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AmeriCorp Handbook for Financial Literacy

**Prepared by the
Financial Literacy Coalition of Central Texas
www.flcct.org**



Financial Literacy Coalition
Central Texas

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Introduction

What Is Financial Literacy?

Financial Literacy, also called Financial Capability, Personal Finance, Micro-Economics, and other names, means having the skills and knowledge to make good decisions about how to manage your money. Examples of 'skills' are things like how to make a budget, how to read a credit report, how to shop and apply for a loan. Examples of 'knowledge' are things like knowing what an Annual Percentage Rate (APR) is, what credit and a credit score is, or what a secured versus an unsecured loan is.

Many topics are included under the umbrella of 'financial literacy'. What connects them is the goal of preserving and growing personal wealth. This handbook addresses:

- Controlling cash flow: planning and tracking spending (budgeting)
- How to save and what to do with the saved money
- The magic of compound interest- working for you, working against you
- How and why to choose and use banking institutions
- Using checkbooks and debit cards- how to avoid overdrafts
- What credit is and how to achieve good credit
- How to monitor credit and fix credit report problems
- Credit cards – using them wisely
- Loan basics – terminology, types of loans, shopping for loans
- Insurance – why it's needed
- Recognizing and avoiding types of fraud

Money and You

Talking about money is the last big American taboo, but looking at the statistics shows that it's time to start. Currently, 57% of Americans have less than \$1,000 in savings and around 40% have no savings at all. The average American has about \$16,000 in credit card debt, \$30,000 in car loans, and \$50,000 in student loans. So, if you're having trouble making ends meet, you are not alone.

Money problems causes stress, but there are simple ways to manage your money so your can make sure your needs are met. After covering your needs, you can start working on getting things you may want. This booklet will give you the skills and knowledge for money management. You are the one who knows what you truly need and what you think you want. Knowing both will let you live a successful and satisfying life.

Introduction to Financial Planning

Want to pay off your loans? Buy a new car? Have a big wedding? Buy a house? These are all worthwhile life goals. They all take money to achieve.

Start financial planning by simply knowing what you want in life and when you want it. Nobody else can do this for you; these are your life choices. Notice they will change over time!

Next, put price tags by each item. Do some research or just ask around. If you get surprised by the costs, you can adjust your goals or dates. The amounts and due dates is your 'financial goals' list.

Next, figure out where the money will come from to make it happen. It usually starts with saving; you need to have a starting amount to invest. Then you pick investments to buy, like stocks or bonds, so you can earn compound interest. This is the step that financial planners can help with.

Finally, watch the results and adjust as needed. That's the big picture of how to do financial planning.

Money Management: Identifying Problems, Providing Solutions

Finding Where The Money Is Going by Tracking Spending

PROBLEM: If it seems like the cash you just got out of the ATM evaporates, then try tracking your spending for a week or two and see where the money actually goes.

HOW TO FIX: For at least a full week, keep track of every penny you spend. You can either:

- keep the paper receipts in your wallet or purse,
- put all purchases on one card,
- use your cell phone to take pictures of receipts, or
- just write the amounts you spend on paper,

whatever works best for you.

At the end of the week, add up each day's amount and add up the grand total. Are you surprised?

Think about what you bought and ask yourself these questions:

1. Am I happy with the purchases?
2. Can I remember what I bought?
3. Did I really need to buy them?
4. Could I have bought or done something less expensive instead?
5. If I could have the cash back instead of spending it, would I do it?

Use what you learned to make changes. Look for how you can spend less money and still get what you really want or need.

Getting Bills Paid by Planning Spending (Budget)

PROBLEM: The money runs out before the bills you have are paid each month. Important bills get overlooked.

HOW TO FIX: Plan how you'll spend your money before you actually spend it. Know where the money needs to go and prioritize spending.

List the money you'll have in one column. List the bills you need to pay in a second column. Some bills don't change from month to month, like rent. Others go up and down, so are harder to predict, like electric bills. Look back over past bills and bank statements and see what you spent in the past.

