

Getting Control of Your Finances

The secret to financial independence and stability is very easy- Spend less and save more! But it is not as easy as it sounds.

You must be pro-active to get control of your finances.

A few preliminary steps to asserting control are:

- Preparing a Complete Household Budget to assess your income levels, your spending habits and to identify places where money could be saved
- Setting Priorities for Your Expenses
- Reducing Household Expenses
- Generating New Income
- Communicating With Creditors
- Getting Credit Cards Under Control
- Checking Your Credit Reports

Remember! Getting control of your finances today is a vital step in lifetime financial independence- TAKE CHARGE TODAY!

Prepare A Complete Household Budget

The only way to know how you spend your money and where you can make adjustments is to do a budget worksheet. BE HONEST-

- Include ALL expenses!
- Include ALL income!

There are many budget worksheets, many of which can be found on internet sites, but here is a simple one to get you started- ideally, you fill this out after having everyone in your family keep a record of what they spend for a week, so that you can fill in realistic numbers.

MONTHLY INCOME Category	Before Job Loss	After Job Loss	Comments
Your income			
Spouse's Income			
Interest on Savings			
All Other Income			
Unemployment Insurance			
TOTAL MONTHLY INCOME			
MONTHLY EXPENSES Category	Current- Be honest!	After Doing Our Budget	Comments
Rent or Mortgage			
Utilities Gas Electric Phone			
Food			
Clothing			
Insurance			
Taxes			
Credit Card A			
Credit Card B			

Credit Card C			
Credit Card D			
Other Loans			
Medical Out of Pocket			
Transportation Gas/Metro Other			
Child Care			
Entertainment			
Monthly Savings if any			
Other			
TOTAL MONTHLY EXPENSES			

Do you have an income gap?

Subtract monthly expenses from monthly income and see if you are short of cash for the month. If so, you urgently need to make some decisions about how to reduce spending, and how to increase income, or both!

Prioritizing Payments

With limited income, you have to make decisions about what gets paid first. Although setting priorities is an individual thing (only you know what you can't live without!), and should be done in conjunction with your family, there are a few general rules:

- With whatever income you have, **pay housing costs first!**
All your problems multiply if you lose your housing.
Rents and mortgages are expensive and it's hard to find private assistance to keep you housed if you get behind and face foreclosure or eviction.
- Utilities are probably next on the list
- Health insurance payments are critical
- Court-ordered alimony or child support payments can't be overlooked

Reducing Household Expenses

These are decisions you have to make in consultation with your family, AND after you have completed a budget which shows where your money is going.

Some general advice:

- Stop carrying your credit cards and pay for things in cash; if you don't have the cash, you won't buy it
- Eliminate all the bells and whistles on your phone system and go to basic service; do you need land lines AND cell phones?
- Stop cable TV; regular TV is still FREE
- Cut back on dining out- generally we spend 16% of our income on food and 30% of that is in restaurants and for fast food
- Reduce or eliminate magazine subscriptions
- Before going grocery shopping, MAKE A LIST AND STICK TO IT; NEVER go to the grocery store hungry
- Use coupons, compare prices and buy on sale
- Stay away from convenience stores which are very expensive
- Eliminate junk and prepared foods- they are expensive
- Conserve energy by turning off un-needed lights and appliances including your computer, set thermostats appropriately
- Only wash clothes when you have a full load; same with dishwasher
- Plan meals to eliminate food waste; creative cooking with leftovers anyone?
- Identify other sources of entertainment than going to the mall
- Eliminate unnecessary car trips
- Visit garage sales- great for kids' clothes
- Cut down on expensive sources of entertainment like rental of movies, sports, new toys etc- figure out free or low cost ways of amusing yourself and your family

Generating Income

Until you are back in a great well-paying job, consider these possible sources of income:

- Collect any debts owed to you by family or friends
- Sell your skills- typing, computer work, giving lessons, doing taxes, tutoring
- Sell Unused Household Items- all of us have tons of unused things in our homes, some of which other people will pay good money for- have a garage sale
- Consider Selling Valuables, like jewelry, antiques etc- usually this is a last resort if you are unable to pay for basic necessities in any other way
- Consider a part-time job, even one with limited income/benefits, until you can move back into your field

- Barter- can you provide child care for a few afternoons in return for transportation somewhere for your kids? Other ideas?

Communicating With Creditors

Have a **Creditor Action Plan!**

Step 1: Fill Out a Creditor Worksheet to Determine Where, and to Whom, You Owe Money!

Creditor	Acct No	Balance	Monthly Payment	Due Date	Contact/Phone

Step 2: Notify Your Creditors BEFORE You Get Behind!

Once you've identified your debts, notify your creditors about your situation and plans for making good on what you owe. Creditors are usually easier to work with when you let them know about your situation before a severe problem arises and before they have to try to track down YOU!

