payment(s)
- Other loans/credit accounts
- Credit card payments
- Payment for past medical care

Now it's time to calculate your debt-to-income ratio. Divide your total monthly debt payment by your total monthly take-home income from all sources. The result will be your debt-to-income ratio. Total monthly debt payments divided by monthly take-home pay equals your debt-to-income ratio.

Is my debt-to-income ratio acceptable?

Generally, the lower your debt-to-income ratio, the better your financial condition. You're probably doing okay if your debt-to-income ratio is under 16-19%. Though each situation is different, a ratio of 20% or higher often signals a need to control your credit. As your debt payments decrease over time, you will pay less interest. Then you can use your money to save, invest, or spend as you choose.

You are entitled to one free credit report each year from each of the three major credit reporting bureaus: Experian Inc., Equifax and TransUnion LLC. These three bureaus are competitors and do not share information with each other, so each credit report may be somewhat different—you should check all three. You can request them via the Internet at www.annualcreditreport.com, by phone at 877/322-8228, or by mail at Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348.

Getting Out of Debt: Your Alternatives

Getting Out of Debt: Your Alternatives

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If your monthly debt payments, excluding mortgage or rent, exceed 20% of your income, your debts are a serious problem requiring action. Here are some basic alternatives for getting out of debt:

- Do it yourself
- Debt consolidation
- Credit counseling
- Bankruptcy

The do it yourself approach may include steps such as negotiating with your creditors, paying off debts with the highest interest rates first, obtaining a second job, and cutting up your credit cards. Many people lack the self-discipline to follow this approach.

Creditors sometimes are willing to negotiate lower payments or interest rates, or waive late charges and other fees, because they realize that it's better to receive some of the money owed than none of it. But do you have the ability and temperament to conduct difficult, time consuming negotiations yourself?

In a typical **debt consolidation**, you consolidate your existing debts and mortgage payment into one, larger mortgage payment, sometimes at a lower interest rate. You take out a loan, often using your home as collateral, the lender sends you a check and you pay off your creditors. But don't fall behind—you could lose your home!

If you have a habit of buying on credit and carrying large balances on your credit cards, debt consolidation won't fix your underlying spending problem. Also, you remain solely responsible for paying your own bills and negotiating with creditors.

A **credit counseling** service, like InCharge Debt Solutions®, can work with your creditors for you and provide additional guidance as part of a debt management program. You send a single payment each month to that organization, which then pays all of your creditors on your behalf.

In addition to establishing a structured payment plan based on your debt, a credit counseling agency like InCharge Debt Solutions may also be able to negotiate benefits for you, like lowered interest rates and waived late and over-the-limit fees. They can also respond to collection calls on your behalf, saving you from harassment. Many credit counseling agencies, including InCharge Debt Solutions, also believe in providing ongoing educational support so that once the individual is out of debt, he or she will also have the knowledge needed to prevent that situation from happening again.

Filing for **bankruptcy** should only be considered as a last resort. Bankruptcy is a court proceeding that stops lawsuits and any other attempts by creditors or collection agencies to collect from you. However, it comes with a high cost—it generally stays on your credit report for a full 10 years, causing extreme difficulty in using credit to obtain cars, homes and other loans, and even restrict you from certain kinds of employment. Bankruptcy should never be thought of as a “quick” or “free” way to get out of debt, as it creates such difficulty to obtain future credit for such a long length of time.

Although bankruptcy may fix your short-term problems, because it stays on your credit report for so long it should only be used in extreme situations. Many people who file bankruptcy make the mistake of doing so without fully exploring their options, and never realize they have other, more viable choices that will allow them to preserve their credit standing.

Bottom line: Know that you have options for getting out of debt, and explore them fully. The key is finding the right solution for you.

What Can Credit Counseling Do

As we've seen, there are many ways to resolve debt issues, and no single solution is right for everyone. At InCharge Debt Solutions, we use a solutions-based counseling approach to provide financial wellness resources to everyone who contacts us. As we evaluate each individual's needs, we determine if he or she would benefit from counseling, and we also determine if he or she would benefit from a Debt Management Program (DMP). A DMP is not the answer for everyone—some consumers in distress will benefit more from alternative programs or educational materials.

To ensure you receive the most thorough counseling available, we also access your credit report to verify and review it with you on the phone. In this convenient way, we can make sure your report is correct and know we have your most current credit information.

A personalized solution.

