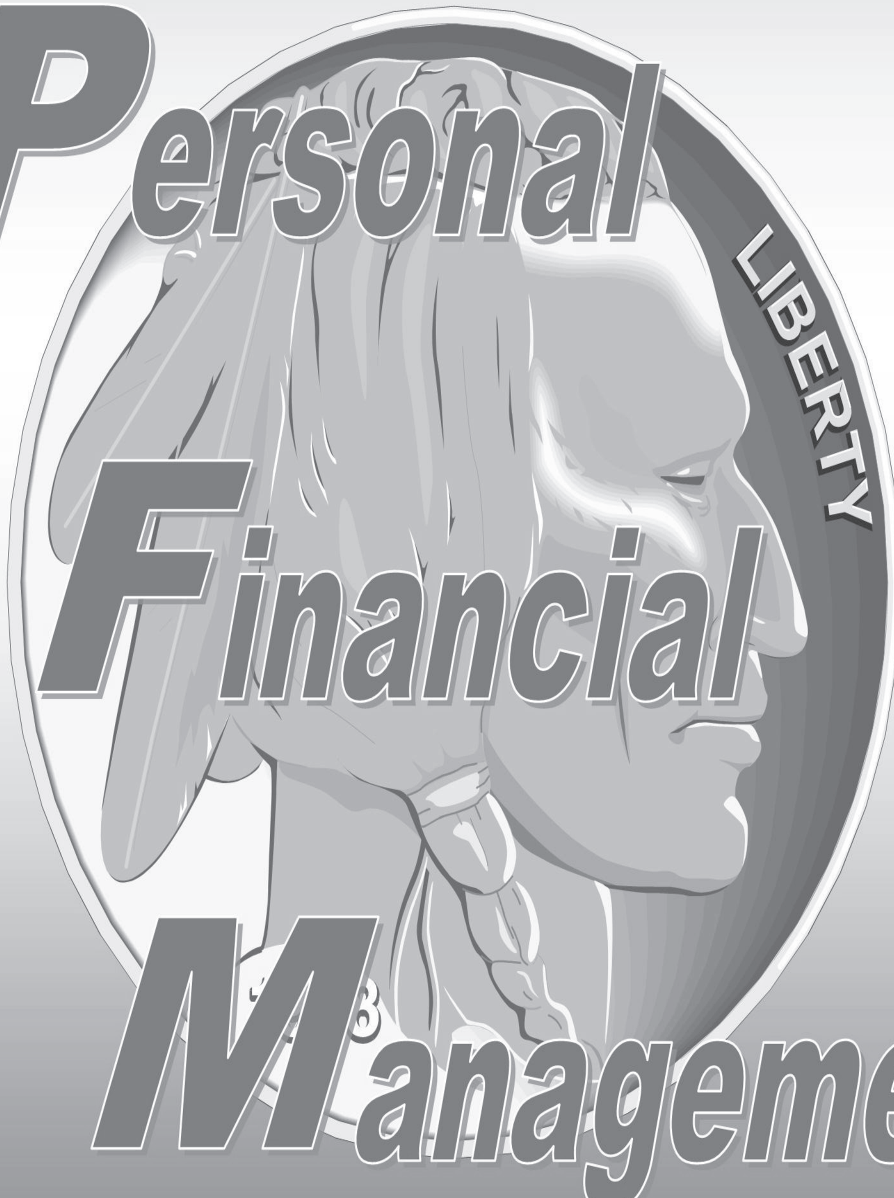
REEFS

Personal Financial Management



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Welcome to PFM

Welcome to the Personal Financial Management class. The goal of this program is to teach you the basic skills needed for personal financial management and the accumulation of wealth.

In order to achieve that goal, a solid foundation of knowledge and sound personal financial management principles must be built.

This program will teach you:

- How to save money!
- How to effectively use credit and financial products!
- How to make your money earn money for you!

Throughout the manual, whenever you see a "Money Saver," take note that it designates a thought-changing concept, one you will want to embrace if you are going to be successful at building wealth.

Here's your first **Money Saver**! When your money starts earning money, you then begin to build WEALTH

This course was originally created by Jeffrey P. Botsford; the information he supplied was compiled from a seventeen-year career in the bank, brokerage, trust, and private bank industries. It has since been edited by the REEFS team of Ken Blosser, Jason West, and Mark Tousignant with assistance from Henri Zogaib. We strive to keep the material presented as current and relevant as possible with our limited resources. Be aware that the specifics can (and frequently do) change from year to year, but the concepts presented here will supply you with a strong financial foundation to build your future on.

New Manual Team:
Writing & Editing: Mark Tousignant, Ken Blosser, Jason West, Booker Flowers
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Special Thanks to all the volunteers that have helped us with their time, advice, materials, and kind support, including Betty Strickland, Nate Schaidt, Bob McVety, and countless others. Their compassion is appreciated every day.

Note that everyone who has contributed to the creation of this manual is an inmate (with resources and information supplied by volunteers). That is the mission of REEFS: inmates helping inmates to succeed, to give you the best possible chance to never come back to prison. We hope that you will use this information, this chance, to learn everything you can. Help yourselves. Help your families. Make the future brighter than the past.

Every human being has certain things that we want to achieve in life. We want to be safe. We want to be happy. We want not to be alone. Health, happiness, prosperity, family… These are universal goals. But, how many of us actually set out a plan to achieve any of these things? By defining your specific goals, you begin to lay out a path to reach those goals. Our dreams then stop being dreams and become real, attainable things.

Of course, some things we have to experience on our own. We can't make anyone else healthy or happy; those are individual choices that we all have to make. However, the REEFS courses are designed to help by giving us as much needed information as possible to make informed decisions and begin to establish real, specific goals. The Life Mapping course, in particular, lays out a plan to help you succeed in multiple areas of life (health, relationships, employment, and more). This class, Personal Financial Management, is designed to focus on finances, how to build wealth and use it, and, most importantly, how to set a financial goal that can be reached.

Will it be easy? Is anything worth achieving ever easy? It will require a few things that will be mentioned often over the course of this class: discipline, sacrifice, and determination. But, it definitely has value. It's worth noting that the single most common cause of problems in relationships is money. That's because most people don't plan. They don't set a goal, so they have nothing to guide them in financial matters. Most people simply live day-to-day, moment-to-moment, and somehow hope that the future will just magically take care of itself. Invariably, it doesn't. Problems always have a way of showing up at the worst possible time. Setting a financial goal means being prepared when they do. This class is designed to give you the definite knowledge you need to gain the power to control your financial life and reach for your goal. Imagine how much less stress it puts on us, individually and in our relationships, if we set that goal, if we respond when situations arise instead of just reacting.

So, what is your financial goal? Do you have something specific in mind? Maybe you want to own a home or a boat or just a really nice car (all *assets* – which we'll discuss later). Maybe you expect to attain great wealth. Take a moment to write down a specific financial goal that you would like to reach. Try to think long-term here. A financial goal could be as simple as "I want to save $10 on my canteen so I can get a Big AZ Chicken Sandwich for my birthday next month", but, for the purposes of this class, we want to think bigger. Think about a financial goal that you want to achieve within 5 to 10 years of your release from prison. For anyone who might not have that option in their future, think about a goal you might want for your family within that time frame. The concepts we learn here can be used by them as easily as by us.

My Financial Goal is ____

____

____

For some people, a goal might simply be "financial security," but what exactly does that mean? Financial security can be defined in these ways:

- **Having a steady source of income** – future income is the bedrock on which financial security is built.
- **Anticipating long and short-term needs** – things have a habit of breaking down, roofs spring leaks, kids get sick or they grow up and go to college, someday you might want to retire.
- **Building our assets** – financial worth is about more than just having money in your wallet.
- **Protection against financial catastrophe** – protecting your assets is the best way to be safe.
- **Getting ahead** – eliminating debt, saving and investing can move you from going backward to going forward.

In this class, we'll look at all these areas. *Our* goal is to give you the tools you need to build a structure to support your goal. As with any construction project, however, if we want to have a stable structure we need to start with a strong foundation.

REEFS

Chapter 1 - First Steps

In the pursuit of knowledge, your first step is to place the foundational blocks upon which all the rest of your learning will be built. To be successful with your personal finances, you must, first and foremost, understand why a budget is important to your financial success, how to construct a budget, and how to use it effectively. Budgeting is your first foundational block. Once this block is in place, we can move on to lay the rest of the foundation (being a smart consumer, calculating our net worth) and build upward from there.

Why do I need to budget?

It is safe to conclude that if you have responsibilities in your life you worry about money. Did you know that more than half of Americans don't have a basic budget, and 22% say they don't have a clear picture of what they spend on housing, food, and entertainment? Not to mention that more than two-thirds of Americans say they live paycheck to paycheck. That means that at the end of the month, more than six of every ten people in the country are struggling to pay their bills. Without a budget, your financial picture is, at best, muddy. At worst, you might find yourself overspending, racking up credit-card debt, and feeling confused and anxious about your situation. But, a good budget gives you a clear picture of your financial situation so you can live within your means. It will also show you how much you can spend – right down to the dollar – on everything from food ($100? $1,000?) to rent ($500? $5,000?) to travel ($200? $2,000?). And, a budget will keep you motivated and accountable toward attaining your financial goal. You wouldn't walk into a busy street with your eyes closed, yet so many of us walk blindly right toward the edge of a financial cliff.

Budget-keeping is critical because of the ever increasing cost of living and the overwhelming cost of many necessities and discretionary items. If you want to start the process of achieving your financial goal, it's absolutely vital to start living your life using a budget. And, begin the habit now so you don't have to break the habit of not budgeting later. Many people cringe just at the idea of making a budget, but think of it this way: It takes a lot less time and effort to write down a budget and stick to it than it does to scramble for money when you run out with two weeks to go until the next payday. Put another way, writing down a budget is something you can literally do with a bowl of popcorn at your side and some bad TV on in the background.

It's important to understand this fundamental point: Your budget will be very different from that of the person sitting next to you. Your budget will, without question, differ in many key respects from any "average" spending-saving pattern of any "average" American family. That's because the average American family isn't real. The "average" family exists only on paper and its "average" budget is a fiction, invented for statistical purposes. Think of it like height. If you are 6'3" tall, the person on your left is 4'2" tall, and the person on your right is 5'7", the average height of the three of you is 5'3" even though none of you is 5'3". All the "average" does is set the mid-point of the range between you. It's the same with an average budget. Some people will fall far in one direction and others will fall far in the opposite direction. Very few, perhaps none, of the people will actually fit the exact average.

So, the shape of your budget will depend directly on your own, or your family's, individual goals and priorities. Would you prefer to spend $500 on a new video game console or on community college classes? Would $1,000 spent on a new stereo system mean more or less to you than $1,000 worth of, say, guitar lessons? There is no sense in attempting to fit into someone's "ideal" financial pattern which ignores your own personal wants and desires.

The budget you implement will also depend heavily on the makeup of your family. A young working couple without children may have relatively low housing costs, relatively high entertainment and clothes costs, and a good opportunity to save substantial amounts toward future family goals. Drastically different will be the budget of the couple with growing children and a heavily mortgaged house.

The point is that there is no such thing as an average budget and you should not even look for a standardized format. Search instead for a simple, flexible financial outline to help you achieve the goals you truly want. Understand that using a budget can help you to live within your means while achieving your financial goal.

KISS – "Keep It Simple, Sir"

Simple and flexible are the key points here. Simple records are more helpful and easier to maintain. All we need is a blueprint for each month's spending, a history of where money goes each month, and an overall picture to help when a financial emergency arises. If you budget down to the individual pencil eraser it will be much harder to make adjustments than if you simply budgeted for "office supplies." And, adjustments will happen. You may want to review your budget every month to see if any changes are needed. Once you've made your budget, stick to it, but remember that a budget should work for you, not the other way around. You should NEVER let a budget become a straightjacket or it will surely fail. Keep it simple to keep making changes from becoming a chore.

How do I budget?

When you first leave prison, it may seem impossible to live on basic minimum wages. Admittedly, it will be difficult. Let me make the suggestion that it really is just a question of perspective. To put it differently, you may have to check your perspective each time you have a budget issue. Make sure that your perspective on any individual item is in line with your overall financial goal. Let's take a look at how to survive once you are out of prison and how, with sacrifice and discipline, you can live within your budget.

Job # 1			Job # 2			Job # 3		
Taco Bell **$8.04 per hour**			**Taco Bell** **$8.04 per hour**			**Machinist** **$18.50 per hour**		
40 hrs/ Weekly Income		$321.60	48 hrs / Weekly Income		$385.92	40 hrs / Weekly Income		$740.00
(times 4.33)			(times 4.33)			(times 4.33)		
Monthly Income		$1,392.53	Monthly Income		$1,671.03	Monthly Income		$3,204.20
Less Withholding 15%		($208.88)	Less Withholding 15%		($250.65)	Less Withholding 15%		($480.63)
			Mow 3 lawns on day off at $40 per lawn		$120			
Net Pay $1,183.65			**Net Pay $1,540.38**			**Net Pay $2,723.57**		
	Expenses:			Expenses:			Expenses:	
42.2%	Rent*	($500)	32.5%	Rent	($500)	27.5%	Rent	($750)
						13%	Food	($350)
						5.5%	Clothing	($150)
						11%	Savings	($300)
						9.2%	Utilities	($250)
21.2%	Food	($250)	16.2%	Food	($250)	2.9%	Probation	($80)
6.3%	Clothing	($75)	6.5%	Clothing	($100)	20.6%	Transport:	($561.94)
7.6%	Savings	($90)	15.6%	Savings	($240)		Lease Payment	($256.94)
10.5%	Utilities	($125)	10.4%	Utilities	($160)		Gas/Oil	($150)
6.8%	Probation	($80)	5.2%	Probation	($80)		Insurance	($150)
3.4%	Transport	($40)	2.6%	Transport	($40)		Repairs	($5)
2%	Discretionary	($23.65)	11%	Discretionary	($170.38)	10.3%	Discretionary	($281.63)
100%	Total	($1,183.65)	100%	Total	($1,540.38)	100%	Total	($2,723.57)

* Does $500 sound crazy for rent? Maybe you might have to get a roommate… Perspective adjustment…How many roommates do you have now? One sounds okay when compared to 70. It's a step in the right direction and it's only temporary.

Remember that our examples are just sample budgets. They represent three possible scenarios, but your own personal budget will look very different. Do you have child support? Medication? Are you married? All those things will add things to your budget. Food cost, for example, will be very different for a single man than for one who is supporting two children. Maybe you don't have probation costs to look forward to. Your budget will likely look very different from our examples, but the concept is the same. Break down your expenses and then determine where sacrifices can be made.

Discretionary Income

After all the necessities are paid, the money you have left over to use is called "discretionary income." This is your "walking around money" to cover the little expenses that come up, things we might want or forgot we needed.

Which System of Budgeting Should You Use?

You can look to others for guidance here. The small business owner has part of the answer in the way he handles his store's income and expenses, and combines the two together with some money left over for "emergencies." Your parents had part of the answer in the way they measured their income, and then divided their spending into so much for essentials, so much for savings, and so much for discretionary income. The corporation has much of the answer in the ways it keeps its books, prepares for bad as well as good times, and provides a cushion for the unexpected and the unpredictable.

What you need is a style of budgeting that will:

- Tell you how much money is coming in during the next several weeks or months.
- Tell you how much money has to be put aside today for future security, your independence, and those big unavoidable bills due in the next several weeks or months.
- Tell you how much is left over for the day-to-day expenses ranging from food to a new household gadget.
- Tell you too how much money is left, if any, for discretionary spending.
- Relate your income and expenses for a reasonably long period of time, so that you can avoid living hand-to-mouth, and paycheck to paycheck.
- Help you to run your personal affairs the way most successful businessmen run their businesses.
- Achieve your financial goals.

Money is earned to be spent. Money never remains just coins and pieces of paper. It is constantly changing into the comforts of daily life. Money can be translated into the beauty of living, a support in difficult times, an education, or future security. It also can turn into a source of bitterness. But, when you spend, you buy more than material things such as bread or shoes; you make decisions which determine your whole way of life. Your decisions bring you closer to, or perhaps send you further away from your goals and ambitions.

It may seem that so many of your decisions are forced by circumstances and that you have very little chance to control your own money. Perhaps, however, your income appears too small to go around only because you did not take into account the "nibblers" – the little items that nibble away at your income until there is nothing left like the candy bar at the checkout aisle or the cookies at the sub shop. Perhaps you have debts left at the end of the year only because you ignored the "bouncers" – the big expenses that turn up a couple of times a year and make giant dents in your income like a flat tire or a broken washing machine. Or perhaps you are in trouble only because you haven't considered the "sluggers" – the unexpected expenses such as sickness, or major household repairs, which can throw even a good spending plan way off balance.

Money Saver! Start out with the idea that no amount of money you earn will ever be enough to pay for everything you desire. Accept this theory: the more income you have, the more you will want. If there's something you want badly enough, you will sacrifice other things to get it!

Take the time to think out your own ideals of living and your goals for the future. Develop a plan of control over your spending. Then you will make progress toward the kind of living that means the most to you.

Personal Budgeting System

Your personal budgeting system, no matter what your future income may be, needs to do four things:

- **Tell you where your money it is coming from** – and when it is coming.
- **Provide for the necessities first, then the comforts and self-improvements, then the luxuries** (when you have the money to spend for them).
- **Give you a means for saving** – a plan to pay off debts or to keep out of debt. Work toward having at least six months' income saved for an emergency fund.
- **Build good habits for spending** – for today and tomorrow.

A sample income statement and budget sheet is included in the appendix of this book for your use when released from prison. We encourage you to take a good look at them and take some time to fill it out (in pencil) with realistic ideas in mind of what your income and needs will be. Being able to see the hurdles in front of you is the first step to leaping over them.

	Job #1	
	$8.04 per hour	
40 hrs/ Weekly Income		$321.60
	(times 4.33)	
Monthly Income		$1,392.53
Less Withholding 15%		($208.88)
	Net Pay $1,183.65	
	Expenses:	
42.2%	Rent	($500)
21.2%	Food	($250)
6.3%	Clothing	($75)
7.6%	Savings	($90)
10.5%	Utilities	($125)
6.8%	Probation	($80)
3.4%	Transport	($40)
2%	Discretionary	($23.65)
100%	Total	($1,183.65)

As we start out, the reality, for most of us, will be that we don't like what our budget tells us. The ideal situation is to arrange your spending as follows:

- 20-30% on housing
- 15-30% on food
- 3-10% on clothing
- 10-20% on savings
- 4-7% on utilities
- 6-30% on transportation
- 2-8% on medical costs
- 2-4% on other necessities
- 2-20% in discretionary (or entertainment) spending

Most of us don't exactly live in an ideal world. The money coming in might not realistically fit those percentages, and we may have additional budget items, especially if we have people to support. What we need to remember, then, is that the ideal above is a goal to aim for. Let's take a look again at the first budget we mentioned, working minimum wage for Taco Bell... We were left with $23.65 in walking around money for the entire month, not a terribly exciting amount of money, and on the very low end of our 2-20% goal. But, once you know the truth of your financial situation you can start trying to make your budget work for you. Unfortunately, the reality is that there are only two ways to change your budget. You can:

1. Increase your income, or
2. Reduce your expenses

Option #1: increase your income

Sometimes, this one is easier to face.

The reality check is that you either need to get a second job, or improve your education/work skills and find a higher paying job. In our second budget example, by working one extra day on a side job and one extra shift, your income increases by $356.73 per month. Even with budget increases on clothes, utilities, and savings, the amount of your walking around money increases more than 620%. If you work harder, or smarter, your budget improves. That may not really be a drastic increase, but you're eating better, living a bit better with your utilities, and, most importantly, you're able to save a lot more. Remember that if you are living in this type of a situation, your emergency fund is even more important. Building up a safety margin quickly is key here.

Truthfully, few people manage to put 20% of their income into savings. Depending on how old you are when you start working, however, how much you save needs to be something you think about very carefully. Retirement isn't impossible, even if you start late, but it takes a lot more discipline and sacrifice.

Job #2		
$8.04 per hour		
48 hrs/ Weekly Income		$385.92
(times 4.33)		
Monthly Income		$1,671.03
Less Withholding 15%		($250.65)
Mow 3 lawns on day off at $40 per lawn		($120)
Net Pay $1,540.38		
Expenses:		
32.5%	Rent	($500)
16.2%	Food	($250)
6.5%	Clothing	($100)
15.6%	Savings	($240)
10.4%	Utilities	($160)
5.2%	Probation	($80)
2.6%	Transport	($40)
11%	Discretionary	($170.38)
100%	Total	($1,540.38)

Option #2: Reduce your Expenses

The other way to change your budget is to reduce your expenses and when you are already living lean that can prove to be more difficult. However, difficult is not impossible. One way to reduce your expenses might be to become a smarter consumer. Let's take a closer look at how to do just that by looking at some key areas of our budget.

Food

Human beings have three basic needs to survive: water, shelter, and food. Food, therefore, is a big part of your budget each month. It's not something we can skip if money gets tight. But, there are some ways to manage and reduce your food expenses.

Keep a Shopping List

Post the list on your refrigerator door or somewhere handy in your kitchen. Write down the foods you need during the week or month. Before going to the store, check your list and think about those items you need to have and those you would like to have. When you get to the store, buy *only* the foods that are on your list. That doesn't mean that you're strictly limited to buying only the basic necessities. The point here is to decide what luxuries you can afford *before you go to the store*. This limits our urge to buy on impulse and lets us avoid those 'nibblers.'

Eat a meal

Eating before going shopping will help you to avoid buying unnecessary foods that looked or smelled good because you were hungry. It should come as no surprise to anyone that grocery stores (especially large chain stores) are ready for you. However, few people realize the extent of the research they conduct in order to influence you and your spending habits. Most large companies spend thousands upon thousands of dollars in what is called 'psychological marketing.' Forewarned is forearmed, so here are some of the tricks they have learned from all this research. See how many you recognize...

Psychological Marketing:

1. **The Locked Door Behind You**: Grocery store doors are usually one-way. Once inside, you'll have to walk past a few "special offers" to find the exit. It's like when the frail, screaming victim in a horror movie realizes the only way out of their current environment is through it. Instead of killing you, grocery stores just want to sell you some Oreos.
2. **Fresh Cuts**: Did you forget your girlfriend's birthday, *again*? No problem. The grocery store greets you with just what you need and *lots* of it. First impressions are important and the bucket garden of tulips right inside the front door says, "You've come to a fresh place of earthy joy." There's also a theory that sensory stimulation overwhelms us. It fries our mental motherboard and makes us more susceptible to impulse buys.
3. **Dollars and Scents**: Speaking of stimulation – know how when you get within 10 square miles of an airport or a mall, you can smell the kiosk selling cinnamon rolls? And how you would now knock over grandparents and small children for a taste? The bakery serves that purpose at the grocery store. The grocer stimulates your appetite with one the world's most primal intoxicants: the smell of baked bread. It urges you to shop with your stomach, not your budget conscious brain.
4. **Got Milk?**: Remember in the '80s when, as an aspiring break dancer, you signed up for the free boom box? All you and your legal guardian had to do was sit through a six-hour sales pitch on timeshares in Mexico. Same concept here. We all really want milk. It's among the top three items that any given person goes into a grocery store to buy. Grocers are willing to give it to you, but only after they walk you through their *entire* sales pitch. There's a reason that the dairy section is always at the very back of the store.
5. **Center Stage**: The center aisles with the name-brand goods are the most profitable. That's why items necessary for life – like cereal and coffee – are placed in a middle aisle. And they're often in the middle of that middle aisle. That way, no matter which direction you come from, you'll be exposed to half an aisle of stuff you didn't even know you needed until right now.
6. **Shuffle the Deck**: Face it. Most of us go back to the store for the same 10 items every few days. Doing so, we could easily develop our own "route" through the store and walk on autopilot when we enter the door. That's why grocers 'shuffle the deck.' The crate where the apples have been for the last couple months? Now it's seasonal blueberries for $50 a box (or two for $80!).
7. **Fill 'Er Up!**: Aside from those planning for a zombie apocalypse, very few people need a shopping cart as enormous as the one the store supplies. But here's the thing. If humans are put in charge of a hole, we have a psychological need to fill it. That's why the shopping cart has doubled in size over the years, and those little carry baskets are intentionally hard to find.
8. **The Right Stuff**: Americans "read" the world from left to right. Our eyes are always moving in that direction, left to right, or toward the natural progression of the "story". So that's where supermarkets often put the items you're most likely to buy, on the right-hand side.
9. **Eye Bombing**: Not that we're lazy people, but we are. We buy mostly what's at eye level, so that's where grocers put their high-profit margin stuff. The bulk economy foods are almost always on the bottom shelf, next to the boxed wine. And, any cereal with a cartoon character who looks stricken with emotional issues? They're placed at eye level for your kiddo, who is now struck with a desperate, loud, crying need for sugar-spackled grains.
10. **Freebies!**: People come into the supermarket "on a mission." It's in the grocer's best interest to encourage you to slow down, hang out awhile. Pausing for free nibbles helps. It also whets your appetite.
11. **Make It Rain**: How convenient. They let you put money into your pocket as soon as you walk in the door with that shiny new ATM (or two!) located just inside the airlock at the front of the store. And now that you're so terribly wealthy, you may as well splurge on that gourmet bottle of olive oil.
12. **Tuning In**: Studies show that you tend to move to the beat of music when you hear it. So, speed metal is out, and Air Supply is in. Let's slow dance.
13. **Fun Size Tiles!**: Those square tiles of linoleum that people use to cover the floor generally come in a standard size. If you happen to have an odd-sized floor, there's a nice cutting tool for shaping the tiles. Those square linoleum tiles that tend to be on the grocery store floor? They're 1/3 smaller. This tricks the eye into thinking you're moving faster than you are. Result: You slow down and look around more at all that stuff you "need."
14. **Clockwork Oranges**: The majority of people have a tendency to move around large spaces in a clockwise direction. That's why all the grocer's best tricks are located to the right as you enter the store. That's also the way the aisles are arranged, to funnel you toward the best deals... for the grocery store.

This is not, believe it or not, an exhaustive list. But, it should give you an idea of the kind of effort that businesses will put in to influence your buying decisions. It's not just the flashy advertisement designed to convince us. Good marketing includes every aspect of the purchasing process. Be aware that the manipulation is going on, and you will be in a much better position to resist it.

Shop around

Comparison shopping means you compare prices on similar products. Compare the price of the same food item in different stores. Compare one brand to another even in the same store and try to buy the brand with the lowest price. For example, one brand of eggs may cost less than another, and as long as the quality is good you may want to buy the less expensive brand. Many grocery stores offer "store brands". In today's marketplace "store brands" are often times very comparable in quality to name brands yet are less expensive. Cheaper still are generic brands. These have no company name on them at all and usually come in plain black and white wrappers.

Sales

Sales are a great way to save money. Most grocery stores post sales pamphlets near the front of the store. Pay attention to these, and see if any of the items you want to buy are on it. You might be able to get a better quality item due to a sale or buy more of the usual item and stock up. Two things to bear in mind when shopping for food items on sale:

1. Canned foods can be stored for many months. You may want to buy extra cans of foods you regularly use when they are on sale.
2. Never buy foods that you do not really want just because they are on sale. That would be a waste of your money. If you aren't going to eat it, it's not a good deal no matter how cheap it might be.

Coupons

"It used to be that if you stood in line at a grocery store with coupons, you felt that the people behind you were judging you negatively – you felt like a penny pincher," says Dan Ariely, a leading behavioral economist and author of *The Upside of Irrationality*. "You were right; they were judging you..."

Times have changed. After declining for more than a decade, coupon use rose sharply in October 2008 as the economy collapsed, and the use of coupons then soared 27% in 2009. Today, the use of coupons crosses all economic barriers thanks to Internet couponing sites like Groupon, TV shows like *Extreme Couponing*, and simple necessity. In fact, the primary drivers of coupon growth are affluent households with six-figure incomes. The rapid spread of smartphone technology and online apps also allows anyone to use coupons with much greater ease and less time investment than in generations past. That said, 75% of people still prefer to use paper coupons, and you will always find them in the Sunday paper.

But, what can we do with coupons? Consider this story from *Money Magazine* (2011):

Lauren Ligget, a 22-year-old college student from Carthage, Mo., found herself hooked the moment she saw the pilot episode of the TLC reality show Extreme Couponing in December. She began scouring the Internet for couponing websites, bought copies of the Sunday newspaper for the circulars, and headed to the grocery store to shop for her family – her mom, Joyce, a realtor, and her dad, Larry, a retired IBM engineer who works part-time as a car salesman. The Liggetts are not struggling financially – they have a low-six-figure income – but since Lauren lives at home and her parents are paying for college, she wanted to help out. On that first shopping trip, she presented her coupons to the cashier and felt the adrenaline rush of watching her total drop from $263 to $50. "Pretty good for my first time!" she recalls.

Today Lauren has slashed her family's monthly grocery bill from $400 to $100, and the bulging cupboards, pantries, and spare room can make the Liggetts seem like survivalists bracing for nuclear war; 288 rolls of toilet paper, 80 jars of tomato sauce, and 40 bottles of men's body wash.

There's no baby in the house, but Lauren couldn't resist buying 30 containers of infant formula on sale for $3.78 each. Because she had collected piles of $5.00 off coupons, she earned a $1.22 store credit on each sale – the holy grail to serious couponers. (She used her credit to buy ribs for a Memorial Day feast and donated the formula to tornado victims in nearby Joplin.)

Think about this: Why would you pay full price for something when you have the option not to? The stigma of couponing is all but gone now, and using coupons is a smart way to save lots of money.

SNAP

SNAP stands for the Supplemental Nutritional Assistance Program (formerly known as Food Stamps). Like coupons, people can sometimes feel a stigma with using food assistance. However, we should never let pride stand in the way from accepting help when it's needed. When first starting out, we generally need all the help we can get, and SNAP can be an enormous benefit in helping us to afford enough food and also in our budgeting.

Can ex-cons qualify for SNAP?

Yes, with some exceptions. As of 2016, people convicted of drug trafficking or running from a felony warrant, people who break Food Assistance Program rules on purpose, who are non-citizens without a qualified status, and some students in colleges or universities are some reasons for ineligibility for food assistance benefits.

There is an application process, which you can begin by visiting the website for the Florida Department of Children and Families. If you do not have computer access, you can call them to request an application by mail. You will be asked about your income, living situation, expenses, etc. You will also need your Social Security number and a way for DCF to contact you.

What amounts can an ex-con qualify for?

If you are eligible and approved, you can receive up to $194 per month for yourself.

Healthy adults, who are 18 to 50 years old and do not have dependent children, can only get food assistance benefits for 3 months in a 3-year period if they are not working or participating in a work or workfare program. As of 2016, you are eligible if you earn less than $23,544/year ($31,860/year for couples).

SNAP can be a vital resource for us, even as a temporary one. As we said, food is essential. Because of this, it's also usually one of the largest expenses in our budget. Looking back at our first Taco Bell budget, we would definitely qualify based on our income of $16,710.36 per year. If we received the maximum $194 in food assistance benefits, let's look at how that would affect our budget:

Job #1		
$8.04 per hour		
40 hrs/ Weekly Income		$321.60
(times 4.33)		
Monthly Income		$1,392.53
Less Withholding 15%		($208.88)
Net Pay $1,183.65		
SNAP assistance: $194		
	Expenses:	
42.2%	Rent	($500)
6.9%	Food	($81)
8.4%	Clothing	($100)
16.9%	Savings	($200)
10.6%	Utilities	($125)
6.8%	Probation	($80)
3.4%	Transport	($40)
4.8%	Discretionary	($57.65)
100%	**Total**	**($1,183.65)**

Our food expense went from 21.2% of our budget to 6.9%, and we were left with $194 to distribute in other areas. We bought $25 more food, raised clothing, got some better utilities, increased savings and still had more discretionary money left over. Our financial burden has been eased considerably.

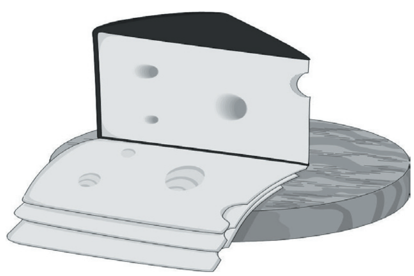
The Unit Price

Smart consumers often make purchases with an eye toward the unit price of a product. The unit price is the price of one ounce, one pound, or some other measurement of a product. If you break a product down to its unit price it will help you to compare price values. Most grocery stores show the unit prices on the product label. Here are the unit pricing labels for two containers of salad dressing. Notice the parts that are labeled.

Ranch Dressing
12oz
.10 per ounce **$1.20**

Ranch Dressing
18oz
.08 per ounce **$1.44**

To save money, compare the unit price of different brands and different sizes of the same product. Many times you will find that the unit price on a larger sized product is lower. If you can consume the larger size while the product is still usable then it makes sense to buy the larger amount. Here's an example:



A 2 pound block of Swiss cheese costs $3.84.
There are 16 ounces in a pound.
A 2 pound block is 32 ounces.
$3.84 divided by 32 ounces equals 12cents per ounce and that's the unit cost.

Swiss Cheese
2 pound
.12 per ounce **$3.84**

A ½ pound block of Swiss cheese cost $1.28.
There are 8 ounces in a ½ pound.
$1.28 divided by 8 ounces equals 16 cents per ounce and that's the unit cost.

Swiss Cheese
1/2 pound
.16 per ounce **$1.28**

Instead of buying a ½ pound block of cheese each week at the grocery store for 16 cents per ounce it might make sense to buy the 2 pound block for 12 cents per ounce and properly store the cheese to make it last four weeks. Let's do the math and figure out how much you save by buying the larger block of cheese. If you buy the ½ pound of cheese each week it will take four weeks for you to eat 2 pounds worth. $1.28 times 4 equals $5.12. $5.12 minus $3.84 (the cost of the 2 pound block of cheese) equals a savings of $1.28. In other words, by buying the larger block at a lower unit cost you ended up with a free ½ pound of cheese. And, that's just one item in your grocery cart.

Some stores don't offer the unit price on their labels so here's a couple examples for you to practice on.

1.

Buffal-Oats
32 ounce
$8.00

Captain Crispy
18 ounce
$5.40

The unit price (price divided by size) of the 32-ounce box of Buffal-Oats cereal is __________.
The unit price of the 18-ounce box of Captain Crispy cereal is _______.
The better deal on cereal is the ________ ounce box.

Far and Clean
4 ounce
3 PACK **$0.96**

Orange Breeze
5 ounce
1 bar **$0.35**

2. The unit price of the 4-ounce bar of Far and Clean Soap is _________.
   The unit price of the 5-ounce bar of Orange Breeze Soap is _________.
   The better deal on soap is _______ .

Try It Out!

We may not have a lot of choices between brands while we are at the mercy of a monopoly, but if you want to put what you have learned to the test take a look at the list of sandwiches available at the canteen. Compare the unit cost per ounce for each sandwich and figure out which one offers you the best value for your money.

These particular tools are not just useful at some point in the future, either. Budgeting and being a smarter consumer are skills that can help us right here. Make a list before going to the canteen and stick to that list.

Cooking

Cooking can be a lot of fun – if you take it seriously it can become an art form. Aside from that, it's also a another way to save money on the foods you regularly eat. As an example, cooking a large pot of soup is a lot cheaper than buying cans of soup. When we purchase prepared foods, what we pay for is the convenience of not having to put the meal together ourselves (and for the brand name). And, we can pay a lot for that convenience. Learning some simple, easy recipes can save a lot of that money as well as being healthier for us.

Go with the big guy

It may seem like an odd recommendation after our discussion about psychological marketing (which is far more extensive at larger supermarket chains), but buy the majority of your food at large supermarkets. They usually have better prices than smaller neighborhood stores. Particularly useful are large discount stores (Save-A-Lot, for example). It might seem like wholesale stores where you can buy in bulk are a good option for saving money, and they can be. However, it depends on what you're buying. If you shop at a wholesale store, you need to particularly aware of unit price. They are not always cheaper, and you need to be sure to compare units that are the same. Let's look at one example:

Sale-Mart

Dr. Fibb Soda
12 ounce can
$0.25

CostLo Wholesale Club

Dr. Fibb Soda
24-pack
$6.48

Many people just assume that the larger size package is a better deal at a wholesale store. But, one way to confuse people is by making the listed unit different from what is on the label at another store. In this case, we're comparing cans to ounces. Going by the label, you might try to break the price down into the cost per ounce. What if we just use '*one can*' as our unit, though?

The cost of one 12-ounce can of Dr. Fibb Cola at Sale-Mart is 25 cents.
The cost of one 12-ounce can of Dr. Fibb Cola at CostLo Wholesale Club is 27 cents.

Buying the cans individually at Sale-Mart is actually the better deal.

By making the correct comparisons, you can find the best deals. But, always remember to shop around. Just because a store is cheaper for a few items, does not mean that they are cheaper for all items.

Let someone else cook

One last recommendation, if it's possible, is to eat at Mom and Dad's house once a week. They'll enjoy spending quality time with you, the food will probably be great, and you will save a little bit of money on your food budget. Everyone wins.

Food is one of the basic necessities of life. There's simply no getting around that fact. However, by shopping smarter we can learn to reduce our expenses. But, what if we're not buying something so basic as food? Do some of these tips still work? Believe it or not, clothing is not a basic necessity for survival. We need it, obviously, but our choices in what to buy and wear are largely cosmetic. It's not based on what we *need* as much as it's based on how we *want* to look. So, let's look at how some of these tools can work in this situation.

Buying Clothes

Jacob needed a new pair of work boots. He went to the mall and saw a pair of boots he really liked. Unfortunately, the boots cost $80 and he only had $50 budgeted. Jacob decided to wait. Two weeks later Jacob returned to the mall and saw the boots on sale for $65. The next day he went on the Internet and found the exact same pair of boots for sale on a website for $48. Jacob was proud of himself for shopping around, sticking to his budget, and being a good shopper.

Comparison shopping works regardless of what you might be buying. From food to clothes to houses, look at other stores or areas and compare the price. Sometimes you see a shirt, pants, or pair of shoes you must have… that's understandable. If you get hired to work construction starting tomorrow, you will need the pair of work boots right away. You'll just need to adjust your budget in other ways or dip into your discretionary money to get them. However, many of your everyday clothes needs are predictable.

Make a list. Most people like to have a certain type of socks, underwear, t-shirts and so on. To the extent possible, buy your everyday clothes using a plan.

Wait for sales. At the end of winter, winter clothes go on sale and Summer clothes at the end of summer. By waiting, you can save serious money. You can save money by buying well-made clothes, too. They cost a bit more, but well-made clothes last longer and look nicer even after they have been washed many times. Speaking of washing clothes, here's something else to consider. Read the labels on your clothes. A sweater that requires washing in cold water, and shirts that require washing in hot water, means separate loads in the washing machine which costs extra money. If you say "screw it", and wash them all in hot water, the sweater that should have been washed in cold water will not last long. Having to replace that sweater early because you didn't take proper care of it means wasted money. Checking the label before buying also helps you avoid "dry clean only" clothes. Dry cleaning is expensive!

One last way to save a lot of money on clothing purchases is one that some people don't like. Thrift Stores. By buying used clothes, you can get a huge discount (as well as helping out a charity in the process). But, what kind of clothes can you get at a thrift store? If you have the option, use the same idea we started with and shop around. The clothes available at these kinds of stores vary widely depending on location. A Goodwill store near a college or an affluent area of town will often have very nice and even brand-name clothes at a huge discount.

Are there coupons for clothing? There are discounts available for just about anything even if they don't work just like food coupons. Rebates are particularly useful. Many products today will offer "instant rebates" (which are essentially coupons), but the standard rebate offers are another psychological trick. They do save the consumer money by refunding a portion of what they paid for the product. However, most people don't take the time to send in the rebate form. By requiring the consumer himself to do part of the work, they know that a large percentage of them just won't bother. Don't be like those people. Take the few minutes needed to send in a rebate form if one is available. It's money back in your pocket; and why would you say no to that?

Everything Else

What about the rest of our purchases? We'll go into greater detail about buying cars and houses later, but the concepts of being a smart consumer can apply to anything. Shelter, for instance, is another basic necessity for human life. Even if we're homeless, we need some sort of shelter from the elements. If you need to cut your expenses, and you have a mortgage, you need to ask yourself some serious questions. Needing a roof over your head is not the same as needing to cover it with 3,000 square feet of house. Do you *need* that high-priced SUV or could you get by with a more affordable sedan? Think about what you would like to have, what you absolutely need to have, and what you can afford. Our financial reality might not reflect everything we wish for, but what you can afford should fall somewhere in between wants and needs.

Smart Consumer Shopping Checklist

"*Too many people spend money they haven't earned to buy things they don't want to impress people they don't like.*"
- Will Smith

When you shop you want to be a smart consumer and get the best value on each and every product that you buy, whatever that product might be. To be a smart consumer, ask yourself these questions when you shop.

1. Do I really need this product, right now?
2. Do I have enough money in my budget to buy this product?
3. Do I need to buy this product with credit or can I save up and buy it with cash?
4. Could I save money by waiting for a sale?
5. Are there coupons available in the newspaper or on the Internet for this product?
6. Would this product cost less in a different store?
7. Am I buying this product only to impress other people?

Everything we've discussed so far in this chapter is useful (and even vital) for managing your money. From budgeting to being a smarter consumer and limiting your expenses, all of this can be used to stretch your budget as far as it will go. But, what happens when our budget can't stretch any further? What happens when a situation comes up that we just didn't plan for? When our budget breaks, it's very important to sit down and make whatever adjustments you can, to do what you need to do to fit your new situation. A lot of the time, that means borrowing money (either with a loan or with credit). Which, of course, leads us into...

Debt (What you owe)

A debt is a liability that you have taken on and that you must repay in the future. It can also be a scary word for a lot of people. If you have debt, know that you are far from alone. According to Federal Reserve Statistics, as of December 2012, U.S. consumers held $849.8 billion in credit-card debt. That's between $7,000 and $15,000 per household.

But, not all debt is bad. We can differentiate between good debt and bad debt: Bad debt is debt that doesn't help you make money later but just puts you further in the hole. Good debt, on the other hand, is a means to an end - an investment in your future.

Tackling debt can feel overwhelming, and we'll discuss how to do that in detail later on. First, you need to take an honest look at how much and what kind of debt you have. Write it all down in one place. When listing debts, be sure to include only the unpaid balances. Beyond good and bad, there are two types of debts:

Good Debt	Bad Debt
Debt with a **low interest** *rate, usually taken on as an investment in your future.*	*Debt with a* **high interest** *rate that does not represent an investment in your future and loses value over time.*
Mortgages	**Personal Loans**
Business Loans	**Car Loans**
Student Loans	**Credit-card Debt**

- 1. **Current Debt** is debt you must pay within one year: credit card debt, unpaid bills such as utilities, past due rent, cable TV, cell phone, insurance premiums, and so forth.
- 2. **Long-Term Debt** is due beyond one year's time and usually exists on larger assets, such as your home or car. The largest debt you ever take on, and the longest-term debt, will probably be the mortgage on your home.

That number can look very high when it's all written in one place, but don't panic. There is a way to manage that. For the moment, let's move onto a much more fun topic...

Assets (What you own)

Assets can be anything you own that has monetary value. This could be a car, a home, a checking account, a savings account, CD's, IRA's, 401(k)'s, antiques, household items... anything that has a sellable value. It should also include cash (what is in your emergency fund as well as what you have on hand. All of these things are assets.

While we're on the subject of cash, let's spend a moment talking about what you should have in your wallet. It's recommended that you never carry more than $100 to $200 and two credit cards around in your wallet on a daily basis. It can make us feel important and impressive to be able to pull out a huge stack of bills, but the likelihood of losing your wallet (or having it stolen) is a lot higher than we usually like to think. You'll want to have some cash and a credit card at home to tide us over until we're able to replace everything. Also, don't carry receipts around, because there is a lot of identifying information on there. Don't carry gift cards unless you are using them, because they are just like cash and can't be replaced if lost. Most importantly, don't carry your Social Security number around. Something you *should* carry in your wallet: a cute picture. Crazy but true: studies have shown that if you include a baby or puppy photo in your wallet, you have a much higher chance of having it returned if someone finds it.

Once you have your assets written down, take some time to estimate the actual value of each item. With cash, that should be easy. It's simply dollar for dollar. Other items might take more thought. When you estimate the value of an asset, it's important to record it using a fair market value and not what you paid for it, or what you think it will be worth in a year. It definitely shouldn't be based on what you *feel like* it's worth. The fair market value can be more, or less, than the price you paid for a given asset depending on what others are willing to pay for that asset, right now. Remember, these should be current values.

Net Worth (A measure of wealth)

What we've been building up to here is figuring out what our net worth is. Now that you know what you have and what you owe, we can determine what our actual net worth is. Your net worth represents the level of wealth you have accumulated. To calculate this, you simply subtract your debts from the value of your assets.

ASSETS - LIABILITIES = NET WORTH

If your debts are greater than the value of your assets, then your net worth has a negative value, and that means insolvency. Insolvency simply means that you are unable to pay what you owe, and it results from consuming more than you are able to financially (living outside your means) and can sometimes lead to bankruptcy.

Let's look at an example of a Net Worth Statement for someone who has been living on the outside for a while - Jacob, who was released five years ago:

In our example, Jacob is doing fairly well. He's made some good decisions in investing his money. He may be upside-down on his car loan, but he has some good equity building in a nice house. Importantly, he is investing in a retirement account for his future. Jacob's Net Worth, after years of hard work is $21,132.

Is that good? What is a "good" level of net worth? That depends upon your goals and your place in the financial situation. You would expect a 45-year old to have a considerably higher net worth than a 25-year old, however, the answer does not necessarily rest on who has the larger net worth, but on who has done a better job of achieving their financial goals.

You can find a blank Net Worth Statement in the appendix of this book to use on your own. The most important thing to take away from this chapter is to have the knowledge you need to make wise decisions, and then use that knowledge.

Net Worth Statement

Item/Description	**Value**	-	**Debt**	=	**Equity**
Real Estate	$125,000		$105,603		$19,397
Car	$7,600		$8,134		-534
Cash on Hand	$600				600
Checking Account #1	$1				1
Savings Account	$5,800				5,800
Money Market Account	$983				983
Mutual Fund	$0				0
IRA	$0				0
ROTH IRA	$8,700				8,700
401k	$0				0
Insurance Cash Value	$0				0
Household Items	$900				900
Jewelry	$1,000				1,000
Personal Loan	$0				0
Credit Card Debt	$0		$3,329.00		-3,329
Student Loan	$0		$4,386.00		-4,386
Medical Bills	$0		$8,000		-8,000
Total	$150,584	-	$129,452	=	$21,132

Your Net Worth should reflect your goals. Jacob may have goals for retirement, in which case he has a good start. He also, apparently, has some good knowledge of banking tools. How can we get to that point? We talked about some of the tricks of the grocery trade. Now, let's look at some of the tricks of the Banking world...

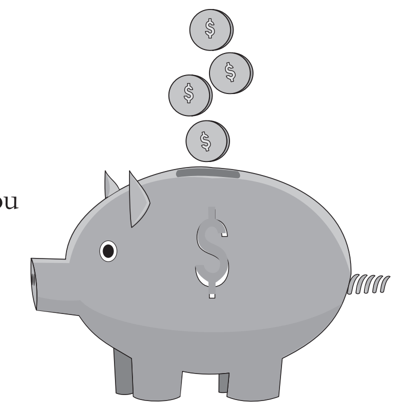
REEFS

Chapter 2 - Banking

Now that you have the foundational block of budgeting in place, and have learned to measure your net worth and be a smart consumer, it's time to place the next foundational block; saving. When you think about saving, banks and other financial institutions come to mind. Saving is the part of income that you choose to set aside for purchases you wish to make in the future. Why should you save? Where should you save? How do you save? These are questions that will be answered in this chapter. We will examine the concept of interest and compound interest (for example, have you ever heard of the Rule of 72?).

We will also look at how safe it is to save in different ways. The goal is to keep your money safe, grow it, and still have access to it. Having a stash of cash under the T-shirts in the back of your top drawer or under your mattress is one approach, but banking offers a way to manage your day-to-day finances, provide safety, and increase your wealth.

Saving Money



New clothes, music, a car – these are all things we want and maybe even need, but if we spend without a plan, then all our money can disappear before we even realize it. Every time you spend money, you're deciding not to save it. What you spend today determines how much you have tomorrow.

We save money now so that we can spend it at a later time. We do this for three main purposes:

- To prepare for emergencies
- To purchase more expensive items that we cannot immediately afford (vacation, car, house, college)
- To provide money for retirement

The more we save now, the more we will be able to spend later. The **KPC**'s are just as important in saving as in budgeting. The saying to keep in mind is: "**Big Shot, No Shot**." What we think of as being a "big shot" is really no shot at all. We see flashy clothes and cars, and we think that is the definition of success; but why is it that so many famous football players and entertainers go broke? Just like when we talked about Net Worth, it isn't what you can see that necessarily makes you a success. What is success? How do we define it? Should we think about that and maybe redefine what we think it means to be a success?

We live in a society that prizes instant gratification above all other things. We want it, and we want it now. Remember those nibblers we talked about? How many people don't even operate with a budget? It's a lot more than you might think. So, we walk down a path that leads us to a financial trap, constantly living from hand-to-mouth. It's the impulse to spend so we can have what we want NOW that leads us to have gold teeth but no gas money, a pair of Red Monkey jeans and not be able to afford the rent, or a nice gold Rolex but have nothing to eat. The problem with celebrities who go broke (and with us when we follow their example) is that they don't control their finances, and so they lose power over them. That should seem strange because, with all that money, shouldn't celebrities be able to hire accountants to handle their finances? Yes, and they do. But, without a spending plan and a savings plan it really doesn't matter if you have a whole team of accountants. The one who has to exercise those **KPC**'s over your money is you.

We already talked about a spending plan in the last chapter. If you noticed, in each of our budget examples savings was a large percentage of our income. So, let's look at how to handle those savings.

