PRE-FILING BANKRUPTCY CREDIT COUNSELING

Your Guide to a Fresh Financial Future

www.DebtorCC.org

Introduction

Welcome to online Budget and Credit Counseling offered by DebtorCC.org. The changes to the Bankruptcy Law in 2005 require that you receive budget and credit counseling prior to filing for bankruptcy. In addition to satisfying the requirements of the U.S. Bankruptcy Law, this course was developed by DebtorCC.org to help you understand your current financial position and identify options, which may be available to you.

For your convenience we've split this counseling into several parts. The first part will be an introduction into money management and the possible causes of financial difficulty. We'll then transition into a detailed discussion of each possible cause. Then we'll map out your monthly income and expenses, which will allow you to develop a budget. We'll then review how you can reduce spending in various categories of expenses to improve your budget. Also, we'll calculate your net worth and define its importance in your financial life. What's more, we'll detail the possible options for dealing with your debt and review their pros and cons. Finally, we'll provide you with valuable resources and tips on how to improve your credit score.

We understand that this may be a very difficult time for you. We're here to help you understand how to take control of your finances.

To put it plain and simple – you're taking this course because you owe more money than you have and you may be having difficulty making payments when they're due. At this point, we need to review what got you into this position? What are the factors that caused you to be in financial distress? It's important to review this now because it will help you avoid pitfalls in the future.

Let's get started!

Before you Begin

Be sure you have the following information available before you begin the counseling:

1. Your net monthly income – an estimated amount of the money you earn after all deductions for taxes, insurance, 401K, etc. is taken out. Please have a list of all possible sources of income (from employment, alimony, child support, government assistance, rental income, etc.)

2. Your estimated monthly expenses – an estimated amount of the money you spend each month.

3. Your assets – value of the things you own.

4. Your debt – money you owe on the things you own.

We'll go into a detailed discussion about each topic later in the counseling. To make the most of the counseling, please try to be as accurate as possible. We understand that you might not have all the information readily available. This is okay. Please try to provide an accurate estimate.

Money Management

Regardless of how much or how little income you have, money management skills are necessary for avoiding financial crisis. Think about the times you read in a newspaper or magazine that a well-known celebrity had declared bankruptcy. How could people who make millions of dollars a year lose all their money, seemingly overnight? The answer is simple: they likely don't know how to manage what they have.

In order to manage money properly, it's important to ask yourself the following questions:

• What do I want my money to do for me?

• Where does most of my money go?

• Is there a wiser way to decide how I spend my money?

• Am I putting enough aside for financial goals and/or emergencies?

The idea of money management is quite simple. If you spend less money than you make, you'll have money left over for savings. Although it's easier said than done, smart planning will help you achieve this goal.

Money Management – Tracking Income & Expenses

When deciding what you want money to do for you, think about what matters most to you. Think about your core values and your goals (short-term and long-term).

Keep track of where your money goes. To do this, you will need to create a budget. We'll show you how to do this a bit later in the course. When creating a budget, you're forced to follow your money and you'll be conscious about how your purchases affect your budget. You'll be surprised to see how quickly expenses can add up. You'll also be able to highlight where you can save.

In creating a wiser method of spending your money, it's important to separate your wants from your needs. This is a way of prioritizing your purchases. Creating a simple chart and keeping it on your refrigerator can help you differentiate between your wants and needs. The following are examples of things you may want: cable TV, a vacation, new cell phone. The following are things you will need: groceries, a place to live, electricity.

Everyone has heard the phrase, "it's important to save for a rainy day". This is essential to properly managing your money. Setting up an emergency fund will help you avoid financial crisis. If you're living paycheck to paycheck, what will happen when an unexpected expense comes up? You need to be prepared. Although you may not have a lot to put aside, you can start small. You'll be surprised to see how putting aside an extra $20 from each paycheck will add up quickly.

Your Situation - Describe your situation and what got you into financial difficulty

Please check a box next to each one that applies:

- [ ] Job Loss/Reduced Income
- [ ] Death of a family member
- [ ] Medical/Accident/Disability
- [ ] Divorce/Child Support/Alimony
- [ ] Credit Card Debt
- [ ] Other

Your Situation - Have you previously filed for bankruptcy?

- ○ Yes
- ○ No

Assessment - Job Loss/Reduced Income

Most people rely on a regular paycheck to pay for living expenses. During these tough economic times, a lost job or reduced income is a reality for many. Whether you or your spouse has lost a job, lost the overtime that you were receiving, or received a pay cut, you may be utilizing credit cards and other sources of debt to pay your expenses. This can lead to further financial difficulty.

It's important to maintain an emergency fund which will allow you to pay your expenses while you search for another job or alternate source of income. One spouse may have to work a second job until the other can re-obtain employment. Reassessing your monthly expenses will also allow you to determine where you can save money.