You can organize your plan by either:

- using the budget sheet below
- searching the internet for a budget sheet format you like better (there are lots out there)
- using a spread sheet on a computer
- using a budgeting app like mint.com (there are lots out there; your bank may have one built into your on-line account)

Add up your income. Add up your bills. Which number is bigger? If what you owe is more than your income, you need to look for ways to get more money coming in or cut down on your expenses, or both.

Ideas for earning more: consider getting some gig work like driving, secret shopping, house cleaning, yard work, tutoring, or translating. Check out Craigs List, Upwork, Task Rabbit, Mechanical Turk.

Ideas for spending less: consider buying in bulk from Sam's Club or Costco and splitting the items with a friend so both of you can take advantage of good deals. Use the internet to comparison shop. Use coupons for things you would buy anyway. Eat at home instead of going out. Brown bag it!

BUGET WORKSHEET

My Income

Wages \$ _____
Self-Employment Income \$ _____
Public Assistance \$ _____
Child Support/Alimony \$ _____
Interest/Dividends \$ _____
Social Security \$ _____
Advance Earned Income Credit \$ _____
Other \$ _____

My Expenses

Fixed Expenses

Rent/Mortgage \$ _____
Property Taxes/Insurance \$ _____
Trash Collection \$ _____
Cable/Satellite \$ _____
Telephone/Internet \$ _____
Car Payment \$ _____
Car Insurance \$ _____
Health Insurance \$ _____
Other Loan Payments \$ _____
Day Care/Elder Care \$ _____

Flexible Expenses

Savings \$ _____
Water \$ _____
Electric \$ _____
Gas/Oil \$ _____
Cell Phone \$ _____
Food \$ _____
Transportation/Gas \$ _____
Car Maintenance \$ _____
Education \$ _____
Personal Expenses \$ _____
Donations \$ _____

Total Income \$ _____

Total Expenses \$ _____

Saving Money for Emergencies and More

Problem: Something unexpected happens and you have no spare money to deal with it. You can't take advantage of opportunities that come along. You feel like you're not making progress.

How To Fix It: Get into the habit of saving at least a little money regularly. How much should you have tucked away? Here are some guidelines:

- Start by building up to having at least 3 months of salary in your emergency fund (see steps below).
- After you reach that goal, continue saving to reach your financial goals (see).
- Ultimately, you want to build your retirement fund. An easy rule of thumb is to have the equivalent of your annual salary saved by age 30 and to have 10 times your final salary in savings if you want to retire by age 67.

Start small if you have to, but start. For example, if you've been eating lunch at a sandwich shop every week day, drink water and save the money instead. If the drink was \$2, that's \$10 a week or \$500 a year. To start saving, do the following:

1. Track your spending (see) to find places to cut unneeded spending.
2. Create a spending plan to commit to saving (see). In the budget worksheet, see the first line under 'flexible expenses'.
3. Open a savings account just for your emergency money. That will add compound interest to your savings (see) Use direct deposit to add to it, if the option is available.

Understanding How Interest Snowballs

Problem: The amount of money you owe keeps growing, even if you've cut back spending. You pay down bills but they never seem to go away. You have a savings account and money is being added that you didn't deposit.

How To Fix It: Focus on interest rates. You are *paying* interest on loans, you are *receiving* interest on savings and investments. How much depends on the interest rate. The APR is the annual percentage rate for loans, the APY is the annual percentage yield for savings. The government makes businesses tell you the APR and APY so you can comparison shop easily to get the best deals. You want APR - money going out- to be low, you want APY -money coming in- to be high.

The key thing to understand is that interest can compound, which means builds on itself. The interest you owe from last month becomes part of the loan you're paying interest on this month. The interest you received on savings last month becomes part of the money you will receive interest on this month. It snowballs and sometimes it gets out of control. It grows faster and faster (exponentially) but you earn money at a steady rate (linearly). See the appendix for a pictorial example of interest growth.

The interest rate is not the only thing that matters; how often you compound the interest affects the end amount you get. The faster that the just-received or just-charged interest is added to the principle amount for the next calculation, the faster the money builds. You can compound interest yearly (annually), monthly, or even daily. Here are tables of how savings can compound.