Savings Accounts

What we need to do is fundamentally change how we think about money. Most people pay all their bills and expenses; and then save if anything is left over. If you do that, guaranteed you won't save much. What we're suggesting is that you consider your savings account as a very important bill. Just like with your rent or utilities or credit cards, you must pay it each month, on time and in full. Even if the amount seems small, say $10 to $20, you are building the discipline of saving. Pay *yourself* first!

As your savings account balance grows, it should give you a feeling of security, knowing that you have that money to fall back on in case of emergencies. Remember though, that saving is not investing. You put money in a savings account to meet those emergencies, save for a short-term need, something you intend to purchase in less than one year like a down payment on a car, or for something like a birthday present.

You invest to achieve middle to long-term goals (for continuing your education or putting money aside for retirement or a vacation, for example). The difference is time, and the risk tolerance that time gives you. To learn more about investing please take the Personal Investment Management class as it will go into this topic in much greater detail. Whatever your goals are, saving and investing both require a commitment to the future.

Is it safe?

The only way to be 100% certain that your money is absolutely safe is to stuff it in a sock and hide it in a safe in your closet, right? Is it? What if you get burglarized? They're carting off ATM's now, it's far from impossible for a burglar with a hand truck to walk off with even the largest safe. What about if there's a fire? How "fire-proof" is that fire-proof safe? They are only rated up to a certain temperature, and even if the safe itself withstands the fire, money has been known to burn even inside the safe. What about a storm or a flood? Fire-proof safes are not also water-proof.

The biggest danger to your money in keeping it in a safe is inflation. It's a term we hear all the time, but what exactly is "inflation?" Is it "higher prices?" That's probably the answer that the government wants you to believe because it takes the responsibility off of them. Picture inflation like this:

Theresa was a little girl living in Orlando, Florida. The year was 1948, and Orlando was a sleepy little town in the middle of a sleepy little state. The war was over, and the economy was doing great, but it still got very hot in the summertime in Orlando, and most of the people who couldn't afford summer homes up north spent the hottest months sitting on their porches in the shade.

Theresa liked to spend those summer months saving up to go to the movies. She could get into the double feature for a dime, and that included the cartoons! Her favorite radio shows were Abbot and Costello and Little Orphan Annie. Her dad made decent money as a real estate developer, but she didn't see him at home very much. She helped her mom with the washing and other chores around the house and received an allowance of five cents a month for it!

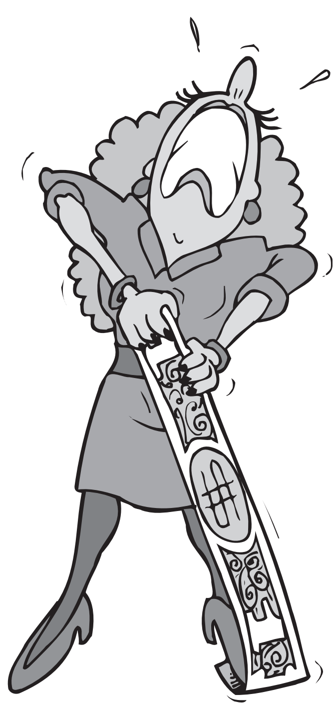
That September, Theresa decided that she wanted to save up for a movie and a candy bar as a special treat during the Christmas holidays. She already had the five cents for that month, so she took it and buried it in an old cookie tin in a special spot in the backyard to keep her from spending it before December rolled around. Theresa promptly forgot about the nickel.

2016. Theresa is now seventy-six years old, but still in great health. She's still living in Orlando, but it's now a bustling metropolis. It barely even resembles that sleepy town of her youth. With the arrival of air conditioning and Walt Disney, her sleepy little state turned into a tourist destination for the entire world. Most of the time that makes her smile. Sometimes, though, she longs for simpler times. Hardly anyone nowadays even remembers who Bob Hope was, and a movie today costs 16,000% more than it did back in the day. More, really. It's $16 for a ticket with the tax, and that only includes one *movie and NO cartoons.*

When she hears that the house she grew up in is being torn down to make way for a new shopping center, she asks the developer if she can visit the property before they begin. The developer, who happens to be the grandson of her father's lead contractor, agrees, as she's an old family friend. As Theresa wanders around the backyard, she notices an old rusty cookie tin sticking up out of the ground near a tree.

Suddenly, she's transported 68 years back in time to that late September when she started saving for a Christmas treat. With a smile, she digs up the tin and opens it to see her nickel, still safely nestled inside. On a whim, she decides to treat herself to that candy bar that she wanted so very long ago. At the store, she hands over the five cents for a Hershey's bar, plus another $1.95.

Why did the price go up so much? Inflation is not the change from a five-cent candy bar to a $2.00 candy bar. Inflation is all the extra money that's now floating around compared to what there was back in 1948. A lot of new money has been minted in the past 68 years to account for changing prices as well as a rapidly increasing population. Think about it, if the population increases by 12 million people, but there's still the same amount of money, there won't be enough to go around. So… we print more! Unfortunately, that means that the value of that money goes down. And, that's inflation.



What does this have to do with keeping my money safe? Just like with Theresa, if you keep your money in a safe in the closet, it loses value over time. Now, you might not be keeping it there for 68 years, but even if you only keep it there for a year or two, it's no longer worth quite as much as when you put it in the safe. Try as you might, that dollar just won't stretch as far as it did when you stored it.

So, what IS the only 100% certain way to keep your money safe from things like fire, theft, flood, or inflation? Put it in the bank, right? Banks, Credit Unions, and other financial institutions are insured by government agencies, after all, like the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA). What those agencies say is that the U.S. government will replace your money (up to $250,000) in case the bank or credit union is robbed, flooded, or burned to the ground. Perfect, right?

Actually, there is no 100% certain way to keep your money safe. The FDIC and NCUA are backed by the full faith of the United States government, which is a pretty strong safeguard, but what happens if the economy suffers a downturn? What happens if the economy crashes? The riskier your financial portfolio is, the more susceptible it is to economic fluctuation. Sounds fancy, but what it means is that stocks are going to be the biggest risk if something happens like a stock market crash. Savings are going to be among the most stable places to have your money, but if the crash is bad enough it could cause the FDIC to lower its guaranteed limit. If they decide they can only guarantee bank funds up to $100,000 and you have $175,000 in there, guess what happens.

So, as with most things in life there aren't any absolute guarantees. That said… a bank or credit union is still a much safer bet than storing the money yourself. It also provides you with a cushion against inflation, something that you can't do by keeping your money under the mattress. That cushion is called *interest*.

Interest is one of the best reasons to consider using a financial institution. The reason is because of what banks (or credit unions) do. Banks are businesses. They exist, like every business, to make money – lots of money. They do that in a number of ways. One is by charging fees to their customers. The other is by taking money that is given to them for safekeeping and using that to invest for a profit. All that money that the bank loans you to buy a car or a house with has to come from somewhere, and that's where all those savings accounts come into play.

According to the Council for Economic Education, Standards for Financial Literacy, "an interest rate is the price a financial institution pays for using a saver's money and is normally expressed as an annual percentage of the amount saved." In other words, interest is the amount of money a bank pays to a customer annually in exchange for the right to use the money that the customer deposits in the bank. It also works the other way – interest is also the amount of money a bank charges you when *you* borrow money from *them* in the form of a loan. Interest rates paid on savings accounts are always lower than interest rates charged on loans. Remember, banks are in business to make a profit. Therefore, if the average interest rate on a home loan is 6.5%, a bank may pay 1% or less on a savings account (a good rate as of 2016 is somewhere around 0.6%). Before you choose a bank, check the interest rates they pay on your money and fees that they may charge. As with everything, comparison shop.

All interest is not the same

Suppose you invest $10,000 into a savings account that pays 0.6% interest. At the end of the year, you will increase your bank account by $60 ($10,000.00 x .006 = $60). Now, you have $10,060 in your account. In the second year, the bank will now pay interest on $10,060 ($10,060.00 x .006 = $60.36). Now, you have $10,120.36 in your account. This is called Compound Interest, and it works faster because it pays interest on the interest from the previous year.

Building up Interest		
Deposit $10,000 at 0.6% APY		
	Interest earned	**Total Amount**
1 year	$60	$10,060.00
2 years	$60.36	$10,120.36
5 years	$303.62	$10,303.62
10 years	$616.46	$10,616.46
20 years	$1,270.93	$11,270.93
30 years	$1,965.74	$11,965.74

Simple interest also exists, but it is increasingly rare in today's market. In simple interest, you only receive interest on the principal that you deposited. So, you would only be receiving interest on the initial $10,000 in our example every year ($60 per year). This is so uncommon in today's market that it's barely worth mentioning. But, you do need to pay attention. If you find a bank offering a savings account with simple interest, find another bank.

What you should pay more attention to is the Frequency of Compounding. The more frequent the compounding, the better. Daily is better than weekly, weekly is better than monthly, monthly is better than quarterly, and quarterly is better than annually… and so on. Most savings accounts will offer annual compounding, but if you can find one with quarterly compounding grab it. Put simply, savings accounts with compound interest equals more money for you.

The Rule of 72

This is a rule for quickly figuring out the growth of your savings or investments using compound interest. Seventy-two divided by the interest rate will tell you how many years it will take for your money to double. So, in our example of 0.6% interest, you would divide 72/0.6 and it would take 120 years to double your money.

Now, that seems like a long time, and it is. With the same interest rate, Theresa's nickel would not even have turned into a dime in the same time it was buried in the ground. Remember, though, that savings accounts are not true investments. They are tools to help you achieve short-term goals (birthday presents, emergencies, etc…). It's your safety net. But, why not get paid for storing it? Even if your goals will be reached in five years, you just earned $303.62 in our example. That's in exchange for doing nothing more than keeping your money in the bank.

Real investment involves much more risk but a much higher rate of return. As a quick example: One of the most popular industries in stocks is the tech industry (streaming data, in particular), and one of the most popular companies in recent years is a little outfit called Netflix. In February of 2015, the stock price of Netflix was around $151; by October of 2015, it was at $763. That's an increase of $612 or 405.3%. If we invested $604 in 4 Netflix stocks in February, by October our investment would be worth $3,052.01. What if we invested $10,000 in Netflix (the same amount that we were putting into our savings account)? In those six months, our investment would be worth $50,530. In other words, using the rule of 72, our money doubled about every two months or so.

But, remember the **K.P.C**.'S here, meaning 'understand risk management.' To put it in gambling terms, "you've got to know when to hold 'em, know when to fold 'em, know when to walk away, and know when to run." To do this you need the **Knowledge** (research the history of the stock), **Power** (have the ability to buy the stock), and **Control** (have the willpower to wait before pulling your money out too soon). Make no mistake; the risks of the stock market are very real. If we had invested in Radio Shack back in 2012, we would have paid $11.10 per share. That would have given us 900 shares for our $10,000. Two years later, Radio Shack had dropped to 80 cents per share. That's a 93% drop. Our $10,000 investment would now only be worth $720. Again, Personal Investment Management will go into much greater detail about how to do all the research, what it means, and what the risks are. It's definitely worth it for longer term investments. However, it takes a lot of time and effort, but the rate of return with stock investments is a LOT higher than what you can get with a savings account.

Is there anything in between high risk investments like stocks and playing it completely safe by using a savings account? Absolutely. One example is a Certificate of Deposit (or CD). You can purchase a 60-month CD paying around 1.75% per year at a fixed rate. So, for the same 5 year period, if you invested your $10,000 in a CD it would be worth $10,906.17. That's an extra $602.55.

The big difference in interest rates is time. Banks are willing to pay you more if they are allowed to use your money for a longer period of time (and thus make more money for themselves). The longer the investment period, the better your interest rate will be. Time also works for you in gaining that interest. In other words, start as early as you can for the best return. We'll go into more detail in long-term savings for things like retirement in a later chapter.

Types of Savings Accounts

Regular Savings Accounts

The most traditional way to save money in a bank is with a basic savings account. Even here, banks will offer different types of accounts. Things to look out for are those minimum opening deposits and minimum balances and any monthly service fees. This type of account:

- Pays monthly interest
- May require a minimum deposit
- May have limits on withdrawals
- Pays very low interest rates

Certificate of Deposit (CD):

Basically, a CD is a contract between you and the bank. It's like the mortgage loan they give you to buy a house only in reverse. In this case, you are agreeing to loan money to the bank and giving them a fixed period of time (2 years, 5 years, 10 years, etc…) to pay it back. If you demand the money back early, it costs you money.

- Money must remain in the account for a term or fixed period of time
- The more money you deposit and the longer you keep it in the account, the more interest you earn
- You pay a penalty if you withdraw the money before the term is over

Money Market Accounts:

These types of accounts are a kind of hybrid between a checking account and a savings account. They require higher balances and higher fees, but the bank makes up for it by offering a higher interest rate.

- Savings accounts that let you write a limited amount of checks
- Limits on withdrawals
- Higher interest rates than a regular savings account

As an example, here is a chart showing the savings accounts offered by Wells Fargo as of December of 2016:

	Way2Save Savings Account	Opportunity Savings Account	Platinum Savings Account	Time Accounts (CD's)	Way2Save Retirement Account
You prefer:	Designed to make saving on a regular basis easy. Offers three automatic transfer options; combine options to save even more.	An affordable basic savings account for customers not meeting regular Wells Fargo account opening standards	Variable-rate savings account offering premium interest rates, available exclusively to Wells Fargo checking customers	A guaranteed fixed interest rate with tiered rates and a choice of terms.	Makes it easy to take the first step toward saving for retirement. Conveniently grow your retirement savings with automatic transfers from your Wells Fargo deposit account.
Minimum opening deposit:	$25	$25	$25	$2,500 ($1,000 for IRA)	$100
Monthly service fee:	$5	$5	$10	None	None
Avoid the monthly service fee:	When you have one of the following each fee period: •Minimum daily balance of $300, or •Choose one automatic savings option –Save As You Go transfer –Daily automatic transfer of $1 or more from your checking account –Monthly automatic transfer of $25 or more from your checking account –Primary account owner is under the age of 18	When you have one of the following each fee period: •Minimum daily balance of $300, or •Monthly automatic transfer of $25 or more from your Opportunity Checking account	When you have a minimum daily balance of $3,500	Not Applicable	Not Applicable
Source of overdraft protection	✓	✓	✓		
Limited Check writing			✓		

Money Saver! A savings account is a good place to put money you might use within one year. A CD is a good place to put money you might use in 1-3 years. Money you can put away for longer than 3 years should be considered for investing.

Checking Accounts

Most people open a checking account simply for the purpose of paying bills, and yes there are other options for that in the age of Smartphones. There are virtual payments, peer-to-peer payments; digital transfers… entire virtual banks even exist. But, the traditional checking account is still the most common way for people to pay bills. Modern checking accounts combine the convenience of online banking and real-world transactions in new and exciting ways. We'll discuss online banking in more detail later. For now, we are going to learn to use a checking account as a tool to help budget and efficiently handle your money management.

There are a number of vital reasons for you to have a checking account. You use one as a place to put your income and from which to pay your bills. If a savings account is safer than storing your money in a safe at home, then a checking account is even safer because checks let you carry around money without carrying around cash. If a check is lost or stolen you can call the bank and place a stop payment on the check. By comparison, if your cash is stolen there's not much you can do. A checking account helps you keep records of how you use your money by tracking each individual transaction. Finally, a checking account is an inexpensive way to pay bills. Yes, you can also use a check cashing store and pay your bills using cash or money orders, but that is a very expensive alternative and does not help you build wealth. We'll talk more on those alternatives later.

The only problem with having a checking account is the cost: monthly account fees, check ordering fees, and insufficient fund fees. Fees are a large part of how a bank makes their money. They may seem small on their own, but they add up. Banks will generally try to inundate you with multiple offers and small print to lure you into signing up for the most expensive accounts, but remember the **KPC**'s again. Problems with fees are easy to resolve with a little common sense and Knowledge. Most banks will waive the monthly fee, and check ordering fee, if you use direct deposit. Most employers even receive an incentive from the bank for setting up automatic payroll deposit, so everybody wins. Nearly all employers offer direct deposit today, and some will *only* pay you with direct deposit. Use it and the first two fees are off the table – that was easy. The last fee, insufficient funds (bounced checks) are a little bit harder to solve, but that's why budgeting is a foundational block. If you are living within your means, then your checking account becomes a useful financial tool. If you are living beyond your means, then a checking account is going to get expensive. If your decision at this point in your life is to live within your means, and to build wealth, then you must use a checking account.

One of the keys here is to use both a savings and checking account and hold them both at the same bank or credit union. This allows you to keep the balance of your money in a savings account where it will earn interest (most Checking Accounts do not). You keep only enough money to pay your monthly bills and expenses in your checking account so your savings account can keep building as much interest as possible.

Checking accounts come in different varieties and the one you choose should fit your needs. If you are going to write a lot of checks each month, say fifteen plus, you are going to need to keep a larger balance of money in your account. A free checking account would be a good choice. As long as you keep a minimum balance in your account there are usually no monthly fees. Monthly fees may kick in (ranging from $5 to $30) if your balance drops below the minimum amount. If you are not going to write many checks each month you probably don't need to keep a large balance. For you, the best choice may be a budget checking account. Budget checking accounts charge a small monthly fee, and you pay a small fee for each check you write (usually around 25 cents). In all cases, the bank will automatically take your monthly fees from the balance in your account.

Using our Wells Fargo example, these are the different types of Checking accounts they offer as of December of 2016:

	PMA Package	Preferred Checking	Everyday Checking	Opportunity Checking	Teen Checking
You prefer:	Premier checking package that offers meaningful benefits, competitive rates, and discounts	An account designed for customers with higher balances or a Wells Fargo Mortgage	An account to meet your everyday financial needs	Specially deseigned for customers who have been unable to open a checking account due to their prior credit or banking history	Smart way to help teens learn real-world money management skills
Monthly Service fee:	$30	$15	$10	$10	$3
Minimum opening deposit:	$25	$25	$25	$25	$25
Avoid the monthly service fee:	When you have one of the following PMA statement ending balances: •$25,000 or more in qualifying linked FDIC-Insured accounts, or •$50,000 or more in qualifying linked bank, brokerage, and credit balances (including 10% of mortgage balances, certain mortgages not eligible).	When you have one of the following each fee period: •$10,000 or more in combined minimum daily deposit balances, or •Qualifying direct deposits totaling $1,000 or more, or •A linked Wells Fargo Home Mortgage	When you have one of the following each fee period: •$1,500 minimum daily balance, or •Qualifying direct deposits totaling $500 or more, or •10 posted debit card purchases/payments from this checking account, or •Linked to a Wells Fargo Campus ATM or Campus Debit Card	When you have one of the following each fee period: •$1,500 minimum daily balance, or •Qualifying direct deposits totaling $500 or more, or •10 posted debit card purchases/payments from this checking account	When you have online-only statement delivery
Monthly service fee discounts available:			$5 monthly service fee discount when the primary account holder is 17-24 years old		
Free access to Online Banking with Bill Pay	✓	✓	✓	✓	✓
Interest-earning checking account	✓	✓			
Free or discounted checks	✓	✓			
Bonus interest rate on select savings accounts	✓				
Brokerage benefits	✓				
Waived Wells Fargo ATM access fees at non-Wells Fargo ATM's	•Limit 2 per fee period (combined U.S. and International), or •Unlimited (U.S. and International) if you have $25,000 or more in qualifying PMA relationship balances	•Limit 1 per fee period (U.S. only)			

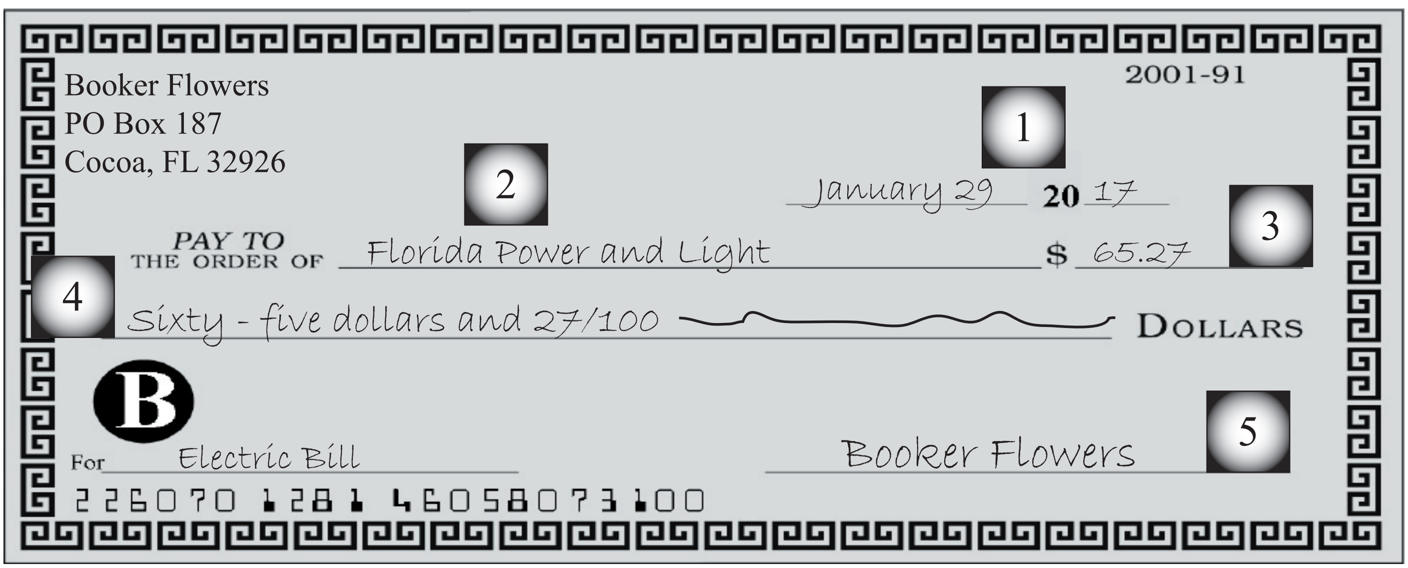
To open a checking account you will need to complete a few forms and provide the bank with two kinds of valid identification, at least one of the identifications will need to have your photo (driver's license, state ID card, passport, etc…). Virtual banks and some brick-and-mortar banks will also allow you to open a bank account online. It's faster and certainly more convenient. They will ask security questions to verify your identification and have you fill out the necessary forms digitally. The bank will also require a record of your signature so you will be asked to sign a signature card. Signature cards are used to make sure that your paper checks are actually signed by you. Therefore, it's important that you decide in advance if your name will be the only one on the checking account. If you are married, you may want a joint checking account. A joint account allows both owners of the account to write checks and sign their respective names.

When you first open your checking account the bank will give you a set of temporary checks and deposit slips (or send them to you). Within a week to ten days you will also receive a new box of checks and deposit slips printed in your name that will contain your account number and address. Depending on the type of checking account you choose, the checks may be an extra cost.

Do physical checks still exist in the age of online banking? Check-writing may be dying, but it isn't dead yet. In the age of payment apps and chip cards it's becoming less common, and writing checks is gradually becoming passé. It's slow (about 67 seconds for a check versus 20 seconds for a debit card transaction), and it requires more work. In some circles, pulling out a checkbook at the coffee shop counter is viewed as kindly as the little old lady in front of you pulling out a pile of expired coupons and her change purse when you're in a hurry. Many Millenials don't even know how to write a check or realize that you can use them in stores. But, people do still use checks. A lot of people. In 2015, Americans wrote 17.3 billion checks (according to a survey by the Federal Reserve). That's about 52 checks for every American. That's 24.6 billion less than in 2000, but you may still need to write the occasional paper check.

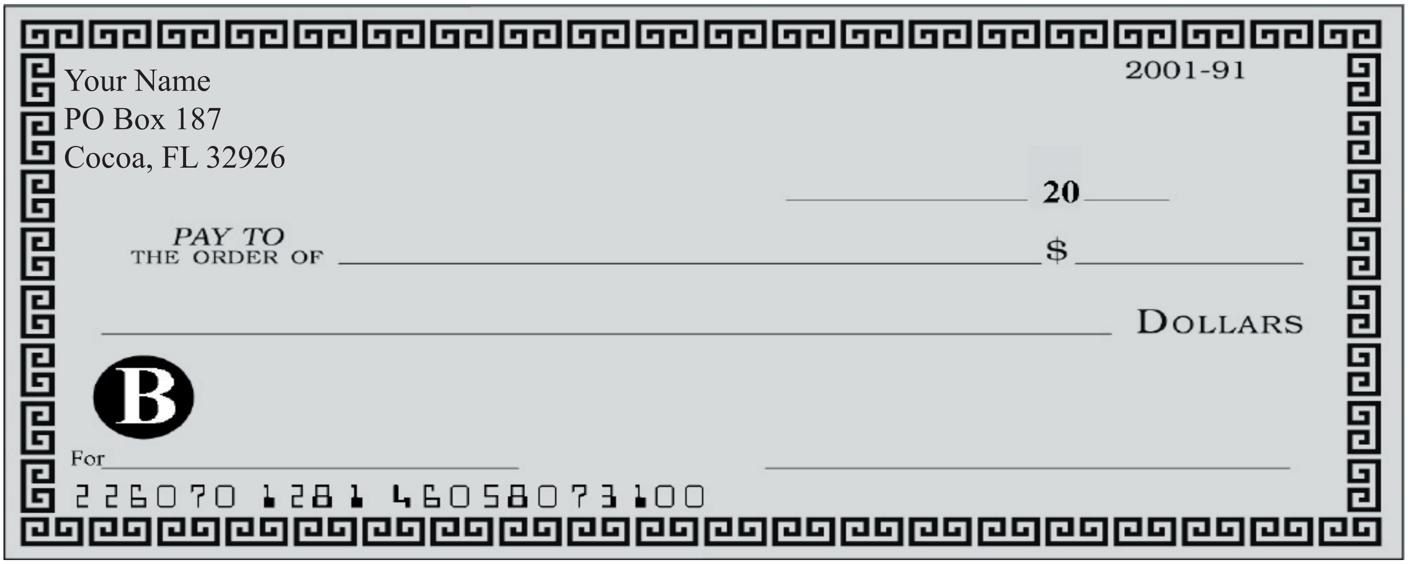
Writing a Check

Let's take a closer look at how you actually write a check. In our example, Booker writes a check to Florida Power and Light to pay his monthly electric bill of $65.27.



1. The date can be written in numbers or words: January 29, 2017 or 1/29/17
2. 'Pay to the order of' is written in as Florida Power and Light (Do not abbreviate)
3. The amount of money is first written numerically: $65.27. Use a decimal point to separate dollars and cents.
4. On the next line, use words to write the same amount of money. Start writing the amount at the beginning of the line. Write the dollar amount in words. Then write "and". Write the cents as a fraction of a dollar, such as 27/100. Draw a wavy line across the empty space on this line. You draw the wavy line so that no one can change the amount on the check. Here's an interesting note: if the dollar amount you have written in numerical form is different than the dollar amount you have written in words, the written dollar amount in words is the one that will be honored by the bank.
5. Sign your name as it is on your signature card.

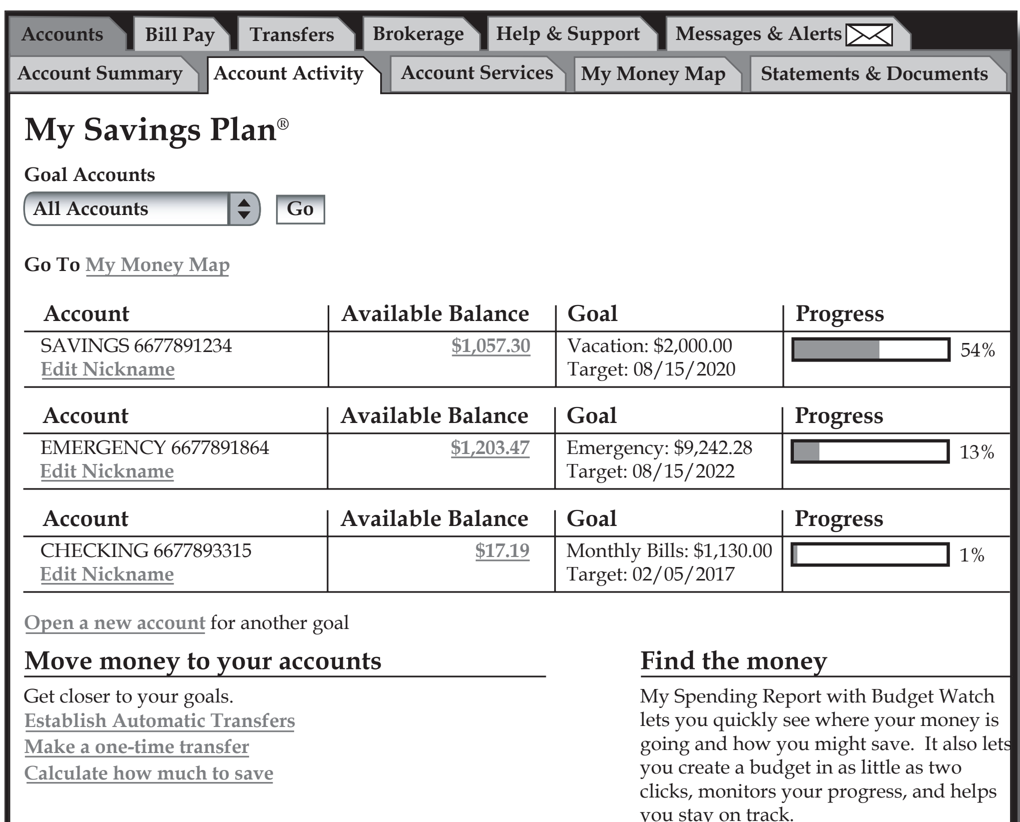
Try an example on your own. Fill out the following check using this information: You are writing a check to Capital One on March 29, 2017 in the amount of $48.92.



Online Banking

Often grouped with Mobile Banking, online banking offers a lot more convenience for the consumer. It also limits costs for the bank, so many of them will waive fees or offer lower balance requirements if you choose to receive online statements and use only a limited number of physical checks. Many banks will also offer debit cards linked to your Checking Account so that you don't have to issue as many checks (virtual or physical). Be careful with these cards. A debit card is fine, but you should never use a Debit card as a Credit card. It can cost you a LOT of money. Credit and Debt Management class goes into this in much more detail, but for our purposes, simply be wary.

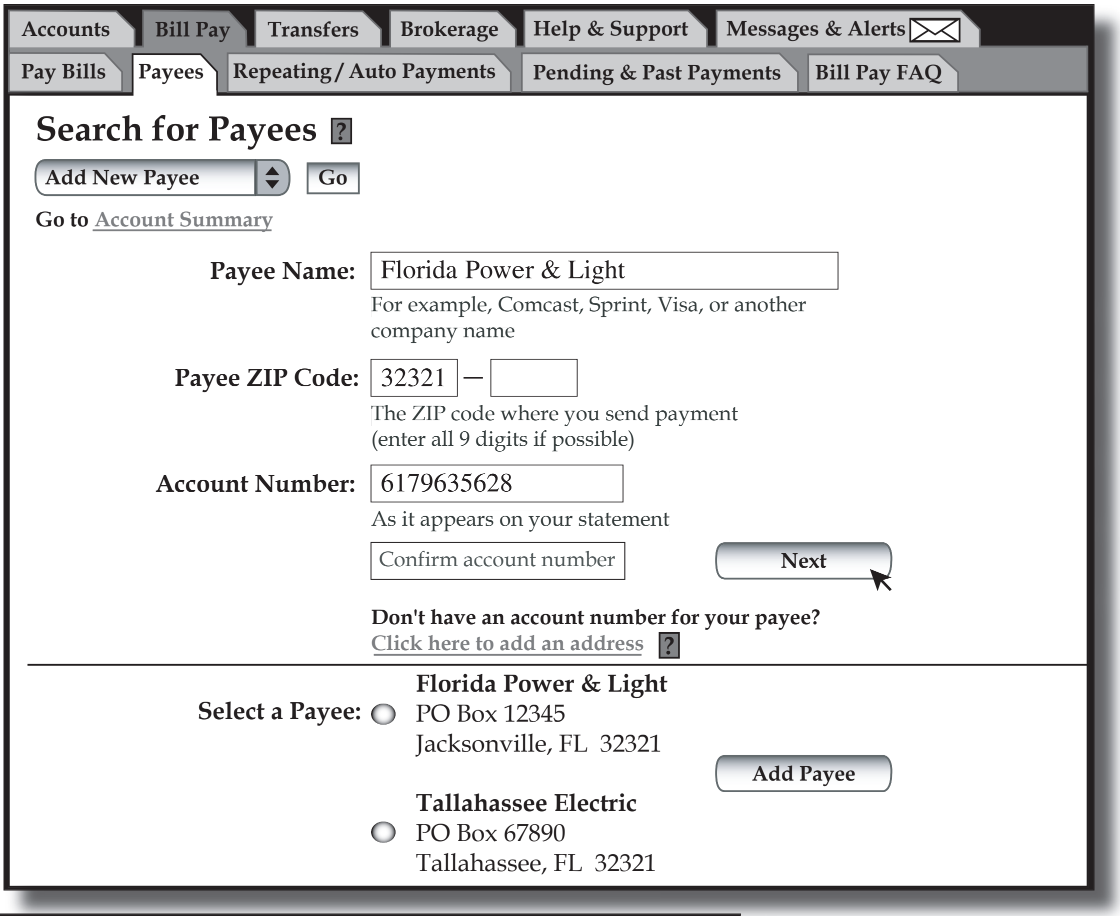
Online accounts look much like the following(keep in mind that there will be differences between institutions):

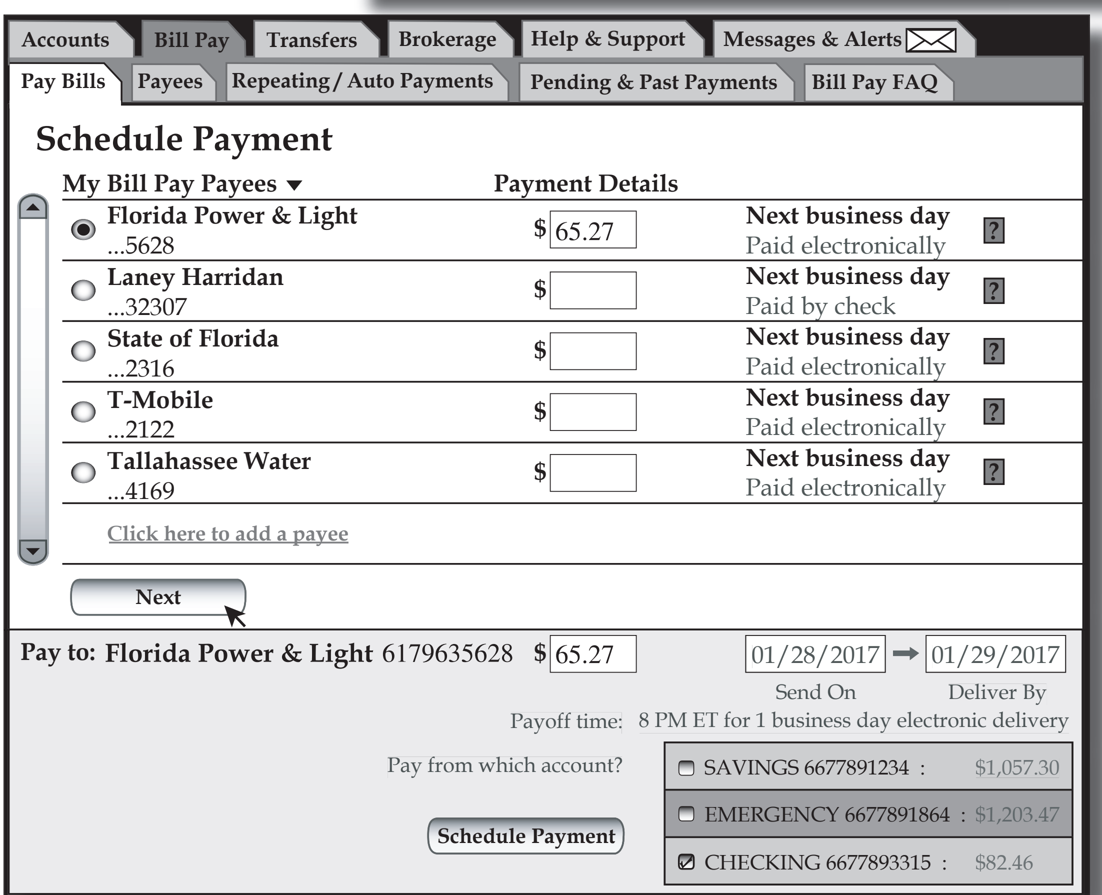


There are tabs for an account summary, automatic bill pay, money transfers, messages and alerts from the bank, and so on.

Issuing an online payment functions a little differently from writing a paper check. There are a few more steps, but it's faster and easier even with those steps because you can set up a payment one time and make those payments automatic that you need to send out regularly. Let's look at how this works with online banking:

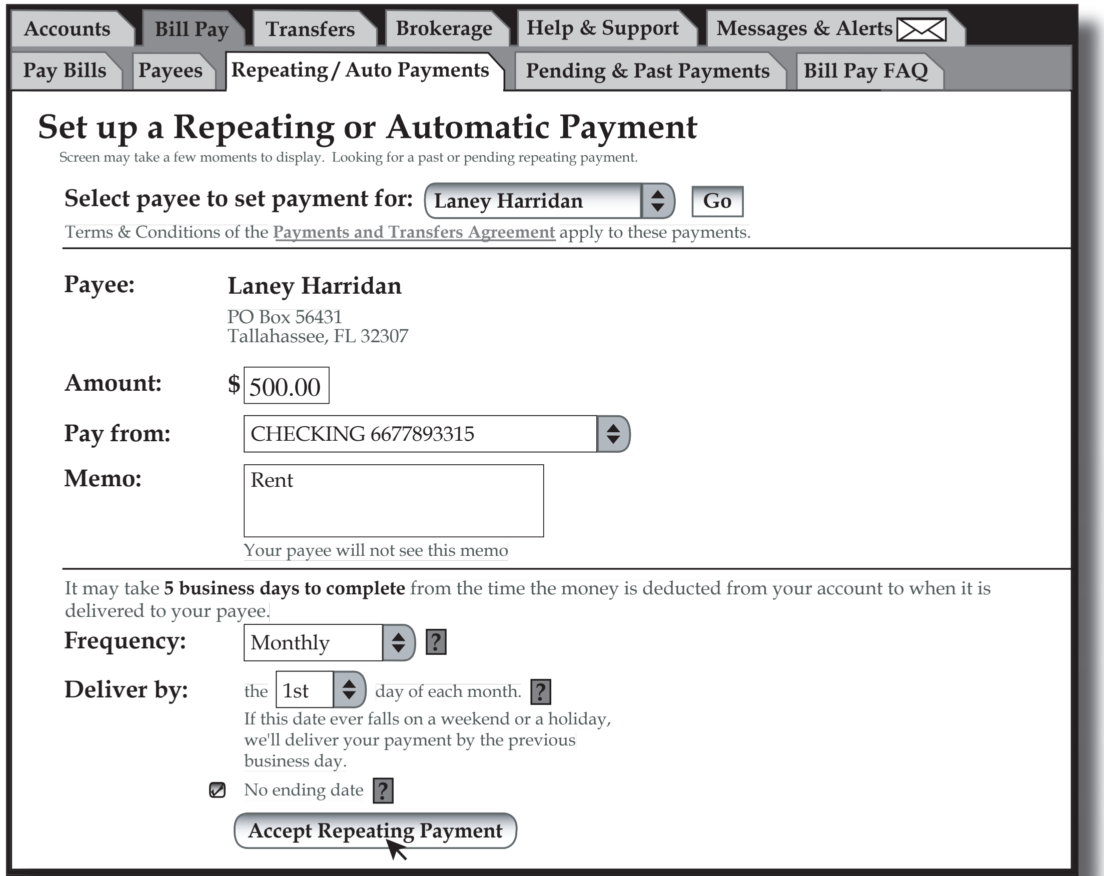
Step One: set up a payee in your account. The bank will keep track of everyone you pay out money to (which you can review on your online statement). With the Company (or individual's) name, the zip code, and the account number, the bank can use its own database to search for that company's address, bank, and account. Even if you don't have the account number (say if you are paying an individual) or the bank isn't able to find the company you're trying to pay, you will be prompted to enter an address for the payee. The bank will then print a physical check to send to that company or individual.





Step Two: schedule a payment. Now that you have the payee saved in your account, you can set the amount you want to pay and when you want to pay it. If you have more than one account with the bank, they will ask you which account you want to pay out from. Sending the payment is as easy as clicking a button at this point. Any time you want to make another payment, you can return straight to this screen, enter a new amount, and send off a new payment.

Step Three: With repeating payments, online banking gets even easier. If you have a bill that requires you to pay a specific amount of money every month (or week or year, etc…) such as rent or a mortgage, you can set that up to happen automatically. Here, you select who you want to pay, how much you want to pay, how often you want to pay it, and what day of the month it needs to be paid on. The memo is for you so that you can see on your statement what each payment is for. Selecting "no ending date" will keep the payment active until you choose to stop it.



With this process, you never have to write a check, in this case to your landlord, again. I also don't have to worry about forgetting one month and having the landlord come knocking on my door. It is still very important to keep on top of your balance. It's very easy to run into trouble if you don't bother to check on your account. Using online banking doesn't save you from fees or from bouncing a payment; it just makes the payments themselves much more convenient.

Notice that, even though the process is different, the information we needed to enter is still the same as when we wrote out a check.

- The amount of the transaction
- The date of the transaction
- The name of the payee
- The purpose of the payment

The only thing we really aren't doing is writing everything out long-hand. This sort of banking also allows you to see all your account balances (if you have a savings, checking, and loan from the same bank) all on one screen at one time. Some banks, like in our example, also allow you to set a financial goal for different accounts and easily see how much progress you are making toward those goals.

Balancing Your Checking Account

Balancing your checking account on a frequent basis, monthly or even weekly, is part of the deal. Why? There are two main reasons to balance your account:

1. To avoid insufficient fund fees at the bank and at the businesses where you use checks.
2. To correct possible bank errors.

No one can afford to bounce a check. Most banks now charge in excess of $35 per bounced check and most stores now charge a fee when you bounce a check written to pay your bill. The cost of making a single mistake can cause financial strain. If you earn $10 per hour, you have to work almost four hours to recover the money wasted from bouncing just one check. It makes sense to balance your checking account within 48 hours of receiving your bank statement, or online, once per month to make sure there are no mistakes in your balance. How do you balance your checking account? You do that by keeping your checkbook register current, and recording all deposits and withdrawals from your account in a timely manner.

What Do You Need to Balance Your Checking Account?

Your bank will give you everything you need to balance your checking account. When you open a checking account the bank will give you three things: temporary checks, a register, and a vinyl checkbook cover to store the checks and register. To balance your account, you simply record, in the register, all of your deposits and withdrawals. Remember that withdrawals occur in many different ways:

- Writing a check that is cashed
- ATM withdrawals
- ATM fees (your bank and other banks)
- Traveler's checks, counter checks, and cashier's checks charged to your account
- Wire fees, coinage fees, service fees, etc…

Anything that causes your account balance to decrease is a withdrawal from your account. Most people don't bounce checks because they don't know how much money they put in the account. They bounce checks because they forget to subtract all those little fees. For example:

Tyrone's been working hard all week at Credit Bureau in Tampa, but the weekend is coming up. That means he'll be going to visit his wife Leesha at Lowell C.I. She really looks forward to his weekend visits, and he can't wait to see her again. He's got bills to pay by Monday. AT&T wants $98, there's the rent for $775, and he's pretty sure that he owes $80 on the electric, but there was still $1,060 in his checking account the last time he checked. But… the bills are all set up for automatic payment in his online account, so he doesn't really have to worry about it. He's got an account with Fells Wargo Bank, and they're always good. Besides, he's got other things on his mind. To get ready, he puts $47 in the gas tank to make sure that he won't run out of gas, and he gets out his best clothes the night before.

The next morning, he sets out, a little sleepy but with a smile on his face, thinking of everything he'll have to talk about with his wife and about giving her a big hug. He gets halfway there before he realizes that he forgot to get some cash to bring with him so that they can buy some food at the visitation park. How could he have been so stupid? He pulls into a little convenience store where they have an ATM and withdraws $50 in cash. He uses his debit card to get some chips, a Gatorade, and a tin of Altoids so that his breath will smell nice and fresh when he sees Leesha. The bill comes to $10.

The visit with his wife goes great. It's always hard to see her in prison wearing that inmate's uniform. It tears him up inside to sit and talk with her and know that he can't take her home. But, they had a good time still. He got to hold her, and they had some good laughs talking about the past and things that had been happening at Credit Bureau. Tyrone's co-workers are always a source of good stories. At the end of the visit, Tyrone heads back to Tampa with a bittersweet smile on his face.

On Monday morning, the bank attempts to pay the bills he has set up for automatic payment. First, the electric bill payment goes out for $80. That keeps them happy and Tyrone's lights on. Next, AT&T gets their $98. That keeps Tyrone's new smartphone working. Tyrone goes off to work without a care in the world about his finances. In fact, he has to deal with a thousand other people's finances at his job. All those idiots sending him letters whining about their credit reports aggravate him to no end. Why can't they be like him and keep on top of things?

On Tuesday evening, he gets a knock on the door. His landlady, Mrs. Harridan, looks furious. She takes a deep breath and yells, "The rent was due on Monday! You can pay up or GET OUT!"

He assures her it must be some sort of mistake at the bank. He has the rent set up for automatic payment, after all. He pulls out his phone and quickly checks his account. He looks in utter confusion at his balance: $737.

"This can't be right," he says, his breath quickening in anger. How could the bank have screwed up his rent? Then, he notices an alert that was sent to his account yesterday. An insufficient fund fee of $35 had been charged to his account when his rent payment had been processed with a balance of only $772. That still wasn't right! He checks his account activity, and then he sees it. There was a charge from Dru's Convenience Mart for $10. Just before that an ATM withdrawal from MoneyPeople ATM at Dru's Convenience Mart for $50 along with a $2 charge from Fells Wargo for using an out-of-network ATM and a $1 charge from MoneyPeople for using their services. $3 in ATM charges had caused his rent payment to bounce!

Tyrone felt like throwing the phone against the wall. He yelled and flexed and stomped his feet on the ground. Mrs. Harridan didn't look impressed. She screamed right over him about the rent being due. He had to promise to get it taken care of within the next two days AND pay a late fee of $50 before she would even leave. He felt furious. A lousy $3 fee had just cost him $88 extra; and where was he going to come up with an extra $88 before payday?

Tyrone's situation is, unfortunately, not unusual. Believe it or not, he was actually lucky. Banks and businesses can attempt to redeem checks or online payments up to three times before it's declared a void transaction. That would have been a $35 NSF fee for every attempt for a total of $158 in extra charges ($35 + $35 + $35 + $50 late fee = $158). Add to that the $50 late fee charged by his landlord and suddenly Tyrone owes an extra $208 on top of his rent. It's very important to keep track of every fee that gets charged to your account.

With online banking that becomes a lot easier. If Tyrone had taken the time to check his account after his visit to Dru's Convenience Mart, he would have noticed the extra charge. He could have possibly postponed one of his other bills or made some sort of arrangement to keep from having to deal with his landlady. At the very least, it would have been easier to come up with an extra $3 than an extra $88. That's why it's vitally important to balance your checking account.

On paper, balancing your checking account starts by accurately recording each deposit, withdrawal, and fee in your check book register. First you write the check number and the date, and then you write a brief transaction description to serve as a reminder of why you wrote the check. Next, you record the amount of the check. The final step involves some basic math that you can do at the same time you are writing the check or you can wait until you have a calculator. The balance in your checking account changes with each check you write, deposit you make into your account, or fee you incur. Each time you make an entry into your register you add or subtract the transaction from your running balance. Here's an example of properly recorded transactions in a check book register where the starting balance in the account is $150.

Example Checkbook Register						
Check Number	Date	Fee	Transaction Description	Payment	Deposit	Balance **$150**
	1/3		Money X-fer		$710.19	$860.19
5672	1/5		Rent	$500		$360.19
5673	1/6		Probation payment	$80		$280.19
	1/8		ATM withdrawal	$25		$255.19
	1/8	x	ATM Fee	$3		$252.19
5674	1/15		Smartphone payment	$79.73		$172.46
5675	1/15		Water Bill	$15		$157.46
5676	1/15		Groceries	$125		$32.46
	1/25		Money X-fer		$50	$82.46
5677	1/29		Electric Bill	$65.27		$17.19

Again, online banking makes this all a lot easier. Below is an example of an Account Summary screen from an online account. It tracks all of your transactions and fees in real time which relieves you of having to write out everything by hand. Many people still do both a handwritten register and an online account summary because… what happens if the bank's website is unavailable for some reason when you need to know the balance of your account? Others maintain a printout of their records on a regular basis, but printer ink can get rather expensive to keep doing that. It is always advisable to keep a physical written backup of your information in case of emergencies (loss of power, disruption of cell service, etc…).

Accounts | Bill Pay | Transfers | Brokerage | Help & Support | Messages & Alerts

Account Summary | Account Activity | Account Services | My Money Map | Statements & Documents

Monthly Statement | Go

Choose Account: CHECKING 6677893315 Month: January 2017

Date	Reason	Paid to	Debit	Credit	Available Balance	Fee
Jan. 3, 2017	Transfer from EMERGENCY 6677891864	CHECKING 6677893315		$710.19	$860.19	☐
Jan. 5, 2017	Rent	Laney Harridan 8867942211	$500.00		$360.19	☐
Jan. 6, 2017	Probation	State of Florida 8795642316	$80.00		$280.19	☐
Jan. 8, 2017		MoneyPeople, CA #1277711331	$25.00		$255.19	☐
Jan. 8, 2017		MoneyPeople, CA #1277711331	$3.00		$252.19	☑
Jan. 15, 2017	Smartphone Plan	T-Mobile 8854932122	$79.73		$172.46	☐
Jan. 15, 2017	Water Bill	Tallahassee Water 6036434169	$15.00		$157.46	☐
Jan. 18, 2017		Publix 9215648276	$125.00		$32.46	☐
Jan. 25, 2017	Transfer from EMERGENCY 6677891864	CHECKING 6677893315		$50.00	$82.46	☐
Jan. 29, 2017	Electric Bill	Florida Power & Light 6179635628	$65.27		$17.19	☐

View Monthly Balances for the year | View Pending Payments | Click here to dispute a payment

Avoid Overdraft Fees - Sign up for Overdraft Protection today!

