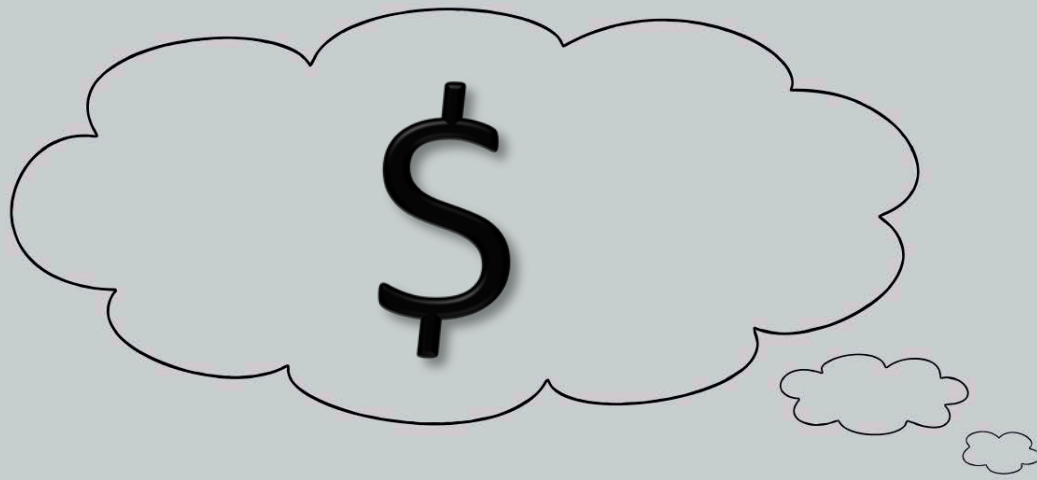


Financial Psychology





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*

Lesson Activity: Money Motivation

BELIEF STATEMENT: I believe the most important thing money can buy is _____

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? _____

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? _____

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
Actual Cost	\$1,440	Actual Cost	\$3,312

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
Actual Cost	\$970	Actual Cost	\$1,030

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 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?

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

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?

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

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

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?

What is an interest rate?

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

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

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.
- 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.



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?

Why is it important to have a good credit score?

What doors are opened by having a positive credit score?

Why is a negative credit score bad?

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

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]

Identity Theft

Warm-Up Activity

You work hard to save your money and purchase a nice HDTV and Wii for your bedroom. It took you almost a year to save the money but now you are enjoying the TV and video game player with your little brother. Then you wake up the next morning and see that it is all gone. How could this have happened? Someone has stolen it while you were sleeping. All you worked for gone without you having a chance to defend yourself.

How does this make you feel?

Identity Basics

An issue that can severely affect your credit score is *identity theft*. Identity thieves get hold of your social security or account number and use it to charge up your credit or steal money from your bank accounts. Your identity can be stolen by any of these methods:

METHOD	PREVENTION
Old hard drives	Consistently erase/delete information
Hacking	Make your passwords harder, and change them on a set cycle (i.e., quarterly)
Pharming — Hackers redirect you to a website without your knowledge, and attempt to collect your information fraudulently.	Check the URL of any website that asks for personal information. Use only secure sites when making transactions. The website URL should begin with https. Virus protection and firewalls should be installed and updated. Use settings that block or warn you about suspicious websites.
Dumpster diving — people dig through your trash seeking information.	Use a shredder to destroy documents.

Identity Theft

METHOD	PREVENTION
Mail theft — going through your mailbox or forwarding mail to another location.	Use paperless bills and pay attention to your mail. Get a mailbox at the U.S. Post Office. Opt out of pre-approved credit cards by visiting www.optoutprescreen.com .
Stealing your purse or wallet	Don't carry your social security card, and limit other information that thieves could get their hands on. Keep your personal information in a secure place at home.
False scanners on ATMs	Pay attention — fake scanners can sometimes be identified if you are aware.
Phishing — someone calls or emails you pretending to be another company and tries to get your information.	Order a free copy of your credit report from the three credit bureaus: Experian, Transunion, and Equifax. Visit www.MyAnnualCreditReport.com to secure your report annually.

