

Participant Guide

FDIC



FDIC Financial Education Curriculum



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Checking In

Welcome

Welcome to the *Financial Recovery* module! Whether you are experiencing financial difficulties for the first time or you have experienced ongoing financial problems, this module will provide you with the steps you can take to develop a financial recovery plan and rebuild your credit.

Objectives

After completing this module, you will be able to:

- Assess your current financial situation
- Identify ways to increase income and decrease and prioritize expenses
- Develop a financial recovery plan
- Identify steps to successfully implement a financial recovery plan
- Recognize how to guard against credit repair scams
- Identify timeframes to review and adjust your financial recovery plan

Participant Materials

This *Financial Recovery* Participant Guide contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

Pre-Test

Test your knowledge about financial recovery before you go through the course.

- 1. If you are experiencing financial difficulties, what first steps should you take before developing a financial recovery plan? Select all that apply.**
 - a. Develop a spending plan
 - b. File for bankruptcy
 - c. Track your spending
 - d. Assess your current financial situation

- 2. Which of the following are ways you can increase your income without negatively impacting your financial future or financial recovery plan? Select all that apply.**
 - a. Take money out of your retirement or investment accounts to pay off debt
 - b. Rent out an extra bedroom in your home
 - c. Use your talents or hobby to make extra money
 - d. Make sure you receive any tax credits for which you are entitled

- 3. Which of the following are ways you can decrease your expenses without negatively impacting your financial future or financial recovery plan? Select all that apply.**
 - a. Buy items you want but do not need
 - b. Use local assistance programs to offset food, housing, and utility costs
 - c. Eat out at restaurants less frequently
 - d. Sell assets (e.g., an extra vehicle, furniture, or jewelry)

- 4. When prioritizing your expenses, which of the following expenses should you pay first?**
 - a. Your basic necessities (e.g., mortgage/rent, food, utilities, transportation)
 - b. Credit card bills
 - c. Collection agency bills
 - d. Other expenses or loans (e.g., medical bills, education loans, personal expenses)

- 5. Which of the following actions can help you build your credit and prevent future financial setbacks?**
 - a. Save money
 - b. Review your credit report and correct any errors
 - c. Work with your creditors when you cannot make your payment
 - d. Ask for assistance when needed
 - e. All of the above

6. Select all that apply. You can guard against credit repair scams by:

- a. Avoiding companies that ask for payment before services are provided
- b. Checking for complaints filed against the credit repair company with your local Better Business Bureau
- c. Avoiding organizations that tell you your rights and ways you can repair your own credit
- d. Avoiding companies that advertise fast and easy credit repair solutions

7. How frequently should you review and adjust your financial recovery plan?

- a. Every month
- b. Every six months
- c. Every 12 months
- d. As needed, but at least every 12 months

Financial Recovery

The Financial Recovery Process

1. Evaluate Your Current Financial Situation
2. Develop a Financial Recovery Plan
3. Implement Your Plan
4. Evaluate and Adjust Your Plan



Remember:

- The financial recovery process is a slow and steady one.
- You may need to ask for help along the way.
- You should expect to experience an occasional setback during the financial recovery process.
- You are not alone.

Step 1: Evaluate Your Current Financial Situation

Assess Your Current Financial Situation

Some questions to ask yourself:

- How much income do I have each month?
- When do I receive that income?
- How do I currently prioritize and spend the money I receive?
- How much am I overspending each month?

There are a number of ways you can track your spending, so pick a method (or methods) that work best for you:

- Use your monthly checking account statements and/or check register to track your spending.
- Use a money management software package to track your income and expenses.
- Ask for and save receipts if you use cash regularly. Add the receipts on a daily or weekly basis so you are not overwhelmed with this task at the end of each month.
- Consider writing down your cash expenses on a regular basis if you do not always collect receipts. This will help you remember how you spent your money at the end of the month.

Activity 1: Monthly Income and Expenses

Read the scenario, review the Monthly Income and Expense Worksheet on the following page, and answer the questions below.

Scenario

Shanise is recently divorced and has two children. Her ex-husband has not been able to provide child support for the last two months because he was laid off from work. Shanise was working part-time before the divorce and had planned to do so until her youngest child went to school. However, that plan has changed and she had to get a full-time job. Her monthly net wages, or take-home pay, is about \$1,850. She also receives an Advance Earned Income Credit (EIC) of \$150 a month.

During the divorce Shanise and her husband lost their house because neither of them could afford the mortgage. She is currently renting a place for \$750 a month. She has a \$420 car payment, and it costs her about \$100 a month for gas. Car insurance averages about \$75 a month.

She has been able to save some money on child care because her husband is able to care for the kids some of the time. However, she still pays about \$150 a month on child care. Shanise also pays \$110 for her cable, Internet, and home phone and \$45 a month for her cell phone. Water is included in the rent, but her electric bill averages out to about \$80 a month with budget billing. She pays about \$400 a month for groceries and at least \$150 on personal expenses for herself and the kids. Additionally, her monthly credit card payments are about \$100 a month. When she does not have time to prepare meals she takes the kids out to eat or eats out for lunch, which probably totals about \$120 a month.

