

# MANAGING YOUR MONEY

LEADER'S GUIDE

MONEY WISE

A CONSUMER ACTION AND CAPITAL ONE PARTNERSHIP



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## **Managing Your Money: A MoneyWi\$e Leader's Guide**

This free guide can help you become a “money management” mentor. It is designed to be used with a brochure called “Tracking Your Money.” Once you understand the basics of building and keeping a good credit history, you’ll be ready to teach others about how money management techniques can make an important difference in one’s finances. These techniques, including creating a spending plan, balancing checking accounts and using credit wisely, can stretch families’ incomes and help them plan for financial goals.

Created by the national non-profit organization Consumer Action in partnership with Capital One Services, Inc., this guide is part of the MoneyWi\$e series that includes pamphlets available in Chinese, English, Korean, Spanish and Vietnamese, a teaching plan with suggested topics for a two-part seminar, participants’ materials and class activities.

This guide contains suggestions to help people spend less and save more. A little information, a plan of action and a lot of persistence can help many people straighten out their finances and attain important financial goals. The work it takes to organize your income, savings, daily expenses and credit accounts takes time, but the rewards are great. You can live within your means, avoid excess debt, build a cushion of savings and look forward to a more secure retirement.

## Tracking Your Money

### How can I stop living paycheck-to-paycheck?

Planning how you spend your money can help you pay bills on time, make it through times when you are not working, get the things you need for yourself and your family, teach your children lessons about handling money, have a sense of security about the future and feel more in charge of your life. A plan for spending and saving money is called a budget.

A budget can help you manage money wisely and stretch your current income. Budgets are not only for people with financial problems—budgeting can help anyone meet current needs and save for future goals. You can have a better lifestyle if you manage money wisely.

### What's a good way to start a budget?

To create a budget, first look at how you spend your money. Try tracking your spending for a month by writing down every purchase you make and every bill you pay. Don't forget to add automatic payments or fees that come directly out of your bank account and fixed expenses, such as your rent, car payment or auto insurance. At the end of each week, break your spending list down into categories. Here are some suggestions to get you started:

- ◆ Housing (rent or mortgage payment, property taxes)
- ◆ Food (groceries, restaurants, sandwiches, coffee, sodas, snacks)
- ◆ Auto (car payment, gas, repairs, insurance), parking or commuting expenses
- ◆ Home (cleaning supplies, maintenance, renter's or homeowner's insurance)
- ◆ Clothing and personal grooming supplies
- ◆ Utilities (phone and cell phone service, long distance, electricity, oil or gas, water)
- ◆ Credit card payments (if you are carrying a balance)
- ◆ Student loan payments
- ◆ Health and life insurance payments (premiums)
- ◆ Entertainment (movies, books, magazines, toys, cable TV, Internet service provider)
- ◆ Child care
- ◆ Child support or support to other dependent family members, such as family living in another country
- ◆ Medical bills
- ◆ Legal expenses (immigration or citizenship documentation, tax preparation, family law, child support)
- ◆ Savings (transfers to savings account, retirement fund or brokerage account)
- ◆ Vacations
- ◆ Income taxes you might owe in addition to the amount withheld from your paycheck

The next step is to record your monthly income from all sources and compare it to your expenses. Does your income cover all your expenses? Once you have an idea of where your money is going every month, you can begin to use the information to make decisions about how to spend your money wisely, and how much you can afford to spend.

## **Your Bank**

### **Why should I have a bank checking account?**

Having a checking account at a bank can help you manage your money and keep it safe. When you have a bank account, you don't have to carry large amounts of cash around. Most businesses accept checks if you have a state ID or driver's license. Canceled checks are proof that you paid a bill. Money in your bank account is safe from fire, loss or theft. Each account is insured by the federal government for up to \$100,000. Bank accounts can cost money, but you are sure to find a bank account that is cheaper than using check-cashers and money orders.

### **How can I use a checking account to manage money more effectively?**

Your checking account and checkbook register are important money management tools. If you pay your bills when you get your paycheck, you'll have a better idea where you stand until the next payday.