When contacting creditors, let them know you are prepared to work out a satisfactory arrangement for delaying, reducing or refinancing payments until your crisis resolves.

Contact creditors in writing and keep a copy of your correspondence for yourself. Always include account number, phone number and address.

Step 3: Contact the Court About Child Support or Alimony

If you are making child support or alimony payments under a divorce decree or court order but are unable to meet payments due to a crisis, contact the Clerk of the Court and explain your situation BEFORE THEY CONTACT YOU! Stay in touch with your ex-spouse to avoid unnecessary legal action. Failing to notify the court of your inability to pay can result in expensive and embarrassing legal problems, including being jailed. **Follow up with a written letter of explanation.** If ordered to court, contact an attorney and bring documentation of your situation with you (lay-off letter etc)

Provide what support you can. KEEP RECORDS. Missed child support payments will have to be made up. You can arrange a pre-payment plan with the court or your ex-spouse.

Step 4: Pay What You Can

Make your best effort to pay something regularly. This keeps your balance as low as possible and lets the creditor know you are doing all you can. Partial payments *may* keep your account from being turned over to a collection agency.

SAMPLE LETTER TO CREDITORS

Dear _____:

I am temporarily out of work due to (layoff, shutdown, strike, illness) and my income has been severely cut. I am asking your cooperation during this difficult period. Until I return to work, I need to cut back on my regular payments. I am proposing to pay \$___ for a temporary period instead of my regular payment of \$___. When I return to work, I will work with you on a plan to catch up my payments. Please let me know in writing if this is satisfactory and thank you in advance for your understanding.

(Signature, account number, address, phone)

Getting Credit Cards Under Control

Most of us have too many credit cards, and these have balances that are so high, we have a hard time reducing the amount owed because we accrue interest charges on our balances that keep the balances from going down.

Average Credit Card balance per Person- \$2814
Average Credit Card Balance per Household- \$8523
Average Number of Credit Cards per Household- 12.1!!

Things to watch out for when obtaining credit cards- READ THOSE FINE PRINT BROCHURES!!!

Grace Periods: The period of time after you make purchases before they charge interest on that purchase. With no grace period, you are charged interest from the day you make a purchase with the card. Try to pay bills in full as soon as possible to avoid triggering interest.

Cash Advances: Usually never any grace period so you pay interest immediately upon withdrawal. INTEREST RATE ON CASH ADVANCES MAY BE HIGHER THAN THAT ON THE CARD ITSELF!!

Two-Cycle Billing: Companies can compute balances in one of three ways- adjusted balance method (most consumer-friendly), average daily balance method or the two-cycle balance method. With two-cycle interest is computed using both the purchases from the current billing cycle as well as from those of the previous month. Even if you paid off the month before the amount would still be used to calculate current interest.

Credit Card Fees: Watch for late payment fees, going over your credit limit fees etc- best way to avoid them is to pay on time.

Penalty Interest Rates: If you regularly pay late, the interest rate on the card itself can soar, up to as high as 20-30%!

Other penalty Fees: If you use your credit card outside its limits, other cards can penalize you as well- even if you haven't missed payments on them.

Changing Terms on Short Notice: Interest rates and other features of your card can be changed with 15 days notice- READ WHAT YOUR CREDIT CARD COMPANY SENDS YOU!

Tiny Minimum Required Payments: These ensure that you will never pay off the balance and generate HUGE interest costs for yourself.

Here's a few ideas for getting your credit card debt under control:

- Stop making purchases with them- some people recommend putting all your credit cards in a bowl, fill it with water and put it in your freezer, symbolically "freezing" your spending and making it harder for you to grab a card and spend on a whim.
- Switch to debit cards, which require you to have the money in a bank account to back up your spending
- Spend some time searching for cards with lower interests rates and transfer balances from high interest rate cards to low interest rate ones. If you've owned a card for awhile, call the company and ask for a reduced interest rate, letting them know you will transfer to other cards with lower rates if necessary- in other words, negotiate. Pay on time- avoid the usual \$39 charges for late fees
- Start paying balances in full if you can- any amount on your card not paid off each month will generate interest rates
- Do your children have cards? Do they REALLY need them?
- Once you have paid off a debt, cut up the card and send it back to the company, requesting that they close your account, and notify all credit

reporting agencies that you have closed the account and met your obligations in full

- SHRED ALL THOSE APPLICATIONS FOR NEW CREDIT CARDS AS SOON AS YOU REMOVE THEM FROM YOUR MAILBOX!!

Five Signs You Have Too Much Debt

- **Your discretionary income drops-**

Are you pulling money out of savings regularly?

Are you having less money for things after paying all the bills?