Sign up for free Account Alerts to receive free, timely alerts about transactions that are important to you, such as when a deposit posts or a check clears. Plus, you can monitor your accounts for suspicious activity!

You also need to balance your account when you receive your monthly bank statement. Most modern checking accounts will now provide you with both a statement in the mail and an online statement. Some banks offer accounts with lower fees if you use an online statement only (since it's cheaper for them to do it that way).

Here's the challenge with receiving mailed statements: The bank takes a snapshot of your checking account on a particular day of the month (say the 15th, for example). That snapshot includes all activity in your account from the 16th of the previous month to the 15th of this one. The bank processes their statement and mails it to your address and you receive it three to four days later around the 19th or so. The only way the information is useful is for you to reconcile it to the 19th. After all, the balance four days ago is not much use to you today. Think of it like receiving your inmate account statement here. We receive them on or around the 9th of the month, detailing the activity in your account for the previous month. It also is only partially useful as it tells you what your current balance was 9 days ago.

Where do you start with this? The solution is easy. You start by putting a check mark in your register for each of the checks and deposits included in your bank statement. Once that's done, it's easy to see which checks have already cleared your account for payment. Those checks that have not yet been cleared for payment remain outstanding and have to be subtracted from the balance as of the 15th on the bank statement.

The Reconciliation Sheet

The bank provides you with a reconciliation sheet on the back of your monthly bank statement. The reconciliation sheet is used to bring your bank statement forward to a current date, in our example, from the 15th to the 19th.

On the reconciliation sheet, list any withdrawals or fees that are in your checkbook register but not on your bank statement, and total the list.

Then list any deposits that are in your checkbook register, but are not included on your bank statement. Total the list again.

Balancing Your Checkbook				**Balance**
List the closing balance from your bank statement. In the example, the last check cashed before your statement was generated was check #5675.				**$157.46**
Publix	**5676**	1/15	$125.00	
Florida Power & Light	5677	1/29	$65.27	
		Total =	**$190.27**	**- $190.27**
List deposits to your account that are not on your statement: (Deposits in transit)				
Transfer from Savings Account	**Deposit**	**1/25**	**$50.00**	
		Total =	**$50.00**	**+$50.00**
Your new checking account balance as of the 29th:				**$17.19**

Beginning with the ending balance from your bank statement, subtract the total withdrawals and add the total deposits that were not on your statement.

Compare your reconciliation sheet with your checkbook balance. If they do not agree, you need to double check your lists and re-add your checkbook entries until you find the difference.

Modern Checking and the Internet

The good news with online banking is that all that reconciliation work is unnecessary. You can access your checking account information anytime and anywhere with a smartphone. With today's technology, your ATM cash withdrawal will show up online within minutes of completing the transaction. This means you can check your balance in real time 24 hours a day and you don't have to do any of that math. As we mentioned, signing up for online banking and payroll direct deposit will usually get you a further discount on the bank's basic service fees. It's a great way to do your banking, and the banks prefer it as well as it cuts down on their costs.

Banks Make Mistakes

There's one more big reason to balance your checking account and be aware of what your finances should look like, and that is to make sure your bank or credit union has not made a mistake in handling your transactions. The reality is that banks make mistakes. Bank tellers are human beings entering millions of digits of data while staring at screens all day long, often multi-tasking at the same time, and humans make mistakes. Think about a deposit made by a customer for $500.00 which the teller then accidentally keys in as $50.00 – she missed one zero. A back line "proofer" verifies that the deposit matches the actual check, but that person is also human, and they are moving through millions of transactions. Banks make mistakes every single day. Inevitably, they will make one on your account at some point. It is your responsibility to verify your deposits, credits, and to track your balance. If the bank makes an error that causes your bill payments to bounce, it is their responsibility to rectify that mistake, but it's your responsibility to hold them accountable. There are three people that need to check that all of your deposits and withdrawals are accurate – the bank teller, the back-line proofer, and you.

The Checking Account Alternative

I promised that we would look at the alternative to using a checking account later and the time has arrived. Instead of using a checking account, what if we decide to use a check cashing store to cash our paychecks? Well, let's look at the reality of that option in the light of your goal to build wealth.

According to the FDIC, 25% of all U.S. households lack bank accounts and use check cashing services and other alternatives to banks. There are now practically as many check cashing stores in every city in America as there are bank branches. Let's stop for a minute and ask why. The answer is simple: check cashing is a very profitable business. I will hold back no punches when it comes to using check cashing stores. You are fools soon parted from your money if you use a check cashing store instead of a bank or credit union.

For example, say you don't want to hassle with a bank. After all, you have to take the time out of your day to open the account. There are minimum opening deposits to start with. Then you have to maintain a certain balance in the account or pay a $10 fee every month. That's way too much to think about and deal with. Instead, you get your paycheck on Friday evening and head directly for the local check-cashing store.

Let's assume your paycheck is $500 for the week. The check cashing store charges you 8%, but you think it's worth it because you get your money right now without all the hassle. What's the cost of that convenience? Eight percent of $500 is $40. You do this every week when you pick up a check, and you collect 50 paychecks per year (We're taking two week's vacation to Daytona).

That is $40 x 50 weeks, which means you spend $2,000 per year for the privilege of having your money *now,* without all the hassle ($40 x 50 = $2,000). All that money lost just to save 30 minutes at the bank opening an account and $120 per year to maintain your account ($120 that you can avoid by using direct deposit or maintaining a minimum balance, sometimes just by using your debit card!)! ***$2,000 a year***! Even if you pay the monthly checking account fee every single month, you'd still be paying an extra $1,880. What could you buy for $1,880?

Money Saver! The better question is, "What would $1,880 a year be worth twenty years from now, if invested in a good growth mutual fund?" The answer, assuming a 6.5% average annual rate of return for 20 years, is $77,736.03. What you're losing is not just money; it's opportunity!

As we talked about in the last chapter, we pay a lot just for convenience. In terms of food, we could pay $5 for 1 pound of ground beef. You could use that to make four of your own quarter pounder cheeseburgers for $1.50 each. Or, you could go to McDonald's and pay $3 per cheeseburger. $6 to make them ourselves versus $12 to have someone do it for us. Most people don't mind paying double the price every once in a while for the convenience. Some people don't even bother to think about it. In the case of banking, though, are you willing to pay 1,470% more every year just to use your own money? Worse, with the money you are wasting, you're throwing away an investment worth $77,736.03. What sounds better for you and your wealth, paying out $37,600 or gaining $40,136.03?

The Modern Alternative to the Check Cashing Store

Today's Super ATM's allow you to scan your check into the ATM and immediately withdraw $100 – $300 depending on the amount of the check. If you have a checking account with the bank you can use the Super ATM for free. Don't use check cashing stores!

REEFS

Chapter 3 - Credit & Debt Strategies

Rachel was a woman of the world, a tall, dark, and sensuous woman with a beautiful voice and an amazing figure. At 19, she enrolled at the local college, ready to start earning her degree in telecommunications and take the radio world by storm. She worked hard, DJ'ing at the college radio station and interning at a local station. She got a part-time job as a barista, and, not long after that, the credit card offers started to come rolling in. She must have been doing well! All these credit card companies wanted to just throw money at her!

It was difficult, but she managed to keep her head above water (barely). She got a fantastic apartment in a great part of town. She even qualified for a bank loan to buy a brand new Ducati motorcycle! Rachel was living the American Dream. She loved her job, had some great friends, and a wonderful lifestyle. But, Rachel had a problem. She grew to love expensive things and the status that they gave her with the neighbors. She came to believe in "retail therapy." Before long, she had seven credit cards carrying a heavy balance, a hefty student loan, the bank loan for her impressive motorcycle, and, as a personal graduation present to herself, a new Dodge Charger (The terms were great – "No down payment? No Credit? No Problem!!").

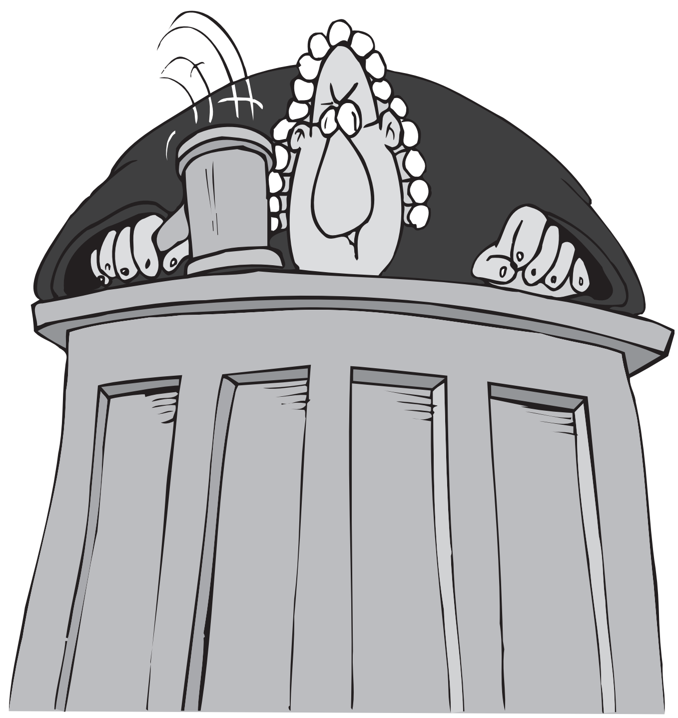
Out of college, she was a little disappointed that no one immediately wanted to hire her as a Prime Time DJ, but she was willing to work her way up through the ranks. It meant she had to keep her part-time job, but she was definitely on the road to success.

It wasn't long after that the problems started. One day, three years after her graduation, on her way home from work, she was sleepy, the phone kept going off, and, before she knew it, she'd wrapped her beautiful Charger around a concrete light pole. In three years, Rachel's car had depreciated well over half of its value. Rachel, like most people, had been making minimum payments on all her bills, including her car loan. She now owed more on her loan than the car was actually worth. The car wasn't totaled, but the repairs came to a lot more than she had lying around. No problem! That's what credit cards are for, right? They were close to being maxed out, but it wouldn't put her all the way over the limit.

She didn't account for the extra interest on the payments that carry over from month-to-month. Even making the bare minimum payments, Rachel wasn't able to keep up with her new credit card bills, on top of her student, car, and bank loans. She missed several payments, and the interest kept stacking up. Soon, she began receiving phone calls from the Credit Card companies and the Collection companies weren't far behind. Before she knew it, her credit cards were cut off. Not long after that, the bank repossessed her Ducati! She walked out of work to find that her Charger had been repossessed on the same day! Frantic, Rachel did not know what to do. She needed to be able to get to work. And, what would the neighbors think if they saw her with no motorcycle, no Charger, walking around with no expensive things?!?

Desperate to maintain her lifestyle, Rachel came up with a plan. It was the solution to all her problems! As a barista, she handled hundreds of credit cards every day. Sure, they may have belonged to other people, but it's not like it was really *their* money or anything. It was just credit! And, she didn't need that much. She'd just borrow a few card numbers, a few names; before she knew it, she'd be right back on top!

Rachel's plan actually worked! For a while… Until one of her customers happened to notice and film her on his Smartphone writing down credit card numbers and names. Rachel ended up becoming a celebrity! She was on TMZ as well as the local News! Rachel was arrested and charged with identity theft along with several other felony charges. She ended up serving five years in prison. And, what did the neighbors say then?



This chapter is about *not* turning into Rachel. In it, we will cover many strategies to handle basic credit and debt situations. We will help you to develop a plan for your credit and also deal with any debt you have or could encounter. The key to any personal financial strategy is to live *within* or *below* your means. Rachel could not manage her own income. If you are the same, you do not need to have access to credit. Credit is a very important factor financially, and you should think of it like an infant; it is delicate, precious and will eventually grow to become a major part of your life.

Credit cards are an important piece of your overall strategy for financial health. Credit cards are the first step in building credit and demonstrating your ability to be responsible, dependable, reliable, trustworthy and stable. If you misuse credit or credit cards, the short-term damage can cause long-term destruction. To be blunt, manage credit effectively today and you can enjoy it tomorrow.

A credit card can help you pay all your bills on time, it can keep track of your payments through electronic transactions and create a positive paper trail (Major credit card companies provide quarterly itemized lists of all your expenses). What are the benefits of using a credit card responsibly? You will:

- Be able to keep track of all of your expenses
- Be ready for any financial audits or examinations (taxes, IRS)
- Allow YOUR money to earn interest for 29 days
- Build a good credit report
- Obtain more credit
- Make large purchases
- Have a financial safety net in emergencies
- Utilize less cash
- Most importantly, it will keep you ready to qualify for loans with banks or creditors.

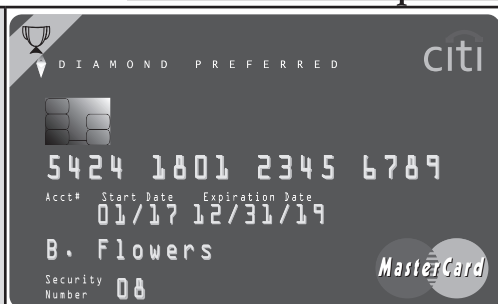
But, credit cards can cause serious financial problems if we use them the wrong way. What we need is a strategy, a way to use our credit cards so that they work for us rather than against us. Used in the right way, a credit card can lead us to financial freedom, fast.

Credit Card Strategy

Before you sign up for any of those credit cards you get offered you should have a strategy for how to choose the best offer available. Without a strategy, you are more likely to take an offer that will eventually cost more than any potential benefits. Knowing this strategy gives you the power to control your financial life. A credit card should be an *asset* for building credit and wealth not a *liability*. Choose wisely when you select a credit card.

1. Select credit cards that are appropriate for you, a sufficient number of credit cards can range from 2 to 5. The amount you obtain depends on your <u>budget</u> and your <u>expenses</u>. When looking for credit cards, you want to find the best offer available. The best ways to find credit cards are through: banks, credit unions, major credit card websites (Visa, MasterCard, Capital One), but also through consumer websites like: *nerdwallet.com, bankrate.com, Indexcreditcards.com*. When reviewing the offers for credit cards you should concern yourself with the fees, the interest rates, the payment cycle, and any potential rewards.

Above all, as we discussed in Chapter One, comparison shopping is always a necessity. For example:

Credit Card Comparison*		
Cards:		
Intro Purchase APR (note that after this period your interest rate will become the regular APR for purchases amount)	0% for 21 months	0% for 15 months
APR for purchases (variable based upon creditworthiness)	12.49% - 22.49% (variable)	15.65% - 25.49% (variable)
APR for cash advance	25.74%	24.49% - 26.49% (variable)
Grace Period	23 Days	Unknown
Annual Fee	$0	$0
Late Payment Fee	Up to $35	N/A
Cash Advance Fee	$10 or 5%, whichever is greater	5%
Returned Payment Fee	Up to $35	N/A
Penalty APR	Up to 29.99%, based on your creditworthiness	Unknown

* Source: Comparecards.com (January 2017)

Choosing the Best Credit Card

Have you ever been watching TV and during the commercial an ad comes on for a law firm or a new type of medication? Throughout the commercial, a parade of small print usually flashes by on the bottom of the screen much too fast to actually read. Beware of that small print. When choosing a credit card, you *need* to know the details when you review the application. Some cards allow 30 days to pay before incurring a finance charge, some only allow 21, and others allow something in between; the longer the payment cycle, the better the credit card.

Note the interest – is it 10%, 16%, 18%... more? You need to know just in case something goes wrong like a check you sent gets lost or your electronic bill payment does not get processed.

Choose a card with a reasonable finance rate. The finance rate is what you pay on any balance you don't pay off each month. Typical credit cards have finance charges of 1.45% - 1.75%. Find a credit card with the lowest finance rate.

The first couple credit cards you are offered when released from prison will have the worst possible terms: a 21-day payment cycle, 18+% interest, and finance charges of 1.75+%. As your employment record and income improves, your credit and financial strength will improve, and as they improve, so will the terms of the credit card offers you receive. The ideal might be: a 31-day payment cycle, 10% interest, and finance charges of 1.45%. Of course, if you use the credit card strategy correctly, interest and finance charges will never come into play because you are paying your balance in full each month, and that means the only cost you pay is the annual fee (and most of the time you can get that waived). After six months of utilizing a credit card and being responsible you should contact your card issuer and negotiate for better terms: lower interest rates, higher amounts of available credit, lower finance fees, lower annual fees.

If you have bad credit or no credit you still have the ability to obtain a credit card. The two major credit card companies that offer "starter credit cards" are Visa and MasterCard. A starter credit card is a low credit limit credit card with high interest rates. Starter credit cards will: a.)require you to pay large amounts in fees or b.)make an initial deposit for the amount of credit granted. Starter credit cards typically range from $300-$500.

The requirements for a Starter Credit Card

- Job/Verifiable Income
- Social Security Number
- Bank Account
- Address

2. Utilize your credit cards to pay your monthly expenses. A credit card can be used to cover all your monthly bills: electric bill, cell phone, rent, groceries, entertainment, shopping, gas, et cetera. In the modern economy there is literally no vendor who cannot take a credit card (even a roadside hot dog salesperson can process a credit card transaction with their smartphone), and today's society prefers it. "Cashless" transactions are the new normal. This strategy involves assigning certain expenses to specific cards. Each credit card will be assigned bills to pay; the highest bills should be assigned to the credit card with the highest credit limit (for example, your mortgage/rent should be paid by your credit card with the highest credit limit as well as your car payments, since these are typically your greatest expenses) After your housing and transportation expenses are paid, the next highest bills tend to be insurance and utilities. Assign these bills to the next highest limit credit card. And, so on... When using this strategy, it's important that you don't exceed the amount of credit granted on your credit line. So, when arranging expenses on the cards it is important to match the credit line with the total amount you will be charging to the card.

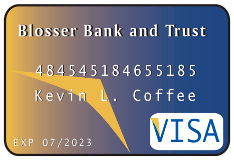
Job #1

Expenses

Fixed	Variable
Rent: $500	Groceries: $250
Probation: $80	Utilities: $125
Transportation: $40	Clothing/Discretionary:$98.65
TOTAL: $620	TOTAL: $473.65

Fixed Expense Card

Credit Limit: $750



Rent: $500
Probation: $80
Transportation: $40

TOTAL: $620

Variable Expense Card

Credit Limit: $500

Groceries: $250
Utilities: $125
Clothing/Discretionary:$98.65

TOTAL: $473.65

*In this case due to the limited amount of credit and the limited amount of expenses it is better to assign a credit card as the “Variable Expense Card” and a “Fixed Expense Card”.

Job #2

Expenses

Fixed	Variable
Rent: $500	Clothing/Discretionary:$270.38
Probation: $80	Groceries: $250
Transportation: $40	Utilities: $100
TOTAL: $620	TOTAL: $620.39

Fixed Expense Card

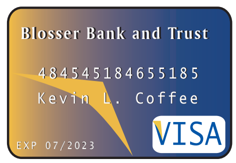
Credit Limit: $1,500

Rent: $500
Probation: $80
Transportation: $40

TOTAL: $620

Variable Expense Card

Credit Limit: $750



Groceries: $250
Utilities: $100

TOTAL: $350

Discretionary Expense Card

Credit Limit: $500

Clothing/Discretionary:$270.38

TOTAL: $270.38

*With the amount of credit available it is best to consider a mixed strategy of how to distribute your expenses. A suggestion might be to utilize one card for fixed expenses, one card for variable expenses and one card for discretionary spending.

Job #3

Expenses

Fixed	Variable
Rent: $750	Groceries: $350
Car Payment: $256.94	Clothing/Discretionary:$331.63
Insurance: $150	Utilities: $250
Probation: $80	Gas: $150
TOTAL: $1,236.94	TOTAL: $1,081.63

Highest Expenses Card

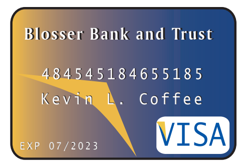
Credit Limit: $1,500

Rent: $750
Groceries: $350
Clothing/Discretionary:$331.63

TOTAL: $1,431.63

Next Highest Expenses Card

Credit Limit: $750



Car Payment: $256.94
Utilities: $250
Insurance: $150

TOTAL: $656.94

Lowest Expenses Card

Credit Limit: $500

Gas: $150
Probation: $80

TOTAL: $230

*In this situation there is a lot of credit and a lot of expenses, so we use a strategy of assigning the highest expenses to the card with the highest credit limit. Once we come close to the credit limit on the first card we move to the next card until we come close to its limit and move to the next card until all expenses are covered.

3. Too much credit could be harmful if you do not have the income to sustain it. In this chapter it has already been recommended to have between 2 - 5 credit cards, ideally your credit should be able to cover your bills 1.5 (one-and-a-half) times (minimum available credit). That means that your total monthly budget will be completely covered with the amount of credit you have on your credit cards. The extra credit left over on your card is not extra money; it is there for **emergencies**. It’s easy to drown in debt if you don’t have the ability to pay for it. The biggest temptation in society today is to buy now and pay later. We live in a culture that prizes instant gratification. If you’re not disciplined, the situation can easily cripple your life just like it did to Rachel.

The goal here is for you to rule your finances rather than your finances ruling you. Millions of Americans subscribe to the idea that credit is extra money and does not have to be paid back. Credit is _NOT EXTRA MONEY!_ It **must** be paid back. You should always pay your bills every month (on time and in full) and be responsible with your money and the money of others (creditors/credit cards).

Remember our second Taco Bell job? If we wanted to calculate the minimum available credit we would need, we would:

Take our total monthly expenses ($1,370.00) and multiply it by 1.5.

1,370.00 X 1.5 = 2,055.00

$2,055.00, therefore, is the minimum available credit that we are looking for. Is this always realistic? Maybe not, but it's a goal. This calculation gives us our target number.

Job #2		
$8.04 per hour		
48 hrs/ Weekly Income		$385.92
(times 4.33)		
Monthly Income		$1,671.03
Less Withholding 15%		($250.65)
Mow 3 lawns on day off at $40 per lawn		($120)
Net Pay $1,540.38		
Expenses:		
32.5%	Rent	($500)
16.2%	Food	($250)
6.5%	Clothing	($100)
19.5%	Savings	($300)
10.4%	Utilities	($160)
5.2%	Probation	($80)
2.6%	Transport	($40)
11%	Discretionary	($170.38)
100%	Total	($1,540.38)

Expense Tracking

Use your primary credit card for everything you buy. This will allow you to track how much you spend in every spending category, both monthly and annually. This will also help with money management, budgeting, and tax preparation. (Note: this only works if you use **one** primary credit card.) American Express, Visa, and MasterCard have a feature that is really great. Each card has a different name for the feature but basically it allows the cardholder to receive an annual expense statement. This annual statement breaks down, by category, how the cardholder spent money all year. You can use the annual expense statement to see how much you spent on gas, groceries, cell phone, restaurants, movies, et cetera...

This is a great tool for budgeting because you no longer have to guess at how much you spend; the actual data is in your hands. American Express provides the annual expense statement automatically and the cost is included in the card's annual fee. With Visa and MasterCard, the cardholder has to request the annual expense statement and they usually charge you for it (around $10 - $20).

Earn Interest for up to 29 Days

Instead of paying all of your expenses in cash, utilize your credit card to pay your expenses while living within or below your means. When you use your credit card instead of cash you allow your money to sit in the bank and earn interest. You also allow yourself to utilize a higher percentage of your credit limit, in the future (6 months) you will be able to ask for a higher credit limit (by increasing your credit limit you increase your credit score - remember our goal for available credit). During the month, instead of just spending money to pay off your bills you have allowed your money to earn interest in the bank, and you've also utilized your credit to increase your credit score. Why wouldn't you want to use your monthly bills to help you make more money and build credit?

Money Saver! Put your money in an interest bearing account and pay your bills with a credit card!!!

Once again, this strategy requires discipline! You must never charge on your credit card more than you can pay off in full by the end of the month. For this strategy to be most effective, you must pay your credit card bills on time and in full every month. If you are budgeting and planning, then this credit card strategy works and makes you money.

Remember! Grace Periods On Credit Cards Apply Only To People Who *Don't Carry A Balance*!

"If you pay the full amount you owe on your card each month, you are basically enjoying an interest-free loan from the bank. But card users often don't realize that if they are carrying any balance at the end of the month, the card issuer will charge you interest starting from the day you borrowed the money," says Megan Bramlette, managing associate at Auriemma Consulting Group, which consults with banks. If you allow your balance to roll from one month to the next on a credit card you are not going to receive a grace period to pay your bills. You certainly are helping the Credit Card companies, though.

"Acing" Your Credit Report Card

All of your credit history is reported on your credit report; it is your "credit report card." If you have been responsible and disciplined you will find yourself with all A's on your report card. However, if you have mismanaged your credit you will find horrible grades. Your credit grades are based off of the information in your report, in industry terms you will receive a credit score. Credit scores range from 350-850. There are three major credit bureaus: TransUnion, Experian, and Equifax. These three credit bureaus collect all of your credit information, the most important parts of building credit are your payment histories, length of credit history, income, available credit, amount owned, and debt-to-income ratio. When you effectively manage your credit you build your history of being responsible and that can be viewed by creditors on your credit report.

Credit Score Grades

- 760-850 Excellent Credit (A)
- 690-759 Good Credit (B)
- 630-689 Average Credit (C)
- 560-629 Poor Credit (D)
- 350-559 Bad Credit (F)

Your Strategy: Pay your bills on time and in full; manage your debt-to-income ratio. Immediately upon your release from prison you may be at a high debt-to-income ratio (70% or greater). After you have established yourself outside of prison and are no longer underwater with all of your bills, you should aim to have a much lower debt-to-income ratio (45%). A 45% debt-to-income ratio is a "golden number" within the financial world, it is a great goal; however, reality is much harsher than this ideal. You should try to get as close to the 45% as possible, some months you may be at an 80% debt-to-income ratio, others at a 50% debt-to-income ratio, manage your finances to keep this number low and in a good range of 45-60%.

Job #1		
$8.04 per hour		
40 hrs/ Weekly Income		$321.60
(times 4.33)		
Monthly Income		$1,392.53
Less Withholding 15%		($208.88)
Net Pay $1,183.65		
	Expenses:	
42.2%	Rent	($500)
21.2%	Food	($250)
6.3%	Clothing	($75)
7.6%	Savings	($90)
10.5%	Utilities	($125)
6.8%	Probation	($80)
3.4%	Transport	($40)
2%	Discretionary	($23.65)
100%	Total	($1,183.65)

How to calculate your debt to income ratio
How do we figure out this debt-to-income ratio? There is a very simple equation:

ALL YOUR MONTHLY EXPENSES/MONTHLY INCOME

FOR EXAMPLE:
Expenses: Rent $500, Utilities $125, Food $250, Misc. $195 = Total $1,070
(Everything except savings in our Taco Bell example)
Income: Job 1: $1,183.65/month

Debt to Income = $1,070/$1,183.65 = 90.3%

EXAMPLE #2:
Expenses: Rent $500, Utilities $160, Food $250, Misc. $220 = Total $1,130 (Everything except Savings in our second Taco Bell example)
Income: Job 2: $1,540.38/month (full time $8.04/hr working 40hrs/week, 15% taxes; overtime 8 hours $96.48/week); Second job mowing lawns: $120/month

Debt to Income = $1,130/$1,540.38 = 73.3%

A Debt to Income ratio of 45% with an income of $1,540.38 would be $693.17. Can you realistically limit your expenses to such a low number? It would be *very* difficult. If you can't lower your expenses, then you should raise your income. The point here is to use 45% as your benchmark. Again, sometimes that may be out of reach, but that is the goal to reach for.

Part of your credit score derives from your outstanding revolving credit balance (the amount of credit you continually use) and your payment history. If your total expenses each month are $1,130, and you pay it on time and in full each month, you will have $1,130 average revolving balances and have moved $13,560 through your credit system annually. Payments, on time and in full, will help your credit rating. Late payments or partial payments will damage your score. Do not use credit cards to pay your expenses every month if you cannot pay your credit card back on time and in full!

Job #2		
$8.04 per hour		
48 hrs/ Weekly Income		$385.92
(times 4.33)		
Monthly Income		$1,671.03
Less Withholding 15%		($250.65)
Mow 3 lawns on day off at $40 per lawn		($120)
Net Pay $1,540.38		
Expenses:		
32.5%	Rent	($500)
16.2%	Food	($250)
6.5%	Clothing	($100)
15.6%	Savings	($240)
10.4%	Utilities	($160)
5.2%	Probation	($80)
2.6%	Transport	($40)
11%	Discretionary	($170.38)
100%	Total	($1,540.38)

Build Your Available Credit

In our previous example of $1,130 per month, you revolved $13,560 through your credit system in one full year. On time payments, in full, will cause the credit card company to increase your available credit limit. As that number rises, other credit issuing companies will offer you more credit as well. It is important to remember that as you move balances through your credit card you must pay off that balance completely. Available credit is essential when building your credit score; maximize your credit score by paying off your credit card balance each month in full. You will benefit from utilizing your credit card to pay expenses by building a history of consistent payments and credit utilization. The history you build with your payments and credit utilization allow you to negotiate with your credit card issuer every 6 months for more available credit.

Note: You have to be aware of your own income and expenses, do not get caught in the trap of thinking that just because you have a higher credit limit you can spend up to that limit. You must remain responsible and continue your financial discipline by sticking to your budget and living within your means.

Be careful, too much revolving credit, used and unused, will damage your score. The danger of using more credit than you can pay off in a month will lead you down the accelerated path towards debt.

Large Purchases

Having large sums of cash readily available is not safe nor is it good money management. All your extra money should be in a bank account earning interest, not sitting in your pocket doing nothing. A credit card allows you to make large purchases without hassle. A key to wealth is making your money earn money for you, if you are constantly using your money before it has a chance to accrue interest then you are missing out on the power of saving your money. Why not borrow other people's 'buying power' and let *your* money earn interest?

Sometimes it is not reasonable to purchase items with cash or money outright. Credit is needed for some things such as a home (mortgage) and a car (auto loan). The majority of Americans cannot afford to buy those items outright, nor can they afford to buy them on a credit card, but a credit card can put you on the path to get approved for the amount of credit needed for those items. Credit can eventually allow you to purchase the home, the car, and the equipment that are needed for your own financial goals and own a piece of the American dream.

Emergencies

Obviously, if you have an emergency and need to pay for necessities or repairs, a credit card allows you to handle the financial part of the emergency more efficiently. If you operate with only cash, you might find yourself in a situation where you have no safety net to help you through a tough time. Credit allows you to move through problems without panic, but as always, you should remember that the credit you use to solve a problem or emergency *must* be paid back.

Bad Uses of Credit Cards

Before we leave our discussion of credit and credit cards, it's important to review the bad ways to use a credit card. We have already discussed that allowing a balance to remain on your card for over a month is a horrible way to use a credit card. There are also several other ways you should *not* use a credit card. Some horrible uses of a credit card are:

- **Debt transfers**
- **Cash advances**
- **Impulse Purchases**

Debt Transfers

Moving the balance owed on one credit card to another credit card is immediately identified on the credit reports that are pulled by financial institutions. The debt transfer can also overlap by 12 - 24 hours and often counts twice towards your 'credit drawn balance.' There may also be higher interest rates for debt transfers on some cards as well as fees for making a debt transfer. Credit card companies and financial institutions use computer data modeling that operates in real time so lenders can see you transferring debt, and a debt transfer is *always* a red flag and liable to hurt you. Multiple debt transfers will cause financial institutions to think you're not able to pay your debts, and they may deny you future credit. A simple solution for debt transfers is **not to do them** and try to resolve any outstanding balances either through your own financial planning or through talking with your creditors.

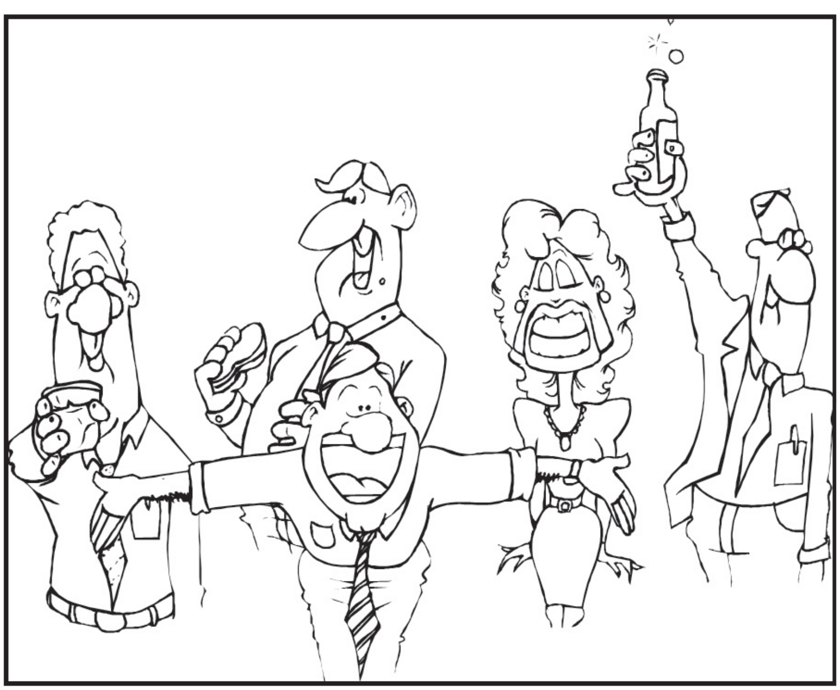
Cash Advance

This is a strong statement, but heed the advice! **Do not <u>EVER</u> get a cash advance from a credit card, under <u>any</u> circumstances**. There's a difference in the way credit card companies process cash advances versus regular purchases. Cash advances incur finance and interest charges *immediately*. That means you are paying both of those costs *starting from the day you advance the cash*. In contrast, when you buy something on credit, the payment grace period of 21 - 30 days gives you some time before you get hit with those costs. If you need to have cash, go to the bank and withdraw it either from the teller or the ATM. Why would you pay up to 18% interest, and finance charges to borrow *your own* cash from a credit card cash advance? It makes no financial sense.

By the way, the checks that the credit card company sends in your statement are cash advance instruments designed to make you think they are harmless bank checks. Tear them up immediately – do not throw them away – **tear them up and throw them in the fireplace**. Not only do you often have to pay interest and finance charges on them immediately; additionally, they are excellent targets for identity thieves who can easily dig your statement out of the garbage, scan, edit, and print the torn up checks and use them. Call or write to your credit card company and request that they never send you cash advance checks.

Impulse Purchases

We've all done it. You are at the mall, or Best Buy, or Wal-Mart; and something you didn't intend to buy before seeing it catches your eye - a video game, the latest Selena Gomez album, a car accessory, or a gift for that birthday coming up. It is okay to buy these types of items *if you have budgeted for them*, but not on impulse – not on credit. Impulse purchases add up very quickly, they typically lead to regret, and are fully consumed by the time the payment is due. Always remember that your credit is **NOT** your money and it can be very costly to use without consideration. The best thing to do when you have a strong urge to buy something immediately is to simply walk away, wait 48 hours and then reconsider buying the item.



Have you ever heard the expression: 'Got money, got friends'? You may know the scene. You're the life of the party! You give the bartender your credit card, keep an open tab, and here come your "friends", maybe some girls. After a few drinks, you casually buy them a round of drinks, and everyone's happy. There's music, dancing, everyone's having a good time. And, you completely forget about that bar tab until the bill arrives. The trouble is twofold: 1.) your friends end up looking at you crazy when you mention buying them drinks because they were probably drunk and 2.)You will not remember because you were drunk too. A bar tab is actually a very typical impluse buy. Bar tabs only lead to less money and more headaches. Don't use your credit card for a bar tab; better yet don't develop a bar tab.

Most Expensive Debt

Do not ever use a credit card to make a major purchase that you don't have the money to cover in 30 days. It is *the most expensive* way to borrow money. Let's consider Larry Coffee. He's had a pretty successful business going for the past two years as a cotton candy vendor in Tampa, Florida. He's doing well, but he still needs to be careful with his budget. One particular customer, a nice young woman with Buccaneer season tickets, really caught his eye. Every time she saw Larry in his jester costume selling his cotton candy, she greeted him with a smile and stopped to chat. By December, they were meeting outside his work for coffee, a few dinners. By the start of the next season, they were officially together. After the second year of dating, Larry took a day off from selling cotton candy and proposed to her right there in Raymond James Stadium with a beautiful engagement ring.

Larry, unfortunately, couldn't afford the engagement ring. $4,995.00 was just a bit too steep for his finances. But, Larry had good credit. No problem. He put the engagement ring on his credit card! Larry could have secured a bank loan, but he was in a hurry and didn't want the hassle. Let's look at what this cost him:

Item Purchased: Diamond Engagement Ring: $4,995.00

Loan Comparison

Credit Card		Bank Loan	
Application Fee:	0.00	Application Fee:	$50.00
Interest Rate:	14.5%	Interest Rate:	8.00%

	Starting Balance	Interest	Payment	Ending Balance		Starting Balance	Interest	Payment	Ending Balance
January	4,995.00	60.36	171.93	4,883.43		5,045.00	33.63	158.09	4,920.54
February	4,883.00	59.01	171.93	4,770.50		4,920.54	32.80	158.09	4,795.26
March	4,770.50	57.64	171.93	4,656.22		4,795.26	31.97	158.09	4,669.14
April	4,656.22	56.26	171.93	4,540.55		4,669.14	31.13	158.09	4,542.17
May	4,540.55	54.86	171.93	4,423.49		4,542.17	30.28	158.09	4,414.36
June	4,423.49	53.45	171.93	4,305.01		4,414.36	29.43	158.09	4,285.70
July	4,305.01	52.02	171.93	4,185.09		4,285.70	28.57	158.09	4,156.18
August	4,185.09	50.57	171.93	4,063.73		4,156.18	27.71	158.09	4,025.80
September	4,063.73	49.10	171.93	3,940.91		4,025.80	26.84	158.09	3,894.55
October	3,940.91	47.62	171.93	3,816.60		3,894.55	25.96	158.09	3,762.42
November	3,816.60	46.12	171.93	3,690.78		3,762.42	25.08	158.09	3,629.42
December	3,690.78	44.60	171.93	3,563.45		3,629.42	24.20	158.09	3,495.52

Second Year			Second Year	
Starting Balance	3,563.45		Starting Balance	3,495.52
Total Interest Paid in Second Year	409.68		Total Interest Paid in Second Year	219.00
Total Payments made in Second Year	2,063.16		Total Payments Made in Second Year	1,897.08
Ending Balance	1,909.96		Ending Balance	1,817.44
Third Year			**Third Year**	
Starting Balance	1,909.96		Starting Balance	1,817.44
Total Interest Paid in Third Year	153.29		Total Interest Paid in Third Year	79.64
Total Payments made in Third Year	2,063.25		Total Payments Made in Third Year	1,897.08
Ending Balance	0.00		Ending Balance	0.00
Total Cost with Credit Card:	$6,189.57		Total Cost with Bank Loan	$5,691.24

Loan Cost difference:	$498.33

You may not think that $498.33 seems like an enormous amount of money, and you're correct. But, would you be willing to save that much for one hour of your time? That's $498.33 that could have been earning Mr. Coffee money over those three years if he'd put it in a savings account or invested it.
Excessive or unmanaged debt is a hindrance to building wealth!

Why? Let's do the math. If you have $10,000 in a savings account earning 4%, your money will earn $400 in interest in one year. If you have $10,000 in debt on a credit card you will typically pay 12% - 18% interest per year, let's say it's 12%. 12% interest on $10,000 debt means you pay $1,200 interest in one year. In other words, at the end of one year your $10,000 in savings is worth $10,400, but your $10,000 in debt is now $11,200. The result is that you are now $800 further in the hole.

With that understanding let's put another foundational block in place.

Money Saver! Debt is a good thing if you use the borrowed money to earn a higher return than the debt interest payment. Debt is a bad thing if you use the borrowed money to earn a lower interest return than the debt interest payment.

Let's demonstrate with math again. You borrow $10,000 at an interest rate of 8%. At the end of one year you need to pay back the $10,000 plus $800 in interest for a total of $10,800. When you borrow the money, you invest it in an asset that grows 12% in one year. 12% interest on $10,000 is $1,200, so at the end of one year your $10,000 is worth $11,200. You take the $11,200 and pay off the debt of $10,800 and you are ahead by $400.

This foundational block is worth stating again. Debt is a *good thing* if you use the borrowed money to earn a higher return than the debt interest payment. However, debt is a bad thing if you use the borrowed money to earn a lower interest rate than the debt interest payment or consume whatever it is you borrowed the money to buy, such as a vacation, holiday gifts, clothes, or meals.

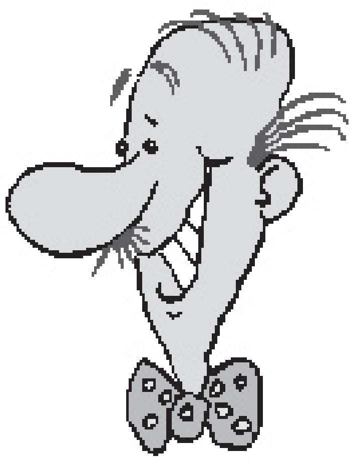
With that foundational block in place, and a clear understanding of the math involved, it's easy to understand why it's important to get out of debt. This especially applies to any debt that is on a credit card with interest rates of 12% or more, because that is well above any interest rate your money is likely to earn in savings.

But, what if you do have some unmanageable debt? Maybe, like most people, you've gotten yourself into a corner without even realizing it. Remember Rachel? She wanted to maintain a lifestyle that was unrealistic for the income she was bringing in. Let's talk about some ways to get back out of that corner, some debt strategies, without resorting to the means that Rachel used and ending up back in serious trouble. In order to effectively use the strategies we'll be talking about, you need to accept the two following principles:

1. Once you have eliminated/paid off your existing debt, you will not run out and immediately charge up more debt. If you are going to incur more debt, then the benefit of eliminating debt to help build wealth is lost.
2. You will be disciplined in attacking your debt. Eliminating debt will take time, patience, dedication, and most of all, it will take sacrifice. It takes financial maturity to eliminate debt. If you are not mature enough financially then there's no point in putting yourself through the task.

Debt Strategies

The Debt Eliminator



Meet Floyd. He's got a pretty good job, been working at Tallahassee Auto Mart for a year and a half and has advanced to a supervisor's position earning $13.15/hr. His net pay every month is $1,936.81. Using his budget, he accounts for his rent, food, utilities, and all the necessities. However, Floyd wasn't always so disciplined. When he was first starting out, Floyd didn't know how to use credit cards the right way, and he ended up with a stack of debt. His income is still able to deal with making the minimum payments (barely), but he feels like he's slowly sinking under all this debt. Penny's, Wal-Mart, Visa AND MasterCard. That's not to mention his auto loan. All these things added up on him a little at a time, but when he sat down to add it all up, Floyd almost had a heart attack. He's over $23,000 in debt!

Unfortunately, Floyd is an average American. He doesn't think about the debt he's building up; he's just an avid consumer. So, how does he get himself out of the hole he's dug himself into?

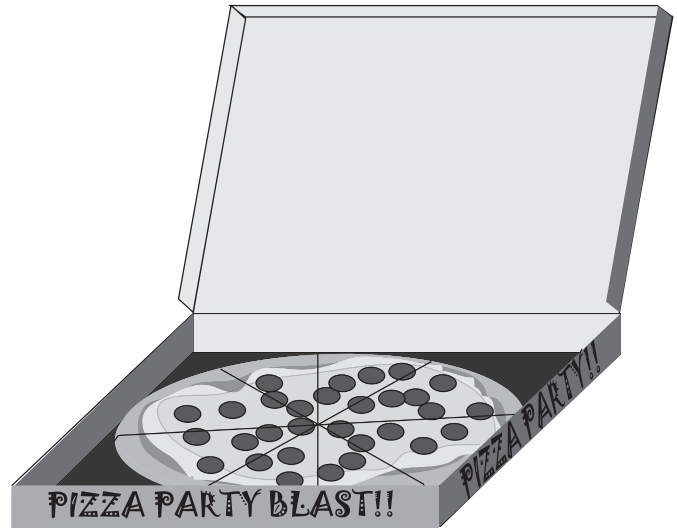
First, Floyd needs to sit down and list all of his debts in order from the smallest payoff balance to the largest pay-off balance. He isn't concerned with interest rates, or terms, unless two debts have similar payoffs. In that case, he lists the higher interest rate debt first. Next to the "payoff amount" on each debt, he now writes down the "minimum payment" he has to make each month as required by the creditor. Next to the minimum payment column, he lists his "new payment". This represents the amount of money he's going to send to the next creditor on his list once he's paid off the previous creditor. The "payments remaining" column is where he notes how many additional payments he has to make to eliminate the debt entirely from his list.

Item	Payoff Balance	Minimum Payment	New Payment	Payments Remaining	Cumulative Payments
Penny's	$300.00	$20.00	-	18	18
Wal-Mart	$650.00	$25.00	$45.00	6	24
Sears	$1,200.00	$33.33	$78.33	11	35
Visa	$2,500.00	$69.44	$147.77	9	44
MasterCard	$5,000.00	$138.89	$286.66	6	50
GMAC	$14,263.68	$314.72	$601.38	18	68
Total Payments	$23,913.68	$601.38			

* Note that each of these accounts is charged interest, making the payoff balance greater than the total amount that is actually shown. Interest charged in the following amounts:
Penny's 21% (total amount of interest charged: $51.07)
Wal-Mart 21% (total amount of interest charged: $164.00)
Sears 21% (total amount of interest charged: $519.90)
Visa 15.9% (total amount of interest charged: $1,313.72)
MasterCard 9.9% (total amount of interest charged: $2,846.11)
GMAC 7.9% (total amount of interest charged: $12,143.63)

Total interest paid over the total 68 months: $17,038.43)

Finally, Floyd is going to list his "cumulative payments" or the total payments needed (including the eliminator payment) to pay off that debt. In other words, this is the running total for "payments remaining." Each time Floyd eliminates a debt, he'll write a new list so that he can see how close he is getting to being debt free. Paying the little debts first gives a quicker result. It's motivating, and you are more likely to stay with the plan if you see benefits early on. Imagine how good it will feel when Floyd's list goes from six creditors to five, then to four…



Here's how it works. Using the example above, your minimum payment total for your debts is $601.38. Here's the discipline part, you have to commit to paying $601.38 every month until all the debt is eliminated. After 18 months you will have eliminated the Penny's debt of $20 per month. Most people would take that $20 the following month and spend it on nibblers. **Pizza party!**

Not with the eliminator! You are going to apply that $20 to the Wal-Mart payment and pay Wal-Mart $45 each month instead of the minimum of $25. After 6 payments to Wal-Mart of the new $45 amount, you will eliminate the Wal-Mart debt in just six months. With Wal-Mart eliminated, you take the $45 you were paying them and apply it to your Sears payment and pay $78.33 per month instead of the minimum of $33.33 they require. In 68 months you will have eliminated all of your debts. It takes discipline! That's nearly six years of not using your credit cards to rack up more debt, following a budget, and continuing to apply $601.38 to your bills every month for 68 straight months. It takes a lot of maturity, but the end result is no more debt building at 8-21%. At the end of those 68 months, you (and Floyd) are now debt free.

Let's see what you've learned from this class and the foundational blocks you have put in place. The question now is what do you do with the $601.38 the month after you've eliminated all of your debts? The answer is: you invest it!

In our example Floyd had $23,913.28 in debt (add up all the balances). The interest rates of your debts range from 7.9% to a whopping 21%. The average of the six creditors that he owed is 16% interest. Carrying $23,913.28 in debt, at an average rate of 16%, means he was incurring interest for one year of $3,826.12. Put another way, Floyd went $3.826.12 deeper into the debt hole every single year! That's exactly how things pile up and turn into a sea of debt. Before he knew it, Floyd felt like that sea would drown him.

By applying discipline, patience, and financial maturity, Floyd worked hard and eliminated his debt. Now, he invests the $601.38 each month into a good growth mutual fund.

At the end of one year, he has $601.38 x 12 = $7,216.56 invested. Assuming a growth rate of 8% on his investment means Floyd's investment money earned $577.32. Put another way, he eliminated the $3,826.12 going out of his wallet and added $577.32 back into his wallet, a financial benefit of $4,403.44 in Floyd's favor. If he did that again for another year, and another year, the financial gains become very rewarding. The debt eliminator works, so use it!

But what if you don't have all $601.38 to spend on your bills?

What can we do to eliminate our debt when we can't make the payments? Simple. Communicate! Talk to your creditor and make an arrangement. There are several different ways you can negotiate with your creditors to allow you some financial options when it comes to paying your debt. The following ways are solutions when asking for relief from your creditors to pay your debts.

Deferment: To postpone or put off payment until a later time, usually at the end of the loan.

If you have payments due, and are unable to meet the obligation to pay those bills, you can ask the creditor to defer the payments for a specific period of time allowing you to stay on track with your creditor and not have a black mark on your financial record. In other words, you can ask your creditor to let you skip a payment or two now and tack those payments onto the end of the loan. Deferments of payments are temporary solutions. Bear in mind that you can't postpone payments forever. If you defer one debt you should be using your finances to eliminate your other debts completely.

Payment Reduction: When the creditor agrees to lower your payments for a period of time.

This method is only for unsecured debt, such as credit cards and unsecured loans. If you need a reduction in the payment amount (so you can use money in other areas that are needed) this is a possible option for a period of time. It will *only* work with the unsecured loans, but it may be significant enough to help you through a difficult time.

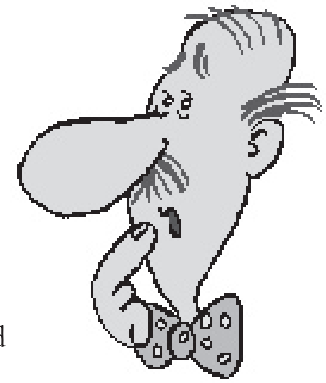
Rate Reduction: When a creditor agrees to lower your interest rate for a specified period of time.

