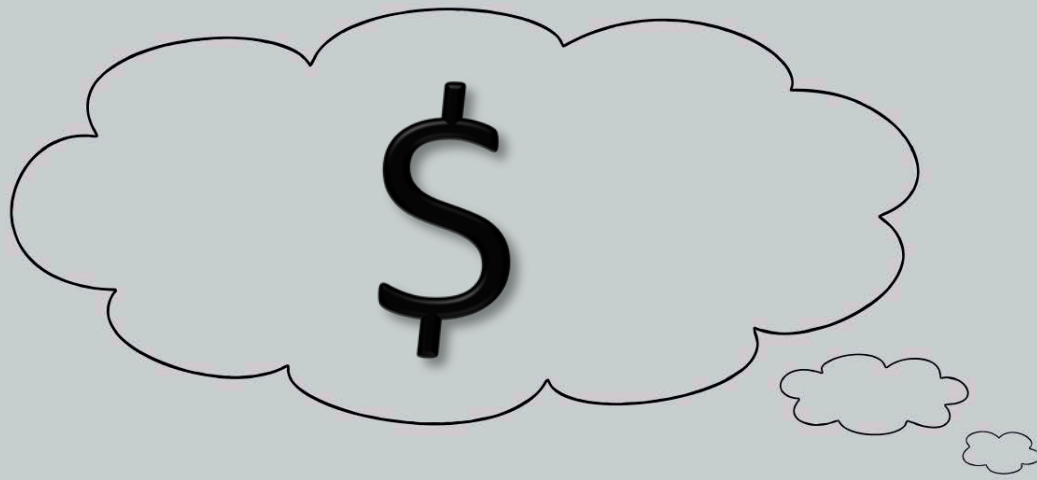


# Financial Psychology





# Financial Psychology

In this unit you will develop an understanding of how your financial psychology relates to achieving your financial and lifestyle goals. You will explore these concepts by looking in-depth at how your personality, goals, dreams, and emotions can affect your attitude toward money.

# The Most Important Thing

## Warm-Up Activity

Take a moment to reflect on the following quote:

"Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy." ~*Groucho Marx*

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## Lesson Activity: Money Motivation

**BELIEF STATEMENT:** I believe the most important thing money can buy is \_\_\_\_\_

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## THE BEN FRANKLIN CLOSE

Reasons For	Reasons Against

# The Most Important Thing

## Lesson Questions

1. What is the most important factor determining your overall financial success?
  - a. Your current net worth.
  - b. Accumulation of material goods.
  - c. Developing financial skills.
  - d. Freedom from want.
2. Which of the following supports your motivation to acquire money and attain your financial goals?
  - a. Your dreams and personal goals.
  - b. Graduating from school.
  - c. Living without negative emotions.
  - d. Living without stressors.
3. What is motivation?
  - a. The drive to do something.
  - b. Drive to do nothing.
  - c. Lack of energy.
  - d. None of the above.

## Essential Questions

What motivates you to get money? \_\_\_\_\_

\_\_\_\_\_

Why do these things motivate you to obtain money? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

How does your motivation affect your desire to earn money? \_\_\_\_\_

\_\_\_\_\_

Can your motivation for money affect your wants and needs in life? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Money and Emotions

### Warm-Up Activity

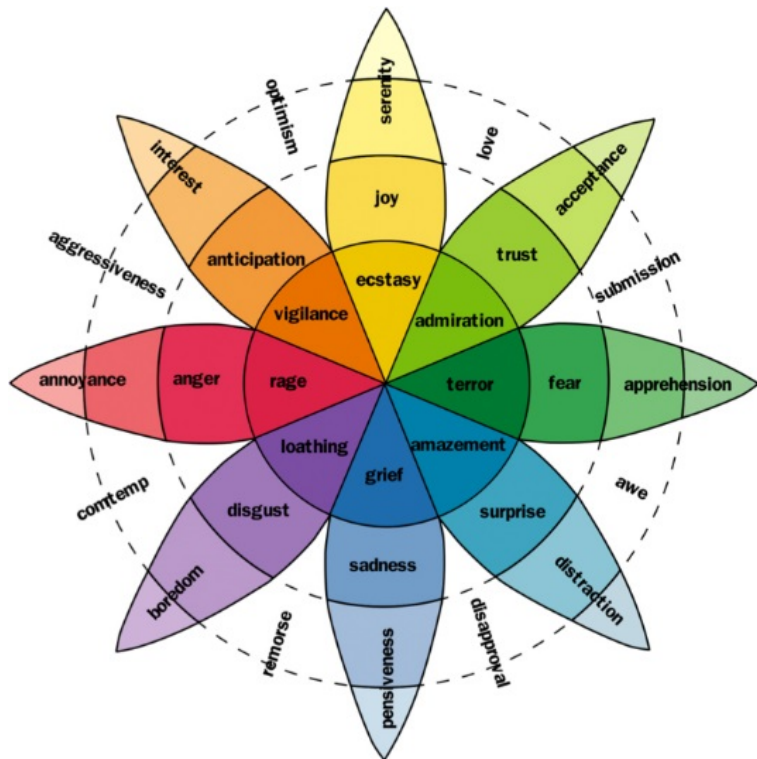
Describe how the following scenario makes you feel:

You are at the mall with your friends. You only have \$10 cash. You want to go to lunch with your friends but the cheapest item on the restaurant menu costs \$15.

### Wheel of Emotions

Lots of emotions are involved in making money and financial decisions. According to Robert Plutchik's Wheel of Emotions theory, there are eight basic emotions.

1. Trust → this also includes admiration and acceptance.
2. Fear → the feeling of being afraid, shocked, or scared.
3. Surprise → how you feel when something unexpected happens.
4. Sadness → feeling sad. Other words that describe sadness are sorrow, grief, and depression.
5. Disgust → feeling something is wrong or dirty.
6. Anger → feeling angry or enraged.
7. Anticipation → the sense of looking forward positively to something which is going to happen.
8. Joy → feeling happy, glad.



# Money and Emotions

## Lesson Activity: How Do You Feel About That?

Follow the instructions provided by your instructor.

In your small group, create a skit/role-play that addresses each of the three scenarios below. Be sure to answer this question in the skit:

How would you feel about each situation?

### SCENARIOS

Your girlfriend or boyfriend wants to go out for a nice dinner to celebrate your anniversary.



All your friends are taking a trip to Costa Rica for a week.

A close relative is graduating from college and you want to buy her a great gift to honor her accomplishment.



## Lesson Questions

1. Which of the following emotions could influence a person to make an incorrect financial decision?
  - a. Fear
  - b. Joy
  - c. Sadness
  - d. All of the above.
2. How can you avoid having negative feelings about money?
  - a. Delay setting up a savings plan to avoid stress.
  - b. Delay setting up a spending plan to avoid arguments.
  - c. Think about your dreams and hope everything works out.
  - d. Only spend the money you have.
3. Cultural values have little effect on the formation of an individual's lifestyle and financial choices.
  - a. True
  - b. False
4. My personal emotions can be affected by my financial situation.
  - a. True
  - b. False

Essential Questions

How does my financial situation affect my emotions?

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How do my emotions affect my financial situation?

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Why is it important to know how money and emotions affect each other?

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## Goals

### Warm-Up Activity

What is a goal? \_\_\_\_\_

What is the difference between goals and dreams? \_\_\_\_\_

A dream exists only in your head. Think of your dream as a target. Unless you shoot an arrow toward that target, you'll never hit it. Dreams are your ideas of success; goals define the action you must take in order to make dreams real. Goals are expressions of your personal dreams about your ideal future. They are statements of anticipated outcomes you are looking to achieve.

Setting goals and priorities, and then following through with active plans to make them happen, is the essential process for turning dreams into reality. Goals are basically your dreams written down with a solid plan to reach them. The simple act of writing down what you want from life helps keep you focused and in control. How your life pans out is entirely your choice—so write your goals out now, and create a plan to achieve them.

#### HOW TO SET GOALS TO ACHIEVE YOUR DREAMS

- ☐ Daydream about how you want to live your life and the lifestyle that you picture for yourself.
- ☐ Get these daydreams down in writing — just write. Do not judge.
- ☐ Organize your goals on paper by the date you want to accomplish them.
- ☐ Create a rough plan to accomplish your goals.
- ☐ Review your goals often — every day would be excellent!
- ☐ See it. Believe it. And think about achieving your goals.

You have the ability to get whatever you want in life. Setting goals may sound simple, but that simple action will make a tremendous impact on all areas of your life.

## Lesson Activity: I Want It!

I want it!

The best way to get what you want is to set a plan to achieve it.

- What is it that you really want to buy in the next 5-10 years?
- What are you going to do to get there?
- Make your plan today to get started!

I really want ...

