Anytime Adviser—Credit Management Coach

Welcome.

This interactive guide coaches you to manage credit wisely to achieve your goals.

Introduction

Credit comes in several forms, from mortgages to credit cards. It is an agreement in which we get something now by promising to pay for it later, by paying interest on the borrowed amount. Used wisely, credit can help us achieve goals.

With secured credit, the borrower backs up his promise with something of value. For example, a member may take out a loan for a used truck. His credit union holds the title to the truck until the member pays back the loan.

Credit cards operate a bit differently. Unlike a set monthly car payment, monthly credit card payments can vary based on the outstanding balance.

Low minimum payments allow you to take four years to pay off last night's dinner out—making it much more expensive. And high credit limits make it all too easy to slip into deep debt.

How do your credit habits stack up? Take this quiz to find out. For each question, select the phrase that best completes the sentence, by clicking on the circle after either A, B, or C.

Q1 In the past three months, I've paid my bills on time…

a) All of the time
b) Most of the time
c) Sometimes

Q2 Each month, I usually pay about this much of the balance on my credit cards:

a) The entire balance
b) A fourth or more
c) The minimum payment

Q3 I use cash advances from one credit card to make payments on another card…

a) Never
b) Rarely

c) Sometimes

Q4 I buy groceries with a credit card because I'm short on cash…

a) Never
b) Rarely
c) Frequently

Q5 Before I buy on credit, I…

a) Ask myself how this purchase helps me achieve my goals
b) Promise to pay it off in a year or less
c) Check to see if I'm over my credit limit

Q6 I know about how much I owe…

a) Always
b) Usually
c) Rarely

Q7 I have enough cash in savings to weather most emergencies…

a) Yes
b) Not yet, but close
c) No

Q8 My spouse and I argue about money…

a) Rarely
b) Sometimes
c) Frequently

If you chose answer "A" most of the time, you're doing a good job managing your credit. This guide can help you evaluate your spending habits and achieve short- and long-term goals.

If you chose answer "B" most of the time, some of your habits may have you heading for trouble. To get a better grip on timely payments and unnecessary expenses, focus on the Determine Your Needs and Reduce Debt chapters.

If you chose answer "C" most of the time, you already know that credit is causing stress in your life. You can turn that around by consulting professionals. Find out how in the Reach Out chapter.

It’s easy to get hooked into an impulse purchase. Let’s look at a real-life example that illustrates the need to develop your credit management skills.

True Story—A mom and her teenage daughter picked up a couple of “free after rebate” items in an electronics store and were headed to a checkout lane. Lines were long, and a camera salesman caught their attention. He “couldn’t believe” they weren’t sisters—that one was actually a mother!

Ten minutes later, they had bought a $350 digital camera. Did they need a camera? No. Did they <u>even *want*</u> one? Probably not. Why did they buy? Credit!

This quick guide coaches you to:
- Set goals.
- Reach goals by reducing spending.
- Find the right credit card.
- Improve your credit rating.
- Know when to seek professional help.

Set Goals

Successful credit management helps you achieve your goals. Before we focus on credit cards, let’s look at the bigger picture. What do you want for you and your family?

To help you answer this question, first inventory what you have and what you owe. By completing this financial inventory, you’ll have a snapshot of where you are financially. Use the link on the coach to calculate net worth.

Now that you know where you stand with your finances, what do you want to achieve? Short-term goals are those you hope to accomplish in a year or less. Long-term goals may take longer.

Try sorting these common goals.

Short Term
- Buy a TV or stereo.
- Pay off credit cards.
- Build an emergency fund.
- Pay for a vacation.
- Buy a car.

Long Term
- Buy a home.
- Save for children’s college education.
- Buy a vacation home.

- Quit second job.
- Retire early.

Now think about your own goals.

When setting goals, consider the impact on your entire household. If saving for a family vacation means no more karate lessons for Michael, you'll need some buy-in to pull off this change.

Think about your goals, and write them down. Then number them in order of importance. If your goals affect other people, have them rank goals separately and then compare your rankings. You'll need to reach agreement.

Use the Goals Work Sheet, and complete the first section.

Now pick your first goal, and we'll build a plan to achieve it.

If you're new to working toward goals, consider a short-term goal first. After a couple of successes, tackle tougher goals.

Determine Your Needs

Cutting back on nonessentials is hard to do. Advertisers appeal to our emotions to make everything sound desirable and essential. A plan will guide you to achieve your goal. A large portion of that plan will involve cutting back on nonessentials, which is difficult since advertising works on our emotions.

