A SURVIVAL GUIDE TO POST-BANKRUPTCY

HOW *to* EMERGE *from* BANKRUPTCY *and* THRIVE

Material adapted from Mitchell Allen's *A Survival Guide to Debt*

D|E|C|A|F
Debt Education and Certification Foundation

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First Edition

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Dear DECAF Student,

If you are reading this booklet, you are on your way out of bankruptcy. You have faced some financial difficulties in your past, but you have found a path out of them and are on your way to a secure financial future.

Regardless of why you were in financial trouble, there are lessons you can learn from your experiences. This booklet is designed to give you supplemental material to the course that you recently completed, to help you understand some of the behaviors that may have lead to the trouble, and to outline responsible financial habits that will keep you out of trouble in the future. Though all of the material presented here may not apply to you, it—combined with your own knowledge and experience—should provide a foundation on which you can build financial security. My hope is that with this information, you will be able to achieve all of your financial and personal goals.

Good luck,

Mitchell Allen

INTRODUCTION

You are at a very important point in your financial life: You have completed the requirements for filing personal bankruptcy and are about to have your eligible debts discharged by the court. You now have the opportunity for the fresh start promised by the United States Bankruptcy Code.

It is extremely important that you make the most of this opportunity. This booklet will give you the basic information you need to approach your financial "do-over" in a way that will help you lay the foundation for a future free from financial problems.

As you prepare for your debts to be discharged, it is important that you consult with your attorney about any final requirements necessary to complete your bankruptcy obligations. And as you head into post-bankruptcy life, you may want to consult with a financial advisor about how to rebuild your financial foundation.

These last steps in the process may seem like a burden being lifted. Or they may cause a new point of anxiety if you feel that you still face an uphill financial battle. Your bankruptcy filing is still evident on your credit report, you may not have the cash reserves you need to feel secure, and you may still be carrying some guilt about filing bankruptcy in the first place.

Year after year, surveys by groups like the American Psychological Association tell us that worries about money are close to the top of the list of stressors for most of us. A survey completed in September 2008—the same month that the stock market was in freefall and Congress was debating a $700 billion financial bailout—showed that almost half of those surveyed were "increasingly stressed about their ability to provide for their family's basic needs" (www.apa.org/monitor/2008/12/money.html). Money will always be a stressor for most people.

By putting into practice the principles and ideas in this booklet, you will be able to approach your financial future in a confident, disciplined way. The information in this booklet will also help you avoid the bad habits that may have contributed to the financial problems that led you to file bankruptcy in the first place.

In these pages, you'll read about the basics of sound household financial practices—budgeting, spending, saving, and the responsible use of credit—and you'll learn how you can maximize your purchasing power and minimize your chances for straying off the path to financial success. This booklet can also serve as additional material to the things you've learned in the credit counseling and debtor education courses as part of filing bankruptcy. Note that not all parts of this booklet may apply to you, so it is organized as clearly as possible so that you can reference the information most relevant to your situation.

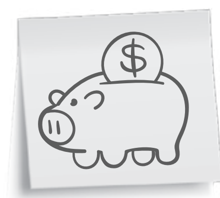
These basic principles, if followed consistently, will help you build a more secure future, free from the worries of too much debt and less vulnerable to fluctuations in the economy. Best of all, you'll find yourself enjoying life more and worrying less about how you're going to cover next month's bills.

UNDERSTANDING YOUR "MONEY ATTITUDES"

It may not surprise you that people tend to be very emotional about money. Our decisions about money, whether conscious or unconscious, are often driven primarily by emotion. Understanding that the topic of money is fraught with emotion—whether consciously recognized or not—is an important first step to gaining understanding about the proper use of money. The truth is, money, at its most basic level, is nothing more than a tool. If used properly this tool can aid in creating a happy and satisfying life, but if used improperly it can lead to misery. If you can evaluate your emotions regarding money and identify where improvements can be made, you can begin to gain a perspective on your financial life that will help you make wiser decisions in the future.

It's also important to realize that your attitude about money—like your attitude about almost everything in your life—was partially formed when you were very young.

Money, at its most basic level, is nothing more than a tool.



YOUR "MONEY BIOGRAPHY"

Most of us acquired at least some of our attitudes about money from the financial management styles of our parents. For example, the son of a farmer may have watched his dad go to the bank and borrow money to buy seed, fertilizer, fuel, equipment, and other necessary expenses involved in planting and harvesting a crop and then pay off the debt at the end of the year—at least in a good year it worked that way. Since the boy grew up in a household where debt was a normal way of life, he probably has a fairly accepting attitude toward the idea of incurring debt. On the other hand, the daughter of a couple that paid cash for everything, avoided debt at all costs, and were zealous savers, probably has a very different attitude toward debt. As an adult, she works hard, lives a fairly simple life, and has a sizeable amount of money in her savings account and her retirement accounts. Like her parents, she pays cash for almost everything.

Which model is the right one? Neither. On the other hand, neither one is wrong. There can be good reasons to incur certain types of debt, and there are times when it makes more sense to focus on saving. The key is to analyze the situation, recognize that there will be some emotional components you will have to contend with, and apply what you have learned from your experiences with bankruptcy and the financial management courses you have taken to make wise decisions given your circumstances.

Let's examine your personal financial culture. First, think about the financial culture in your family when you were growing up. Take out a piece of paper and write down your thoughts about the following questions:

- Did your dad purchase new toys like boats, new cars, motorcycles, and the latest sporting equipment?
- Did your mom always have the latest fashions, enjoy activities, give gifts, and host parties?
- Did your family discuss finances?
- Did your parents complain about bills and expenses?
- Did your mom work, and did she have "separate" money?
- Did your parents save or did they rely on credit?
- Did you and your siblings have an allowance?
- Were there other events in your childhood that shaped your thoughts about money?

Likely, most of your answers to these questions were more complicated than yes or no. These questions and your answers provide a snapshot of the financial culture you grew up in and how this culture shaped the attitude you have today.

As if that weren't complicated enough, people who live together must also be aware of the inherited money attitudes of their partners, since we all come from different backgrounds and probably have different assumptions, attitudes, and beliefs about financial matters. Dealing with the differences caused by such diversity of experience is an important part of understanding your household's financial culture.

People who live together must also be aware of the inherited money attitudes of their partners.

WHAT IS YOUR "MONEY PERSONALITY"?

Most people who get into financial trouble do so, at least in part, because they have accumulated an unmanageable load of debts. And if some of those debts were a result of your personal behaviors, hopefully an honest examination of those behaviors will aid you in your quest to recover from bankruptcy and not repeat mistakes of the past, whether it was using credit instead of cash, making purchases immediately rather than waiting until you had money to cover it, or gradually spending a little more than you earned.

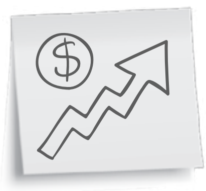
It may not be realistic to assume that reading this booklet is going to fundamentally change your financial personality. However, by adopting some of the ideas presented here, you may very well be able to adapt your spending behavior in ways that will help you overcome and not repeat mistakes that led you here.

It will be helpful to do a little more analysis of the different ways this behavioral style plays out in everyday life. Understanding your financial personality and behavior is the first step in gaining better control of your money. It's also important to remember that spending isn't always wrong.

"Splurge" Spenders

Variously classified by financial behavior analysts as "high rollers," "pleasure seekers," and "happy-go-lucky," splurge spenders tend to engage in expensive, even lavish buying habits with little thought for future consequences. Spenders in this category like the finer things, and they will gladly incur debt—often, lots of it—to have these things. The fact is, splurge spenders get deep, emotional satisfaction from the act of spending money.

If you think you may fall in this group, seek long-term value in your spending behavior, rather than short-term excitement or gratification. You will probably always feel the urge to spend money, but the goal is to start reining in your spending habit to something more manageable and helpful for your long-range financial security. By limiting your spending—especially your big-ticket items—to things that will provide value for a long time, you will also get the maximum benefit for those times when you do spend money. Finally, you really should try to discipline yourself to save at least something on a systematic basis.



Seek long-term value in your spending behavior, rather than short-term excitement or gratification.

Sale Spotters

Sale spotters are the spenders who honestly believe if they're buying it below normal retail, it's got to be good. Somewhat like the splurge spenders, these folks are very focused on what's on sale today and not too worried about how the purchase will affect their bottom line tomorrow. For sale spotters, the thrill of the chase is the primary motivation.

Sale spotters will always use store loyalty cards and incentive programs, even to the point of buying things they don't really need, simply to get the discount.

For the sale spotters reading this booklet, go with your strengths and use cash, not credit, to bring down your bargain-hunting big game. Even if it's an unbelievable markdown, using credit to buy it will usually add loads of interest to the eventual purchase price, turning your good deal into dead weight. By all means, keep looking for those bargains. But focus your energies on things you really need, not on add-ons or options. Just because it's in the sale circular doesn't mean you need it.

The Giver: Spending as Caring

This spending pattern is tricky, because this type usually derives little, if any, personal financial benefit from his or her spending behavior. Instead, this person spends in order to give it away, because that's what makes him or her feel good inside, or because the giver believes or senses that the gift will make the recipient feel loved, respected, or appreciated. But givers' spending, though ostensibly for the benefit of someone else, is really undertaken to meet their own emotional needs.

Givers will continue to buy things—often, quite costly things—for the objects of their attentions, even when the giver can't afford it and couldn't be reasonably expected to incur the expense. They will run up debt with little thought of the consequences. For givers, love and money are so deeply intertwined that they are almost the same thing.