Saving \$1 a day, with and without interest:

	No interest	2% Daily Compounding
Year 1	\$365	\$368
Year 5	\$1,825	\$1,914
Year 10	\$3,650	\$4,029
Year 30	\$10,950	\$14,960

Putting \$1,00 in a savings account and leaving it alone:

	5 years	10 years
Mattress compounding—NO interest!	\$1,000 (unless stolen or lost)	\$1,000 (unless stolen or lost)
Annual compounding at 1%	\$1,051.01	\$1,104.62
Monthly compounding at 1%	\$1,051.25	\$1,105.12
Daily compounding at 1%	\$1,051.27	\$1,105.17

Bottom line: when you're paying interest, you want it to compound slowly at a small percentage rate. When you're receiving interest, you want it to compound fast at a large percentage rate.

Choosing and Using Banking Institutions

Problem: It's hard to cash checks and it costs to do it. You're carrying cash and worrying about losing it. You need to get cashier's checks to pay bills and it costs both time and money to do it. Some businesses want you to use direct deposit or direct bill pay and you can't.

How To Fix It: Find a financial institution that will meet your needs. You have a choice between a traditional bank, which is owned by a private company, and a credit union, which requires qualifying membership. You may not be able to use every credit union; check their membership requirements.

To find out what you need in a bank or credit union, ask yourself these questions:

How many checks do you think you will write per month?	
Will you use the ATM or teller services often?	
Does the bank have ATMs or locations close to where you live or work?	

Do you plan to do most of your banking online or with a debit card?	
What other bank services are important to you? For example: On-line services? Out of state or out of country services?	
How much money will you keep in your account?	
Are you willing to pay a monthly fee? If so, how much?	
What banking network(s) do you use, and will it cost you money if the bank you choose is not a part of them, too?	

You don't need to be a US citizen to open a bank account. You DO need a tax ID, which can be from another country. You also need a physical address; you can't use a post office box. Bring your identification information with you when you go to open an account.

Different financial institutions operate differently; they charge different loan rates, they offer different savings interest rates, they charge different fees and they offer different services. You need to comparison shop to find the one that has what you care about. Use the internet to find 'best of' lists, like who is paying the best savings account interest rates. Use the following chart to help you choose:

*If the financial institution is a credit union, be sure you are eligible to join.	Bank Name/ Account Type	Bank Name/ Account Type	Bank Name/ Account Type
Bank Information			
Does the bank offer the services I need?			
Convenient branches and ATMs?			
Bank hours?			
Do employees speak my language?			
Is it insured by FDIC/NCUA?			
Accounts			
• Requirements for opening account?			
Checking Accounts			
• Minimum opening balance?			
• Minimum monthly balance?			
• Fees?			
• Fee waivers available?			
• Number of withdrawals per month without a fee?			
• Earns interest?			
• Deposit hold times?			
Overdraft Programs			
• Low balance alerts offered?			
• Overdraft fees?			
• Link to a savings account to cover overdrafts?			
• Opt-out options?			
Savings accounts			
• Minimum opening balance?			
• Minimum monthly balance?			
• Annual percentage yield (APY)?			
• Fees?			
• Fee waivers available?			
• Withdrawal limits per month?			
• Services available?			
ATM Cards			
• Fees?			
• Fee waivers available?			
• Location/number of ATMs?			
Debit Cards			
• Fees?			
• Fee waivers available?			
• Rebates or bonuses for use?			
• Location/number of ATMs?			
• Debit card transactions requirements or			

limits?			
Mobile/online banking			
• Is it available?			
• Transaction types and limits?			
• Fees?			
• Fee waivers available?			
• Online bill pay?			
Other Information?			
Total Monthly Costs			
Total Annual Costs			

A good thing about having an account is that there are people there with the job of helping you manage your account. If you get into trouble with your check book or debit card, they will help you figure things out. If it's about money, you should be able to find answers there. Tip: go during slow hours when they'll have time to help you.