Remember to:

- ◆ Balance (reconcile) your bank statement when you receive it. Most banks make it easy to balance your account—just follow the step-by-step instructions that come with the statement.
- ◆ Record in your checkbook and deduct every check you write, every ATM or debit card transaction and all bank fees.
- ◆ Subtract any automatic payments and deductions (such as savings transfers or bill payments) from your bank balance.

### **I forget to record checks in my check register—is there anyway to record checks automatically?**

Some people find that using duplicate checks helps. When you write a check, a copy is created, and it remains in your checkbook after you remove the check. Duplicate checkbooks cost more, but they may help you avoid overdrawing your account and bouncing a check.

## **How can I use my credit card to help me budget?**

Credit cards can help you pay for big ticket items when you don't have the cash in your budget, because you can spread out the payments over time. By paying on time every month and staying within your limit, you will have access to credit when you need it.

As a budgeting tool, many people use a single credit card to make all or most of their monthly purchases because they like to pay one bill at the end of the month and to have one summary of their expenses. Some people use their credit cards for all monthly purchases (groceries, gas, commuting, clothes, medications, utilities, etc.) because they want to take advantage of cash rebates or airline miles rewards. If you are disciplined in using your credit card and know that you can pay off the balance every month, this might work for you. The danger is that you won't be able to pay the bill in full and then you'll have a large balance on the card, which would begin to accrue interest and then become difficult to pay off.

## **What is direct deposit?**

Direct deposit is the easiest way to receive your paycheck—it is deposited automatically into your bank account. Most employers offer this service. Check with your employer for how to enroll in direct deposit. Many banks offer lower cost or even free checking accounts if you have direct deposit.

If you receive government benefits, such as Social Security retirement or disability income, you can have your check deposited directly into your bank account by contacting the agency that sends the check. Some banks offer a special low-cost direct deposit account for people who receive benefits, called an electronic transfer account (ETA). Ask for more information at local banks—not every institution offers these accounts so you will have to shop around.

## **My bank charges \$20 for each bounced check—are all banks' overdraft fees so high?**

Fees charged to customers who bounce checks are very high at some banks, but fees vary from bank to bank. Fees for overdrawing checking accounts range from \$5 to \$30, depending on the bank. Merchants also charge fees of up to \$20 if your check is returned for “non-sufficient funds,” so bouncing a check can turn into a very expensive mistake. If you pay close attention to how much money is in your account and record all checks and debits as you make them, you can avoid bouncing checks.

## **Do banks offer any service to keep me from bouncing checks?**

Yes. Many banks offer overdraft protection, a bank service that enables you to write checks for more money than you have in your account. If you overdraw your checking account, the bank will loan you money—or transfer money from your savings account—to cover the check. Some banks link your credit card account to overdraft protection—the overdraft amount is charged to your credit card. While overdraft protection is a convenient way to avoid costly bounced check and returned check fees, the service is not free. There is usually a “transaction fee” as well as interest if the money is a loan. Pay the balance off as soon as you can. If the money is taken from your savings account, transfer it back again when you get your next paycheck.

## **What is a credit union?**

A credit union is a type of financial institution that is like a bank, but is owned by its members and run for the benefit of the members. Banks are profit-making companies owned by their stockholders. Credit unions are non-profit financial cooperatives that are often run by volunteers and/or a small paid staff.

Credit unions bring together people who have a common bond, such as the area they live in, the place they work, their profession or a social organization that they belong to. In order to join a credit union, you must meet its membership requirements. The Credit Union National Association (CUNA) can help you find out if you are eligible to join a credit union. Call (800) 358-5710, or visit CUNA's online credit union locator ([www.cuna.org](http://www.cuna.org)).

## Insurance

**I am considering taking part in my employer's health insurance plan, but I'm tempted to use the money I would pay for premiums on other things. How would having health insurance benefit me?**

It might seem like you can't spare the money, but getting your own health insurance, or paying medical bills without insurance, costs a lot more than insurance at work. The cost of medical care has skyrocketed over the past decade. Even if you and other family members are healthy now, that could change tomorrow. You owe it to yourself and your family to think about how you would pay for care if one of you became seriously ill. More than 40 million people in the U.S. do not have any health coverage—if you have a health plan at work, you are fortunate. Get the information from your employer and read it carefully before making a decision on whether or not to enroll.