But if givers don't take care of themselves, they will soon be unable to take care of anyone else. Think of it this way: by saving your gifts for really special occasions or for things that are truly necessary for the people close to you, you can get the maximum bang for your giving buck. And the greatest gifts you can give may not involve money.

By saving your gifts for really special occasions, you can get the maximum bang for your giving buck.

If you are a giver who is trying to change to a healthier pattern, you may need to have some honest communication with the people who have been on the receiving end of your spending. You need to explain that just because you aren't spending money on them doesn't mean your feelings toward them have changed. It won't be easy, but you must address this underlying misperception for yourself and any other people who might be involved in the cycle. Otherwise, you won't be able to escape this self-defeating pattern.

The Ostrich

Spenders in this category, like the proverbial ostrich, keep their heads in the sand as far as their financial circumstances are concerned. They probably haven't opened a bank statement in years, and if they are in credit card trouble, they probably have a pile of sealed envelopes containing account information they would rather not see. They usually have no idea how much debt they have or how much it's costing them. They don't know, and deep down, they don't want to know.

Ostriches are likely to overspend on eating out, designer coffee, and other small purchases. If they consider such expenditures at all, they are likely to persuade themselves by thinking, "It's just one dinner," or, "I really need my extra-tall mocha cappuccino with two shots in the afternoon," until the cumulative effect of all those "reasonable" and "just-this-once" expenditures eventually becomes too much for them to handle.

Ostriches need to pull their heads out of the sand and begin asserting some control over their financial behavior.

Obviously, this is a very dangerous financial attitude. An ostrich spender must realize that he or she alone is responsible for his or her financial behavior and well-being; there's not much that any advice, training, or book can do for them. They frequently feel helpless in financial matters, but that is mostly because of their unwillingness to educate themselves and take charge of their own affairs.

Ostriches' biggest need is to pull their heads out of the sand and begin asserting some control over their financial behavior. It will take focus, determination, and discipline. You also might want to keep this booklet handy and reread it a few times.

You may recognize yourself or a family member in one of these personality types. These are not by any means every type of spending behavior that exists, and some people may exhibit characteristics of more than one type, but they are somewhat indicative of the primary behaviors that get people into debt trouble.

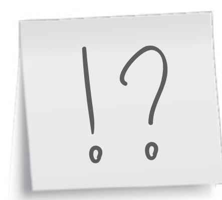
The next step is to convert this awareness of your financial attitudes into action, exchanging your less healthy impulses for some new habits that will keep you moving in the right direction with your money.

FAMILY FINANCIAL COMMUNICATION

Many of you live in households with other people who will have a huge impact on what you decide and what you actually do. For that reason, it's important, as you begin your journey toward financial health, to have some honest family conversations about money matters and establish a pattern of open communication. Talking openly and honestly about money matters—budgeting, spending, and saving—will help to form a healthy financial culture for your household. When everyone is on the same page, you've got a much better chance of establishing the practices that will keep you out of trouble in the first place. It's vital to acknowledge with your family that "this is *our* problem; we have to solve it together."

Many of the people who come for financial counseling or help with their debt are feeling the strain in their marriages, their parenting, and in just about every other area of their lives. As any marriage counselor or divorce attorney can tell you, family friction over money plays havoc with relationships. You can be sure that if any relationship problems do exist, money will factor into the equation, almost every time.

Communication is one of the most important skills you can develop for building a secure financial future.



Frequently, one of the contributing factors to the debt overload faced by households is poor communication: he spends money on things that he thinks are none of her business; she intercepts the credit card statements so he won't know how much she charged last month. Such behaviors are ultimately not only self-defeating, but destructive to relationships. Until everyone involved acknowledges the fact that change is necessary and takes ownership of the process, it will be difficult for any real progress or change to occur.

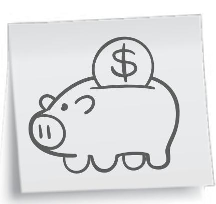
INVOLVE THE KIDS

It's a mistake to think that family finances aren't an appropriate topic for children. Whether or not you speak openly with them about money, your children are acquiring financial assumptions and attitudes. While it is not necessary to share all the details of your financial life with younger children, it's certainly a good idea to begin teaching them at an early age about topics like saving money for future needs. When important financial decisions are being made, involve the children in the conversation. They certainly can't be expected to make the final decisions in such matters, but they should feel that their opinions and feelings matter.

SET GOALS—TOGETHER

Goals are just as important in your financial life as they are in other areas. As you begin your money makeover, take some time to sit down with your spouse or partner and talk about where you'd like to be in your finances in six months, a year, five years, or even at retirement. While your focus may need to be more on the short term right now, it doesn't hurt to have a long-range objective in mind. You can always adjust your goals to make them work for you, as long as you agree on your financial intentions.

Keep your financial goals in front of you all the time. You might want to write your four or five most important financial goals on an index card and stick them on the refrigerator door. The point is that the goals should be something everyone agrees on, and they should be talked about on a regular basis—say, once a month.



Keep your financial goals in front of you all the time.

Here are some examples of goals you might consider:

- Have $1,000 in savings by October.
- Pay off student loans in the next thirty-six months.
- Fully fund my 401(k) (or IRA) next year.
- Pay cash for a new refrigerator (or other necessary major purchase).
- Be debt-free within the next five years.

HOLD REGULAR "FINANCE COMMITTEE" MEETINGS

Most of us tend to avoid the unpleasant whenever possible. If you only talk about money when there's a crisis, guess what? You'll eventually avoid talking about it altogether. Instead, why not establish regular times—maybe around the first of the month, or whenever you're paying bills—to discuss family finances? Don't just focus on problems; share the success stories, too (yes, there will be some). When you keep each other informed about what's going on with your money, you reduce the chances that someone will make a rash or ill-informed decision.

TALK ABOUT MAJOR PURCHASES

We may have varying opinions about what constitutes a "major" purchase, but err on the side of safety. Especially if you or your partner have had a tendency in the past to make large impulse buys, it's important to commit to the discipline of agreeing before committing to any large purchase that is not necessary to the immediate health or safety of your family. These types of decisions might even be appropriate for a "family meeting," where everyone has a chance to hear the alternatives and express opinions and feelings.

Make some commitments about what constitutes a major purchase for your family: anything over $100, $500, $1,000—whatever works best in your situation. Make an agreement that no purchase above this amount will be made unless both partners—or the entire household—have discussed it, carefully considered its impact on household financial goals, and agreed to it.

By the way, this principle also applies to allocating large infusions of cash—tax refund checks, for example. You should think carefully and strategically about how to use these resources. Rather than running out and blowing the whole wad on the new laptop you've been wanting, talk to your spouse or partner about how to use the money in a way that is most beneficial for the entire household. This idea probably doesn't sound like nearly as much fun, but once the hard work is done, you'll be able to afford to reward yourself with some more enjoyable expenditures.

AVOID BLAMING

Inevitably, mistakes and mishaps will happen: a checking account will get overdrawn because of a math error; someone will get a traffic ticket at the worst possible time; the electric bill will be double what it was the previous month—the list is endless. Accept that these things will happen, and try to avoid pointing fingers.

Keep your goals in mind and realize that even when mistakes or unexpected barriers arise, you're staying on the right course for eventual success. As long as everyone is continuing to strive for a mutual goal, you shouldn't allow yourselves to get bogged down by the inevitable temporary delays.

Also, an atmosphere of faultfinding is hardly conducive to the type of open communication you need in order to be successful. Don't assign motives, don't second-guess decisions, and don't lay blame.

SHARE THE LOAD

Part of open communication is sharing of available knowledge. One of the best ways to do this is by dividing up the financial tasks so that everyone is involved in the ongoing financial functioning of the household. If one of you pays the bills, let the other balance the bank statements. Alternatively, divide up the responsibility for paying the monthly bills. However you do it, try to arrange the workload so that every responsible person can be involved in knowing the process by which the money flows into the household accounts and out to pay necessary expenses.

FINANCIAL GOAL SETTING

Setting financial goals is one of the basic components of financial communication. It's also the first necessary step to getting from where you are now to where you want to be. You have to know where you're going in order to know if you're headed in the right direction.

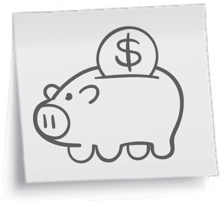
BASIC PRINCIPLES OF GOAL SETTING

The following points are drawn from "Building Wealth: A Beginner's Guide to Securing Your Financial Future," an interactive online course offered by the Federal Reserve Bank of Dallas (http://www.dallasfed.org/ca/wealth/index.cfm):

- **Goals should be realistic.** If you've just emerged from bankruptcy, you might want to focus on something basic, such as building your savings or putting extra money toward your mortgage.
- **Goals should have time frames.** You will probably want to establish long-term goals as well as more short-term targets. If all your goals are long-range (or, worse, start with the words, "Someday, I'd like to . . ."), they may be too vague to motivate you.
- **Make a plan.** If you want to pay off the second lien on your home five years early, figure out how much extra you need to pay on the loan each month. Next, by looking at your budget, decide how you will reallocate your monthly expenditures to allow you to make the extra loan payments.
- **Stay flexible.** Remember that a goal gives you direction; this doesn't mean that your direction can never change. In fact, circumstances

beyond your control may dictate that you rethink your goals from time to time.