Types of Identity Theft

Ask: “What are the main types of identity theft?” Listen to responses, then go over the information below (also provided in the Student Guide).

- **Social Security Identity Theft.** If someone uses your SSN to get a job, the employer may report that person's income to the IRS using your SSN. When you file your tax return you won't include those earnings. IRS records will show you failed to report all your income. The agency will send you a notice or letter saying you got wages but didn't report them. The IRS doesn't know those wages were reported by an employer about which you're unaware. If someone uses your SSN to file for a tax refund before you do, the IRS might think you already filed and got your refund. When you file your return later, IRS records will show the first filing and refund, and you'll get a notice or letter from the IRS saying more than one return was filed for you.
- **Driver's License Identity Theft.** If your government-issued identification—driver's license, passport, or Medicare card—has been lost, stolen, or used fraudulently, contact the agency that issued the identification.
 - Contact the appropriate agency in your state.
 - Department of Motor Vehicles for drivers licenses and ID cards
 - Social security office for Medicare card
 - US Department of State – Bureau of Consular Affairs for passports.
 - Cancel the lost or stolen item and get a replacement.

- Ask the agency to put a note in your file so no one else can get a license or ID in your name.
- **Financial Identity Theft.** “Existing accounts” are bank/credit accounts for which you already have a card, accounts that you personally opened. When your wallet gets stolen existing accounts often are hit quickly, within a matter of hours. The thief knows that as soon as you notice the cards missing, you’ll report them and they’ll no longer work. More importantly, thieves also know that if they use the card after it’s reported stolen they run a higher risk of being caught.
 - **Banks** have had to deal with identity theft for a while now, and have clear-cut guidelines for how to handle a hijacked account. Most often damage is negligible, a few hundred dollars and the inconvenience of wasted time. Sometimes your money is tied up while the bank investigates the problem, but even then you’re only looking at a couple of months.
 - **Credit card companies**, too, have dealt with identity theft for several years. The difference between your ATM card with the VISA logo on it and your VISA credit card is that the ATM card takes money directly out of your personal account. But money spent using the credit card is essentially a loan. So while the identity thief takes your money with an ATM card, they are taking a loan in your name when they use your credit card. In other words, the credit card company is out the money, not you. Although it’s often called *credit card fraud*, this type of fraud is generally accepted as one of the main forms of identity theft.
- **Medical Identity Theft.** A thief may use your name or health insurance numbers to visit a doctor, get prescription drugs, file claims with your insurance provider, or get other care. If the thief’s health information is mixed up with yours, your treatment, insurance and payment records, and credit report may be affected. Signs of medical identity theft include:
 - A bill for medical services you didn’t receive.
 - A call from a debt collector about a medical debt you don’t owe.
 - Medical collection notices on your credit report that you don’t recognize.
 - A notice from your health plan saying you reached your benefit limit.
 - A denial of insurance because your medical records show a condition you don’t have.
- **Insurance Identity Theft.** Insurance identity theft is closely related to financial identity theft and medical identity theft. It can affect your finances and healthcare treatment, but by nature insurance identity theft puts its victims through a special type of hell.
- **Children’s Identity Theft.** The Children’s Online Privacy Protection Act (COPPA Rule) was put in place to protect kids’ personal information on websites and online services—including apps—directed to children under 13. The COPPA Rule also applies to a general audience site that knows it’s collecting personal information from kids that age.