Coping with Job Loss/Reduced Income

When you lose your job or have reduced income, the first question to ask yourself is – how am I going to make ends meet? Most people will panic and start using credit to supplement the lost income.

Having less money than you were making before is definitely bad news. However, there are several ways to cope without digging yourself into a deeper hole.

We already discussed "saving money for a rainy day". If you had put money aside from each paycheck, you can use that money to keep you afloat until you find an alternate source of income. It's important to put the emergency fund in a savings account or other interest bearing account that will be off-limits. If you find it difficult to set aside money from each paycheck for this purpose, think of it as a bill. You can even pay into your emergency fund on the same day you pay your bills. This way, you're not giving yourself the option to skip those payments.

If you have trouble managing your own spending, open an account that deducts the money directly from your weekly paycheck. Your emergency fund will increase without you even having to think about it.

In the event of financial troubles due to sudden job loss, make sure you look into unemployment benefits; as long as you were released from your job due to circumstances beyond your control, you should easily qualify. In many states, unemployment benefits now come with access to a host of reemployment resources such as websites, workshops, and seminars. This can help you hunt for new jobs and brush up on vital skills, like resume writing.

Although taking a part time job or a job that pays less than you were making may bruise your ego, think of it as a temporary solution. This may help you bridge the gap and provide more stability.

Medical Insurance & Other Options

It can be tempting to go without certain types of insurance when you're out of work, but remember that health insurance is crucial. COBRA insurance may help you maintain affordable coverage until you're able to secure benefits through your next job. For more information about COBRA, visit the department of labor's website at www.dol.gov. If you can't work because you were injured while on the job, you may be entitled to worker's compensation. Don't forget to also look into federal programs like Medicaid and Social Security Disability.

Assessment - Death of a family member

It's obviously very difficult to cope with the loss of a family member. Apart from causing emotional distress, it can cause financial difficulty. If the deceased family member was the primary earner in the household, the loss of income can be a direct cause of financial difficulty. Today, funeral expenses are very high. Coping with the loss of a family member and the obligation to finance their funeral can have a devastating impact on financial health.

Setting aside an emergency fund to compensate for unexpected events can help you avoid a similar situation in the future. If the deceased family member was the primary earner, you'll need to find an alternate source of income. You may need to take up a second job to fill the void. Reducing your overall expenses can also help you reestablish your financial health.

Life Insurance

Life insurance forces you to consider the unpleasant reality of your own death or the death of a family member. As unsettling as it may be to think about, however, if you have family members and loved ones who depend on your support, a good life insurance plan is critical.

Think about what would happen to your loved ones if you passed away today. If they don't depend on your income for survival, you may not need life insurance at all. Also, if you have a vast amount saved, this alone may be enough to cover your family if you're no longer able to provide. As always, think long and hard about whether life insurance is necessary and if so, how much do you actually need?

If you were to die, how many years of income would you need to provide for your family? Perhaps you have an eight-year-old daughter, and you want to make sure she's covered until she turns 18. Maybe you would like to provide enough income for your spouse to be able to focus all of his or her attention on raising the children until they're old enough to move out. In those cases, you'll need more expensive policies but if, say, you only need to provide long enough so that your spouse won't go broke while looking for a job to support the family, you can probably afford to purchase a small policy. Regardless of the policy size, you should think about the possibility of this happening to you or your family and plan accordingly.

Assessment - Medical/Accident/Disability

If you have medical issues or have been involved in an accident, you may not be able to work. The loss of income can result in financial difficulty. Be sure to look into Social Security disability benefits. If you qualify, Social Security will pay benefits to you and certain members of your family if you've worked long enough and have a medical condition that has prevented you from working or is expected to prevent you from working for at least 12 months. Visit www.ssa.gov for more information.

You also need to search for an alternate source of income. The presence of the Internet allows individuals to work from home. Explore these other options. Remember, setting aside an emergency fund to compensate for unexpected events can also help you avoid a similar situation in the future.

Disability Insurance

Individual disability insurance is truly a basic concept. It's an insurance product designed to replace anywhere from 45-60% of your gross income on a tax-free basis should a sickness or illness prevent you from earning an income in your occupation. In other words, disability insurance means that you'll be entitled to a monthly income during lengthy periods when sudden or reoccurring injury affects your ability to do your job. Your employer may offer disability benefits; check to see what your options are. If you're not already covered, you'll need to purchase disability insurance independently.

Let's face it; most people may not think that they'll need disability insurance. However, according to the American Council of Life Insurers, one third of all Americans between the ages 35 and 65 will become disabled for more than 90 days.

