Family Financial Education Foundation

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Make a Fresh Start

Today is as good a time as any to make new financial goals. As with any life-changing goal, the first things you have to do are learn from the past and then focus on the future. When we say learn from the past, we don't mean punish yourself for past mistakes but rather use those mistakes as a way to make better decisions going forward. Forgive yourself and your spouse or partner (if you have one) for what has happened previously and agree that from today forward, you will concentrate on developing better financial habits. And your spouse or partner must do the same for you. Whatever choices you wish you had made in the past, don't dwell on regretting them but learn from them as you make new choices in the future. By leaving the past behind, you will feel a great burden lifted off your shoulders, it will be easier to breathe, and you can look forward with anticipation to the good things to come.

It's true that before you know where you're going, you have to know where you're starting from so create a quick view for yourself of what your finances look like today. Make a list of all the financial statements that you make payments on every month—credit cards, store cards, auto loan, house payment, etc. Decide where you need to focus first and outline your monthly plan for meeting your new expectations.

Concentrate on the things you can control. Like your credit cards. With all the talk in the recent past about stock market slumps and mortgage failures, you may feel like you don't know what to do for the best. Keep in mind that those things are, unfortunately, out of your control. Don't waste your energy there. If you focus on paying down your credit cards, you can see the rewards of your efforts every month. Review your credit card statements for the past six months. Is there a $50 or $100 purchase somewhere that you could easily have done without? Avoid making such purchases in the future.

One of the consequences of the financial crisis of 2008 is that banks are going to be a lot less eager to lend money. What that means for you is that if you hope to buy a home or a car in the near future, you will need to have an excellent credit rating, including a credit score above 700, established regular income, and a manageable amount of existing debt, i.e., balances below 50% of the available credit on your credit cards or credit lines and with no late payments. Financial institutions will no longer be willing to offer credit the way they did for the several years before 2008. If your score is below 700, two of the best ways to improve it are to pay your bills on time and push yourself to reduce your credit card balances.

If you have a 401(k) or Roth IRA that lost value in 2008, don't be worried. In fact, that's actually a good sign. It means that your plan has you invested in stocks, which, if your retirement is ten or more years away, is just where your money should be invested. While investing in stocks sounds risky and intimidating, stocks are also your best chance for a return on your investment that grows faster than inflation. Rather than running the risk of trying to navigate the stock market yourself, a 401(k) or Roth IRA account offers you the benefit of expert investment. And instead of worrying when your account value drops, keep in mind that your money is buying more shares of your 401(k) or Roth fund so that you will make more when the market recovers. Take advantage of the advice available from your plan manager when deciding where the best place is for you to focus your investment.

If you are buying a home and you are still able to make your mortgage

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New Rules for Credit Card Companies Are Good News for Consumers

If you are struggling against credit card companies that raise your interest rate every time you hit a bad financial patch, we have some good news for you. On May 22, 2009, President Barack Obama signed into law the Credit CARD Act (Credit Card Accountability Responsibility and Disclosure Act), which put new rules in place that will create controls over the credit card industry, including protecting consumers from increases in interest rates on existing account balances.

The recent economic crisis and increased job losses caused many consumers, even consumers with good credit records, to skip payments and ultimately default on their credit cards. Consequently, banks lost tens of billions of dollars. Changes that have needed to be considered for a long time finally were agreed upon and approved by the Federal Reserve, the Treasury Department's Office of Thrift Supervision, and the National Credit Union Administration.

The changes are the most sweeping restrictions imposed on the credit card industry in many years and are aimed at protecting consumers from being hit by random interest rate increases and preventing them from lack of adequate time to pay their credit card bills. They also restrict credit card companies from allocating all of your monthly payment to the balances on your card that have the lowest interest rates. Before the rules were put in place, if you transferred a balance at a 5% interest rate and had an existing balance at 19% interest rate, your monthly payment would all go against the balance with the 5% interest rate while your existing balance continued to grow at a 19% interest rate, sometimes causing your overall balance to get larger instead of smaller.