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I will buy what I want by using the following plan:

- This month I will \_\_\_\_\_
- Next month I will \_\_\_\_\_
- Within 6 months I will \_\_\_\_\_  
\_\_\_\_\_
- This year I will \_\_\_\_\_  
\_\_\_\_\_
- Next year I will \_\_\_\_\_  
\_\_\_\_\_
- Two years from now I will \_\_\_\_\_  
\_\_\_\_\_
- In 5 years I will \_\_\_\_\_  
\_\_\_\_\_
- In 10 years \_\_\_\_\_  
\_\_\_\_\_
- In 25 years \_\_\_\_\_  
\_\_\_\_\_

## ■ Creating Life and Financial Goals

What's standing between you and your dreams, your future success? **NOTHING** — if you can set goals and make an actionable plan for achieving them!

If you've ever aspired to be comfortably secure or financially independent — even to be a millionaire! — reaching those aspirations requires goal- setting. Just like in sports, you can't score without a goal, right?!

Successful people have written goals. You will achieve a higher percentage of your goals by imagining the successful achievement of those goals. When you write your goals and use mental imagery to focus your thinking, you can actually rewire your brain so the neurons form new connections and make new pathways. This helps you achieve a higher percentage of your goals.

Setting goals for financial planning and life success has many benefits, for example:

- **MOTIVATION.** Goals motivate you. Your life is moving toward some- thing instead of floating to nowhere.
- **SAVING VS. SPENDING.** How much of your monthly paycheck should you save? How much should you spend on shoes and music? Good questions—and without a set goal, you might see your shoe and iPod flourish while your finances suffer.
- **FREEDOM.** Once you've set a goal — believe it or not — you become liberated from constantly worrying and wondering what you're going to do with your life. Plan and set goals when you're young, or else wake up when you're 95 years old and say, "Hey! What happened to my life, my money, and my dreams?"
- **SCORING.** You achieve success by scoring. How can you score if you don't even know where the goal is? Set goals, achieve them, and feel rewarded. Planning ahead makes scoring so much easier.

Goal-setting can improve every area of your life. For a well-balanced life, set goals in each of the following areas:

- Family/Relationships
- Physical Health and Well-being
- Giving Back
- Fun & Toys
- Spiritual Self
- Money/Career
- Personal Growth

## ■ The S.M.A.R.T. Guidelines

Turning your dreams into reachable objectives takes some thought, but there's a proven technique. Use the **S.M.A.R.T** guidelines:

### **S – SPECIFIC, SIGNIFICANT**

Be **specific**. Describe what you want to accomplish in clear and specific terms. If you can really visualize your goal, it's easier to achieve.

*Example:* If you're saving money to buy a car, it's much easier to keep to that savings plan when you have the model, color, and features picked out

**Significant**. Make sure your goals are for what *you* want. Goals should match your personal interests and values.

### **M– MEASURABLE, MOTIVATIONAL.**

**Measurable**. You must be able to measure your goals; that is, you will know when you get there.

*Example:* "I will have a net worth of \$2.5 million by my 40<sup>th</sup> birthday."

**Motivational**. Your goals should motivate you to move to the next level — and beyond!

### **A – ATTAINABLE.**

Goals must be **attainable**.

*Example:* Wanting to be President is a tough goal, but possible. Wanting to be Spiderman is a fantasy; you'll never get there.

### **R – RESULT-ORIENTED, REASONS.**

**Result-oriented**: Phrase your goals in the positive. "I accomplished. I have. I am enjoying." Positive phrases direct your mind to focus on outcomes. When your mind is on board, the rest comes naturally.

*Example:* I will earn enough money by next January to afford the \$1,000 vacation I've always wanted.

**Reasons**: Why do you want to accomplish the goal? Deciding on the reasons behind each goal provides inspiration. For instance, if your goal is to be financially-free, some reasons behind that goal might be:

- Spend more time with family or friends.
- Feel more secure about your future.
- Free time to do favorite activities — travel, sports, etc.
- Stand out among friends and associates.
- Be able to afford things you want.
- Ability to help family members and take care of loved ones.

The reasons behind a goal are the fuel that keeps you motivated to accomplish all your hopes, and more!

## T – TIME DRIVEN.

Good goals are time-driven. In other words, give yourself a deadline. For your plans to operate smoothly, you need to write down specific dates. You need a sensible time frame in order to work toward a goal and track your progress along the way.

*Example:* “I have paid of my \$2,300 credit card by Memorial Day, and will be enjoying myself on vacation”

## Lesson Activity: Writing S.M.A.R.T. Goals

Remember that your goals must fit together. Goals should be headed in the same direction, not contradictory. For instance, having two goals of “saving up enough money by the end of summer to buy a LED Smart TV” and “taking the summer off to travel” contradict each other—you would only be able to accomplish one or the other. You must decide which is more important to you: TV or travel?

POORLY WRITTEN GOALS	WELL WRITTEN GOALS
<input type="checkbox"/> I want to have more money for vacation.	<input type="checkbox"/> I will have saved \$5,000 by New Years’ Day and will reward myself with a trip to Hawaii with my family.
<input type="checkbox"/> I’ll try to invest more.	<input type="checkbox"/> I will take a class on investing and find a trusted advisor by my birthday this year.
<input type="checkbox"/> I’ll pay my credit cards and hospital bills.	<input type="checkbox"/> By focusing on keeping expenses low, I will pay in full my \$4,200 credit card bill and cleared my hospital bills from my credit by the end of this year.

YOUR SMART GOALS

## MAKE IT HAPPEN!

Once you've written down your goals using the S.M.A.R.T. guidelines, follow these steps:

- **Plan of Attack.** Write down each step you need to take toward accomplishing the goal. These step-by-step plans may sound corny, but they work. Reaching goals is like climbing stairs: without steps, how can we ever move up? Build steps in your staircase of life. Suddenly the next level will seem that much closer!
- **Review your goals often.** Write your goals on the back of an index card and tape it to the mirror where you brush your teeth. Put an identical card by your bedside table and another on the dash of your car. Look at your goals daily. Keep them in the forefront of your mind.
- **See it, believe it.** Visualize your goals coming true. The body goes only where the mind has already been. That means you must see, hear, smell, touch, and feel what it will be like to accomplish your goals. Visualization is like daydreaming with a purpose. By imagining yourself already accomplishing your goal, you are well on the road to success.
- **What you think about, you become.** You have the ability to get whatever you want in life. All you need to do is change your thoughts. The law of attraction says you will get whatever you think about, whether wanted or unwanted.

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## Lesson Question:

1. To set a good goal, you should
  - a. Set a clear timeline for achieving the goal.
  - b. Identify what you are willing to give up in order to attain the goal.
  - c. Both a. and b.
  - d. Neither a. nor b.
2. Goals
  - a. Are just dreams.
  - b. Should only be long-term.
  - c. Should only be short-term.
  - d. Should be specific and achievable.
3. Setting financial goals
  - a. Is not really necessary.
  - b. Is only important if you own a business.
  - c. Is only necessary once per year.
  - d. Is required in order to achieve financial security.

Essential Questions:

How are dreams and goals related?

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What do goals have to do with finances?

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What is the importance of setting goals to reach your dreams?

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# Accounts, Savings & Budgets



A hand holding a yellow pencil is writing the number '2' in the 'Actual' column of a budget table. A silver calculator is visible in the top left corner of the image.

	Budget	Actual
School fee	890.00	
Campus	350.00	
Groceries	215.00	2
Personal Supplies	65.00	
Library	12.00	
Textbooks	75.00	
	45.00	
	30.00	



# Accounts, Savings & Budgets

This unit is designed to help you develop understanding about positive budgeting, savings, and spending habits. Through practical scenarios, you will learn to create monthly budgets and savings plans.

You will also be introduced to the banking process. You will learn how to locate a bank or credit union with which you want to do business, what accounts you should have open, and how to handle those accounts in a professional manner.

# Wants vs. Needs

## Warm-Up Activity

ITEM	WANT	NEED
Brand new car		
New Xbox player		
Shoes for work		
Groceries		
Shoes for a party next week		
Practical car for work		

We need to understand how our money is spent. The first step is to understand the difference between a “need” and a “want.”

- A **need** is something you must have for survival — something you can’t live without. Food, shelter, and clothing are examples of needs.
- A **want** is something you would like to have — something not absolutely necessary for your survival but that you would enjoy having. Examples of wants include iPods, designer clothes, vacations, Xbox players, or Rolex watches.

Although it may seem trivial, mapping concrete examples of each will help you navigate through your own emotions when making purchasing decisions.

Good money management involves having enough money to cover all your “needs,” while purchasing “wants” only when you have extra money to do so.

## Lesson Questions

1. When can a want become a need?
  - a. When it will help you stand out among your peers?
  - b. When it is something you would like to have?
  - c. When it will help you accomplish a financial goal?
  - d. When you find a bargain that will help you purchase an item at a discounted rate?
2. Why is it important to distinguish between wants and needs?
  - a. To purchase those items you want prior to purchasing things you need
  - b. To reduce market risk.
  - c. To calculate your credit balance.
  - d. To help you plan your budget.

# Wants vs. Needs

## Essential Questions

What is a want?

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What is a need?

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What are some differences between wants and needs?

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Why is it important to recognize differences between wants and needs?