Assessment – Divorce, Child Support, Alimony

A divorce can take a huge emotional and financial toll on individuals. A divorce, especially one that is contested, can be very expensive. The legal fees may be more than you can afford to pay. You may lose part or all of your assets as part of the divorce judgment. If you're ordered to pay alimony or child support, you may not have enough money left after they're deducted from your paycheck. Whereas prior to your divorce your income was sufficient to meet your expenses, after the deductions for alimony and/or child support, this may not be true.

You may need to supplement the lost income by working a second job or finding an alternate source of income. Remember, setting aside an emergency fund to compensate for unexpected events such as a divorce can help you avoid financial difficulty in the future.

Assessment - Credit Card Debt

Credit card companies want your business. If your household is like most in America, you've probably received multiple offers from various companies, proclaiming that you're "approved" for any number of credit cards.

Using a credit card means borrowing an amount of money that would otherwise have taken you time to acquire. In other words, rather than waiting six months until you've saved enough to buy a new car, you can buy the car on credit right away. Now you've got the car at your disposal, and you simply spend the next few months paying your credit card company back the money they lent you. Sounds easy enough—but if you don't go into this system with a certain amount of care or knowledge, it can backfire quickly.

When utilizing credit cards, it's important to track your spending and be sure that you can pay back how much you charge on the cards.

Using Credit Cards Wisely

There are some people who believe that you should never have a credit card. However, the reality is that this world doesn't run on only cash. If it did, budgeting would be very simple.

There are 4 key steps to using credit cards wisely:

1. Use credit cards only for pre-planned, budgeted items – if you don't have a plan, don't use the credit card. Let's say that you've budgeted $50 for personal care every month. You can charge $50 worth of personal care every month. Don't exceed this amount.

2. Record your spending – if you can't keep track of your credit card spending, don't use the credit card. There are many tools available to help you track your usage of credit. Mint.com is a free option that will track your spending as you charge your card. This is recommended over a manual tracking system (paper or excel spreadsheet).

3. Pay your credit card balance in full at the end of each month – if you have a balance on your credit card that you carry over from month to month, stop using the credit card. Never carry a balance on a credit card. You'll end up paying a very high interest. The **principal balance** on a credit card is the amount of money you originally borrowed from the lender. **Interest** is the price you pay for the right to borrow that money. Generally in

the form of an **annual percentage rate**, interest grows-sometimes dangerously the longer you take to pay back the original loan.

4. To help avoid severe debt, limit the number of credit cards that you use - the more cards you have, the easier it is to lose track of your spending. Resist the many offers that come in the mail, as well as the in-store offers to save 15 percent on your purchase if you open a store credit same day. The 15 percent you might save will pale in the long run compared with what that card, piled on top of many, may “really” cost you and do to your credit rating.

Introduction to Budgeting

Over the next several pages we’ll ask you to input your income and expenses. This will allow us to set up a budget. A budget will help you take control of your finances by forcing you to save money that might otherwise have been lost to frivolous spending. You’ll regulate the amount you spend each week on groceries and bills, as well as on the "fun" items like movies, toys, or outings for the family. A budget does NOT mean that there will be no more "fun" items; it simply ensures that there will be enough money for every major expense, with plenty left over for the future and emergencies. Essentially, a budget will keep you from spending beyond your means.

Setting Up a Budget

Before you set your budget, you must first record your sources of income. Be sure to include any sources outside your regular paycheck, such as freelance work.

If you run your own business, earn commission, or work as a contractor, you may find that your income varies greatly from month to month. Budgeting can be difficult on a fluctuating income, but with experience, you’ll learn how much income you can reasonably expect per pay period.

If your income does depend on commission, seasonal work, or other difficult-to-predict factors, it might be a good idea to prorate estimates of these varying factors into the coming months.

What is Prorating?

By prorating into months, you’re converting non-monthly income, such as commission, into realistic, monthly amounts. For example, if you expect to receive an average of $6,000 dollars a year due to bonuses, simply take that amount and divide by twelve. When planning your monthly budget, you can now factor in an additional $500 per month. This is prorating.

Be Realistic

When assessing your income, don’t think about what you would rather be earning, or what you could earn in the future. It’s best to use past earnings to help reasonably determine what your current earnings will be. If last year, for example, you took in about

$10,000 in commission, it might be fair to assume you'll take in a similar amount this year. Don't assume you might be taking in $20,000 this year just because you're feeling ambitious. If you budget for that amount and never end up earning it, you'll likely find yourself in a serious financial bind.

Fixed, Variable and Periodic Expenses

When planning your budget, it helps to separate expenses into three major categories: "Fixed", "Variable" and "Periodic".

Fixed expenses are those you can expect each month, like rent, student loans, and car payments. These generally don't increase or decrease greatly from one month to the next.

