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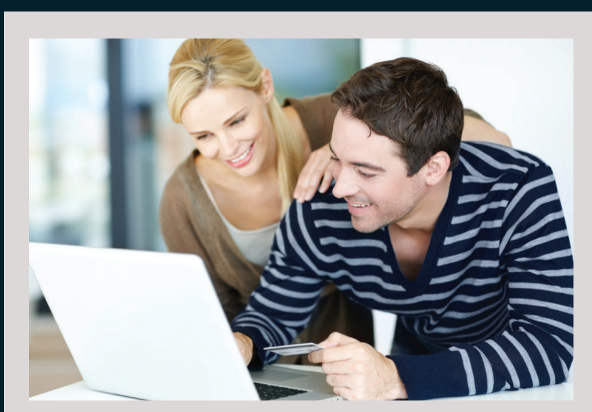
ACCC - The Credit Counseling Professionals

20 Steps to Financial Health:

Achieving Lifelong Financial Fitness



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On behalf of American Consumer Credit Counseling we are proud to present **20 Steps to Financial Health: Achieving Lifelong Financial Fitness**. This booklet is designed to provide an overview of the essential steps to achieving lifelong financial health – from getting financially organized and tracking your spending, to understanding credit and protecting yourself from identity theft.

We understand the devastating toll soaring debt and financial instability can take on Americans and their families. I founded our nonprofit organization in 1991 with the mission of empowering consumers to achieve financial health through education, counseling and debt management. Since that time, ACCC has helped tens of thousands of Americans achieve a wide range of financial goals – from understanding credit and overcoming debt to developing financial strategies and purchasing their first home. Each year we provide hundreds of free community workshops and more than 36,000 budget counseling sessions.

Our team has developed several publications and resources to help consumers improve their finances. We've created this booklet in the hope that it will be a valuable resource to help you achieve lifelong financial health. For more information and additional resources or assistance, please visit ConsumerCredit.com.

Sincerely,

Steve Trumble
President and CEO
American Consumer Credit Counseling

Welcome to **20 Steps to Financial Health: Achieving Lifelong Financial Fitness**. We hope this resource helps you take the necessary steps towards financial health and stability.

1. Pledge to change how you feel about money.

The first and most important step in developing and following a financial plan is to examine your attitudes about money.

Are you ready to accept responsibility for changing your financial situation? Do you believe that you can and will change the way you make financial decisions? Can you identify at least one benefit you hope to gain by changing your money management behavior?

You are definitely ready and able to start your path to financial wellness; if you are also willing, take the pledge!

2. Get Organized

After you make your pledge, it's time to get financially organized. Once organized, you will see your whole financial picture. Proper planning and discipline will help you make choices that will lead to sound financial management of your finances.

Start with your financial record keeping such as your income and expenses. All papers associated with your income and expenses should be kept in a safe place.

Next consider organizing your legal documents. This may include wills, health care proxy and power of attorney.

Once you have your finances organized you can feel good about moving forward and taking your next steps to financial health. To help get you started, download a free copy of ACCC's *Personal Financial Workbook* here:

www.ConsumerCredit.com/financial-education/budgeting.aspx

3. Get copies of your credit report

Your credit reports can provide a valuable snapshot of your overall financial situation. Reviewing your credit reports for accuracy can also help you to identify errors or fraudulent activity. The Fair and Accurate Credit Transactions (FACT) Act gives every consumer the right to receive a free credit report every year from each of the following credit bureaus: Experian, Transunion and Equifax. To check your report as often as possible, you can stagger your requests and get one report from one agency every 4 months. That way you'll see your report three times within a year.

To get your free credit report visit **www.AnnualCreditReport.com** or you may call directly at 877-322-8228.

4. Dispute any erroneous information on your credit report

If you find an error on your credit reports, you are protected under the Fair Credit Reporting Act (FCRA) and the credit bureaus are required to provide correct and complete information to companies requesting credit histories. If you find an error on your report, simply follow these steps:

- Write to the credit reporting agency disputing the item and include any supporting documents. Keep a copy of all documents for your files. See a sample dispute letter here: www.ConsumerCredit.com/financial-education/credit.aspx
- When the credit reporting agency receives your letter disputing the item, they must investigate the item in dispute (usually within 30 days) by presenting the information you submit to the creditor.
- By law, the creditor must review your evidence and report its findings to the credit bureau.
- The credit bureau must then give you a written report of its investigation and a copy of your report if the report results in a change.

You can also fill out an online dispute form provided by the credit bureaus. If an item on your report is found to be an error and is corrected, you can request that the credit bureau send corrected copies of your report to any creditor who received your report in the previous six months or any employer who received your report in the previous two years.

5.Set financial goals

Setting financial goals is an important step to financial health. Before you set your goals, follow the SMART rules.

Goals should be Specific, Measurable, Achievable, Realistic and Timely.