PRINCIPLES OF FINANCIAL GOAL SETTING



- Be realistic
- Set a time frame
- Make a plan
- Stay flexible

SHORT-TERM GOALS

As you begin formulating your financial objectives, you should think of short-term goals as those that take a year or less to accomplish. They also normally involve smaller amounts of money and often have very specific deadlines. Short-term goals could include things like paying off a small credit card balance in the next three months. Short-term goals are important because they can get you focused on your progress. Even if you aren't 100 percent successful with your short-term goals, however, you shouldn't become discouraged. In fact, you probably accomplished more with a near miss on a short-term goal than you would have with no future objective in mind.

MID-RANGE GOALS

Think of mid-range goals in terms of what you want to accomplish in the next one to three years. These can include objectives such as paying off a car loan or saving enough to pay for a new refrigerator. Typically, such goals require larger amounts of money and may be somewhat less time-specific than short-term goals. The importance of mid-range goals is that they cause you to begin thinking more strategically. Instead of focusing only on getting through the month or making it past tax season, you begin to consider the longer-term ramifications of your financial decisions.

LONG-TERM GOALS

These goals will take three years or more and will require the largest financial outlays to achieve. They will also require the most careful planning. However, since long-term goals often include some of our most dearly held dreams—owning a home, financing a child's education, buying a business, or even taking an early retirement—they can be powerful motivators.

MAKING IT REAL

One simple way to get yourself organized toward meeting your goals is constructing a simple chart like the one shown here. It should include your goals, the date by which you intend to achieve them, how much they will cost, any amounts already saved toward the goal, and how much you need to set aside each month to stay on track.

Goals as of 6/1/2010

Goal	Target Date	Total Cost	Saved/Paid	Needed Per Mo.
Pay off car	02/15/2014	$16,700	$5,000	$260
Buy new TV	04/31/2011	$1,200	$200	$100
Down payment for house	10/01/2012	$15,000	$2,500	$446

Even if you're more of an informal goal-setter, you'll find it helpful to have a written record of what you want to accomplish, when you want to accomplish it by, and the steps needed to stay on track. A written plan keeps your goals in the forefront of your mind, so that the next time you're tempted to make an impulse purchase that could delay your progress toward your objective, you'll be more likely to weigh the benefits versus the drawbacks.

Now it's time to take the next step toward making your goals a reality. It's time to set up your budget.

CREATING A BUDGET

For many people in or recovering from debt trouble, making and sticking to a budget is one of the toughest tasks in the to-do list. There are probably as many reasons given for not budgeting as there are people in financial trouble. Unfortunately, there's really no shortcut on this one. You've got to get past your distaste, fear, anxiety, or any other negative emotions that may be preventing you from learning how to set up a budget and get started doing it. Budgeting doesn't have to be complicated or even very time-consuming. But it does have to be done—because your monthly budget is the self-correcting internal guidance system for your journey to financial health.

If you have completed DECAF's pre-bankruptcy certification credit counseling course, you have already completed a monthly cash flow statement. If not, you can find information about creating a monthly cash flow statement at www.bkcert.com by taking Course 1: Before Filing. You will probably find the statement very helpful as you begin preparing your budget. As a matter of fact, at its simplest level, that's what a budget is: a plan for making sure that money coming in matches favorably with money going out during the same period. However, at this point, we're going to get a little more detailed in the information we include.

Take a look at the worksheet on page 18. You can make copies of it, use your own, or use the worksheet available at www.bkcert.com.

INCOME

Get out your most recent monthly pay stub (hard copy or online) and find the amount listed as your "gross pay." This is your monthly income, before your employer deducts taxes, insurance, or other costs. Write down this amount in the field indicated on the worksheet on the next page. If you have the capability of working overtime for extra money, estimate as closely as you can the amount of money you receive for overtime during an average month. Enter this amount in the space provided. Next, look at each of the deductions listed on your pay stub. They will probably include items like payroll taxes, Social Security, Medicare deductions, insurance (perhaps both life and medical), union dues, and pension or retirement deductions not paid directly by your employer. List these deductions in the appropriate fields, and list the total of any other deductions in the space indicated as "other."

If you have rental property that generates income (an amount of money in excess of any payments and taxes on the property), enter that amount as "income from real property." Enter your Social Security payments, pension payments, or regular income from other retirement plans as indicated. If you have other monthly income (from work you perform as an independent contractor, freelancer, a second job, etc.), enter this amount on the line labeled "Other monthly income." Add up the income, subtract the amounts of any deductions listed, and enter the result on the bottom line marked "Total monthly income." Note that if you receive untaxed income as a contractor or freelancer, you should subtract the amount of estimated taxes from this income before including it in the "Other monthly income" category.

EXPENSES

Now we need to look at the other side of the ledger. A good place to start is by separating your expenses into three categories: fixed, variable, and periodic expenses. In the first category, place items like your mortgage or rent, car payments, insurance premiums, and other monthly expenses that do not change. In the second category you should group expenses like utility payments, entertainment, clothing, food, and other costs that change each month. Periodic expenses are items like vehicle registration, taxes, and holiday expenses that come around regularly, but less frequently than monthly.

Another way to categorize expenses is by priority. High-priority expenses are those that carry serious consequences for nonpayment. If you don't make your

Monthly Budget Worksheet

INCOME

Monthly gross pay	$ _____
Monthly estimated pay	$ _____

Deductions

Payroll taxes	–$ _____
Social Security	–$ _____
Medicare	–$ _____
Life insurance	–$ _____
Medical insurance	–$ _____
Union dues	–$ _____
Pension/retirement	–$ _____
Other	–$ _____

Other Monthly Income

Income from real property	$ _____
Social Security payment	$ _____
Pension/retirement plan payment	$ _____
Alimony	$ _____
Child support	$ _____
Other monthly income	$ _____
Total monthly income (net income)	$ _____

EXPENSES

Fixed Expenses

Rent/mortgage	$ _____
Car payment	$ _____
Home insurance	$ _____
Renter's insurance	$ _____
Health insurance	$ _____
Life insurance	$ _____
Auto insurance	$ _____
Other insurance	$ _____
Internet	$ _____
Cable	$ _____
Alimony	$ _____
Child support	$ _____
Other fixed expenses	$ _____

Variable Expenses

Utility payments	$ _____
Clothing	$ _____
Food	$ _____
Gas	$ _____
Other transportation	$ _____
Reading material	$ _____
Entertainment	$ _____
Body care	$ _____
Other variable expenses	$ _____

Periodic Expenses

Vehicle registrat. & inspect.	$ _____
Income taxes	$ _____
Property taxes	$ _____
Holiday expenses	$ _____
Charitable donations	$ _____
Subscriptions	$ _____
Other periodic expenses	$ _____

Savings

Monthly savings	$ _____
Vacation fund	$ _____
Remodeling account	$ _____
Total monthly expenses	$ _____

mortgage payment, you risk foreclosure. Low-priority expenses do not carry such severe consequences if unpaid.

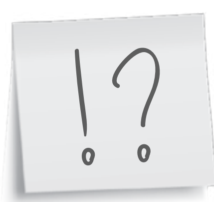
High priority expenses are those that carry serious consequences for nonpayment.

Using the online worksheet available at www.bkcert.com or a copy of the one shown here, list your monthly expenses. You may need a recent checkbook register or, if you pay your bills using an online service, a listing of your recent account activity. Be sure to include expenses for categories such as entertainment, charitable contributions, and clothing, especially if these types of expenses tend to recur regularly. For your variable expenses, you may need to take an average of several months' payments to calculate a monthly amount for budgeting purposes. Add up your last three months' expenditures for these items and divide by three.

One way to make your budget work for your lifestyle is to personalize your expense categories to match the way you tend to spend. For example, if you prefer reading books over going to movies as a mode of entertainment, you might want to have a separate category for "books" in your expense column. The point is to make the budget a true reflection of what happens to the money you make. It's also a good idea to create a line item for savings. If you commit to a periodic amount for savings, you're much more likely to accumulate money rather than just spending it. It might even help to call the savings line item "vacation fund" or "remodeling account," if these are goals you have set for yourself and your family. Unless you have a plan for savings, you probably won't ever have anything left over.

When you have all your expenses listed, total them and enter the result on the line titled "Total monthly expenses." If things are working properly, this number should be the same or, even better, smaller than the amount you entered as "Total monthly income." If it's not, you've got to figure out why your expenses are more than your income and adjust accordingly.

Unless you have a plan for savings, you probably won't ever have anything left over.



TURNING YOUR BUDGET INTO REALITY

Now that you've completed your budget, you can see how your income and expenses play out. But seeing numbers on paper is not the same thing as making those numbers work on a day-to-day basis. If your expenses are more than your income, you have some work to do to balance your budget. If your income is more than your expenses, great. But you still have to make sure you stick to your budget every month to avoid falling into financial deep water. This section is all about how to make your budget work, regardless of your situation.

STEP 1: BALANCE YOUR BUDGET

If your expenses are more than your income, you must figure out ways to do one of two things: either earn more or spend less. It's that simple. Without a balanced budget, no household or business can operate. You must figure out a way to make your monthly expenses match your monthly income.

Don't Use Credit as a Budgeting "Slush Fund"!

First things first: You may notice that the "Expenses" listing has no category for credit card payments. For many people, this represents the way overflow expenses are handled: they're simply charged to the plastic and put out of mind. But this type of undisciplined use of credit leads right back into the kind of trouble you just escaped.

Avoid the temptation to use credit cards to "balance" your monthly budget.

You should avoid, at all costs, the temptation to use credit cards to "balance" your monthly budget. This creates a false sense of security that will come back to haunt you in the form of mushrooming payments and punitive interest.

Take a Part-time Job for More Income

A simple way to earn more income to balance your budget may be to ask for more hours at your present job, or work some overtime, if it's available. By law, most companies must pay at a higher rate for overtime, and that additional cash can help you satisfy your creditors that much quicker.