Questions

Do her expenses exceed her income? _____

Can you identify some ways she might change her spending to help balance her income and expenses?

If Shanise is unable to balance her income and expenses, how would you recommend she prioritize her spending or expenses?

Shanise’s Monthly Income and Expense Worksheet

Income		Expenses	
Wages	\$1,850	Fixed Expenses	
Public Assistance		Rent/Mortgage	\$750
Child Support/Alimony		Property Taxes/Insurance	
Interest/Dividends		Cable/Telephone/Internet	\$110
Social Security		Cell Phone	\$45
Advance EIC	\$150	Car Payment	\$420
Other		Car Insurance	\$75
		Health Insurance	
		Other Loan Payments	
		Flexible Expenses	
		Savings	
		Water	
		Electric	\$80
		Gas/Oil	
		Groceries	\$400
		Eating Out	\$120
		Transportation/Gas	\$100
		Credit Cards	\$100
		Day Care/Elder Care	\$150
		Car Maintenance	
		Education	
		Personal Expenses	\$150
		Donations	
Total Income	\$2,000	Total Expenses	\$2,500

Increase Your Income

How might how each person or persons increase their income?

1. Samar was doing well financially until he was laid off from work. He has not been able to find work yet, and is concerned about how he is going to pay his bills because he has almost depleted his savings. What steps could he take to increase his income?

2. The Jacksons' home was recently destroyed by a _____. They did not have adequate insurance coverage to cover the damages. How might they increase their income?

Tips to increasing your income:

- Review and change your tax-deduction status if you regularly receive a tax refund. This way you can receive the money throughout the year to pay your expenses. There are also a number of tax credits (further described below) that may help increase your income, including:
 - Advance EIC or Earned Income Tax Credit (EITC)
 - Child tax credit
 - Credit for child and dependent care expenses
 - Education credits
 - Tax credits for retirement savings contributions
- Reduce or stop your retirement contributions **temporarily** as opposed to cashing out your contributions and paying the taxes and penalties
- Take on a part-time job if you already work full time
- Use a talent or hobby to increase your income
- Seek unemployment assistance if unemployed and not already receiving assistance
- Enroll in a training program to learn a new career or job skill in order to obtain a job
- Update and distribute your resume in order to obtain a job or a higher paying job
- Sell your assets (e.g., an extra vehicle, furniture, jewelry, or your home) if you need to downsize
- Rent out an extra bedroom in your home

EITC

The EITC is a refundable federal income tax credit for people who work but do not earn high incomes. If you qualify, the EITC reduces the amount of tax you owe and you may receive a refund. You may even be eligible for an advance EITC, which allows you to receive part of the credit in each paycheck during the year.

The following eligibility requirements apply:

- You must have a valid Social Security Number (SSN).
- You must be between 25 and 65 years of age, unless you have a qualifying child.
- A qualifying child must live with you in the United States (U.S.) more than half of the year.
- You must have earned income from wages or self employment. This does not include alimony, child support, welfare benefits, unemployment benefits, interest, dividends, pensions, and certain workforce payments.
- You cannot file your taxes as “Married Filing Separately.”

If you qualify you must file the Form W-5 with your employer to receive the advance EITC. All of the rules and examples can be found in Internal Revenue Service (IRS) Publication 596. Benefits can range from \$2 to over \$4,500, depending on earned income, number of qualifying children, and other factors. Any refund that you receive as a result of taking the EITC will not be used to determine your eligibility or how much you can receive from the following programs:

- Temporary Assistance for Needy Families (TANF)
- Medicaid, Food Stamps, and housing assistance

Child Tax Credit

The Child Tax Credit can lower the amount of income tax you owe and increase any refund you might receive. The benefit can be as high as \$1,000 per child. Information is available in IRS Publication 972. The tax credit application form and the IRS Publication are available at: www.irs.gov or by calling the IRS at **1-800-829-3676** or **1-800-829-1040**.

Eligibility requirements are fully explained in IRS Publication 972, or in the Form 1040 or 1040A Instructions, and include the following:

- The child must be 17 years of age or younger by the end of the tax year
- The child must be a U.S. citizen, resident, or national

Credit for Child and Dependent Care Expenses

If you pay someone to care for your child (under the age of 13), your spouse, or another dependent who is not able to care for him or herself you may be eligible for a tax credit. The tax credit can lower the amount of income tax you owe and increase any refund you might receive. To qualify, you must pay the child or dependent care expenses so you can work or look for work. There are other requirements. Information is available in IRS Publication 503 or in the Form 1040 or 1040A Instructions. The tax credit application form and the IRS Publication are available at www.irs.gov or by calling the IRS at **1-800-829-3676** or **1-800-829-1040**.

Education Credits

If you are saving for or paying education costs for yourself or another student to attend a college, university, vocational school, or other postsecondary education institution then you may be eligible for a tax credit. The amount of credit you can take depends on your filing status, your adjusted gross income, and your eligible expenses. Information is available in IRS Publication 970. The tax credit application form and the IRS Publication are available at www.irs.gov or by calling the IRS at **1-800-829-3676** or **1-800-829-1040**.