Most aspects of the Credit CARD Act will become effective on February 22, 2010 and all changes must be made by June 30, 2010. However, two provisions became effective on August 20, 2009 (90 days after the legislation was enacted) The first of these provisions requires that credit card companies allow 21 days for consumers to pay their credit card bills, and the second provision requires that credit card companies provide 45 days' notice when there are changes in account terms.

The biggest credit card companies in the U.S. include Discover Financial Services LLC, Bank of America Corp., Citigroup Inc., JP Morgan Chase & Co., Capital One Financial Corp., American Express Co., and HSBC Holdings. Altogether, nearly 16,000 companies issue credit cards in the States. The Associated Press reports that the new rules could cost these companies together more than $10 billion a year in interest payments. Not all companies will be affected by all the rules. Some companies already don't have account-opening fees and allow more than 21 days to make payments.

The new rules include, among others, the following restrictions:

- Any payment amount above the minimum required payment must be applied to the part of the balance that has the highest interest rate.
- Increases in interest rates can only be applied to new credit cards and on future purchases or advances, not on current balances.
- Borrowers must be given a reasonable period of time to pay. A payment could not be considered late unless the consumer is given a reasonable period of time to pay.
- Unreasonably high fees cannot be charged for exceeding the credit limit because a hold has been placed on the account.
- Unfair practices for computing balances cannot be used, e.g., double-cycle billing. Double-cycle billing is the practice of computing interest twice a month instead of once.
- Unfair fees and security deposits cannot be charged for issuing credit cards. Currently, many

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Time to Clean Up

While you're thinking about the financial changes you want to make, it's a good time to do some clean up. Go through your paperwork and throw away old ATM receipts, insurance info for cars you no longer own, outdated benefits manuals or benefits manuals for companies you no longer work for, catalogs, credit card offers, sale offers you haven't used, coupons that are no longer good, you get the idea. Then create a filing system for the paperwork you do need to keep. This will save you a lot of time and headaches down the road. Visit one of our websites or make an appointment for a free consultation with one of our certified counselors for more ideas!

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We look forward to hearing from you!

Economic Changes Provide Opportunities to Save

Recently, available credit for consumers shrunk drastically and for some, it dried up completely. Many Americans found themselves standing by helpless as they watched their mortgage payments surge and the value of their 401(k)s drop. It didn't take long for many Americans to realize that they needed to start spending less and saving more. That may sound easier said than done, but it is possible. The first step toward finding ways to save is to know where your money is going so you can find places where you can stop the leaks. Here are three simple tips that could save you money every month:

1. Make the most of decreased expenditures

In the last six months of 2008, gasoline prices dropped as much as 60%, from an average price of $4.10 to $1.50 a gallon and even less in some states. Somehow, while gas prices were high, people found the money to pay the higher price and survive. Once prices dropped, that extra $40 or $50 per month that no longer had to be used for gas could go in the bank to build up an emergency fund or to save for holiday expenses instead of absorbing it back into what was spent every month. Look for areas like this where, once expenditures are eliminated, you can put that money into a savings fund. For example, if you have a child still in diapers, once that child is potty trained and you no longer have the expense of diapers, that is easily $20 or $30 per month that could go into savings.

ACTIVITY: On a piece of paper, list three areas where your expenditures have the possibility of decreasing over the next few months and how much that decrease will allow you to save.

2. Dining out doesn't have to mean dining out

A recent survey claims Americans spend an average of $34 per person every time they go out for dinner and an average of $76 if they live in one of the 20 most expensive cities. Chances are, if you're working on stabilizing your financial health, you don't eat out very often, only when you feel like you really need a treat or want to be able to have a social life with friends or coworkers. But even if you only ate out four times a year, you would be looking at spending close to $300 in low-cost areas and $600 in higher-cost cities.

So how can you still have a social life and put some of this expenditure in the bank? Try planning a dinner party at home. Make it a theme party, maybe around a favorite game, or a costume party. Ask each guest to bring a dish. They'll love the idea that you're willing to provide the house so they don't have to get theirs ready for guests. You could provide the main dish and ask others to bring supplementary ones.

ACTIVITY: List three ideas for dinner parties you can hold at home.

3. A little extra work can mean extra savings

During tough economic times, retailers will sometimes offer big discounts to move merchandise. But even with these big discounts, it is possible to save even more if you keep your receipts and check back to see if the merchants lower their prices even more. If prices are lowered within two weeks of your purchase, many stores will credit you the difference. So keep your eyes open and add that little extra savings to your bank account.