Identity Theft

- **Criminal Identity Theft.** Criminal identity theft is just as difficult a problem to resolve as medical identity theft. Like medical identity theft, criminal identity theft has a way of coming back to haunt you even after you think you it's been resolved. The easiest way to detect criminal identity theft is to get caught speeding. The officer who stops you will run your license and registration. If there are warrants out for your arrest, they will give you a pretty set of matching silver bracelets and free public transportation to the local precinct.
- **Mortgage Identity Theft.** In a real estate investment scheme, mortgage fraud perpetrators persuade investors or borrowers to purchase investment properties, generally at fraudulently inflated values. Borrowers are persuaded to purchase rental properties or land under the guise of quick appreciation. Victims pay artificially inflated prices for these investment properties and, as a result, experience personal financial loss when they discover the true value. Analysis of FBI cases opened in FY 2010 revealed that 43% of FBI field offices have reported such activity, with losses exceeding \$76 million.
 - **Equity skimming** schemes occur when mortgage fraud perpetrators drain all the equity out of a property. For example, perpetrators charge inflated fees to “help” homeowners profit by refinancing their homes multiple times and skimming the equity from their property. A perpetrator also will help a homeowner establish a home equity line on a property. The perpetrator then encourages the homeowner to access these funds for investment in various scams.
 - **Foreclosure rescue** schemes are often associated with advance fee/loan modification program schemes. Perpetrators convince homeowners that they can save their homes from foreclosure through deed transfers and paying up-front fees. This “foreclosure rescue” often involves a manipulated deed process that results in the preparation of forged deeds. In extreme instances, perpetrators may sell the home or secure a second loan without the homeowner’s knowledge, stripping the property’s equity for personal enrichment. For example, the perpetrator transfers the property to his name via quit claim deed and promises to make mortgage payments while allowing the former homeowner to remain in the home paying rent. The perpetrator profits from the scheme by remortgaging the property or pocketing fees paid by desperate homeowners. Often the original mortgage is never paid by the perpetrator and foreclosure is only delayed

AVOID IDENTITY THEFT

- ☐ Purchase a shredder and destroy personal information before discarding.
- ☐ Check the URL before entering personal information on the web.
- ☐ Erase old hard drives before selling or discarding the computer.
- ☐ Use unique passwords and keep them secure.

IDENTITY THEFT PREVENTION

Explain that there are many ways to prevent one's identity from being stolen. Go over the examples that follow:

- **The National Do Not Call Registry** offers an opportunity to limit the telemarketing calls you receive. Once you register your phone number, telemarketers covered by the National Do Not Call Registry have up to 31 days from the date you register to stop calling you.
- **For Credit and ATM or Debit Cards:**
 - Don't disclose your account number over the phone unless you initiate the call.
 - Guard your account information. Never leave it out in the open or write it on an envelope.
 - Keep a record of your account numbers, expiration dates, and the telephone numbers of each card issuer so you can report a loss quickly.
 - Draw a line through blank spaces on charge or debit slips above the total so the amount can't be changed.
 - Never sign a blank charge or debit slip.
 - Tear up copies and save your receipts to check against your monthly statements.
 - Cut up old cards—cutting through the account number—before you throw them away.
 - Open your monthly statements promptly and compare them to your receipts. Report mistakes or discrepancies as soon as possible.
 - Carry only the cards you'll need.
- **For ATM or Debit Cards:**
 - Don't carry your PIN in your wallet, purse, or pocket or write it on your card. Never write a PIN on the outside of a deposit slip, an envelope, or anywhere it could be lost or viewed. Memorize all your PINs.
 - Carefully check all your ATM or debit card transactions; funds for each item you purchase will be quickly transferred out of your checking account.
 - Regularly check your account activity, especially if you bank online. Compare the current balance and transactions to those you've recorded. Report any discrepancies immediately.
 - Read the Privacy Notices, which explain the personal financial information a company collects; whether the company intends to share your personal financial information with other companies; what you can do to limit sharing; and how the company protects your personal financial information.
- **Use only a secure server** to access the Internet. Cyber hackers can get into your system and steal critical personal and financial information.
- **Shred. Shred. Shred.** If you feel like you're shredding every piece of paper that enters your home, you're doing it right. Invest in a shredder – it's worth it.

Identity Theft

- **Keep your Social Security card**, passport, license, and other valuable personal information hidden. A lockbox (or safety deposit box) is a good idea. Leaving the lockbox out in the open isn't.
- **Avoid writing or printing** your phone number or Social Security number on checks.
- **Get a mailbox** that locks.
- **Opt out** of unnecessary (sometimes risky) credit or insurance offers. Call 1-888-5OPTOUT and alert all 3 credit bureaus that your name is not for sale.
- **Never provide your social security** information or private contact information over the phone—unless YOU initiated the phone call.
- **Delete any suspicious email.** If it seems strange, it is. If it seems too good to be true—it is.
 - If you're communicating with a business, be sure that electronic data is encrypted (secure) and that their security systems are audited.
 - Watch for people who may try to eavesdrop and overhear information you give out verbally. A great example is not saying your phone number aloud in a supermarket when you've forgotten your loyalty/discount card.