**Is it true that if I am sued, and don't have enough insurance, I could lose my home, car and savings?**

Yes. It pays to make sure that you have enough auto and homeowner's coverage to protect your home, car and savings (your assets). Many people are ruined financially because they are underinsured. Your state probably requires you to buy a minimum amount of auto insurance coverage—but the minimum in many states is too low to protect many people's assets. If you're a homeowner, you may be liable if guests or strangers are injured on your property. Homeowner's insurance can protect you from such lawsuits and from fire and other disasters that could destroy your home. Before buying insurance, figure out how much in assets you have to lose.

## **How can I save money on insurance premiums?**

There are several ways to save money on insurance—regardless of the type of coverage:

- ◆ Shop around with different companies. The Internet has revolutionized shopping for insurance by making it relatively easy to compare premiums on many types of policies.
- ◆ Companies often offer discounts on auto and homeowner's insurance. You may qualify for a discount on auto insurance if you have a good driving record, insure more than one auto, take a driving course or have anti-lock brakes, air bags or an alarm system in your car. Some companies offer discounts to seniors. Discounts are also available on homeowner's insurance—for instance, you might get a discount if you have not filed a claim for several years or if you have smoke alarms in your bedrooms.
- ◆ You can almost always save money on insurance if you opt for a higher deductible, which means you will have to pay the first \$250-\$1,000 out of your own pocket if you make a claim.

## **What are some good Internet resources to help me shop around for insurance?**

There are many sources of information about insurance online. You can comparison shop and even buy some types of policies online. Here are some helpful sites:

- ◆ Check out your state insurance department's web site. Most of them are great sources of state-specific and general information on insurance.
- ◆ Insure.com ([www.insure.com](http://www.insure.com)) has a search function to help you find your state insurance department web site. Insure.com also provides quotes for several types of insurance, including auto, life, health, home and more.
- ◆ AARP ([www.aarp.org](http://www.aarp.org)) offers group health, life, auto, homeowner's and Medigap insurance to members (you must be at least 50 to join).

## Shop Around for Savings

### How can I get the most out of the money I have?

Become a smart shopper—do your homework before spending money. To compare prices, go comparison shopping by visiting or calling several stores or providers to get price quotes.

### How can I cut down on my grocery bill?

Try to follow these food shopping tips:

- ◆ Stick to a shopping list.
- ◆ Don't shop when you are hungry.
- ◆ Avoid prepared foods (you are paying more for packaging and convenience).
- ◆ Comparison shop by checking the unit price displayed on the item or shelf (the largest size package is often the best deal—but not always).
- ◆ Buy vegetables and fruits that are in season.
- ◆ Consider buying generic items or store brands, or buy items you use a lot of in bulk.

### How do I find the right bank or credit union for me?

Compare the cost of accounts or services you might use. You can be charged in different ways for a checking account—by monthly fees, for each check you write, for using a teller instead of an ATM, and/or for transactions at an ATM.

There are ways to get a free account. Some banks offer free accounts if you have your paycheck or government check deposited directly into the bank. Many banks offer free accounts to seniors. Ask your employer's bank if it offers free accounts to the company's employees. If you always keep a lot of money in the account, you may be able to avoid the bank's monthly fee.

## Increase Your Income

**I always get a big refund after filing my income tax return, but I'd rather have that money in my paycheck every week. How can I adjust the amount of taxes withheld from my pay?**

You can adjust your withholding at any time by filling out a new W-4 form. Your employer has these forms, which have step-by-step instructions for adjusting your withholding. It's very helpful to have a copy of last year's tax return and end-of-year W-2 earnings summary on hand when you do this.

Withholding too much from your paycheck is like giving the government an interest-free loan. Instead you could be getting more back in your paycheck each week. However, make sure you are not withholding too little. To be safe, make sure that the current year's withholding is at least equal to the taxes you owed last year, or you could be subject to a tax penalty for under-withholding.