Avoiding Overdrafting Checkbooks and Debit Cards

Problem: You get charged an overdraft fee or multiple overdraft fees. You don't know what your real balance is.

How To Fix It: Know that, although everything is computerized, the transactions are not done instantaneously. There are lots of reasons why, such as; they want to time their computer usage to off hours, they want time to monitor transactions and catch fraud, it takes time to coordinate transactions between bankers and businesses. Each institution can be different. Bottom line; you can't rely on checking your balance as the amount you really have in the account.

To get your account straightened out, do this:

1. If you can, stop using the check book or debit card for at least a so the outstanding transactions have time to clear.
2. Figure out what you've bought recently or what checks you've written. Use the receipts that the businesses have given you, if you've kept them.
3. Look at the latest account information by going on-line or to the bank to get a list of recent transactions.
4. Cross off the checks or debits from your list of recent activity that the bank has already processed (on the bank's list of transactions).
5. The checks or debits that do not show up on your statement are still waiting to be processed; you need to subtract them from your current balance to get the real amount of money you have.

To prevent problems, see if your banker offers overdraft programs, such as text alerts when your balance goes low or linking between checking and saving to automatically cover the amount. Ask how your banker runs the transactions. Ask what the 'hold' times are for deposited checks, because for some checks, you don't get the money immediately. See .

Of course, the fewer transactions you do, the easier it is to keep track of things. Be careful not to think of your debit card or check book as a magic source of money.

Use a check register (for either check books or debit cards) to record your transactions accurately. They are free at your bank/credit union. You can always use a spreadsheet or just a piece of paper. Here's a sample register:

Trans- action ID	Date	Description of Transaction	Payment/Debit (-)		Deposit/Credit (+)		B a l a n c e	
			dollars	cents	dollars	cents	dollars	cents

Credit Scores and How To Boost Them

Problem: You can't get a loan or the loans you can get will cost a lot in fees and interest. You're using title loan places or pawn shops to get money. You get turned down for renting an apartment or your insurances goes up because you have bad credit.

How To Fix It: First, understand what 'credit' actually is: it's the OPTION to borrow money. Having good credit means that everyone is willing to lend you money. You want that option because it means that you can get things you need without having to save up the entire amount to buy big ticket items, like a car. You have a source of emergency money. You can rent things like cars more easily.

Having good credit depends on how you can pay back what you borrow. Lenders look at several things when they consider loaning you money. These are called the Cs of Credit:

- *Capacity:* can you make the loan payments because you have a job and little debt?
- *Capital:* do you have any money or other valuables that could be sold to pay back the loan?
- *Character:* have you have paid your bills or debts in the past?
- *Collateral:* is there something valuable that you will give instead of money to pay back the loan?

Basically, all they want is to not lose their money!

Not long ago, bankers knew the people they were lending money to. Now there are too many people who move around too much to do it that way. The **credit score** was created to fix the problem of figuring out who is likely to pay back loans and who is likely to walk away without paying. Here's how it's calculated:

- Payment history (35%)
- Existing debt/amounts owed (30%)
- Age of credit history (15%)
- New credit or borrowing inquiries (10%)
- Mix of types of credit (10%)

Here are the things you can start doing to improve your score.

1. Pay On Time: You have to pay the bills, make sure they get there on time
2. Pay Down Your Debt: Get room between your current debt level and your credit limit
3. Wait! Over time, bad events will age out of the credit score formula
4. Don't Ask If You Don't Need: Dont shop for credit or open accounts that you dont need

Note: If you car shop at different places, it will only count as one inquiry

5. Have Different Accounts: Having different types of loans (car, student, credit card) helps

It will take some time for changing your credit behavior to have some effect, like at least 6 months. Be patient and keep it up and your score will rise.

Monitoring and Correcting Credit Reports

Problem: You get turned down for a loan and don't understand why. You get calls from creditors you don't recognize for loans you don't owe. You can't access your bank accounts over the phone because they say you're not answering questions correctly.