What if You're a Victim?

If you find yourself victim to identity theft, the Federal Trade Commission (FTC) suggests following these steps:

- Contact the fraud departments of the three consumer reporting companies to place a fraud alert on your credit reports.
- Close all accounts that you know or believe have been tampered with or opened fraudulently.

If you report:	Your maximum loss:
Before any unauthorized charges are made	\$0
Within 2 business days after you learn about the loss or theft	\$50
More than 2 business days after you learn about the loss or theft, but less than 60 calendar days after your statement is sent to you	\$500
More than 60 calendar days after your statement is sent to you	All the money taken from your ATM/debit card account, and possibly more; for example, money in accounts linked to your debit account.

If your identity is stolen you should contact the following agencies:

- The three credit bureaus: Trans Union, Equifax, Experian
- The Federal Trade Commission
- The IRS
- Internet Crime Complaint
- Local police department
- Report scams to your state Attorney General
- If you're outside the US, file a complaint at econsumer.gov
- If you get unsolicited email offers or spam, send the messages to spam@uce.gov
- If you get what looks like lottery material from a foreign country through the postal mail, take it to your local postmaster.

REPORTING AGENCIES' CONTACT INFO

- ☐ Equifax : Fraud Assistance Division
Fraud hotline: 1-800-525-6285
P.O. Box 740241, Atlanta, GA 30374-0241
- ☐ Experian : Fraud Victim Assistance
Fraud hotline: 1-888-EXPERIAN (397-3742)
P.O. Box 9332, Allen, TX 74013
- ☐ TransUnion : Fraud Victim Assistance
Fraud hotline: 1-800-680-7289
P.O. Box 6790, Fullerton, CA 92834-6790

The form letters found at the end of the lesson can be used to assist with reporting fraudulent charges applied to your account(s).



Lesson Activity: Identifying Identity Theft

For this activity, the class will be divided into three groups. Your instructor will provide detailed instructions on how to proceed.

GROUP 1	<ul style="list-style-type: none"><input type="checkbox"/> One person has worked for a long time to build good credit.<input type="checkbox"/> The person has very little credit and pays off all of his/her credit cards every month.<input type="checkbox"/> One day he/she tries to buy a new car, and finds out that he/she is being denied a loan due to poor credit.
GROUP 2	<ul style="list-style-type: none"><input type="checkbox"/> One person with bad credit wants to buy a house very badly.<input type="checkbox"/> He/she knows someone who knows someone who can get him/her a new social security number for \$250. The person buys the new number and buys the house of his/her dreams.<input type="checkbox"/> Two months later, two police officers come knocking on the door. The person is shocked —he/she thought he/she hadn't done anything wrong.
GROUP 3	<ul style="list-style-type: none"><input type="checkbox"/> One person finds a wallet on the floor.<input type="checkbox"/> The person takes all of the money from the wallet and uses the credit cards.<input type="checkbox"/> The owner of the wallet finds out what happened, using online banking, and calls the police.

Lesson Activity: Identity Theft Check

Complete the form below and turn it in to the class instructor so he/she can check

First Name	_____				
Last Name	_____				
Phone	_____	Alt. Phone	_____		
Email Address	_____				
Street Address	_____				
City	_____	State	_____	Zip Code	_____
Social Security Number	_____				
Driver's License Number	_____				
Date of Birth	_____				
Place of Birth	_____				

THIS PAGE INTENTIONALLY LEFT BLANK

Lesson Questions

1. Which of the following represent(s) ways in which identity theft occurs?
 - a. Online.
 - b. Via old computer hard drives.
 - c. Stealing wallets.
 - d. All of the above.
2. What do shredding and changing passwords have in common?
 - a. Each makes it easier for identity thieves to steal information
 - b. They have nothing in common.
 - c. They help prevent identity theft.
 - d. They eliminate “dumpster diving.”

Essential Questions:

What is identity theft?

Identity Theft

How can I protect myself from identity theft?

Why is identity theft bad?