**I have two children, and I heard about a program that allows you to get more back in your paycheck if you have a family. What program is this?**

This is a federal income tax program for low and moderate income working households called the Advance Earned Income Tax Credit (Advance EITC). EITC income guidelines are changed each year to keep pace with inflation. To qualify in 2007, your salary can't be more than:

- ◆ \$33,241 for a single parent with one qualifying child, or
- ◆ \$35,241 for couples with one child

The maximum credit your employer is allowed to provide with your pay in 2007 is \$1,712. You may be able to claim a larger credit if you have more than one qualifying child.

Children being claimed for the EITC must be under 19, or, if they are full-time students, under 24. You must provide Social Security numbers for all children when you file your tax return. The child you claim must be your:

- ◆ Son, daughter, adopted child, stepchild or a grandchild.
- ◆ Brother, sister or eligible foster child.
- ◆ Stepbrother, stepsister, niece or nephew, if you care for them as you would your own child.

To find current guidelines, visit the EITC web page ([www.irs.gov/eitc](http://www.irs.gov/eitc)).

**My family often expresses envy about people who spend a lot on new cars, jewelry and electronic gadgets. How can I get my family to buy into spending less and saving more?**

“Keeping up with the Jones” is an attitude that keeps many people in debt. A recent book about millionaires showed that many people who have accumulated wealth take a cautious approach to spending money. For instance, buying used items, from cars to appliances to clothing, can save you a lot. Two- and three-year-old used cars often sell for three-quarters or less of what they sold for when new. You don’t have to accept just any used car, you can decide which year and model you want by browsing auto reliability statistics in *Consumer Reports* magazine, available at most public libraries. When buying clothing, consider quality consignment shops for expensive items such as career and outerwear. Consignment shops, unlike thrift shops, are very choosy about the clothing they accept for resale.

**I’d like to get a better job, but where do I start?**

Start your search for a better job by creating or updating your resume. A resume is a summary of your qualifications and experience. List your skills, personal qualifications and work experience. Visit your local library and ask the librarian for help in finding books and magazines on resume writing, educational resources and opportunities in your preferred field.

Jot down some ideas for your ideal job. Find out if there is a local career development counseling organization that can help you get started. Scan the classified section of your newspaper every day to see what jobs are available. If you have access to the Internet, visit job-listing sites and research local companies that you’d like to work for. Call their human resources departments and ask about openings. Also check out new job opportunities with your current employer.

## Earning Extra Money

### What are some ideas for earning extra money?

- ◆ Find a part-time or weekend job. Many businesses hire extra people during the holiday season.
- ◆ Rent out an extra room.
- ◆ Start a home-based business that does not require a high initial cash outlay, such as a handy-person service, baby-sitting, bookkeeping or sewing.
- ◆ Hold a garage sale to sell household items and clothing you no longer need.

### I saw an ad for home-based employment opportunities—should I call about it?

Do not call—work-at-home offers are almost always scams. Such ads are a way for unscrupulous individuals to sell you something useless, such as a “work kit” or a book on ideas for working at home. If you are asked to purchase materials or products up front, that’s a sign of fraud.

## Save More of Your Money

### How can I control what I spend?

The goal of any money management program is to identify and plan for the things you need, while carefully evaluating and planning what you are able to spare for the things you want. In any budget, there should be some money for entertainment or for a special treat. If your budget is too strict, you may become resentful and not stick with it.

Stop to think about what you spend regularly on little things—they really add up. For instance, if you buy a \$3 cappuccino or latte coffee drink on your way to work every day, you're spending almost \$800 per year! Instead, you could make coffee at home or limit your purchases to once or twice a week.

One place not to scrimp is in your savings. Plan to save some money every month. This can help you get through emergencies and to save for big-ticket items, like a new appliance that you might ordinarily borrow money to buy.

Pay your bills on time to avoid late fees. Don't carry large amounts of cash, which encourages spending. Try to limit your use of credit cards because when you use a credit card you may be tempted to buy things you don't need.

### How can I get a lower credit card interest rate?

First, call your credit card issuer and ask if you can have a lower rate. The company might lower your rate if you have always made on-time payments. If your current company won't cut your rate, consider getting another company's card.