If it is determined that a DMP is the best solution, you will work with an InCharge credit counselor who will assess your financial situation and work one-on-one with you to develop a payment plan designed to fit your unique needs. This personalized approach is part of our commitment to your financial success that sets us apart from other credit counseling and debt management providers. InCharge Debt Solutions is also committed to providing financial educational materials that teach sound money management principals and

responsible use of credit. Upon enrollment, all clients receive our Education Kit, *Mind Your Finances*, which includes the first three books in the *Mind Your Finances* series, and the award-winning Credit Compass program. The *Mind Your Finances* series is a 12-book financial education tutorial designed to not only help clients while in partnership with InCharge Debt Solutions, but to also provide tools for long-term financial success.

Alternate resources.

For many consumers, finding a realistic way to pay down their debt on a structured schedule—and receiving creditor benefits like lower interest rates and waived fees—is the answer. It may be the right option for you. However, because we understand it is not the answer for everyone, we also provide alternate resources, like financial counseling, budgeting assistance, and, if applicable, referrals to social service agencies or partners that can help with particular issues. Plus, to those who aren't ready or who may not qualify for a DMP, and to those specifically requesting educational materials, we provide *Your Money: A Guide To Managing Your Credit and Debt*, our free six-issue series of educational newsletters.

It's important to understand that InCharge's DMP is not a loan—it is a manageable repayment plan. Your creditors want you to continue to make payments. That's why they're willing to work with InCharge to make your monthly payments afford-

able while you work toward paying off your debt.

Payments you can manage.

Once you and your counselor establish your repayment schedule, you will be responsible for one affordable monthly payment to InCharge. We distribute your payment to each of your creditors—on time, every time. As soon as you begin to make consistent payments and show your creditors you are serious about getting out of debt, you'll receive benefits like:

- Reduced interest rates
- Waived late fees and over the limit fees
- No more collection calls

Ongoing support & education.

All InCharge Debt Solutions clients receive our newsletter, *Next Step: A Monthly Guide to Reaching Your Financial Goals*. It provides money saving tips, DMP updates, budgeting advice, credit management information, and more. And at www.InCharge.org, consumers and clients can learn about ways to improve their financial lives, with helpful articles and financial calculators, plus they can login and view their account status, send emails to InCharge counselors, and receive additional money management tools.

For Me?

Benefits that last a lifetime.

The benefits of InCharge Debt Solutions continue long after you enroll in our Debt Management Program. Our counseling and educational services help you develop a long-term plan for managing your finances. We address issues such as budgeting, managing cash flow, understanding credit reports, using credit effectively and avoiding bankruptcy. With our help, you won't just get out of debt—you'll have the tools you need to stay out of debt.

Professional. Personal. Private.

InCharge Institute is a national non-profit organization specializing in personal finance education and credit counseling. The InCharge family includes the InCharge Education Foundation, which provides award-winning products and materials that support the personal financial literacy needs of consumers worldwide and InCharge Debt Solutions, which provides professional credit counseling and education services.

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What Can Credit Counseling Do For Me?

Ready for More of

Is your credit preventing you from qualifying for loans?

BrightScore can help! This innovative credit report tool helps you understand and proactively manage your credit, including:

- An easy-to-understand credit report & score
- A personalized action plan
- A tool to help find & resolve inaccuracies
- Access to live BrightScore counselors

Visit www.brightscore.com or
call toll-free 1-866-383-8086



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Your Money?

Over the next few months, watch for the next installments of InCharge®'s *Your Money* for more valuable information and advice. Here's a preview of what's coming up:

Vol. 2 You and Your Credit Report—How to read a credit report, the importance of checking your report, how to improve your credit score & how to avoid hurting it.

Vol. 3 Budgeting and Money Management—How to create and live on a budget, money management tips, and budget worksheets for your computer or to do by hand complete with step-by-step instruction.

Vol. 4 Gaining Control of Your Financial Life—How to tackle debt, what to look for in a credit counseling agency, checklist for regaining control of your life with a “clean sweep” program, and how to determine “needs” vs. “wants.”

Vol. 5 Making Money, Saving Money—Extra ways to make extra income, savings worksheets for your computer or to do by hand, and more.

Vol. 6 Life After Debt—How to best utilize the money you'll no longer have put toward paying debt, and how to invest and profit from money you've already made.



InCharge® Institute

Headquartered in Orlando, Florida, InCharge Institute employs over 400 industry professionals within its family of financial wellness providers, which include:

InCharge® Debt Solutions

This non-for-profit, community-service organization offers confidential and professional credit counseling, debt management and financial educational programs to individuals nationwide. We help consumers payoff debts, improve their financial well-being, and fulfill their obligations to creditors.

InCharge® Education Foundation

This organization sets an industry standard by providing award-winning products and services that support the personal financial literacy needs of consumers nationwide. Each year, the Foundation spends over \$5 million to design, develop and implement personal finance education programs, and conduct research on consumer credit and debt, and other related areas.