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## Money Management Styles

### Warm-Up Activity

How often do you see other people use cash to make purchases? \_\_\_\_\_

How often do you use cash? \_\_\_\_\_

When was the last time you went to a bank? \_\_\_\_\_

### Finance Fundamentals: Financial Means

- Living **beyond** one means is when people spend more money than they have. This means they spend money buying wants rather than needs, and often use credit to attain the items they want.
- Living **within** one's means is when people spend only the amount of money they have. They use credit occasionally, and usually don't have savings accounts because they spend the entire amount of money they have each month.
- Living **beneath** one's means is when people do not spend all their money all the time. They have found the perfect spending balance between purchasing wants v. needs. They have surplus funds and can easily participate in spur-of-the-moment events with their friends.

### Lesson Activity: Beyond, Within, & Beneath

Using the graphic, indicate whether the group in each scenario is living beyond, within, or beneath their means.

# Money Management Styles

	SCENARIOS	BEYOND	WITHIN	BENEATH
1.	Which group is more likely to buy a large flat-screen plasma TV just in time to watch the Super Bowl, and not have enough money to order pizza during the game?			
2.	Which group is most likely to have a very accurate budget and put money in their savings accounts before they spend money on other things?			
3.	Which group typically has bad credit?			
4.	Which group is most likely to have money set aside for emergencies?			
5.	Which group is most likely to go to restaurants whenever they feel like it, to celebrate a special event or cheer up the family on a bad day?			
6.	Which group is most likely to be able to pay cash to take a flight to the Bahamas on a whim for vacation?			
7.	Which group is more likely to go on a beach vacation they've planned all year?			
8.	Which group is most likely to stick to a list when shopping?			
9.	Which group is most likely to have money set aside for going to a movie or an amusement park?			
10.	Which group is most likely not to have enough money to accompany their friends on a last-minute trip?			



## Lesson Activity: New & Old Money Management

Read each scenario below and decide if it describes a “new” or “old” way of handling money.

	SCENARIO	NEW	OLD
1	Spending all your money on wants and not having enough left over for needs.		
2	Setting up a budget that allows you to plan for wants and needs.		
3	Living paycheck to paycheck.		
4	Saving up an emergency fund equal to 3-24 months of your income.		
5	Writing paper checks to pay bills and mailing them in stamped envelopes.		
6	Using the Internet to pay bills online.		
7	Buying what you want when you want it, without regard to price.		
8	Using the Internet to comparison shop, finding the best deal before you buy.		
9	Paying full price at the store.		
10	Using coupons to save a few bucks at the store.		
11	Eating out with friends a few nights a week.		
12	Eating and entertaining at home.		
13	Buying the biggest home for which you can get a loan.		
14	Buying a home that meets your needs.		
15	Buying a new car every few years.		
16	Keeping the car you have for as long as you can.		
17	Eating out at lunchtime every day.		
18	Bringing a bag lunch from home.		
19	Buying new clothes every month.		
20	Finding ways to make clothes you have last a little longer.		

# Money Management Styles

## Lesson Questions

1. What does it mean to live beneath your means?
  - a. You are able to meet your short-term and long-term financial objectives.
  - b. You spend more than you earn.
  - c. You spend most of what you earn.
  - d. You only spend money on things you need.
2. If you have enough money to pay your bills each month—but not enough to save— it probably means you are \_\_\_\_\_.
  - a. Wealthy
  - b. Successful
  - c. Living above your means
3. Why do people use a credit card to buy something they are unable to afford now?
  - a. They are poor.
  - b. They may be living above their means.
  - c. They are taking advantage of compounding interest.
  - d. All of the above.
4. People who want immediate gratification often
  - a. Pay cash for all items.
  - b. Buy something they can't afford, using a credit card.
  - c. Decide not to make purchases.
  - d. None of the above.



## Essential Questions

What is living within your means?

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What does it mean to live beneath your means?

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What does it mean to live beyond your means?

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Why is it important to know about living within your means?

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What is a traditional way of handling money?

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# Money Management Styles

What is a modern way of handling money?

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Which way of handling money do you think will help you enjoy more fun life experiences?

\_\_\_\_\_Traditional      or      \_\_\_\_\_Modern

Why? \_\_\_\_\_

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## Let's Learn to Budget

### Warm-Up Activity

Why is it important to budget?

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How does a budget help you?

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### Finance Fundamentals: Budgeting Basics

Knowing how to manage money is one of the most important life skills you will ever master. Essentially, proper money management gives you a well-managed, effective life plan.

What is the key to great money management? Just like learning to drive a car, you can learn basic financial strategies that build proficiency. Spending and saving are two of the most important lessons in good money management. Adopting good spending habits and sound saving strategies will guide you toward a balanced, complete life.

A **budget** is simply a plan for how to handle your money, a road map to give you the money you need to live the lifestyle you want. Budgeting has many benefits, including:

- **Control.**  
Knowing exactly how much money you have at any given point puts you in the financial driver's seat.

#### BUDGET TIPS

- ☐ Get your budget down on paper. Use the budget worksheet at the end of this section, access a budget tool online or build an Excel sheet.
- ☐ Write down your specific savings goals and create a step-by-step plan to reach them. Your plan might involve earning more money, cutting your expenses, saving more money, or a variety of other options.
- ☐ Save up and set aside emergency money that is equal to 6 months of your bills.
- ☐ Separate your savings into long-term and short-term funds. You can choose to set up two different savings accounts (be sure to find out if there are added fees) or simply keep track of the money you put away for each purpose.
- ☐ Save money and work your plan.

# Let's Learn to Budget

- **Organization.**  
Keeping your finances in order is vital and having a financial plan keeps you organized.
- **More Money.**  
Working within a budget will leave you with more money every month.
- **Opportunities.**  
Sticking with your budget will open up many financial windows of opportunity.

## Lesson Activity: Let's Learn to Budget

During this activity, you will play a game to learn about the importance of budgeting. Information is presented on the following five pages to assist you in playing the game.

- Each group will select one its character from the profiles presented in the following pages.
- During the game, you will revise your character's budget and answer the discussion questions for your character.
- The **Let's Learn to Budget Expense Chart** details the dollar amounts associated with each expense adjustment and is located after the character summary pages.
- The objective of the game is to help your character reach his/her stated goal.



	Budget	Actual
School fee	890.00	
Campus	350.00	
Groceries	215.00	2
Personal Supplies	65.00	
Library	12.00	
Textbooks	75.00	
	45.00	
	30.00	

# Accounts, Savings & Budget

## Character: Anna

Income: \$5,000  
Take-home pay: \$3,050  
(after federal, state, FICA taxes)

Anna has a well-paying job in sales. She doesn't like her job much, but it pays the bills. She has always loved design and working with animals. She wishes she could be designing marketing material and advertisements for a nonprofit that helps abused animals.

Anna graduated from college with a Bachelor's Degree in Communications. Since high school, she has been volunteering once per month for a nonprofit that helps abused animals. Her resume for her dream job is not the strongest, but it would be good enough to get her an interview. To strengthen her chances of getting the job, she's practicing her interviewing skills with friends and creating marketing material to show potential employers.

She recently interviewed for a position at a job she would love to have, but the pay is too low for her to pay her current bills. Her take-home pay at the potential job would be only \$2,700. Right now her gross income is \$5,000 a month and she brings home \$3,050 after taxes.

**Anna's Goal:** To find a way to accept her dream job at the lower take-home rate and still meet her expenses. Can you help? Use the following worksheet to calculate new choices for Anna that will allow her to meet her goal.

ANNA'S CURRENT EXPENSES		ANNA'S NEW CHOICES	
\$800	Housing	_____	Housing
\$ 550	Car (incl. gas & insurance)	_____	Car (incl. gas & insurance)
\$ 700	Needs (electric, phone, food)	_____	Needs (electric, phone, food)
\$ 400	Clothes	_____	Clothes
\$ 500	Entertainment	_____	Entertainment
\$ 75	Medical Insurance	_____	Medical Insurance
\$ 200	Toys	_____	Toys
	Credit Card Debt \$3,650 at 22%	_____	Credit Card Debt \$3,650 at 22%
\$65	Minimum monthly payment	_____	Minimum monthly payment
	\$370/mo. to pay off in a year	_____	\$370/mo. to pay off in a year
\$ 150	Student Loan Debt	_____	Student Loan Debt
\$ 150	Travel	_____	Travel
\$200	Friends & family	_____	Friends & family
\$0	Savings	_____	Savings
\$50	Giving back	_____	Giving back
<b>\$3,840</b>	<b>Monthly Expenses</b>	_____	<b>Monthly Expenses</b>
\$2,700	Take-Home Pay	\$2,700	Take-Home Pay
<b>Anna is adding debt of \$790 per month.</b>		<b>New Choices Outcome:</b>	

# Let's Learn to Budget

What kind of lifestyle does Anna live? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Notes: Recommendations for Anna  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Is Anna able to do everything she wants to do? ☐ Yes ☐ No

Does Anna have enough free time to fully experience life? ☐ Yes ☐ No

How would you describe Anna's spending habits? ☐ Frugal ☐ Average ☐ Over-spender

What (if anything) is getting in the way of Anna's enjoyment of fun activities with her friends?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Accounts, Savings & Budget

## Character: Kyle

Income: \$2,700  
Take-home pay: \$1,625  
(after federal, state, FICA taxes)

Kyle just graduated from college and has taken a job as a brand rep. He is into action sports and is working with a start-up clothing company called Ethika. His pay is pretty low but he is able to travel around the country and go to all the surf, skate, motocross, and snow contests. He makes \$2,700 gross and takes home \$1,625 after taxes. The company also pays for his travel and food, covering about 10 days out of each month.