Variable expenses generally show up every month as well, but the amount of these expenses can change, sometimes drastically. Variable expenses may include utilities, groceries, dining out, and gifts for holidays. Consider your gas bill, for example; during the mild autumn months payments may be low, but when you start to crank up the heat in the dead of winter, you can expect your payment amounts to rise equally as fast.

Periodic expenses occur only a few times a year, and may fluctuate in amount. They may be completely unexpected, like hospital bills, home improvements, or car repair. They may be always looming in the distance, like property taxes. It's easy to forget periodic expenses because of their sporadic nature, but if you don't take a few moments to plan properly, these expenses can ruin your budget.

List Your Net Monthly Income

Now that we've determined what has led to your financial difficulty, we'll review your income. This will help determine what options you have to manage your expenses. Please find the Income worksheet at the end of this document in the Worksheets section. Your net income is the amount you receive after all deductions are taken out for taxes, insurance, 401K, etc. In other words, it's the actual amount of money you bring home. If you're unsure, please estimate the values to the best of your ability. If you're married, you must list the information for yourself and your spouse. Your information will be placed under the "Individual" column and your spouse's information should be placed under the "spouse" column.

Employment: this is income from your primary job. If you're married, please input a field for yourself and your spouse.

Secondary Employment: this is income from your second job. If you're married, please input a field for yourself and your spouse.

Alimony: if you're divorced or separated and receiving alimony payments, please input the monthly amount you receive.

Child Support: if you're divorced or separated and receiving child support payments, please input the monthly amount you receive.

Rental Income: if you own property and you're renting any portion to a tenant, please list the monthly rental income you receive from the tenant.

Other Income: if you have any other source of income, list the net amount you receive each month. If you're married, please input a field for yourself and your spouse.

List Your Monthly Expenses

Now that we've determined how much income you earn each month, we'll review your expenses. This will help determine where your income is being spent each month. Tracking your current spending can help you understand and determine where you can save money every month.

Please find the Expenses worksheet at the end of this document in the Worksheets section. In other words, it's the amount of money you spend each month. For certain expenses that you have only once per year, divide the number by 12 to get a monthly figure.

If you're unsure, please estimate the values to the best of your ability.

Creating a Budget

Now that you've made a list of all your sources of income and all your expenses, it's important to determine whether you have a positive or negative amount of money left at the end of the month.

Whether you have a positive or negative net disposable income, it's important to constantly work on your budget. Track your expenses every month and determine where your money is being spent. When tracking your expenses, be realistic and honest with yourself. Don't underestimate any of your expenses. Make wise choices. If you have a negative net disposable income, rework your budget until the net disposable income is positive. Determine what is a necessity and where you can cut your expenses.

When working on improving your budget, you need to create a goal. Sample goals would be to:

Save money for an emergency fund; or

Save money for a vacation; or

Save money for retirement; or

Be able to pay down credit card debt; or

Prevent yourself from getting into financial difficulty

Regardless of your goal, you need to maintain a budget and adjust it each month according to your needs. Your goals need to fit into 3 categories:

You generally hope to accomplish short-term goals in one year or less. Medium-term goals typically take between two to four years. Short-term and medium-term goals may include taking a vacation, paying off student loans, or redoing your kitchen. Long-term goals are those that may take more than five years to achieve. These might involve buying a house, putting a child through college, or retiring comfortably. All three types of goals will motivate you to stick to your budget; you'll have a distinct feeling that you're working towards something, as well as a better understanding of how to achieve the things you want.

Avoid using your credit cards account for a negative net disposable income. Credit card companies charge a very high interest rate and this can drive you into further financial difficulty. In order to make sure your spending stays on track, review your budget regularly. After you've had your budget in place for one month, take a few minutes to compare the actual expenses with the estimates you set in the original budget. This will show where you estimated correctly, as well as identify any areas where improvement may be needed.

Budget Counseling

Let's take a closer look at your monthly living expenses. It's impossible to determine exactly how much you should spend in each budget category because no two families are alike, costs vary by region, spending varies according to income level and family size, and there are numerous other factors that can affect the amount you should spend.

It's important to note that excessive debt is partly a result of overspending in certain categories. By providing a guideline, you'll get an idea of what percentage you're spending on the various categories compared to an average range determined by financial experts. This will provide an outline of where you can reduce spending. Remember, the numbers below are only recommendations.

How to Reduce Expenses - Housing

The recommended housing range is 25-35%. Housing is considered a fixed expense. There are several ways to reduce the cost of housing:

If you're paying mortgage, you could consider refinancing to reduce your monthly payment.

Consider moving to a new apartment that requires less rent. Be sure to check your lease or consult an attorney before moving out of the apartment to avoid breaking your current lease agreement or being penalized with "early termination fees."

Consider adding one or more roommates to reduce the cost of housing. There are many outlets available to find a roommate such as Craigslist.org.