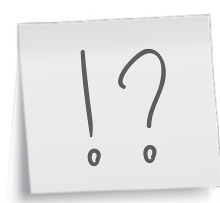
If you're doing a great job for your employer, do you have the opportunity for a raise, either as part of an annual review process or some other advancement provision of your employer? Now is the time to find out; you can't afford to be shy.

Could you possibly take a part-time job? With the mid-2009 increase to $7.25 per hour, even a minimum-wage position at ten hours per week could generate as much as $290 per month (before taxes). Or you may have skills and experiences that qualify you for a much better rate of pay. Take a look at a few online job boards, your local newspaper, or your state's employment or workforce commission website.

Another idea is starting a home-based business or performing freelance or consulting work. Especially now, with the ability to work online, there are many legitimate opportunities to work for decent pay to bring in extra money. Just exercise the normal level of caution about any online "get-rich-quick" schemes.

If there are two adults of working age in your household but you presently live on a single income, it may be time for the unemployed adult to seriously consider entering the workforce. The second income can really help, as long as you don't increase your spending level so as to absorb all the extra money before it can go toward debt. You should plan on some increase in expenses, of course—more spent on transportation, for starters, and possibly childcare costs—but if you can keep these additional costs within acceptable limits, you should give this alternative careful consideration, at least as a temporary measure.

It may be time for any unemployed adults in the household to consider entering the workforce.



Turn Your Junk into Cash

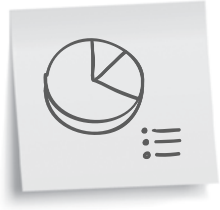
Have you got some stuff you could sell? With the nearly universal presence of the Internet, sites like eBay and Craigslist have become more popular than ever. Take an inventory of your garage and attic: that set of weights that you haven't used in three years could possibly raise the money to help bring a credit card account current. Somebody, somewhere is looking for the things you have and is willing to pay cash to own them—cash that you can use to make ends meet this month.

Now that we've looked at some ways of increasing income, let's consider some ideas for reducing expenses.

Too Much House?

Let's start with a biggie: downsizing your home. Since being "house poor" gets so many people into financial distress, you should at least consider the possibility that you may be living in more house than you can afford. If your budget isn't balanced, this may be a big factor. And if you've lived in your home long enough to accumulate any equity at all, it may be worth selling your home and buying a smaller one—or renting, temporarily. The money you'll save on monthly payments can go towards a better cash flow. And if you happen to sell in a favorable market, you could even clear enough equity to improve your financial situation or to meet another financial goal.

YOUR HOUSING EXPENSES SHOULD BE . . .



Your housing expenses should not be more than 29 percent of your income. And if you are trying to save money or pay off other debts, they should probably be less. Calculate your housing expenses by adding up your rent or your mortgage, your taxes, your mortgage insurance, and your homeowners insurance.

Selling or Downsizing an Extra Car

If you have two vehicles, would it be possible for you to get by with only one—even temporarily? Selling the extra car might seem like an inconvenience, but if you can figure out workable alternatives for your transportation needs, it's one way to free up some monthly cash flow that can be used to pay off debt or balance your budget. This presumes, of course, that you can sell the car for enough to liquidate anything you still owe on it.

Maybe it's unrealistic for you to attempt the one-car-family lifestyle. If you've got a luxury vehicle in your driveway (just to be clear, this includes cars made by Lexus, Cadillac, BMW, Porsche, Jaguar, Mercedes-Benz, Hummer, and even some of the tricked-out SUVs by domestic manufacturers), could you sell it and buy something more economical? You might even clear enough to pay cash for your replacement vehicle.

Too many people confuse the *trappings* of wealth with actual wealth. If you're trying to balance your budget, you've got to get brutally honest with yourself about needs versus wants.

Right-sizing Your Lifestyle

Does the idea of coupon clipping appeal to you? Can you find ways to save on necessary household supplies, either by buying in larger quantities less frequently, or by reducing consumption? Consider thrift and resale stores for clothing purchases. If you need to replace a necessary appliance, turn to the classifieds or garage sales instead of the local do-it-yourselfer superstore.

If you've been in the habit of going to the movies a few times per month, consider renting movies instead or, better still, investigate the movies you can borrow for free at your local public library. Eating out at restaurants gets expensive pretty quickly, especially for families with two or three children. Limit your nights out to one or two per month, and try to find places where the food is good, but not too pricey. In your vacation planning, instead of focusing on theme parks and expensive hotel stays, take a look at public parks or beaches.

WANTS VERSUS NEEDS

Here's an important point: most cost-saving measures involve carefully analyzing needs versus wants. When we exercise careful discretion and are honest with ourselves, our wants are almost always much greater than our needs. If you are in financial trouble, one of the reasons may be a difficulty in distinguishing between the two. You must learn to discipline yourself to take care of the needs first and defer the wants until there is money available to satisfy them.

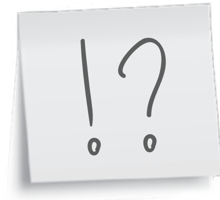
STEP 2: TRACK EXPENSES

Now that you've addressed ways to balance your budget, you must work on comparing your actual expenditures and income with the budget you've just developed. If you're new to budgeting, this will involve keeping a record of all expenditures during the month, placing them in the appropriate categories, totaling them, and comparing the totals with what is shown on your budget. You will probably need to do this every month, at least until living within your budget becomes a habit.

If this sounds like a lot of work, that's because it is. Few people jump out of bed in the morning, excited about the prospect of tracking their expenses throughout the day. Nor do many individuals relish the thought of adding up columns of figures at the end of the month to see how well they stuck to their budget. If living by a budget were easy, everyone would be doing it.

You can use any of several methods to track monthly expenses. They vary from simple to complex, and from free (or nearly free) to expensive. Some people simply carry a notebook (or use an expense recording program on their handheld device) and note out-of-pocket expenses as to type and amount. Other people use an envelope system: they label envelopes according to the expense categories in their budget, get receipts for all expenditures, and drop them in the proper envelope for totaling at the end of the month. Or, you can use the envelopes for allocating cash at the beginning of the month to various expense categories: when the envelope is empty, you stop spending in that category. Various computer software programs also promise to make budgeting and expense tracking easy and fun. If you enjoy working on a computer, you might want to investigate some of these programs to see if they can help you.

If living by a budget were easy, everyone would be doing it.



The point is, use something! Don't leave your spending to chance. Whatever system you use, consistency and accuracy are the keys to success.

At the end of the month, compare your actual expenses with your budget. Note the categories where you were successful and those where you strayed off course. It's important to communicate the successes and failures to the other responsible persons in your family or household. In fact, closing the communication loop is one of the principal purposes and advantages of budgeting: it allows you to make corrections in your spending habits in order to stay on track. It also makes you acutely conscious of how you spend your money. But you won't know the effect of any expenditures on your finances until you make a budget and track how well you stay within it.

Remember: Unless you know where your money is going, you can't know whether it's going to the right places.

STEP 3: USE CASH

According to four 2008 studies by the American Psychological Association, persons who pay with cash tend to spend less than those who use noncash methods, including credit cards and gift certificates. The researchers concluded this was true partly because the outflow of resources is readily apparent. It is easier for them, in the researchers' words, to feel "the pain of paying."

When you do need to spend, use cash instead of credit. You'll spend less, still get what you need, and eliminate the worry about what your next credit card statement is going to look like.

The other benefit of using cash instead of credit is that sometimes, the inconvenience of it causes you to stop and think before buying. If you've got to make a trip to the ATM to get the money to pay for something, you're more likely

Persons who pay with cash spend less than those who use noncash methods.

to carefully evaluate whether you really need it. Once you get in the habit of making this judgment before you spend money, you'll probably notice that you tend to spend less. Paying with cash instead of credit is the single best way to make sure you don't overspend.

In a later section, you'll learn more about the ins and outs of credit use and its place in your financial recovery plan.

STEP 4: "KEEP YOURSELF POOR"

Keeping yourself poor may not sound like good advice, but it's a great way to stick to your budget and to achieve your financial goals. This is a method learned from "everyday millionaires." They don't drive flashy cars or vacation abroad. Their houses are often modest. They pay off debt early (especially unsecured debt, but also vehicle loans and mortgages), keep some money in savings, and use cash for almost everything they buy.

When they receive an unexpected influx of money—from a tax refund or an inheritance, maybe—they use it to pay down debt instead of spending it. Over the years, they earn more interest than they pay. They contribute the maximum to their retirement plans, and upon their retirement, their net assets are in excess of a million dollars. They achieved this by keeping themselves poor: living modestly and well within their means, keeping only the cash balances they needed to live on, and putting everything else toward paying off debt and accumulating savings.

Creating and living by a budget is the basic skill you need to keep yourself out of financial trouble and to achieve your financial goals. You can become one of the "millionaires next door" if you apply these principles and especially if you are committed to learning from your past mistakes. It may be hard, slow work at first, but it will get easier over time. And when you see progress toward your short- and long-term goals, the hard work will be worth it.

INSURANCE

As you construct and learn to live by your budget, it is essential that you build in and account for the cost of maintaining insurance protection for yourself and your family. You need adequate insurance to cover the cost of repair or replacement for your home and any vehicles you own, to provide protection against catastrophic medical and healthcare costs, and to provide for your family in the event of the death or permanent disability of a wage earner.

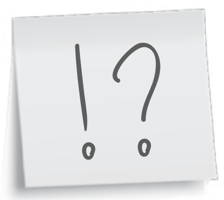
I know very few people—except, of course, for those selling it—who enjoy talking or thinking about insurance. The only time you need it is when something bad has happened, and the rest of the time it's just an expense for something you hope you never need. The inescapable fact is, however, that the cost of insurance is something you must include as a part of your overall financial plan.