S = Specific; I will pay off $5k in unsecured debt

M = Measurable; I will allow $100 per month for that payment

A = Achievable; I can achieve this if I cut back on my expenses, my cable TV and my cell phone bill

R = Realistic; Instead of buying books or renting movies I will use my local library and attend free events

T = Timely; I will have my credit card debt paid off in 30 months

6. Set short mid and long term goals

When establishing your SMART goals, you may want to break them down further into short-term, mid-term and long-term goals.

Goals will differ in the length of time needed to achieve them. Short-term goals are priorities that can be accomplished within one year. Mid-term goals are priorities that can be accomplished within two to five years. Long term financial goals are priorities that may take more than five years to accomplish.

Notes:

7. Track your spending

While most individuals find tracking how and where their money is being spent tedious, it's critically important to achieving financial health.

You should track your spending for a minimum of 30 days before developing a budget. If you don't it can be difficult to really determine what your monthly expenses are. We recommend that you track your spending until you feel completely comfortable with knowing where you money is being spent.

There are many ways to track your spending. You can use a notebook and jot down every time you spend money. Another option is to keep all receipts, and then later sort and track them in an excel file or in a daily calendar. Either way, the first thing you need to determine is where your hard earned money is going.

8. Create a budget

A budget is the most powerful tool you have for managing your money and achieving financial health. A well-constructed budget is something that everyone could and should have.

A budget shows you the flow of money in (income) and out (expenses) of your household. A budget will also enable you to see how you are managing your money over a specific period of time. Perhaps most importantly, it details how much money you have, how much money you need to live and how you spend your money. You should plan on developing a budget and revise, revise and revise as your financial life changes. ACCC provides several resources to help you create and manage your budget here:

www.ConsumerCredit.com/financial-education/budgeting.aspx

9. Reduce spending

Reducing your daily, weekly and monthly spending is crucial in achieving financial health and an instrumental step to successful budgeting. You would be amazed at how much you can reduce your spending just by tracking what you are spending your money on.

Once you have determine what you are spending your money on, decide on where you can cut back to help support your new financial plans. There is an abundance of ways to reduce spending and here are just a few:

- Bring lunch to work
- Plan your grocery shopping and meals around sales
- Look for coupons that make sense to your family. Don't buy something you don't use or eat
- Cut back on cable and cell phone plans
- Look for free weekend entertainment
- Comparison shop for gas
- Take advantage of company benefits such as morning coffee (if available) instead of store-bought coffee
- Consider refinancing your mortgage and life insurance
- Keep up with scheduled auto maintenence to prevent costly issues later
- Consider public transportation or carpooling
- Shop for clothes out of season to find the best deals

Find more money-saving tips in ACCC's *How to Build Savings by Cutting Back*. Find it here:

www.ConsumerCredit.com/financial-education/budgeting.aspx

10. Determine your net worth

Determining net worth can help you measure your progress over time. The more you can save, the greater your net worth will be. Net worth is determined by subtracting your liabilities from your assets. Liabilities include major expenses and debt.

Periodically evaluating your net worth can also help you in making financial decisions.

11. Pay down debt

There are two schools of thinking when it comes to tackling debt. One method is to concentrate on paying off the debt with the smallest balance first (never forget to make required payments to all debts, of course). After that balance is repaid, you can then apply that payment to the card with the next smallest balance and continue the process until all debts are satisfied. This method can be very rewarding because you see progress quickly.

The other popular method is to first concentrate on repaying the debt with the highest interest rate. This method will save you the most in interest charges over time. Regardless of the method you choose, be patient and persistent. You can calculate your monthly payoff amount and date of completion using ACCC's debt payoff calculator here:

www.ConsumerCredit.com/financial-education/financial-calculators/debt-payoff-calculator.aspx

12. Eliminate unnecessary credit cards

The truth is there is no "correct" amount of credit cards to own and use. When determining the impact on credit there is no one size fits all type of answer. The credit scoring model looks at the number of credit cards you have, but always in comparison with other information on your credit report. The best number of credit cards depends on your ability to manage your debt and credit card payments. You can tell if you have too much credit by looking at and analyzing the following:

a. Debt to income ratio
b. Do you have difficulty managing credit cards?
c. Is your credit utilization too high?
d. Do you have too many cards?
e. Is your mix of credit healthy?

For help finding answers to these questions, use ACCC's *Personal Financial Workbook* found here:

www.ConsumerCredit.com/financial-education/budgeting.aspx

13. Start a savings plan

Reaching your financial goals requires a strong commitment to saving. That is one reason saving is an essential part of achieving financial health. You should plan on committing to a 10 percent savings plan.