If you have a balance on your current card, ask new companies if you can transfer the balance. Watch out for balance transfer fees—some banks allow free balance transfers, while other banks charge from 2%-3% of the amount being transferred.

### Lowering Your Interest Rates

A lower rate can make a big difference in the amount of interest you will pay and how long it will take you to pay off the balance. A lower rate should also allow you to pay off more of the balance each month. Many card companies only require you to make a “minimum payment” of as little as 2% of the outstanding balance each month—but making only the minimum payment is a big mistake. This chart shows the vast difference in the time it would take to pay off a \$2,500 balance, depending on interest rate and monthly payment amount:

APR	Monthly Payment	Time to Pay Off
20%	\$100	2 years, 9 months
20%	\$75	4 years, 1 months
20%	\$50 (2% minimum payment)	8 years, 10 months
14%	\$100	2 years, 6 months
14%	\$75	3 years, 6 months
14%	\$50 (2% minimum payment)	6 years, 2 months

## Fraud

**There is a lot of fraud out there. How can I avoid getting ripped off?**

Con artists invent new scams as fast as law enforcement authorities can shut them down. You can avoid becoming a victim by remembering this advice: If it sounds too good to be true, it probably is. Other tips for avoiding fraud:

- ◆ Don't be pressured into buying anything. Take time to understand the purchase, consider if you really need it and talk to knowledgeable family members or friends about the purchase.
- ◆ Before signing any purchase agreement or contract, read the fine print.
- ◆ Never sign your name on a blank paper, or on a contract that has blank spaces above the signature. Con artists could use your signature to rip you off.
- ◆ Never give your checking account or credit card numbers to someone who calls you on the phone, because they could use this information to steal money from your bank account or make unauthorized charges on your card.
- ◆ Guard all personal information (such as your Social Security number), bank account and credit card numbers. Tear up credit card offers, paycheck stubs, receipts and cancelled checks before you throw them away. Some fraud artists go into garbage cans to steal discarded papers that contain sensitive personal and financial information and use it illegally to set up credit in other peoples' names.

## Setting Financial Goals

### Why is it important to have financial goals?

Setting financial goals is a way to plan for the future. By planning for things you want to accomplish, you have a better chance of having enough money when the time comes. For instance, long-term goals for many people include getting a better paying job or a promotion, owning a home, starting a family and saving money for their children's college and weddings. Long-term goals are things you want to accomplish in five to ten years. Short-term goals are things you'd like to do today, next week or over the next couple of years. For many people, short-term goals include finishing their education, getting a new job, planning a wedding, buying a car or taking a vacation.

### Is there a difference in the way I should handle money I am saving for short- and long-term goals?

Many financial planners say that short-term money should be kept in a savings account, where there is little risk of losing it and where it is easily available. You may want to invest the money you are saving for long-term goals in stocks, bonds or mutual funds. To find out more about these options, talk to an investment advisor. Talk to several advisors before making a decision on how to invest your money—that way you will get several opinions and lessen the chance that the advisor will recommend an investment that is not right for you.

## **Saving and Investing**

### **What is a savings account?**

Savings accounts are designed to keep your money safe and to help it grow. Banks pay you interest on the money you have in a savings account. You can make deposits into your account, just as you do with a checking account. When you withdraw funds, you use a withdrawal form that you fill out and give to the teller, or you can use your ATM card to withdraw cash from your savings account at an ATM machine. The machine will ask you if you want to withdraw the cash from your checking or savings account before the transaction is carried out.

### **What is interest?**

Interest is the cost of using money. When you deposit money into a savings account, the bank pays you interest. When you carry a balance on your credit card, you pay the credit card company interest. Interest is usually given as an annual percentage rate (APR)—the amount your money would earn if left on deposit for one year.

In 2006, a Bankrate.com survey found interest rates of 0.20%-2.25% on regular savings accounts across the country. At these rates, if you had \$1,000 on deposit for one year, it would earn between \$2 and \$22.50 in interest. You may be able to find better interest rates from online banks and in money market accounts (MMAs). (For current rates, visit [www.bankrate.com](http://www.bankrate.com).)