By reducing the cost of housing, you'll be taking control of the largest expense group.

How to Reduce Expenses – Utilities

To reduce the cost of utilities, you have to change your habits.

Heating & Cooling – if your thermostat has an away setting; be sure to set it on away when you leave the house. Many thermostats have an auto-program that will allow you to set the temperature to be increased or decreased automatically. Consider investing in a ceiling fan. This will dramatically reduce the cost of heating and cooling and circulate the air more efficiently.

Electricity – make it a habit to turn off the lights when you leave the room. You may have heard that it takes more energy to turn a light back on then to keep it on. This is false! Consider purchasing energy efficient light bulbs. There are many appliances and power adapters that use electricity even when not in use. Make it a habit to unplug these devices and power down computers when they're not being used.

Water – this one is quite simple; turn off the water when you're not using it. When brushing your teeth, be sure to turn off the faucet until you need to rinse. Learn to take quicker showers. Reduce the frequency at which you water your lawn. Repair any leaky toilets or faucets to preserve water and reduce your monthly bill.

Gas – Reducing the temperature of your shower slightly will put less of a burden on the water heater. If possible, use the microwave instead of the conventional oven. Making slight adjustments to your lifestyle will help you save money.

Cable – With the advent of the Internet, you can now watch all your favorite television shows online for free. This will save you over $100 every month. If you're not computer savvy or prefer to watch it the old-fashioned way, change your plan to basic cable. To save money, you'll have to evaluate your needs and wants. Cable should be placed in a "want" category. It's not essential to your survival.

Telephone/Cell Phone – With the prevalence of cell phones, many people have eliminated their home telephone. Most cell phones come with a standard long distance contract. It's important to review your past monthly invoices to review your type and amount of usage. This will allow you to negotiate a plan that best suits your needs. If you don't use your cell phone frequently, consider a pay-as-you-go plan.

How to Reduce Expenses – Food

Big-ticket items are not the only ones that merit a little extra research. Think about the way you buy everyday items, such as groceries. When at the store, do you grab the first thing you see? Do you always buy your favorite products, regardless of price?

In order to shave a few dollars off of your grocery bill, try the following:

Consider the sales. When making your weekly grocery list, think about what you're planning to buy. How do you decide what you and your family will be eating all week? Most grocery stores send out circulars with coupons and weekly sales, and this should be taken into account when creating your shopping list. Perhaps you were planning on making a pork roast on Sunday, but now you see that your local grocery has an excellent deal on whole chicken this week. It's not too late to change things up and serve roast chicken, instead. If you've still got your heart set on pork, consider a cheap cut, like pork shoulder. It's usually reasonably priced, but delicious when prepared properly.

Don't be afraid of frozen items. Fresh vegetables can be expensive; also, they can end up going to waste if you don't eat them quickly enough. Frozen vegetables, on the other hand, are healthy, budget-friendly, and guaranteed to last.

Stock up. When you see sales on items that don't spoil, such as frozen vegetables or pasta, buy extra and keep them on hand. You'll save much more than you would if you buy new items every week, at full price. Plus, you'll have some great options on hand for those nights when you have no idea what to cook.

Don't pass the store brands by. Often, store brands are just as good as flashier name brands, and may cost up to 27% less. Do a bit of research; check ingredient lists, and experiment with a few different types of products. You don't need to buy only store brands, but making the switch now and then will certainly save you money.

Eat before you shop. If you go to the store hungry, everything will look good to you, and you'll be more likely to overbuy and overspend. Make sure to eat before you go to the store, and promise yourself to stick as closely to your grocery list as possible. As with any type of shopping, when you go in with a plan and stick to it, you are much less likely to overbuy.

How to Reduce Expenses - Transportation

Simply changing your driving habits can lead to significant savings. Consider the following options to reduce your transportation costs:

1. **Car Pool** – team up with co-workers and split the cost of gas. Consider the benefit of cutting the cost of your gas by 50% or more. This will surely help your budget.

2. **Have a Plan** – prior to shopping or running errands, write down exactly where you need to go. This will prevent you from driving to unnecessary places and wasting gas. Always have a plan before you get behind the wheel.

3. **Alternatives** – don't drive around for pleasure. Walk or bicycle to nearby places. In addition to providing exercise, these alternatives are budget friendly.

4. **Check your tire pressure**– having properly inflated tires provides better gas mileage.

5. **Public Transportation** – weigh the cost of using public transportation over your car. Having a car may not be a necessity if there is a less expensive option available.

How to Reduce Expenses – Clothing

This one should be quite simple. If you're in the habit of purchasing new clothes every week, you need to change that habit. Plan outfits from the clothes and accessories that you already own. Many people purchase new clothes and leave them in the closet for a long time. Dig deep in your closet. You may find clothes that you forgot about.