Kyle has built a reputation as a good worker and has developed a good network of people in the industry. He recently received an offer to rep for another company at the same time he works as a rep with Ethika. Kyle has spoken with his boss, who said it was OK as long as it didn't take away time from his current job. The second job would give Kyle additional take-home pay of \$175 per month for only four extra work hours per week.

**Kyle's Goal:** To have six months or rent, car, needs, medical, and student loan debt in his savings account within one year. These expenses total \$1,225 per month so Kyle needs a total of \$7,350 saved. Currently he has \$5,900 saved. Kyle has met with many people and has asked a successful businessperson from his network to be his mentor. He thinks once he starts his own business, he can be earning \$5,000+ each month within a year. Can you help him meet his goal?

### KYLE'S CURRENT EXPENSES

\$400	Housing
\$350	Car (incl. gas & insurance)
\$250	Needs (electric, phone, food)
\$0	Clothes
\$100	Entertainment
\$75	Medical Insurance
\$0	Toys
\$0	Credit Card Debt
\$150	Student Loan Debt
\$0	Travel
\$100	Friends & family
\$122	Savings
\$50	Giving back
<b>\$1,625</b>	<b>Monthly Expenses</b>
\$1,625	Take-Home Pay

**Kyle has \$0 money left over but is saving \$122 each month, and has the potential to earn another \$175.**

### KYLE'S NEW CHOICES

_____	Housing
_____	Car (incl. gas & insurance)
_____	Needs (electric, phone, food)
_____	Clothes
_____	Entertainment
_____	Medical Insurance
_____	Toys
_____	Credit Card Debt \$3,650 at 22%
_____	Minimum monthly payment
_____	\$370/mo. to pay off in a year
_____	Student Loan Debt
_____	Travel
_____	Friends & family
_____	Savings
_____	Giving back
_____	<b>Monthly Expenses</b>
\$1,625	Take-Home Pay

**New Choices Outcome:**

# Let's Learn to Budget

What kind of lifestyle does Kyle live? \_\_\_\_\_

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Notes: Recommendations for Kyle

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Is Kyle able to do everything she wants to do? ☐ Yes ☐ No

Does Kyle have enough free time to fully experience life? ☐ Yes ☐ No

How would you describe Kyle's spending habits? ☐ Frugal ☐ Average ☐ Over-spender

What (if anything) is getting in the way of Kyle's enjoyment of fun activities with his friends?

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# Accounts, Savings & Budget

## Character: Carl

Income: \$3,520  
Take-home pay: \$2,147  
(after federal, state, FICA taxes)

Carl likes to live large. He has a brand-new car, the latest clothes, and rents an expensive apartment. Although he appears wealthy, he has no money in the bank. He has \$12,650 in credit card debt and has to work two jobs just to pay his bills. This month he is late on his car payment, so the credit card company has increased his minimum credit card payment.

People in Carl's life are starting to become upset with him. He never has enough money to take his girlfriend out. When he goes out with friends, he never pays his fair share and they're getting tired of subsidizing him. He's taking a big risk because he has no medical or car insurance. If he gets sick or has an accident, he risks being sued and having money automatically deducted from his paycheck until the judgment is paid.

Carl asked both his employers for a raise, but was denied. He messed up a few times at work because he was worried about his bills, so he cannot be promoted within his company. He works 65 hours a week: at an office mail room during the day and as a security guard at night. His gross pay is \$3,520 per month but after taxes he only brings home \$2,147 (rounded).

**Carl's Goal:** To pay off all his debt in one year and take a trip with his friends that will cost \$1,000. Can you help?

### CARL'S CURRENT EXPENSES

\$1,200	Housing
\$ 750	Car (incl. gas & insurance)
\$ 700	Needs (electric, phone, food)
\$ 400	Clothes
\$ 100	Entertainment
\$ 0	Medical Insurance
\$ 0	Toys
	Credit Card Debt \$12,650 at 22%
\$360	Minimum monthly payment
	\$1,286/mo. to pay off in a year
\$ 0	Student Loan Debt
\$ 0	Travel
\$0	Friends & family
\$0	Savings
\$0	Giving back
<b>\$3,150</b>	<b>Monthly Expenses</b>
\$2,147	Take-Home Pay

Anna is adding debt of \$790 per month.

### CARL'S NEW CHOICES

_____	Housing
_____	Car (incl. gas & insurance)
_____	Needs (electric, phone, food)
_____	Clothes
_____	Entertainment
_____	Medical Insurance
_____	Toys
	Credit Card Debt \$3,650 at 22%
_____	Minimum monthly payment
	\$370/mo. to pay off in a year
_____	Student Loan Debt
_____	Travel
_____	Friends & family
_____	Savings
_____	Giving back
_____	<b>Monthly Expenses</b>
\$2,147	Take-Home Pay

New Choices Outcome:

# Let's Learn to Budget

What kind of lifestyle does Carl live? \_\_\_\_\_  
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Notes: Recommendations for Carl  
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Is Carl able to do everything he wants to do? ☐ Yes ☐ No

Does Carl have enough free time to fully experience life? ☐ Yes ☐ No

How would you describe Carl's spending habits? ☐ Frugal ☐ Average ☐ Over-spender

What (if anything) is getting in the way of Carl's enjoyment of fun activities with his friends?  
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# Accounts, Savings & Budget

## Character: Melanie

Income: \$5,000  
Take-home pay: \$3,050  
(after federal, state, FICA taxes)

Melanie is a single mom who can't count on money from her ex-husband. She just took a job as a brand representative for a linen company, and works 50 hours per week. She makes \$5,000 gross and takes home \$3,050 after taxes. When she is working outside the office, the company also pays for her food, covering about ten days out of each month.

Melanie has built a reputation as a good worker, and has developed a good network among people in the industry. She has always enjoyed sewing and picks up side jobs from time to time. Her sewing machine is old, and she misses out on jobs because it takes her three times longer to complete projects than it would with a newer machine.

**Melanie's Goal:** To have six months of rent, car, needs, medical, and student loan debt in her savings account within one year. Currently, she already has \$5,900, and the latest sewing machine will cost her \$2,000. If she invests in the sewing machine, she could earn an extra \$400 per month. She has met with many people and has asked a successful businessperson from her network to be her mentor. She thinks that within a year her sewing business can be earning \$1,000 to \$2,000 more each month. Can you help Melanie meet her goal?

### MELANIE'S CURRENT EXPENSES

\$800	Housing
\$550	Car (incl. gas & insurance)
\$700	Needs (electric, phone, food)
\$400	Clothes
\$100	Entertainment
\$75	Medical Insurance
\$200	Toys
\$0	Credit Card Debt
\$150	Student Loan Debt
\$150	Travel
\$200	Friends & family
\$122	Savings
\$50	Giving back
\$3,497	<b>Monthly Expenses</b>
\$3,050	Take-Home Pay

**Tonya is adding debt of \$447 per month.**

### MELANIE'S NEW CHOICES

_____	Housing
_____	Car (incl. gas & insurance)
_____	Needs (electric, phone, food)
_____	Clothes
_____	Entertainment
_____	Medical Insurance
_____	Toys
_____	Credit Card Debt \$3,650 at 22%
_____	Minimum monthly payment
_____	\$370/mo. to pay off in a year
_____	Student Loan Debt
_____	Travel
_____	Friends & family
_____	Savings
_____	Giving back
_____	<b>Monthly Expenses</b>
\$3,050	Take-Home Pay

**New Choices Outcome:**

# Let's Learn to Budget

What kind of lifestyle does Melanie live?

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Notes: Recommendations for Melanie

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Is Tonya able to do everything she wants to do? ☐ Yes ☐ No

Does Melanie have enough free time to fully experience life? ☐ Yes ☐ No

How would you describe Melanie's spending habits? ☐ Frugal ☐ Average ☐ Over-spender

What (if anything) is getting in the way of Melanie's enjoyment of fun activities with her friends?

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## Let's Learn to Budget Expense Chart

Directions: Use the chart below to help your characters accomplish their goals.

### HOUSING (includes rent, water, and gas/electricity)

- ☐ **\$400**— You get a small bedroom and share a bathroom with two other roommates in an unsafe location.
- ☐ **\$650**— You have a few roommates in a safe location with a small bedroom but your own bathroom.
- ☐ **\$1,200**— You have the master bedroom in a nice, furnished loft at the center of town.