How To Fix It: You need to see how businesses are seeing you; you need to get a copy of your credit report. A credit report is like a financial resume; it's a record of how you have paid your debts. It tells lenders:

- Who you are
- How much debt you have
- Whether you have made payments on time
- Whether there is negative information about you in public records (court records)

The reports are maintained by businesses who specialize in gathering this information; this is NOT a government function. There are three main credit agencies- TransUnion, Equifax and Experian. The agencies share some but not all of the information about you between themselves. This means that you need to check with all three credit agencies and because they're different companies, they operate in different ways.

Because so many people have the same name and because there's so much information moving around, mistakes get made and the reports can have errors. Also, if you're a victim of identity theft, someone can be taking out loans and making financial transactions in your name. Bottom line: you need to check your report periodically to find mistakes and see if other people are pretending to be you.

You have the legal right to get a free copy of your credit report from all three of the agencies once a year. Also, you can get copies if you get turned down for credit or if know your identity has been stolen and you have filed a police report. Get your reports by doing one of the following:

- Submit a request online at www.annualcreditreport.com
- Call toll-free: **1-877-322-8228**
- Complete the Annual Credit Report Request Form from www.annualcreditreport.com or www.ftc.gov/credit and mail it to:

Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281

1. Once you have your report, read it carefully to see if it's correct. Look for these things:
 - Make sure your name is spelled correctly! Different spellings can be a sign of attempts at identity theft. Make sure any 'also known as' names (like maiden names) are really you.
 - Make sure there's no strange entries that you can't explain; addresses where you never lived, phone numbers you never had.
 - Make sure all the accounts are ones you opened. This can be hard because big companies have subsidiaries that use different names; you may not recognize the parent company name. Do some research about the company on the internet to see if you recognize it or call them up and ask them about it.
 - You should be able to match up all your credit cards and loan accounts to entries on the credit report. The loan balances should match up, too.
 - Check to see if you agree with them about your payment history and your legal record.
2. If you find a mistake, you need to tell every credit agency that has the error to fix it. (They may or may not all have the same error, so check each report. Some companies make it easy to use the internet to fix problems, others want the information in writing, sent through the mail. There's a sample letter you can copy in the appendix. However you do it, tell them:
 - What report (date or report number) you were looking at and where (page or section number, paragraph number) you saw it.
 - What it said that was wrong.

- What it should say instead, how to make it be correct.
 - What you want them to do about it: update the report.
 - Proof that you are right, if possible.
3. If what the report has about you is bad but true, you cannot change it. You can, however, add a note that explains what was going on in your life that caused the problems to happen. For example, going through a divorce frequently causes credit problems. Say if you can provide paperwork that supports your claims.
 4. If it's not anything you did but the credit agencies say that it looks like you to them, you are most likely dealing with **identity theft**. Expect a long process with lots of paperwork that you must keep track of to succeed. You will need to file a police report. It's a good idea to freeze your accounts with all three credit agencies. Start a file to record:
 - What you learned,
 - What company, report or website you were dealing with,
 - Who you spoke to or exchanged emails/letters with,
 - The date/time of the activity
 - What anyone you talked to told you,
 - What you did about it.

There is a lot to do when dealing with identity theft, but the Federal Trade Commission has excellent information about what to do. Go to www.identitytheft.gov and follow the steps.

Using Credit Cards Wisely

Problem: Your credit card bills are piling up and you can't seem to get them paid off.

How To Fix It: Know that credit cards are powerful tools for both fixing and causing money problems!

1. Start by understanding how credit cards work; some of it might be surprising:
 - You don't have to pay interest if you pay it off entirely each month but you do pay interest on any unpaid balance. Because credit cards' interest rates run from roughly 10% to 30%, the interest builds up fast. See the section .
 - Your interest rate can jump to the highest level if you pay late. So you can have a 15% card that suddenly start charging 28% after one late payment.
 - You might have a card that had a 'teaser' rate; it starts at a really low percentage but changes to a normal rate after 6 months or a year. That 'introductory' period goes by faster than you think, but slow enough to get hooked on using your card. If you've been carrying a \$250 balance on a 0% interest card and then one month the rate goes to 15%, that's an extra \$37 you didn't know you'd owe that month.
 - Low 'teaser' rates usually don't apply to balances you switch from your old card to a new one. Otherwise, people would bounce from card to card and the card issuers wouldn't make any money!
2. Know the consequences of paying just the minimum payment:
 - Read your credit card statement carefully; look for the statement where they tell you what your minimum payment amount is.
 - They will also say how long it will take you to pay your bill if you only pay the minimum.
 - They will say how much interest you will pay for doing so.
3. Start paying as much as you can on your bill and using the card as little as possible. Ask yourself if you really need to charge it- see the section .
4. Don't cut up your credit card! That will actually lower your credit score! See the section .