How to Reduce Expenses – Healthcare

An excellent way to save money is to reduce the amount you spend on healthcare. This doesn't mean that you have to eliminate health insurance or reduce the quality of care you receive. It's important to shop around for health insurance and find a plan that is both cost effective and consistent with your lifestyle.

For lower-income families, state assistance is often available. If you believe your household may qualify, contact your state government.

If you take medication regularly, speak to your doctor and pharmacist about the effectiveness of a generic instead of a name brand. Often times, the generic is just as good and will cost a fraction of the price of the name brand medication.

How to Reduce Expenses – Personal/Entertainment

If you have any bad habits, now is the time to work on kicking these bad habits. Take the following statistics as an example:

Cigarettes - A person who smokes a pack a day will spend about $4000 per year on cigarettes. This is 10% of the average American income before taxes. If instead you take this money and put it into a savings account, you would have $40,000 in 10 years assuming you don't earn any interest. If you put it in an interest bearing account, the amount will be much higher!

Alcohol - The average American household spends about $500 per year on liquor, beer, wine and mixed drinks.

Food away from home – The average American household spends about $3000 per year on eating at restaurants. If you limit the amount of money you spend on fast food and other restaurants, it will result in significant savings.

To reduce entertainment expenses, you need to find fun alternatives to activities that are expensive. For example, going to the park or beach is a fun and free alternative to going to the movies.

Review Your Budget

In order to make sure your spending stays on track, review your budget regularly. After you've had your budget in place for one month, take a few minutes to compare the actual expenses with the estimates you set in the original budget. This will show where you estimated correctly, as well as identify any areas where improvement may be needed.

Importance of Calculating Your Net Worth

The total value of your assets (things that you own) minus the total value of your liabilities (the debt that you owe) is your net worth. It's important to calculate your net worth regularly (month to month, quarter to quarter or year to year) to track your progress. When calculating your net worth, be realistic with the numbers.

What is Net Worth?

We make it a habit to go to the doctor for a routine checkup. Even though we're not experiencing any problem, we go just to ensure that everything is fine. Similarly, you should do a routine checkup on your financial health. By calculating your net worth every month, you can keep track of your progress. Knowing your current financial situation will give you a better idea of future financial needs. Listing all your debt may also prove to be an eye-opening experience. Many people feel motivated to clear their debt after seeing it listed out.

Net worth is, quite simply, a calculation of what you actually own. It's the one number that tells you where you stand financially and what you're worth.

The higher the net worth the better off you are. However, there are no averages that you can compare your net worth to. Even comparing net worth of two individuals that are the same age may be misleading because of varying lifestyle choices.

By controlling your expenses and managing your budget, you'll be able to add to your investments. This in turn will lead to an increased net worth. To do this, you'll need to prioritize where your money is going

Options to Help You Overcome Financial Difficulty

Now that we've analyzed the cause of your financial troubles, your monthly income and expenses, your budget and calculated your net worth, we'll discuss what options you have to help you overcome financial difficulty.

The following are 4 options that are available. These are merely suggestions. You should consult an attorney prior to determining what option is best suitable for your situation.

1. Self-Help
2. Credit Counseling
3. Debt Management Plan
4. Bankruptcy

Self Help - Develop a Budget

If you and/or your spouse have a source of income but have a negative net disposable income at the end of the month, you may want to adjust your budget and allocate more money to paying down debt. You have to reassess your expenses and determine where you can save money. Use the budget analysis that you learned in this course to help you allocate more money to reducing your debt.

Self Help – Contacting Creditors

Some of your creditors may be willing to work with you. Contact the creditors and determine whether they will put you on a payment plan. If you're considering filing for bankruptcy, you may want to mention this to the creditors when you contact them. Remember, the creditors may want to take something and be willing to work with you rather than receiving nothing if you file for bankruptcy. It's important to contact the creditors as soon as possible prior to the debt being turned over to a debt collector.

Self Help – Debt Collectors

The Fair Debt Collection Practices Act spells out what a debt collector can and cannot do. If you're receiving harassing calls, you should send a written request to the debt collector to stop any further contact. They must honor this written request.

Credit Counseling

You can check this one off. This credit counseling program will provide you with the necessary skills to develop a budget and manage your money and debt. Upon completing the course, we'll email you forms that you can use to apply what you've learned.

Debt Management Plan

While working with a credit counseling agency or a debt management agency, the counselor may recommend that you enroll in a debt management plan (DMP). A DMP can help if you have too much debt or you're unable to repay the debt. Don't jump at the offer of entering into one of these plans. It's important to discuss all the options with your credit counselor. If creating a budget or one of the other self-help options work for you, you may not need to enter into a DMP.