### CAR (includes monthly payment, insurance, and gas)

- ☐ **\$300**— Your car looks like a piece of junk, but it's paid for and gets you around.
- ☐ **\$500**— You have a nicer-looking used car that gets good gas mileage.
- ☐ **\$900**— You're turning heads with your ride and your friends always want you to drive.

### BASIC NEEDS

- ☐ **\$400**— This covers electric, Internet, cell phone, and really cheap food.
- ☐ **\$800**— This covers electric, Internet, cell phone, basic cable, and healthier food at home. You can eat out a few times a week.
- ☐ **\$1,400**— This covers electric, Internet, cell phone, deluxe cable channels, home phone line, and good healthy food. You can eat out most meals and enjoy nicer meals occasionally.

### CLOTHING

- ☐ **\$50**— You pick up a new piece of clothing every other month and have decent clothes for most occasions.
- ☐ **\$175**— You get a complete new outfit every month or two.
- ☐ **\$450**— You get a complete new outfit, with accessories, every month.

### ENTERTAINMENT

- ☐ **\$100**— You go out with friends a couple of times a month and try to find free or inexpensive things to do for fun.
- ☐ **\$200**— You usually go out with friends to eat at least once a week while keeping a close eye on your budget.
- ☐ **\$300**— You go out with your friends often and don't monitor your spending too closely.

### TOYS

- ☐ **\$100**— You don't buy a lot of new toys but you like to get things you want from time to time.
- ☐ **\$200**— You like your toys but try to limit your purchases to only a few each month.
- ☐ **\$500**— You have to have all the latest gadgets.

### TRAVEL

- ☐ **\$100**— You do a little traveling but usually stay in the homes of friends or family.
- ☐ **\$200**— You save up to take one big vacation a year.
- ☐ **\$300**— You and your friends try to do at least one mini-vacation a month and a big vacation every year.

### CREDIT CARD MINIMUM PAYMENTS

- ☐ **\$50**— You only use your credit card for emergencies you can't cover with savings.
- ☐ **\$100**— You don't buy anything with your credit card but you used it for a vacation last year.
- ☐ **\$250**— If you want it, you get it.

### SAVINGS

- ☐ **\$50**— You save a little here and there.
- ☐ **\$150**— You save regularly each month.
- ☐ **\$250**— You keep your emergency fund high and also save for big purchases.

### GIVING BACK

- ☐ **\$50**— You give small amounts when the opportunity presents itself.
- ☐ **\$100**— You give a little each month to charity.
- ☐ **\$200**— You believe it is very important to pay it forward. You have a few charities to which you give regularly.

# Let's Learn to Budget

## TRACK YOUR SPENDING

Each of us has a limited amount of money available to spend. Being able to manage spending is critical to achieving financial success. More importantly, when you spend wisely you have more money available to save and invest. That means a brighter and richer future for you, your family, and your friends.

- **Tracking Fixed Expenses.** The first step to developing a budget is to account for all your fixed expenses. Fixed expenses are the bills toward which you pay the same amount each month, like rent, car payment, and insurance. Write down your fixed monthly bills. Better yet, create an Excel spreadsheet and enter them there.

Next, account for the fixed expenses you pay annually: car registration, gym membership dues, or anything else you pay each year. Enter these expenses into your budget by taking the annual payment and dividing it by 12. For example, if your gym dues are \$240 each year, your monthly payment is \$20.

- **Tracking Variable Expenses.** Most of us have cash that vanishes each month into unknown voids, like stops for coffee or a burger. To really get a handle on spending, write down every dollar you spend—every latté, every burger, every bus or taxi fare—everything. Keeping a “money diary” helps you understand where your money really goes.

There are several ways to track spending: save receipts, carry a small notebook, or tap into the variety of cell phone apps available. Another easy way to track day-to-day spending is by only using cash. Take out a fixed amount of cash each week, and limit yourself to that amount for your daily purchases. After a month, you'll have a good idea how much money you're spending.

If you're like most people, over time you'll identify areas where you tend to overspend, and possibly other areas where you want to spend more. You may be able to pinpoint those times when you have no idea where your money went.

Once you become aware how you spend your money, you can start building a workable budget.

## CREATING YOUR BUDGET

Budgeting is simple. From your income:

- Set money aside into savings accounts and investments first.
- Pay your necessary expenses (needs).
- Leftover money is yours to spend as you wish (wants).

## SAVING

The goal of creating a budget is to save money for the things you want now, while making sure you have enough for later. Saving money is the cornerstone of a financially secure lifestyle. Setting aside money each month builds a foundation for establishing future wealth while still leaving you able to enjoy time with your friends now. Putting away your hard-earned dollars will free you from the emotional stresses of everyday bills.

Maybe you want a computer or new clothes. Well, saving allows you to purchase the luxuries you want. The best part is that you can afford it!

Life is about experiences. By saving money for the things you like to do, you'll be able to partake in more activities and holidays, and invest in those things you dream of having.

## SEPARATE YOUR SAVINGS

Having real goals in mind makes the choice to save—rather than spending—much easier. Try saving money according to what you want to do with it. Divide and allocate your savings into three specific categories: emergency fund, fun fund, and long-term savings.

**Emergency Fund.** Your emergency fund is your first priority. Emergency funds should equal six months of your living expenses. That is, if your bills are \$500 per month, you need to save \$3,000 for emergency purposes. Unexpected problems may arise, and your emergency savings fund helps reduce your worry. For example, say your car breaks down and needs expensive repairs. If you have no money saved, how will you get to work? Take the bus? Walk? Bum rides from friends? If you have an emergency savings fund, you'll get back in the driver's seat with little or no stress or panic.

If saving six months of living expenses sounds too difficult, here are two ways to save more:

- Earn more money
- Cut down expenses

Easier said than done, right? But that's really as straight forward as the answer gets. Cutting down is something that can be done immediately and should be addressed first. Increasing income may take a bit more time and resources than cutting expenses, but the combination of the two really create a power-house opportunity to achieve financial security.

# Let's Learn to Budget

- **Short-term Savings.** Your short-term savings is important because life is about experiences. Short-term savings are the funds you use for fun things you enjoy doing. How you define “fun” is up to you, but setting aside money for fun is important. You only live once! Determine how much you must save each month to pay for the things you love to do.
- **Long-term Savings.** The long-term savings account is where you hold the money for future investments. This account is the backbone of your financial future. Deposit money into this account every month. Get in the habit of paying yourself first. In other words, before you pay your bills, buy new shoes, or purchase music, first make sure to set aside money in long-term savings. This is the money secret that will give you financial security at a young age.

## HOW MUCH SHOULD YOU SAVE?

Set a goal to save 15% of your income for long-term savings and 15% for your fun savings. That means if you make \$1,000 per month, you save \$150 for long-term and \$150 for fun. This goal may sound challenging, but it becomes easier over time. Consider these examples:

- Invest \$100 each month starting at age 18  
and you may reach millionaire status at age 56.
- Invest \$400 each month starting at age 18  
and you may reach millionaire status at age 45.
- Invest \$700 each month starting at age 18  
and you may reach millionaire status at age 40.

Money grows like we've shown in the above examples due to a principle called *compounding interest*. Be aware that the sooner you start to save money, the faster your money will grow.

You may find it hard to save \$100 a month right now. But if you begin controlling your expenses and learning ways to earn more money, your savings plan can easily become a reality.

Saving is the key to calling your own shots. By setting up and following your budget, you'll see your savings grow over time. Start your savings plan now and reap the benefits every day of your life.



## Lesson Activity: Budget Chart

Now you will use what you learned to complete your own current budgets in class. Follow the instructor's directions to complete the activity.

You may not know all of the exact numbers, so make your educated best-guess for now and complete the activity by entering the exact numbers when you get home.

Remember: creating a budget is a cumulative and gradual process. You may need to revise your budget several times before you develop one that is final and sustainable.

### **The revision process is critical.**

It is highly recommended as well as convenient to create this ever-evolving budget in Excel. If you're not familiar with a blank Excel sheet, there are many templates online for every kind of budget you can imagine.

To that point, maybe basic Excel could be a quick skill you can pick up over the next few weekends and leverage your new skills as services on online freelancer sites!