Credit for Retirement Savings Contributions

If you make eligible contributions to an employer-sponsored retirement plan or to an individual retirement arrangement or individual retirement account (IRA) you may be eligible for a tax credit. The amount of credit you can take depends on your filing status, your adjusted gross income, and your eligible contributions. To claim the credit, complete IRS Form 8880 and submit it with your federal income tax form. A copy of the tax credit application form is available at www.irs.gov or by calling the IRS at **1-800-829-3676** or **1-800-829-1040**.

Decrease Your Expenses

If you struggle to figure out how to begin decreasing your spending:

- Start small by reducing or eliminating one new expense every month or two
- Eliminate or reduce expenses that are wants and desires versus needs
- Think twice before spending or purchasing items that do not help you reach your financial recovery goals
- Plan and save for certain items rather than using your credit card

Tips to decreasing your expenses:

- Develop and follow a spending plan whereby you reduce your spending and credit card use.
- Reduce the number of times you eat out at a restaurant or avoid eating out.
- Become a more conscientious shopper (e.g., make a list and stick to it, purchase only necessary items, purchase items when they are on sale, use weekly sales fliers to make a grocery list, only use coupons if you normally use the item and if you can actually save money since generic items may cost less than the brand name item with the coupon, and shop for clothing or household items at thrift or consignment stores).
- Avoid stores and shopping for fun, unless you have complete sales resistance and really *can* just window shop. Also consider removing temptation by spending time reading, playing games, or being outside instead of watching television and being influenced and tempted by the advertisements.
- Purchase only items that you need, not what you want. This may also include cutting back on or eliminating extra expenses (e.g., dining out, vacations, movies, sporting events, car washes, cable/satellite TV or extended packages including movie channels, and private schools for your children).
- Reduce your utility bills (e.g., downsize or get rid of your cell phone, cable TV, or satellite plans; conserve energy and water; eliminate extra telephone services, including caller ID and call waiting; or close your land line account if you regularly use your cell phone) .
- Contact creditors to negotiate a lower interest rate or monthly payment.
- Use local, state, or national assistance programs to help with food and utility costs.
- Shop around to get the best deal on big-ticket items (e.g., cars, appliances, insurance, loans, child or elder care; and cell phone, Internet, and cable or satellite plans). Remember, you have control over some of these expenses before you sign the initial agreement and they become fixed expenses.

Prioritize Your Expenses

Basic Necessities

Your basic human necessities (i.e., mortgage/rent, food, utilities, and transportation) should always come before paying other expenses or creditors.

What should you do if you fear you cannot make your mortgage payment?

- If you cannot make a mortgage payment, or fear you are at risk of foreclosing on your home, contact your lender immediately to explain your situation and negotiate a payment plan until you can resume regular payments.
- You may also want to contact the U.S. Department of Housing and Urban Development (HUD) at www.hud.gov or **1-800-569-4287** to locate a HUD-approved housing counselor near you.

What should you do if you fear you cannot make your car payment?

- If you are having difficulties paying your car loan and foresee that you are getting close to defaulting on your loan, consider selling the car yourself to pay off the loan to avoid the repossession expenses (e.g., towing and storage costs) and negative impact on your credit report.

High-Priority Expenses

If you have other high-priority expenses you would pay these after paying your basic necessities. High-priority expenses may include:

- Insurance premiums to ensure you have adequate coverage on your home, home contents, car, health, and life
Note: You may be tempted to cut or eliminate these premiums but think twice before you do. Having adequate insurance may help you and your family avoid further financial setbacks should something unexpected happen.
- Medicines, medical bills and health, vision, and dental expenses
- Other expenses that you deem important and a high priority

Remaining Expenses

Prioritize any remaining expenses based on the money you have left each month. If you are unable to meet all of your expenses after determining ways to increase your income and decrease your expenses, contact your creditors and explain your situation.

My Spending Priorities

List your expenses in order of priority, and identify expenses that you may decrease or eliminate to meet your monthly obligations.

	Expense (Item or Creditor Name)	Monthly Amount Due
Essential Expenses (Basic Necessities)		
Higher-Priority Expenses		
Lower-Priority Expenses		
Expenses that may be reduced or eliminated		

Step 2: Develop a Financial Recovery Plan

A *financial recovery plan* will help you determine strategic ways you can save money, pay your bills, and reduce or eliminate your debt. Your financial recovery plan should include financial goals and a spending plan to meet these goals. To reach your financial goals it is extremely important to involve all family members, including older children, in determining how you might increase your income or decrease your expenses to meet your financial goals.