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,

How to Pay Off Debt

Warm-Up Activity

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

Lesson Activity: Risks and Rewards

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

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

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.

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.

Essential Questions:

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

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

Car Loans

Warm-Up Activity

What is a car loan? _____

Why is it a good or bad idea to get a car loan? _____

How to Get a Car Loan

Choosing the right car loan can save you thousands of dollars. Be sure to learn all the ins and outs of entering into a car loan agreement, so you can evaluate your choices intelligently.

Car loans are available under different terms, ranging from one year to seven years in length. The longer the loan, the lower the payments. But long-term car loans have some possible negative consequences.

When you're just starting out managing your finances and learning to handle money, we suggest that you don't enter into a car loan with a term any longer than three years. Although a longer term will reduce your payments, sticking to three years means you'll own your car free and clear after three years instead of turning your first car into a never-ending purchase.

Upside Down and Out

The worst type of car loan is an upside-down loan. What does that mean? Upside-down is when the amount you owe on the loan is greater than the value of the car. For example, let's say you purchase a new car for \$20,000 on a seven-year loan. After paying on the car for three years, you still owe \$12,687. But what if, after three years, the car is only worth \$9,000? You would owe \$3,687 more than the car is worth! That's an example of an upside-down loan.

In this situation, if you want to buy another new car, you'll have to pay not only the \$3,687 that you're short, but also come up with a down payment for the new car!

On the other hand, if you had taken out just a three-year loan, in three years you would own the car completely. Then you'd have the \$9,000 value of your car available in trade to use as a down payment on another vehicle.

Many people fall into the trap of buying cars they can't really afford on long-term loans. Avoid that trap by sticking with car loans with three-year or shorter terms.

Car Loan Lenders

When you apply for a car loan, lenders want to be sure you can repay the loan. Lenders look at several key areas to decide whether you qualify:

- **Credit report.** The better your credit score, the lower your interest rate—which translates into lower payments.
- **Income.** Lenders evaluate your income compared to the debts you owe (this relationship is called your debt-to-income ratio). Your ideal situation will be a consistent employment history with little debt.
- **Equity.** The more cash you can put down up front, the less you'll need to borrow. A large down payment makes loan qualification easier.

Before you head off to the car dealership, go to your bank, credit union, or an independent car lender to pre-qualify for a loan. If you already have financing, you'll get a better deal. Shop around for the best auto loan just like you shop around for the best car price.

Budget Before Buying. Before getting any loan, plug it into your budget and make sure it fits. Never enter into any loan agreement that you can't truly afford.



REMEMBER THE BBB PHILOSOPHY
Budget Before Buying

▼ Beware the Repo!

What happens if I can't keep up with my car payments?

If you miss several months of car payments, the lender will contract with a repossession ("repo") company. "Repo" companies send people to take the car back, typically on the back of a tow truck. You lose the car, all the money you've paid monthly, and your down payment too. On top of that, your credit history will be seriously damaged. You'll have major difficulty qualifying for another car loan.

Don't be that pathetic person who calls the police to report a car stolen only to find out the lender took it back due to lack of payment.

▼ Maintain Insurance

Every car owner must insure the vehicle. When your car is paid for, you can insure your car at the minimum level required by state law. But when you have a car loan, the lender will require that you carry full coverage. That's because lenders have to protect themselves from incurring a loss if the car is damaged. If you don't have insurance or if you miss insurance payments, the lender will start to charge you extra for loan insurance that they provide— and it's expensive.

Shop around for an insurance company at the same time as you shop for your auto loan and car. Good, clean driving records help you get the best insurance rates.



Lesson Questions:

1. Why is a car loan considered a “bad” debt?
 - a. It takes a long time to pay off.
 - b. The bank must charge a high interest rate.
 - c. The car may decline in value before the debt is paid.
 - d. The car will appreciate in value at the time the loan is made.
2. Why do people with good credit pay less for most things?
 - a. They are better negotiators than people with bad credit.
 - b. They are more conservative purchasers than people with bad credit.
 - c. They only pay cash.
 - d. They are less of a credit risk.

Essential Questions

How can your credit score affect the car loan for which you qualify?

How does a car loan affect your credit score over time?