If you are having trouble establishing a nest-egg, don't despair. The following are some simple ways to boost your savings:

- Direct deposit – most employers offer this convenience
- Cutting back where ever possible
- Having a garage sale to get rid of unwanted items
- Even consider a part time job

14. Protecting your assets

One of the best ways to care for your family and achieve financial health is to be sure that you are prepared. The following are four critical policies to review and consider to help ensure protection for your family if something were to happen to you or another member of your family:

- Review your health insurance policy and ensure there is adequate coverage
- Auto policy
- Life insurance
- Disability insurance

15. Managing major purchases

Do you have a major purchase coming up like a new car, a home or possibly even a new television? No matter what you are thinking of purchasing, planning, preparing and managing a major purchase is part of achieving financial health. Prior to making a major purchase review the following:

a. Financial goals – Make sure you have included your major purchase in your goals and plans to pay for your major purchase

b. Budget – can your budget support this purchase?

c. Cash flow – Do you have any cash to put towards your major purchase?

d. Accessibility and availability of credit – Are you in a strong enough financial position where you will be granted credit with reasonable terms?

Notes:

16. Securing your financial future

You work hard for your money and your money should work hard for you. Investing is one way to potentially grow your net worth.

Prior to investing you should think about your tolerance of risk. We all want our money to grow big and fast, but how much risk are you willing to assume? Before you invest, do your research and comparison shopping. If you have access to a financial planner that you can trust that is probably a good start. If not you should compare before signing on your future financial assets.

And whenever possible take advantage of employer-sponsored investment plans such as a 401k. These can help you prepare and secure your financial future.

17. Financial checkups

Achieving financial health doesn't happen overnight. It takes time and commitment and that is why a periodic check-in and make sure you are on track is beneficial. It's easy to let things fall by the wayside once you have established a routine, but things change.

Plan on reviewing what you have put in place every 3 months. You do not need to spend a great deal of time, but a quick review can be quite helpful. If you experience a job promotion and your income has changed for the better, this is a great opportunity to check in and update your financial plan.

18. Understanding the cost of credit

It is important to carefully weigh your options before making a credit decision. When you sign or co-sign an application for credit, you are agreeing to all its terms. Moving forward, commit to understand everything that you are agreeing to. At the very least, compare the following terms before making a borrowing decision:

- **Interest rate or APR** - APR is the annual interest rate you will be charged on a loan or the unpaid balance of a credit card
- **Length of the loan** - as the length of the loan increases, the monthly payment will decrease, but the total interest charge will increase
- **Finance charge** - the total cost of the loan stated in dollars
- **Credit limit** - the maximum amount you borrow at any time
- **Minimum monthly payment** - the smallest payment your creditor will accept
- **Grace period** - number of days you have to pay your bill in full before interest is charged
- **Over the limit and late fees** - the amount you will be charged if you are late with a payment or go over your credit limit

Notes:

19. Protecting your identity

Identity theft happens when your personal identification information such as your social security number, your name or your credit card is stolen to commit fraud. Identity Theft is one of the Federal Trade Commission's leading complaints.

One of the easiest and most effective ways to determine if you have been a victim of identity theft is by pulling your credit report. This is the first place you will probably notice signs of victimization. Pay attention to the following ways identity theft happens:

a. **Dumpster Diving** – Shred any papers with account numbers including personal checks, or any personal identifying information

b. **Skimming** – Credit/debit card numbers are stolen by the use of a special storage device when your credit card payment is being processed

c. **Phishing** – If you get emails from financial institutions asking you to reveal personal information

d. **Changing your address** – Never fill a change of address form for a company/individual you do not recognize.

e. **Stealing** – If your wallet is stolen is a sure fire way of having your identity misused

f. **Pre-texting** – Emails claiming you are the heir to a fortune, or one from a government agency saying you will get $200,000 in a pre-paid card aftering sending $100

Always remember, if it sounds too good to be true, it is.

20. Watch out for the warning signs

Sometimes we don't see the signs of financial trouble until it is too late. However, knowing how to recognize the warning signs may help save you from having your debt spiral out of control. Some of these signs may include:

- Paying your bills after the payment due date
- Missing your credit card or loan payments altogether
- Relying on overtime to cover your debt related expenses
- Borrowing from family members to make your monthly debt payments
- Skipping one credit card bill to pay another
- Transferring balances from one credit card to another
- Ignoring your credit card statements
- Not having set aside money in your monthly budget to pay off your debts

About American Consumer Credit Counseling

American Consumer Credit Counseling (ACCC) is a non-profit 501(c)(3) organization dedicated to empowering consumers to achieve financial health through education, counseling, and debt management. ACCC provides individuals with practical solutions for solving financial problems and recognizes that consumers' financial difficulties are often not the result of poor spending habits, but more frequently from extenuating circumstances beyond their control.

As one of the nation's leading providers of financial education and credit counseling services, ACCC works with consumers to help them with the best plan of action to reduce their debt and regain financial stability. ACCC is accredited by the Better Business Bureau and holds an A+ rating. It is also a member of the Association of Independent Consumer Credit Counseling Agencies. For more information or to access free financial education resources log on to **ConsumerCredit.com**.