### **What is an investment?**

An investment is the use of money to create more money. Investments include stocks and mutual funds, bonds and annuities, a form of investment sold by insurance companies. The money you have to invest is sometimes called capital. All investments carry risk—you could lose some or all of the money.

**My savings account earns just 1% interest annually—isn't there a better way to make my money grow?**

Some of your savings should always be available for emergencies. It's better to keep this money liquid. This means you can get your money quickly and easily when you need it. Savings accounts are insured by the federal government, and are considered a very safe way to increase your money. Savings account interest rates vary widely, so shop around for the best rate.

Other options for liquid funds include money market funds—but these are not insured by the government. There is always the chance you could lose some or all of your original investment. Many money market funds pay more than double or triple the interest paid on savings accounts.

Certificates of deposit (CDs) are government-insured instruments and pay much higher interest rates than do savings accounts. But you may have to agree to leave your money for six months to a year or longer to get the best CD rates. If you take your money out early, you may have to pay a penalty as well as lose interest.

You also can invest in mutual funds, stocks or bonds. While the value of these investments goes up and down, people generally make money in the long term (five years or more). But if you have to sell investments in a hurry because of an emergency or an unforeseen expense, you could get less than you paid for them and lose money.

**I am interested in investing in a mutual fund, but the minimum deposit is \$2,500—more than I have available to invest. Is there any way around the minimum deposit?**

Yes. Many mutual fund companies waive the minimum deposit requirement if you agree to have an amount (as little as \$50) automatically transferred from your checking account each month. You can use this method to buy shares in the mutual fund of your choice.

You also can set up an Individual Retirement Account (IRA) in this way. An IRA can help your retirement savings grow faster because no tax is due on the earnings until you begin to withdraw the money. You are permitted but not required to make withdrawals at age 59½. At age 70½ you must begin to take minimum withdrawals from your IRA. For current information see the Internal Revenue Service (IRS) Publication 590 ([www.irs.gov](http://www.irs.gov)).

## Credit

### What is credit?

Credit is the ability to borrow money or purchase an item on time. Credit cards are one way to use credit. You can pay off your entire balance on a credit card every month or carry a balance. If you carry a balance, you will be charged interest by the credit card company.

### What are the advantages to using credit?

Credit makes many purchases possible that might otherwise be beyond reach. Few people have the money to buy a house or a car, or even a washing machine, outright. Having access to credit can be a form of insurance—ensuring that you can make a purchase when you don't have the cash—and credit can help you pay for big items and deal with unforeseen shortfalls and emergencies.

### What is a credit history?

To obtain credit, you must have a positive credit history or credit record. This means that you have borrowed money in the past and paid it back as agreed, or that you have not been late making credit card payments. Your credit history is kept by credit reporting bureaus, which give information about how you use credit to your current and potential creditors. The three largest credit reporting bureaus are Experian, Equifax and Trans Union.

### How can I get a copy of my credit report?

Each year you may request a free copy of your credit report from all three companies. You can ask for all three reports at one time or you can stagger your requests throughout the year.

To request your free reports, visit the Annual Credit Report web site ([www.annualcreditreport.com](http://www.annualcreditreport.com)) or call (877) 322-8228. To order your report by mail, go to the web site and print out the order form, and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

The credit reporting bureaus also must give you a free copy of your credit report if you are in any of these situations: you have been turned down for a loan or a credit card, a job, insurance or a rental house or apartment in the past 60 days, based on a credit report; you are on welfare and you are job hunting, or you are a victim of fraud or identity theft.

## **What are the pros and cons of taking a cash advance on my credit card when I'm low on funds?**

Credit card cash advances may be helpful when you need cash in an emergency or when you are traveling. But they are an expensive way to borrow money, especially on a frequent basis.

Cash advances usually are subject to transaction fees and a higher interest rate. The interest is very costly if you don't pay off at least a large chunk of the debt each month.

## **I don't have a good credit record, but I notice lots of ads offering credit to people like me. Are there any kinds of credit I should avoid?**

There are some lenders who are criticized for taking advantage of people with poor credit histories. Credit cards and loans offered by these companies often turn out to be bad deals, with interest rates well above 20% and high late penalties that can drastically increase the amount you owe if you miss just one payment. Always shop around and compare interest rates and terms on several cards—this should tip you off to obvious rip-offs.