If you have ridiculous amounts of interest you have to pay on a credit card, and that's causing you to pay excessive amounts every month, it would be a great idea to call your creditor and ask for an interest rate reduction for a specified period of time. You can use this time to pay down your credit card debt so that when the lower interest rate is gone, your debt is either eliminated or you will have dealt it a significant blow resulting in more manageable monthly payments.

Debt Settlement Reduction: When you request to settle an account and negotiate for a lower payoff amount.

Sometimes it's advantageous to get rid of a debt completely; a debt settlement reduction is an option for some debts (mostly unsecured debts). A debt settlement reduction will allow you to pay off a debt completely for a reduced amount. So say you have a $20,000 debt, and you want to arrange a debt settlement reduction. You'll need a significant portion of it. For our $20,000 example, you would need $10,000 or more to eliminate this debt with the creditor. Once you arrange a debt settlement reduction, you will have a positive listing on your credit report and also no more debt with that creditor.

The Debt Percentage Reduction Strategy (DPR Strategy)



Remember Floyd? He'd been working a year and a half at Tallahassee Auto Mart and advanced to a pretty good position as the supervisor of a sales team, bringing in a pretty decent wage for a new worker. The HR department wanted to do a write up on some of their employees and where they came from to post on the wall in their employee lounge. The idea was for everyone to get to know their fellow workers. However, when they contacted Felder & Mark's Big Time Auto Lot, where Floyd had said he was Salesman of the Year with a 78% sales rate, they discovered that Floyd had, in fact, never worked in sales for them at all. He'd been the janitor. Floyd had lied on his resume. As a result, Floyd got fired from Tallahassee Auto Mart.

Floyd had to scramble to try to find a new job quickly. He took the first one that came up to hold onto some income, so he could continue to look for a better paying position. The bad news is that Floyd's debt didn't go anywhere. He still owes money to all those creditors and they still expect him to make his minimum payments. The worse news is that Floyd's new income of $8.04/hr is not nearly enough to make the minimum payments. Does Floyd have any options now?

In the Debt Eliminator example we made the assumption that you had enough money coming in to make your minimum debt payments. What do you do if you find yourself in a situation like Floyd where you don't have enough income to make those minimum payments – say your spouse lost her job, or you lost your job, and had to get another job making less money? The DPR strategy is what you can use if you find yourself in the situation of not having enough income to pay all of your debts.

If you can't pay your creditors what they want, you should treat them all *exactly the same*. You should pay even the ones who are being rude and obnoxious and pay all your creditors as much as you can. Many creditors will accept a written plan and cut special deals with you *as long as you are communicating*, maybe even over-communicating and sending them *some* money.

The DPR strategy works like this: you pay each debt owed in relation to what percent it represents of your total debt. The percent of debt you have with the company determines how much you send them. Floyd took a job at Taco Bell until he can get back on his feet. He's learned his lesson: never lie on your resume. But, now his monthly income is $1,540.38. He's got the same bills with necessities of $1,400 (these are bills you must pay such as rent, food, etc.) but almost $400 less money to pay it all. This leaves him with an available income of $140.38, all the money Floyd now has to pay his remaining bills.

Cash Flow Statement

Income		$1,540.38
Necessity Expenses		
Rent	$500.00	
Car Payment	$400.00	
Food	$250.00	
Utilities	$250.00	
Total Necessity Expenses		-$1,400.00
Available Income		$140.38

(Assuming your income will not increase anytime soon.)

Debts	Payoff Balance	Payment
Discover	$2,500.00	$69.44
Visa	$1,750.00	$48.61
MasterCard	$1,250.00	$34.72
Wal-Mart	$725.00	$40.26
Best Buy	$550.00	$55.00
Total	**$6,775.00**	**$248.03**

Floyd's total debts now add up to $6,775.00 and the minimum payments total $248.03 per month. How can he reduce his payments to $140.38 (the actual amount of income he has available to make his payments) and still maintain a fair plan that his creditors will respect?

Figuring Out Your DPR Strategy

Obviously, we won't all make the same mistakes as Floyd, but even Floyd is doing better than Rachel. Remember her? She resorted to crime in order to keep her head above water. Floyd, on the other hand, is trying to make the best of a bad situation, and there are plenty of legal ways to deal with debt. Debt Percentage Reduction allows you to work with your creditors and keep yourself from drowning in that sea of debt. The creditors are not going to like this negotiation. Some may even get rude about it, but when it boils down to it the important thing that they want to know most is that you don't intend to declare bankruptcy and you do intend to pay your debts. Here's how it works:

Floyd had $140.38 per month in available income, but $248.03 in payments due. He wants to pay each creditor a fair amount of the $140.38 that he has available. He owes $2,500 on his Discover Card and his minimum payment is $69.44. Using the DPR strategy, he takes the $2,500 owed to Discover and divides it by his total debt of $6,775 ($2,500 ÷ $6,775 = .369 or 36.9%). That means Discover gets 36.9% of the $140.38 he has available (36.9% times $140.38 = $51.80) Visa is 25.83% of his total debt so they get 25.83% of the $140.38, or $36.26. Each creditor gets their fair share of the $140.38, no one gets less, and no one gets more. Here's the formula and chart you use to figure out the DPR strategy:

Creditor	**Debt (Amount We Owe)**	÷	**Total Debt**	=	**Debt %**	**Debt % x Available Income of $140.38**	=	**New Payment**
Discover	$2,500	÷	$6,775	=	36.9%	36.9% x $140.38	=	$51.80
Visa	$1,750	÷	$6,775	=	25.83%	25.83% x $140.38	=	$36.26
MasterCard	$1,250	÷	$6,775	=	18.45%	18.45% x $140.38	=	$25.90
Wal-Mart	$725	÷	$6,775	=	10.7%	10.7% x $140.38	=	$15.02
Best Buy	$550	÷	$6,775	=	8.12%	8.12% x $140.38	=	$11.40
Total Debt	**$6,775**					**Available Income**	**:**	**$140.38**

*Note that these payments are calculated with interest included. Interest is charged in the following amounts:
Discover: 23%
Visa: 21%
MasterCard: 21%
Wal-Mart: 17%
Best Buy: 12%

Now that you have the strategy figured out, print it and attach it to the letter found on the following page. Send the letter to each creditor *every month* that you make a DPR strategy payment which is lower than your minimum.

DPR Sample Letter

Date

(Creditor Name)
(Creditor Address)
(City, State, Zip)

Re: Account # ______________

Dear (Creditor):

Recently, I lost my job and had to take a temporary job until I find better employment. I acknowledge my indebtedness to you of $________. My minimum monthly payment to you should be $_____. I am not able to meet these minimum payment requirements right now. I intend to pay you back in full; however, you are one of ___ creditors to whom I owe $(total debt amount).

I have enclosed a necessities cash flow plan based on my take-home pay of $______ per month. Since I have a family to support, and limited available income currently to pay my creditors, I can only make a payment of $______ to you at this time, but I do not intend to go into bankruptcy.

Consequently, I am asking for a deferment of any arrearage payments for the next _____ (30, 60, or 90) days; as well as a payment reduction for _____ (30, 60, or 90) days to match the amount I have listed above. I will keep in close contact with you, and I will resume making full payments as soon as possible. If possible, I would like to request a reduction of interest during this time.

I am aware that this is an inconvenience to you, but I must meet the basic needs of my family first. I fully intend to pay my creditors all that I owe them. Please be patient with me. If you have any questions, please contact me at ___________ (phone number).

Thank you for your consideration.

Sincerely,
(Your Signature)
(Your Name Printed)
(Your Address)
(City, State Zip)
(Phone Number)

Finally, answer your phone if the creditors call. *Communicate* with them. Let them know you're in a hardship but that you fully intend to pay off your debt. They won't like the DPR Strategy very much, but they will prefer it to no payment at all. You will find that many times they are willing to work with you to get their money back, *if you communicate*.

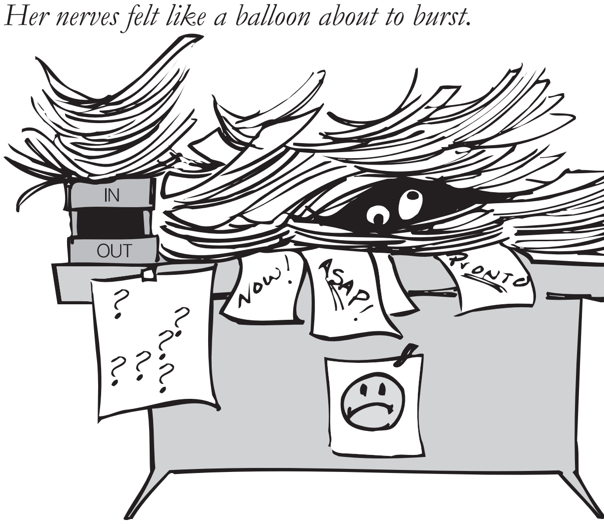
REEFS

Chapter 4 - Buying an Automobile

Susy-Becky sat on the bus and cringed into her seat as she did each and every weekday. On her right, a large woman named Bertha whose breath stank and who laughed too loudly nudged Susy-Becky in the arm every time she told some ridiculously stupid joke about her friend Corrine. A mousy little drunk man named Pete sat on the other side of Susy-Becky, smelling like the bottom of a wine barrel that had been left out in the sun for far too long. Not only that, but the bus itself seemed to inch along, prolonging her torture and threatening to make her late.

"And, then… and, then… Corinne says, 'I know! I've never walked to church, either!' BWAHAHAHA!!!" chortled the smelly woman. She sounded like a cow trying to pass a kidney stone to Susy-Becky. Why, oh why, did this have to happen every single day??

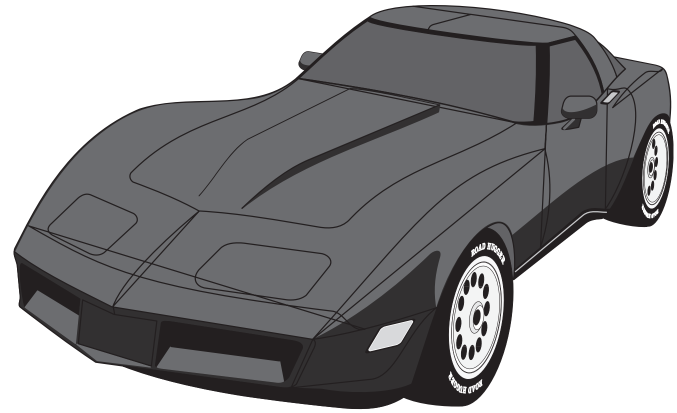
Susy-Becky tried to take a deep breath and relax, but all she got was a lungful of Eau de Pete. Feeling sick, she closed her eyes, covered her nose, and tried to concentrate on the good things. After two years of unemployment, the job at Credit Bureau had been a godsend. Respectable pay and the hours were decent. But, the stress… Good God! All day long she had to deal with quotas. She lost count of the amount of papers that landed on her desk, all of which had to be answered in four minutes or less. The mountain of paperwork just got bigger and bigger every day. After two weeks, she felt like she was looking up at Mt. Everest whenever she sat down. Her nerves felt like a balloon about to burst.



Her co-workers were no help, either. Peggy could only be counted on to eat everything in sight. He spent all his time looking lost and mumbling way too loudly. Tyrone just looked angry all the time, like he wanted to punch holes in the wall. Phil was even worse. That smug jerk hardly ever even looked busy, but he had the least work out of all of them. Worst of all was their boss, Mr. Crabwick. He started screaming if Susy-Becky clocked in so much as 10 seconds late. She felt like running and hiding every time he started in on her with those crazy eyebrows of his and his cheeks burning red. Something had to change soon or poor Susy-Becky would end up in a mental hospital!

She's been thinking a lot about ways she could make things easier on herself. She couldn't change the crazy quotas they put on her or the amount of paperwork she faced, but maybe she could do something about getting to work earlier in order to avoid the awful Mr. Crabwick. Looking at her budget, she saw an option. She might just be able to afford a car. She wouldn't have to sit next to Smelly Pete or have to listen to Bertha guffawing with her awful breath as she shoved her elbow into Susy-Becky's ribs. More importantly, she could get to work on time no matter how slow the buses were running.

"And, then Corrine said, 'Have you ever seen a Chihuahua scream like that?!' BWAHAHA!" roared Bertha in a wave of halitosis. That decided it. Susy-Becky was getting a car!



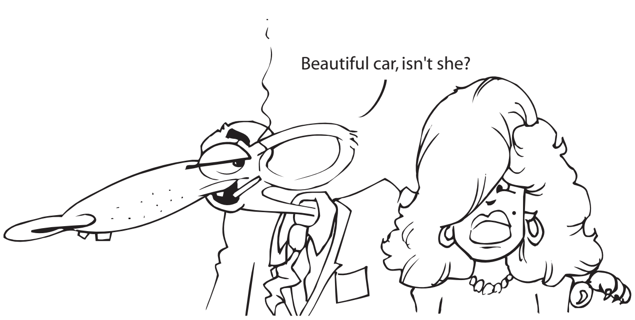
The fact that we all face is that it's sometimes necessary to own a car. Depending on where we live, we may be able to get by without it. Despite her problems, Susy-Becky lived in a place where she could get to work on the bus. That may be the reality of our budget. But, what if we aren't able to live near a bus route like she did? What if our job requires us to have a car or if we need to go to appointments or meetings at odd hours? Some of us may need to fit a car into our budget no matter what we do. Owning a car is expensive, but, if done the right way, it can not only be possible but actually help our credit.

In this chapter, we're going to change the way we think about car ownership. Purchasing a car is not just about the payment; it's about the total cost of owning the car. Many people take buying a car very lightly. They look at the payments or they buy a cheap old used car that they like and call it a day. What we need to do is think bigger than that. A car is the fastest depreciating asset that most of us will ever own, but it can be a tool to help us in many more ways than simply getting us to work and back a little bit faster. Let's take a closer look at the process and see how many mistakes Susy-Becky made that we can learn from.

At the Dealership

On Saturday, Susy-Becky is desperately trying to wind down after another hard week at work. Her nerves are on edge. In the back of her mind, that mountain of paperwork looms, waiting for her to return to it on Monday. But, this weekend she has an advantage to help her de-stress. She's buying a car! No more bus. No more Bertha or smelly Pete. No more screaming Mr. Crabwick. She had a little skip in her step as she walked onto Felder & Mark's Big Time Auto Lot, conveniently only four blocks from her apartment.

F&M sure did have a ton of cars. It intimidated her more than a little bit when she looked out over the vast array of new cars, old cars, shiny cars and cars that had, to be honest, seen better days. With no one in sight to help her, she wandered around the lot looking in windows and trying to look like she seemed to know what she was doing as she looked under the few raised hoods. She kept coming back to this one car with lots of personality, a cute shiny lime green one. It happened in the moment that she decided that this was the car she liked most. A smiling salesman seemed to materialize out of thin air right at her elbow.



"Beautiful car, isn't she? She just came on the lot yesterday. Straight from the factory," said the man with a friendly smile. Susy-Becky caught herself as she jumped, startled at the man's sudden appearance. He seemed nice, though, and he held out his hand in a friendly way. "I'm Terry. How can I help you?"

"Oh. Uh… Susy-Becky. I was just looking at-" Susy-Becky started to say as she shook his hand.

"Yes. It's a fantastic car, isn't it? Do you know I can just picture you driving into town in this car? Wind in your hair. Living life to the fullest, right? You only live once, after all. Step into my office over here, and we can talk about it. I'd love to see you drive off in this car today."

"Oh. Alright," said Susy-Becky. She followed along, nervous but encouraged by the salesman's confidence. Inside, there was a comfortable and exciting air, the mingled scents of new car and coffee drifting about. Susy-Becky sat across from Terry and smiled back at him as he worked at his computer for a minute. After some small talk, Terry's assistant brought out some coffee and the real negotiations began.

"I really want to help you with this. I want to see you drive off in that car today and never have to be at the mercy of the bus system again. Tell me, how much were you looking to pay per month?" asked Terry.

"I was hoping for around $350 a month. I have $3,000 that I can put as a down payment," said Susy-Becky with confidence.

"$350 definitely sounds do-able. Let me get your information, and we'll see what we can do."

"Thank you," said Susy-Becky and fished her driver's license out of her pocketbook. Terry entered her information into his computer and nodded with a fresh smile for a moment as he handed back her license and waited. His smile slowly faded as he read what was on the screen.

"Hmm…" he said worriedly.

"What is it?"

"Well… It looks like your credit isn't… perfect. I can get you in the car. There's no problem about that, but I'm looking at a monthly payment of about $435.63 here."

"Oh, no. That's way more than I can afford," Susy-Becky said firmly. No way was she going that far over her budget.

"I really want to see you in this car. It was made for you. Let me talk to my boss for a minute, and I'll see if he can approve this for a lower amount. Okay?"

"Yes. Okay," said Susy-Becky. Terry left her sipping her coffee as he walked off out of the office. Susy-Becky looked around the office for a few minutes. If she leaned back, she could just see Terry in another office across the way talking to someone out of sight. She gave a little nod. This was going pretty well, really, and much easier than she had thought it would be. Within a couple minutes, Terry was back. "Good news?"

"I think so. Let me just punch in the numbers my boss gave me," said Terry. He sat down and tapped at his keyboard again for a moment. "He gave me a hard time about it, but I explained your situation and talked him down to monthly payments of $375.08."

"Oh, that's still more than I was hoping to pay," said Susy-Becky. Terry wasn't the only one who could play hard-ball here. She'd stated her price, and she was sticking to it.

"It's only $25. You can't find $25 a month? Susy-Becky… Come on. I could find you $25."

"I know it's not that much more, but…"

"$25 is $25, right? Let me… Do you think you could put any more down? That would make it a lot easier to deal with my boss. He's kind of old school, and can be a little aggressive, if you know what I mean."

"Um… maybe a little bit," said Susy-Becky with a sigh. She hadn't wanted to take so much out of her savings. It had taken a year just to build all that up. Still, if it wasn't that much more than she'd planned on spending it might be okay.

"If you could just do an extra $500, I'm sure I could get him to come down on the monthly payments to where you need it to be."

"I… Yes. I think I could do that," Susy-Becky replied, doing the math in her head. She'd just have to go lean on the Christmas spending this year. It would be worth it if she walked away with a new car.

"Okay. Let me talk to him again. I won't be a minute," said Terry. He disappeared back into the office across the way. Susy-Becky watched him this time as he seemed to get into an argument with whoever was in there. She nodded with satisfaction. Maybe all salesmen weren't bad. Terry really seemed to be going to bat for her.

"It looked like you were arguing in there," she said when Terry returned looking a little ragged.

"Yeah. He didn't like the idea, but I got him to come down again. It's really his last offer on the Civic, though. Let me just put in his numbers," said Terry. He tapped at the keyboard one more time. With a wide, confident grin he nodded when he looked back at Susy-Becky and said, "If you can put the extra $500 down I've got you a payment of $345.92 per month. You can drive out of here today."

"Really? Well, that's fantastic!" said Susy-Becky, and she reached back into her pocketbook for her credit cards. Terry smiled as he reached to take them out of her hands.

Susy-Becky got her car! She even managed to get it for slightly less than the price that she had in mind. She walked away from the deal happy. The salesman walked away from the deal happy. Everyone was happy, so it must have been a good deal, right? Actually, no. They say a sucker is born every minute. Both Susy-Becky and the salesman were laughing at each other here, but the sucker in this situation is not the salesman. Car dealers don't make millions in profits every year because they're suckers. Susy-Becky made a lot of mistakes. Let's take a look at what she did wrong by taking a step back and looking at this from the other side of the transaction. What's really going on here as Susy-Becky walks onto the car lot?

Terry leaned back in his chair watching the game on the little TV that sat on the shelf under his desk. Things had been going well lately. Sales always picked up around the holidays with no shortage of saps wanting to buy a car for their girlfriends. In fact…

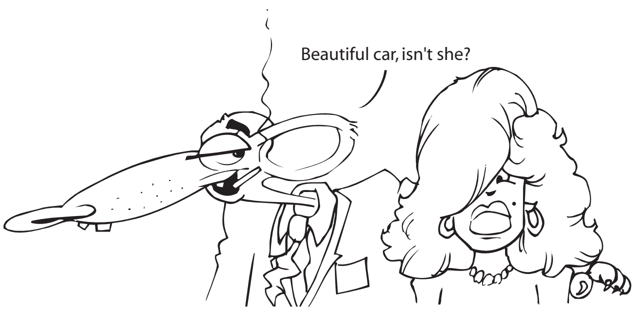
Terry sat up in his chair with a grin as he spotted the small woman walking around the lot, peering into windows. Terry couldn't help smiling widely as he saw that she looked completely lost. He rubbed his hands together in anticipation, watching as she roamed around and kept coming back to a new Honda Civic. He could almost taste the blood in the water.

And, here we see Susy-Becky's first mistake. Shopping for a car is not like shopping for clothes or food. It's a huge purchase and requires some more investment on the part of the customer. When you buy cheese, you're buying something that's made to be consumed. When you buy a car, you're purchasing an asset. The first key here is to know what your asset is worth and make sure that you are getting the best possible asset for your money.

Susy-Becky walked in not having the slightest idea what she wanted. She had no idea about price or value; she decided on a car by the way it looked which was the exact wrong thing to do. Her first step should have been to figure out the exact car she wanted, down to the details of exterior color, interior color, and all the needed extras. This used to be a very time-consuming process (visit multiple car lots, research classified ads, buying a Kelly Blue Book, and so on…) Today, we have a mountain of resources at our fingertips. Remember when we talked about the importance of getting a Smartphone? This is another one of the reasons why. Using our phone, we can visit the Internet, visit the manufacturer's website, and learn about your options. You can look up the history of a specific car on sites like CarFax.com by inputting the VIN. The next step is to figure out what that car sells for in the marketplace. You don't do this by visiting one local dealership. Call on the phone, use the Internet, visit several dealerships, and **do your research**. You need to know exactly what you're buying and how much it's worth.

"Sucker in aisle five! Cleanup on aisle five!" said Ray, emerging from his little office across the way. Terry glared at him.

"Dibs! I saw her first," said Terry, staring him down. Ray complained but gave in. He'd gotten the last schmuck that had wandered in. It was Terry's turn, and it looked like the new fish had just taken the bait. The little lady had settled in, smiling at the Civic like it was an old friend. Terry was up and outside so fast that his chair was still spinning in place by the time the door shut.



"Beautiful car, isn't she? She just came on the lot yesterday. Straight from the factory," he purred as he reached the sucker. Err… customer. She jumped a little, startled that she didn't hear him approaching, but she nodded slowly. This was all going to be easier than taking cheese out of a refrigerator. Terry extended his hand with a warm, practiced smile. "I'm Terry. How can I help you?"

"Oh. Uh… Susy-Becky. I was just looking at-" said the little lady. She shook his hand and nodded at the Lime Green Honda Civic.

"Yes. It's a fantastic car, isn't it? Do you know I can just picture you driving into town in this car? Wind in your hair. Living life to the fullest, right? You only live once, after all. Step into my office over here, and we can talk about it. I'd love to see you drive off in this car today."

"Oh. Alright," said Susy-Becky. She followed along, as he led her into the office.

Inside, she sat in the soft chair across from Terry as he settled in and punched the password into his sales computer. He called up the info on the Honda Civic in about three seconds. It just got delivered two week ago as part of a batch from Honda. Mr. Felder paid $14,000 for it and wanted to turn around $11,000 in profit from the sale. That meant a $25,000 loan for Susy-Becky. He tapped on some number keys for another minute for effect before turning back to Susy-Becky. He gave her another easy smile and asked, "Would you like some coffee?"

"Oh! Thank you," Susy-Becky nodded with a smile. Terry motioned at Ray, who shot him a dirty look but got up to get the coffee.

Terry made some small talk that he knew would interest the sucker. 'Ask about their lives' was the first rule of sales. Susy-Becky was all too happy to talk about having to ride the bus and got in some complaining about her co-workers by the time Ray came back with the coffee. He glowered at Terry but smiled when he handed a cup to Susy-Becky at least before he walked off again and disappeared into his office.

This is Susy-Becky's second possible mistake. Back in Chapter One, we discussed psychological marketing. It's just as prevalent at the car lot as it is at the grocery store. Most of it we're aware of. Some of it we're not. A good professional dealership will even arrange the cars in a certain way to maximize interest. That smell of coffee and new cars as you walk in is carefully calculated, and the salesman is usually not asking about your life because he is so very interested. Always remember that his goal is the opposite of yours. Terry, in this situation, wants to sell Susy-Becky the most expensive car she will sign for at the worst possible terms. Susy-Becky should be wanting to get the best possible terms for the greatest value.

It seems obvious, but so many people fall for it. Don't be drawn in by the small talk. There's nothing wrong with being sociable, even in this situation, but always remember what's really going on in this transaction. It's the salesman's job to make you forget that and think you're just talking to a friend with your best interests at heart.

Terry nodded sympathetically as the chump sipped at the coffee and said, "I really want to help you with this. I want to see you drive off in that car today and never have to be at the mercy of the bus system again. Tell me, how much were you looking to pay per month?"

"I was hoping for around $350 a month. I have $3,000 that I can put as a down payment."

"$350 definitely sounds do-able. Let me get your information, and we'll see what we can do."

Susy-Becky's third mistake just happened. Notice that Terry didn't even ask twice about the down payment. That's because Susy-Becky has shown no sign of having any idea what the car she chose is actually worth. Without knowing the actual cost, how can she have any idea about what her payments should be or how much she should put down? Let's look at the real cost of owning and operating a car.

Car ownership costs are basically of two kinds: Fixed costs, which are not affected by the amount of driving you do; and variable costs (also called operating costs), which depend on the number of miles you drive your car. Both depend on the type of car (and extras) you buy in the first place.

What you want to figure out is the real cost **per mile** of running your car. You can figure the real cost, per mile, by dividing your total fixed and variable costs by the total number of miles you drive over any period of time you choose.

(FIXED COSTS + VARIABLE COSTS) / TOTAL # OF MILES PER YEAR = COST PER MILE

'Depreciation' is the amount of value a car loses as it becomes older. It's a major factor for you to consider whether buying or leasing a car. This table is taken from the National Automobile Dealers Association's (NADA) USED CAR GUIDE. According to the NADA, the average car loses 30% of its value the first year it is driven. A brand new car that you buy for $25,000 loses $7,500 in value within one year and is then worth $17,500. In the first three years of car ownership the car loses 62% of its original value, or $15,500 in the case of Susy-Becky's "$25,000" Civic. How do you use this information? **DON'T BUY THE CAR FOR THE PAYMENT**. Start buying based on total car cost. To do this, you must understand the cost of depreciation.

Average Automobile Depreciation Schedule

		($25,000)
Year 1:	30%	$7,500
Year 2:	18%	$4,500
Year 3:	14%	$3,500
Year 4:	11%	$2,750
Year 5:	8%	$2,000
Year 6:	6%	$1,500
Year 7:	5%	$1,250
Year 8:	2%	$500

In Susy-Becky's example: She's looking to buy a $25,000 new car. If she drives the car for three years and then trades it in on another new car (by the way, the average American keeps a new car for three years), then the total cost of ownership is as follows:

Fixed Costs:	
Depreciation (three years):	$15,500
Registration ($50 per year):	$150
Purchase Tax (7%):	$1,750
Finance Cost (one time):	$500
Insurance Cost ($1,000/year):	$3,000
Total Fixed Costs:	**$20,900**

Variable Costs:	
Gas ($110 per month):	$3,960
Oil ($25 per quarter):	$300
Maintenance/Parts ($25/mo.):	$900
Accessories:	$250
Tires:	$600
Total Variable Costs:	**$6,010**

Total Costs: $26,910

Now that you have established the total cost of ownership, $26,910, you divide that by your average mileage of 36,000 miles (12,000 miles per year) and find that your mileage cost is: $.75 per mile. Of course, your cost per mile will vary depending on your driving habits; the higher the mileage the lower the cost per mile and vice versa. Different cars will also have different expenses. A Ford Mustang will have higher gas and insurance costs than a Chevy Malibu. As with any kind of shopping, the most important thing you can do to start with is comparison shopping. Once you have your cost per mile figured out on different cars, you can make a side-by-side comparison to figure out the best value.

Why is this so important? Universally, one of the first questions the sales representative will ask the car buyer is: "How much are you looking to spend?" When you buy a car based solely on whether you can afford the monthly payment, you end up with a very expensive total car cost.

"Thank you," said Susy-Becky and fished her driver's license out of her pocketbook. Terry entered her information into his computer and nodded with a fresh smile for a moment as he handed back her license and waited. He let his smile slowly fade while her credit report came up on the screen. Susy-Becky's credit score wasn't terrible, a 650. He could get her a good 7% interest rate. With $3,000 down, that brought the loan amount down to $22,000. Their standard loan length was 5 years. He punched up all the numbers and then shook his head with as much pity as he could muster.

"Hmm…"

"What is it?" asked Susy-Becky nervously.

"Well… It looks like your credit isn't… perfect. I can get you in the car. There's no problem about that, but I'm looking at a monthly payment of about $435.63 here."

"Oh, no. That's way more than I can afford."

This should have been Susy-Becky's clue that she was making yet another mistake. First, how did she decide on $3,000 down? How much should you put down on a car loan? The quick answer is: as much as you can. You want a minimum of one-fourth to one-third of the purchase price of the vehicle. Susy-Becky went through this entire transaction without ever doing one very important thing that should be glaringly obvious. She never did her research ahead of time and, more importantly, she never even asked how much the car cost. The dealership wants to sell the Civic she was looking at for $25,000, meaning she should be putting between $6,250 and $8,333 down. What if she had put down $6,250 on the car (the absolute minimum she should have been considering)? With the same loan terms (7% interest, 5 years), her monthly payment would have been $371.27. That's much closer to what she was hoping to work with in her budget. If she'd put the full $8,333 down, her payments would have been $330.03.

The math here is simple. Put down as much as you possibly can to reduce the loan amount. But, there's more going on in this equation. Suppose Susy-Becky only had $3,000 to put down on a car. Her payments for the Civic are then stuck at $435.63 per month for a five year loan. What does that mean? She said it herself. "*That's way more than I can afford*." The problem was not that Susy-Becky needed a lower monthly payment. The problem was that Susy-Becky needed a cheaper car. Had she done her homework and realized that she should have been looking at something more like a Honda Fit ($12,000) than a Honda Civic ($25,000), she might have come out a little better in this transaction. For a $12,000 car with $3,000 down and the same loan terms she was looking at before, her monthly payment would have been $178.21, which fit well within her budget.

Susy-Becky went into this purchase with no information. That was the single biggest mistake she made. She had no knowledge (**K**) and so had no power (**P**) or control (**C**) of the negotiation. The second thing she should have done after comparison shopping and finding out the value of the car she wanted was to look for financing.

As with anything else, you want to find the best possible deal in financing the car, assuming that, like most buyers, you don't have several thousand dollars lying around to pay cash and instead intend to buy using credit. On top of interest rates on automobile loans, financing costs are being increased by the trend toward longer and longer repayment periods (typically three years on a used car, five to six years on a new car); lower and lower down payments (often only 5 - 10%); and larger and larger loans (the other 90 - 95%).

The Best Ways to Shop for an Auto Loan

Here is how you shop for the best deal in financing your car:

- Ask the dealer you intend to buy the car from exactly what financing terms he'll offer. Don't consider any deal unless the total financing charges, over the full life of the loan, are spelled out clearly in writing – including the amount of the cash down payment, the unpaid balance to be financed, and the true annual percentage cost. This detailed disclosure is required by the Truth in Lending law, be warned if it isn't made.

- Ignore slogans! "Easy payment terms", "No money down? No problem!", and "No credit? Bad credit? No problem!" should all send you running for the hills. You need to arm yourself with knowledge and find out exactly what these terms actually mean in dollars and cents.
- Plan to make the biggest down payment you can – if possible, at least one fourth to one third of the purchase price – and try to repay in the shortest period possible. Of course, the monthly payments will be larger this way than if you stretched out the loan, but you will save thousands of dollars in interest.
- Once you have the facts on financing a car through your car dealer, visit the local bank or credit union. Ask the auto loan department what terms they offer. Make sure variables, such as the down payment and the period (in months or years) during which the loan will be repaid, are the same when comparing each lender's terms.

Comparison shopping: this is the most vital tool you have in any transaction you make. Most of us think of this in terms of groceries or clothing, but why not apply it to any purchase? An auto loan is a huge purchase for a rapidly depreciating asset. Give yourself as much knowledge as you can possibly get in every aspect of making this purchase. With that knowledge, you now have the power to make an informed decision and to control the situation during the sale, unlike what Susy-Becky was doing.

In general, the most expensive sources for automobile credit are new and used car dealers. Let me reiterate that. The absolute worst place you could get an auto loan from is the auto dealer! The automobile finance companies which work with them are not designed with your best interests at heart. Small loan companies are the second worst, though not very far behind. The least expensive sources are credit unions, which usually charge the lowest rate of true annual interest and which tend to lend relatively large amounts toward the purchase of new or used cars; commercial banks, which charge auto loan interest rates generally comparable to those of credit unions; and life insurance companies, if you have a policy with a cash value against which you can borrow at the lowest rate of all.

Money Saver! The Internet has made auto loan comparison shopping easier than ever. Several websites allow you to compare hundreds of banks and finance companies in one easy location, and the competitiveness usually means you get a superior rate and price as a consumer.

Notice that the car buying experience has been broken down into three steps:

1. Figure out the exact car you want, down to the details of exterior color, interior color, and all the needed extras.
2. Figure out what that car sells for in the marketplace.
3. Find the best possible deal in financing the car.

Most people simply purchase and finance their car at the dealership. The dealership makes a big profit from selling the car and another big profit from arranging the financing. The car buyer, blissfully unaware of the total cost of their new car, drives away none the wiser. Susy-Becky thought she walked away with a great deal. She didn't. And, we didn't even stick around to find out what else the salesman might have tacked onto the contract after the fact. By breaking the car buying experience into three steps, and dealing with multiple channels, you can significantly lower your total car cost. You also reduce the possibility of impulse buying, the old "ah what the heck" or "why not" that you have been talked into by the car salesman.

"I really want to see you in this car. It was made for you. Let me talk to my boss for a minute, and I'll see if he can approve this for a lower amount. Okay?"

"Yes. Okay," said Susy-Becky. Terry left her sipping her coffee hopefully and walked over into Ray's office. Ray looked up with a raised eyebrow as Terry closed the door behind him and sat on the edge of Ray's desk.

"What's up?" said Ray.

"Nothing," Terry smiled. "Did you catch the game last night? It looked like they were playing in a damn blizzard."

"Yeah. Think they have heaters in their gear?"

"They gotta have something because that looked freezing."

"How's the sucker?" said Ray, leaning over to look out the office window at Susy-Becky.

"She's fine. You going to the Christmas party?"

"I don't know. It was a whole lot of hassle last year. Remember Lonnie?"

"Yeah," said Terry with a sigh. "Never seen anyone complain about a Secret Santa before. I'd better get back out there. Talk to Christie. I think she's doing her own party this year."

"Yeah, will do," said Ray. Terry opened the door again and strode purposefully back to his desk with a big smile for Susy-Becky. She smiled back, beaming with hope.

"Good news?" she asked.

"I think so. Let me just punch in the numbers my boss gave me," said Terry. He sat down and called up his loan screen again. He upped the loan length to 6 years and sat back. "He gave me a hard time about it, but I explained your situation and talked him down to monthly payments of $375.08."

"Oh, that's still more than I was hoping to pay," said Susy-Becky, looking a little crestfallen.

"It's only $25. You can't find $25 a month? Susy-Becky… Come on. I could find you $25."

"I know it's not that much more, but…"

"$25 is $25, right? Let me… Do you think you could put any more down? That would make it a lot easier to deal with my boss. He's kind of old school, and can be a little aggressive, if you know what I mean."

"Um… maybe a little bit."

"If you could just do an extra $500, I'm sure I could get him to come down on the monthly payments to where you need it to be."

"I… Yes. I think I could do that."

"Okay. Let me talk to him again. I won't be a minute," said Terry. Back in Ray's office, they had a coffee and spent a good five minutes talking about who they liked for the Superbowl. Ray got a little animated. He insisted on backing the Lions every year. Some things were just too easy. Finally, Terry took a deep breath and walked back out to see Susy-Becky once more.

What's going on in this situation? Any time you've purchased a car, the salesperson has had a large number of negotiation tactics to use on you. They've probably used several. The particular one that Terry is using here is to separate the buyer from the decision maker. By going to "talk to his boss", Terry is removing the responsibility for making the decision from himself. This does two things. First, it makes him look more sympathetic in Susy-Becky's eyes. Now, he's doing the negotiating on her behalf, which gives the appearance that he's "on her side." He's the one begging for favors so that she doesn't have to, after all. Is he really on her side? Not even close.

The second thing this does is that it separates the buyer from the person who can actually make the decisions. Now, if things go badly, Terry can claim that his hands are tied. After all, it's not him being stubborn and cruel. It's his boss. It's not his fault, and by not agreeing to the terms now Susy-Becky is making Terry (her new best friend) suffer. What this tactic ultimately does is reduce your standing (as the buyer) in the negotiation.

Our example is extreme, of course. It's entirely possible that Terry really was going to talk to his boss about loan terms. Either way, if you find this tactic being used on you there is one easy way out. Stop talking to Terry. Your best bet is to ask to speak directly to the owner or manager. This is true whether you're buying or selling. Don't waste time trying to negotiate with someone who has no authority.

"It looked like you were arguing in there," she said timidly.

"Yeah. He didn't like the idea, but I got him to come down again. It's really his last offer on the Civic, though. Let me just put in his numbers," said Terry. He tapped at the keyboard once more. With a wide, confident grin he lowered the loan amount to $21,500, upped the loan length to 7 years, and, while he was at it, upped the interest to 9%. He nodded when he looked back at Susy-Becky and said, "If you can put the extra $500 down I've got you a payment of $345.92 per month. You can drive out of here today."

"Really? Well, that's fantastic!" said Susy-Becky, and she reached back into her pocketbook for her credit cards. Terry smiled as he reached to take them out of her hands.

So, now Terry, who gets paid a percentage of sales as commission, is just making up numbers. It's not really too bad, though, right? After all, he's merely making the numbers fit what his customer was asking for. She wanted to pay $350 per month. He's making her pay $350 per month. Even better, he's saving her $4.08! Let's look at the actual numbers.

Susy-Becky is now putting down $3,500 on a $25,000 loan. At the original terms (7% interest for 5 years), this still puts her monthly payment over her budget ($425.73). Terry, nice guy that he is, ups the length of the loan to 7 years. He could have left it at that, making her payments $324.49 per month. For that matter, he could have made the loan for 6 years and given her a payment of $366.55, but by putting her at 7 years he was able to up the percentage rate to 9%. Susy-Becky, with no knowledge in her head, made the decision that most car buyers, believe it or not, make. Great! That's exactly the payment I was hoping for. She bought the payment, not the car.

Again, her biggest mistake going into this whole situation was a lack of knowledge. She could not afford the car she was looking at. What's the big difference between paying for a car for 7 years at 9% interest as opposed to 5 years at 7% interest? Monthly payments aside, the first difference is the extra $3,513.33 she'll be paying in interest. Beyond that: remember when we talked about depreciation? After three years, Susy-Becky's car will only be worth $10,000 (because it will have depreciated 62% by then). With the 5 year loan, she's doing well. She still owes $9,508.63, but she's ahead of the depreciation value by almost $500. By going with the 7 year loan, however, she still owes $13,900.53 on the loan. She's "upside-down" on the loan by $3,900.53. In other words, she still owes more than the car is actually worth. Worse than that, because the car keeps depreciating she will never catch up to the depreciation value until the loan is paid off. In the fourth year, it actually gets worse. Now, she owes $4,127.93 more than the car is worth. And so on…

What this means, in terms of total car cost, is that the same car costs more if you increase the length of the loan. By jumping for the 7 year loan at 9% instead of the 5 year loan at 7%, Susy-Becky is paying $89.71 less per month. But, she's also paying $2,919.30 more for the car. She was having trouble affording it in the first place, why would she be happy about paying an extra $3,000 for it? How much *extra* interest would you like to pay for a new car?

The reality is, of course, that you really can only afford a certain level of monthly payments. If you have $350 set aside for your car payment like Susy-Becky, then the $435.63 per month option doesn't work… right? **Wrong!** In this case, the problem is that the CAR doesn't fit your budget. You have to find a car that you can pay off in three years with payments of $350 per month. You have to live within your means, especially with an asset like a car that loses nearly a third of its value the first year.

Imagine how differently this might have gone if Susy-Becky had walked onto Felder & Mark's Big Time Auto Lot armed with the knowledge that she should have had in the first place.

On Saturday, Susy-Becky is desperately trying to wind down after another hard week at work. Her nerves are on edge. In the back of her mind, that mountain of paperwork looms, waiting for her to return to it on Monday. But, this weekend she has an advantage to help her de-stress. She's buying a car! No more bus. No more Bertha or smelly Pete. No more screaming Mr. Crabwick. Of course, that meant a little work on her part, but the thought of all the freedom she would have with a new car was enough to give her a smile despite all her problems.

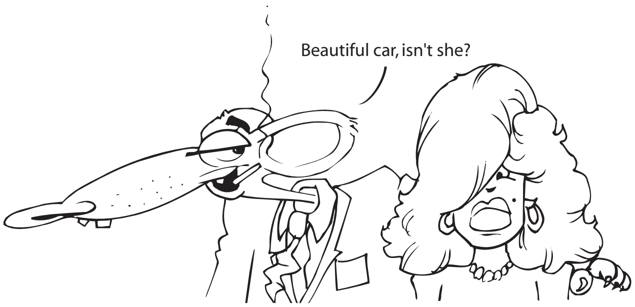
Susy-Becky woke early and spent some time looking up cars on the Internet. She went to several dealership websites, looked up some information on <kbb.com>, and then called six dealerships to compare prices. She knew she only had $3,000 to put down and her budget really only would allow for a monthly payment of $350. Even that payment would be pushing the limits given that she would need to add the cost of insurance, gas, and maintenance. What sort of car could she afford for that amount? Well, $3,000 is one-fourth of $12,000 (which she learned is a good amount to put down on a car), so she started her search in that range.

After a few hours, she took a break. She'd learned a lot. She really liked the look of the Honda Civic, but it was just too expensive to fit into her budget. After some more searching, she'd settled on the Honda Fit, which also came in a cute lime green. She'd called several lots and asked a standard question: "Hello, I'm interested in buying a new Honda Fit, lime green with a soft cream-colored leather interior…do you have that car and what is your best price?" Three of the lots had come back with the $12,000 price point that was in her budget.

After her break, she made some more phone calls and visited the websites for several different Credit Unions and Banks. Some of them even had useful online tools to allow her to estimate loan costs by typing in some simple information! It was all working out so well. It was even fun in some ways, seeing how close she could get to the numbers that she wanted. Not like going out to Applebee's or anything, but it felt good to make the progress she wanted.

The best deal on financing that she found from the dealerships was at Felder & Mark's Big Time Auto Lot. They offered a 5 year loan at 7% with her credit score of 650. Balthasar Credit Union, where she had her savings account, did them one better, though. With $3,000 down, they offered her a loan for the remaining $9,000 at 6.5% for 5 years. Their loan department was even open on Saturday! It took some time to run down there, but once she was inside the people were very friendly and it only took her about an hour to get the paperwork all squared away. They contacted the auto lot to get the precise details of the car, and Becky was on her way with the loan paperwork in hand.

She had a little skip in her step as she walked onto Felder & Mark's Big Time Auto Lot, conveniently only four blocks from her apartment. F&M sure did have a ton of cars. It only took her a moment to find the car she'd chosen, the cutest little lime green Honda Fit. As soon as she saw it, a smiling salesman seemed to materialize out of thin air right at her elbow.



"Beautiful car, isn't she? She just came on the lot yesterday. Straight from the factory. We've had some calls about it, too," said the man with a friendly smile. Susy-Becky caught herself as she jumped, startled at the man's sudden appearance. He seemed nice, though, and he held out his hand in a friendly way. "I'm Terry. How can I help you?"

"Oh. Uh… Susy-Becky. I was the one that called about the Fit, actually," Susy-Becky started to say as she shook his hand. "I'd like to take care of the paperwork."

"Fantastic. Step into my office over here, and we can talk about it. I'd love to see you drive off in this car today."

"Alright," said Susy-Becky. She followed along, encouraged by the salesman's confidence. Inside, there was a comfortable and exciting air, the mingled scents of new car and coffee drifting about. Susy-Becky sat across from Terry and smiled back at him as he worked at his computer for a minute. After some small talk, Terry's assistant brought out some coffee.

"I'll be really happy if you're never at the mercy of that awful bus system again. What kind of payments were you looking to make on this car?" asked Terry.

"I already have the loan paperwork ready. Here it is," said Susy-Becky with confidence, pulling out the papers from her folder. "I'll be putting down $3,000 today along with the tax, tag, and title. The loan is from Balthasar Credit Union for the remaining $9,000. I believe they already talked to your loan officers."

"Oh. Right. Well… I'll get that taken care of," said Terry, looking more than a little out of sorts. He looked confused as he walked out of the office with the paperwork in hand. An hour later, Susy-Becky drove off the lot in her brand new Lime Green Honda Fit with payments of $176.10 per month, just a little more than half of the payment amount that would fit in her budget. She'd caught Terry by surprise, but he made the sale. Maybe his commission wasn't quite what he'd hoped for, but there was always another sucker.

That time, it went a lot better. There was virtually no negotiation at all because Susy-Becky walked into the situation with all the knowledge she needed. She was able to walk away happy and confident that she hadn't gotten a bad deal because she controlled the transaction. She had power as an informed consumer, and she used it. Incidentally, after 3 years Susy-Becky's Honda Fit will have depreciated 62% and be worth $4,560. At that point, she'll only owe $3,953.09 on the loan. She'll have $606.91 in equity to trade in on a new vehicle.

But, did she really get the best deal? Purchasing a new car was hardly Susy-Becky's only option. Let's take a look at two other choices that she might have made.

Leasing a Car

To determine if a lease makes sense you need to determine two important factors. First, how many miles do you usually put on your automobile per year? Second, what is the total cost of the lease from the point you acquire the automobile until the point when you turn it in at the end of the lease?

Mileage

Think of a lease as a long-term rental agreement. You are going to rent the car for say three years. When you sign a lease agreement, you are obligated to use the automobile less than the defined annual mileage limit. If you exceed that limit there is an extra charge of typically 12 to 15 cents per mile, which is due immediately when you return the car at the end of the lease. If you sign a lease for a car and agree to use only 10,000 miles per year and you actually average 15,000 miles per year, you will have a very large expense when the lease is finished. If the fee is 13 cents per mile for extra mileage you'd be looking at an additional charge of $1,950. It's important to understand that you can negotiate a higher mileage agreement up front for significantly less money than if you pay the fee at the end of the lease. Make sure to get the actual mileage needed up front in the contract.

Total Lease Cost

When leasing a car, you are not paying for the car; instead, you are paying for the depreciation of the car during the term of your lease agreement. If we look at Susy-Becky's Honda Fit, it costs $12,000 brand new. If she leases it for three years, the depreciation will be 30% the first year, 18% the second year, and 14% the third year for a total depreciation of 62%, or $7,440 (this is the amount she would pay during the lease).

When you buy a car, you usually make a down payment which reduces the amount of money you borrow, thus lowering your monthly payment. When you lease a car, you put money down on the car to reduce the depreciation amount (called Capital Reduction), and it lowers your monthly payment. Down payment and capital reduction are different, but the effect is kind of the same: They both serve to lower your monthly payment. In our example, you are paying $7,440 in depreciation; you lower that amount with a Capital Reduction of $1,500 (similar to a down payment) to $5,940. The lease cost is $5,940 divided by 36 months, or $165 per month.

Add up the total cost of the lease by adding the capital reduction amount, all the monthly payments, as well as any turn-in fees which should be clearly listed in the agreement. Now you have the total cost of driving the car for three years.

Compare Buying to Leasing

Now compare the total cost of the lease to the total cost of buying the same car for the same time period. Remember that mileage must be the same so that you have an equal comparison. Also remember that you need to know what the resale value of the purchased automobile will be at the end of the term you will own the car. You can find a good estimate of the future resale value by looking at the NADA guide and figuring out the average depreciation schedule for the specific car.

What about buying a Used Car?

Suzy-Becky had a third option when considering how to purchase an automobile. Used cars can be great for finding deals, but there is an old saying: Caveat emptor (Let the buyer beware). Doing your homework is even more important when purchasing a used car. You need to carefully consider what you are using the car for if using this option as well as the age of the car when you purchase it. If you buy a two-year-old used car, be aware that it has already depreciated 48% of its original value before you ever even lay hands on it. A used car can be a good option if you are the type of person who owns their vehicle for 5, 6, 7 years or more and likes to drive it into the ground before getting a new car, but DO THE RESEARCH!

Cars and trucks have changed a lot over the last 10 years. These days, almost every mechanical system is controlled by electronics. In fact, a typical two or three-year-old vehicle has more than 100 microprocessors, 50 electronic control units and 5 miles of wiring. What this means is that if you plan to buy a used car that's less than five years old and you think you can thoroughly check it out by taking it for a short spin and kicking the tires, think again.

Finding a reliable used vehicle works best as a three-step process that involves online research, a thorough initial inspection, and a final physical and computerized inspection performed by a mechanic. We'll discuss the first two steps so you can weed out the clunkers before spending money for your mechanic to do a final check. But, trust us: If you skip the final mechanic's inspection, it could cost you dearly. So, if you have your heart set on a particular make and model, start with step one before you go shopping.

Step 1: Check out your vehicle's reliability

Some makes, models, engines and transmissions are known for their high failure rates. Those are the facts you want to know before you start shopping. Some of the following sources charge a fee but may also be available for free at your local public library. Here's where to look for that information.

- **Consumer Reports ($30/year)** – Vehicle system reliability info based on actual readers' experience can be found here.
- **Truedelta.com ($10/90 days)** – Here's you'll find vehicle system reliability information along with actual repair costs incurred by owners.
- **Alldatadiy.com ($27/year) or eautorepair.net ($26/year)** – These up-to-date lists of technical service bulletins from carmakers disclose known failures, updated parts and repair procedures, and software fixes.