PROPERTY AND CASUALTY INSURANCE

When you buy a house, the lender requires you to obtain and maintain property insurance sufficient to protect against a loss of the property due to fire, "acts of God," or other types of casualties. The same is true when you buy a car; whether you buy it with a loan or with cash, you must insure the vehicle's repair or replacement value to protect the lender's investment and to guarantee that if you cause damage to someone else's health or property with your car, the victim will be compensated (this is the law in all states).

Even when you have a choice, insurance is a good idea. For example, if you rent an apartment or house, you may want to consider renter's insurance to protect against the loss of your possessions in the event of a natural disaster or theft. Most of us would not be able to bear the expense of replacing those items most important to us if we had to do it all at once. One way of controlling property insurance costs to some degree is by carefully evaluating the deductibles—the money you must pay before your insurance company begins paying—on your coverage. If you have a $500 deductible on your automobile insurance policy and you are in an accident for which you are at fault, the first $500 of expense for repairing your car is your responsibility, and the rest is paid by your insurance company (of course, if the accident is your fault, your company pays 100 percent of the cost for fixing the other party's car, but that's a different matter).

The higher the deductible on your policy, the lower the premium (the amount you pay to maintain the coverage). This means that you may have some choices. You may wish to carry a higher deductible or even carry liability coverage only (your insurance company pays only if you damage someone else's property or health). Balance your budgeting needs with the requirements of your lenders, if any, and with the rules of prudence for protecting yourself against financial loss.



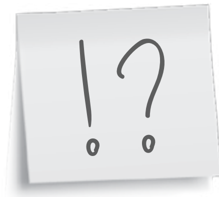
The higher the deductible on your policy, the lower the premium.

HEALTH INSURANCE

Many of us are fortunate enough to work for employers who provide a certain amount of health insurance as a benefit of employment. In fact, U.S. labor laws require employers of certain types to provide minimal health insurance coverage. This means that one of the best places to start looking for affordable, worthwhile health insurance is at the HR department of your employer. Health insurance is almost always less expensive if provided through your employer, even if you must pay all the cost (the premiums) from your wages (some employers pay part of this cost). In fact, health insurance coverage is one of the principal benefits that employers offer in order to retain quality employees. And buying it on your own, unless you have access to group plans through a professional or special-interest association, can be both expensive and frustrating, since the coverage is sometimes not that great compared with what you must pay in premiums.

Although health insurance can be costly, not having it can jeopardize your financial security. If you don't believe you can afford a regular health insurance plan, you should consider getting at least a catastrophic health insurance plan. The deductible (what you will have to pay in medical expenses before the insurance kicks in) may be high, but the premiums are affordable, and at least you won't be stuck with six-figure medical bills if something dreadful happens.

One of the best places to start looking for affordable health insurance is with your employer.



LIFE INSURANCE

As with health insurance, a good first place to start looking for life insurance is with your employer. Depending on the particulars of your employer's plan, it may make sense for you to purchase additional amounts of life insurance (usually called "voluntary life insurance") above that provided in your employer's benefit package, if that is an option. Often, this coverage is less expensive than what you could get on your own. Another benefit of this type of insurance is that the cost is deducted from gross pay before you get your check; it's almost painless.

The central purpose of life insurance is to provide for a family's financial needs in the event of a breadwinner's death. How much you need is a function of several variables particular to your family.

- How many incomes are there in your household?
- Are there children in your family? If so, how many years will it be before they are self-sufficient?
- Are there debts, such as mortgages, that should or could be covered by the life insurance to ease the burden on the family?

It's also inaccurate to assume, even in a two-person household, that expenses will be halved in the event of the death of one of the partners. Housing costs will not usually be halved, nor will utilities, clothing costs, or insurance. There may be other financial consequences to the surviving family members. For example, psychological counseling may be advisable, especially in the case of young children who are trying to deal with the incomprehensible loss of a parent. You should take advantage of some estimating tools, such as the online insurance need calculators at sites like BankRate.com and SmartMoney.com.

In the life insurance world, there are basically two choices: term life and some sort of cash value life insurance.

- **Term life insurance** is by far the least expensive life insurance. You pay only for the risk assumed by the insurance company to insure your life. Term insurance is much less expensive when you are young, but becomes progressively more expensive as you get older, since the likelihood of illness and death increases with age. Term life insurance is temporary: you pay the specified premium for the specified coverage term, and at the end of that time, the policy terminates with no value. For many young wage earners with children, some amount of term insurance is usually advisable, since it provides the largest amount of financial benefit for the smallest expense.
- **Cash value life insurance** offers both a death benefit and a savings or investment component. You pay an amount of money above what is needed for the company to simply assume the risk of the policy's death benefit, and in return you can build up either guaranteed savings or non-guaranteed investment that usually depends in part on the investment experience of the insurance company. The advantage of cash value life insurance, of course, is that it can offer you savings for your future in addition to providing a death benefit for your family. The disadvantage is that it requires a larger premium—often, much larger—to provide the same death benefit as term insurance, since some of your payment goes toward the investment or savings portion. For most of the people reading this booklet, paying the extra premium for cash value life insurance may not be the best use of your insurance dollars.

Consider consulting a financial planner before making a purchase decision on any type of life insurance.

GETTING SMART ABOUT USING CREDIT

By this point, some of you may have decided that if you never see a credit card again for the rest of your life, it will be too soon. You were hopelessly in debt before, and now that you've gotten rid of that heavy load, the thought of being saddled with debt again gives you the shakes.

While this attitude might certainly keep you out of debt trouble, it's probably not completely realistic. Depending on your age and earning power, it might not be reasonable to believe that you can take care of all your future needs—buying a house, purchasing an automobile, paying college tuition for yourself, a spouse, or children—with current earnings or cash from your savings and investments. If you're serious about doing things that way, though, more power to you!

However, some of you realize that at some point you will probably need to be able to borrow again. There are several steps you can take, and several mistakes you should definitely avoid when using credit; in this section we'll discuss both sides of the coin.

Now, more than ever, you need to be discerning about how you use credit. Using credit changes your budgeting picture, for the simple reason that it allows you to spend money you don't really have. In this sense, credit is what creates the possibility of overspending your budget. Credit can allow you to take advantage of opportunities that would be impossible for you if you had to depend only

Depending on your age and earning power, it might not be reasonable to never incur debt.

If credit is mismanaged, it can be your worst enemy.

on current income or savings. But if credit is mismanaged, it can be your worst enemy, causing stress of bills you can't pay, creditor calls you don't want, and the potential loss of possessions you can't do without.

Following are some scenarios that may help you establish guidelines for when using credit might actually be a good idea.

PURCHASING AN ASSET THAT INCREASES IN VALUE

One appropriate use of credit would be using it to take possession of an appreciating asset—one that will increase in value over time. The financial principle behind this is that the asset should increase sufficiently in value to offset the cost of obtaining the credit needed to buy it.

A common example is the home mortgage loan. For most of us, our home is our principal appreciating asset. In a normal real estate market, we can generally expect the value of our property to increase over the years, so that by the time the mortgage is paid off, our property has acquired a value greater than the amount we paid for it. In fact, homeowners are frequently able to realize a profit on their purchase long before the mortgage is paid off, selling for enough money to pay off the mortgage and have money left over to use as a down payment on another house. In such situations, using credit for the purchase can make a lot of sense. We are using the lender's money to make a purchase we couldn't manage with our cash resources in order to acquire an asset that we can potentially sell for enough to pay off the obligation and still have money left over.

At this writing, however, the real estate markets have been anything but normal for the last several years. In such times, using credit may not be a wise decision. The type of mortgage loan used also makes a big difference. Adjustable rate mortgages have locked some homeowners into escalating payments that are becoming unmanageable. If the only way you can obtain credit for a home purchase is by resorting to a loan containing provisions that can come around to bite you in the future, it may be unwise to consider using it.

PURCHASING A NECESSARY ITEM WHEN YOUR CASH RESOURCES ARE INSUFFICIENT

There are times when something you really need is beyond the reach of your checking and savings accounts. While the argument could be made that everyone should budget enough savings to take care of needs like car purchases, college tuition, and other big-ticket expenses, everyone isn't always able to allocate such sums to savings and still maintain current obligations.

Car Loans

Should you borrow money to buy a car? After all, an automobile can usually be counted on to lose value much faster than the balance on the loan. So, in the case of a car loan, you really can't make the argument that you're borrowing money to buy an appreciating asset. However, transportation is a basic need. Especially if you live in an area where public transportation is nonexistent or undependable, you must have a means of getting to and from your place of employment and going other places that you need to go.

So the question you must ask is this: Is there sufficient money left after other expenses to make the monthly payment needed for a car loan? Online loan calculators like the one at BankRate.com can help you decide if you can afford to borrow enough money to purchase a vehicle. If the extra cash isn't available to support the payment, you shouldn't take the loan. Don't obligate yourself today based on money that's coming tomorrow; it's a recipe for financial failure.

Education Loans

Without a doubt, adequate education is absolutely essential for success in just about any field you can think of. Investing in your education or that of your children is one of the best ways to assure a bright future. Unfortunately, over the past several decades, education costs have consistently risen faster than the core rate of inflation. That means that it now takes a larger percentage of current or future earnings to pay for college or other training than it did ten, twenty, or thirty years

Student loans fall into the category of "must-pay" obligations.

ago. For more and more Americans, paying for higher education means taking out some amount of student loans.