- **You continue to max out on your cards after paying down the debts**
- **You are only able to make the minimum payment each month on your cards**

Let's say you have a balance of \$3000 on a card with a 14.98% interest rate and you only make the minimum payment each month. It will take you 26 years to pay off the balance and you will have paid \$7,440- \$4,440 just in interest!

- **You have spent, or you never had, an emergency fund**

Rule of thumb is that we should all have 3 – 6 months worth of basic living expenses in a savings account set aside to be used only for that “rainy day”

- **You can't sleep at night**

If you are worrying about what you owe, you need to stop worrying and take action!

(excerpted from www.money.com)

What To Do If Your Credit Card Debt is Totally Out of Control

One thing to do is avoid obtaining a “debt consolidation loan”. Taking out home equity loans or other such debt consolidation loans only adds to your debt. Many loan consolidations charge exorbitant interest rates, and frequently your home will be put up as collateral, putting you and your family in the precarious situation of possibly losing your greatest asset- your home.

Credit counseling may be an option for you. Credit counseling agencies can help you budget, negotiate better terms with credit card companies, and frequently can stop interest from accruing on your balances while you are trying to pay them down. There is usually a fee, and the fact that you used an agency may show up on your credit report (however being badly in debt also shows up there!)

Avoid potential consumer credit counseling fraud by checking with the Association of Independent Credit Counseling Agencies (www.aicca.org) and the National Foundation for Credit Counseling (www.nfcc.org).

The Consumer Credit Counseling Service has nationwide offices, including many in the metro Washington area. They are a non-profit organization which provides

confidential help and they can be reached at 1 800 747-4222, or through www.moneymanagement.org. Union Privilege also has credit counseling at 1 877 833-1745 or www.unionplus.org/creditcounseling.

Checking Your Credit Reports

We should each check our credit reports annually, before attempting major purchases such as homes or cars, and if we suspect identity theft.

After September 1, 2005, residents of DC, DE, W VA and VA can get free credit reports from the 3 major credit bureaus per order of the FTC.

Your credit report should be checked for:

- Correctness of personal information
- Correctness of credit history- are all the accounts yours? Is payment history accurate?
- Listing of Inquiries- whenever a company requests info on you it should show up on the report. Monitor companies that many have accessed your report, especially ones you are not doing business with
- Items showing as open accounts credit cards you are no longer using- you should write both the credit card company and the credit bureau to ask them to indicate that account is closed and all obligations were met

If you notice incorrect information:

- Follow procedures required by the credit bureau for corrections. If the dispute is about a loan or late payment history from a creditor, notify them in writing as well.
- Check to see that the credit bureau has corrected the information within 30 days which they are required to do.

How to Obtain Your Credit Reports

To obtain your reports, go to annualcreditreport.com or call 1 877-322-8228.

You may want to consider ordering from one company, then order from the next company 4 months later, then the next 4 months later. That way you have the latest info reflected on your reports.

Here is the contact information for the three companies:

1. Equifax www.equifax.com 1 800 685 1111 PO Box 740241
Atlanta, GA 30374-0241
2. Experian www.experian.com 1 888 397 3742 PO Box 2002
Allen, TX 75013

3. Transunion www.transunion.com 1800 888-4213 PO Box 1000
Chester, PA 19022

Free Report Site:
www.annualcreditreport.com 1 877 322-8228
Annual Credit Report Request Services
PO Box 105281
Atlanta, GA 30348-5281

Credit Scores: The three credit reporting agencies also calculate a “credit score” for you which they will share with potential lenders. This could affect whether you get a loan, what interest rate you get on loans and cards, etc. The most widely used is the FICO score (Fair, Isaac and Co). The formula for this score is as follows:

- Type of credit use 10%
- Payment history 35%
- Amounts owed 30%
- Length of Credit History 15%
- New credit 10%

These scores are not free- you would have to request the Equifax FICO score from annualcreditreport.com (\$6.95) and from the other two at \$14.95 each from myfico.com.

Ways to Improve Your Score:

- Pay your bills on time
- Reduce credit card balances
- Pay off debt rather than moving it around
- Don't close unused credit card accounts near loan time- it only raises your balance-to-limit ratio.

Additional Financial Management Resources

www.money.com

click on “Personal Finance” for loads of info about debt, money management, investing, retirement etc

www.bhg.com

money and budget tips from Better Homes and Gardens

www.cardweb.com/cardtrak

comparison of costs and features of credit cards

www.creditinfocenter.com

info on bankruptcy, credit card rates, credit reports and rebuilding credit

www.quicken.com

debt reduction planner

www.financenter.com

on-line calculators to help with any personal financial question, including developing a spending plan, savings plan and info on home purchasing, auto financing and credit cards

www.macchi.com/default/index.asp

in Spanish, a place to chat or ask questions to experts about financial situations

Whenever you think the Community Services Agency may be able to be of assistance to you, please call us at 202 974-8220, 1 888 763-7232 toll-free.