Step 2: Do your own inspection

Once you've selected a particular make and model and you go check out actual cars, here is a series of simple, quick things you can check out to eliminate possible problem cars. You'll need a few tools for this step. These include: a tread depth gauge, a digital volt ohm meter, brake fluid test strips, a flashlight, and a kitchen thermometer. Fortunately, all of these can be found at a good auto parts or dollar store relatively cheaply.

- **Check all the features -** Test every vehicle feature to check for proper operation: power windows, power locks, power sliding door and hatch, sunroof, power seat, heated seats, power mirrors, cruise control, all climate control settings, backup camera and sensors, keyless entry and remote start, and exterior/interior lights.
- **Do a bulb check -** Turn the key to the On position but don't start the vehicle. All the warning lights (icons) should illuminate to prove that the bulbs work. Consult the owner's manual to see which warning lights are installed on that vehicle. The most common is the "Check Engine" or "Service Engine Soon" light. But, also check for ABS, Brake, SRS (airbag), TPMS (tire pressure), OIL, HOT (or gauge), ESP/TCS (traction/stability), and Battery/Charging lights. Then start the engine. All warning lights should turn off. If not, there's a problem.

- **Check the dipstick -** Pull the engine oil dipstick and examine the color. A honey color is an indication of fresh oil – light brown indicates slightly used oil (both good signs). However, a chocolate milk color is a bad sign that may indicate a leaking head gasket – easily a $1,500 repair or more.
- **Check tire tread depth -** Using a tread depth gauge (not a penny); measure the tread depth in the center and both edges on each tire. The three tread depth readings on each tire should be within 1/32" of each other. A greater difference indicates an alignment, inflation or suspension problem. All four tires should be within 2/32" of one another. A greater difference indicates lack of proper tire rotation. Tires with a tread depth of 4/32" or less should be replaced (factor the cost of new tires into your offer).
- **Check engine coolant for electrolysis -** On a cool engine, remove the radiator or overflow tank cap. Using a digital volt ohm meter set the dial to the 2-volt DC scale. Then touch the negative meter lead to the negative battery post. Dip the positive lead directly into the coolant in the radiator or overflow tank. The reading should be less than 0.300 volts. If it's not, the coolant is worn out and there's a good chance that corrosion has already started to eat away at cooling system components. If the reading is below 0.300 volts, turn off all electrical accessories, start the engine and rev it to 2,000 rpm and repeat the test. If the reading rises, the vehicle has an electrical grounding problem that must be addressed. Wipe off the meter probes before storing.
- **Check brake fluid condition -** When brake fluid wears out, internal corrosion sets in and corrodes brake parts from the inside out. The corrosion process leaches copper into the brake fluid. You can test for the presence of copper by dipping a test strip into the brake fluid reservoir and comparing the color with the chart on the package. High readings indicate owner neglect and a high possibility of internal brake system damage.
- **Check for rust and paint blisters -** Check along the edges of the hood and trunk lid, rocker panels, bottom edges of doors and around wheel wheels. Look for any rough or raised areas that might indicate the start of serious rust issues. Sellers often mask rust problems with touch-up paint, so look carefully.
- **Test A/C performance -** Close the windows and doors and set the A/C to "Max" and "Recirculate." Insert a kitchen thermometer into the center air duct. Start the engine and rev to 1,500 rpm for several minutes. The temperature should slowly drop into the 40's (unless it's a very hot and humid day). If the temperature doesn't fall below the high 50's, the A/C system requires service.
- **Check for leaking CV boots -** Turn the wheels full left or right. Shine your flashlight at the CV boots on each end of the axle. If you see tears or grease, you're looking at a $400 repair.
- **Test-drive the vehicle -** The vehicle should start right up and idle smoothly. Acceleration and all shifts should be smooth; jerky acceleration or harsh shifts are trouble signs. Apply the brakes at highway speed and check for brake pedal pulsation, steering wheel shake, or pulling to one side. Also, drive the vehicle to a secluded area with flat pavement and drive for a short distance with your hands off the wheel. The vehicle should not pull or wander. If it does, that could be a sign of tire, suspension or steering issues.
- **Beware of seller's claims -** The most common mistake is to trust the seller's claim that "the car just needs this small fix." The truth is, if the problem were really that small, the seller would have fixed it already. What the seller means is: "I was hoping the transmission only needed a fluid change. Then the shop told me it was going to cost $2,000. So, I'm actually telling you what my first guess was and hoping you'll believe it." So, if a seller says, "It just needs this small fix," RUN!
- **Negotiate a price contingent on a mechanic's approval -** Consult *nada.com, kbb.com, edmunds.com* and *truecar.com* to find what buyers in your area are paying for the same vehicle. Then subtract the cost of any required repairs discovered during your inspection. You can't blame a private seller for asking full retail car-lot price for a used car. But, a fair market value for a used car from a private seller is halfway between trade-in and retail. So, that's where you should start your negotiations – at that halfway point. Then subtract the cost of discovered repairs. Once you and the seller settle on a price, make the deal contingent on receiving a clean bill of health (no more than $300 in additional repairs) from your mechanic.

Asking price: $7,855
Needs:
CV Boots - $400
Brake Job - $275
Tranny Fluid- $180

OFFER: $7,000

Step 3: Get a professional inspection

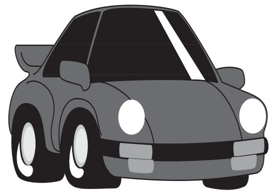
Expect a professional mechanic's inspection to run to $125 to $200. A professional inspection can discover the early stages of problems way before they turn into costly failures. So it's worth it to pay for a full physical inspection and test drive along with a complete computer scan.

The computer scan can discover whether the seller recently cleared trouble codes to cover up a problem. A professional scan told can also check whether the vehicle's software is up-to-date. Software updates are critical to the proper performance of your vehicle, and unlike free software updates for your home and business computers, updating vehicle software costs about $200.

Carfax.com is a good resource to use as well. If any claims have been made on the car, they will show up on the Carfax report. This is only helpful if a claim was made on the car, though. If the previous owner damaged the vehicle but did not file a claim, a Carfax report won't help.

KPC. The key here is to have as much knowledge as possible so that you have the power to control the transaction. It's not always easy or possible to gain all the knowledge you need when dealing with a used car. It has, after all, been subject to someone else's driving and maintenance habits. Another old saying is: You get what you pay for. If a deal on a used car seems too good to be true, it usually is.

So, let's look at the three options all in one place to determine what would really be Suzy-Becky's best option. Remember that all the variables for each option needs to be the exact same so that you're making a fair comparison (apples to apples instead of apples to lugnuts).

Honda Fit			
	Buy New	**Buy Used**	**Lease**
Purchase Price 	$12,000.00	$7,000.00	N/A (doesn't matter)
Down Payment/Capital Reduction			
	$3,000.00	$1,750.00	$1,500.00
Three Years of Monthly Payments			
Loan from Balthasar Credit Union: $9,000 at 6.5% for a 5 year term with monthly payments of $176.10 ($176.10 x 36 months = $6,339.60)	$6,339.60		
Loan from Balthasar Credit Union: $5,250 at 7% for a 5 year term with monthly payments of $103.96 ($103.96 x 36 months = $3,742.56)		$3,742.56	
A $12,000 car will depreciate 62% in three years. $12,000 x 0.62 = $7,440.00 (this is the amount you are paying during the lease). In this example, you reduced the capital by $1,500, so... $7,440 - $1,500 = $5,940			$5,940.00
Maintenance Costs			
We are assuming that the maintenance costs are going to begin by averaging the same amount over three years. Because the used car is older, we are adding 15% to the maintenance costs. The leased car includes oil and tire changes in the lease agreement, so those are excluded from the maintenance costs for our comparison.	$6,010.00	$6,911.50	$5,110.00
Sales Value			
To keep the comparison accurate, we are assuming that you drive the car for three years and then sell it, if you are the buyer. The NADA guide would give you a value for your car of: full value - depreciation. We are also making the assumption that you can sell the car for the full NADA value (which is generous as in most cases you will not get the full value)			
In the case of the new car: $12,000 - $7,440 = $4,560. You also have equity in the car (you only owe $3,953.09). This adds to the value of the car as you can sell it for more than you owe, but the remainder of your loan must still be paid off. The remainder is your profit on the sale. $4,560 - $3953.09 = $606.91	$606.91		
In the case of the used car, the car had already depreciated 48% before you bought it (it was 2 years old). Over the 3 years that you owned the car, it depreciated an additional 33% for a total depreciation of 81% from the original value of the car. ($12,000 - $9,720 = $2,280) You still owe $2,321.87 on your loan, meaning you are "upside down" on your payments (you owe more than the vehicle is worth). The difference between what you owe and what the car is worth must still be paid. $2,280 - $2,321.87 = $-41.87		$-41.87	
In the case of the leased car: You are only paying for the depreciation of the car over the time you are using it. So, there is no resale value as you will be returning the car at the end of the lease term.			N/A
Total Cost			
Total Purchase Cost: New Car:	**$14,742.69**		
Total Purchase Cost: Used Car:		**$12,445.93**	
Total Leasing Cost: Leased Car:			**$12,550.00**

In our example, to lease the Honda Fit cost $12,550.00, buying it new cost $14,742.69, and buying it used cost $12,445.93. You drove the car the same mileage, completed the same maintenance schedule, and sold or turned the car in (at the end of the lease) in the exact same condition. By buying used you saved $2,296.76 over buying new and $104.07 over leasing. So, it makes more sense to buy a used car, right?

The answer to that question is, of course: It depends. Should you buy new, used, or lease a car? That depends entirely on *your* driving habits and *your* needs. Are you going to pay the car off in five years or less, and plan to own and drive it for more than three years? Then buying the car new is the best choice. If you like to drive a different car every three years, like most Americans, then leasing is probably going to be the best choice for you if you can be sure to keep to a specific amount of mileage. If you're willing to do more research and tend to drive your car for more than five years, you may want to consider buying used. Now you have the formulas to figure it out for yourself!

Money Saver! Ultimately, you want to drive the best possible vehicle at the lowest total car cost.

REEFS

Chapter 5 - Finding a Home

We all need a place to live when we leave prison. Some of us may start off by living with a family member or a friend until we can get on our feet. Others will live at a shelter or half-way house. Still others will be able to find an apartment to rent, maybe with one or two roommates. Then, there are those of us who are financially able to buy a home of their own. Each of these options has advantages and disadvantages, and each of us has to face the reality of our own situation.

No matter which option we choose, where do we start? Let’s look at some of the options we face, so that we can gain that first step in the **KPC**’s (knowledge).

Staying with a Family Member or Friend

This option is likely to be the cheapest alternative. You may be allowed to live rent-free, or at a token amount, while you get back on your feet financially after your stay in prison. With discipline, you can use an opportunity like this to rapidly save money towards a place of your own, be it an apartment or a house.

If this is available to you, it may be the best way to start. Assuming that you don’t have a probation officer to place restrictions on you, this is the option that will likely offer you the most freedoms. You can come and go as you please. On the flip side, going to live with Mom (or your sister or friend) may place a strain on that relationship. Both you and they will have to readjust to the new situation. This option, therefore, works best as a temporary situation.

Living at a shelter or a half-way house

There are several types of shelters – overnight shelters, “regular” shelters, and halfway houses (Some examples: Salvation Army, the YMCA, and Ken Cooper Ministries). Each is a little different from the other. Of course, there are many beyond these three. You’ll need to contact your classification officer or someone on the outside for additional information.

These will likely be cheaper than renting or owning your own place. But, there will likely be some basic rules of the house that you will be required to follow—curfews, cleanliness standards, no alcohol, and so on. These types of living arrangements are also not designed to be permanent. They’ll expect you to find a place of your own after a while.

For those of us who have the option to find a place of our own, we have two basic choices (just like when purchasing a car) – buy or rent. Let’s look at each in detail.

Renting a Home

Unless you are absolutely certain that you won't want to move within the near future, renting will probably be your best option. For those of us who can't afford a house right away, renting will often be our first step toward that goal, as well. You won't get pride of ownership, nor tax deductions, nor build up equity, but renting may be the reality of our budget and can be a desirable way to live. The responsibility of general maintenance lies with the landlord. If you need or want to move, your only obligation is the length of your lease (and even that may be negotiable). Even with the initial move-in costs, it requires far less of an investment than buying a home. But, it still requires financial planning.

How much can you afford?

This will be among the first questions you must answer for yourself. You must have already applied the lessons on making a budget and living within it. If you decide you need to split the rental cost with a roommate or two, will you be able to live up to the lease obligations if they move out or can't (or won't) pay? You need to know the answer to these questions so you don't suddenly find yourself homeless. You also need to consider the costs of just moving in.

Remember our chapter on budgeting? We said that you want to allow 20 to 35% of your take-home income for housing. In our Taco Bell example, we worked a few extra hours and did a job on the side during the weekend to increase our income. Our take-home pay was $1,540.38. That means that I can allow between $308.07 and $539.13 for my monthly housing expenses. That's not going to get us a penthouse suite in downtown Tampa. It might get us a small studio/efficiency apartment. In our example, we leased an apartment for $1,000 and took a roommate to split the rent, each paying $500. That falls within our range ($500 is 32.5% of our take-home pay), but there are other things to consider as well.

As with all our finances, your credit rating is very important here. You'll also need to have an established relationship with a bank (at least one account). This demonstrates stability. The landlord and lender will want to know about that stability as well as if you can and will pay on time, every time. So will the utility companies who control your power and communications. If a credit check shows that your expenses are greater than your income can support, you likely won't qualify.

Make sure you pay your bills on time and in full every month.

Do everything you can to repair and build your credit rating. If you haven't taken Credit & Debt Management, it is an excellent resource to help you do this, and you can start while you are right here.

What if your credit score is low?

Some landlords will flat-out refuse to rent to you. Others will want a significant security deposit along with the first and last month's rental deposit. If you have an excellent credit rating, some landlords may forgo the rental deposit and/or the security deposit, or they may require significantly lower securities.

Are you financially prepared?

This doesn't only involve your credit rating and bank account. There are other things to consider as well. If you do not rent a furnished apartment, for instance, you will have to purchase your own furniture. How about pots and pans to cook in if your apartment comes with a kitchen? You'll probably need cleaning supplies. There are a lot of expenses to consider when you think about moving into an apartment.

Before you move in:

The odds of finding an apartment that includes utilities are much lower than they once were, and this can be a significant expense. The security deposit you make on your utilities will vary from company to company, from location to location, and with your credit history. Some utilities will return your deposit even while you're still a customer if you maintain a good record in paying your bills. That good record can follow you from utility company to utility company as well. Whatever your payment history is like, you will need to contact the utility companies and arrange an account with them before you move in.

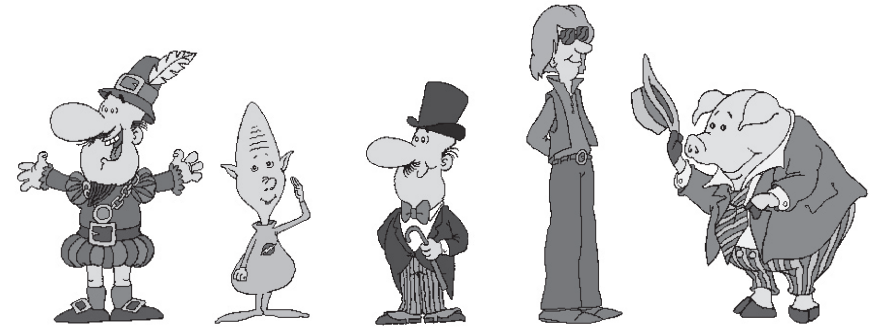
Typically, a landlord will require three months' worth of rent before you move in (first month, last month, and security deposit). This can add up to a significant sum of money. In our Taco Bell budget example, we were splitting the rent with one roommate. The actual rental cost is $1,000/month. That makes the move-in costs owed to the landlord $3,000 (first month $1,000+ last month $1,000+ security deposit $1,000= $3,000). In our case, if we were moving in with the roommate already arranged, we would be able to pay $1,500 each in deposit money.

When you first rent a property, take a tour with the landlord and document with photographs the exact condition of the property before you sign the lease. When you move out, make sure the property is in at least as good condition as when you rented it if you want to get your security deposit back. The landlord can withhold all or part as necessary to make the property rentable again. If possible, make a final inspection tour with your landlord (with the original photographs you took) before you move out. If there is serious damage, you may not only lose all of your deposit but you may even owe more. You may even be sued by the landlord. This will make future rentals much more difficult and should be avoided at all costs. When renting an apartment, treat it like it is someone else's property. Because it is.

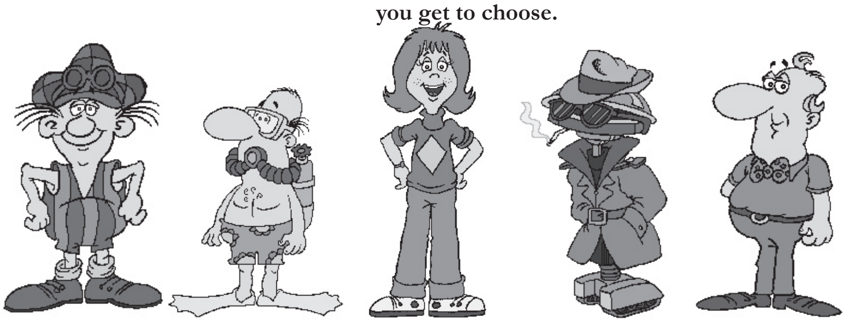
How can you protect yourself?

One of your first considerations when renting a new property should be the safety and security of both yourself and your possessions. An alarm system might be a good idea, but make sure it's allowed by your lease. It may be expensive and it may not be removable when you leave. Regardless, make sure your landlord changes the locks on ALL the doors and that you and the landlord are the only ones with copies of those keys. I know it sounds crazy, but some people aren't honest and others might be criminals. Former tenants will sometimes keep copies of the keys for their old locks and come back or sell the keys to burglars.

Even if you don't own the building, there are still things you do own and want to protect inside it – electronics, books, clothes, CD's, software, jewelry... whatever. You also have some liability for accidents that might occur in the property under your control. To protect your things and yourself, Renter's Insurance is a great idea. We'll talk more about insurance later, but it is a major advantage for a generally minimal cost.



Who would you like as your roommate? The good news is that, on the outside, you get to choose.



Of course, if you are sharing an apartment with a roommate make certain that you vet that person to be as sure as you can be that they are financially trustworthy (at least). You may also want to consider whether or not they are clean, lazy, or whatever characteristics you find important. You'll have far more privacy in an apartment than you do here in prison, but you'll still be living in close proximity with this person. This time, however, it's your choice to do so. It's important to make sure that the person you choose to live with you is a good fit for your lifestyle.

By far, the most important thing you can do to protect yourself when renting an apartment is to READ the lease before you sign it. As with any contract, it is going to have a lot of fine print. You need to understand all of it (and how it relates to you) BEFORE you agree to sign it. It's okay to take your time. Once your signature is on that piece of paper, you are legally bound by the terms.

Items to think about when looking for a rental unit:

- How many bedrooms, bathrooms, and closets does it have? What is the square footage? Is this sufficient for my needs?
- Are the appliances gas or electric? This can affect your utility costs.
- What kind of flooring does it have? Some floors are more susceptible to damage or stains.
- Do all the plumbing fixtures and appliances work?
- Is the location near where you work? Is it near public transportation? What about parking or schools?
- What is the condition of the walls and ceiling? Look for water stains or obvious cracks.
- Is the unit furnished or unfurnished? Remember that this affects our move-in costs.
- Is there central heat and A/C or are window units allowed?
- Is the area quiet and secure at night?
- Do all the windows open and close easily? Are the screens in good condition?
- Is there easy access to shopping, parks, and recreation?
- Are there sufficient electrical outlets, phone jacks, and cable connections?
- Are Laundromat services available?

How to find a place to rent:

There are many ways, but the best, as always, is on the recommendation of family and friends. They will usually give you the most objective opinions and will generally be speaking from their own experiences. Sometimes, referrals will get some sort of discount from the landlord.

Searching online is a great first step to do some research. There are a lot of useful sites and apps (such as *Zillow.com, Trulia.com, Apartment.com*, and *Rent.com*) to help do this. Local newspapers also still run rental ads in the classified section at least once a week. They also often maintain more extensive lists on their websites. Don't just check the major papers, either. Check out the weeklies and neighborhood papers as well. The downside of resources using either papers (and even more so the Internet) is that they get viewed by many, many people. So, competition for these properties can be fierce.

Local businesses like coin laundries, restaurants, and grocery stores also often have bulletin boards with rental listings posted. Real estate agents can be another source, and there are agencies that specialize in rental properties. They can be an excellent resource, but they tend to work on commission and will recommend the most expensive properties. Some will also want you to pay a finder's fee for their services.

What to look for in a lease:

A lease can be a little confusing for the average person. We keep mentioning this, but read all of it carefully, including (and especially) the fine print. Once you sign it, it's a legally binding contract.

- Look at the move-in date to be sure it's what you want
- Check the length of the lease. It is usually six to twelve months. Is the period too long or too short for your needs? During the lease, your rent should remain stable. Will the rent increase when the lease expires? Will renewal be automatic?
- How much is the security deposit?
- Are pets allowed? Are children allowed? Do either require an additional security deposit?
- What is included – water, electric, garbage, cable, use of recreational facilities, etc.?
- What changes are allowed by the tenant – hanging pictures, wallpaper, painting the walls, etc.?
- Specific landlord obligations – scheduled maintenance, emergency maintenance, repainting, shampooing carpets, changing filters, etc.?
- Be aware of all the rules about potentially subletting the property, termination of the lease, landlord access, etc.
- Be sure all parties have signed and dated the appropriate spaces. Leave nothing blank on the lease. If a section does not apply, fill in "Not Applicable" or "N/A." If any parts are or can be changed by consent of both renter and landlord, both should initial any such changes. See if the document should be notarized. Do not sign a lease with blank spaces.
- If there is no written lease, the span of your rental payment (weekly, monthly, etc.) determines the length of the agreement.
- Ask for clarification of any language or terms you do not understand.
- Be wary of "waiver provisions" that might affect your rights.
- Do not sign a lease that allows the landlord to show your property to potential renters while you are still living there.
- Be aware of your rights as a renter if the landlord sells the property.

8 Questionable Rental Fees To Look Out For:	
Excessive late-rent fees	Redecorating or cleaning fee
Overnight guest fee	Administration or processing fee
Unnecessary application fee	"Non-refundable deposit"
Repair fees	Finder's or Holding fee

For reference, there is a sample lease agreement located in the appendix of this book.

Renter's rights and responsibilities:

A tenant is entitled to the right of private, peaceful possession of the dwelling. Once you rent it, it is yours to lawfully use. The landlord may only enter the dwelling in order to inspect the premises or to make necessary or agreed upon repairs, but only if he or she first gives the tenant reasonable notice and comes at a convenient time. If an emergency exists, the requirement for notice may be shortened or waived.

Florida Statutes, Section 83.51, require a tenant to comply with the local Property Maintenance Code. This means that you must:

- Keep the house or apartment in a clean and sanitary manner.
- Remove all garbage from the house or apartment in a clean and sanitary manner (using garbage cans, for example).
- Keep all plumbing fixtures in the house or apartment in a clean and sanitary manner and in good repair.
- Properly use and operate all electrical, plumbing, sanitary, heating, ventilating, air conditioning and other facilities and appliances, including elevators, which are in the apartment or house.
- Not destroy, damage, or in any way misuse the property itself. This includes not permitting any of your guests to do so either.
- Not remove anything from the house or apartment which does not belong to you (for example, you can't remove light fixtures that were in the property when you moved in).
- Conduct yourself, and require anyone who visits you to conduct themselves, in a way that does not disturb the peace.

Landlord's rights and responsibilities:

The obvious right as a landlord is to receive rent for the use of the property. Another important right is to have property returned undamaged at the end of the agreement. It should be returned in the same condition in which it was received, except for ordinary wear and tear. The landlord also has other obligations, including:

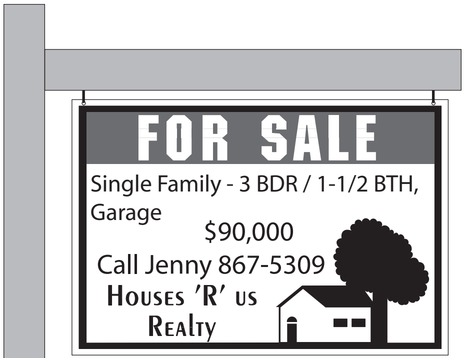
- Meet applicable housing and health codes
- Maintain the building in good repair
- Install and maintain smoke detectors

There is a complete copy of the Florida Statute regarding the landlord's obligations in the appendix of this book.

Common Renting Errors:

- Do not rent unless there is a lease. Should you do so; local and state statutes will govern the arrangements
- Do not rent property that is damaged until all repairs are made. This applies to water damage from leaks, stains, plumbing, appliances that don't work, etc.
- Be wary of subletting your property, even if the lease allows it. You are still responsible for any damages to the property.
- Do not sign a lease that makes you responsible for maintenance and repairs on the apartment beyond normal wear and tear.
- Be aware that improvements you make to the rental property may not be reimbursed by the landlord and may be kept by the landlord.

Always remember that whether you are buying or renting, the same three classic principles of real estate will determine price – **location, location, location**.



Buying a Home

To put it mildly, purchasing a home is a little more complicated than renting.

How much can you afford?

For most of us, a home will be the biggest asset we ever purchase. Therefore, the mortgage loan, for most of you, will be the largest amount of money you ever borrow. It is very important that you borrow that money at the lowest possible cost. Before you even begin to look for a home, you have to get very serious about getting your finances in order. The better your financial situation, the better your credit score will be, and the lower interest rates you will be able to obtain. Just a one percent difference on the interest rate (7% vs. 8%) will result in a difference of $24,646.35 over the life of a thirty year $100,000 loan.

In order to get the lowest possible cost on your mortgage loan you need to understand how mortgage lenders make their loan decisions. Once you understand their requirements, you can get your finances to match or exceed their expectations and that will mean a lower interest rate and considerable savings.

When making a mortgage loan, lenders are concerned about two types of risk with respect to the borrower and collateral:

- Will you be unwilling or unable to make the monthly payments required by the debt agreement (the mortgage note)?
- Will the value of the collateral for the loan (your home) be adequate to pay off the remaining loan balance if you default and the lender forecloses on your property?

Lenders use the following loan underwriting standards to judge whether they want to grant you a mortgage loan on a one-to-four family residential property (single family home, town home, condominium, duplex, and triplex):

1. You must have a satisfactory credit report and your records must indicate that you have paid your debts on time.
2. You must have a satisfactory employment outlook, and demonstrate that you hold a reasonably stable job. Your employment records should not show a high frequency of job changes or periods of unemployment.
3. You must have an adequate income that is more than sufficient to pay all of your monthly bills, plus the mortgage payment. To make this assessment, banks employ several payment-to-income ratios. (We'll take a closer look at this later.)
4. The home that serves as security (collateral) for the loan must have a market value that will accommodate your requested loan-to-value ratio (e.g., 80 or 90%). Additionally, the home must have a high probability of maintaining its value in the future so that, if you default several years after the origination of the loan, the home's value will exceed the remaining loan balance.

Collateral

Property acceptable as security for a loan or other obligation.

Debt-to-income ratio

A lending institution will not lend money to you if your debt ratio is too high. In other words, if you owe too much money out to other companies, they are unlikely to grant you additional debt for fear of not being able to be paid back. Even though you may have every intention of paying them, they will not take that risk.

So, what can you do to ensure that you will get the money you need to buy the home? There are two rules of thumb that lending institutions go by. The first is called a payment-to-income ratio. This one is simple. Whatever your mortgage payment will be, it needs to be no more than twenty-five percent of your take home pay. In our third budget example from chapter one, we had a job as a machinist taking home $2,753.27 per month. So, our mortgage payment should not exceed $680.89 per month ($2,753.27 x .25). If your proposed mortgage payment exceeds this amount, the bank will seriously consider whether you have too much debt and may not approve your loan.

The second method is called the debt-to-income ratio. With this method, you take your entire debt service load (mortgage payment, car payment or payments, credit card payments, furniture payments, and so forth) and it cannot exceed forty-five percent of your take home pay. This doesn't include monthly bills like phone or electric, only lines of credit (also called "installment debts"). Using our machinist budget again, our take home was $2,753.27 per month. So, our total debt load cannot exceed $1,238.97 ($2,753.27 x .45). Unless you can meet both the debt-to-income and payment-to-income ratios, it is unlikely a bank will consider your loan application. In this example, you would be allowed a $1,238.97 per month for bills, including $680.89 for a mortgage payment, leaving $558.08 for the rest of our installment debts. In our example, we have a car payment of $256.94. This means that my remaining debt payments can't exceed $301.14. If we owed credit card payments of $302 per month, we would be over that limit.

Job #3		
	Machinist **$18.50 per hour**	
40 hrs/ Weekly Income		$740.00
	(times 4.33)	
Monthly Income		$3,204.20
Less Withholding 15%		($480.63)
	Net Pay $2,723.57	
	Expenses:	
27.5%	Rent	($750)
13%	Food	($350)
5.5%	Clothing	($150)
11%	Savings	($300)
9.2%	Utilities	($250)
2.9%	Probation	($80)
20.6%	Transport	($561.94)
	Lease Payment	($256.94)
	Gas/Oil	($150)
	Insurance	($150)
	Repairs	($5)
10.3%	Discretionary	($281.63)
100%	Total	($2,723.57)

Payment-to-Income Ratio's

Monthly PITI
Must be < 25% of monthly net income

Monthly PITI + Other monthly obligations
Must be < 45% of monthly net income

(PITI = Principal, Interest, Taxes, and Insurance)

Before you even go to the bank, you can roughly figure out how much of a house payment you can afford by using these ratios. But, the question still remains, how much of a loan can you afford? The answer to that is actually fairly simple. The formula has two steps that look like this:

(Loan Amount) ÷ $1,000 = (# of Thousands of Dollars)

(# of Thousands of Dollars) x (The Factor) = (Monthly Payment)

Let's plug in the numbers on the next page.

For our example, we are going to consider a home that we want to purchase that costs $112,500. We are going to put 20% down, or $22,500, so the amount we need in a loan will be $90,000. We'll finance the loan for thirty years and the rate offered by the mortgage company is 8%. Here's the formula to figure out the payment:

_____________ ÷ $1,000 = ___________ x ___________ = ______________

Loan Amount **# $1000's** **Factor** **Monthly Payment**

Monthly Payment per $1,000 Loan Amount

Rate	15-Year Factors	30-Year Factors
5.5%	8.17	5.68
6%	8.44	6
6.5%	8.71	6.32
7%	8.99	6.66
7.5%	9.28	7
8%	9.56	7.34
8.5%	9.85	7.69

We're borrowing $90,000. So, we divide $90,000 by $1,000 ($90,000 / 1,000) = 90. Ninety represents the number of $1,000 units we are borrowing. Now we look up the factor. The interest rate the mortgage company is offering is eight percent on a fixed rate loan, so we look up 8% under "Rate" on the chart. There are two columns, a "15-Year Factor" and a "30-Year Factor". Our loan is for thirty years, so the factor is 7.34. Now, we have the numbers needed to figure out our monthly mortgage payment.

$90,000 ÷ $1,000 = 90 x 7.34 = 660.60

Loan Amount **# $1000's** **Factor** **Monthly Payment**

That is a rough estimate of the amount that our mortgage payment will be. However, be forewarned, that this amount is principle and interest only. It does not include the additional costs that many lenders include in the mortgage. For instance:

When you purchase a property, the lender will require an inspection by a professional, because the lender does not want to loan money on a property that is not worth the amount being loaned. We'll talk more about this later, but you must be prepared for the inspector to potentially return a report that will not result in the loan not being approved. In other words, the bank may refuse the loan regardless of your willingness to buy the property.

Property taxes, an issue taken care of by the landlord when you rent, become your responsibility when buying a home. You will need to either have them withheld in your house payments or save money to pay them yourself. Sometimes, you'll need to do both (if the lender does not hold enough in escrow to cover changing tax rates). Owning a home means needing to be very aware of state and local elections, changing tax rates, and changing zoning laws.

If you are a homeowner, your lender will require you to carry Homeowners' insurance to protect *their* investment against loss by fire, flood, etc. Protecting *yourself* against the loss of the contents, lawsuits by anyone injured on your property, and other potential hazards, will be up to you. Again, we will discuss this in more detail later, but just like buying a car means considering the cost of insurance, buying a home must mean considering the cost of homeowner's insurance.

Can you afford $660.60 per month as a mortgage payment using both the debt-to-income ratio and the payment-to-income ratio? In our machinist example, we could. If not, you can "play" with the numbers to figure out approximately how much you *can* afford.

Are you financially prepared?

Once you know what sort of loan you can afford, you need to know if you can actually qualify for it. Pre-qualifying is simply arranging financing before you go home shopping. Basically, you will go into your bank or credit union and apply for a loan. It is important to tell the lender that you are pre-qualifying, because for an actual loan application, they will wish to know what property you are buying. The lender will then run a credit check on you and pull up your credit history. They will also ask you to list all your debts (rent, car payment, credit card bills, and so forth that have a regular payment) as well as other bills. Then, they'll approve you for a certain amount. Their methods are very similar to what we discussed in the debt-to-income ratio section. This will give you a concrete idea of what sort of homes you should be looking at.

If you want to figure out if you are ready to buy, use the decision-making process:

Planning and goal setting:

You will want to carefully consider your current financial situation. What is your credit history and credit score? What is your current ability to pay monthly costs? There are websites you can use once you are out of prison to help. Hands-on-Banking, for instance, offers a checklist of things to consider before deciding if you are ready to buy. (*http://www.handsonbanking.org/htdocs/en/y/#/en/y/si/wea/ysiweardy.html*)

Making the decision:

You should have already made a monthly budget. Look at it and see if buying a house will fit into your financial plans. Don't forget the expenses associated with a house, such as: insurance, property tax, utilities, repairs, and other needs that might arise. Remember that it's not simply a matter of being able to afford the mortgage payments.

Assessing outcomes:

Is buying a house a good idea right now? If not, will it be possible in the near future? What do you need to do to accomplish this goal?

Always keep **KPC** in mind. But, be prepared for what it shows you. It doesn't help to have knowledge if you don't use it wisely. When buying a home, take a hard, honest look at your budget. If a home won't fit into it right now, then it won't fit. Ask yourself what you need to do in order to reach that goal and begin working toward it, but do not take a step that you aren't prepared to take. Taking on the kind of debt involved in purchasing a home without being able to handle that debt is like committing financial suicide. If you can handle the debt, there are still other things to consider...

Before you move in:

There are a number of things that will need to happen before you can move in and before the lender will even agree to the loan. Almost all of them will cost you money or affect the value of the house itself.

Down Payments

We've already discussed what kind of finances we'll need in order to make the mortgage payments themselves. One other major financial factor in purchasing a home is the down payment. The requirements for a down payment will vary between lending institutions. Some might not require any down payment at all. What's important to keep in mind is something that we mentioned in passing before: loan-to-value (LTV) ratio. The loan-to-value ratio is a measure of how much the loan amount is compared to the market value of the home. For example, if a loan of $80,000 is obtained against a property worth $100,000, the loan-to-value ratio is .80 or eighty percent. The higher the LTV ratio, the greater the payment.

In other words, the lender wants to see at least 20% of the loan covered before they'll loan you the other 80%. If you're buying a $100,000 home, they'll be looking for a $20,000 down payment. You can use collateral (say a piece of property) worth $20,000 to cover this, but, either way, this is the golden number they are looking for. Without 20% down (or in collateral), some lenders may still approve the loan, but they'll require something called **PMI**, or Private Mortgage Insurance. This adds $25-$50 to your payments each month and does absolutely nothing for you. All **PMI** does is insure the *BANK*'s interest in the loan. In case you default on your payments and they have to foreclose, **PMI** covers the 20% that should have served as your down payment. To put it another way, the bank will require you to pay for their insurance so that they don't lost money.

Why 20%? It's not a random number. Lending institutions, believe it or not, don't like to foreclose. Foreclosing generally means that they take a loss on the transaction. Not only are they not getting money from you for the loan, they also have to take on all the costs of trying to re-sell the property. As a rule, banks have found that they can re-sell a home for 80% of its value. The 20%, then, is to cover their loss.

Location, Location, Location

An old saying in real estate is that these are the three most important things. How true this is, and you need to think about it very early in the process. Not only will this be the primary factor in the value of a property, it also can affect your security and standard of living. As a prospective buyer, you must be aware of the surroundings of the house you're interested in. Is the house across the street in poor repair or have washers being used as planters in the front yard? Does the neighborhood or house back up to a landfill? Is it on a road that leads to the high school football field and your road will become like I-95 every Friday night? Is it under the approach path for the airport that's three miles away?

Even if you don't care about these things yourself, it may not be so attractive to a potential buyer when it comes time to sell your home. Drive around the neighborhood to see what's there. If you are really interested, drive around on different days and at different times of the day to see what it's like. A neighborhood will be very different at eleven o'clock on a Tuesday morning versus three o'clock on a Saturday afternoon. If you still like it, you may wish to try talking to one or two of the neighbors. Ask them how they like the neighborhood. You can be sure that they will fill you in on every last detail of what is going on there. Neighbors like to talk and gossip.

When considering location, there are many things to remember. Most of these will be the same as you deal with in looking for rental property, but there are others as well. Is the property located in a flood zone? How big is the yard? Will you/can you maintain it or will you/can you hire a service to do it? Remember, in some localities, failure to maintain your property to community standards can result in significant fines and fees. And all repairs your property will require are your responsibility also.

There are a lot of variables that go into deciding whether or not a home is in a good location for you. We will not presume to tell you what they are as they are different for every person and family, but some characteristics may be: the amount of land, a specific number of bedrooms or bathrooms, age, style, school district, pool or no pool, and so forth. The combinations are nearly endless. Each variation will impact how much you pay and where you will look to purchase your home.

Location is such a huge part of real estate because not only does it affect the price you will pay for the home, but it has hidden costs that you might not think about. Will it affect your commute? Will it cost you more in gas, vehicle maintenance, or time? One suggestion is to pull out a map and mark several important locations in your life such as:

- Your job and/or your spouse's job
- Your place of worship
- Places you frequently shop—such as grocery store, gas, bank, post office, or anyplace that you frequent more than once a week or so.
- The school(s) your children attend. Don't forget to plan for future school attendance. Children do grow up.

Once you have done this, a pattern should emerge. Now, how far or how long of a commute do you want this to be? Time and distance is not the same thing. An hour's commute may carry you fifty miles or more if it's on the open road. On the other hand, it may take you an hour to go only two or three miles in heavy city traffic where there's a traffic light on every block. You may move close to your church, which you attend one or two days a week, but in doing so, you will move further away from your job, which you commute to five days a week. This decision will determine where you should look. While we're at it, let's think about one other thing that many people forget about: the sun. Think about it. If you live west of the places you mapped, there's a good chance you will be driving into the sun every morning and driving home every evening with the sun in your eyes. It is something to keep in mind.

Home inspection

When you go to purchase the home, either you, the bank, the seller, or a combination of the three will insist on involving some other parties. A home inspector is almost always part of that process. After all, the buyer, a smart one, will wish to know if there is anything that he may not see that will cost him money after the sale is complete. He should be looking for evidence of past or present termite problems, water damage from a leaky roof, an air conditioner/furnace that is about to go out, or a settling foundation. Any of these problems, or others, could conceivably cost the new owner thousands or even tens of thousands of dollars.

There's an old Tom Hanks movie called The Money Pit. In it, a couple finds a wonderful-looking mansion and purchases it. Then, they find out all the problems with it. Things like rotted floors, electrical problems and plumbing issues. The movie is a comedy, but if you are the actual owner of a money pit you won't be laughing.

The home inspector is licensed and bonded to perform a qualified inspection of the property. They are putting their reputation on the line that the house has or does not have certain problems. The level of home inspection can vary. Some are more thorough than others. Some inspections are cheap, some are not. You get what you pay for. Most won't cost too much and it would give you the peace of mind that there are not any lurking problems that will give you an unpleasant surprise. Be a smart home buyer and insist on a home inspection even if it is not required by your lender. Most lending institutions will insist on this.

A person that is usually required by the bank is a real estate appraiser (and, yes, this will cost you even more money). This can also protect the buyer as well. Basically, this is a person that is trained and qualified to give a professional estimate of the value of the home. A real estate appraiser will basically tell you if that home that's listed for $175,000 that you're interested in is only worth $90,000.

Below is some advice for finding a good home inspector:

- Don't let your real estate agent choose the inspector. Hire someone who works for you without any conflict of interest.
- Inspect the inspector before you hire. Ask to see a sample home inspection report. Comprehensive reports run 20 to 50 pages and include color photos showing defects or concerns. Also ask about the length of the inspection. A thorough inspection takes a minimum of three to four hours.
- Walk through with the inspector. You'll learn a lot about your house.
- You may have to pay more for a certified inspector, but in the long run it's worth it. Certified inspectors use sophisticated measuring and detection equipment that can find potential defects that can't be easily seen. Spend $1,000 now rather than $10,000 in surprise repairs later.

House Characteristics

The details or characteristics of the individual house also affect the value of the property. What is one person likes, another may not—especially if you try to resell the house later. A good idea is to stay away from weird or unusual. If you buy an old stone house at the top of a mountain with no driveway and no access but a long stone stairway, it'll take some work to find a buyer who shares the same tastes. The stranger the property, the longer it will likely take to sell it.

The age of the house

Buying an old house may sound like fun, but be aware of hidden pitfalls. That "great deal" on a fixer-upper may end up costing you tens of thousands in repairs.

Size

Of course, size affects value. But, it's deeper than you think. It is a dilemma that every buyer experiences. As a general rule of thumb, the largest house in the neighborhood can be purchased for the best deal. At the same time, when selling a house, it is usually the smallest house that is sold for the best price. This can be a confusing concept, but it has to do with the selling prices of the other houses in the neighborhood.

Say the prices of houses in the area range from $150,000 to $200,000. They're all around 2,000 square feet. This means that they are selling for between $75.00 and $100.00 per square foot. Now, you find a home in that neighborhood that is 3,000 square feet. By the rates around the neighborhood, you should pay $225,000 to $300,000 for that house. However, the highest price in the neighborhood is $200,000, and you tell your realtor that that's as high as you're willing to go. If you're lucky, the owner agrees. Congratulations, you just bought that house for less than you should have. You only paid $66.67 per square foot.

It may sound a bit confusing, but it works. This is also important if you ever want to contest the appraised value of your home.

Floor Plan

A word of warning here, again, is to watch out for the weird. Weird is hard to sell. For example:

A man was looking at an older two-story wood frame house, advertised as a three bedroom, one bath. What he found inside was this…The staircase came upstairs, directly into a room. That was bedroom number one. On the far side of the room was a bathroom. On the other side of the bathroom was a doorway leading to bedroom number two, and a doorway there led to bedroom number three. Whoever lived in bedroom number one would not only have the rest of the family tramping through their room to go up and downstairs, any guests needing to use the bathroom would have to do so as well.

Now, you may say that you don't have to use the first room as a bedroom, and you are right. But the weird room arrangement lost the owner money when it came time to sell. So, the word to the wise is to stay away from weird. If you like your house painted in orange and blue, or garnet and gold, because those are your favorite team's colors, that's okay. Just make sure you repaint the house a nice tan or off-white before you put it on the market.

Attorneys and Title Agencies can also be involved in the process of buying a home (along with their associated fees). The purchase of a home may very well be THE biggest and most important transaction any of us will make. There is a lot of money involved and a lot of preparation required. More than almost any other area of your financial life, you need to arm yourself with knowledge going into this entire process. Not having power or control here WILL cause you major financial difficulty later.

Finding Property to Buy:

Thinking about Location, like we did above, is only the beginning of the process. Once you know where you want to look for a property, now you need to know a few more things. For instance, even if you know WHERE you want to buy, what kind of home are you looking for? There are several options.

Trailer

This term is almost always used as a slang term, or derogatory term, and is used to describe any style of mobile home. The true definition is that a trailer is a portable living unit that is towed behind another vehicle such as a car or truck. A synonym for trailer is camper. These are designed for short-term living, but sometimes are set up as a permanent structure.

Modular Home

This is a living unit that is built in sections and then transported to its permanent location. Once there, the sections are bolted together and a roof is built over the entire structure. It is built to "regular" house building codes. It has wooden floor trusses.

Manufactured Home

This is a living unit that is built to "regular" house building standards, but the foundation of it consists of one or more steel I-beams. Plywood is then laid over the beams and the manufactured home is built on it. The structure can be built in one or more sections, although usually when it is in sections, it is usually done in two halves. Once on site, the sections are bolted together.

Mobile Home

This is a house that is built to mobile home standards and is built on a steel I-beam foundation. It may or may not be in more than one section. As an example, it may have interior walls made of 2x3 studs instead of the typical 2x4's found in a regular house and may have 3/8" wallpapered drywall, rather than the more typical ½" or 5/8" drywall found in a site built home.

House

This is sometimes called a stick-built or site-built home. This type of home is constructed from scratch on the building site. The foundation is poured, the walls built, the roof added and the interior finished —all on the site by a licensed contractor. The quality may vary widely from hovels to palaces, but the key is they are built on site.

There are also Condos, duplexes, and town-homes. These operate a little differently from freestanding homes. You also have the option to buy or rent land and build on it. These all come with their own advantages and disadvantages, but we'll be concentrating specifically on "regular" homes for simplicity's sake.

Zoning and Deed Restrictions

These are also important. Say you want to open a small-engine repair shop. Nothing fancy, just a shade-tree operation where you do some work to earn a few extra bucks. Do you want to spend $250,000 on a house only to find out you are not allowed to open your shop in the detached garage on the property? If you don't do your homework that is exactly what could happen. The county or city zoning office will tell you what is and is not allowed for the property you're looking at buying.

But, that's not the only thing to consider. You also need to find out about any deed restrictions or homeowner's association restrictions. If you purchase out in the country, this probably won't be a problem. However, in a more populated neighborhood, you had better check. Something like your small engine repair shop may be allowed by the zoning codes, but not allowed by the deed restrictions.

The county zoning office, city zoning office, the real estate agent, or even a neighbor can tell you if there are any restrictions. If there are, locate a copy of them and study them. Often, you can get a copy of them from the county building department, county zoning office or the county clerk's office. A general rule of thumb is the higher the dollar value of the neighborhood, the more deed restrictions there are. Some examples of deed restrictions may be:

- All mailboxes and trash cans be the same style or color
- No vehicles parked on the street
- No commercial vehicles or boats parked in the driveway
- If you re-paint the house, it must be certain colors
- No laundry hanging out to dry on clotheslines

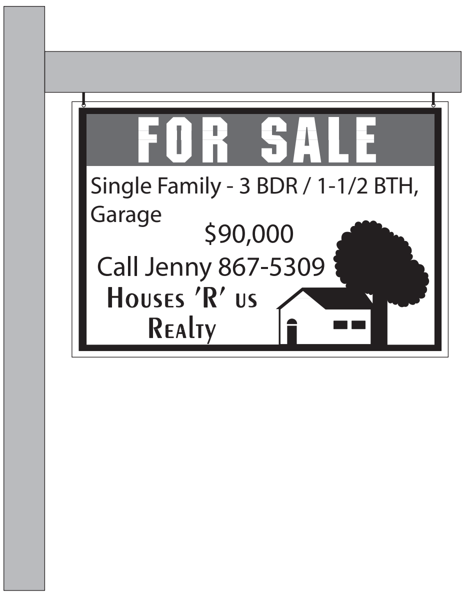
The list of possibilities is nearly endless. Be a smart buyer and be aware of them before agreeing to buy the property.

Once you've made a decision on what type of home to buy, you'll need to find someone to help you find it. The same sources you use to find a rental property will help you find property for sale. But remember, while renting begins a mutual relationship with the landlord, buying leaves you solely responsible, just like buying a car. Most people use a real estate agent or broker. Both are professionals who are trained in facilitating the buying and selling of real estate. Some specialize in particular types of property such as commercial, rental properties, vacant properties, or single-family residences.

You do not necessarily need to have a real estate professional assist you in the purchase or sale of a home, particularly in the age of the internet. However, there are specific laws, both state and federal, that deal with the buying and selling of real estate. A realtor is trained to keep up with these laws as they change. And, they change often.

It would be nice if these realtors worked for free, but they do not. They are professionals who work for a commission. It is a percentage of the sale (or purchase) price of the property (usually about seven percent in the state of Florida).

The decision on whether or not to use the services of a realtor is purely an individual one. Remember, though, they are professionals and you may lose money if you choose not to use their services. Realtors do subscribe to a Code of Ethics as outlined by the National Association of Realtors. This Code of Ethics dictates what a realtor is professionally allowed and not allowed to do. Failure to abide by them may result in their licensing being revoked. But, you should still be careful of those who may profit from the transaction, as they might not have your best interests at heart. Some unscrupulous realtors might push you into buying more than you can afford. The homeowner himself might also misrepresent the property to get out from under an economic burden – and transfer the problem to you.



So, I've decided on what I need and found a home that meets my needs and my financial situation. Now, what?

What to look for in a mortgage agreement:

A mortgage is a binding legal document for a very significant amount of money. It wouldn't be a bad idea to consult legal counsel if you are unfamiliar with the process and documents. This is part of where those attorney's fees might come in. Never sign anything you have not read and understood completely. Ask for explanations of any and every portion that is not clear to you.

Be aware that the miracle of compound interest that helps to build your savings account will also build your debt. Often, the interest paid on a long-term loan, such as a mortgage, will exceed the original cost of the entire loan. Your interest rate, the length of the loan, payments over the minimum required, will all dictate your final costs. Generally, the longer the term of the loan, the lower the payments and the greater overall interest charged.

If you hadn't noticed, the mortgage market tends to use a language all its own. One of the most important for a home buyer to understand is: amortization. Amortization is a big word, but it actually has a very simple definition for our purposes. Amortization means how fast you are going to pay the loan back. Thirty-year amortization means you will gradually return the money you borrowed over a thirty-year time period. You can set any time interval you want (5 years, 10 years, 17 years, 52 years…). As long as the bank agrees, that will be the length of time you have to pay back your mortgage. The two most common mortgage lengths are 15 and 30 years.