Is it worth it? Probably. And, since the U.S. government has programs that insure lenders against borrowers' defaulting on education debt, these loans can usually be obtained at more favorable rates and with more lenient terms than other types of debt. But you should still exercise discretion. Make sure you're getting the best deal possible on your student loan, and also consider ways to contain the overall cost of your education. For example: can you take some courses at a local community college, then transfer the credits to the university that will be granting your degree? And make sure you're getting the education you really need to achieve your objectives.

Remember, also, that student loans fall into the category of "must-pay" obligations. Even though they are not secured by collateral, because of their government backing they carry stiff consequences for nonpayment, and they cannot be discharged in bankruptcy except under very limited conditions. When you borrow money for college or other education, you must consider how you plan to pay it back from your current or future earnings.

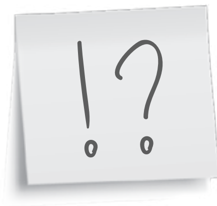
If you are concerned about your ability to keep your student loan payments current, you may wish to review some of the strategies for working through student loan difficulties that are available at sources like SallieMae.com.

SHOPPING FOR THE BEST RATE

If you conclude that getting a loan for one of the above purposes is in your best interest, it is important for you to do enough comparison shopping to assure yourself that you are getting the most competitive interest rate possible for your circumstances. Of course, since at this time your credit history is probably not pristine, you should prepare yourself for the likelihood that you won't have access to the most favorable rates.

On the other hand, that doesn't mean you should just take the first loan offer that comes along. Even though your credit rating is not good, there are still companies out there willing to compete for your business. If you don't do your homework, you could end up needlessly paying thousands of dollars in interest. Especially with the Internet, doing some basic research on available rates has never been easier. Before you sign loan papers for any purpose, make sure you're getting the best rate possible.

Even though your credit rating is not good, there are still companies out there willing to compete for your business.



UNSECURED OR CREDIT CARD DEBT

Of course, the credit decisions that most of us will make from day to day usually involve whether to use a credit card instead of cash to pay for something. Most often, we must make this decision because we need or want something that we don't have enough cash to buy outright. Should you use a credit card?

Recognize first that you will probably begin receiving credit card offers fairly soon after you begin emerging from debt trouble. Even if you have recently had your Chapter 7 or Chapter 13 bankruptcy closed, marketers will begin sending you "pre-approved" credit card applications. Carefully review these offers before obligating yourself. You may also wish to consider obtaining a secured credit card. Secured credit cards require you to make an initial deposit into an account with the issuing institution. This deposit then becomes your "available credit" for the card. Over time, as you reestablish a record of timely payments, you can qualify for a normal, unsecured credit card account.

So, let's say you applied for and received a credit card after your bankruptcy. The next question is: Under what circumstances is it okay for you to take out that plastic and hand it to the salesperson?

1. Emergencies That You Can't Handle with Cash

First of all, you shouldn't risk a deviation from your financial plan for something that you really don't have to have. Unexpected, emergency needs do occur, of course, but whatever the situation, you should first satisfy yourself that the need is genuine and that the purchase cannot be deferred until the cash is in the bank to cover it. Really good clearance sales, "special, limited-time offers," and similar marketing enticements do not generally constitute a valid reason to use plastic.

2. You Have a Plan to Pay Off the Expense in Three Months or Less

Ideally, you should pay off all credit card charges each month to avoid having interest added on top of your unplanned purchase. But there can be situations, such as the car repair scenario, where the expense can't be digested in a single billing cycle. If you have sufficient extra cash flow to liquidate the charge in three months, the interest you'll pay won't be that significant. As with the discussion above on car loans, your payoff plan for the expense should not depend on "future money," unless it is coming to you subject to the terms of a legally binding contract or some other agreement you can depend on.

3. You Need to Buy a Plane Ticket, Rent a Car, or Stay in a Hotel

It is impossible to fly or rent a car without a credit card, and almost all hotels and motels require that you have a credit card before you can stay the night. If you use your credit card for traveling, be sure you have enough cash in the bank to pay off the trip expenses you charge.

4. You Are Attempting to Reestablish Your Credit History

This can be a valid reason for careful, sparing use of credit. You may wish to charge a small amount—perhaps even an amount that you could cover with cash—and pay the entire balance off when the statement comes. By doing this, you will begin building a history of timely payments on a credit account that will begin the process of rehabilitating your credit history. Please note the deliberate use of the words *careful* and *sparing* in the first sentence of this paragraph. The last thing you want to do when you are trying to regain your status as a creditworthy borrower is use all or even most of the credit available to you. In fact, overuse of credit and high balances on charge accounts are factors that will decrease your credit score.

If your contemplated use of a credit card doesn't meet at least one of the above conditions, consider putting it back in your wallet or purse and either using cash or delaying the purchase until you have the funds to pay for it outright.

TOP FIVE CREDIT CARD MISTAKES

1. **Failing to Shop for the Best Rate:** Even if you've just come out of bankruptcy, you shouldn't jump at the first offer that lands in your mailbox. Take some time to shop around and compare rates.
2. **Falling for a Low Introductory Rate:** Phrases like "0 percent on balance transfers" and "5 percent on purchases for the first year" can certainly get your attention, but beware: often, these low rates are only good for certain types of transactions or for a certain time period. Be sure to read the fine print on the agreement. As the old saying goes, if a rate sounds too good to be true, it probably is.
3. **Failing to Read the Contract:** Closely related to #2, this error is committed by a surprising number of people. Many of us, assuming that we "know how credit cards work," never bother to understand the details of our credit agreements. Sometimes, the penalty for this ignorance is getting slapped with punitive interest rates or fees for transactions that we thought were "part of the deal." For instance, some of those credit cards that offer such enticing initial rates can charge you 15 percent or more on balances resulting from cash advances—even if you've never missed a payment and are well within your credit line. Credit card companies make their money not only from the interest they charge, but also from the fees they charge, such as late fees, over-the-limit fees, and even fees for the "privilege" of having the card. Fees can make what you thought was a low-interest card cost almost as much as money borrowed from a loan shark. Read your contract and know what you're agreeing to before you start using the card.

4. **Getting Too Many Cards:** Even though establishing and using credit is important as you begin rebuilding your credit rating, don't get carried away. Having too many credit cards, even if most of them have zero balances, is not usually a positive for your credit score. When lenders review your information, they don't like to see an excessive amount of available credit, because they know what happens when consumers yield to the temptation to use it: they get overextended and begin missing payments. Limit yourself to one or two cards and keep the balances low or at zero.
5. **Making Only Minimum Payments:** Most people who find themselves in trouble with their credit cards are the same people who have succumbed to the temptation of making only the minimum required monthly payments on their credit card accounts. Now that you've got a fresh start through the bankruptcy process, get in the habit of paying off your credit card accounts each month or, at the very least, paying a third or more of the balance due. Remember, credit cards should not be used for mere "wants" or to supplement your cash reserves. They should be used for emergencies, as discussed above, and only when you have a plan for quick repayment.

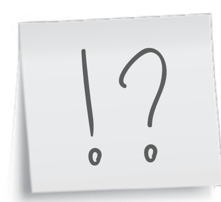
Without question, there are many other mistakes that people make with credit cards. Paying late; not knowing credit limits; excessive use of cash advances or cash advance checks; overuse, especially for nonessential purchases; and failure to monitor balances and monthly statements are just a few of the ways people get in trouble with credit cards.

REBUILDING YOUR CREDIT RATING

Your return to creditworthiness will require the formation of better habits and a consistent history of responsible decisions and actions. Now that you are emerging from bankruptcy, you must take a long-term, patient, and methodical approach to persuading lenders that you deserve favorable treatment as a borrower. Basically, improving your credit score from its current level involves three factors: verifying the accuracy of the entries on your credit report, establishing a history of timely payments, and keeping your balances well within your means of payment (zero, if at all possible).

The other indispensable ingredient for the credit rehab regimen is time. Remember: your debt problems didn't happen overnight, and your credit score won't increase that way, either. Time is your best ally in your credit repair efforts. As a matter of fact, you should be very wary of any individual or organization that promises quick credit repair or something similar.

Be wary of any organization that promises quick credit repair.



CHECK YOUR CREDIT REPORT FOR ERRORS

The Fair Credit Reporting Act (FCRA) guarantees you the right to receive a free copy of your credit report each year from all three of the major credit reporting agencies (Experian, TransUnion, and Equifax). One of your very first moves when you're ready to begin working on improving your credit score after bankruptcy should be to get a copy of your credit report and study it carefully for errors. By using some strategic timing and taking advantage of your right to a free copy from each agency, you can get a current credit report once every four months and pay nothing. It's a good idea to exercise this option regularly, especially when you're beginning the process of credit rehab. Errors appear on many credit reports.

If the prospect of contacting these agencies and not knowing what questions to ask seems intimidating, don't worry. Their websites (Experian.com; TransUnion.com; Equifax.com) offer lots of helpful advice for consumers who need to know how to go about requesting and working with their credit reports.

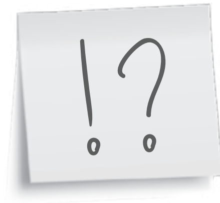
When you get your credit report, first check for the obvious things: correct address, contact information, current employment, spelling of your name, and personal tax identification numbers. This information is typically right at the top of the report.

Next, be sure that the activity on your credit record—usually shown in summary form near the top of the report—sounds familiar. In other words, if you see listings for loans or other activity with lenders or credit card companies whose names you don't recognize, you should immediately take steps to verify that no one has illegally obtained your personal information. You can't afford to be victimized by identity theft. If you see anything out of whack, make a note to do some further inquiry or, possibly, send a dispute letter (more on this later).