Understanding and Shopping for Loans

Problem: The interest rates you being offered seem higher than what you've heard you can get. Your loan payments are more than you thought you would be.

How To Fix It: Understand that more than just your credit score will affect a loan's interest rate; the type of loan matters, too. Loans can be:

- 'Secured' because there is 'collateral', which is something that the lender will take back if you stop paying. You can think of it as the lender being secure about getting paid! House loans and car loans are secured loans.
- 'Guaranteed', where someone cosigns, promising to pay if the original borrower stops paying. The US government frequently guarantees loans.
- 'Unsecured', because the lender doesn't want or can't take back what you bought. Buying shoes or dinner with a credit card is a good example of an unsecured loan.
- 'Installment loans', unsecured loans for larger items where you pay equal amounts (installments) periodically (usually monthly) until the item is paid for. Car loans are great examples of installment loans.
- 'Revolving credit', which allows you to borrow, repay, borrow again, repay again. Credit cards are revolving credit loans.
- 'Payday loans', which are short-term (like two weeks or a month). You give the lender a post dated check in exchange for some cash, and the lender cashes it on the day your get paid (unless you pay it earlier).
- 'Refund anticipation loans', which are also short term. You sign over your future tax refund in exchange for money now.
- 'Title loans', where you sign over the title to your car in exchange for a short-term loan.

As you might expect, if a lender knows the loan will be repaid one way or another, the loan will be cheaper, the interest rate will be less. Home loans have very low interest rates because it's really hard to hide or destroy all the value of a house. Credit card have high interest because the lender has nothing to take if the bill isn't paid.

You must be careful of payday loans. They are usually made to people who need money right away and plan to pay it back with their next paycheck. However, payday loans can be much more costly than they appear at first glance. If you do not have the money to pay the loan within the agreed-upon time period, the lender will renew the loan and charge you additional fees. This will increase the total amount you owe.

Refund anticipation loans are not as good a deal as you might think. You may not realize how much this loan is really costing you because you do not have to pay any fees associated with obtaining a refund anticipation loan at the time you receive the money. When you electronically file (e-file) your tax return and request direct deposit, your refund is often deposited in your bank account within two weeks. Sometimes refund anticipation loans take just as long, yet cost you substantially more money.

Title loans are also very costly ways to borrow money; they have the same types of problems as payday loans and refund anticipation loans.

When you want to borrow money:

1. If you have several months before you need the money, work on improving your credit score and cleaning up your credit report. See and .
2. Use the best type of loan (from the list above) for the item you are buying.
3. Try to get a co-signer if you can.
4. Shop for the best lender for the type of loan you need. They are not all the same! Sometimes a business has more cash than it wants to have and will have 'loan sales'. Sometimes a business will have loaned all its money and not be looking to make more loans. These things can affect the interest rates or terms they offer.

When you need money fast:

- **Borrow From Yourself:** The best way to avoid a cash crunch is to put money into an emergency savings account that you can use to pay for unforeseen expenses. See .
- **Emergency Cash Options from Banks** Many banks offer reasonably priced, small loans that enable you to borrow money and repay the money (plus interest) later. One example is a line of credit, which you can use to borrow money for a short period of time. It is best to work with your bank to set up an account in advance instead of waiting until you are in a rush to get cash. As with any other loan, you will be told the APR before signing a formal agreement.