Set Financial Goals

1. **Identify and write down your financial goals** to keep yourself accountable and focused on your goals. Make sure your financial goals are SMART:
 - a. Specific
 - b. Measurable
 - c. Attainable or Achievable
 - d. Relevant
 - e. Time-bound or time-based
2. **Organize your financial goals** by timeframes.
3. **Evaluate your progress and reevaluate your goals.**

Activity 2: My Financial Goals

List your main financial goals and any supporting goals to help you reach them. Make sure each goal is Specific, Measurable, Attainable, Relevant, and Time-bound.

Main Financial Goals	Supporting Goals

Develop a Spending Plan

A *spending plan* is a step-by-step plan for meeting expenses and financial goals in a given period of time. Following a spending plan:

- Helps you know what your income and expenses are every month
- Reduces the anxiety of not being able to meet your expenses
- Gives you a sense of control over your money because a spending plan is all about choices—choosing how to use your money
- Helps you build assets that will improve the quality of life for you and your family

Spending Plan Tools

Select the tool you are most comfortable with:

Monthly Payment Schedule or Calendar

These tools let you record in advance when you will receive income and when bills are due so you can manage your expenses. Assign dates to pay your basic necessities, or set aside money for monthly expenses, (e.g., food) and high priority expenses immediately following the dates you are paid to ensure those bills are covered. You can cross out or check off expenses as you pay them so you can keep track of what has been paid.

Expense Envelope System

This tool is useful if you pay your bills in cash each month. Make an envelope for each expense category (e.g., rent, gas, food). Label the envelope with a category name, amount, and due date. Divide the income you receive into the amounts to cover the expenses listed on the envelope. Pay bills right away so you are not tempted to spend the money on something else.

Budget Box System

The *budget box* is a small box with dividers for each month, with one divider for each day of the month.

When you receive a bill, check the due date and place it behind the divider that represents the bill's due date. As you receive income, pay your bills right away so you will not be tempted to spend your money on something else.

Computer Spreadsheet System

If you have access to a personal computer you can create your own spreadsheet with a column for income sources, income dates, expenses, and expense due dates. At the end of the income sources and expenses columns, add the function and formula to total each column.

Free personal finance tools are also available online and you can purchase personal finance programs. Once you set up the system, updating information is quick and easy. It is important to enter transactions frequently to track your financial position.

Recordkeeping

Keeping accurate records helps you successfully implement and follow a spending plan. Keep financial records in a safe place or in a safe deposit box. Organize your files so it is easy to find important financial information. Keep your tax records for at least three years.

Step 3: Implement Your Plan

Seek Assistance

When you are ready to put your financial recovery plan into action you may need assistance to help cover your monthly expenses (e.g., mortgage, rent, food, and utility bills). To identify and learn about local, state, and national assistance programs:

- Ask friends and family members if they are familiar with any assistance programs.
- Contact your utility providers and ask about assistance programs, or visit their website for information and enroll if applicable.
- Call 211 or visit www.211.org.
- Look for food banks and national food assistance programs that may operate in your area.
- Contact your local Department of Human Services or Social Services.
- Seek referrals through your Employer Assistance Program, unemployment office, financial counselor, or financial advisor.

If you think you make too much money to qualify for assistance programs, do not assume! There are programs available that do not have income guidelines or provide benefits to those in a medium or moderate income level.

Additionally, you can refer to:

- www.recovery.gov for more information about initiatives resulting from the new recovery law
- www.govbenefits.gov for details on the broader array of federal loan programs, and to determine if you are eligible for government benefits
- www.makinghomeaffordable.gov to determine if you are eligible for programs that help you avoid foreclosure or overcome obstacles to refinancing your home loan

Rebuild Your Credit

After experiencing a financial setback there are two ways to rebuild your credit: do it yourself or use a reputable credit counseling agency.

To repair your own credit:

- Order a copy of your credit report.
- Review it for errors and request an investigation if there are any.
- Contact your creditors to explain your situation.
- Negotiate payment plans with your creditors when you have some money to pay them.
- Opt-out of receiving unsolicited offers for credit cards to avoid the temptation of applying for them.

Get a Copy of Your Credit Report

When trying to recover financially it is important to review your credit report and make sure there are no errors impacting your credit score. The Federal Fair Credit Reporting Act requires each of the credit reporting agencies (Equifax, Experian, and TransUnion) to provide you with a free copy of your credit report, at your request, once every 12 months.

You may order your credit report from www.annualcreditreport.com. This is the only online source authorized to do so. Beware of other sites that may look and sound similar.

Check for Errors

Financial advisors recommend reviewing your credit report once every year or, at a minimum, before making large purchases with credit (e.g., buying a home or a car). If you think there is an error on your credit report contact the credit reporting agency and write a letter disputing the error. Keep a copy of the letter for your records. The credit reporting agencies are required to conduct an investigation within 30 days of receiving your letter.

Sample Dispute Letter

Date

Your Name

Your Address

Your City, State Zip Code

Complaint Department

Name of Credit Reporting Agency

Address

City, State Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are (highlighted/circled) on the attached copy of the report I received.