As humans, we naturally respond to emotional appeals such as this one, and credit cards make it easy!

This advertising appeared on the Web site for a $125 pair of basketball shoes: "Step into the future in the…shoe engineered to be a foot rocket for the game's speediest ballhawks. Built for the game's quickest and most explosive player."

Advertising is not evil. After all, the companies that successfully persuade us to buy their products and services also employ our neighbors and sponsor our favorite TV shows, sporting events, and charities. The winner, here, is the person who can remove emotions from purchasing decisions.
Try your hand at separating basic needs from wants.

Need
- Glass of city tap water
- Peanut butter sandwich on wheat, glass of milk, & salad
- $20 pair of shoes for growing child
- Reliable used car to get to work

- Library card to borrow books, movies, and music

Want
- 500ml bottle of designer water
- Dinner out at MacChiles
- $125 designer athletic shoes
- SUV to run errands around town
- Satellite TV with premium channels

Another technique retailers use to derail consumers from sticking to their plans is impulse buying.

Specially priced merchandise may be displayed on the ends of isles, luring you in. Who hasn't dashed into a store for a gallon of milk and left with $15 worth of snacks and magazines?

Here's a strategy to help you resist impulse buying with major purchases:
- If you see something appealing, wait 24 hours.
- Calculate the total cost of the item (including interest if buying on credit).
- Determine how this purchase will improve the quality of your life.
- If you still want the item, shop around and create a plan.

On the next page is an example of this strategy in action.

Strategy to Avoid Impulse Buying

Strategy	Real-Life Example
If you see something appealing, wail 24 hours.	The sound on Janeena’s TV started to pop in and out. She visited a showroom and saw an amazing 55” screen high-definition TV on sale for $2,199. She wrote down its features and went home.
Calculate the total cost of the item (including interest if buying on credit).	With tax and a 4-year servicing plan, it would be $2,671. If she pays $100 a month, she’ll pay off the TV in just less than three years (plus $708 in interest). That’s a final cost of $3,379. After taxes, Janeena earns about $15 an hour. This TV will cost her 28 days of pay.
Determine how this purchase will improve the quality of your life.	Janeena really enjoys TV—it's her main companion most evenings—and would enjoy seeing her favorite show on the crisp, big screen.
If you still want the item, shop around and create a plan.	Janeena got online and researched. Although she learned that this was a good price for this model, she was disappointed by shoppers’ comments about how few programs are currently broadcast in high definition. Sure enough, Janeena went back to the showroom and changed the channel to her local station with an analog broadcast. It was big, but it was very fuzzy. Janeena did learn from the salesman that she could connect her current TV to her stereo. Now she’s got better sound from her TV than ever for just a $20 pair of cables. She’s saving $100 a month in a credit union account to buy a high definition TV in a couple of years when more of her favorite programs are broadcast in high definition.

Another way we slip into credit card debt is at the encouragement of our companions. It's awkward to say "no" to a pair of shoes your friend insists are "awesome", or to take a pass on a weekend out of town for a concert with buddies.

Still, you alone are responsible for your own debts. Here are a couple of ways to enjoy friends without sinking into debt:

- Leave your credit card at home.
- Invite friends over instead of heading out for entertainment.

Build a Plan

Now that you've had some practice determining your needs and reducing impulse buying, you can build a plan for your first goal.

Write your top goal in section two of the Goals Work Sheet. Attach a dollar amount and set a deadline. If you plan to buy on credit, add one-third to the purchase price.

Then calculate how much money you'll need to save each week to reach this goal or make your payments. For example: A $244 jacket means saving $20 a week for three months.

Where will the money come from? You!

Develop an accurate and honest portrait of your spending and identify ways you can save. Use a Tally Sheet to track all your spending for at least a week (a month is better). Then, grade your spending.

Next, gather your checkbook register and credit card statements and fill in the first three columns of your Budget Blueprint. Rely on your tally sheet for food, entertainment, and personal spending. Then rate each category as you did on the tally sheet.

How are you at trading? That's how we achieve goals. We trade. We redirect our resources, such as time and money.

Your greatest opportunities for reducing spending are in categories you marked as unnecessary or where you overpaid. Question why you made those purchases and how much satisfaction they have provided. Where can you reduce spending and by how much? Next, set goals to reduce or eliminate nonessentials to save for your goal.