ACTIVITY: List three stores you shop regularly where you could watch for savings.

4. Commit to reducing your monthly utility bills

Look into changing your mobile phone plan or your home phone. Think about getting rid of one of them completely if possible. Reduce your cable television package. If you have Internet at work, maybe you don't need it at home. Get to work a little early or stay a little late to respond to personal emails if your company doesn't have restrictions against this. Spend an afternoon increasing your home's energy efficiency. Consider putting a draft guard along the bottom of the external doors. This can be something as simple as a rolled-up towel. Replace your light bulbs as they burn out with compact fluorescent energy saver bulbs. They might be more expensive to purchase but they will last much longer so you'll save in the long run.

ACTIVITY: List three ways you can reduce your utility bills for extra savings.

5. Keep your car as long as possible

Take care of your car so it will last you as long as possible. With regular tune-ups and oil changes, your car could last you seven to ten years. Just think how nice it would be to have two or three years without a car payment. Then you could really set some savings aside! If you're thinking about leasing a car, remember that with a lease, you never own the car so you don't get that extra time without a car payment.

ACTIVITY: Calculate how much you could save if you drove your car for two years without a car payment.

24 mths. x (amt. of payment) = ___

Now take that amount and put it aside as a down payment on your next car. For just over $200 a month you could save close to $5000 as a down payment on your next car which will save you hundreds in interest. ■

New Rules for Credit Card Companies

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"subprime" or "secured" cards for consumers with low credit scores typically have no more than a $500 credit limit but require a large upfront fee, often the full amount of the credit limit. For example, a credit card with a $500 credit limit may require a $500 "security deposit." The new rules limit that fee to 50% of the credit limit and allow the cardholder to pay off the initial balance over a year, not immediately.

- Offers for credit cards must be direct and understandable and not deceptive.
- Consumers must be given 45 days' notice before any changes are made to the terms of their account, including increasing the penalty fee for missed or late payments. Currently, many companies give only 15 days' notice before making changes to the terms of an account.

Federal Reserve Chairman Bernanke said, "These protections will allow consumers to access credit on terms that are fair and more easily understood." When the rules were first proposed in the spring of 2008, more than 65,000 public comments were submitted, the highest number of public comments ever received by the Federal Reserve. These comments reflected the frustrations consumers have about the way they have been treated by their credit card companies and were requests for help from the federal government. They included comments like people acknowledging they sometimes paid late, often mistakenly, but felt credit card companies were unreasonable to increase the interest rate on their balance because of this; and people who pay on time telling of being hit with a rate increase due to losses from cardholders who don't pay at all.

The Consumer Federation estimates that U.S. consumers have credit card debt totaling about $850 billion, four times what it was in 1990. While the changes could make it more difficult for people with poor credit to qualify for a subprime card and still leave many concerns to be addressed in the future, the new rules are a good first step toward eliminating unfair, deceptive, and predatory practices that have led many American families deep into debt and to prevent irresponsible lending practices by America's banks.

These new changes can mean long-term help for those of you who currently struggle with unreasonable credit card practices, but remember that these changes don't take effect until 2010. It is important to continue to follow your FFEF plan for eliminating your debt and achieving a debt-free future. ■

Make a Fresh Start

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payment, you should feel very lucky. It may not be the dream home you fantasize about, but try to love your home for what it is. Too many Americans think of their home as an investment and buy based on what they think the value will be in five or ten years. This is the wrong way to buy a home. A home purchase should be based on whether or not this is a place you can live happily, not to be thought of as an investment that will fund your retirement or vacations. Buy a house you can really afford, and over time it will rise in value because that's what the housing market does. But its main value is as your home.

If you take control of these main areas then no matter what the future brings, you will have control of your financial destiny. And nothing will bring you more peace of mind than that. ■

We're Going Green!

Family Financial Education Foundation is dedicated to improving your financial and environmental future. In an effort to go "green," we are making our Educational Volumes and our Dollars & Sense newsletters available via email and on our website. Visit our website for educational resources and more information on coming changes.

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