This item (identify item/s disputed by name of source, including: name of creditor or tax court, and identify type of item, e.g., credit account, judgment, etc.) is inaccurate or incomplete because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, including: payment records, court documents) supporting my position. Please reinvestigate this/these matter/s and (delete/correct) the disputed item/s as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing)

Identity Theft

Identity theft occurs when thieves steal your personal information (e.g., your SSN, birth date, or credit card numbers) and use your identity to commit fraud or other crimes.

If you believe you are an identity theft victim, the Federal Trade Commission (FTC) recommends you immediately take the following actions:

- File a report with your local police. Get a copy of the police report so you have proof of the crime.
- Contact your creditors about any accounts that have been changed or opened fraudulently. Ask to speak with someone in the security or fraud department.
- Follow up in writing and include copies of supporting documents.
- Keep records of your conversations and all correspondence.
- Use the Identity Theft Affidavit at www.ftc.gov/idtheft to support your written statement.
- File a complaint with the FTC using the online complaint form (www.ftccomplaintassistant.gov) or call the FTC Identity Theft Hotline.
- Ask for verification that the disputed account has been closed and the fraudulent debts discharged.

You may have experienced identity theft or other forms of financial abuse in a domestic violence situation. If an abusive partner took out credit cards in your name without your knowledge or used your name in other ways (like to rent furniture) without your permission, contact a local domestic violence program or a local legal services provider for help. Visit <http://www.womenshealth.gov/violence/> for information.

You can learn more about identity theft by:

- Completing the *Keep It Safe* and *To Your Credit*
- Calling the FTC's Identity Theft Hotline at **1-877-IDTHEFT (438-4338)** or visiting www.ftc.gov/idtheft.

Paying Your Creditors

If you feel you are being harassed or treated unfairly by creditors make sure you know your rights. You can learn more about consumer protection laws by visiting the FTC's website: <http://www.ftc.gov/bcp/menus/consumer/credit.shtm> or taking the *Loan to Own* module.

Before Contacting Your Creditors

If you are contacted by a creditor or debt collector, first make sure you really owe the money they claim. Every collector must send you a written "validation notice" saying how much money you owe within five days after they first contact you. If you send the debt collector a letter within 30 days of the validation notice stating that you do not owe any or all of the money, or asking for verification of the debt, the collector must stop contacting you. But a collector can begin contacting you again if it sends you written verification of the debt, like a copy of a bill. Assuming you owe the debt, read on for how to handle it.

Before you contact your creditors, determine:

- How much you owe each creditor
- How much you can pay each creditor

- When you can realistically pay each creditor if you are unable to make a current payment

If you can pay the creditor some amount of money, consider whether you want to negotiate:

- A reduced monthly payment for a period of time
- A loan refinance to reduce the interest rate and lower your monthly payments
- A payment deferment if you will have regular income or can make regular payments in the next few months
- Reduced or dropped late charges while you are facing financial difficulties
- Interest only payments until you can make regular monthly payments

Keep in mind these options may require you to make payments for a longer period of time and incur additional finance charges. Yet, you may be able to avoid collections and further damage to your credit.

If you cannot pay your creditors:

- Be prepared to explain in detail why you cannot pay them and/or why you have fallen behind on past payments.
- Explain any efforts you are making (e.g., increasing income, decreasing expenses) in order to pay them.
- Have a plan of when you can realistically pay them and how much you can pay them.
- Understand that the creditor may turn your account over to a collection agency if your payments are more than 90 days late. The company may also take legal action against you for the unpaid debt.

Under the Fair Debt Collection Practices Act (FDCPA) debt collectors other than your creditor cannot:

- Contact you at any unusual time or place
- Contact you at work if you have informed them not to call you there
- Use threats of violence or other criminal means to harm you or your property
- Call you with the intent to annoy, abuse, or harass you
- Call you without identifying themselves
- Use deceptive or misleading methods to collect debt

Report any problems you have with a debt collector to your state Attorney General's office (www.naag.org) and the FTC (www.ftc.gov).

Contact Your Creditors

Consider the following tips when talking with your creditors or contacting them by phone:

- Document the conversation. Write down the name of the creditor and representative(s) you spoke with, the date and time of the conversation, and the discussion points or decisions made by you and the creditor.
- Do not yell or curse at the representative. Many creditors want to work out a solution to the debt that works for you and your budget, so stay calm. If you start to get frustrated, thank the representative, end the conversation, and try speaking with another representative or supervisor later. If the creditor is not willing to work with you, you may want to consider using a reputable credit counseling agency to help you negotiate a better deal.
- Ask if they offer "hardship" programs for customers having financial difficulty. "Hardship" is a key term to use when seeking a temporary reduction in your monthly payment and interest rate.

- Be honest with yourself and your creditors. Do not accept any deal that you cannot fulfill. Be firm in stating what you can realistically pay and when.

Following the conversation:

- Send a letter to the creditor summarizing the agreement you made. Keep a copy for your records.
- Stick to the agreement made and contact the creditor immediately if you cannot meet your obligations.