The "public record" section, as the name indicates, will list any information about your credit history that is a matter of public record: tax liens filed against you, bankruptcies, judgments, foreclosures, collections activity, or other proceedings that have an impact on your credit history. Check this section to make sure that the status of each action is current and correctly reported.

You will also see a section giving detailed information for each credit account listed on your report. Review this portion of the report to verify account-opening dates (and closing dates, if applicable), amounts of credit reported, payment history, and other information. You should check the accounts listed on your report to ensure that the status for each account is correct. Since you've just emerged from bankruptcy, there should probably not be any current delinquencies or collection actions showing on your record. If there are, and if you know the accounts were discharged in bankruptcy, you need to provide the credit reporting agencies with appropriate documentation of the final disposition of the accounts.

Make sure that none of the debts discharged in your bankruptcy case are still shown on the report.



Your report will also show all inquiries about your credit history by entities who have a legitimate business purpose for requesting the information. Make sure that all of the requesting entities sound familiar. If an unfamiliar company has requested your credit history, it can indicate that someone is trying to use your credit history for a purpose you haven't authorized or requested. This brings up another piece of credit advice: don't apply for credit unless you really need to. Some consumers don't realize that each time someone requests a credit report—whether a prospective lender or the consumers themselves—their credit score takes a small dip. And if a lender pulls your credit report and sees a large number of recent inquiries about your credit or applications for new credit, these circumstances raise questions in the lender's mind.

Make sure that none of the debts discharged in your case are still shown on the report. Many times, your former creditors will not have taken the trouble to report this fact to the credit reporting agencies. The same can be true in debt settlements. It is important for your future credit rebuilding efforts to make sure that accounts that were discharged or settled are not shown as open.

The "consumer statement" section reflects any communication you have sent to the credit bureau in connection with your credit activity or history. This information becomes part of your credit record and is available for consideration by anyone with a legitimate need to know your credit history.

Sending a Dispute Letter

You may want to use the following sample letter, or a similar form, to notify the credit bureau of mistakes or inaccuracies on your credit report. The credit bureau has thirty days to respond to your request. Remember that you must document each element of your dispute. If the report shows an account past due that has been settled, include a copy of your settlement agreement. If the report shows a debt as outstanding that was discharged in your bankruptcy, send a copy of the discharge notice.

SAMPLE CREDIT REPORT DISPUTE LETTER

Your Name
Your Address
City, State, Zip

Date

Complaint Department
Name of Company
1234 Main Street, #100
Any town, USA 10021

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item or items disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,
Your Name

Enclosures: (List what you are enclosing.)

MAKE YOUR PAYMENTS ON TIME

This seems pretty obvious, but according to each of the major credit reporting firms, it is the single largest factor in the computation of your credit score, making up some 35 percent of the total computation. Getting in the habit of making your payments on or before the due date is one of the best things you can do to reestablish a good reputation with lenders. On the flip side, you probably remember all too well what late payments can do to your credit score. If you are sparing in your use of credit cards, and if you've done an accurate job of setting up your budget and tracking your expenses, you should be in a position to maintain your credit card payments at manageable levels that won't impact your ability to stay current with your other obligations. Making those small payments, and making them on time, will help you begin your credit makeover.

WATCH THOSE BALANCES!

Many lenders like to see balances on your unsecured credit accounts of no more than 30 percent of your available credit. If you can pay off your credit card balances every month, so much the better. By the way, some people have the mistaken impression that paying off their balances each month is a negative factor for their credit scores, since they aren't "managing a credit account." This is wrong. There is no penalty to your credit score for keeping your credit card accounts at zero. And there is a definite benefit involved in saving the interest charges that would be added to your balance if you didn't pay it off. The key here is to keep your balances under strict control. Even if you have to allow a small balance to carry over from month to month (and pay the resulting interest), you should focus on keeping your open balances well below your available credit limit. Remember: using all your available credit—or even most of it—reduces your credit score.

GET GOOD NEWS INCLUDED ON YOUR REPORT

A great way to counteract some of the blotches on your credit history is by having it also reflect instances of responsible behavior. Some utility companies, for example, will file "good payment history" notes with the credit bureaus if you request it. If you are renting, you might also ask your landlord or apartment manager to send a letter to the credit bureaus to document your prompt payments (assuming you are prompt; if you're not, don't make the request until you've reformed your ways). These "brownie points" can help when a prospective lender is reviewing your credit report to determine the likelihood that you'll make your payments on time. Also try to keep bad news off your report. If you foresee that you're going to be making a late payment, talk to your creditor in advance and try to negotiate with them so that they don't report the late payment to the bureaus.

HOW TO IMPROVE YOUR CREDIT

- Check your credit report for errors
- Make payments on time
- Watch your balances
- Get good news included on your report

CREDIT RATING TRAPS TO AVOID

Most of these credit snares are built around misinformation and the temptation to try using shortcuts. But any time you hear someone promising you solutions to your money or credit problems that are quick, easy, and/or cheap, you should immediately suspect that they are none of the three.

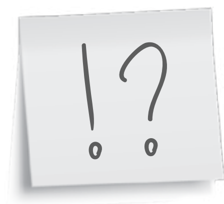
"Quick" Credit Score Improvement

You should almost always avoid entities advertising their ability to rapidly improve your credit rating. Usually, they are more interested in collecting a fee from you than they are in making any lasting improvement in your credit score. Their efforts usually consist of bombarding the reporting agencies with dispute letters on your behalf, many of which may have no basis in fact. Such so-called "services" are almost never worth the cost in money or time and even more rarely provide the benefits they promise.

Piggybacking

This strategy involves having yourself listed as an "authorized user" of a credit card account established by someone with good credit, supposedly "borrowing" their credit history in order to improve your own. Certain web-based and other organizations will collect hefty fees for brokering relationships between borrowers with good histories and prospective borrowers with suspect ones. However, Fair Isaac Corporation (FICO), the organization most lenders and credit bureaus rely on for credit scoring, has announced that it will no longer consider "authorized user" status as relevant to a consumer's credit score. The only way to improve a bad credit score, in other words, is by making timely payments and reducing your debt. This shortcut to a better credit score is probably closed—permanently.

There are no shortcuts to a good credit rating.



"Clean" Tax Identification Number

Some organizations claim that they can instantly secure a clean credit history for you by obtaining a new tax identification number—sometimes, an Employer Identification Number (EIN) rather than the Social Security number issued to each individual. While obtaining an EIN may be legal, obtaining it under false pretenses isn't—and could bring about some unwelcome legal consequences. Not only that, but the Social Security Administration is extremely wary about handing out new Social Security numbers, even to people who can demonstrate that their SSNs have been compromised by identity thieves. For these reasons, you should be extremely skeptical of any entity that claims it can get you a "clean" credit record by obtaining a new or different tax identification number—especially if they're asking for payment up front.

Here again, the same principle holds true: There are no shortcuts to a good credit rating.

COMMIT TO A SAVINGS PLAN

If you will commit to following the budget you created by using the principles previously outlined in this booklet, followed by making careful, strategic use of your available credit and following through on verifying the accuracy of your credit report, you will begin to see steady improvement in your general financial health. The next step is to establish some good savings habits, in order to build up cash reserves for future needs and to fulfill your financial goals.

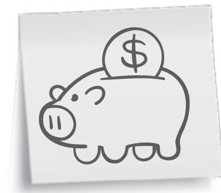
Even though you can find tons of advice on the Internet from popular and media-savvy personal finance gurus, and just about every consumer news and financial publication will advise you on how much you need to be saving, the ultimate decision has to be governed by the details of your current financial situation and the realities of your available cash flow. Right now, when most of you who are reading this are struggling to get the maximum benefit from the fresh start afforded by bankruptcy, the focus is probably on more immediate concerns: how to take care of next week or next month. Long-range concerns are probably not high on your list of savings needs or priorities at this moment. Don't allow guilt over "not saving enough" add to the stress you already feel.

However, you also shouldn't simply throw up your hands in despair and assume that "it's impossible for me to save right now." The following ideas can help you develop a savings philosophy that reflects the real world you live in and the resources available to you.

START SMALL, BUT START!

Set your sights on an objective that makes sense for your situation—right now—and begin taking baby steps toward it. Even small amounts can add up, given time and consistency. Looking at your budget, can you identify places where you could save on monthly expenses—even a little bit? For example, if you're eating lunch at a fast food place every day at work, taking your lunch instead could save you anywhere from $3.00 to $10.00 per day—$15 to $50 per week! What would happen if you put just half that amount—$7.50 to $25 per week—into a savings account, even if it earned no interest? Even at the bottom end of the range, in a year you'd have saved almost $400.

Set your sights on an objective that makes sense and begin taking baby steps toward it.



The point is that by carefully reviewing your budget and tracking your expenses—sometimes in very exacting detail—you can probably find $20 to $50 per month that could be repurposed from spending to savings. Avoid self-defeating thoughts about how such small amounts "won't make any difference," and commit yourself to the new habit of putting that money in savings and leaving it there. Remember: these are the basics you must master in order to get from where you were to where you want to go. You'll be surprised how fast even small amounts placed in savings will add up. And you'll feel a great sense of personal satisfaction when you see those balances start to grow. You might even gain a little more peace of mind—something that was in rare supply before bankruptcy.