Your mortgage payment has two parts, interest and principal. The principal is the amount you actually owe on the money you borrowed. If you borrowed $100,000, you owe $100,000 in principal. The interest is the money you pay to the lender for providing you with the loan. It's the bank's profit, essentially, and it's calculated as a percentage of the principal you still owe. Each time you make a mortgage payment the lender receives interest, and part of the loan's principal amount back.

Amortization Schedule			
Month	Interest Payment	Principal Reduction	Remaining Loan Balance
0			$100,000.00
1	$583.33	$81.97	$99,918.03
12	$577.92	$87.38	$98,984.19
24	$571.60	$93.70	$97,894.95
36	$564.83	$100.48	$96,726.96
48	$557.56	$107.74	$95,474.55
60	$549.77	$115.53	$94,131.59
120	$501.53	$163.77	$85,812.38
180	$433.13	$232.17	$74,018.87
240	$336.17	$329.13	$57,300.08
300	$198.72	$466.59	$33,599.10
360	$3.86	$657.59	0

But, you might be shocked to learn how little of your monthly mortgage payment goes to reducing your loan and how much goes to paying interest. The schedule at right is an example of a $100,000 mortgage loan, amortized over thirty years, at a rate of 7%. The monthly payment is $665.30 and that payment is made 360 times over the course of the loan. The first payment of $665.30 reduces the $100,000 loan by only $81.97! The rest of the money, $583.33, goes to interest. It isn't until the 242nd payment (more than 20 years) that more of your monthly payment goes to principal reduction than interest. Even on the very final payment $3.86 goes to interest. Over the course of the loan, you paid $139,508.90 in interest. Yes, that means that you repaid $239,508.90 on your $100,000 loan – more than double.

What can we do about that? Always keep in mind that your goals are not the same as the bank's goals. Your goal is to keep as much of your own money as you can. Their goal is to take as much of your money as they can. It might seem to make sense that a bank would want to give you the shortest term on a loan as possible. After all, that means they get paid back quicker, right? Actually, the reverse is true. The less time you take to pay back your loan, the less money they end up making. Let's look at a couple of comparisons.

Here's a $95,000 mortgage loan at 7% interest:

Payment using fifteen-year amortization: $853.89 per month
Payment using thirty-year amortization: $632.04 per month

The difference is $221.85 per month if you choose the thirty-year loan versus the fifteen-year loan. In our example you originally borrowed $95,000; but, if you take a closer look at your total loan cost after ten years:

The thirty-year loan has a balance left to pay, the amount you still owe, of $81,521.76.
The fifteen-year loan has a balance left to pay, the amount you still owe, of $43,122.99.

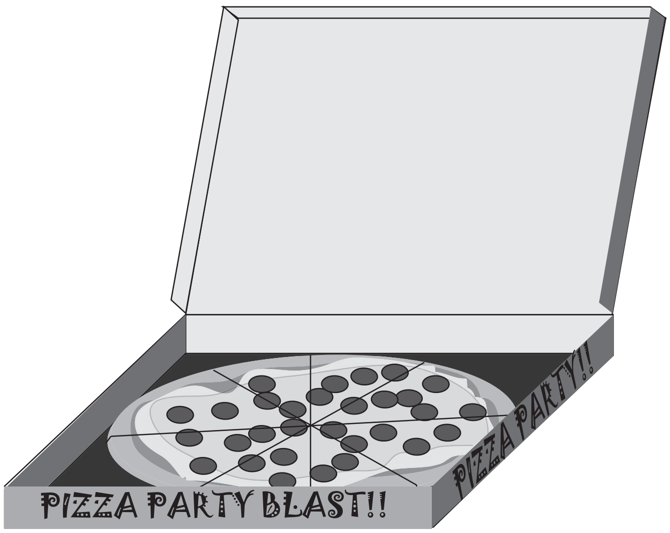
On the thirty-year loan you made ten years of payments for a total of $75,844.80 but the balance due on your loan was only reduced by $13,478.24 ($95,000 - $81,521.76 = $13,478.24). That means $62,366.56 of your $75,844.80 went to interest.

Now compare:

On the fifteen-year loan you made ten years of payments for a total of $102,466.80 but your balance due on the loan was reduced by $51,877.01 ($95,000 - $43,122.99 = $51,877.01).

You paid $26,622.00 more in payments with the fifteen-year loan, but you reduced principal by $38,398.77 more than if you had used the thirty-year loan ($51,877.01 - $13,478.24 = $38,398.77). A $38,398.77 balance reduction minus the $26,622.00 more in payments means an overall savings of $11,776.77. It seems crazy that you could pay a higher payment using a fifteen-year loan and as a result save $11,776.77 in ten years, but that's the difference in interest expense. That's on a $95,000 home! On the average home costing $175,000, your savings would be $21,694.19.

Here's another example on a $90,000 mortgage loan at 6.5%. The total interest paid on the loan, if you pay it off in fifteen years, is $51,119.39. The total interest paid on the loan if you pay it off in thirty years is $114,790.04. Understanding amortization is extremely important to your finances. Look at it this way: Would you rather pay $141,119.39 or $204,790.04 to buy the same $90,000 house? In this example, choosing a fifteen-year amortization schedule saved you almost sixty-four thousand dollars. Always use a fifteen-year amortization schedule when buying a home. By the way, if you pay off the mortgage in fifteen years, what should you do with the extra $784.00 that you had going to the mortgage each month? PIZZA PARTY?



Here's a better idea: if you invest the $784.00 each month into a good growth mutual fund that averages 8% growth each year, at the end of fifteen years you would have an account worth $270,037.55. Oh, and a home that's fully paid for!

Fifteen vs. Thirty-Year Fixed Loan

	15-Year	**30-Year**
Monthly Payment	$784.00	$568.86
Total Cost of Home (Loan term x monthly payments)	$141,119.39	$204,790.04
Minus Original Loan Amount	$ 90,000	$ 90,000
Total Interest Paid for Loan	$ 51,119.39	$114,790.04

Money Saver! The lesson to learn here is that the longer you borrow money, the more interest you pay. You want the shortest amortization schedule possible when you borrow. When buying a home, most people only consider how much the mortgage payment will be. It's far wiser to first consider how much the total cost of the home will be.

In addition to amortization, you need to be aware that there are many types of mortgages and lenders are constantly experimenting with new ones. Be cautious of such arrangements as adjustable rate mortgages (**ARM**) because while you hope your income will increase over time, you have no guarantees, while it is guaranteed that your payments will increase.

Please use the power of the internet when making these complex and important decisions, but please also remember to be an informed consumer of web sites. Commercial sites may be more concerned with making a sale than with your economic well-being. Wiki sites and blogs are at the mercy of the posters, and malicious content may appear to deceive the unwary. Some sites are just so poorly made and maintained that they are filled with errors. In the volatile real estate market, sites may not be updated often enough to reflect the current situation.

Different Mortgage Types

Mortgages are different based on the amount of interest that you pay on the loan, as well as the schedule involved for payment.

The most common forms of mortgages are:

Fixed Rate Mortgages: In a fixed rate mortgage plan, interest rates are and monthly payments are predetermined prior to loan acceptance. These amounts will not change for the entire period of payment agreed to. This is known as the more "traditional" form of mortgage plan. If you get a fixed rate mortgage for 30 years at 7%, you will pay 7% interest for 30 years.

Adjustable Rate Mortgage: Adjustable rate mortgages begin with the same interest rate and monthly payments for the home loan for a set period of time: anywhere from six months to five years. After the specified period of time, interest rates and monthly payments may be adjusted periodically in order to reflect market rates. In other words, this type of mortgage starts out like a fixed mortgage, and then the lender may "adjust" the rates later on. If you had the same 30-year mortgage with a 6.5% (5/2) ARM means that you would pay 6.5% interest for the first 5 years. After that, the lender could raise the interest rate anything up to 2% (5 years/2% maximum raise). They can raise (or lower) the interest rate up to 2% every year to reflect the market average (as set by Fannie Mae and Freddie Mac) up to a maximum of 15%. That means that for a $90,000 loan, you could be paying $568.86 per month to start. After five years, the interest rate goes up and you end up with monthly payments of $678.40 (and suddenly paying $139.81 in extra interest in just the first month). A year later, the interest rate could jump again. If it ended up another 1% higher, your monthly payments would suddenly be $734.74 (paying an extra $68.73 in interest again). ARM's can be very useful, if you know you're staying there for a short term. If you overstay that term, it can get very expensive, very fast.

Balloon Mortgage: This type of mortgage also begins like a fixed mortgage, with interest rates and payments being fixed for a specified time period. After the specified amount of time, the borrower must pay the loan back in its entirety. This can be a good option to get you a lower interest rate IF you have the ability to pay back a large sum of money all at once. If you get a $90,000 balloon mortgage at a 6% interest rate with a 5 year term, your initial monthly payments will be much lower than a traditional mortgage. You will only owe $539.60 per month. Until month 61. At that point, the balloon "bursts," and you now owe the full amount remaining (which in this case is $83,748.92) in one lump sum. You will pay much less interest with a balloon mortgage (only $26,124.92), but you also need to come up with almost eighty-four thousand dollars all at once.

Interest-Only Mortgage: In this type of mortgage, for a short period of time the borrower is initially allowed to pay for only the interest portion on the loan. This has the effect of lowering monthly payment amounts in the beginning of the loan period. After the specified amount of time, payments will begin to include both the principal and the interest, usually in higher amounts than traditional fixed rate payments.

A common theme among the various mortgage types is that many of them begin like a traditional fixed rate plan, and then later on implement differences in interest rates and monthly payments. This helps provide some financial stability in the beginning stages of home ownership.

Advantages and Disadvantages of the Different Mortgage Types:

There are several pros and cons associated with each type of mortgage. Explore the different types to learn which type might best suit your needs:

Fixed Rate:

- Provides borrower more stability
- The borrower will know exactly how much is owed each month and can plan their finances around the monthly rates
- However, both interest rates and the monthly payments are typically higher than other forms of mortgages.

Adjustable Rate:

- Usually the initial interest rates and monthly payments are lower than traditional fixed rate mortgage amounts.
- The lender will often promise not to raise rates above a certain amount (cap), even if the market value is higher.
- Often more suitable for buyers who are likely to move out of their house after a short period of time – if you plan to move within the time period covered by the lower interest rate, this could be a desirable mortgage type
- However, the borrower assumes the risk of increasing interest rates and monthly payments, especially in a fluctuating economy

Balloon-type:

- The homeowner can usually pay off the mortgage in a shorter period of time than in a traditional or adjustable rate plan
- An average time of complete repayment is typically five years
- However, most people are not able to repay the entire loan after such a short period of time
- May create a situation where another loan is needed in order to pay off the previous loan

Interest Only:

- Currently popular among new home buyers
- The initial payments will be much, much lower than in fixed rate plans
- This allows borrowers to save money for other investment options
- The reduced payments may help borrowers obtain a larger mortgage than other plans
- Also suitable for those who are likely to move after a short time period
- However, the homeowner must be prepared for the large increase in payments that becomes due after the initial interest-only period

Should They Buy Or Rent?

Directions: For each of the following situations, circle RENT, BUY, or DEPENDS to indicate your opinion related to this person's housing decision. Also, give reasons for your response.

1. You are single, just out of school, and have moved to a new city to pursue a job opportunity.

Rent **Buy** **Depends**

Reason(s): ____

2. You are married, with two children, and have another on the way. You have a good, stable job with a growing company.

Rent **Buy** **Depends**

Reason(s): ____

3. You are married with no children. You have just lost your job and there does not seem to be another opportunity locally. You have some savings and are currently living in rented property.

Rent **Buy** **Depends**

Reason(s): ____

4. Your friends are interest in a living arrangement with everyone sharing expenses. You have some savings, an inheritance, and a decent job.

Rent **Buy** **Depends**

Reason(s): ____

5. You are married; your children are grown and moved out. You are nearing retirement and are living in the house in which you raised your family. With retirement, you expect your income to decrease. You have savings and are considering places that offer activities you enjoy.

Rent **Buy** **Depends**

Reason(s): ____

6. You are single and engaged. You are both about to graduate and both have several job offers you are considering, both where you now live and in other cities.

Rent **Buy** **Depends**

Reason(s): ____

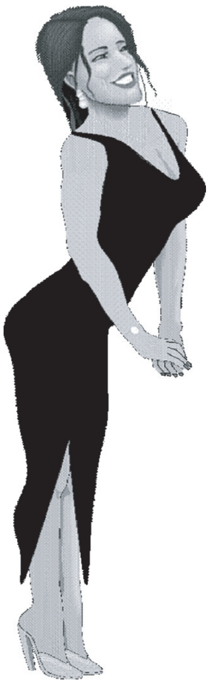
Whichever way you choose to put a roof over your head, never underestimate the commitment you are making. A place to live can be a home, and it should be an important decision. Use the knowledge you have to make it wisely.

Advantages and Disadvantages of Renting vs. Buying

Renting	Buying
Advantages	**Disadvantages**
Lower Down Payment	**Expensive to Start**
This is not to say that there aren't significant initial costs involved in starting to rent. Generally, the renter will be responsible for the first month, last month, and security deposit. There can be additional fees (such as a pet deposit). If you are renting at $800/mon. The move-in fees would be $800+$800+$800 = $2,400	Most lending institutions will require a minimum of ten to twenty percent of the purchase price down. Much will depend on your credit score as to how favorable the terms will be. This means that for a home worth $100,000, you will need around $20,000 cash in the bank or equity in another piece of property plus points and closing costs of approximately 5%.
Flexibility of Movement	**Less Flexibility**
Even with a lease, your flexibility in being able to relocate is much easier if you rent. In Florida, there are two types of leases, short and long-term. Generally, a short-term lease is one of seven months' duration or less, a long-term lease is one of eight months or more (though most are in one year increments). There are fees for breaking a lease early (sometimes significant fees), but the option is there.	Purchasing a home more or less ties you down to that location. Wherever you move, if you put your house on the market, it may be there for a year or more before you're able to sell it. During this time, you still have to pay the mortgage, utilities and other associated bills in addition to the costs of a new place to live. It can get very expensive fast.
Maintenance and Repairs	**Maintenance and Repairs**
Since the property is not yours, you don't have to worry about this. You don't have to fix the roof, the hole in the wall (unless you caused it), or mow the lawn. That's the landlord's responsibility. Sounds great, and it can be. On the other hand, depending on the situation, you may have to put up with the problem until the landlord gets around to fixing it. (Note: Some rental agreements for houses and mobile homes include a clause requiring you to keep the yard mowed.)	Since the property is yours, all of the responsibility (and cost) of maintenance and repair falls on you, the same with any repairs. You may be able to delay some of these for a while. But, if a lightning strike takes out your A/C unit in August or a tree branch knocks a hole in your roof, it will come out of your pocket. An insurance policy will cover most major expenses, but not all. Meaning you also have the added cost of a homeowner's insurance policy.
Access to Amenities	**Amenities are not included**
If you rent in a larger apartment community, you may have access to laundry facilities, a gym, a swimming pool, tennis court, or other amenities. It's true that the costs of these things (if available) - as well as property taxes - are usually built into the rental price, but you don't have to worry about paying them individually and they are generally available at a small addition to the rent.	If you purchase a house, extras like gyms, tennis court access, and so on would all cost you additional money.
Disadvantages	**Advantages**
It is not yours	**It's yours**
You must receive written permission to do anything to the apartment. If your lease says "no pets" that means you either don't keep your dog or find another apartment. The landlord is the one that sets the rules, you are just living there. Violations of the lease agreement may void the lease contract (which can lead to eviction). Other restrictions may include "no children", "no smoking", or others.	Want to paint your house in lavender stripes? It's your property; you're free to do with it as you wish, right? Actually, wrong. There may be zoning restrictions and/or homeowner's association restrictions. However, basically, as long as whatever you do falls within the zoning and/or homeowner rules, and does not negatively impact your neighbor's enjoyment of his property, you can do it. As long as your lavender stripes don't cause your neighbor to enjoy his property less, go for it.
Nothing to show for your money	**You have something to show for it**
All the time you are paying the rent, you are actually building wealth for your landlord. By paying your rent payment every month, you're paying your landlord's mortgage for him. You have zero equity in the property. At $800 per month that's $9,600 per year you are giving away.	Over time, you build up equity in your home. Equity is the difference between the value of your home and the amount that you owe on it. For instance, if you owe $60,000 on the house, but it is worth $90,000, you have $30,000 equity in the house. In theory, if you sell the house, you'll have $30,000 left after the loan is paid off (minus realtor fees, closing costs, and other costs), of course.
Roommates	**Roommates**
This could be an advantage or a disadvantage. As we talked about before, after living in prison many of us probably look forward to not having any more roommates, but having one or two can cut our monthly expenses dramatically. An advantage to having a roommate in an apartment is that, unlike in prison, you get to pick who it is. **Note**: if you are on probation when you get out, be cautious of who you allow to be your roommate. It may be someone that your probation officer may have a problem with, or they may have habits that will distract you from starting your new life.	The same with renting; this is going to be based upon your own personal preferences and financial situation. It could be either an advantage or a disadvantage.

REEFS

Chapter 6 - Insurance



So, when you go to that party on Friday and that hot new girl from work, Bunny, starts talking to you, flirting, touching your arm while playing with her hair, and telling jokes heavy with innuendo, if you start talking about insurance policies it's a sure way to kill the conversation (along with any chance of taking a walk with Bunny out to the gazebo by the lake). Let's face it; insurance is not fun. It's not exciting. Even thinking about premium rates, coverage variables and actuarial tables is enough to put most people to sleep.

The unfortunate reality of life, however, is that even if you budget well, live within your means, and manage your money, no matter how hard you've worked all of it can be wiped out by an accident or an illness. Life often seems to operate based on Murphy's Law ("Whatever can go wrong, will go wrong"), and we can assume that, sooner or later, we will face some kind of untimely, negative surprise. There will be 20 inches of rain. The street will flood. Your car will end up floating away in the torrent. You will get a bacterial infection from wading through the water to escape. While you are staying at the emergency shelter, someone will break into your apartment and loot it. Maybe none of these things will happen. Maybe all of them will. One thing is certain: At some point, something will go wrong. The best way for you to protect yourself from these unpleasant surprises is to be insured. To do this, you need to understand what insurance is and how it works. It might be an unfortunate fact, but it is something that we all need to think about.

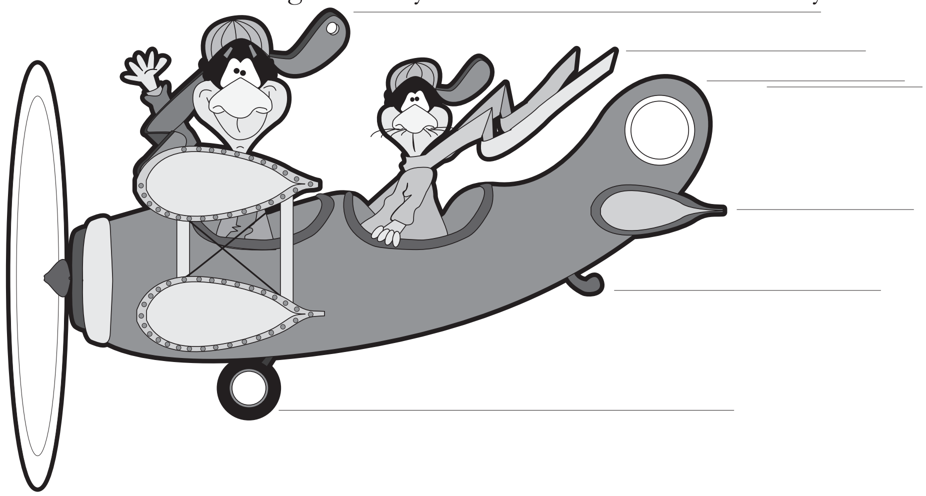
One vital point to keep in mind no matter what kind of insurance you're looking for is that you need to know what your needs are. There is absolutely no point in underinsuring yourself, but over insuring yourself can be just as much of a pitfall. Your goal with any type of insurance is to get only as much protection as you need at the lowest cost. There are a number of ways to do this. One of the best is to work with a reputable insurance agent. Some agents work for only one company. A State Farm agent sells State Farm insurance policies; an Allstate agent sells Allstate insurance policies, and so forth. There's a second type of insurance agent, and that's one who sells insurance for several different companies. Which type of agent you use is up to you, but the best way to buy insurance is to first clearly understand your insurance needs and then shop around and make sure the agents you speak to clearly understand all your needs as well.

Your agent should also take the time to make sure that you're fully aware of all the different features of each policy and how each one will benefit you in different scenarios. If the agent doesn't take the time to do this, or seems too busy, you have the wrong agent. In short, find an agent that cares. You want an agent that will work with you to make sure all your needs are met.

Always buy insurance from a solid company, ideally one with an A or A+ rating. After all, you want the company to be around if you have a claim. Finally, make sure to include your insurance payments in your budget.

Money Saver! Carefully figure out your insurance needs. Then shop around to get the best policy you can find for your money.

Realize this important point: All insurance, no matter what type, is based on risk. Insurance companies make money by basically betting on the likelihood of you needing to use their services. The insurance company's goal is to get as much money from you as they can for as little reimbursement as possible. They employ entire departments that do nothing but look at different factors that might affect your "risk level" and determine your costs based on that risk level. Are you a stamp-collecting secretary for an accountant in Idaho? You will probably pay less for life insurance than a stunt pilot. Are you a 65-year-old smoker living in Chicago? Your health insurance will likely cost more than a 21-year-old non-smoker living in Burlington, Vermont. Different insurance types look at different factors, but if you are aware of your risk level you can make more informed decisions.

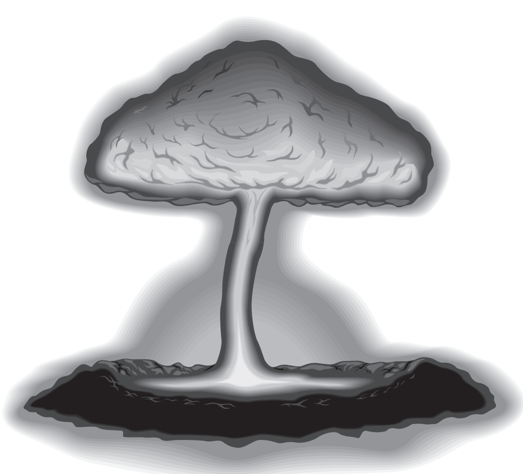


Your insurance goal is very different. Your goal is to provide for as much reimbursement as you can get (should it be needed) at the lowest possible cost.

The Five Different Types of Insurance

In this chapter we're going to review five different types of insurance: health, renters', homeowner's, life, and auto. Like any industry, insurance has its own "jargon," its own language of terms that are unique to insurance and what it does. Some terms to look out for:

- **Agent** – An individual who sells and services insurance policies
- **Claim** – A demand made by the insured person (or the beneficiary) for payment of the benefits provided by the policy
- **Coverage** – The extent of protection provided by an insurance policy
- **Rider** – An addition to your coverage that is written into the contract
- **Policy** – The written contract effecting insurance, or the certificate of insurance, including all clauses, riders, endorsements, and papers
- **Policyholder** – A person to whom an insurance policy is issued
- **Premium** – The price of insurance for a specific period of time



Health Insurance

Of all the types of insurance that you may need, health insurance may be the most important. No matter how healthy you are today, at some point everyone will need to use the health care system – whether for routine care, to treat an illness, or after an accident. Without health insurance, even a minor problem can throw a grenade right into the middle of your financial plans. Major problems can be more like a nuclear bomb dropped onto your finances. Put another way, the cost of your physical health can have a severe impact on your financial health.

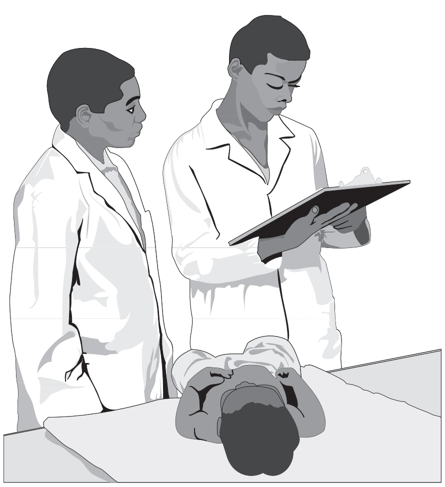
Health insurance allows you to get medical care when you need it by providing coverage for services to keep you healthy, such as annual physicals, screenings and immunizations. Health insurance also protects you from high treatment costs related to treatment for an illness or accident.

When you shop for health insurance, you have to make decisions about what to buy based on your financial situation and health care needs. As with any type of insurance, ask yourself: 1) How much insurance do I need? 2) How much will it cost? It's also important when shopping for health insurance to understand the different components that make up a health insurance policy.

Cost components:

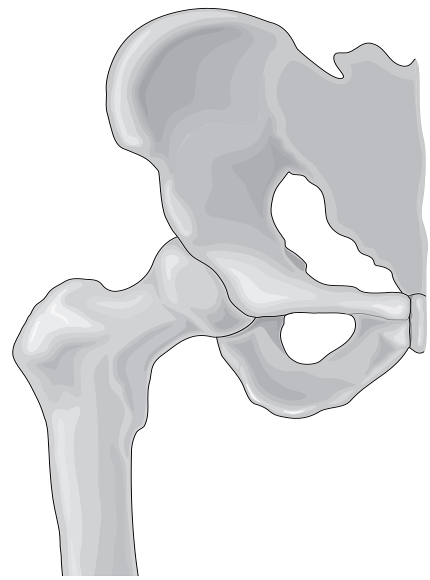
- **Deductibles** – A deductible is the amount you will pay out of your pocket annually, in addition to your monthly premium, before the insurance will pay any bills. For example, if you have health costs that total $10,000, and your insurance policy requires a $1,000 deductible, you will need to pay $1,000 up front before the health insurer picks up the rest of the $9,000 balance. Higher deductibles can lower your monthly premium, but be aware of what it will cost you when you use the insurance.
- **Co-payments** – A co-payment is a flat fee that you may have to pay for a specific health-related service. For example, typical co-payments may be $20 for a doctor visit, $50 for an emergency room visit, and $10-$40 for a brand-name prescription. We deal with co-payments here in prison on a regular basis. Any time we go to sick call, a lien is placed on our inmate trust fund account for $5 (which is the co-pay for medical service at the institution).
- **Medical coverage** - Medical coverage helps you pay for the cost of doctors and procedures ordered by doctors, like x-rays, lab tests, pharmaceuticals, and follow-up visits.
- **Hospitalization** - Hospitalization coverage helps you pay for the expensive cost of a hospital stay, including tests and procedures performed while you are a patient.
- **Major medical coverage** - Major medical coverage pays for large medical bills run up by surgery and expensive tests. You are probably not going to be able to afford a surgery that requires testing and a one-week stay in the hospital where the total cost, including the surgeon and various medications, could easily exceed $50,000. You need major medical insurance in case you need to pay large medical bills.

In order to determine what mix of these components is best for you, you have to know what your health care needs are and how often you may need health services. If you are managing a chronic condition like asthma or diabetes (which require frequent office visits and/or medication), you may want a plan with a higher premium and a lower deductible so you're not faced with frequent out-of-pocket costs. On the other hand, if you are relatively healthy and only need to deal with routine checkups or an emergency, you may consider a plan with a lower monthly premium and a higher deductible.



The bottom line is that getting sick or having an accident is very expensive. Just how expensive is Health Care? It is an unfortunate truth that the majority of bankruptcies in America are filed due to medical bills. The average cost of a trip to the emergency room for an adult is about $700 (not including any tests). Repairing a broken leg can cost up to $7,500. A major illness or surgical procedure can easily cost over $100,000. For example, this is an invoice for a hip joint replacement:

Hip Joint Replacement		
Account Number:	12345678-00001	
Date(s) of Service:	02/06/2015 - 02/08/2015	
Date	**Description**	**Activity**
	Room-Board/Semi	$6,000.00
	Pharmacy	$2,828.00
	Med-Sur Supplies	$334.72
	Sterile Supply	$405.08
	Other Implants	$53,283.20
	Laboratory	$48.00
	Chemistry	$348.00
	Hematology	$322.72
	Laboratory Urology	$34.80
	OR Services	$104,659.20
	Respiratory SVC	$15.35
	Physical Therapy	$957.21
	Evaluation or Re-evaluation	$214.29
	Self Administrable Drugs	$409.52
	Sub-total:	**$169,860.09**
3/5/15	UHC Contractual Inpatient	$67,944.04
3/5/15	UHC Payment	$100,068.70
Total Account Balance:		$1,847.35



The vast majority of people just don't have thousands of dollars laying around to pay for medical emergencies, and few of us plan to have a heart attack or a disease or a serious accident requiring trauma care. These are the 'sluggers' than can completely destroy the best, most disciplined budget. Health insurance helps us to pay for the health care that we need whenever these issues come up as well as helping us to pay for routine check-ups.

Health Care in the USA has changed significantly in recent years (and may change rapidly again after this writing) thanks to the Affordable Care Act (ACA), also known as "ObamaCare," but the basic function of this insurance is still the same. Thanks to the ACA, businesses that employ more than 50 people are required to offer health insurance to their employees or be faced with substantial tax penalties ($4,000-$6,000 per person). Called "Group Insurance," these policies keep costs down by dividing the cost between the business and the employees and by also dividing the risk. Group Insurance is almost always the best option because it costs less and pays better benefits. Smaller businesses don't face this penalty, but most will still try to offer some sort of insurance plan. Most employers actually want to take care of their workers. Business owners with only a few employees are usually even more interested in their employees' welfare. If you're able to take advantage of a health care plan through your employer, do so.

Private policies, even when purchased under the "ObamaCare" exchange, are almost always much more expensive. As we mentioned earlier, all insurance companies make their money based on their assessment of risk. A 21-year-old in good health is much less likely to need expensive medical procedures than a 65-year-old chronic smoker. A group policy typically includes a broad range of workers with different ages and different health care needs. The risk of someone buying into a group insurance policy and actually needing expensive health care is low (on average). An individual person who buys a policy represents a much higher risk. People typically buy health insurance on their own because they need it, not because they might need it. In the past, many insurance agencies did not have any desire to offer personal insurance policies. They did so only because they were required to by various state laws, and they took every opportunity they could find to cancel those policies.

The ACA (while very far from a perfect system) did a lot to balance the scales between group and personal health care. Insurance agencies are now required to work much harder to level the playing field. So, what are your options for buying health insurance on your own under the ACA?

To be clear, the ACA does not sell health insurance, but it does create a marketplace for Americans to buy subsidized private insurance. Policies can only be purchased through this marketplace during periods of open enrollment (which generally occur twice a year). When you use the marketplace, it will ask you for information about your location, family size, age, and smoking status (under the ACA, health insurance companies cannot take your gender or health status into account when calculating your costs, meaning that if you already have an illness it cannot be held against you in order to raise the price you pay). Based on this information, it will provide a list of options sorted much like Olympic medals (with Bronze, Silver, Gold, and Platinum plans, each with progressively better benefits and progressively higher costs) with policies listed from various Insurance companies.

Based on your income, you may also qualify for cost assistance. This assistance can take the form of a tax credit (to lower your monthly premiums) and cost reduction subsidies (which lower your out-of-pocket costs for things like co-pays and deductibles). The good news is that most Americans qualify for this cost assistance. After this tax credit, the average plan will generally cost less than $100 per month (average for 70% of enrollees was $82/month after the tax credit).

Job #2		
$8.04 per hour		
48 hrs/ Weekly Income		$385.92
(times 4.33)		
Monthly Income		$1,671.03
Less Withholding 15%		($250.65)
Mow 3 lawns on day off at $40 per lawn		($120)
Net Pay $1,540.38		
	Expenses:	
32.5%	Rent	($500)
16.2%	Food	($250)
6.5%	Clothing	($100)
15.6%	Savings	($240)
10.4%	Utilities	($160)
5.2%	Probation	($80)
2.6%	Transport	($40)
3.7%	Tax Penalty	($57.92)
7.3%	Discretionary	($112.46)
100%	Total	($1,540.38)

So, what is "affordable" health insurance? The ACA defines it as insurance costing up to 8% of your income (if you earn $1,540.38 a month working at Taco Bell, "affordable" would mean $123.23 per month for health insurance). After cost assistance, this could drop as low as 2% (or $30.81 per month in our example). Realistically, your cost would probably fall somewhere between those extremes. The average cost of coverage without subsidies for a Silver Plan in 2014 was $345/month. After cost assistance (for the 87% of people who qualified for it), the average cost dropped to $69/month.

The bad news about ObamaCare is that there is a tax penalty for anyone who does not have health insurance (either through their employer or individually through a private plan or the health care marketplace). The ACA requires everyone to have coverage or face this financial penalty. Exceptions do exist for people who can't afford insurance even with the cost assistance benefits, but most people earn too much to be exempted this way. As of 2016, the tax penalty for individuals who do not have health insurance is $695/year or 2.5% of their household income (whichever is higher). In our Taco Bell example, you would be paying an extra $695 in taxes for every year you didn't have health insurance. If you were a machinist earning $32,682.84 per year, you'd be paying an extra $817.07 in taxes.

The bottom line with any health insurance policy is to ask the necessary questions to determine what sort of policy you need and then determine what sort of policy you can afford. Does the policy include doctors that you can trust in its network? Does it include specialist care if you need it? Do you require prescription medicines? Will the policy cover my children? What is the claims process like? Do you prefer alternative health care methods like acupuncture or holistic treatments, and are they covered? Many health insurance policies will also include wellness programs to keep their members healthy and lower the costs for participants. All of these are important things to look at. Decide what's important to you and how much you're willing to pay for it.

Perhaps more than any other category in this chapter, it is absolutely vital for you to be informed about health insurance. Spend the time to learn what you need to know about your health and your health care options.

Renters Insurance

People who rent an apartment, a room in a home, a trailer, or a condo often feel like insurance isn't something they need to worry about (some of them don't even know that renter's insurance exists!). They figure the landlord will make good if anything bad happens to the property. While the landlord is liable for a lot of things, they're not required to pay for your stuff if it gets burglarized or ruined in a fire, flood, or some other disaster. His insurance covers his investment (the building itself), not yours. As a renter, you need insurance at least as much as the owner! It's just too easy to have something terrible happen that wipes you out.

The good news is that renter's insurance is incredibly affordable. A $20,000 policy covering your furniture, computer, jewelry, clothes, and so on might only cost a couple hundred dollars per year, which you can typically pay for at $15-$20 per month.

For around the cost of one pizza a month, it covers you if your annoying neighbor forgets to turn off the tap and floods your closet full of suede shoes or if you accidentally leave the toaster on when you leave for work and set your curtains on fire. Renter's insurance will not only cover the repairs and replace the stolen or damaged items but also typically put you up in a hotel if your place is temporarily uninhabitable.

Most insurance companies offer renter's insurance, so consider starting your search with a company you already hold policies with, where you may receive a discount for buying additional insurance.

That thick packet you get when you ask for information on any insurance policy is long and complicated (and about as interesting as reading someone else's legal brief), but make sure you at least read the outline of it, generally the first couple of pages, to figure out what's actually covered. Sometimes certain acts of God or certain kinds of flood or fire damage aren't covered in the standard policy. You may need a rider if you live in an area that's prone to natural disasters (like flood or fire or hurricanes) or if you have a lot of expensive jewelry (over $1,000 worth).

After you get your policy, do an inventory of your valuables and how much they are worth. Take photos of your most valuable items, like furniture and electronics. Store your policy somewhere safe along with copies of the photos and inventory list. Ideally, put these in a safe deposit box at the bank or at a trusted friend's or relative's house, or scan everything and store it on the Cloud. You should also update your policy every year to include any new valuables; otherwise, if you get robbed, that new 75" TV you just got for your birthday will not be covered.

There's also another big advantage to buying renters insurance. Getting homeowner's insurance, when you someday buy a home, can be difficult. Many insurance companies only accept a limited number of new homeowner's policies each year, especially in coastal states like Florida. If you have a renter's policy with a major carrier like Nationwide, State Farm, or Allstate, converting to a homeowner's policy can often be easier because you are an existing customer already familiar to the agent and company.

Homeowner's Insurance

Obviously, if you own a home, insurance is critical (and almost all lenders will require proof of homeowner's insurance in order to finance a mortgage) – and yes, it's more expensive – simply because you've got more on the line. (Title insurance is also almost always required to get a mortgage. It insures that you have all the rights to the property you're buying.) Your lender will let you know what the minimum insurance is, and then you'll need to figure out how much you want to buy beyond that.

Usually, the basic package (standard home insurance is called HO-3 or 'special insurance') will include theft, fire, frozen pipes, electrical shorts, trees falling through the roof, and that kind of thing. It also includes liability coverage, so if a friend falls on your property and breaks his arm, you're covered. If a tree branch falls off a tree on your property and lands on your neighbor's car, you're covered for that, too. What you want beyond the standard coverage will depend on where your house is. If you live at the foot of a mountain known for avalanches or your block is nicknamed 'Tornado Alley', you may want some additional insurance. Here in Florida, hurricane insurance is a typical addition.

The price of this additional coverage might give you pause: earthquake insurance can cost anywhere from $100-$3,000 per year depending on where you live, while flood coverage can cost over $500 per year. You should consider whether the annual premiums cost more than potential repairs if disaster should strike. If you aren't sure what repairs would cost, you can call a local contractor and ask for a quote for hypothetical damages. In short, do the math, and if you decide not to have a specific type of coverage, make sure you have enough money in your emergency fund to cover those repair costs.

Incidentally, private insurers typically don't cover flooding at all, but you can buy federally sponsored protection from your agent through the National Flood Insurance Program. You should consider buying it even if you're in a low-risk area.

Once you determine your needs, you should shop around for the best price – never the other way around. Prices can vary widely. For example, the annual premium charged last year by 44 insurers for $200,000 in-dwelling coverage on a brick home ranged from $440 at Liberty Insurance to $1,528 at Nationwide Property and Casualty. Call a variety of companies and get quotes based on your own situation. See if an insurance company you already use, like your car insurance company, would be willing to bundle home insurance for a lower rate.

You can also reduce your insurance cost by raising your deductible. If you have some savings in the bank for home emergencies (and you should if you own a home), you can raise your deductible to match the amount you have set aside. This is an easy way to lower your premiums, with the security of knowing you have enough money on hand to cover the deductible if need be. Remember that, if a loss is only a little bit higher than your deductible, you should consider not filing a claim, because it could cause your premiums to go up or flag you as a customer worth dropping-especially if you make several small claims over a relatively short period. Homeowner's insurance is for losses in the thousands, and that's when you should call your insurer.

Chances are you will never need to file a major claim, but if you do, experts say a difficult part of the process is remembering what was lost or stolen. So do an inventory of your belongings ahead of time. Include receipts, with videos or photos, and record the serial numbers of major items. You can store the information for free on the website of the Insurance Information Institute, at iii.org/software. Also, keep copies of important documents in a fireproof safe, a bank safe-deposit box or with someone you trust.

An example:

<u>What a storm taught me about Homeowner's Insurance</u>*

"I got home around 4:30 p.m. on the day of the storm, and almost immediately my husband and I looked up at the sky and saw a tree coming straight toward us. It seemed like slow motion – you never think something like this is going to happen to you.

"Suddenly, the tree was in the middle of the room. Now it was raining in our house – just water pouring in. We went and got every garbage pail we could find and put it under where the rain was falling. And, of course, we had no power – no one did – so we had to do all of this in the dark.

"We tried to just take Hurricane Sandy in stride. In fact, I actually feel lucky, for a few different reasons: no one was hurt, and we were able to sleep in our bedroom that night. But the damage from the storm – physically and financially – was significant."

-Gail, 47, Upper Brookville, NY

In the end, removing the tree from their house alone cost $17,000, plus another $10,000 for the additional eight trees that fell on their property. They also ended up needing a new roof on that part of the house. If they hadn't been insured, they would have had to swallow those costs. All that compared to the few hundred dollars a month they paid for the coverage.

<u>Cost of damage without insurance</u>: $27,000 tree removal + $25,000 house repair = $52,000 total
<u>Cost of damage with insurance</u>: $2,500 deductible + $3,500 annual insurance premium = $6,000

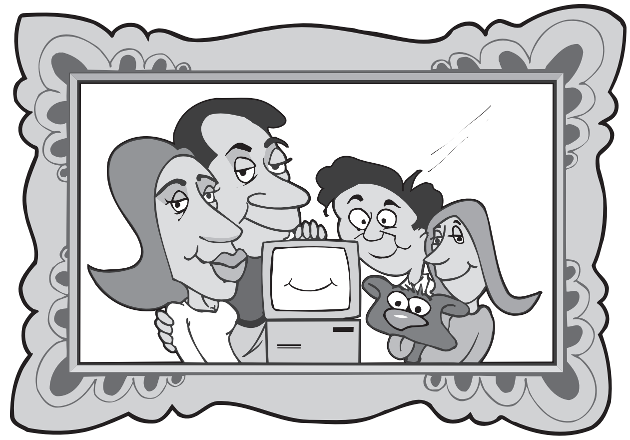
What's most important to remember with Homeowner's insurance is not to underinsure your home. About 64% of the homes in the U.S. are underinsured. That means the face value of the policy will not be enough to reconstruct the dwelling completely. The average shortfall is 19%. A home should be insured for what it would cost to rebuild it (minus your deductible). You can ask your insurance agent for a customized estimate of your home's replacement cost that accounts for its unique features, construction details, and age, as well as any costs due to local building-code requirements.

In short, insure your home for what it's worth. It is, after all, usually the single most valuable asset you will own.

Life Insurance

If you are unmarried and have no children you do not need life insurance.

Do you agree? The thing to remember here is that most people misunderstand the purpose of life insurance. Life insurance is not about you. It is not about providing for your burial, debts or medical costs (those are covered by your health insurance). Life insurance is meant to provide security for those who you leave behind, those people who depended on your income to survive. If you are married you need life insurance. If you and your wife decide to have children you need more life insurance. If you have other dependents that rely on your income to meet their monthly needs, you need life insurance. Life insurance will pay benefits if you die. These benefits will help your wife, children, or dependents continue on in their lives with some measure of financial security.



As with all types of insurance, Life Insurance has its own terms (the language of Life Insurance). Some of the words that you will see used in your policy are:

- **Beneficiary** – a person named to receive the income or inheritance from a will, insurance policy, trust, etc.
- **Accidental Death Benefit** – Also called "Double Indemnity" This is an additional amount payable to the beneficiary, should your death occur due to an accident.
- **Death Benefit** – Also called "Double Indemnity" The limit of insurance or the amount of benefit that will be paid in the event of your death.
- **Living Benefits** – Also called "Accelerated Death Benefit" This feature allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Usually this is used in the case of terminal or catastrophic illness, the need for extensive long-term care, or confinement to a nursing home.

The first two questions most people ask when looking into life insurance coverage are often: "How much will it cost?" and "How much do I need?" This can be tricky because there are several different types of life insurance, with term life and whole life insurance being the two most basic. There are others. The cost is unique to the person and depends on the type of policy you choose, the amount of coverage you want, and things like your age and overall health. Comparing plans online is a good way to get ideas of what prices you may be looking at for different plans, but to get a customized plan that fully meets your needs and your budget, it is best to work directly with an agent.

What factors do life insurance companies look at to figure out their risk in insuring you?

- **Age**: Life insurance rates will go up as you get older.
- **Health**: Do you smoke? Expect to pay more. Do you have any chronic conditions (including diabetes or high blood pressure)? Expect to pay more.
- **Gender**: Are you a man? Expect to pay more. Women live longer, statistically, and will pay less for life insurance because of that.
- **Occupation**: Remember the secretary versus the blind sky diving instructor? It makes a difference.
- **Exams**: Most life insurance policy will require some sort of physical exam to determine if you have any conditions like diabetes, high blood pressure, heart diseases, etc… There are "no exam" policies out there, but they are typically more expensive.

There can be some differences in your life insurance costs based on your state (and even where you live within the state) as well. Life insurance companies use "mortality tables" (also known as Actuarial Tables) to help predict the benefits they are likely to pay in a given year. Why? Because the amount they collect in premiums must be less than what they pay out in benefits. These tables help them make sure that they won't end up in a deficit. Some things that they might take into account based upon your region include:

Whether there is a high rate of obesity in the area

If the area experiences a high rate of deadly natural disasters like earthquakes or tornadoes

If the area is prone to certain diseases like malaria or black lung disease

If the area has a high mortality rate due to crime (expect higher premiums in Chicago or New York than in Priminger, Iowa)

Even with all of these factors, where you live doesn't affect your rates all that much. Even if you live in a region prone to earthquakes and high crime, your cost will be affected more by your age and health than where you choose to live.

Let's look at the different basic types of life insurance.

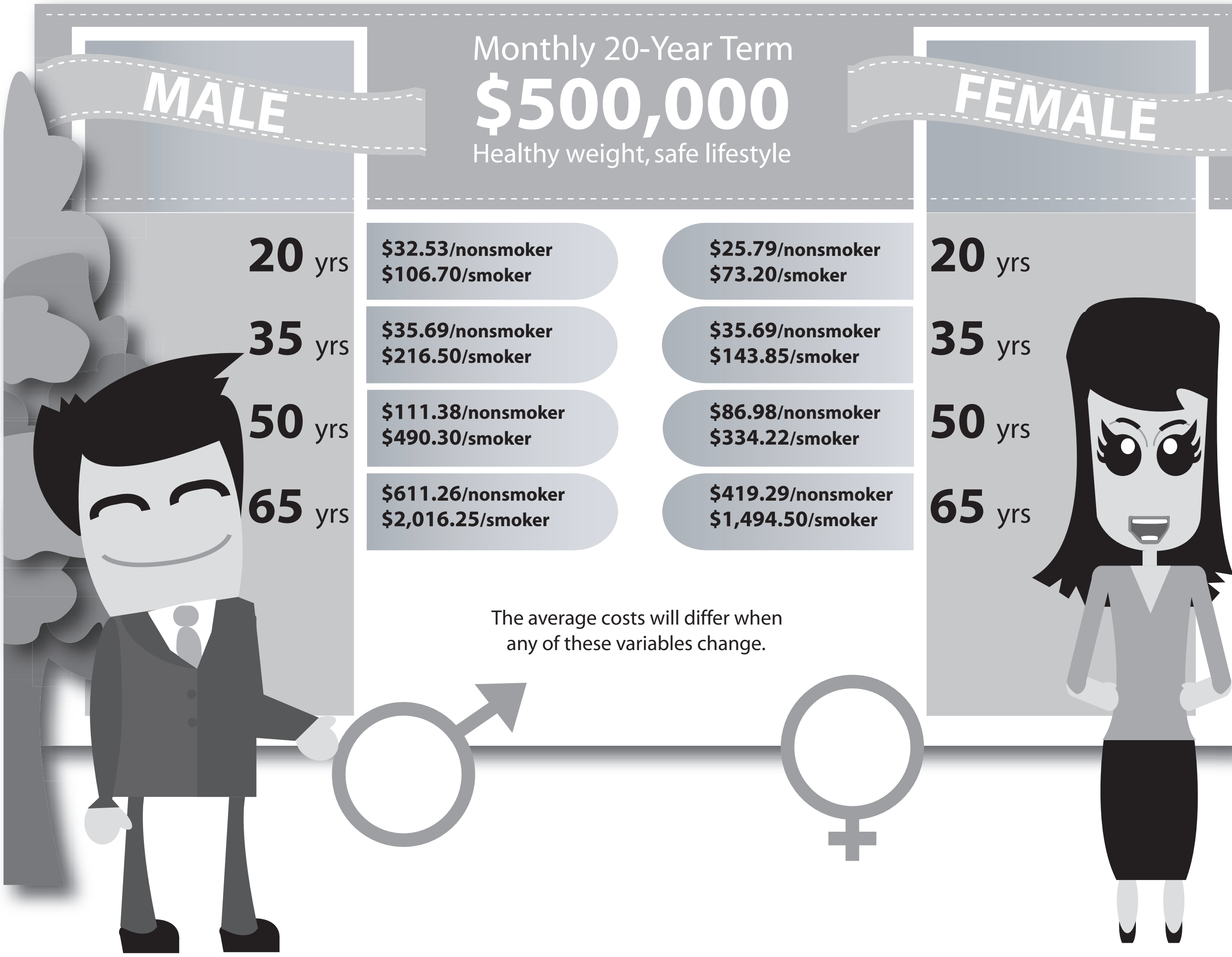
Term Life Insurance

Term life insurance is a death benefit only type of life insurance. With term insurance, you are setting an amount of coverage (this can be any amount that the insurance company considers reasonable, say $50,000, $100,000 or $250,000. It could even be more) that will be paid to your beneficiary if you die within a certain period of time (again, this can be anything the company thinks is reasonable, but is most commonly 10, 20, or 30 years). The insurance industry calls this period of time a "term." Your coverage only exists if you die within that term. Put simply, if you die within the term, the benefit you agreed on is paid to your dependents. If you outlive the term, no benefit is paid out. It's the simplicity of these policies that keep the costs down.

Term policies generally offer the most protection for the lowest cost because it is so specific. Fortunately, many policies of this type are also renewable, meaning you can purchase them again for the same term even if your health or circumstances have changed (although your cost might increase). The cost of term insurance also gets higher as you grow older. Put another way, if you are 30 years old and buy a 30-year $100,000 term insurance policy the cost will be lower than if you wait to buy the same policy when you are 40 years old. The reason for the increase in cost is because you are more likely to die between the ages of 40 – 70 than 30 – 60. After age 70, people cannot have term insurance.

How much does term insurance cost?

This chart assumes that both of these people are a healthy weight and do not live a "hazardous lifestyle" (such as someone working in underwater demolitions or someone engaging in promiscuous sex). They both want $500,000 worth of life insurance, and they want to pay monthly for a 20-year term policy.



The average costs will differ if any of the variables change. For example (as of 2016), a 35-year-old female non-smoker would pay an average of $61/month for $1,000,000 worth of life insurance with a 20-year term. That would drop to $23.90/month for $250,000 worth of life insurance for a 20-year term.