If initially contacting your creditor in writing:

- Provide your name and account number.
- State that you are unable to meet the minimum monthly payment on your account.
- Inform them of your financial difficulties. Be specific about your:
 - Budgeting and debt problems (e.g., state the number of creditors you owe, the total amount you owe, your net monthly income, and amount you have after paying basic living expenses)
 - Reasons for these difficulties (e.g., due to unemployment, illness, or disability).
- Explain the actions you have taken to evaluate and improve your situation (e.g., set up a realistic budget, and sought financial counseling).
- State your request (e.g., reduce the monthly payment, defer a payment for a month, or accept a payment in the amount of X on Y date).
- Include the date in which you plan to return to your regular monthly payments if known.

Note that you could even write a letter to your creditor and use it as a script when calling your creditor. Then include any agreements made before sending the letter to your creditor.

Additional Tips to Rebuilding Your Own Credit

Here are some additional tips:

- Recognize when you can realistically start to rebuild your credit. Having poor credit may be necessary or a reality in order to ensure you keep your home, have food and basic utilities for your family, and have transportation in order to work.
- Continue to communicate with your creditors as you rebuild your credit and contact them right away if you cannot meet your payment obligations.
- Reduce your expenses by paying off the balance on your highest rate loans first. These are usually your credit cards.
- Avoid using credit cards or loans for purchases. Plan and pay for future purchases using cash or a debit card linked to your checking account.
- Turn to a reputable credit counselor if you have serious problems paying off your credit card debt. Some can help you for little or no cost.
- Avoid *debt consolidation traps*. These are loans that you receive in order to help pay off what you owe on several credit cards. They can be either secured loans (e.g., home equity loans) or unsecured loans. Some dishonest lenders may also trick you into signing up to consolidate bills with a loan that costs more than the old loan. This can leave you paying more in interest and loan origination fees. Shop around so that you have a way of deciding on the debt consolidation loan that best meets your needs and budget.
- Avoid debt settlement companies and credit repair websites that charge high rates and application fees.
- Use bankruptcy only as a last resort.

Bankruptcy:

- Eliminates most debts; certain back taxes, child support, alimony, and student loans must still be paid
- Forces you to pay higher credit rates and receive less favorable terms on future loans
- Stays on your credit report for seven to ten years
- Makes it difficult to get a mortgage, open a bank account, buy life insurance, or get a job because creditors and employers can run a credit check to determine your history of past financial commitments

The law now requires that you receive credit counseling before filing for bankruptcy. You should also seek sound legal counsel before filing for bankruptcy. For more information on bankruptcy visit:

- <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre41.shtm>
- <http://www.uscourts.gov/bankruptcycourts/bankruptcybasics.html>

Tips for Choosing a Credit Counseling Agency

If you decide to use a credit counseling agency when rebuilding your credit, the FTC provides the following tips for choosing a reputable credit counseling agency:

- Interview several credit counseling agencies before signing a contract.
- Check with your state attorney general, local consumer protection agency, and the Better Business Bureau to find out if consumers have filed complaints about the agency you are considering. A reputable agency will send you free information about itself and the service it provides without requiring you to provide any details about your situation. If the agency will not do this, find another agency.
- Ask questions about services, fees, and a repayment plan. These questions are listed in your Participant Guide.

Questions to ask credit counseling agencies:**Services and Fees:**

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What is the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees, or licenses your agency? Is your agency audited? Are you licensed to offer your services in my state?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?
- Will the fact I am working with you appear on my credit report?

Repayment plans:

- If I enroll in a repayment plan, will it appear on my credit report?
- How much debt must I have to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put into a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option? What if I cannot maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

For additional information on choosing a credit counselor visit: www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm.

Credit Repair Scams

Only consistent efforts and making payments on your debts will improve your credit. Therefore, it is important to choose your credit counseling agency carefully. Some businesses make promises about repairing your credit that they cannot deliver.

Be aware that:

- No one can have accurate information removed.
- If you have bad credit it can take years to repair your credit legitimately.
- If you make false statements on loan applications or use a fake SSN you will be committing fraud. You can also be charged with mail or wire fraud if you use the mail or telephone to apply for credit and provide false information.
- Legitimate companies provide a service before requesting payment.
- You can order your credit report yourself. If you see errors on your report, you can also request that the credit reporting agencies make appropriate changes.

The credit repair agency promises to erase negative credit information and remove bankruptcies and judgments from your credit file. Which statement on the slide indicates this could be a scam?

The credit repair agency offers to create a new SSN for you. Which statement on the slide indicates this could be a scam?

If you make false statements on loan applications or use a fake SSN you will be committing fraud. You can also be charged with mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. This credit repair agency promises you fast and easy credit repair. Which statement on the slide indicates that this is a scam?

Step 4: Review and Adjust Your Plan

Review Your Financial Recovery Plan Regularly

Consider reviewing your:

- Spending plan a month or two after implementing it, and periodically thereafter (e.g., every six months)
- Financial goals and spending priorities every 12 months or after any life changing events
- Credit report at least every 12 months to check for errors and monitor your progress if rebuilding your credit and before applying for a loan

Adjust Your Financial Recovery Plan

You may need to review and adjust your financial recovery plan:

- When your income and/or expenses change (increase or decrease)
- When you accomplish, adjust, or create a new financial goal
- When you transition to a new life stage
- Before something unexpected happens

Review and Adjust Your Insurance Coverage

Review your insurance coverage at least once a year, and consult with an insurance representative about purchasing additional insurance or adjusting the coverage if necessary.