# Let's Learn to Budget

## Budget Chart – IN COLLEGE

Money Coming In		
Employment Income	Current	Goal
Employment Income		
Federal Income Tax	-	
State & Local Tax	-	
Social Security/Medicare	-	
Tips		
<b>Net Income</b>		

Other Income		
Parents		
Grants		
Scholarships		
Other		
Income from Loans		
<b>Total</b>		

<b>Total Income</b>		
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Money for Savings		
Emergency Fund		
Retirement Plans		
Investments		
Short Term 'Fun' Savings		
Charities		
<b>Total</b>		

<b>Total Income</b>		
<b>Total All Expenses</b>		
<b>Total Savings</b>		
<b>Money Left Over</b>		

<b>Annual Loan Debt</b>		
Loan Debt at Graduation		

Expenses		
Living Expense	Current	Goal
Rent / Residence Hall		
Renter Insurance		
Utilities (elec, gas, water)		
Cable/Satellite		
Internet		
Phone		
Other		
<b>Total</b>		

School Expense		
Tuition & Fees		
Books & Supplies		
<b>Total</b>		

Travel Expenses		
Transportation/Car pymt		
Insurance		
Registration		
Gas		
Maintenance		
Parking Pass		
<b>Total</b>	0	

Variable Expenses		
Groceries / Meal plan		
Clothes		
Personal Items		
Credit Card Payments		
Entertainment		
Eating Out		
Other		
<b>Total</b>	0	

<b>Total All Expenses</b>		
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## Budget Chart - STANDARD

Money Coming In		
Employment Income	Current	Goal
Employment Income		
Federal Income Tax	-	
State & Local Tax	-	
Social Security/Medicare	-	
Tips		
<b>Net Income</b>		

Other Income		
Rental Properties		
Stock Market		
Entrepreneurial Endeavors		
Interest Income		
Other		
<b>Total</b>		

<b>Total Income</b>		
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Money for Savings		
Emergency Fund		
Retirement Plans		
Investments		
Short Term 'Fun' Savings		
Charities		
<b>Total</b>		

<b>Total Income</b>		
<b>Total All Expenses</b>		
<b>Total Savings</b>		
<b>Money Left Over</b>		

Expenses		
Living Expense	Current	Goal
Rent / Mortgage		
Taxes / Insurance		
Utilities: Electric /Gas		
Utilities: Water / Garbage		
Cable/Satellite		
Internet		
Phone		
Other		
<b>Total</b>		

Travel Expenses		
Car payment		
Insurance		
Registration		
Gas		
Maintenance		
Other		
<b>Total</b>	0	

Other Expenses		
Student Loan Debt		
Credit Card Debt		
Groceries		
Clothes		
Personal Items		
Entertainment		
Eating Out		
Other		
<b>Total</b>	0	

<b>Total All Expenses</b>		
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# Let's Learn to Budget

## Lesson Questions

1. If you are wealthy you will ...
  - a. Not be involved in your own personal financial choices.
  - b. Probably make some poor financial choices but continue to work toward your financial goals.
  - c. Make the best choices on which you close network agrees.
  - d. Not need to continue your financial education.
2. Which of the following is the best example of a “variable” expense?
  - a. Rent.
  - b. Gym membership.
  - c. Utility bills based on usage.
  - d. Car payment.
3. The elements of a budget include:
  - a. Planned expenses.
  - b. Planned income.
  - c. An evaluation of the difference between one’s income and one’s expenses.
  - d. All of the above.

## Essential Questions

What is a budget?

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Why are budgets important?

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How do you maintain a working budget?

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# Credit Debt, & Loans







# Credit, Debt & Loans

In this unit you will identify the correlation between your credit history and your financial reputation as well as develop a basic understanding of what credit history is and how to maintain, build or repair your credit.

You will gain an awareness of what identity theft is and how to prevent it happening to yourself. Additionally, you will develop a basic understanding of purchasing a car and the loan qualification process.

## What Is Credit?

### Warm-Up Activity

Do you think people are more likely to buy something they do not need when they use a credit card? Why? \_\_\_\_\_

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In the financial world, credit refers to an arrangement that defers payment for borrowed money or a purchased item until later. In other words, you get money or stuff now, and you agree to pay it back at a later time. When you buy or borrow on credit, you generally end up paying back more than the original amount in interest. How much interest you pay depends on your credit history (your record of paying bills and handling credit in the past). The percentage of the debt that you're charged on top of the original amount is called interest and it is determined by a percentage called an interest rate.

Learning how credit works is the key to building an outstanding credit history.

### ■ Credit Cards

When you use a credit card, it's the same as a loan. The credit card company is lending you money and charging you fees (interest) to borrow that money. For instance, let's say you borrow \$1,000 and your interest rate is 25%. If you don't pay the loan off until a year later, you would owe \$1,250.

It's all about convenience. Credit cards are convenient and most businesses accept them.

If you do not have a credit history, the credit cards for which you're initially approved will charge higher interest rates and higher fees; they'll have lower spending limits. They have no way of knowing how trustworthy you are since there is no past information. They charge the higher rate to compensate for the unknown. That's why it is vitally important to remain free of credit card debt.

Credit cards can be handy tools for charging clothes and groceries, as long as you pay the bills in full each month, instead of carrying costs over and racking up interest.

# What Is Credit?

The best way to manage a credit card is to be the company's worst customer. Many Americans carry balances on their credit cards from month to month, and that's how the companies make their money. If you pay your credit card bills in full each month by properly planning and budgeting for your purchases, you will benefit yourself by building a credit history instead of putting your money into the credit card companies' pockets.

Credit cards can be a useful financial tool or a debt trap. Use credit cards only to your advantage. That means avoiding credit card debt like the plague! Second, use credit cards to build your credit rating. You can only do that by charging money on your credit card each month and paying it off in full every month. Be sure to follow the guidelines in this section closely!

## Start with a Debit Card

Credit cards used improperly will have a negative impact on your finances. Before you get a credit card, start off with a low-cost debit card.

A debit card helps you learn how to manage "plastic money" safely. And unlike a credit card, everyone qualifies for a debit card. You are not required to show proof of income, provide a social security number, or submit to a credit check. Debit cards are accepted almost everywhere a credit card is accepted.

Just load your debit card with cash, and then you can spend the money as you please. It's impossible to incur late fees (which credit card users often face). Some banks do not approve purchases if the purchase total is greater than the money you have in the account. With such banks you do not need to worry about over-the-limit charges. Other banks do allow you to spend a bit over the amount you have available and will charge you a fee. You will need to verify which type of card your bank provides you. You should, however, always be aware of how much you have available to spend.

## Credit Card Plan

Allow yourself to get your first credit card only when you're able to live within your budget and when you have six months' worth of expenses in your emergency savings fund. Until then, follow the advice above and practice with a debit card.

When you do get your first credit card, use it only to build your credit rating. Charge an amount of money you know you can pay off in full at the end of the month. When you get the bill, make sure to pay the balance off in full. You will benefit because you're building your credit history by using the card, but paying off the balance in full each month avoids paying interest.



To reap more benefits, get a credit card that offers special bonuses: travel miles or gift certificates, for example. Earn these other “gifts” by spending and paying off your balance in full each month.

If you follow these tips, you’ll build a credit history while getting cool things in the process. The best part is that it’s not costing you a dime! In essence, you’ll be building your credit rating for free.

## Cut it Out

If you find you can’t handle the burden of a credit card, you need to literally “cut it out.” That is, snip your plastic card into pieces before you get into real trouble!

A common misperception is thinking it’s okay to pay just the minimum payment calculated for you by the credit card company. This is the bare minimum amount that, if paid, will keep your account active. It’s barely high enough to ever actually retire the debt. If you pay only the minimum payment you could end up paying \$1,000 for a pair of new shoes. Your debt will last a lot longer than the shoes.

Good Credit		Bad Credit	
Purchases	\$1,000	Purchases	\$1,000
Interest rate	7%	Interest rate	27%
Monthly payment	\$10	Monthly payment	\$23
Years to pay in full	12	Years to pay in full	12
Interest paid	\$440	Interest paid	\$2,312
<b>Actual Cost</b>	<b>\$1,440</b>	<b>Actual Cost</b>	<b>\$3,312</b>

Making Purchase in the Future with Savings		Making Purchase Now with Savings	
Purchases	\$1,000	Purchases	\$1,000
Amount saved each month	\$125	Amount saved each month	\$125
Months to save \$1,000	8	Months to save \$1,000	8
Interest earned on savings	\$30	Savings interest forgone	\$30
<b>Actual Cost</b>	<b>\$970</b>	<b>Actual Cost</b>	<b>\$1,030</b>

Once you fully understand the dangers of credit cards, you can see how it’s possible to use them to your advantage. When emergencies happen, a credit card can be a lifesaver.

# What Is Credit?

However, remember that until you have your six-month emergency fund you should not apply for a credit card.

## ■ Already in Debt

If you're already in credit card debt, it's not the end of the world. It will just take added dedication to get out of the hole. The key to getting out of credit card debt is to prioritize the payments.

Call the credit card companies to which you owe money and find out the interest rate they're charging you. While you have them on the line, ask about any promotional rates you may be approved for. Once you have the rates each credit card company charges you, organize a payment structure.

Pay the minimum payment on all credit cards except for the one with the highest interest rate. Put all the money you possibly can toward paying down the high-rate credit card first. Once that card is paid off, take the card with the next-highest rate and pay that one down. Following this payment structure will save you a lot in interest. Keep up that plan until all the cards are paid off.

Building and maintaining a good credit rating will save you thousands of dollars over your lifetime. That means a lot less work and more fun for you—so take time now to handle your credit situation responsibly.

## ■ Lending Money to Friends

Money shouldn't—but often does—come between friends and family. As a general rule, you should only lend money to loved ones if you do not expect it back. Money is not worth losing friends over; protect your friendships by outlining the details of the loan in writing. Avoid any misunderstandings later on.