Whole Life Insurance

Whole life is life insurance with a savings plan. It is usually more expensive than term insurance. You can have a whole life insurance policy for as long as you live. You can use the money built up in the savings account when you get older (exactly what age, how much and all those sorts of details depend on the policy). This type of plan also pays benefits to your family when you die. How it pays out benefits is, more or less, identical to term insurance.

The average cost for a healthy (as in not living a "hazardous lifestyle") 35-year-old female non-smoker, buying $250,000 worth of whole life insurance and who wants to keep a monthly "level pay" (meaning the same monthly payment for the duration of the policy), would be about $188.36/month (as of 2016). If you're a man, you can expect to pay more.

The way this works is that you pay your premium each month. A portion of that (say $23.90 in our example above) goes to pay the insurance cost. The rest of the payment ($164.46) goes into an investment account that is managed by the insurance company. This investment account grows over time. As we saw, costs go up as you get older. With a whole life policy that is true as well, but the amount that you pay actually stays the same. Once your monthly premium no longer covers your insurance, the insurance company begins drawing from the investment account to cover the difference. In the vast majority of cases, this evens out by the time the policy expires.

One of the benefits of this type of policy is that you are allowed to borrow against the amount of money built up in the investment account over time (the "equity"). This gives you a way to borrow against your own life insurance policy, providing a cash-value benefit.

But, is this really a benefit? One thing to keep in mind is that it's *your money* being kept in the investment account. The insurance company is not interested in taking on any more risk than they absolutely have to, so they're not going to invest your money in anything that might have a high return (they will typically invest in CD's or low-risk bonds). Additionally, if you "borrow against" the cash value of your policy, you are really paying an interest fee to borrow your own money. On top of that, the insurance company will typically charge you an annual management fee to manage your money for you (often 2-3% per year).

The real benefit of whole life insurance is that it allows you to maintain a steady payment for the length of the policy. That's all.

Which is the best type of life insurance for you? Many people with young families buy term insurance. They get more protection for less money. There's an old piece of advice followed by most financial planners: "buy term and invest the difference".

Here's an example: You are considering two life insurance policies for $100,000. One is a whole life policy and one is a term policy. The whole life policy costs $500 per year and the term policy costs $250 per year. The whole life policy costs more because the extra premium goes into the investment account and is charged the annual fee with little real investment growth. The better solution is to buy the term policy for $250 per year and then put the extra $250 you would have spent on a whole life policy into a mutual fund on your own. Invest it yourself. With a mutual fund you have excellent investment managers, often with far better performance results than insurance companies, and the annual management fees are lower, usually .50 – 1.50%. There are also no restrictions to accessing your money in the mutual fund. You don't have to pay to borrow your own money. By earning more from your investment you can allow for the difference in the increasing cost of term insurance and still have money left over.

Money Saver! Buy term insurance and invest the difference.

How to lower your life insurance costs:

Overall, life insurance is a little different from the other types of insurance that we've discussed in this chapter. With auto or health insurance, you can increase your deductible or alter your coverage to lower your costs. There are a few things you can change from policy to policy in life insurance (such as the amount of the total benefit), but because health and lifestyle play a key role in determining your life insurance rates, the biggest things you can do to lower your payments have to do with improving your health and reducing your risk of chronic conditions like diabetes or cancer. Perhaps the single most significant thing you can do to reduce your life insurance cost is to not smoke, but there are many more things you can do as well.

- Maintain a healthy weight to reduce the risk of obesity and related conditions
  - Get a body mass index (BMI) check done
  - If you have a high BMI, work with a health professional to lose weight
- Maintain your heart health to reduce risk of hypertension, heart attack, and stroke.
  - Get an annual physical
  - Check your blood pressure regularly along with your cholesterol and triglyceride levels
  - Work with a doctor to improve your numbers, if needed
  - Reduce stress, improve your diet, and increase exercise
- Manage your blood sugar to reduce the risk of diabetes.
  - Request a blood sugar test
  - Obtain a diet and exercise plan to help manage blood sugar levels

Your career choice and hobbies also affect your life insurance rates. An accountant will pay significantly less than a rodeo clown. As always, knowledge leads to power and control. Do you have a wife? Do you have children who would like to go to college? The death of a loved one is a terrible thing to have to live through. We grieve and mourn, and we worry about how we will go on. If you have dependents relying on you for financial support, you need life insurance. It's one way you can relieve some of the stress on them if you leave them behind and give them something to go on with. Life insurance, as mentioned above, is different because the ways to manage its costs are not simply dollar adjustments. They are also excellent ways to go on living.

Auto Insurance

You *must* have auto insurance if you own a car; it's the law now in every state. There are two reasons that states require this insurance. First, it protects you, the car's driver. Second, it protects other people or property your car may damage in an accident. Simply, auto insurance protects you and limits your liability. As with all insurance, the cost is based on several risk factors. Some of these are:

- **Gender** – Male drivers tend to engage in riskier behavior and will pay more
- **Age** – Younger drivers, statistically speaking, get in more accidents
- **Demographics** – People living in high-crime areas pay more than those living in low-crime areas
- **Theft-deterrent systems** – If you have an alarm on your car, you'll pay less for insurance
- **Safety devices** – Air bags and anti-lock brakes both work in your favor by keeping you safer and lowering your insurance bill
- **Accident Prevention training** – Some companies offer discounts if you take drivers education training

- **Previous driving record** – If you have had a history of insurance claims (either for or against you) this will count against you. This also includes traffic tickets, suspended licenses, and so on.
- **Distance driven each day** – Simply put, the less you drive the less likely you are to get into an accident
- **The make and model of the insured car** – Do you own a Mercedes SL63? Is it red? It is statistically more likely to get stolen or into an accident than a green Kia Soul.
- **Car color** – Believe it or not the color of your car can also affect your rates. Red cars are statistically more likely to be stolen than white ones.
- **Credit score** – If you have a low credit score you are statistically more likely to engage in risky behavior (and, thus, are more accident-prone). It also shows a higher probability of filing a claim against the agency.

In Florida, the law requires that all licensed drivers have a minimum of $10,000 Personal Injury Protection (PIP) and $10,000 Property Damage Liability (PDL) as long as you have a valid Florida driver's license plate for a vehicle with at least 4 wheels registered in the state. The DMV can suspend your license for up to three years or until proof of Florida insurance is provided, whichever comes first. If your license is suspended, a reinstatement fee must be paid (of $150-$500) once you provide your proof of insurance. In addition, most auto insurance companies will not even give you a quote, much less insure you, if you are currently uninsured and driving a car.

Florida is a "no-fault" state. This simply means that each driver's own insurance provider is responsible for damages and compensation arising from an accident, regardless of who is at fault. If you are determined by a police investigation to be at fault in an accident and do not have insurance, the Florida Bureau of Financial Responsibility will automatically obtain a final judgment from a Florida court against you. The judgment will be immediately enforced and your license, tags, and registrations will be suspended for up to 20 years. It's very important, therefore, that you do not let your insurance lapse.

PDL and PIP coverage will satisfy Florida laws, but you will find additional coverage to be very necessary. Some auto loans will even require you to have "full coverage." Full coverage does not mean that you have the maximum coverage in every category. It simply means that your policy has some coverage in each of the major categories. Check with your loan agent to see what minimum limits they require.

How much Auto Insurance should I get?

This depends a lot on your situation. Of course, you need to purchase PIP and PDL to comply with the law, but these are the bare minimums and will rarely cover all your bills if you end up in a bad accident. If you get an auto loan, you will also need to comply with the terms of the loan, but keep in mind that the requirements the loan agency sets are designed to protect their asset, not you.

When you buy auto insurance, remember to CYA – cover your assets and your family first. Your most costly bills from an accident generally come from the other people involved. **Bodily Injury Liability** protects you from this by covering medical expenses, rehabilitation, and even funeral costs (should it come to that). It covers the other driver and his/her passengers and even injured pedestrians (as well as lawyer's fees). The minimum to shoot for with Bodily Injury is $100,000 per person ($300,000 per accident). You may need to adjust that down to make your premium more affordable, but that should be your goal.

Property Damage Liability (PDL) is one of the two types of insurance required by Florida law. It will cover the damage you cause to other people's property (be that another car, a house, a light pole, etc…). The state has a minimum required level of coverage of $10,000, but most new cars average $22,000. That leaves you footing a $12,000 bill if you total someone's new car. Your goal for PDL should be at least $25,000 in coverage.

Uninsured/Underinsured Motorist sounds like a strange thing to need in a state that requires everyone to have insurance by law. Shouldn't everyone have insurance? Why would I need to worry about this coverage? To put it bluntly: Does everyone follow the law? What about hit-and-run accidents? Do those ever happen? This type of coverage will pay for things like medical, rehabilitation, funeral, and pain-and-suffering costs of the victims in your car if you get struck by a hit-and-run driver or by someone who doesn't have enough insurance to cover your costs. It will also cover family members of your household as pedestrians. Your goal number here is the same as for Bodily Injury Liability ($100,000/person, $300,000/accident).

Personal Injury Protection (PIP) is also sometimes called "no-fault" coverage. This is the other coverage required by Florida law. The law requires you to have at least $10,000 in PIP coverage. This covers your medical needs and the medical needs of any passengers in your car, up to the $10,000 level of coverage, per person, per accident. This is meant to prevent the court system from being clogged up by small medical insurance lawsuits. Unless your health and disability coverage is very low, you don't really need much more than the minimum here.

Collision insurance is not required by law but since it protects your car in the event of an accident, it is foolish not to have it. If your car is involved in an accident and it's your fault, unless you have collision insurance your car doesn't get repaired by the insurance company. However, if your car is involved in an accident and it's the other drivers fault, your car gets repaired by the other driver's insurance company under their property liability policy. If you have a new car loan, they will require this coverage.

Comprehensive insurance is also not required by law. Comprehensive insurance covers damages to your car that are not caused by a collision. The coverage can insure your car from fire and theft, flying or falling objects, explosions, vandalism, earthquakes, windstorms, hail, water, floods, civil commotions, riots, and collision with a bird or animal. The cost of comprehensive car insurance varies depending on how many different situations you wish to insure against. Full comprehensive insurance, covering you against all of the aforementioned things might cost $300 per year. If you limit your comprehensive coverage to say fire and theft only, the cost might only be $90 per year. Just $90 a year to sleep at night knowing that if your car is stolen it will be replaced seems like a pretty good decision.

For both Collision and Comprehensive, you'll have to choose a deductible. The higher the deductible, the more you will save on your premium, but be careful not to make the deductible so high that you won't be able to afford to pay it. That defeats the purpose of having the insurance in the first place. But, a deductible of around $500-$1000 on each is a good goal. Over and above all the money saving hints mentioned before, the single best way you can slash your auto insurance premiums is to increase your auto insurance deductibles. Just be aware of the cost to you should you get into an accident.

If your car is worth less than $3,000, Comprehensive and Collision probably aren't worthwhile. Over time, the money you'll pay for the insurance will likely exceed the payout, even if your car is totaled. Keep the value of your car in mind when you are insuring it.

Car medical insurance is not required by law but it's important to have if your car has caused an accident. This type of insurance covers your medical expenses over and above the PIP amount. Medical insurance also covers any passengers in your car over and above the PIP amount. If your car is in an accident and a passenger in your car is seriously injured, the medical costs could be tens of thousands of dollars. Car medical insurance covers you financially.

Other things your auto insurance policy might cover are things like **towing and labor**, **rental car replacement**, and **glass breakage** coverage. These are all optional and you should decide if they are useful to you or not. Most auto clubs like AAA will provide towing services and are usually cheaper than adding the cost to your insurance. Rental insurance generally only adds a few dollars a year to your premium, but if you have a second car that you can use in a pinch, save yourself the money. Things like glass breakage can add as much as 20% to your premium. If it's not automatically built in to the policy, avoid it.

If your premium is still too high, you do have options to lower it. Ask your agent if you qualify for any of the following:

- If you drive your car fewer than 6,500 miles a year, check whether you're eligible for as much as a ten percent rate cut.
- If you quit smoking or drinking, find out whether your company offers reductions for non-smokers or teetotalers.
- Look at your payment plan. Some companies will offer a discount based on the way you pay for your policy. Paying your entire yearly bill at once instead of month-by-month could lead to a discount.
- Be loyal to your Insurance Agent. If you have more than one car and/or also have a homeowner's or renter's insurance policy, keep in mind that many companies will offer a discount based on the number of policies you have with them.
- Check the Internet! A reputable Internet insurer could save you up to fifteen percent (whether they are GEICO or not).
- Farmer's auto insurance discounts are available if you happen to be a farmer or rancher and only use your vehicle on the job.
- If you're not married and you insure your car in your family's name, stating that you are the principal driver, you are likely to pay a lower insurance premium than if the car is registered in your name and you are listed as the sole driver.
- If you have a family and more than one car, insure all the family cars under the same policy: A second family car generally can be insured at a discount of about twenty percent on the grounds that two cars in one family are likely to be exposed to less risk than two single cars would be.
- Don't file collision claims which are under or just barely over your deductible, or you may lose your "good driver" discount. In other words, if your damages are only $1,000 and you have a $1,500 deductible, don't file a claim. You'll be paying for it all out of pocket anyway, and the only thing a claim will do is increase the cost of your insurance.

The last thing you can do if your insurance costs are still too high is to buy a cheaper car. If you're buying a new car, keep in mind that rates on a "muscle" or high-performance car may run 20-50% higher than average. If you buy an inexpensive or low-powered car, though, you will be charged a lower than average premium.

What does Auto Insurance look like in action?

As an example let's say your policy looks something like this:

Bodily Injury Liability: $25,000/$50,000 (the first number is how much the insurance will cover per person; the second number is how much it will cover per accident)
Property Damage Liability: $25,000
PIP: $10,000 (in this case, this number indicates how much the insurance will cover per person, per accident)
Collision: $10,000 (with a $500 deductible)

You're in your sleek, slate-grey Kia Soul, with the window rolled down on a clear sunny day. You've got your shades on, and all of a sudden your phone chimes with a message. As you reach for the phone, it falls off the passenger seat onto the floor, so you stretch and grab across the floor for the phone. When you sit back up, you see that you have a message from Tasha, a photo of her, scantily clad at the Round Holiday Inn, with a text under it that says, 'Are you coming?'

'Fuh'shizzle!' you quickly text back. When you look up from the screen, you notice that you've drifted over to the wrong side of the road and are now headed straight toward an oncoming 18-wheeler that wails out its horn to warn you. You drop the phone and swerve back onto your side of the road but end up clipping the back of a Ford F150. He hits a fire hydrant, spins out into the ditch and rolls, mud and broken fiberglass flying up into the air, while your car skids sideways right into a light pole. Ears ringing, you feel blood on the side of your head. Steam and smoke is pouring out from somewhere, blocking most of your vision. Glass and shards of debris litter the road. You see cars parked in the middle of the intersection ahead, people standing around or rushing over to you. Feeling woozy, you look up into the face of a grandmotherly woman who looks very concerned. She pats you gently, worriedly on the shoulder.

"Are you okay, sweetie?" she asks, bending down to see the extent of your injuries.

"Um… Tell Tasha… I might be a couple minutes late," you reply.

In this example, you've hit a Ford pickup truck and a light pole. Both you and the other driver were injured as well as the other driver's daughter who was riding in the truck with him. Both the other driver and his daughter survive but need to go to the hospital. Their medical bills come to $14,000 for the driver and $37,000 for his daughter. Fortunately, the F150 was not new, but you caused $17,000 worth of damage to it. You also caused $7,000 worth of damage to your own car. The light pole was damaged, costing $7,500 to repair, and a fire hydrant was damaged and needs to be replaced for $1,000. You were seen by paramedics at the site of the accident and fortunately have only a mild concussion and some lacerations, but you need to be transported to the hospital for stitches. Your medical costs come to $2,750.

Your **Collision** insurance covers the damages to your Kia Soul. You have $10,000 worth of coverage, but you only did $7,000 worth of damage, but you also have a $500 deductible. This means that the insurance company will pay for $6,500 of the damage while you will need to cover the other $500.

You did $17,000 worth of damage to the Ford F150. This is covered by your **Property Damage Liability**. Fortunately, you have $25,000 worth of coverage, so the insurance company pays for all $17,000. Unfortunately, you also caused $7,500 worth of damage to the light pole and $1,000 worth of damage to a fire hydrant. This is also covered by your **PDL**, but $17,000 + $7,500 + $1,000 = $25,500. Your **PDL** will cover all but $500 of it.

Your medical costs are covered by **PIP**. In this case, you're well below the $10,000 limit. Your insurance will cover all $2,750 of your medical bills.

The medical costs of the other driver and his daughter are another matter. This is covered by your **Bodily Injury Liability**. Unfortunately, both of them had extensive injuries requiring some serious medical procedures. The driver's medical bills came to $14,000 and his daughter's treatment cost $37,000. All of the driver's bills are covered by your insurance because it falls well under the limit of $25,000 per person. The driver's daughter, however, had injuries above what your insurance company is liable to pay ($25,000). The total amount that your insurance company would pay for their medical costs would be: $14,000 + $25,000 (which is the maximum amount per person) = $39,000. If the other driver has **Underinsured Driver's** insurance, his own insurance company may cover the difference. If he does not, and he wanted to get the rest of his money for his daughter's hospital bills, he could sue you for the remaining $12,000.

So, in our scenario, your total out of pocket cost would be $1,000. Unless the driver wanted to sue you for the rest of his damages, in which case your costs would be $13,000. Compare this to the total cost of the damages: $86,250. You can quickly see here why it is extremely important to have auto insurance.

The moral of the story is: *Don't text and drive.*

And, have enough auto insurance to meet your needs. Remember what it is for. Automobile insurance (and this also goes for other types of insurance) was never intended to help you budget. It was never designed to pay for small repair bills for which you ought to be able to budget routinely. Common sense should urge you to trade off a higher deductible for a higher upper range of liability coverage. Had you increased your **Bodily Injury Liability** to $50,000/$75,000 and increased your deductibles to say $1,500 each in our example, all of the medical expenses for the other driver and his passenger would have been covered. Your cost would have been $3,000, but you also wouldn't have been sued for $12,000. $3,000 is a lot, but it is a more manageable bill than $13,000.

Money Saver! The important point to remember about automobile insurance is that it is intended to protect you against a financial catastrophe, especially if you do not have other means of protecting yourself against such a catastrophe.

REEFS

Chapter 7 - Golden Years

Think of retirement this way: You work for approximately forty years to fund seventy-plus years of your life.

Are we all going to live to see 95? No. But, even if we only live eighteen years into our retirements, that's still a whole lot of time. If you don't put aside income for those non-working years as soon as possible, well, it is not going to be pretty. Saving for retirement is major and everyone needs money to fall back on in later years. To fully retire in your sixties, you'll need LOTS of money, so if there's one thing you do immediately upon receiving an income, it should be ot save hard and fast for retirement. Retirement cannot be neglected, despite the other financial responsibilities tugging at you.

Maximize your dollars

Remember when we talked about compounding interest back in Chapter 2? Let's say you have a spare dollar. How do you best maximize it? Thanks to that compounding interest, $1 in your retirement account will yield exponentially more than $1 in a savings account. If you have it in an account that yields a 6% return, in forty years, it will be worth $10. That probably doesn't sound like a lot, but think about the effect on a larger scale: put aside $100,000 for retirement and it could grow to $1 million. While paying down debt and saving for emergencies are smart money moves, too, your retirement dollars can bring some serious value.

Retirement is becoming a growing problem in America. On the plus side, we're living longer, but most of us are not prepared to handle that financially. The stats on retirement are just crazy: 30% of American workers plan to work until they're over 80 years old. 80? Really? Do you want to spend all that time laboring and work yourself into the ground? Why not think about reaching a point where we start to think about relaxing and enjoying the rest of our days, instead? They call them our 'Golden Years' for a reason, and they come around as soon as we hit 67 years old or so. Considering that many of us will have been working since we were about 18 (some of us even earlier than that!), that means that we will have been putting in our sweat and labor for nearly 50 years. It's time to start enjoying life. Beyond that, what if you can't work at eighty because your body or mind can't swing it? Most of us here haven't exactly been taking it easy and leading the healthiest of lives. You will have had a whole lifetime of hard work by then. Why not make sure you can enjoy the payoff?

The real, unfortunate fact is that the majority of people don't plan. Have you not saved anything yet to retire with? You're not alone. 49% of Americans have no money at all saved for retirement. Beyond that, 69% have no comprehensive financial plan. They set no goals and live only from hand to mouth. What about those of us who do plan ahead and start thinking about retirement? Of those, 22% make up their own estimate for a retirement goal, and 12% just guess. The remainder actually makes some good decisions. You want to be one of those.

Most young people don't like to think about getting old, but it's important to start thinking about it as early as possible. Retirement goals let us make the most out of our lives for as long as we live. Retirement savings goals are big goals. And often, big goalposts can be intimidating and stop you in your tracks. It's nothing to be ashamed of, it's human nature. You may think that an extra 1 percent in monthly 401(k) contributions will hardly make a dent. Or that putting aside $25 a week into an IRA won't really matter. Wrong. So before we actually crunch some numbers, let me just say this: every little bit helps. Do what you can. Make progress. You'll get there. It will be harder for some of us than for others, but it is rarely every impossible.

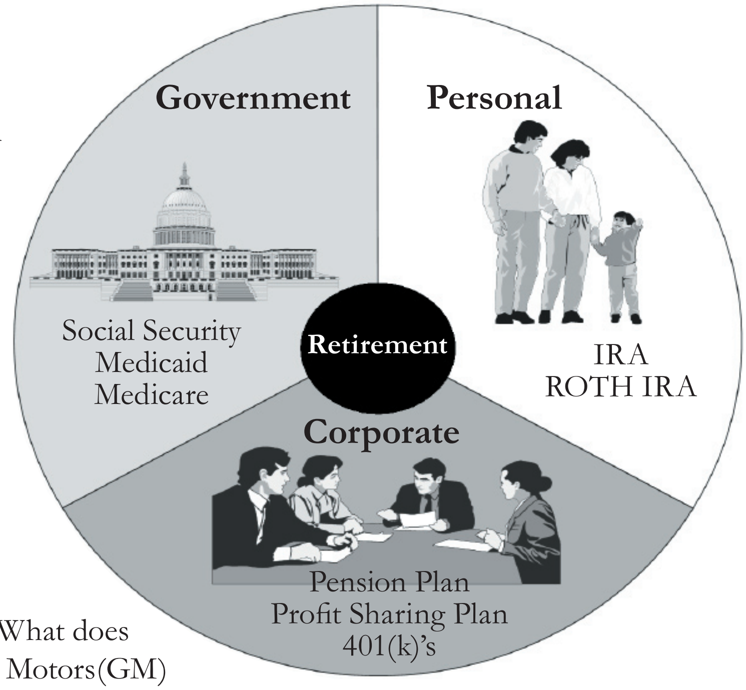
How much money do I need to retire?

So, how much money are we talking? Let's get a little more specific on how big a nest egg you should be aiming for. Think of annual retirement needs in terms of replacement value: what percentage of your current income will you need in order to replace not having an income for each year of retirement? This percentage will depend on your personal situation of course, so once you look at the numbers, you have to ask yourself, "Can I see myself living on *x* number of dollars a year?"

During retirement, there are expenses that tend to decrease (for example: you might have paid off your mortgage, student loans, and you'll definitely have paid off your consumer debt – if you've taken and paid attention in courses like Credit & Debt Management. You should also no longer need to financially support your grown children). But, there are also some expenses that tend to increase (for example: health care for your aging self and trips around the world). Given these competing factors, we generally estimate that you'll need to replace at least 70% of your current income to stay above water. We've crunched the numbers to show you what that looks like at a few income levels.

Annual Current Salary	Retirement Salary in Today's Dollars (replacing 70% of your current salary)	Retirement Salary in Future Dollars (replacing 70% of your current salary with 3% annual inflation)	Target Nest Egg (assuming you'll need your retirement salary for 20 years)
$35,000.00	$24,500.00	$59,467.93	$884,732.64
$50,000.00	$35,000.00	$84,954.19	$1,263,903.77
$65,000.00	$45,500.00	$110,440.44	$1,643,074.91
$80,000.00	$56,000.00	$135,926.70	$2,022,246.04
$100,000.00	$70,000.00	$169,908.37	$2,527,807.55

So, how do we do that?



In the past, the golden years of retirement were funded by three sources. The first source was a pension plan provided by their employer, the second source was some sort of government subsidy like Social Security or Medicare, and the third source was whatever monies the retiree had stashed away in savings or investments accounts. Over the past few decades, the first two sources, corporate pensions and government subsidies, have changed or been reduced so significantly that a person looking to retire today can't count on them for much in the way of retirement income. Why did corporate and government retirement funding change? *Liability.*

A corporate pension plan is a *defined benefit plan*. What does that mean? It means that when a company like General Motors(GM) said to one of its employee's in 1950, "Hey, thanks for working for us for twenty years, we want to take care of you when you leave and provide you with an income to enjoy in retirement," GM had defined the benefit to the employee. "Providing income" meant that GM had to set aside money in 1950, from its profits, into a separate investment account, manage the investment, and make sure that the money grew sizably enough to provide the employee with an income, starting in 1970, for the rest of his life. That presented several liabilities for GM. The first liability was the need to set money aside for the employee's retirement plan. The second liability was hiring and paying a money manager to invest and manage the money for twenty plus years. The third liability was a big one: covering market losses. The fourth liability was the biggest of all. In 1950, the average American worker retired at 60 and died at around 65. The retirement funds were an obligation for an average of five years or so. As the number of employees at GM grew from a few hundred to tens of thousands, and the average person started living much longer, retiring at 60 and living until around 77, the liabilities got bigger and bigger. GM and many other American companies found themselves with lots of liability from the simple concept of trying to do the right thing. In the 1980's and 1990's corporations just couldn't afford to offer pension plans to their new employees anymore. There are still employers that offer pension plans, but they are limited and not very common (generally the result of belonging to a union).

We'll talk about Social Security later, but the short version of the story is that for this generation, and future generations of Americans, our options for retirement funding are significantly reduced. The U.S. Government saw the direction things were going in decades ago and it didn't want a bunch of poor retirees in America for one simple reason: poor people need government support. They needed a solution and so created some retirement plans that would help Americans save for their own retirement, a kind of booster shot in the arm for the average worker. As a result, today there are many retirement plan options including: **IRA, ROTH IRA, 401(k)**, and **ROTH 401(k)** plans.

IRA

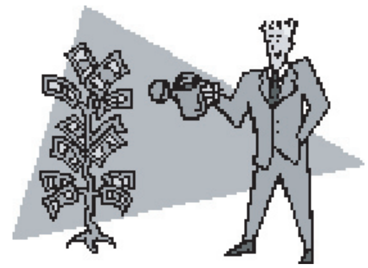
IRAs are investment accounts that are held and managed by what is known as a "trustee." The kinds of institutions that offer IRAs, and are legally considered trustees of your account include: banks, credit unions, brokerage firms, insurance companies, and mutual funds. In other words, the bank that you hold your retirement account with is considered the "trustee" of your IRA.

IRA

Individual Retirement Account

IRAs were created to encourage people to save for retirement by providing two big tax incentives: tax-deductible contributions to the account and tax-deferred compounding until the funds are withdrawn. Here's what that means: Say you earn $35,000 for the year; you would then pay federal income tax of 15% ($5,250) based on your income.

However, if you choose to contribute $5,500 to your IRA you would have still earned $35,000, but you get to deduct $5,500 from that because of your IRA contribution, so for tax purposes you only have to claim an income of $29,500. 15% income tax on $29,500 is $4,425.



That means you keep $825 more in your pocket ($5,250 - $4,425 = $825). That's one benefit. The other is that the $5,500 you put into your IRA grows each year and you don't have to pay income tax on that growth until you withdraw the money. That benefit is called tax-deferred growth.

How much can you contribute?

You must have earned income (that includes wages, tips, commissions, and self-employment income but NOT income from interest, dividends, or property) to be able to put money into an IRA or ROTH IRA and you must be under age 70½. You can choose to make contributions to an IRA, including a ROTH IRA, every year. Contributions are completely voluntary, so you can make them in whichever years you choose. You could contribute some this year, skip next year, and contribute again the next, or you could contribute every year if you choose.

You can deduct your IRA contributions even if you don't itemize deductions when you file your tax returns. Deposits in an IRA can be made right up to the time a federal income tax return is due for the previous year, which for most people means on or before April 15.

Great! I've put all this money into my IRA, but when do I get to take some out?

With an IRA, you may begin between withdrawing between the ages of 59½ and 70½. If you dip into your IRA account before you reach 59½, the IRS will stick you with a penalty tax of 10% on the amount you withdraw (that's on top of the tax you'll pay on the amount of money you take out). There are exceptions to this rule: If you suffer a major medical disability, if you are a first-time home buyer, or if you need to pay for tuition, you can withdraw your money without paying the penalty (though, again, you will still be responsible for the tax). If you die, your beneficiaries can also withdraw the funds from your account without penalty. On top of that, you must start withdrawing no later than the end of the year in which you reach 70½ (which will happen automatically according to a formula if you don't do it voluntarily). Why? The government wants its tax dollars.

An advantage to keeping as much money in your IRA as possible for as long as possible is that the balance still in the account continues to grow on a tax-deferred basis. Once withdrawals start, the money you take out is taxed just like ordinary income (if you withdraw $35,000, for instance, you'll be paying taxes on $35,000 worth of income that year – 15% as we mentioned before).

ROTH IRA

There are alternatives to a traditional IRA. The U.S. Government (in particular, a Senator named Roth) recognized that not everyone was interested in the tax advantages of a regular IRA. So, the ROTH IRA was created to give the average worker even more incentives to save for retirement.

The ROTH IRA does not offer tax-deductible contributions or tax-deferral like the traditional IRA. This means that the money you put into a ROTH IRA cannot be deducted from your current income taxes; however, the benefits you do get from a ROTH IRA are even better. Five years after you open a ROTH IRA, all withdrawals are tax-free (as long as you are at least 59½ years old). ROTH IRAs are more attractive than traditional IRAs to people paying lower federal income tax rates because they don't need the tax deduction as much as they need the tax-free growth.

To bring this benefit into better focus, consider the following example: If you bought $10,000 worth of Google stock when it went public in your ROTH IRA, then sold it ten years later, it would be worth $1,000,000. You could take the entire $1,000,000 out of your ROTH IRA once your reach 59½ years of age, and it would be completely tax-free. That's a terrific retirement savings benefit!

Transferring IRAs

One other point with IRA's: You are permitted by the IRS to change trustees of an IRA as often as you want, as long as you don't receive the funds yourself and transmit them elsewhere. In other words, you can't handle the money (until you withdraw it). The money has to be transferred directly from your account at one institution to your account at another in a process known as "rolling over". The one exception to this requirement is a once-a-year right to personally withdraw your IRA funds and hand-deliver them to another institution. You are also allowed to keep those funds for sixty days prior to rolling them over into a new IRA account. If you keep any part of that money and transmit the rest to an IRA, penalties and taxes are imposed on the portion that you kept.

What this means is that nothing in an IRA investment is forever. You have flexibility, with the opportunity to reinvest in another IRA if and when market conditions change. Each contribution to an IRA is independent of any other, so that you can invest in many different plans if you choose (although the total must stay within an annual limit).

Are IRAs my only option?

We talked earlier about companies wanting to take care of their employees and their past use of pension plans to do that. Those plans created huge liabilities because they were defined benefit plans. Today, companies still want to see their loyal employees do well in retirement, but they don't want to worry about the financial liabilities. So, working with the government, the 401(k) plan was created.

401(k)

The 401(k) plan is a *defined contribution plan*. The company defines their contribution, how much money they wish to put towards your retirement, and you decide how to invest that money. Think about the liability equation now. Once the company contributes money, they're off the hook. You now take on the liability of choosing your investments; if those investments lose money it's *your* loss, not the company's. If your money doesn't grow to a large enough balance to take care of you in retirement, that's *your* problem, not the company's.

That sounds a little lopsided in the company's favor, doesn't it? But, there are also huge advantages to having a 401(k) plan for the employee. A 401(k) is a tax-deferred retirement savings plan in which employees of private corporations may contribute a portion of their wages up to a maximum amount per year (set by law). Employers may contribute a full or partial matching amount.

What does that all mean? Remember our Taco Bell job from Chapter 1? With that job, our income was $385.92 per week. That's not an enormous salary, but we were still able to meet all our basic needs and put some money away into savings. In fact, we were putting $240 per month away in our savings account (or about $55 per week).

Would a company like Taco Bell offer a 401(k) plan to its employees? Absolutely. There may be rules (must be full-time, must have worked for the company for over 1 year, etc…) on who can partake, but over the past 20 years, 401(k) plans have exploded in terms of popularity. In fact, about nine out of ten large employers (companies employing over 500 workers) provide 401(k) plans for their workers. Any individual Taco Bell might not employ more than 500 people, but nationwide they employ many more than 500. It is a multi-national corporation, and corporations love 401(k)'s because they allow the retirement program to be handed over entirely to you, the employee.

Job #2		
$8.04 per hour		
48 hrs/ Weekly Income		$385.92
(times 4.33)		
Monthly Income		$1,671.03
Less Withholding 15%		($250.65)
Mow 3 lawns on day off at $40 per lawn		($120)
Net Pay $1,540.38		
Expenses:		
32.5%	Rent	($500)
16.2%	Food	($250)
6.5%	Clothing	($100)
15.6%	Savings	($240)
10.4%	Utilities	($160)
5.2%	Probation	($80)
2.6%	Transport	($40)
11%	Discretionary	($170.38)
100%	Total	($1,540.38)

Let's assume that Taco Bell offers a 401(k) plan with an employer match of $1 for $1, up to 3%. That means that for every paycheck you receive, you can choose to put money into the 401(k) account. In our example, 3% of our income is $11.58. So, up to $11.58, Taco Bell is going to match it. So, if you put $5 into your 401(k) plan, Taco Bell will put $5 into your 401(k) plan. If you put $11.58 into your 401(k) plan, Taco Bell will put $11.58 into your 401(k) plan. If you put $25 into your 401(k) plan, Taco Bell will put $11.58 into your 401(k) account. Whatever you put in, Taco Bell will match it, up to that 3% maximum.*

Can you afford to put $11.58 away? That's taking $50.14 out of your regular savings account, but you'd still be saving $189.86 a month. And, you'd be building income for your retirement years. On top of that, every time you put that $11.58 away, $23.16 is going into your 401(k) account. To put it another way, it's **free money**. Take advantage of it! Even if the amount seems small, small amounts add up.

Employee contributions to a 401(k) plan and the earnings on those contributions have all the same advantages of a traditional IRA; they are tax-deductible, with all taxes deferred until retirement withdrawals begin. So, you do not pay taxes on the money you contribute to a 401(k) plan, which means you can contribute into your retirement account money that you would otherwise pay out as taxes. In our Taco Bell example, if you put in 3% of your paycheck every week you will have contributed $602.16 to your 401(k) plan by the end of the year (and with matching, that means that $1,204.32 went into your account). When you file your taxes, you get to deduct that. Instead of paying taxes on $18,000 for the year, you will be paying taxes on $17,397.84.

Second, your earnings on your retirement account are tax-deferred. That means you earn a return on money that you otherwise would have paid out in taxes. The result is that you can build up a much larger retirement nest egg using a 401(k) account than you otherwise could. A matching 401(k) plan is an offer that is too good to refuse.

*** Note: These figures are used as examples and do not necessarily represent actual figures used by Taco Bell.**

ROTH 401(k)

Just like the ROTH IRA, Senator Roth wanted to provide additional incentives for people that are in lower tax brackets and so are less interested in the tax deduction than the tax-deferred growth. Let's face it, there's not a huge difference in the tax rate between $18,000 and $17,397.84. So, the ROTH 401(k) plan was created.

The ROTH 401(k) works just like the ROTH IRA. It offers no tax-deductible contribution or tax-deferral; instead the employee and employer contributions grow tax-free as long as they stay in the account for at least five years. All the other features of the 401(k) are the same for the ROTH 401(k).

Money Saver! Don't leave money on the table!
If you remember nothing else from this chapter, know this golden rule: *maximize your employer match*.
If your employer matches your 401(k) contributions, you should be putting away **whatever amount it takes** to get the full company match. If you don't know what amount your employer matches, ask.
If you're that Taco Bell worker and the company will match your $11.58, do it! It's **FREE MONEY!**

Not only that, with a dollar-for-dollar match, you're getting a 100% return on your investment. It may hurt a little to see the size of your paycheck reduced, but it's a small price to pay for having your employer help fund your life. Failing to maximize this benefit is leaving money on the table. It's saying, "No, thanks. I don't need all that money."

"But, I can't save, because…"

If your employer doesn't offer a matching 401(k), that doesn't mean you're off the hook with retirement savings. On the contrary: it just means that it's even more important to contribute as much as possible. Putting money away for retirement conjures up a whole range of excuses. Have you ever woken up in the morning and hit the snooze button? We tell ourselves all kinds of things to keep from having to do something that we do not want to do (it's too cold out, it's still early, I'll be fine if I just wait a couple more minutes, and I only barely just got to sleep…). Same thing with retirement savings. Let me make this point (and we'll come back to it later): **Time is NOT on your side**. So, do not fall into the trap of hitting the retirement snooze button. We do all the same things to try to put it off for tomorrow. Do not listen.

What are some of the most common excuses we tell ourselves to avoid saving for retirement?

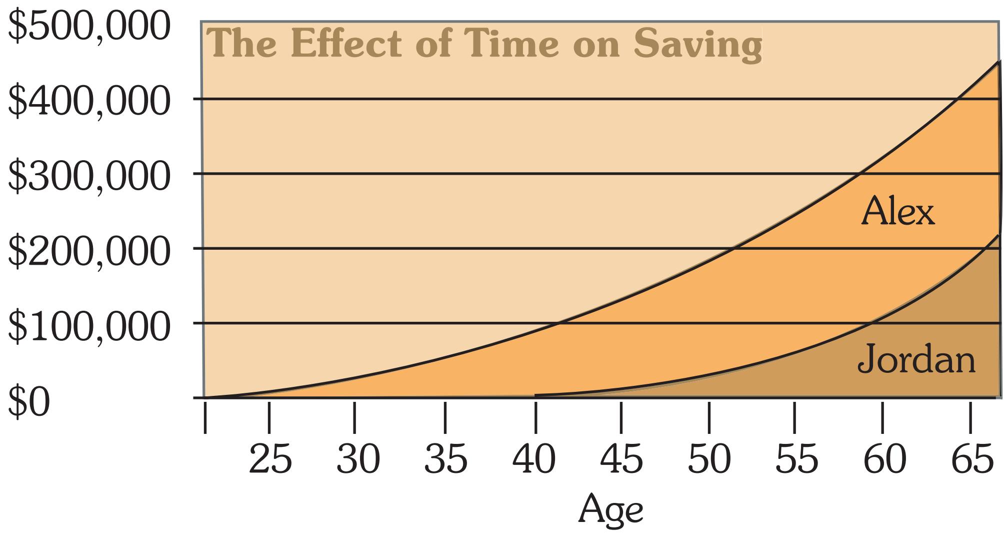
Excuse 1: I can't afford it

Nearly one in four people say they don't have money to contribute to retirement after all the bills are paid. Take another look at that Taco Bell budget. Got to live with a roommate, I'm barely making the light bill, and I've got to take the bus! It might feel like we're too far in the hole to worry about the future sometimes, but take a look at our discretionary income there: $170.38! If we can find the $25 to go out to dinner every Tuesday night, we can find $100 a month to put in a retirement account.

MAKE THIS HAPPEN. Even if you have to do it one dollar at a time over the course of the month, make it happen. Even if you have to forgo that morning cup of coffee, make it happen. And if you think putting away $25 a week won't make a difference, consider this: Contribute just $100 a month for thirty years, and if your money grows on average 8% a year, your total contributions of $36,000 will grow to almost $144,052.21 over those 30 years. When you think about it that way, skipping the regular Tuesday dinner doesn't seem so bad, does it?

Excuse 2: I'm young. There's plenty of time to save for retirement later.

This is one of the most seductive retirement lies. For a good long while, it is true that retirement is a ways off. (Even if you're fifty-five, it's still at least ten years away.) But, the longer you put off saving for retirement, the less interest you'll earn and the more difficult it will be for you to save. Remember when we talked about compounding interest? This graph deals with compound interest over time, and it means a lot for retirement savings:



Alex and Jordan both put just over $90,000 in their retirement accounts over the years, but Alex began saving ($2,000 per year) at age twenty-two, while Jordan began saving (about $3,000 per year) twenty years later at age forty-two. Even though they both put in the same total amount, Alex will have over twice as much money at retirement as Jordan will when they reach age sixty-seven (assumes a 6% annual rate of return). That's because her money had more time to grow, so it was able to make more of itself than Jordan's.

Note: This is illustrative and not reflective of guaranteed profits over time. Actual results may fluctuate based on market conditions.

This should fundamentally change how you think about money. Seriously, you have two people who put the same dollar amount into their retirement funds. The one who started twenty years later contributed the **exact same** amount, but ended up with less than half as much.

For anyone who cares about making your money work for you, this visual should speak volumes. It turns out that one of the smartest things you can do is simply to get time on your side. This is how you shortcut the hard work – by taking advantage of the power of compounding interest and the fact that you will only have an increasing number of financial obligations pulling at your purse strings as the years go by.

This is an extremely important point, so let's look at one more example. In this example, Drew and Alan both start working for the same company when they turn 18. It's a great job. The company promotes from within, and the environment is fantastic. Both Drew and Alan decide that they want to make this job their permanent career. The company offers matching funds in a 401(k) up to 5% of their salary. Alan starts immediately putting money into the 401(k). He contributes $1,000 per year, which the company matches – making his retirement investment $2,000 per year, earning an average 8% return per year. Alan contributes money for 10 years and then stops. With the company's match, Alan's total contribution over those ten years is $20,000.

Drew decides that he doesn't want to save yet. He's 18, and retirement is a long way away. He wants to live it up while the living is good. Nothing wrong with that, right? But, Alan keeps talking to him about all the things he plans to do when he retires. When he turns 28, Drew has settled down a bit and is starting to think about retirement. He finally takes Alan's advice and starts contributing to his 401(k) plan. He puts in the same amount. He contributes the full amount for the next 37 years and **never catches up**. Let's take a look at the math:

Age	ALAN Annual Payment	ALAN Accumulated Amount	DREW Annual Payment	DREW Accumulated Amount
18	$2,000.00	$2,160.00	$0	$0
19	$2,000.00	$4,492.80	$0	$0
20	$2,000.00	$7,012.22	$0	$0
21	$2,000.00	$9,733.20	$0	$0
22	$2,000.00	$12,671.86	$0	$0
23	$2,000.00	$15,845.61	$0	$0
24	$2,000.00	$19,273.26	$0	$0
25	$2,000.00	$22,975.12	$0	$0
26	$2,000.00	$26,973.12	$0	$0
27	$2,000.00	$31,290.97	$0	$0
28	$0	$33,794.25	$2,000.00	$2,160.00
29	$0	$36,497.79	$2,000.00	$4,492.80
30	$0	$39,417.62	$2,000.00	$7,012.22
31	$0	$42,571.03	$2,000.00	$9,733.20
32	$0	$45,976.71	$2,000.00	$12,671.86
33	$0	$49,654.84	$2,000.00	$15,845.61
34	$0	$53,627.23	$2,000.00	$19,273.26
35	$0	$57,917.41	$2,000.00	$22,975.12
36	$0	$62,550.80	$2,000.00	$26,973.12
37	$0	$67,554.87	$2,000.00	$31,290.97
38	$0	$72,959.26	$2,000.00	$35,954.25
39	$0	$78,796.00	$2,000.00	$40,990.59
40	$0	$85,099.68	$2,000.00	$46,429.84
41	$0	$91,907.65	$2,000.00	$52,304.23
42	$0	$99,260.26	$2,000.00	$58,648.57
43	$0	$107,201.09	$2,000.00	$65,500.45
44	$0	$115,777.17	$2,000.00	$72,900.49
45	$0	$125,039.35	$2,000.00	$80,892.53
46	$0	$135,042.49	$2,000.00	$89,523.93
47	$0	$145,845.89	$2,000.00	$98,845.84
48	$0	$157,513.56	$2,000.00	$108,913.51
49	$0	$170,114.65	$2,000.00	$119,786.59
50	$0	$183,723.82	$2,000.00	$131,529.52
51	$0	$198,421.73	$2,000.00	$144,211.88
52	$0	$214,295.47	$2,000.00	$157,908.83
53	$0	$231,439.10	$2,000.00	$172,701.54
54	$0	$249,954.23	$2,000.00	$188,677.66
55	$0	$269,950.57	$2,000.00	$205,931.87
56	$0	$291,546.62	$2,000.00	$224,566.42
57	$0	$314,870.34	$2,000.00	$244,691.74
58	$0	$340,059.97	$2,000.00	$266,427.07
59	$0	$367,264.77	$2,000.00	$289,901.24
60	$0	$396,645.95	$2,000.00	$315,253.34
61	$0	$428,377.63	$2,000.00	$342,633.61
62	$0	$462,647.84	$2,000.00	$372,204.30
63	$0	$499,659.66	$2,000.00	$404,140.64
64	$0	$539,632.44	$2,000.00	$438,631.89
65	$0	$582,803.03	$2,000.00	$475,882.44
TOTAL	$20,000.00	**$582,803.03**	$76,000.00	**$475,882.44**

Let me say it again. Drew has the same $2,000 per year going into his retirement fund ($2,000 that Alan stopped contributing when he turned 27), but he never catches up. That's compounding interest at work. Alan puts in $20,000 and ends up with $582,803.03 when he retires. Drew puts in $76,000, but only ends up with $475,882.44. All because he waited ten years to start.

So, this is not something you can keep putting off. This doesn't mean that you're doomed to fail if you didn't start saving for retirement when you were 18. This means that the longer you wait, the more it's going to cost you to reach your goals. Saving for retirement is something to tackle today. The time to start is now.

Excuse 3: When I get married someday, I won't have to worry about money.

I bet all the married people reading this are having a good laugh right now. Marriage does not automatically make your financial life easier. The effect of marriage on your finances depends on a host of factors: Do you both work? Do you both make enough to support yourselves? If one or both of you got laid off, could you still afford your rent or mortgage? Are you honest with each other about your spending? Do you agree on your financial goals? Will you have children? If so, do you make enough that one of you can stay home with them? Bottom line: this excuse is ridiculous.

Retirement Savings Options for Stay-at-Home Parents

When you're working, your employer will often facilitate your retirement savings by taking money right out of your paycheck and putting it into savings so you don't have to think about it. But, what are you supposed to do as a stay-at-home parent?

- When you leave the workforce, roll over your 401(k) into an IRA
- Set up a spousal IRA if you file a joint return with your spouse
- Open an individual 401(k) or a SEP-IRA if you're self-employed
- Increase your spouse's 401(k) contribution

Excuse 4: What about Social Security? I'll just live off that when I retire

When Social Security was first created by the U.S. Government, the math made a lot of sense. Seven workers contributed to Social Security for every one worker withdrawing benefits. The average American was retiring at 60 and dying around 65. Today, the numbers are a little different. Today, there is approximately one worker contributing to Social Security for every three workers withdrawing benefits. It's estimated that by the year 2020 there will be *one worker* contributing to Social Security for every *five workers* withdrawing benefits. It doesn't take much math to quickly realize that the Social Security pot of gold is headed toward empty.

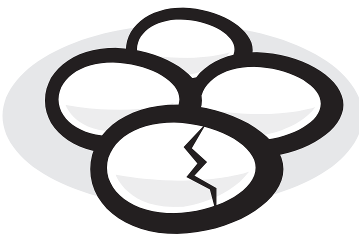
Now, Social Security is probably not going anywhere soon, meaning that you will probably still have benefits in your lifetime, but you can be certain that those benefits will be changing, and not for the better. The retirement age today is 67 (and it may be raised again), people earning above $100,000 in retirement may no longer be eligible, and the level of Social Security benefits have been reduced and may be reduced even more in the future.

Maybe today's retirees can rely on this, but the future of Social Security is uncertain. Anyone retiring in the coming years should not count on this as a be-all and end-all. If the system doesn't go bankrupt and you get to receive Social Security benefits, great. If not, what's your plan B? Is the risk of receiving nothing a chance you are willing to take?

Excuse 5: I deserve to have fun with my money today – I work hard for it

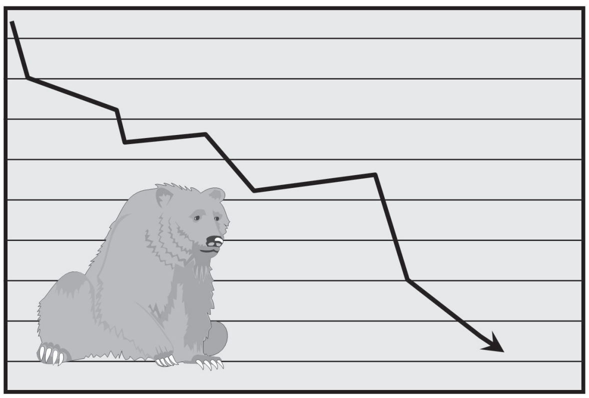
That's what Drew said. But, was Alan living off Ramen noodles and no electricity for ten years? No, all he was doing was setting aside money for retirement before setting aside some for having fun. Saving for retirement versus enjoying life now is not an either/or proposition. You can do both. Also, let me put it this way: yes, you deserve to enjoy your money now, but you also deserve not to have to count pennies when you're old and gray.

Excuse 6: An inheritance is coming my way someday. I'll be able to live off that.



This is a case of counting chickens before they hatch. You never know what could happen to that inheritance (it could be devoured by medical bills, it could dwindle away in a financial crisis, or you may need it to pay off debts or taxes of the estate). Sure, it would be nice to inherit a million bucks and be able to put it toward your retirement, but counting on doing so is not a plan; it's a gamble – at best. It's far safer to plan to fund your own retirement and then enjoy your inheritance as a bonus if you do indeed receive one.

Excuse 7: The market is down, so why bother to invest in a retirement account?