In a DMP, your counselor will create a payment schedule with you and your creditors. You must deposit money each month with the credit counseling organization, which uses your deposits to pay your unsecured debts (credit card bills, student loans, and medical bills, etc.). The benefit of a DMP may be lower interest rates, lower monthly payments and waived fees. A successful DMP requires you to make regular, timely payments, and could take 48 months or more to complete. It's important to discuss with your credit counselor the full terms of the DMP and how long it will take for you to complete the plan. You should also discuss the cost associated with the credit-counseling agency to handle this DMP for you.

Bankruptcy

Prior to considering bankruptcy as an option, you should consult an attorney for legal advice. Bankruptcy may provide a fresh start and an opportunity to rebuild. There are 2 forms of consumer bankruptcies: chapter 7 and chapter 13.

A chapter 7 is also called a “liquidation bankruptcy” or a “straight” bankruptcy where most unsecured debts are discharged and you never have to repay them. The reason why a chapter 7 bankruptcy is called “liquidation” is because you have to give up your non-exempt assets. This property may be sold by the trustee administering your bankruptcy case and the proceeds used to pay your creditors. All states have exemptions and several states allow for federal exemptions which quantify the dollar value of property you can keep.

A chapter 13 is a reorganization bankruptcy where you must repay the debts (or a reduced amount) over a 3 to 5 year period. This includes your secured and unsecured debt. The bankruptcy code doesn’t allow for a payment plan longer than 5 years. This type of bankruptcy appeals to individuals who want to repay their debt and may not qualify for a chapter 7 bankruptcy because of excess income or non-exempt assets. To qualify for a chapter 13 bankruptcy, you must have a positive net disposable income at the end of the month.

It’s important to contact an attorney for legal advice on filing a chapter 7 or chapter 13.

Important Resources

Now that we’ve reviewed the options available to help you overcome financial difficulty, we’ve listed sources below that will help you through the process.

The United States Bankruptcy Court website provides further information about bankruptcy: www.uscourts.gov

The main federal agency for handling consumer rights issues is The Federal Trade Commission, or FTC. The FTC’s Bureau of Consumer Protection defends American consumers against injustice and fraud in the marketplace. According to the official FTC website, “The Bureau conducts investigations, sues companies and people who violate the law, develops rules to protect consumers, and educates consumers and businesses about their rights and responsibilities. The Bureau also collects complaints about consumer fraud and identity theft and makes them available to law enforcement agencies across the country.”

The FTC website has a wide array of information available. If you have questions about anything from buying your first home to dealing with identity theft, you’ll likely find the answers you need there, easily: www.ftc.gov

The Fair Credit Reporting Act guarantees you free access to your credit report from the three major, nationwide credit-reporting bureaus, Equifax, Experian, and TransUnion. It’s important to know that the Fair Credit Reporting Act also requires that you be informed any time your credit report is being used to your disadvantage. If this should happen, you have the right to dispute any information you believe to be inaccurate or misleading. www.annualcreditreport.com provides you one free credit report every 12 months. As per the FTC, AnnualCreditReport.com is the ONLY authorized source for the free annual credit report that’s yours by law.

The Better Business Bureau, or BBB, is an unbiased go-between for consumers and companies, and it seeks to build trust between those two parties. Businesses that meet high standards of ethics and honest business practices are eligible for BBB Accreditation. If you feel that you, as a consumer, have been treated unfairly, the BBB can provide honest evaluation and guidance. Visit www.bbb.org to find a location in your state.

What is a Credit Score?

Credit score is a 3-digit number that is generated using information from your credit report. It's primarily information that is obtained from one of the three major credit bureaus: Experian, TransUnion, and Equifax. Although there are several different methods of calculating the score, FICO (Fair Isaac Corporation) is the most popular.

This one number tells how creditworthy you are. Lenders use this score to determine the amount of risk they'll bear by lending you money. It often will be the determining factor on whether you qualify for a loan and how much interest you will pay for the loan.

The FICO credit score ranges from 300-850. Averages usually change, but having a FICO score of 720 or more is good. The following factors are considered when calculating your credit score:

Payment History
Total Amounts Owed
Length of Credit History
New Credit
Type of Credit in Use

Importance of Credit Scores

Your credit score is very important because it will be the determining factor in a lot of different events in your life. If you're purchasing a house, the lender will review your credit score prior to providing a mortgage. If you're purchasing a car, your credit score will determine the interest you pay for the auto loan. Many employers are reviewing the credit score prior to hiring to get an indication of who would make a good employee.

Thankfully, there are ways to improve your credit score.

Improving your Credit Score

There are several ways you can improve your credit score:

As we have already discussed, payment history is a factor in calculating your credit score. Start making your payments on time. This is the single most important factor. This will slowly start to raise your credit score. If you find it difficult to remember, start using automatic payments.