Many times when friends need money it is due to poor money management. Of course, emergencies do occur and you may want to treat emergency situations differently. But if your friends already are unable to pay their bills, there's a good chance they won't be able to pay you either.

If you want to help out a friend but can't afford to lose the money, take some form of security as collateral. Hold your friend's bike, car, watch, or something else of value. That will help motivate your friend or relative to pay you back. However, with this alternative, realize that if you execute your claim on the collateral you very well may end the relationship.

## Lesson Activity: What's the Best Payment Option?

Look at the items below and determine the best method for purchasing the items. You can choose: save money over time, cash, or credit. Make sure to defend your choices.

Item	Cost	Save money over time	Buy now with cash	Buy now with credit
New computer	\$800			
New clothes for summer	\$500			
Birthday present for a friend	\$100			
Brakes for your car	\$250			
New TV for your room	\$475			
Extra money you have:	\$400			
Amount of credit:	\$1,000			

## Lesson Activity: Apply for Your Credit Card

Visit [www.StudentExperienceCard.com](http://www.StudentExperienceCard.com) and review the website in detail. Complete the credit card application. If you agreed to the terms then answer the questions below.

- What was the most important thing you learned about this credit card from reviewing the application?

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- Did your opinion of the credit card offering change as you learned more about it? Please describe.

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# What Is Credit?

## Lesson Activity: Credit versus Cash

Watch the video of Tyler Christopher speaking at one of NFEC's *Money X- Live* events.

**Tyler Christopher** is best known for his role as Nikolas Cassadine on the ABC daytime drama *General Hospital*, a character which he originated in 1996 and played off-and-on until 2011. He was nominated for a Daytime Emmy for the role in 1998, 2005, and 2006. Tyler currently plays on the TV show *The Lying Game*. Follow Tyler on Twitter at @Tyler2929.

Now answer the following questions based on Tyler's experience with money when he was a young man.

1. Did Tyler Christopher really need the purchases he made with the credit card? Why or why not?

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2. How could Tyler Christopher have used his credit card to build his credit in college rather than ruin it?

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3. How did his choices about credit hurt him later on?

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## Lesson Questions:

1. Which of the following is the correct definition of “interest”?
  - a. The time a lender allows between a purchase and payment due.
  - b. The fee charged by a lender for borrowing money.
  - c. The rate associated with stock investments.
  - d. The amount a person can purchase.
2. Making a purchase now with money that could have been saved and built interest is an example of \_\_\_\_\_.
  - a. A credit card purchase.
  - b. A debit card purchase.
  - c. Opportunity cost.
  - d. Good credit.
3. What is credit?
  - a. An arrangement for future payment of a loan or purchase.
  - b. Purchasing an item with cash.
  - c. Purchasing an item with an EFT from your bank account.
  - d. None of the above.



# What Is Credit?

## Essential Questions:

Why is credit important?

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What is an interest rate?

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Why do you pay interest on your purchases with a credit card?

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How can you have a credit card and not pay finance or interest charges?

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## Credit History

### Warm-Up Activity

Follow the instructor's directions to complete the table.

What doors does having good grades open?	What doors does having bad grades close?
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Your credit standing is like a school report card. It grades you on how well you pay back money you borrow. Three organizations (called credit bureaus) rate your credit each month and assign you a grade, which is called a “credit score.” Lenders report the details of all your loans to the credit bureaus. If you always pay back things you borrow, you get an A. If you pay your lenders late, you get a C. And if you don’t ever pay them back, you get an F.

Your credit score determines how easy it will be for you to borrow.

### ■ Credit Reports

In today’s age, building and maintaining good credit can make or break your future. Simply defined, good credit means you keep all your financial agreements in good faith; you honor your commitments and pay all your bills on time.

Your *credit history*, or *credit report*, is a detailed account of all information about your credit situation: how much you owe, how you pay your bills, and whether your payments have ever been delinquent. Credit bureaus track and analyze this information to calculate your *credit score*. Credit scores are expressed in numbers between 300 and 850; the higher your score, the better your credit. A good credit score helps you obtain loans, rent apartments, get jobs, and qualify for lower interest rates (and therefore lower payments).

Building and maintaining good credit will save you more than \$10,000—even more than \$100,000—over your lifetime. Let me repeat: *Building and maintaining good credit can save you over \$100,000 in your lifetime*. The best part is that building good credit is one of the easiest things you can do.

# Credit History

Your credit score is similar to a report card in school. In school, if you frequently missed class, did poorly on tests, and never did your homework, you probably would receive a bad grade (D or F). With credit, if you don't pay your bills on time, carry a high debt load, and have bills that you stopped paying, you probably will have a bad credit score.

Before you get a car loan, student loan, or buy a home the first thing a lender looks at is your credit report. Prospective lenders review your credit report to determine if they will lend you any money, and if so, at what interest rate. Maintaining an admirable credit history aids many aspects of life. Good credit helps you qualify for a mortgage and obtain car and bank loans. Many employers now look at an applicant's credit before hiring.

## What Is a Credit Bureau?

A credit bureau collects and stores credit information on consumers. There are three main credit bureaus: Equifax, Experian, and TransUnion. Each keeps its own records and individual credit scores.

Your credit score is a report card of your credit history for the past 7-10 years. The grading system they use is called a FICO (for the Fair Isaac Corporation) score.

Let's explore what the FICO score evaluates. Five data categories influence your credit score, to varying degrees:

- 35% — Payment history
- 30% — Amounts currently owed
- 15% — Length of your credit history (The longer the better, but don't worry about this one too much: you will build your history over time.)
- 10% — New credit (the number of recently-opened accounts)
- 10% — Types of credit used

FICO GRADES		
720 or higher	Excellent	A
660 to 720	Good	B
620-660	Average	C
560 to 620	Poor	D
560 or less		F

Credit bureaus look at all five areas when scoring your credit, but the payment history and amounts currently owed have the biggest impact. So keeping your balances low and paying your bills on time are the two most important steps toward maintaining good credit! Following is a more comprehensive list of strategies for having a great credit score.



## ■ The Bottom Line

Without an excellent credit rating, you pose a higher risk to lenders, which will increase your interest rate and closing costs. You are literally giving money away.

Let's take a look at what happens when you buy a car. If you have good credit, you will receive a lower interest rate. But with bad credit, your interest rate increases. In the example shown, you would end up paying **\$4,200 more** over the five-year term of the loan if you had bad credit.

What would you rather spend that money on?

Line Item	Good Credit	Bad Credit
Price of Car	\$25,000	\$25,000
Interest Rate	6.25%	12%
Monthly Payment	\$486	\$556
Years to Pay Off	5	5
Actual Cost	\$29,160	\$33,360
Difference in Price		+\$4,200

### STEPS FOR GETTING AN "A" CREDIT SCORE

- ☐ Get a complimentary copy of your credit report.
- ☐ Identify the areas you need to work on and create a credit plan to address those areas.
- ☐ If you're already in debt, create a debt reduction/debt payoff plan.
- ☐ If you don't have a credit history yet, first save 6 months' worth of your bills, have a working budget, and have the ability to control your spending. Then get a credit card, use it each month and pay it back in full each and every month.
- ☐ Set up the automated system so your bills are automatically paid on time.
- ☐ Review your medical and auto insurance to ensure that you have adequate protection in place in case something happens.
- ☐ Review your credit report annually and three months prior to any major purchase.
- ☐ Consider signing up for credit protection plans.
- ☐ Build up your available credit over time and keep your debt load to a minimum.
- ☐ Limit inquiries—don't have your credit report run too often—and be aware and conscientious about things that might impact your credit rating.

## TIPS FOR GETTING OR KEEPING GREAT CREDIT

- ☐ **Pay your bills on time.**  
Set up automatic bill pay through your bank to make it easy.
- ☐ **Keep debt low.** Low debt helps keep your credit score high and avoids needless interest payments.
- ☐ **Build, repair, or maintain a good credit score.** You must prove to the credit bureaus that you have the ability to pay back money you borrow.
- ☐ **Keep inquiries to a minimum.**  
Don't have your credit report run too often.
- ☐ **Have health and auto insurance!**  
One of the biggest causes of bankruptcy is medical bills; avoid that problem by making sure you have enough coverage.
- ☐ **Check your credit once a year.** If your credit score is low, hire a professional service to clean up your prior mistakes.
- ☐ **Keep credit cards open with a zero balance.**  
Credit bureaus will give you a higher rating when they see you have the ability to access more money.
- ☐ **Use your credit actively and pay everything off in full every month.** Credit bureaus punish people who do not use their credit.
- ☐ **Build up to \$25,000 to \$40,000 of available credit** on various credit cards and maintain a zero balance on each one at the end of each month. Don't do this if you cannot control your spending.

## ■ Already in Debt

If you're already in credit card debt, it's not the end of the world; you'll just need some added dedication to get yourself out of the hole. The key to getting out of credit card debt is to prioritize payments.