Insurance

Problem: You get tickets because you don't have car insurance. You can't get medical help because you don't have health insurance. You lose your personal property because you don't have renter's insurance.

How To Fix It: Understand that insurance helps you keep something you can't afford to lose. The insurance cost may seem expensive but it's not when you compare it to how much the item is worth. The most common types of insurance are:

- Auto insurance for repair or replacement of your car and liability coverage to protect you if you are in an accident and held responsible for someone else's property damage or bodily injuries
- Homeowner's or renter's insurance for repair or replacement of your home and contents, and liability coverage to protect you if you are held responsible for someone else's loss
- Disability insurance, which provides you with income if you become too ill to work
- Health insurance to help pay for medical and recovery costs if you get sick
- Life insurance, which provides money for your loved ones if you die

Sometimes insurance is required by law. In Texas, you must buy car insurance. The current minimum liability limits are: \$30,000 for each injured person, up to a total of \$60,000 per accident, and \$25,000 for property damage per accident. This basic coverage is called 30/60/25 coverage.

Sometimes insurance is required by the businesses you are dealing with. Some apartments require you to carry renter's insurance. Renter's insurance usually doesn't cost much and is a good idea if you can't afford to replace the stuff you own.

The cost of insurance depends on what's being insured and how much coverage- payout if the bad event happens- you want. The companies have people who calculate the probabilities of having to pay out, then set the costs so they don't lose money. Since different companies do this differently, you want to shop around to see how prices vary.

Avoiding Common Types of Fraud

Problem: You get unexpected charges on your credit card. Someone else takes out money from your savings or checking account. You are told that you already filed your income tax. Accounts you didn't open appear on your credit report. You try to open a new account and are told you already have one.

How To Fix It: Learn the common methods of fraud so you can avoid them:

- **Protect your sensitive information.** Your Social Security Number (SSN) is the key that unlocks most of your financial and personal data; be very careful about sharing it. Your credit card and debit card numbers, personal identification numbers (PINs), passwords, and other personal information should also be protected. Specifically:
 - Never give this information to people you don't know in a phone call, fax, letter, or email. Don't share it no matter how friendly or official the circumstances may appear.
 - Watch out for people looking over your shoulder while you use the ATM who are trying to steal your PIN.

- In case your wallet is lost or stolen, carry only the identification you really need: checks, credit cards, or debit cards. Keep the rest, including your Social Security card, in a safe place.
- Do not preprint your SSN, phone number, or driver's license number on your checks.
- You have the right to refuse requests for your SSN from merchants. Ask the merchant to use another form of identification that does not include your SSN (e.g., a passport) and have your driver's license number changed.
- Be careful when you have parties at your house, where people you may not know well have access to your private papers. Keep your financial papers locked up or at least not easily accessible.
- **Avoid identity theft on the Internet.** Never provide bank account or other personal information in response to an unsolicited email or when visiting a website that does not explain how personal information will be protected. Legitimate organizations would not ask you for these details because they already have the necessary information, or can obtain it in other ways. If you believe the email is fraudulent, consider bringing it to the attention of the Federal Trade Commission (FTC). If you do open and respond to a phony email, contact your financial institution immediately.

Prevent malware from infecting your PC by installing a free or low-cost firewall or virus scanner. Download and frequently update security patches offered by your operating system and software vendors to correct weaknesses that a hacker might exploit. Use passwords that will be hard for hackers to guess. Make passwords that you can remember but others can't easily guess, like a phrase from your mom's favorite song, the street address you grew up on, your high school coach's name with your jersey number. Also, shut down your PC when you are not using it. For practical tips to help you guard against Internet fraud, secure your computer, and protect your personal information visit www.OnGuardOnline.gov.

Be careful that you don't accidentally give too much information about yourself over social media, like giving out your birth date. Don't say when you are away from home on vacation; wait till you get back. Be aware that information about you can be used to scam your parents or grandparents, too.