For free tips and online tools and information about insurance, check with organizations (e.g., your state's department of insurance, the Better Business Bureau, and the FTC) and visit:

- www.mymoney.gov
- www.dol.gov
- www.ssa.gov
- www.naic.org
- www.insureuonline.org

Review and Adjust Your Investments

Here are some tips for reviewing and rebuilding your investment portfolio:

- Review your investment portfolio at least once a year, when you experience any major life changes, or when the market changes.
- Review and adjust your allocations according to your risk tolerance and the amount of time you have before you need to use the money.
- Assess the fees and annual expenses you are charged and shop around for funds with lower fees and expenses.
- Reinvest your dividends.
- Increase your retirement contributions by one or two percent. You will not see a significant drop in your paycheck, but you should see significant increases in your earnings over time.
- Educate yourself and learn more about managing and building your investments rather than following investment advice blindly.
 - Read the prospectus of an investment product or instrument carefully.
 - Get more information from reliable sources:

- **Internal Revenue Service (IRS):** www.irs.gov
- www.pueblo.gsa.gov/cic_text/money/401k/401k.htm
- Use resources at the public library to educate yourself.

Rebuild Your Savings

Once you are on the path to recovery you should consider rebuilding your savings. This allows you to pay for extra expenses without disrupting or derailing you from your financial recovery plan. These extra expenses may include:

- Unexpected home or car repairs and other unexpected expenses (e.g., medical expenses)
- Expenses that occur once or twice a year (e.g., property taxes and insurance premiums)
- Foreseen future expenses (e.g., a heat pump, water heater, or roof that is getting old and needing to be replaced)

If you can pay for extra expenses with your savings you can avoid paying the interest and fees you would be charged when using a credit card.

However, here are a few tips to consider when beginning to save:

- Start small and slowly increase the amount of money you save.
- Be respectful of your savings and only use it when necessary (e.g., car breaks down and you need to repair it so you can get to work).
- Make extra monthly payments to yourself once you have paid off a credit card or loan, or when you receive extra income.

Prevent Future Financial Setbacks

Actions you can take to stay on that road to financial recovery:

- Rebuild your savings to pay for extra expenses and avoid incurring debt while trying to recover financially.
- Continue to apply what you have learned about financial recovery and managing your finances (e.g., controlling and monitoring your spending, regularly reviewing and adjusting your plan) even after you have recovered.
- Keep moving forward.
- Be patient.
- Educate yourself.
- Ask for help and talk with others in a similar financial situation.

Post-Test

Now that you have gone through the course, see what you have learned.

1. **What is the final step in the financial recovery process?**
 - a. Evaluate your current financial situation
 - b. Develop a financial recovery plan
 - c. Establish financial goals
 - d. Evaluate and adjust your financial recovery plan

2. **To assess your current financial situation you should examine your:**
 - a. Income
 - b. Expenses
 - c. Debt
 - d. All of the above

3. **Which of the following are ways to increase your income without negatively impacting your financial future or financial recovery plan if you are experiencing a financial setback? Select all that apply.**
 - a. Seek financial assistance (e.g., unemployment or emergency assistance)
 - b. Take out a loan
 - c. Take money out of your retirement or investment accounts
 - d. Use your talents or hobby to make extra money

4. **Which of the following are ways you can decrease your expenses without negatively impacting your financial future or financial recovery plan? Select all that apply.**
 - a. Buy items you want but do not need
 - b. Reduce or eliminate extra expenses
 - c. Pack lunches or eat at home rather than eating out
 - d. File for bankruptcy

5. **Which of the following are specific and measureable financial goals? Select all that apply.**
 - a. Save money to buy a (home, car, etc.)
 - b. Pay off my credit card with the highest balance first
 - c. Reduce my expenses by \$100 a month so I can pay my mortgage/rent
 - d. Try to rebuild my credit for six months before determining whether to use a credit counseling agency

6. **When prioritizing your spending, what order should you pay your expenses? Rank each with the number 1, 2, 3, or 4. Number 1 represents the highest priority or first expense you would pay.**
 - a. Creditors or lenders ____
 - b. Basic necessities ____
 - c. Yourself (savings) ____
 - d. Other high-priority expenses (e.g., insurance premiums, medical bills) ____

- 7. Select all that apply. To guard against credit repair scams you should be wary of companies that:**
- a. Ask for payment before you receive any services
 - b. Promise to help you repair your credit in a slow and steady manner
 - c. Tell you your rights and what you can do to repair your own credit
 - d. Promise to erase your bad credit or to remove bankruptcies and judgments from your credit file
- 8. What should you do before you contact your creditors when you know you cannot make a payment?**
- a. Calculate how much you owe each creditor
 - b. Know how much you can pay each creditor
 - c. Establish when you can realistically pay each creditor
 - d. All of the above

Glossary

Annual Percentage Rate (APR): The cost of your loan expressed as a yearly percentage rate.