Reduce the total amount of debt that you have. Make it a priority to stop borrowing and focus on paying down your existing debt.

Since the length of credit history is important, it sometimes makes sense to keep old accounts open.

Don't open credit card accounts that you're not going to use. Don't open too many credit card cards. Again, although it's tempting to receive 15% off when opening a store card, resist the temptation, as opening a new credit card may have a negative impact on your credit score.

Check your credit report for errors. As we've already discussed, you're entitled to 1 free credit report every year. Review the report and dispute any errors you find on the report. The FTC (Federal Trade Commission) website has a sample letter and detailed information on how to correct any errors on your credit report. CreditKarma.com provides a free credit score service. Sign up is simple and it will provide valuable insight into your credit history, as well as help you identify any possible fraud that may be occurring on your account.

Conclusion

We hope that this budget and credit counseling course provided you with the necessary tools to make an informed decision. Regardless of what got you into financial distress, you have the power to turn things around with planning and simple changes. Be sure to calculate your budget every month and keep track of your progress. This will serve as your roadmap to a healthy financial future.

Monthly Income Worksheet

	Individual	Spouse
Income from employment:		
Income from 2nd employment:		
Alimony:		
Child Support:		
Government Assistance: (Social Security, Disability, Other)		
Rental Income:		
Other Income:		
Total Net Monthly Income (add all of the numbers here):		

Monthly Expenses Worksheet

Housing	Individual	Spouse
Rent or Mortgage:		
Equity Loan / 2nd Mortgage (including taxes, insurance, and association fees):		
Home Maintenance (lawn care, new rood, etc.):		
Utilities	**Individual**	**Spouse**
Electricity:		
Gas for home:		
Water / Sewer:		
Trash:		
Cell Phone:		
Home Phone:		
Internet:		
Transportation	**Individual**	**Spouse**
Gas for car(s):		
Car Maintenance (oil change, repairs, parking):		
Car Payment(s):		
Car Insurance:		
Public Transportation:		
Food	**Individual**	**Spouse**
Groceries:		
Dining Out (lunch, restaurants, etc.):		
Health	**Individual**	**Spouse**
Health Insurance:		
Co-Payments:		
Prescription Costs:		
Dental Insurance:		
Vision Insurance:		
Disability Insurance:		
Personal / Entertainment	**Individual**	**Spouse**
Personal (tobacco, alcohol, etc.):		
Beauty (barbershop, salon, etc.):		
Subscription (magazines, newspapers, memberships):		
Clothing:		
Entertainment (movies, vacation, rentals, hobbies):		
Miscellaneous Expenses	**Individual**	**Spouse**
Laundry / Dry Cleaning:		
Charity:		
Gifts:		
Child Care / Elder Care:		
Education Related Expenses:		
Child Support:		
Payment on other installment loans:		
Pet Expenses:		
Your Total Monthly Expenses Are: (Add up all the above numbers)		

Monthly Net Disposable Income Worksheet

The goal is to have your net monthly disposable income be a positive number.

	Individual	Spouse
Your Total Monthly Income:		
Your Total Monthly Expenses:		
Your Monthly Disposable Income = (Total Monthly Income – Total Monthly Expenses):		

Net Worth Worksheet

By carefully listing assets and liabilities, you will quickly come to learn how to make these items work in terms of meeting short term cash needs as well as planning longer term financial goals.

Assets	Individual	Spouse
Current Value of Home:		
Other Real Estate:		
Automobiles:		
Checking / Savings Account:		
Cash:		
Certificate of Deposits:		
Current Value of 401K (other retirement accounts):		
Other:		
Total Assets (Please add up all the Asset amounts):		

Liabilities		
Mortgage:		
Other Mortgage / Secured Debt:		
Auto Loans:		
Credit Card Debt:		
Student Loans:		
Total Liabilities: (Please add up all the Liability amounts)		
Your Net Worth (Please subtract your total assets from total liabilities):		

Personal Financial Goal Setting Worksheet

Use this worksheet to write down your goals. The more frequently you see your goals in writing, the better chance you will have of achieving them.

TIME FRAME	GOAL	STRATEGY FOR REACHING
Short-Term	____________________	____________________
Medium-Term	____________________	____________________
Long-Term	____________________	____________________
Short-Term	____________________	____________________
Medium-Term	____________________	____________________
Long-Term	____________________	____________________
Short-Term	____________________	____________________
Medium-Term	____________________	____________________
Long-Term	____________________	____________________

You may repeat this for as many goals as you have.

Short-term Goals are those that can be achieved within a one month to a one-year time period.

Medium-term Goals are those that can be achieved within a one to five year time period.

Long-term Goals are those that can be achieved in five years or more.