- **Protect your incoming and outgoing mail.** The mail is an easy way for people to get your financial information.
 - *For incoming mail:* Use a locked mailbox or other secure location (e.g., a post office box). If your mailbox is not locked or in a secure location, get your mail promptly or move the mailbox to a safer place. When ordering new checks, ask about having the checks delivered to your bank branch instead of having them mailed to your home where you run the risk of a thief finding them outside your front door.
 - *For outgoing mail containing a check or personal information:* Use a United States (U.S.) Postal Service blue collection box, hand it to a mail carrier, or take it to the post office instead of leaving it in your doorway or home mailbox. A mailbox that holds your outgoing bills is a prime target for thieves who cruise neighborhoods looking for account information. Avoid putting up the flag on a mailbox to indicate that outgoing mail is waiting.
- **Sign up for direct deposit.** Direct deposit prevents someone from stealing a check out of your mailbox and forging your signature to access your money. It is also beneficial in the event of a natural disaster.
- **Keep your financial trash “clean.”** Thieves known as dumpster divers pick through garbage looking for pieces of paper containing SSNs, bank account information, and other details they can use to commit fraud. What is your best protection against dumpster divers? Before tossing out these items, destroy them, preferably using a crosscut shredder that turns paper into confetti.
- **Watch your bank account statements and credit card bills.** Read your statements each

month and contact your financial institution immediately if there is a discrepancy in your records or if you notice something suspicious (e.g., a missing payment or an unauthorized withdrawal).

Contact your institution if a bank statement or credit card bill does not arrive on time. Missing financially related mail could be a sign someone has stolen your mail and/or account information, and may have changed your mailing address to run up big bills in your name from another location.

- **Review your credit record annually and report fraudulent activity.** See section .

APPENDICES

Compound Interest

Assume you put \$100 in an account that pays 5% per year, and you leave it alone. Here's what happens:

Year 1 results	Year 2 results	Year 3 results	Year 4 results	Year 5 results
\$100 original \$5 interest	\$100 original \$5 interest \$5 from y1 .25 interest	\$100 original \$5 interest \$5 from y2 .25 interest \$5 from y1 .25 interest .25 from y2 .01 interest!	\$100 original \$5 interest \$5 from y3 .25 interest \$5 from y2 .25 interest .25 from y3 .01 interest \$5 from y1 .25 interest .25 from y3 .01 interest .25 from y2 .01 interest .01 from y3 too little!	\$100 original \$5 interest \$5 from y4 .25 interest \$5 from y3 .25 interest .25 from y4 .01 interest \$5 from y2 .25 interest .25 from y4 .01 interest .25 from y3 .01 interest .01 from y4 too little! \$5 from y1 .25 interest .25 from y4 .01 interest .25 from y3 .01 interest .01 from y4 too little! .25 from y2 .01 interest .01 from y4 too little! .01 from y3 too little!
\$105	\$110.25	\$115.76	\$121.54	\$127.60

Note: all the pennies actually get together and create a bigger amount that is NOT too little to create interest. This chart is just to show pictorially how the interest compounds.

A key point: you must go through the slow growth years to get to the exciting years. The sooner you start, the sooner you get there.

Sample Dispute Letter

The following is a formal business letter that you can fill in and use when you want to report an error in your credit report. It can also be used if you have a problem with a company about your bill.

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)

What to Do If Your Wallet or Purse is Lost or Stolen

Losing your wallet or purse can be upsetting. You can make the recovery process easier by keeping a list of the credit cards that you carry and the 'lost or stolen phone numbers' that are listed on back of them. Put the list in a safe place; it's valuable information, too.

If your wallet or purse is lost or stolen:

- File a report with the police as soon as possible. Keep a copy of the report in case your bank or insurance company needs proof of the crime.
- Cancel your credit cards immediately. Get new cards with different numbers.
- Place a fraud alert on your credit reports with the credit agencies- TransUnion, Equifax, Experian.
- Report the loss to your bank. You might want to open new checking and savings accounts and stop payment on any lost checks.
- Contact the major check verification companies to request that they notify the stores that use their databases to not accept your lost checks. You can also ask your bank to notify the check verification service with which it does business. Two of the check verification companies that accept reports of check fraud directly from consumers are TeleCheck and Certegy.