Credit: The ability to borrow money.

Credit Cards: Credit cards allow you to buy goods or services and pay for them over time, receiving a bill each month.

Credit Report: A full credit history within a consumer's credit file at the credit bureaus.

Credit Score: A calculation based on a consumer's credit history that is intended to predict future credit performance for that consumer.

Fair Debt Collection Practices Act: A law that helps eliminate abusive debt collection practices.

Fees: The amount charged by financial institutions for various activities.

Finance Charge: The finance charge is the cost of credit. It includes interest, service charges, and transaction fees.

Financial Recovery Plan: A strategic way you can increase your income and reduce your expenses so that you can ultimately save money, pay your bills, and reduce or eliminate your debt.

Fixed Rate: The interest rate stays the same throughout the term of the loan.

Grace Period: The number of days you have to pay your balance before a creditor starts charging interest.

Home Equity Loan: A loan that allows a homeowner to borrow money that is secured by their home.

Home Refinancing Loan: A process by which an existing home loan is paid off and replaced with a new loan.

Interest: The amount of money a financial institution charges for letting you use its money.

Investment: A long-term savings option that you purchase for future income or financial benefit.

Loan: Money borrowed on credit.

Minimum Payment: The minimum dollar amount that must be paid each month.

Opt Out: You can opt out of receiving mailed credit card offers by calling 1-888-5-OPTOUT (567-8688) or visiting www.optoutprescreen.com.

Periodic Rate: An interest rate applied to your balance to calculate the finance charge.

Previous Balance: The previous balance is the amount you owed at the end of the previous billing period.

Principal: The total dollar amount of purchases made on a credit card or the balance remaining on a loan.

Retirement Investments: Money invested over a period of time for use when you are no longer working.

Savings Account: An account that earns interest.

Secured Loan: A loan where the borrower offers collateral for the loan. The borrower gives up his or her right to the collateral if the loan is not paid back as agreed.

Spending Plan: A step-by-step plan for meeting expenses in a given period of time.

Variable rate: An interest rate that may change during the loan term.

For Further Information

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov/consumer

Division of Supervision & Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, Missouri 64108

1-877-ASK-FDIC (275-3342)

Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education.

Whether you are planning to buy a home, balance your checkbook, or invest in your 401k the resources on

MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission

www.ftc.gov/credit

1-877-FTC-HELP (382-4357)

The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including privacy, credit, and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

What Do You Know? – Financial Recovery

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about financial recovery both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

I can:	Before the Training				After the Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Assess my current financial situation	1	2	3	4	1	2	3	4
2. Identify ways to increase income and decrease and prioritize expenses	1	2	3	4	1	2	3	4
3. Develop a financial recovery plan	1	2	3	4	1	2	3	4
4. Identify steps to successfully implement a financial recovery plan	1	2	3	4	1	2	3	4
5. Recognize how to guard against credit repair scams	1	2	3	4	1	2	3	4
6. Identify timeframes to review and adjust my financial recovery plan	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable you to assess your observations of the *Financial Recovery* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

<p>1. Overall, I felt the module was:</p> <p><input type="checkbox"/> Excellent</p> <p><input type="checkbox"/> Very Good</p> <p><input type="checkbox"/> Good</p> <p><input type="checkbox"/> Fair</p> <p><input type="checkbox"/> Poor</p>	<p>Strongly Disagree</p> <p>Disagree</p> <p>Neutral</p> <p>Agree</p> <p>Strongly Agree</p>				
<p>2. I achieved the training objectives.</p> <p>3. The instructions were clear and easy to follow.</p> <p>4. The overheads were clear.</p> <p>5. The overheads enhanced my learning.</p> <p>6. The time allocation was correct for this module.</p> <p>7. The module included sufficient examples and exercises so that I will be able to apply these new skills.</p> <p>8. The instructor was knowledgeable and well-prepared.</p> <p>9. The worksheets are valuable.</p> <p>10. I will use the worksheets again.</p> <p>11. The participants had ample opportunity to exchange experiences and ideas.</p>	1	2	3	4	5
<p>12. My knowledge/skill level of the subject matter before taking the module.</p> <p>13. My knowledge/skill level of the subject matter upon completion of the module.</p>	None		Advanced		
	1	2	3	4	5
<p>14. Name of Instructor:</p> <p>Instructor Rating:</p> <p>Please use the response scale and circle the appropriate number.</p>	<p>Response Scale:</p> <p>5 Excellent</p> <p>4 Very Good</p> <p>3 Good</p> <p>2 Fair</p> <p>1 Poor</p>				
Objectives were clear & attainable	1	2	3	4	5
Made the subject understandable	1	2	3	4	5
Encouraged questions	1	2	3	4	5

Had technical knowledge	1	2	3	4	5
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What was the most useful part of the training?

What was the least useful part of the training and how could it be improved?