Looking for some ideas? See the next page for ways to reduce spending.

Ways to Reduce Spending

If you…	Consider…	Or…
Subscribe to cable TV movie channels	Convert to basic cable	Cancel cable and borrow movies and books from the public library
Eat out lunch each workday	Bring a lunch from home every other day	Bring lunch from home every day
Dine out with friends	Invite friends over for dinner	Host a potluck dinner
See movies in the evening	Taking in a matinee	Catching second-run shows at a bargain theater
Hang out at the mall for entertainment (and spend)	Read a book	Volunteer
Cruise the Internet with high-speed access	Use dial-up access	Use free access at library
Own two cars for your family's transportation	One-car family + public transportation	Use public transportation or bike
Buy a new outfit each month	Buy a new outfit every other month	Shop at garage sales and second-hand shops
Buy two cups of coffee each day	Buy one cup of coffee each day	Bring a thermos of gourmet coffee from home
Buy expensive birthday and holiday gifts	Plan ahead and buy gifts on sale or off-0season	Make gifts or give gifts of your time
Smoke two packs of cigarettes a day	Smoke one pack a day	Quit
Drive a luxury car	Drive a simple sedan	Ride a bike
Attend a concert each month	Go once a quarter	Buy the CD

Budgeting is about prioritizing, not depriving. With a successful personal budget, you decide where to cut back to achieve a more important and satisfying goal.

Review your Budget Blueprint and identify categories where you are willing to change your habits. With a successful personal budget, you cut back to achieve a more important and satisfying goal. Here are three examples:

- The Stenlund family agreed to cancel premium cable TV for a year to fund a family vacation.
- Robert gave up his golf membership at the club to build a college fund for his son, Jason.

- The Jacksons decided to sell one of their two cars to make a down payment on a house.

Another way to fund your goal is to increase your income through additional employment. Here are two examples:

- Ricco took on a second job in the spring working for a nursery to afford a plane ticket so his mother could visit.
- Janetta stays home with her two youngest children. She handles the bookkeeping for a few clients to pay for her son's violin lessons.

Now complete section three on your Goals Work Sheet.

Congratulations, you have a plan. Here are some strategies to help keep you on track. Remember, you're not depriving yourself—you're trading to achieve a more satisfying goal.

Strategies for Success

- Visualize your goal—find a picture of the goal and paste your photo in it.
- Track progress—chart your accomplishments each week.
- Re-evaluate your progress after a few weeks. If necessary, adjust your plan.
- Enlist support from family or friends.
- Celebrate successes.

You're on a roll. Now is the time to make saving a habit. After you reach your first goal, set another. Maybe you're not even missing what you gave up. If so, keep it that way and start saving for long-term goals. Make it easier by electing payroll deduction to automatically fund a savings account for long-term goals.

Find the Right Card

Successful credit card management begins with finding the right card. Credit cards are convenient, and nearly every household uses one. Just be sure you get the right card for your circumstances, and use credit to meet your goals.
When looking for a credit card, compare terms to determine which is the best for your circumstances.

First, you'll need to understand some terminology.

Annual fee—Amount you might pay once a year for using the card.
APR—Annual percentage rate or interest you'd pay on a purchase over a year.
Grace period—Time during which the card issuer doesn't charge interest on a purchase.
Teaser rate—A low, introductory interest rate that jumps much higher after a few months.

Before applying for a card, contact your credit union. Credit unions are known for offering lower rates and fees.

Which features matter most to you? If you will be paying off your balance each month, the APR will be less important, but a grace period between the purchase and the payment will be essential. If you cannot pay your balance each month, focus on the APR, but beware of teaser rates, which will jump in three to six months.

Use the Credit Card Comparison Work Sheet to evaluate card offers.

A word about paying with credit cards… With a car loan, you borrow a determined amount of money and define the number of months over which to pay it back, with interest. This is a closed-end loan. With credit cards, you're typically in an open-end loan. You have a limit, but until you reach it, you can continue buying each month and paying only a portion each month. When buying on credit, your credit card payment minimum typically will be 2%-3% of your total balance. If you make just the minimum payment each month, repayment and interest can drag out for several years. Depending on the interest rate, that can add another third to the purchase price.

To get a feel for the real cost of buying on credit and making minimum monthly payments, try matching purchases with their final costs (including interest). Match these four purchases with the total price when making minimum (3% of balance) payments.