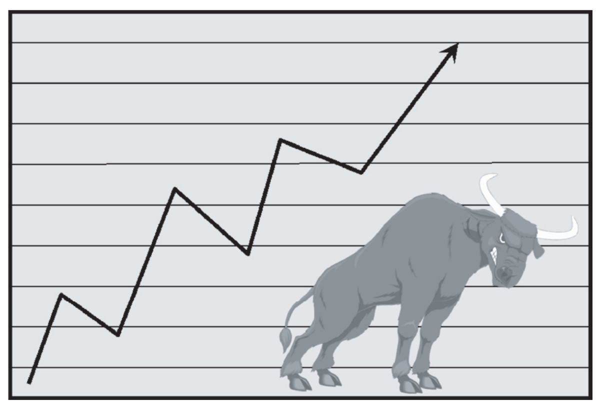


Yes, the market is unreliable from year to year, and yes, the value of your investments will dip in a down market. But, downswings don't last forever, and historically, over long periods of time, the market has shown solid returns, the S&P 500, for example, has averaged 9.28% annual returns over the last twenty-five years. This, coincidentally, is much higher than the 8% we've been using in our examples.

Alternatively, let's say you leave your money in a savings account bearing 1% interest (which is being generous): you're going to lose the purchasing power of those dollars due to inflation (which is estimated at 3%). Yes, with the market, you're opening yourself up to some risk – but with risk comes reward.

Excuse 8: I'll start saving when the market improves.

No one can predict the market. No one. So, while it's true that you cannot time your investments perfectly so that they only ever go up, history has shown that if you invest regularly over decades, your investments should experience more ups than downs. So, invest for the long haul, and don't fret over minor dips now. If you do, you'll be missing out on an opportunity to amass money later.



How much risk is too much risk?

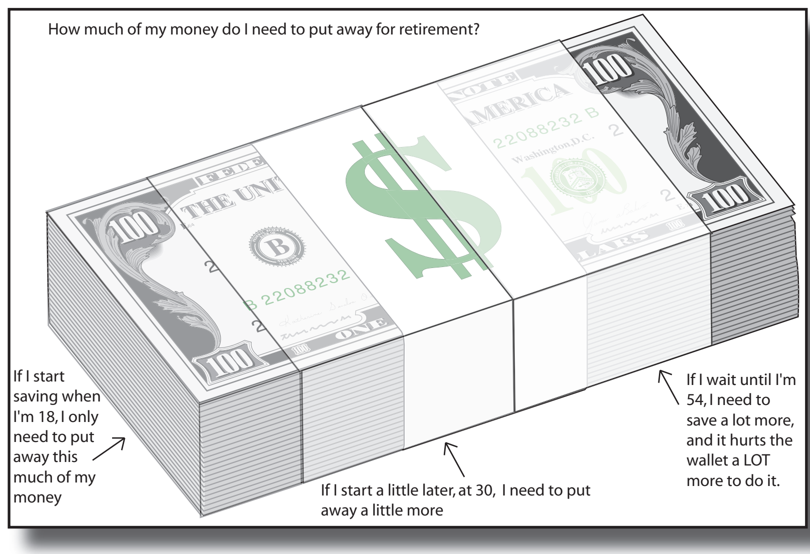
Investing comes with risk. There is no getting around that fact. There is no means of investing that doesn't carry some risk. But, some investments carry more risk than others. Savings accounts, for example, are traditionally a very safe way to "invest." Lottery tickets are about the highest risk "investment" you can make. We can see that in the possibility of return. You're pretty much guaranteed to bring in your 0.6% interest with a savings account. The chances of that not happening are very, very low. The chances of you winning the lottery are also very, very low. So, the possibility of you losing your money when you buy a lottery ticket is extremely high.

Now, neither of those are real investments. A lottery ticket is a gamble, and a savings account doesn't earn enough interest to even keep up with inflation. But, what if we're thinking about saving for retirement? The point here to understand is that the time to start is always today. If you don't start today, tomorrow will be harder. It doesn't matter if you're 18 or 30 or 54.

Markets fluctuate over time. They go up. They go down, and then they come back up – eventually. The key with risk is in knowing how much time you have and how much risk is appropriate for you. If you're 18, time is on your side. You can invest a little bit and depend on compounding interest and a market that has plenty of time to recover if it experiences a downturn. But, if you were 54 in 2006 and only just started investing, you would have experienced a market that lost over 60% of its value in one year. There simply isn't enough time to take that kind of risk.

You might think that someone who is 54 needs to take more risk because they need more money in a shorter amount of time, but they also can't afford to lose the money that they invest. Someone who starts investing so late needs a much lower risk level. Someone who is 30 years old can afford more of a mid-level risk. They don't have as much time as the 18-year-old, but they have more than the 54-year-old.

So, what should you do if you really are going to be 54 when you get out and start saving for retirement? Is it too late? Maybe you should just forget about it? NO. The best time to start investing is yesterday. The second best time is today. Tomorrow will only get harder, but never is never an option. To put it another way, it's always better to have something put away for retirement rather than nothing. If you want to know more about risk, Personal Investment Management is an excellent class that will give you much more information. The important thing to remember is to select the options appropriate to your financial situation and to your attitude toward risk. No matter what you choose, there will always be certain restrictions, pros and cons. For example, when you invest in 401(k)'s or IRA's, investment in collectibles such as gems, stamps, or coins is prohibited. Gold coins typically hold a decent return on investment, but they are not included in trustee funds.



Excuse 9: I'll be able to use the equity in my home to retire.

Sure, selling your home will free up lots of cash… but then where will you live? And, what if the market is down when you want to sell that home? Remember the housing crisis a few years ago? The one where tens of thousands of near retirees were left without nest eggs after the values of their homes plummeted? This is not the smartest game plan.

Excuse 10: I need to get my kids through college first, and then I can focus on my retirement.

Yes, college is a big expense, and you should definitely save for it – that is, once your own retirement needs are taken care of. If you're a parent, it's a natural instinct to put your children's futures before your own. But, think about it this way: if you don't save the full amount for your children's college education, you can always fall back on financial aid, grants, scholarships, and student loans to help pay your children's way. When it comes to your retirement, however, there are no loans. Let me repeat: *there are no loans.* All you'll have to live on is what you've saved. For that reason, saving for retirement should be your top financial priority – always.

Obviously, you don't want to saddle your kids or your future kids with loans – what parent would? But remember that if you pay for your children's college and then cannot afford your retirement, you will end up burdening your children all the same. They will feel obligated to help you out – at a time when their own families need them financially.

Excuse 11: I plan to keep working even during retirement.

You may love your work, and it may be the kind of work you can even imagine yourself doing well into your seventies or eighties. But, while that's easy to say now, what if you can't find work at that point in your life, or what if you have health problems or family obligations that prevent you from working? While there is nothing wrong with hoping for a best-case scenario, it isn't wise to plan around one. Sock away some money now so you're ready for whatever may come your way. The last thing you should have to deal with is a health issue and money concerns at the same time.

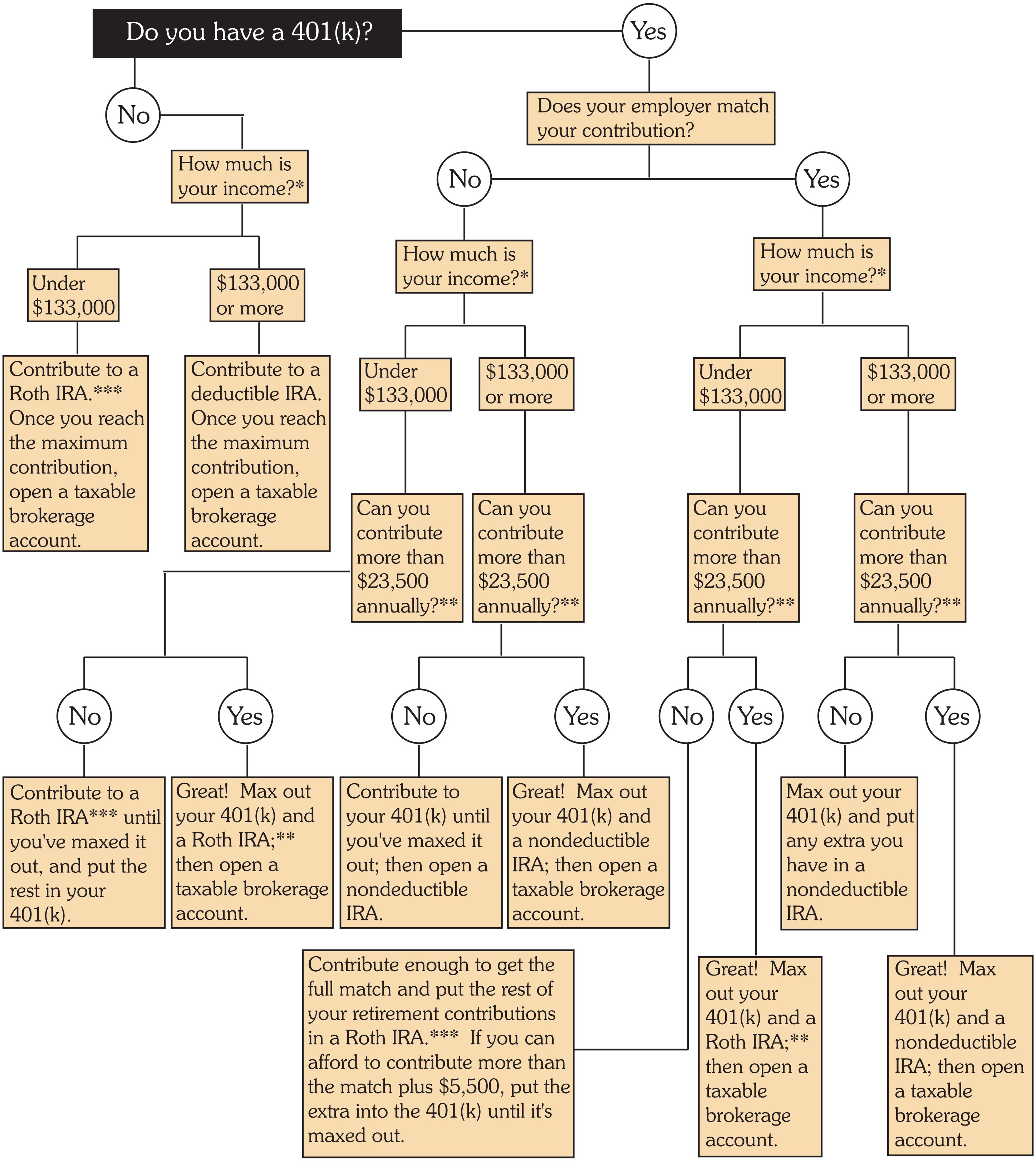
Which retirement plans work best for you?

Let's look at the major retirement savings options available, all in one place.

Type of Account	Description	Taxes on Contributions?	Taxes on Withdrawals?
401(k)	An employer-sponsored account into which you can save pretax money from every paycheck. In retirement, the money you withdraw - including earnings - will be taxed in whatever income bracket you're in at the time.	No	Yes
Roth 401(k)	An employer-sponsored account into which you can save after-tax money from every paycheck. In retirement, the money you withdraw - including earnings - is entirely tax free.	Yes	No
Traditional IRA	An individual retirement account into which you can save money and receive a tax deduction if you meet certain tax income requirements or if you don't have n employer-sponsored retirement plan - such as a 401(k) - available to you.	No	Yes
Roth IRA	An employer-sponsored account into which you can save after-tax money if youo meet certain income requirements. In retirement, the money you withdraw - both your deposits and all of your earning - is entirely tax free.	Yes	No

Each of these account types is essentially the jar you'll put your investmentment money in. Which jar should you use? Everyone's retirement situation is unique, so it's a great idea to talk to a retirement expert about your particular circumstances. If you want a head start, try the flow charts on the next pages:

Are you unmarried or filing your taxes separately? Use this chart:

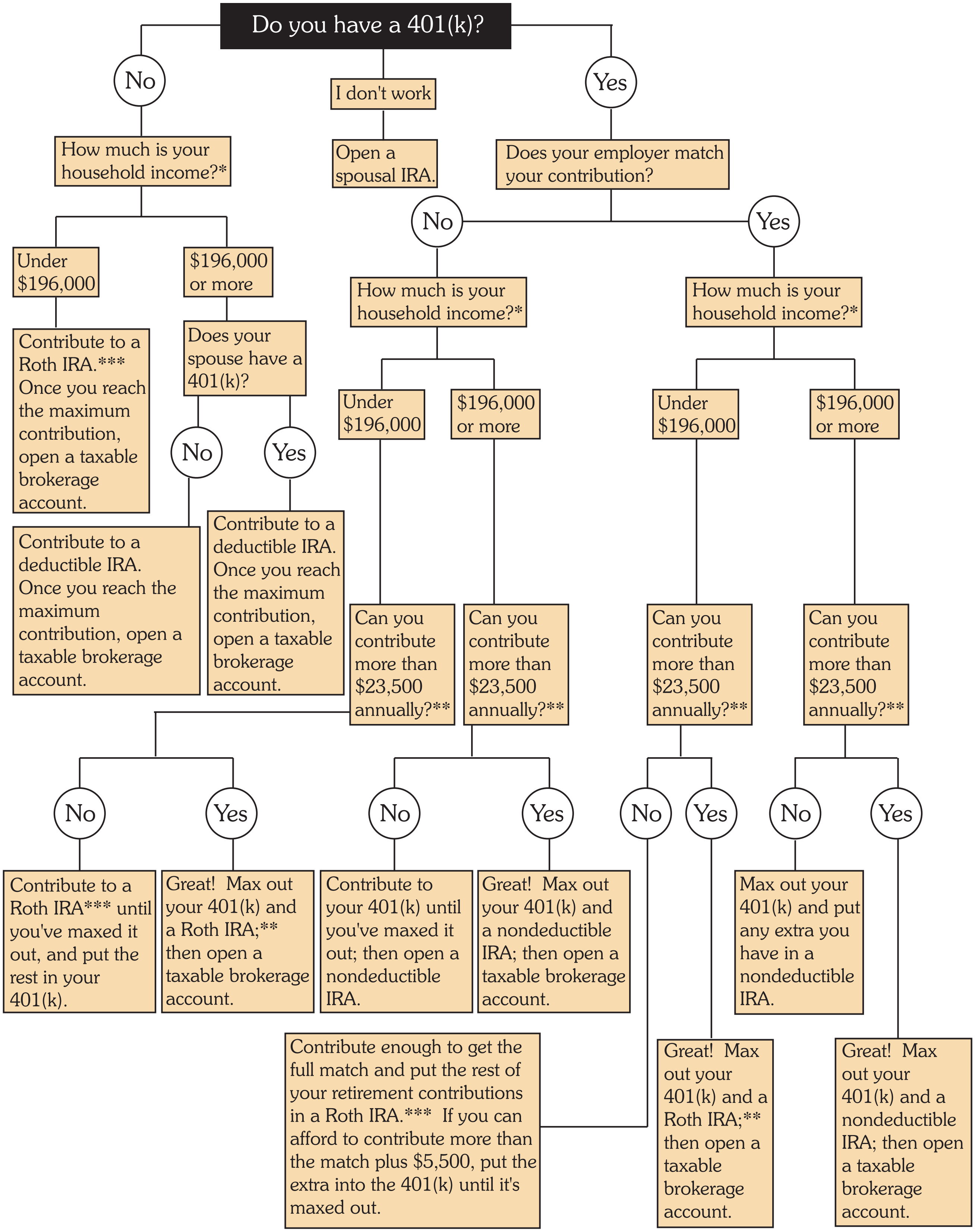


*Income refers to your modified adjusted gross income. This convoluted name reflects the convoluted way in which it is calculated. First, you subtract various items, such as education expenses or IRA contributions, from your income to determine your adjusted gross income (which is used for tax purposes). Then you add back in other items, such ass student-loan deductions and foreign income, to get your modified adjusted gross income.

**$23,000 is the combined 401(k) [$18,000] and IRA [$5,500] contribution limit as of 2017. These can change every year.

***The rules for eligibility and contribution limits for a Roth IRA change every year. In 2017, if your modified adjusted gross income was less than $118,000, you could contribute the maximium amount, which was $5,500 (or $6,500 if you were fifty or older). If your modified adjusted gross income was between $118,000 and $132,000, you were eligible to make a partial contribution.

Are you married and filing your taxes jointly? Use this chart:



*Income refers to your modified adjusted gross income. This convoluted name reflects the convoluted way in which it is calculated. First, you subtract various items, such as education expenses or IRA contributions, from your income to determine your adjusted gross income (which is used for tax purposes). Then you add back in other items, such ass student-loan deductions and foreign income, to get your modified adjusted gross income.

**$23,500 is the combined 401(k) [$18,000] and IRA [$5,500] contribution limit as of 2017. These can change every year.

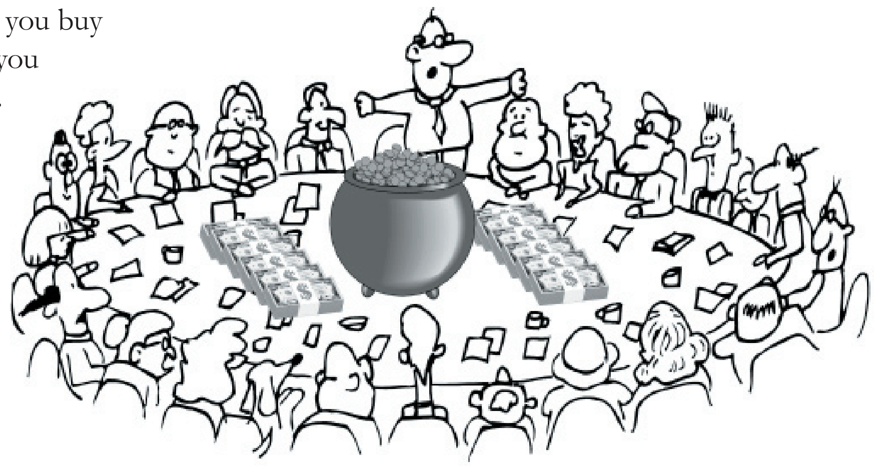
***The rules for eligibility and contribution limits for a Roth IRA change every year. In 2017, if your modified adjusted gross income was less than $186,000, you could contribute the maximium amount, which was $5,500 (or $6,500 if you were fifty or older). If your modified adjusted gross income was between $186,000 and $196,000, you were eligible to make a partial contribution.

Money Saver! You should invest the maximum allowable amount in your 401(k) or ROTH 401(k). You should do this before you consider any other taxed investment alternatives. Only after you have maxed out on your 401(k) contributions should you consider other investments

Are there any other options?

Yes. In the flow charts on the previous pages we mentioned opening a brokerage account. This is more like traditional investing, and is best dealt with in Personal Investment Management. But, it does include other retirement options such as mutual funds.

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holdings that the mutual fund owns are known as its 'portfolio.' Each share of a mutual fund that you buy represents how much of the fund's holdings you own and the income those holdings generate.



Some advantages of mutual funds are diversification (which lowers your risk level by spreading out your investment), professional management (mutual fund managers are very good at what they do because that is all they do), and liquidity (meaning you don't have to wait until you're 59½ to start withdrawing your money. There are some disadvantages to mutual funds as well. There is usually a minimum investment amount to participate in a mutual fund (and it can be quite high). That professional management also usually comes with a much higher commission cost than with other types of retirement funds. Mutual funds have liquidity, but you are limited to withdrawing funds the next day (meaning you can't immediately sell a stock if it starts to dip. You have to wait until after the market closes).

Mutual Funds can return a high percentage of your investment, but there are no tax incentives for using them. They can be a great addition to your retirement portfolio, but they should not replace the more traditional options.

Whatever options you choose to reach your retirement goal, a simple savings account is not going to cut it. You'll need a comprehensive investing strategy. Not only do you want to maximize each and every dollar, but you'll also need to account for inflation. Left under your mattress, your dollar's spending power will slowly but surely diminish over time. Over the long term, inflation has averages about 3% per year, which means that if you put $1,000 in a shoe box in your closet today and let it sit for forty years, you'll still have $1,000 – but it will only be worth about $306 in today's dollars. It also means that you need to invest in an option that will return at least 3% in order to hold onto your purchasing power.

Instead, if you invest that $1,000 and earn 5% a year for forty years, you could end up with $7,040, or about $2,158 in today's dollars. Your buying power went up. Considering that we all want to live a long life, you'll need to maximize your dollars for the long run.

Money Saver! *Never* take money out of a retirement account (until you're ready to retire). You'll be taxed and penalized like crazy. Get another job, borrow from a family member, and exhaust all other options before you even think about withdrawing from retirement savings. Enough said.

REEFS

Conclusion

You have reached the end of the Personal Financial Management class, but, at the same time, arrived at the beginning of your opportunities. Before you leave this class, let's quickly review what you have learned.

The first foundational block that must be put in place to successfully manage your money is the discipline of budgeting. Until you understand how much money you have to spend and control how you spend it, you are not in the driver's seat financially. If you want to be successful with your money, you will need to adopt a budgeting plan. Management of your money also entails knowing your success. By completing a net worth statement at least every six months, ideally, every three months you will gain an idea of how you are managing your money. In learning to use basic banking tools successfully you will be able to keep your money safe and allow it to grow. Building a relationship with a bank or a credit union is essential if you want to take the next step towards wealth. Building credit-worthiness and eliminating debt will help you gain the financial independence you desire and allow you to gain larger assets. Understanding the basics of buying an automobile and a home empower you to reach two large financial goals in your pursuit toward financial health. Protecting your assets with insurance provides a safety net for the progress you have made and allows you to have peace of mind. Finally you have learned how to prepare for the "Golden Years" of retirement, allowing yourself to have a peace of mind that extends beyond your working days.

Remember that although you leave the classroom, the learning process should still be happening. Take time to re-read this material, find other sources about financial management and study. The key to becoming financially healthy is applying what you learned and gaining more knowledge about the subject of finance. If you are interested in making your money grow and generate wealth, the next step would be to take the Personal Investment Management (PIM) class.

The PIM class was designed to offer you a working knowledge of investment products. At the conclusion of PIM you should be familiar with the following types of investment products: common stocks, preferred stocks, government, corporate, and municipal bonds, mutual funds, ETFs, REITs, and SPDRs. PIM is focused on making your money earn money for you, and building wealth.

Whatever you do going forward, remember that the best time to start is yesterday. Today is second best. The absolute worst time to start building toward a better financial future is tomorrow. Don't just set a goal. Reach for it. Don't just hope for the best future. Work toward it. *Today.*

Budget Worksheet

Monthly Income (after taxes)

Income/salary from all sources	
Investment income	
Dividends, interest, capital gains	
Other income	
Total monthly income	

Monthly Savings

General	
Emergency/rainy day fund	
College/other education	
Retirement	
Other (i.e., house down payment)	
Total monthly savings	

Monthly Expenses

Home

Mortgage/rent/HOA	
Housecleaning/landscaping	
Electricity/Gas	
Water/Trash/Recycling	
Home phone	
Mobile phone	
Cable/Internet access	
Security	
Total home	

Personal

New clothes	
Dry cleaning/laundry	
Barbershop/salon	
Hobbies	
Charitable donations (cash)	
Child care	
Pets	
Total personal	

Food

Groceries	
Dining/take out	
Total food	

Auto/transportation

Car loan/lease	
Car insurance	
Maintenance	
Public transit	
Parking	
Gasoline	
Total auto/transportation	

Debt category

Credit cards	
Other loans/lines	
Total other	

Health

Toiletries	
Cosmetics	
Pharmacy	
Health Club	
Medical/dental	
Total health	

Entertainment/recreation

Movies/shows	
Vacation	
Parties/gifts	
Subscriptions	
Memberships (art,music)	
Total entertainment and recreation	

Education

Tuition	
Books	
Student loans	
Total education	

Total monthly expenses	

Total monthly income	
- Total monthly expenses	
= Net cash flow	

Quick Budget Tips

To make your monthly income last, consider using it in the following sequence:

- Pay your monthly bills. There are many potential penalties if you pay late, such as late fees, losing possession of things you've bought on credit, even being evicted from an apartment.
- Set aside the money you'll need for your weekly and day-to-day expenses, like groceries and bus fare.
- Put money into savings. Try to build two months of take-home pay for an unexpected financial emergency.
- Set aside money for larger expenses you know are coming, such as car repairs or appliances.
- Set aside money for future goals whether it's a home, college for your children, a new car, or travel.

If possible, try to stretch your bills out evenly over the month, so that you pay the same amount each week. For regular monthly bills, you may be able to request a change of a bill's due date to spread out your bills evenly. Try to avoid having one week when all of your cash-on-hand is needed for bills.

For large expenses that are not monthly (for example, insurance bills, car repairs, holiday gifts, etc.) place an amount of money aside each week or pay period so that you have money to pay the bills when they are due.

Here are some guidelines to consider for how much of your take-home monthly income you might budget for various expenses:

- Housing (rent or mortgage): 20 to 35%
- Utilities (gas, electric, water, trash, telephone): 4 to 7%
- Food (at home and away): 15 to 30%
- Family necessities (laundry, toiletries, hair care): 2 to 4%
- Medical (insurance, prescriptions, bills): 2 to 8%
- Clothing: 3 to 10%
- Transportation (car payment, gas, insurance, repairs, or bus fare): 6 to 30%
- Entertainment: 2 to 6%
- Savings: 10 to 15%

Try to limit your installment debts (car loand, credit card bils, other loans) to 10 - 20% of your monthly budget.

To decide whether a purchase is necessary, ask yourself these three questions:

- Do I really need it?
- Do I really need it today? What would happen if I don't buy it now?
- Can I spend less to meet this need?

Always review your bank and credit card statement. It will remind you where your money is going.

Net Worth Statement

Item/Description	Value	-	Debt	=	Equity
Real Estate					
Real Estate					
Car					
Car					
Cash on Hand					
Checking Account #1					
Checking Account #2					
Savings Account					
Money Market Account					
Mutual Fund					
Mutual Fund					
IRA					
ROTH IRA					
401(k)					
Insurance Cash Value					
Household items					
Jewelry					
Antiques					
Boat					
Unsecured Debt (negative)					
Credit Card Debt (negative)					
Other					
Other					
Other					
Total (Value – Debt = Equity):		-		=	

Residential Lease for Apartment or Unit in Multi-Family Rental Housing (other than a Duplex) Including a Mobile Home, Condominium, or Cooperative

INSTRUCTIONS:

1. Licensee: Give this disclosure to the Landlord prior to your assisting with the completion of the attached Lease.
2. Licensee: As the person assisting with the completion of the attached form, insert your name in the first (5) blank "Name" spaces below.
3. Licensee: **SIGN** the disclosure below
4. Landlord/Owner and Tenant: Check the applicable provision regarding English contained in the disclosure and **SIGN** below.
5. Licensee: Retain a copy for your files for at least 6 years. Landlord/Owner and Tenant: Retain a copy for your files. This disclosure does not act as or constitute a waiver, disclaimer or limitation of liability.

THIS FORM WAS COMPLETED WITH THE ASSISTANCE OF:

______________________________	______________________________
Licensee Name	Name of Brokerage/Business
______________________________	______________________________
Address	Phone Number

DISCLOSURE:

______________________________ told me that he/she is a non-lawyer and may not give legal advice, cannot
(Name)
tell me what my rights are or remedies are, cannot tell me how to testify in court, and cannot represent me in court.

Rule 10-2.1(b) of the Rules Regulating the Florida Bar defines a paralegal as a person who works under the supervision of a member of the Florida Bar and who performs specifically delegated substantive legal work for which a member of the Florida Bar is responsible. Only persons who meet the definition may call themselves paralegals.

______________________________ informed me that he/she is not a paralegal as defined by the rule and cannot call
(Name)
himself/herself a paralegal.

______________________________ told me that he/she may only help my type the factual information provided by me
(Name)
in writing into the blanks on the form.

______________________________ may not help me fill in the form and may not complete the form for me.
(Name)

If using a form approved by the Supreme Court of Florida, ______________________________ may ask me factual questions
(Name)
to fill in the blanks on the form and may also tell me how to file the form.

Landlord/Owner:	Tenant:
_______ I can read English.	______ I can read English
_______ I cannot read English, but this notice was read to me by	______ I cannot read English but this notice was read to me by

______________________________ in ______________________________ which I understand.
(Name) (Language)

______________________	______________________	______________________
(Licensee Signature)	(Landlord Signature)	(Tenant Signature)

Residential Lease for Apartment or Unit in Multi-Family Rental Housing (other than a Duplex) Including a Mobile Home, Condominium, or Cooperative

(FOR A TERM NOT TO EXCEED ONE YEAR)

(Not to be used for Commercial, Agricultural, or other Residential Property)

WARNING: IT IS VERY IMPORTANT TO READ THE ENTIRE LEASE CAREFULLY. THE LEASE IMPOSES IMPORTANT LEGAL OBLIGATIONS.

AN ASTERISK (*) OR A BLANK SPACE (_______) INDICATES A PROVISION WHERE A CHOICE OR A DECISION MUST BE MADE BY THE PARTIES.

NO CHANGES OR ADDITIONS TO THIS FORM MAY BE MADE UNLESS A LAWYER IS CONSULTED.

I. TERMS AND PARTIES. This is a lease ("the Lease") for a period of ____________ months (the "Lease Term"), beginning
(number)
____ and ending ____, between
(month, day, year) (month, day, year)

____ and ____
(name of owner or the property) (name(s) of person(s) to whom the property is leased)

(In the Lease, the owner, whether one or more, of the property is called "Landlord." All persons to whom the property is lease are called "Tenant".)

Landlord's E-mail Address ____
Landlord's Telephone Number ____
Tenant's E-mail Address ____
Tenant's Telephone Number ____

II. PROPERTY RENTED: Landlord leases to Tenant apartment or unit number _______ in the building located at ____________
____ known as
(street address)
____ , ____________________ ,
(name of apartment or condominium) (city)
Florida _________________, together with the following furniture and appliances:
(zip code)
____
____
____

[List all furniture and appliances. If none, write "none".] (In the Lease, the property leased, including furniture and appliances, if nay, is called the "Premises".)

III. COMMON AREAS. Landlord grant to Tenant permission to use, during the Lease Term, along with others, the common areas of the building and the development of which the Premises are a part.

IV. RENT PAYMENTS AND CHARGES. Tenant shall pay rent for the Premises in installments of $________________ each on the _______________ day of each _______________________ [month, week] (a "Rental Installment Period," as used in the Lease, shall be a month if rent is paid monthly, and a week if rent is paid weekly."

Tenant shall pay with each rent payment all taxes imposed on the rent by taxing authorities. The amount of taxes payable on the beginning date of the Lease is $_________ for each installment. The amount of each installment of rent plus taxes ("the Lease Payment"), as of the date the Lease begins, is $____________. Landlord will notify Tenant if the amount of the tax changes. Tenant shall pay the rent and all other charges required to be paid under the Lease by cash, valid check, or money order. Landlord may appoint an agent to collect the Lease Payment and to perform Landlord's obligations.

Landlord (___) (___) and Tenant (___) (___) acknowledge receipt of a copy of this page which is page 1 of 7.

Unless this box [ ] is checked, the Lease Payments must be paid in advance beginning ______________________________________.
(date)

If the tenancy starts on a day other than the first of the month or week as designated above, the rent shall be prorated from ____________________ ______ through ______________________ in the amount of $__________________ and shall be due on
(date) (date)

__________________________. (If rent paid monthly, prorate on a 30-day month.)
(date)

V. DEPOSITS, ADVANCE RENT, AND LATE CHARGES. In addition to the Lease Payments described above, Tenant shall pay the following: (check only those items that apply)

_____ a security deposit of $___________ to be paid upon signing the Lease.
_____ advance rent in the amount of $__________ for the Rental Installment periods of ____________________________ to be paid upon signing the Lease.
_____ a pet deposit in the amount of $__________ to be paid upon signing the Lease.
_____ a late charge in the amount of $__________ for each Lease Payment made more than _____ days after the date it is due.
_____ a bad check fee in the amount of $__________ (not to exceed $20.00 or 5% of the Lease Payment, whichever is greater) if the Tenant makes any Lease Payment with a bad check. If Tenant makes any Lease Payment with a bad check, Landlord can require Tenant to pay all future Lease Payments in cash or by money order.
_____ Other: ____
_____ Other: ____

VI. SECURITY DEPOSTS AND ADVANCE RENT. If Tenant has paid a security deposit or advance rent the following provisions apply:

A. Landlord shall hold the money in a separate interest-bearing or non-interest-bearing account in a Florida banking institution for the benefit of the Tenant. If Landlord deposits the money in an interest-bearing account, Landlord must pay Tenant interest of at least 75% of the annualized average interest paid by the bank or 5% per year simple interest, whichever Landlord chooses. Landlord cannot mix such money with any other funds of Landlord or pledge, mortgage, or make any other use of such money until the money is actually due to the Landlord; or

B. Landlord must post a surety bond in the manner allowed by law. If Landlord posts the bond, Landlord shall pay Tenant 5% interest per year.

At the end of the Lease, Landlord will pay Tenant, or credit against rent, the interest due to Tenant. No interest will be due in Tenant wrongfully terminates the Lease before the end of the Lease Term.

If Landlord rents 5 or more dwelling units, then within 30 days of Tenant's payment of the advance rent or any security deposit, Landlord must notify Tenant in writing of the manner in which Landlord is holding such money, the interest rate, if any, that Tenant will receive, and when such payments will be made.

VI. NOTICES. ____ is Landlord's Agent. All notices to Landlord and all
(name)
Lease Payments must be sent to Landlord's Agent at ____
(address)
Unless Landlord gives Tenant written notice of a change. Landlord's Agent may perform inspections on behalf of Landlord, subject to Article XII below. All notices to Landlord shall be given by certified mail, return receipt requested, or by hand delivery to Landlord or Landlord's Agent.

Any notice to Tenant shall be given by certified mail, return receipt requested, or delivered to Tenant at the Premises. If Tenant is absent from the Premises, a notice to Tenant may be given by leaving a copy of the notice at the Premises.

VII. USE OF PREMISES. Tenant shall use the Premises only for residential purposes. Tenant also shall obey, and require anyone on the Premises to obey, all laws and any restrictions that apply to the Premises. Landlord will give Tenant notice of any restrictions that apply to the Premises.

If the Premises are located in a condominium or cooperative development, the Lease and Tenant's rights under it, including as to the common areas, are subject to all terms of the governing documents for the project, including, without limitation, any Declaration of Condominium or proprietary lease, and any restrictions, rules, and regulations now existing or hereafter adopted, amended, or repealed.

Landlord (___) (___) and Tenant (___) (___) acknowledge receipt of a copy of this page which is page 2 of 7.

Unless this box [ ] is checked, Landlord may adopt, modify, or repeal rules and regulations for the use of common areas and conduct on the Premises during the Lease Term. All rules and regulations must be reasonable and in the best interest of the development in which the Premises are located.

Occasional overnight guests are permitted. An occasional overnight guest is one who does not stay more than _______ nights in any calendar-month (If left blank, 7). Landlord's written approval is required to allow anyone else to occupy the Premises.

Unless this box [ ] is checked or a pet deposit has been paid, Tenant may not keep or allow pets or animals on the Premises without Landlord's approval of the pet or animal in writing.

Unless this box [ ] is checked, no smoking is permitted in the Premises.

Tenant shall not create any environmental hazards on or about the Premises.

Tenant shall not destroy, deface, damage, impair, or remove any part of the Premises belonging to the Landlord, not permit any person to do so.

Tenant may not make any alterations or improvements to the Premises without first obtaining Landlord's written consent to the alteration or improvement. However, unless this box is checked [ ] Tenant may hang pictures and install window treatments in the Premises without Landlord's consent, provided Tenant removes all such items before the end of the Lease Term and repairs all damage resulting from the removal.

Tenant must act, and require all other persons on the Premises to act, in a manner that does not unreasonably disturb any neighbors or constitute a breach of the peace.

VIII. MAINTENANCE. Landlord and Tenant agree that the maintenance of the Premises must be performed by the person indicated below:

A. Landlord's Required Maintenance. Landlord will comply with applicable building, housing, and health codes relating to the Premises. If there are no applicable building, housing, or health codes, Landlord shall maintain and repair the roofs, porches, windows, exterior walls, screens, foundations, floors, structural components, and steps, and keep the plumbing in reasonable working order. If the Premises are located in a condominium, Landlord and Tenant acknowledge that the maintenance of the structural elements and common areas is performed by the condominium association as part of the common area maintenance. Landlord shall assure that the association complies with applicable building, housing, and health codes relating to the Premises. If there are no applicable building, housing, or health codes, Landlord shall assure that the association maintains and repairs roofs, porches, windows, exterior walls, screens, foundations, floors, structural components, and steps, and keeps the plumbing in reasonable working order. Landlord will be responsible for the maintenance of any items listed above for which the association is not responsible.

B. Elective Maintenance. Fill in each blank space in this section with Landlord or Tenant to show who will take care of the item noted. If a space is left blank, Landlord will be required to take care of that item (or assure that the association takes care of the items if the Premises are located in a condominium.)

_______ Smoke Detectors
_______ Extermination of rats, mice, rodents, ants, wood-destroying organisms, and bedbugs
_______ Locks and keys
_______ Clean and safe condition of outside areas
_______ Garbage removal and outside garbage receptacles
_______ Running water
_______ Hot water
_______ Lawn
_______ Heat
_______ Air conditioning
_______ Furniture
_______ Appliances
_______ Fixtures
_______ Pool (including filters, machinery, and equipment)
_______ Heating and air conditioning filters
_______ Other: ____

Tenant's responsibility, if any, indicated above, shall not include major maintenance or major replacement of equipment.

Landlord shall be responsible for major maintenance or major replacement of equipment, except for equipment for which Tenant has accepted responsibility for major maintenance or major replacement in the previous paragraph.

Major maintenance or major replacement means a repair or replacement that costs more than $___________.

Tenant shall be required to vacate the Premises on 7 days' written notice, if necessary, for extermination pursuant to this subparagraph. When vacation of the Premises is required for extermination, Landlord shall not be liable for damages, but shall abate the rent.

Nothing in this section makes Landlord responsible for any condition created or caused by the negligent or wrongful act or omission of Tenant, any member of Tenant's family, or any other person on the Premises with Tenant's consent.

C. Tenant's Required Maintenance. At all times during the Lease Term, Tenant shall:
1. comply with all obligation imposed upon tenants by applicable provisions of building, housing, and health codes;
2. keep the Premises clean and sanitary;
3. remove all garbage from the dwelling unit in a clean and sanitary manner;
4. keep all plumbing fixtures in the dwelling unit clean, sanitary, and in repair; and
5. use and operate in a reasonable manner all electrical, plumbing, sanitary, heating, ventilating, air conditioning, and other facilities and appliances, including elevators.

X. UTILITIES Tenant shall pay all charges for hook-up, connection, and deposit for providing all utilities and utility services to the Premises during the Lease Term except ____ ______________ , which the Landlord agrees to provide at Landlord's expense. (Specify any utilities to be provided and paid for by Landlord such as water, sewer, oil, gas, electricity, telephone, garbage removal, etc.).

XI. SERVICE MEMBER. If Tenant is a member of the United States Armed Forces on active duty or state active duty or a member of the Florida National Guard or United States Reserve Forces, the Tenant has rights to terminate the Lease as provided in Section 83.682, Florida Statutes, the provisions of which can be found in the attachment to this Lease.

XII. LANDLORD'S ACCESS TO PREMISES. Landlord or Landlord's Agent may enter the Premises in the following circumstances:

A. At any time for the protection or preservation of the Premises.
B. After reasonable notice to Tenant at reasonable times for the purpose of repairing the Premises.
C. To inspect the Premises; make necessary or agreed-upon repairs, decorations, alterations, or improvements; supply agreed services; or exhibit the Premises to prospective or actual purchasers, mortgagees, tenants, workers, or contractors under any of the following circumstances:
1. with Tenant's consent;
2. in case of emergency;
3. when Tenant unreasonably withholds consent; or
4. if Tenant is absent from the Premises for a period of at least one-half a Rental Installment Period. (If the rent is current and Tenant notifies Landlord of an intended absence, then Landlord may enter only with Tenant's consent or for the protection or preservation of the Premises.)

XIII. PROHIBITED ACTS BY LANDLORD. Landlord is prohibited from taking certain actions as described in Section 83.67, Florida Statutes, the provisions of which can be found in the attachment to this Lease.

XIV. CASUALTY DAMAGE. If the Premises are damaged or destroyed other than by wrongful or negligent acts of Tenant or persons on the Premises with Tenant's consent, so that the use of the Premises is substantially impaired, Tenant may terminate the Lease within 30 days after the damage or destruction and Tenant will immediately vacate the Premises. If Tenant vacates, Tenant is not liable for rent that would have been due after the date of termination. Tenant may vacate the part of the Premises rendered unusable by the damage or destruction, in which case Tenant's liability for rent shall be reduced by the fair rental value of the part of the Premises that was damaged or destroyed.

XV. DEFAULT/REMEDIES. Should a party to the Lease fail to fulfill their responsibilities under the Lease or need to determine whether there has been a default of the Lease, refer to Part II, Chapter 83, entitled Florida Residential Landlord and Tenant Act which contains information on defaults and remedies. A copy of the current version of this Act is attached to the Lease.

XVI. ASSIGNMENT AND SUBLEASING. Unless this box [ ] is checked, Tenant may not assign the Lease or sublease all or any part of the Premises without first obtaining Landlord's written approval and consent to the assignment or sublease.

XVII. RISK OF LOSS. Subject to the next sentence, Landlord shall not be liable for any loss by reason of damage, theft, or otherwise to the contents, belongings and personal effects of the Tenant, or Tenant's family, agents, employees, guests, or visitors located in or about the Premises, or for damage or injury to Tenant or Tenant's family, agents, employees, guests or visitors. Nothing contained in this provision shall relieve Landlord or Tenant from responsibility for loss, damage, or injury caused by its own negligence or willful conduct.

XVIII. SUBORDINATION. This lease is automatically subordinate to the lien of any mortgage encumbering the fee title to the Premises from time to time.

XIX. LIENS. The interest of the Landlord shall not be subject to liens for improvements by the Tenant as provided in Section 713.10, Florida Statutes. Tenant shall notify all parties performing work on the Premises at Tenant's request that the Lease does not allow any liens to attach to the Landlord's interest.

XX. APPROVAL CONTINGENCY. If applicable, the Lease is conditioned upon approval of Tenant by the association that governs the Premises. Any application fee required by an association shall by paid by [ ] Landlord [ ] Tenant. If such approval is not obtained prior to commencement of Lease Term, either party may terminate the Lease by written notice to the other given at any time prior to approval by the association, and if the Lease is terminated, Tenant shall receive return of deposits specified in Article V, if made. IF the Lease is not terminated, rent shall abate until the approval is obtained from the association. Tenant agrees to use due diligence in applying for association approval and to comply with the requirements for obtaining approval. [ ] Landlord [ ] Tenant shall pay the security deposit required by the association, if applicable.

XXI. RENEWAL/EXTENSION. The Lease can be renewed or extended only by a written agreement signed by both Landlord and Tenant, but in no event may the total Lease Term exceed one year. A new lease is required for each year.

XXII. LEAD-BASED PAINT. [ ] Check and complete if the dwelling was built before January 1, 1978. **Lead Warning Statement** (when used in this article, the term Lessor refers to Landlord and the term Lessee refers to Tenant) Housing built before 1978 may contain lead-based paint. Lead from paint, paint chips, and dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young hcildren and pregnant women. Before renting pre-1978 housing. Lessors must disclose the presence of known lead-based paint and/or lead-based paint hazards in the dwelling. Lesseess must also receiv a federally approved pamphlet on lead poisoning prevention.

Lessor's Disclosure (Initial)

____________(a) Presence of lead-based paint or lead-based paint hazards (check (i) or (ii) below):

(i) ______ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain)

____

____

(ii)______Lessor has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

(b) Records and reports available to the Lessor (check (i) or (ii) below):

(i)______Lessor has provided the Lessee with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in the housing (List documents below).

____

____

(ii) Lessor has no reports or records pertaining to lead-based paints and/or lead-based paint hazards in the housing.

Lessee's Acknowledgment (initial)

(c)_________________Lessee has received copies of all information listed above.

(d)_________Lessee has receive the pamphlet **Protect Your Family From Lead in Your Home.**

Agent's Acknowledgment (initial)

(e)_________Agent has informed the Lessor of the Lessor's obligations under 42 U.S.C. 4852d and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information provided by the signatory is true and accurate.

Lessor's signature	Date	Lessee's signature	Date
Lessor's signature	Date	Lessee's signature	Date
Agent's signature	Date	Agent's signature	Date

XXIII. ATTORNEY'S FEES. In any lawsuit brought to enforce the Lease or under applicable law, the party in whose favor a judgment or decree has been rendered may recover reasonable court costs, including attorney's fees, from the non-prevailing party.

XXIV. MISCELLANEOUS.

A. Time is of the essence of the performance of each party's obligations under the Lease.

B. The Lease shall be binding upon and for the benefit of the heirs, personal representatives, successors, and permitted assigns of Landlord and Tenant, subject to the requirements specifically mentioned in the Lease. Whenever used, the singular number shall include the plural or singular and the use of any gender shall include all appropriate genders.

C. The agreements contained in the Lease set forth the complete understanding of the parties and may not be changed or terminated orally.

D. No agreement to accept surrender of the Premises from Tenant will be valid unless in writing and signed by the Landlord.

E. All questions concerning the meaning, execution, construction, effect, validity, and enforcement of the Lease shall be determined pursuant to the Laws of Florida.

F. The place for filing any suits or other proceedings with respect to the Lease shall be the county in which the Premises is located.

G. Landlord and Tenant will use good faith in performing their obligations under the Lease.

H. As required by law, Landlord makes the following disclosure: "RADON GAS". Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to person who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county health department.

XXV. TENANT'S PERSONAL PROPERTY. TENANT MUST INITIAL THIS BOX [ ] FOR THE FOLLOWING PROVISION TO APPLY. BY SIGNING THIS RENTAL AGREEMENT, THE TENANT AGREES THAT UPON SURRENDER, ABANDONMENT, OR RECOVERY OF POSSESSION OF THE DWELLING UNIT DUE TO THE DEATH OF THE LAST REMAINING TENANT, AS PROVIDED BY CHAPTER 83, FLORIDA STATUTES, THE LANDLORD SHALL NOT BE LIABLE OR RESPONSBILE FOR STORAGE OR DISPOSITION OF THE TENANT'S PERSONAL PROPERTY.

The Lease has been executed by the parties on the dates indicated below.

____________________________ Landlord's Signature	____________________________ Date
____________________________ Landlord's Signature	____________________________ Date
____________________________ Landlord's Signature	____________________________ Date
____________________________ Tenant's Signature	____________________________ Date
____________________________ Tenant's Signature	____________________________ Date

This form was completed with the assistance of:

Name of Individual: ____
Name of Business: ____
Address: ____
Telephone Number: ____

Early Termination Fee/Liquidate Damages Addendum

[ ] I agree, as provided in the rental agreement, to pay $______________ (an amount that does not exceed two months' rent) as liquidated damages or an early termination fee if I elect to terminate the rental agreement and the landlord waives the right to seek additional rent beyond the month in which the landlord retakes possession.

[ ] I do not agree to liquidated damages or an early termination fee, and I acknowledge that the landlord may seek damages as provided by law.

______________________________	______________________________
Landlord's Signature	Date
______________________________	______________________________
Landlord's Signature	Date
______________________________	______________________________
Landlord's Signature	Date
______________________________	______________________________
Tenant's Signature	Date
______________________________	______________________________
Tenant's Signature	Date

Florida Statute, Section 83.51 (Landlord's obligation to maintain premises) –

(1)The landlord at all times during the tenancy shall:

- (a)Comply with the requirements of applicable building, housing, and health codes; or
- (b)Where there are no applicable building, housing, or health codes, maintain the roofs, windows, doors, floors, steps, porches, exterior walls, foundations, and all other structural components in good repair and capable of resisting normal force and loads and the plumbing in reasonable working condition. The landlord, at commencement of the tenancy, must ensure that screens are installed in a reasonable condition. Thereafter, the landlord must repair damage to screens once annually, when necessary, until termination of the rental agreement.

The landlord is not required to maintain a mobile home or other structure owned by the tenant. The landlord's obligations under this subsection may be altered or modified in writing with respect to a single-family home or duplex.

(2)(a)Unless otherwise agreed in writing, in addition to the requirements of subsection (1), the landloard of a dwelling unit other than a single-family home or duplex shall, at all times during the tenancy, make reasonable provisions for:

1. The extermination of rats, mice, roaches, ants, wood-destroying organisms, and bedbugs. When vacation of the premises is required for such extermination, the landlord is not liable for damages but shall abate the rent. The tenant must temporarily vacate the premises for a period of time not to exceed 4 days, on 7 days' written notice, if necessary, for extermination pursuant to this subparagraph.
2. Locks and keys.
3. The clean and safe condition of common areas.
4. Garbage removal and outside receptacles therefor.
5. Functioning facilities for heat during winter, running water, and hot water.

(b) Unless otherwise agreed in writing, at the commencement of the tenancy of a single-family home or duplex, the landlord shall install working smoke detection devices. As used in this paragraph, the term "smoke detection device" means an electrical or battery-operated device which detects visible or invisible particles of combustion and which is listed by Underwriters Laboratories, Inc., Factory Manual Laboratories, Inc., or any other nationally recognized testing laboratory using nationally accepted testing standards.

(c) Nothing in this part authorizes the tenant to raise a noncompliance by the landlord with this subsection as a defense to an action for possession under s. 83.59.

(d) This subsection shall not apply to a mobile home owned by a tenant.

(e) Nothing contained in this subsection prohibits the landlord from providing in the rental agreement that the tenant is obligated to pay costs or charges for garbage removal, water, fuel, or utilities.

(3) If the duty imposed by subsection (1) is the same or greater than any duty imposed by subsection (2), the landlord's duty is determined by subsection (1).

(4) The landlord is not responsible to the tenant under this section for conditions created or caused by the negligent or wrongful act or omission of the tenant, a member of the tenant's family, or other person on the premises with the tenant's consent.

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