- Get a free copy of your credit report from all 3 credit bureaus (Experian, TransUnion and Equifax) by visiting [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com).
- Dispute the negative items on your credit report. The credit bureau has 30 days to verify the information or it drops off your report.
  - Letter templates can be found at the end of the lesson.
- Continue your letter-writing campaign. You can expect some of the items to drop off, but others won't.

# Credit, Debt, and Loans

- If you still owe money to lenders that have put bad marks on your credit, contact each lender directly. (Sample form letters for contacting both businesses and the credit reporting companies have been provided at the end of the lesson.)

Call each credit card company to which you owe money. Find out the interest rates they're charging you and ask about any promotional rates for which you may be approved. Once you have the rates you're paying to each credit card company, organize a payment structure.

Pay just the minimum payment on all credit cards except the one with the highest interest rate. Put all your payment money toward paying the highest-rate credit card down first. Once the high-rate card is paid off, begin paying down the one with the next-highest rate. Keep up the plan until all your cards are paid off. Following this payment structure will save you a lot in interest.



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## Lesson Questions

1. A credit score is:
  - a. A detailed report about a person's credit history.
  - b. A report that outlines payback history and debts owed.
  - c. A report to help lenders determine one's creditworthiness for future lending.
  - d. All of the above.
2. Which of the following actions will limit your possibility of getting and keeping an "A" credit rating?
  - a. Creating a debt reduction plan if you are in debt.
  - b. Having adequate medical and auto insurance.
  - c. Keeping debt load to a minimum.
  - d. Checking your credit each time you pay off an account.
3. Your credit history ...
  - a. Allows you to make purchases that you pay for at a future date with interest.
  - b. Is a debit card.
  - c. Is a profile that reflects your payback history.
  - d. Is debt that should be avoided.
4. A credit bureau:
  - a. Collects and stores consumer credit information.
  - b. Collects and stores consumer purchase data.
  - c. Collects and stores consumer medical information.
  - d. Collects and stores consumer investment information.
5. Which of the following categories influence your FICO score?
  - a. Outstanding debt
  - b. Payment history
  - c. Types of credit used
  - d. All of the above

6. Your credit history is:
  - a. A report of your assets.
  - b. A detailed budgeting plan.
  - c. A detailed account of your credit situation.
  - d. A detailed report of your tax payments.
7. Good credit means:
  - a. You keep your financial commitments most of the time.
  - b. You honor the only the debts that are the most important.
  - c. You build wealth through a sustainable investment plan.
  - d. You honor your commitments and pay all your bills on time.
8. To build an excellent credit rating, you should:
  - a. Get a complimentary copy of your credit report each year.
  - b. Create and follow a debt reduction plan.
  - c. Set up an automatic payment system to pay your bills.
  - d. All of the above.



**Essential Questions:**

What is a credit report or credit history?

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Why is it important to have a good credit score?

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What doors are opened by having a positive credit score?

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Why is a negative credit score bad?

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What are some important ways to get and keep good credit?

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## FORM LETTER TO A BUSINESS OR LENDER TO REMOVE FRAUDULENT CHARGES FROM YOUR ACCOUNT

[Date]

[Name of Company]

[Fraud Department or Billing Inquiries]

[Address]

[City, State, Zip Code]

RE: [Account Number (if known)]

[Your Name]

[Your Address]

[Your City, State, Zip Code]

Dear Sir or Madam:

I am writing to dispute [a] fraudulent charge[s] on my account in the amount[s] of [\$\_\_\_\_\_], and posted on [dates]. I am a victim of identity theft, and I did not make [this/these] charge[s]. I request that you remove the fraudulent charge[s] and any related finance charges from my account, send me an updated and accurate statement, and close the account (if applicable). I also request that you stop reporting this inaccurate information and report the correct information to all of the nationwide credit reporting companies (CRCs) to which you provided it.

Enclosed is a copy of my Identity Theft Report, credit report, and account statement showing the fraudulent items related to your company that are the result of identity theft. Also enclosed is a copy of the Notice to Furnishers of Information issued by the Federal Trade Commission, which details your responsibilities under the Fair Credit Reporting Act as an information furnisher to CRCs.

Please investigate this matter and send me a written explanation of your findings and actions.

Sincerely,

[Your Name]

## FORM LETTER TO CREDIT AGENCY DISPUTING FRAUDULENT CHARGES FROM YOUR CREDIT REPORT

[Date]

[Name of Company]

[Address]

[City, State, Zip Code]

RE: [Your Name]

[Your Address]

[Your City, State, Zip Code]

Dear Sir or Madam:

I am a victim of identity theft and I write to dispute certain information in my file resulting from the crime. I have circled the items I dispute on the attached copy of my credit report. The items I am disputing do not relate to any transactions that I made or authorized.

Please remove or correct this information at the earliest possible time. I dispute the [name of source, like "Company" or "Court"] [name of item, like "account" or "judgment"] because [explain why the item is inaccurate]. As required by section 611 of the Fair Credit Reporting Act, a copy of which is enclosed, I am requesting that the item[s] be removed [or request another specific change] to correct the information.

**[If possible]** — I have enclosed copies of documents that support my dispute.]

Please investigate and correct the disputed item[s] as soon as possible.

Sincerely,

[Your Name]



## How to Pay Off Debt

### Warm-Up Activity

How does reducing or eliminating debt help you achieve your dreams?

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### Lesson Activity: Risks and Rewards

List (at least) five risks you believe are associated with carrying a debt load. \_\_\_\_\_

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How can you reduce, manage, or eliminate the risks you listed in the previous question?

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### Lesson Activity: Drowning in Debt

After watching the video, use the information below to help Sara make the proper decision about handling her credit card debt.

Sara has three credit cards.

- She owes \$8,000 on a credit card with a 27% rate.
- She owes \$5,000 on a credit card with a 22% rate.
- She owes \$6,000 on a credit card with a 14% rate.

# How to Pay Off Debt

- She owes \$0 on a new credit card and can transfer up to \$10,000 from her other credit cards. She would receive 0% interest for 6 months; after that the interest rate becomes 18%.

What should Sara do? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Help Rob make the proper decision about handling her credit card debt.

Rob has three credit cards.

- He owes \$20,000 on a Perkins student loan with a 5% interest rate.
- He owes \$10,000 on a Stafford student loan at 7% interest.
- He can qualify for a student loan consolidation that would consolidate the debt into a single payment. The new loan would be for \$30,000 with an interest rate of 8%.

Should Rob consolidate his loans? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## CALL TO ACTION

- ☐ Accurately calculate your current loan balance(s).
- ☐ Contact your loan companies. Keep an organized account of the balance, terms, interest rates, payments, and any other relevant details.
- ☐ Create a rough plan for reducing your loan debt.
- ☐ Create a rough plan for paying your loans.

## Lesson Activity: Create Your Loan Payoff Plan

Follow your instructor's directions, answer the questions about your Loan Payoff Plan to complete this activity.

1. I seek a job (I have a job) that pays \$\_\_\_\_\_ take-home pay per month.
2. I keep my monthly expenses at or below \$\_\_\_\_\_
3. This plan allows me to allocate \$\_\_\_\_\_ per month toward paying off debt.
4. At this rate I will be debt-free in \_\_\_\_\_ years.

Creditor Name	Type of Loan	Amount Owed	Interest Rate	Min Paymt	Avail Bal	Important Terms
Subsidized Loan 1	Student	\$12,860	6%	\$108	\$0	15 year payoff
Stafford (unsub)	Student	\$20,009	6.8%	\$177	\$0	15 year payoff
Perkins Loan	Student	\$15,020	5%	\$159	\$0	10 year payoff
Grad Plus	Student	\$5,000	7.90%	\$47	\$0	15 year payoff
Visa #1	Credit card	\$567	27%%	\$20	\$433	
MasterCard	Credit card	\$2,245	24%	\$32	\$255	
Discover	Credit card	\$8,967	22%	\$149	\$33	
Visa #2	Credit card	\$6,200	0%	\$62	\$5,800	1 year at 0%, then 9.9%

5. Using the example above, toward which debt should the maximum payment be applied? \_\_\_\_\_

# How to Pay Off Debt

6. Using the example above, what debt should the minimum payments be applied toward?
  - a. Perkins Loan
  - b. Visa #2
  - c. Subsidized Loan 1
  - d. All besides the one with the highest interest rate
7. Using the example above, which balances should be transferred to Visa #2?
  - a. Visa
  - b. Stafford, Unsubsidized
  - c. MasterCard
  - d. Discover
  - e. Visa, MasterCard and as much of the Discover balance that will fit.

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## Lesson Questions:

1. If you are unable to pay off the entire balance you owe in credit card debt, the best way to pay off the balance is to \_\_\_\_\_.
  - a. Make minimum monthly payments.
  - b. Pay off the card with the lowest interest rate first.
  - c. Pay the maximum your budget allows on the card with the highest interest rate.
  - d. Pay the maximum payment on the card with the highest balance.

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## Essential Questions:

Why is it important to minimize stress before making financial decisions?

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What steps can you take to establish a payoff plan for future debt?

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