$61.33 – Pair of jeans for $45
$81.77 – Family dinner out for $60
$109.03 – DVD player for $80
$129.47 – Athletic shoes for $95

Using credit cards wisely is a challenge, but there is an alternative. Debit cards are accepted wherever credit cards are accepted. But payment for the purchase is taken from funds in your checking account. It's the convenience of a credit card without the opportunity to plunge into debt.

These tips can help you create good habits for using a credit card:

- Pay the full balance each month. If you can't, create a plan to pay it off.
- Pay on time to avoid raised interest rates.
- Watch the interest rate. Most cards offer a variable rate, which fluctuates. Rates can change with just 15 days notice.
- If you lose your card, contact the issuer immediately.

Improve Your Credit Rating

Who's keeping score? The credit industry is. Every time you apply for a new credit card, mortgage, perhaps even an insurance policy or a job, your application is judged in part on your credit score.

You're entitled to a free copy of your credit report if you've been denied credit, insurance, or employment based on it, and request the report within 60 days of notice. To purchase a copy of your report, contact:

- Experian, 888-397-3742
- Equifax, 800-685-1111
- TransUnion, 800-888-4213

Based on your credit report, lenders typically assign a score. One common scoring system is FICO from Fair Isaac & Co. A credit score does not consider your race, religion, or nationality. Instead, it reviews your payment history, total debt, length of history, and new credit.

Borrowers with low scores may be turned down for loans and credit or will pay a higher interest rate than borrowers with high scores.

Here are some strategies to improve your credit score:

- **Ignore advertising that promises to remove bad credit.** These services will charge you a fee for something only you can do yourself. Only time and a personal debt payment plan will repair bad credit.
- **Elect automated payment to ensure timely payments**—credit reports track every payment past due 30 days or more.
- **Dispute in writing any errors on your report.**

Reduce Debt

If debt keeps you up at night or is a source of family arguments, consider debt reduction as your first goal.

Although it's easier to give up dining out and conveniences when you're saving for a special treat, remember the emotional turmoil debt creates in your life.

Visualize the Effect of Debt

Carry a sheet of paper and note each time you think about being in debt—how many times a week does this happen?

Write down how you feel about being in debt (angry, nervous…). Now write down how you'd feel if you weren't in debt (free, happy...). Cut this page in half. Hang the positive emotions in a spot you'll see each day. Carry the negative list with you, and review it before each purchase.

Remember your motivation for reducing debt as you create a plan to cut out nonessential spending.

Three Steps to Reduce Debt

1) Complete your Budget Blueprint, and identify nonessential spending. Limit spending to essential needs.

2) Complete sections two and three of the Goals Work Sheet, making your first goal to pay off your credit cards.

3) Consider working extra hours or a second job to get out of debt faster, especially if it leaves less time for you to spend.

Enlist encouragement from family and friends to help you stick with your plan. And reward yourself for staying on course with simple treats, such as popcorn and a movie on TV, a hike in the country, or a good book from the library.

Here are some strategies to stick with plan:

- Leave your credit card at home.
- Direct deposit your paycheck and autopay a set amount to your credit card.
- Celebrate your success each week with inexpensive rewards.

Reach Out

Getting out of debt requires planning and a commitment to change. Both are difficult to accomplish on your own. If your debt causes sleep loss, get professional help. If you've missed two payments in a row, get help. If you've received collection or disconnect notices, get help.

Get a referral from

- Your credit union, or
- Consumer Credit Counseling Service (CCCS) 800-388-2227

Credit counseling can protect you against painful experiences that only worsen with neglect.

The nonprofit CCCS has more than 1,000 offices that provide free or low cost and confidential consultations with professional budget counselors. Typically the only charge is on debt repayment plans—often as low as $15 a month.

Reaching out for help is a big step. To ensure you're working with a reputable agency, get answers to these questions first. Once you've found some counseling groups that seem suitable, here are some questions to ask:

- Are they nonprofit?
- How are they funded?
- How are client funds collected?
- Are their counselors certified?
- What fees do they charge?

When you set up an appointment, you'll probably get a work sheet to complete about your income, expenses, and debts. At the appointment, a counselor will review your completed work sheet and help you determine a course of action. Typically one-third of clients leave an initial consultation able to straighten out their finances on their own. Another third or so enroll in a repayment plan to fulfill their obligations over a couple of years.

Reaching out for help is a brave move. Congratulations.