These are some types of credit to avoid:

- ◆ Payday lenders make short-term loans or cash advances secured by post-dated personal checks or your next direct deposited benefits check or paycheck. The price of such loans is very high—annual interest rates can work out to more than 250%.
- ◆ Rent-to-own stores. These businesses rent furniture and electronics for a low weekly rate. If you make all the required payments, you'll eventually own the item. But by that time, you'll often have paid up to 10 times its cash value.
- ◆ Pawnshops will loan you money if you leave personal property (jewelry, electronics, cameras) as security. Pawnshops usually loan you less than half an item's resale value and charge very high interest rates, storage costs and insurance fees until you repay the loan. If you do not repay the loan, the pawnshop can sell your things.
- ◆ Car title pawn shops ask you to sign over the title to your auto as security for a loan representing only a fraction of its value. Interest payments, storage costs and insurance fees add up and make it hard to repay the debt. If you fail to repay the costs, the company can sell your car.
- ◆ High cost home equity loans. Many reputable lenders allow you to borrow money against your home's value—but scam artists often make loans they know you can't repay just so they can take your home.

## Debt

### **How do I know when I have too much debt?**

You may have too much debt if you have to borrow to pay current bills, are frequently late paying your bills, or bill collectors are calling your home.

### **What can I do to get out from under my credit card debt?**

First, stop using credit cards. Put them away or cut them up before you get further in debt. Contact your creditors to delay or reduce payments. Come up with a realistic payment plan—figure out how much you can afford to pay every month and try to stick to it.

### **I'm making payments on several credit cards and not reducing my debts on these cards. How can I get out of credit card debt as fast as possible?**

If you have cards with outstanding balances, consider putting them away until you have paid them off. If you have a credit card without a balance, use it only when you are sure you can pay the balance in full each month. When trying to reduce credit card balances, pay as much as you can each month—don't just send the minimum the card issuer requires. Paying a few dollars more each month shortens the life of the loan—often significantly—and ends up costing a lot less in interest.

### **I'd like to consolidate all my debts in one loan—where would I find such a loan?**

Debt consolidation loans, at least reputable ones with affordable interest rates, are difficult if not impossible to find. Many companies that advertise debt consolidation are really offering very high-cost loans or even just trying to sell expensive information packages with useless tips on reducing debt.

Qualified borrowers who own their own home might consider a home equity loan as a debt consolidation tool. However, home equity loans, even reputable ones with fair interest rates, are secured by your home. If you fail to make the payments, you could lose your home. Always shop around with several lenders.

Compare the terms offered by banks and credit unions. Make sure that you will be able to comfortably meet the payments you will be required to make—especially if your home is to serve as collateral for the loan.

**I can't stop spending money, even when I don't have enough—is there anywhere I can go for help with this problem?**

You might consider joining, or starting, a local Debtors Anonymous group, which uses the same organizational principles as Alcoholics Anonymous (AA). To find out more about the organization, visit the Debtors Anonymous web site ([www.debtorsanonymous.org](http://www.debtorsanonymous.org)).

**What is credit counseling?**

Credit counseling organizations work with people who are in debt or having money troubles to set up budgets and bill-paying plans. The counselor can contact your lenders to work out a plan for you to repay your bills. There may be a small fee for this service.

When you are looking for a credit counselor, beware of companies that offer quick and easy solutions to your debt problems. There is no easy or quick fix to controlling debt.

The National Foundation for Consumer Credit, parent organization of hundreds of local credit counseling offices, can help you find a counseling service near you. Call (800) 388-2227 or visit its web site ([www.nfcc.org](http://www.nfcc.org)).

**Consumer Action**  
[www.consumer-action.org](http://www.consumer-action.org)

221 Main St., Suite 480  
San Francisco, CA 94105  
415-777-9635

523 West Sixth St., Suite 1105  
Los Angeles, CA 90014  
213-624-8327

**E-mail:** [hotline@consumer-action.org](mailto:hotline@consumer-action.org)  
**Chinese, English and Spanish spoken**



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