PAY YOURSELF FIRST

Paying yourself first does not mean splurging on an item you want; it means you're more likely to save if you put it in your budget and make the payments to your savings account automatic. Once you've tracked your expenses and compared them with your budget, you should determine the amount that you can allocate to savings and make that deposit first, every month. Before your pay your bills, before you take the kids shopping, before you buy gas for the car, pay yourself.

There are several ways to accomplish this. Many employers—especially those served by credit unions—offer payroll-deducted payments to savings accounts and other financial instruments. Take advantage of this, and let your money go to savings before your paycheck ever hits your desk. You'll get used to not having

Many employers offer payroll-deducted payments to savings accounts and other financial instruments.

the money to spend, and as a result, your savings account will grow.

Some businesses offer payroll-deducted IRAs as a service to employees. According to the Internal Revenue Service (www.irs.gov), such plans are very simple, require no filings from the employer, and are completely voluntary, since the only deposits are made by employees. The interest or other earnings on the account accumulate tax-free until you begin making withdrawals at retirement, which means that the money builds that much faster for you. Some employers match a percentage of employee deposits into certain types of accounts such as 401(k)s, or other accounts for long-range purposes. If your employer offers this option, take advantage of it.

You can also simply write the savings check yourself, before all your other monthly expenditures. Remember: the reason you developed a budget was so you could know, from month to month, how much of your money was going where. If you've done your job properly, and your budget indicates that you could be allocating $20, $50, or $100 per month to savings, then, as the shoe company says, "just do it." Once that money is safely tucked away in your savings account, you're much less likely to spend it on something else—accidentally or otherwise.

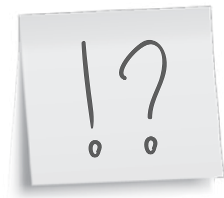
If you get paid weekly or biweekly, that means that some months you'll get an "extra" paycheck, because of the way the weeks stretch across months. Figure out which months you'll be receiving three checks instead of two, or five instead of four, and commit to putting these checks straight into your savings account.

You can also fund savings with tax refund checks, extra money you make from overtime or outside work, selling stuff you don't need, and probably a dozen other sources. Make that extra money count for something besides extra consumer goods or a few restaurant meals. Once you start to see that savings balance grow, chances are good that you'll start enjoying the way it feels to be putting money in the bank instead of always wondering where it went. And it's easier if you'll follow the rule of "paying yourself first."

BUILD AN EMERGENCY FUND

Another thing that just about every financial planner will tell you is that you need an emergency fund. While everyone is usually advised that six months' salary or six months' expenses is needed, this may be unrealistic for many people, especially those who have just emerged from bankruptcy or other financial retrenchment. Your goal should conform to your present circumstances and funding ability. To slightly overstate the case, it doesn't make much sense to get six months' salary in savings if doing so means you're getting your utilities turned off.

Set realistic goals, start small, and be consistent.



Once again, set realistic goals, start small, and be consistent. Set an immediate goal of getting $500 in your emergency fund over the next six months. While this might not sound like enough to take care of a very big emergency, it could easily help you avoid the temptation of reaching for a credit card the next time an unexpected expense comes up. It could help you avoid a late payment fee for a utility bill. It could help you avoid having to reinvent your budget every time something unexpected comes up. It could even make several co-pays on doctor's office visits—which are almost always unplanned. Once you get that first $500—or, if you're really focused, $1,000—in your emergency fund, you'll be able to add to it until it's at the level of providing an even greater safety net.

Here are a few other ideas for building up your emergency fund:

- When you finish with an installment payment—for furniture, home appliances, or even a car payment—continue making the payment, but to yourself. In most cases, you've already built that "expense" into your monthly budget, so just keep writing the check, but paying it into savings instead.
- Investigate possible savings on car or home insurance. Take the difference—which you're already accustomed to paying—and use it to fund your rainy-day account. The same idea would apply if you could save on your cell phone plan, save by switching from cable to satellite (or vice versa), or even by saving on groceries.

- Quit smoking or drinking. Wait! Don't skip over this point! How much healthier—and richer—would you be if you weren't spending on tobacco or alcohol, and instead putting that money in your emergency fund? If you're a regular smoker and/or drinker, take an honest look at your budget and do the math. By saving the money you're currently spending on tobacco and alcohol, you could be well on your way to financial independence in two years, just by taking this one step.

PLAN MAJOR PURCHASES WITH CASH, NOT CREDIT

This is a great way to involve the whole family in savings goal setting. Think of where you'd like to spend your next big vacation—a theme park, the seashore, in the mountains, or even driving cross-country to see the sights along the way to somewhere you've never been—set a budget for the trip, and start setting aside the money necessary to have the entire trip paid for before you leave. Or, if your family has always wanted a backyard pool, use that as your savings incentive instead. It can be a major home remodel, a new car, or almost anything that the entire family can get excited about and focus on saving for.

This can be a great teaching tool for young children. Do they want the newest video gaming system? Pay them small amounts for doing chores, and set up a "video game account." Track it regularly so they can see how close they're getting to their goal. When you go out to eat, offer them the choice of either getting dessert or putting the same amount of money in the video game account.

The point is that by setting a shared goal and saving money to accomplish it, you've changed the way you think about getting "the fun stuff" from a spending orientation (often using credit) to a savings orientation. Even if circumstances were to force you to use the money you'd saved for some emergency need, you'd still be much farther ahead than if you had to borrow to meet the need.

No one gets into financial trouble because they saved too much.

RETIREMENT AND YOUR SAVINGS STRATEGY

Most of us have at least some vague notion of retiring one day: spending more time doing what we want to do, instead of doing what we have to do. For folks in their fifties and sixties, the idea of retirement is usually more than vague; it's either a day to eagerly anticipate or one to dread because of the lack of financial resources. And then there are those folks who, by choice or out of necessity, plan on working until they can't physically continue.

Whatever your disposition with regard to retirement, it is certainly something you need to take into account as a part of your overall financial strategy. If your employer offers the option of payroll-deducted contributions to a retirement or pension plan, such as a 401(k), IRA, or other tax-advantaged savings plan, you should definitely take advantage of the opportunity, especially if they offer a company match. After all, there aren't many chances to allow money to grow on a tax-free basis, but that's exactly what tax-deferred and tax-advantaged retirement plans do: You don't pay taxes on the money you put in, and you don't pay taxes on the accumulations until you begin to draw them out at age 59 ½ or greater.

But another factor in your retirement is Social Security. While the safety and viability of the Social Security fund is in and out of the news pretty frequently, and while politicians like to call press conferences and wring their hands about the "serious problems" with Social Security, it's most likely that you'll be able to collect at least some retirement income from Social Security when you reach the point where you want or need to stop earning your living from nine to five. You can probably count on Social Security providing a significant portion of income at your retirement.

To get an estimate of what you might expect from Social Security upon your retirement, go to the Social Security Administration website, which features several calculators that can help you calculate your future benefits. The website is at www.ssa.gov/planners/calculators.htm.

If you want, you can actually take the time to obtain an estimate based on current law and real-time access to your earnings record. To use the SSA's "Retirement Estimator," you will need to log in to a secure website using personal information, including your Social Security number. According to the Social Security Administration, the Retirement Estimator does the following:

- Provides an estimate of your retirement benefits comparable to the estimate you receive on your Social Security statement each year
- Lets you create additional "what if" retirement scenarios based on current law

In addition to the Retirement Estimator, the site offers other calculators, including the "Quick Calculator," the "Online Calculator," and the "Detailed Calculator," which, according to the site, "provides the most precise estimates." None of the last three tools mentioned are actually linked to your earnings record, but they can provide you with good, working estimates of what you can expect Social Security to provide toward your retirement income needs.

For example, using the Quick Calculator, you enter your date of birth, your current year's earnings, and your anticipated retirement date, and the calculator will give you an estimate of your monthly retirement benefits, either in present-value dollars or dollars adjusted for inflation from now until your retirement.

The point in all of this is that, especially if you're contributing to an employer-sponsored retirement plan, you probably have more immediate concerns than socking away money for retirement. In fact, if you can get your monthly expenses under sufficient control in the short term, it may be easier for you to make significant headway with your retirement plans in the longer term.

Get your monthly expenses under control in the short term to make significant headway with your retirement plans in the longer term.

To put it bluntly, by the simple fact of earning wages, you are "saving for retirement" every month. Instead of fretting about retirement, focus on getting your financial boat on an even keel and meeting your simple, short-term goals.

THE BIG PICTURE: HOW DOES YOUR FINANCIAL SITUATION STACK UP?

There are two measures that you should keep an eye on as you move forward toward financial health and stability: your debt-to-income ratio and your net worth.

YOUR DEBT-TO-INCOME RATIO

Banks and other lending institutions have measurements of recommended financial ratios that they use when deciding whether to lend money to consumers. One is the debt-to-income ratio, or DTI, which is the percentage of your monthly income that must go toward paying your recurring debt obligations. To obtain this number, total the amount you're paying each month on your debts (don't include expenses such as groceries, gasoline, or utilities; only amounts you are paying on loans) and divide this number by your monthly income. The result is your DTI. For example, if you bring home $4,000 per month and your debt payments total $1,440, your debt-to-income ratio is 36 percent (about the highest number bankers like to see when evaluating your loan application, by the way).

For mortgage lending, bankers use your gross income (your income before taxes and other deductions, as entered in your budgeting worksheet) to calculate your DTI. They will usually not consider you for a home loan that requires a monthly payment—including insurance and taxes—of more than 28 percent or 29 percent of your gross income. However, unless you are actually trying to qualify for a mortgage loan, at this point you should be more concerned with evaluating your real month-to-month financial health. For this reason, using your actual take-home pay ("net income") is a more practical measure, since, of course, you must pay taxes.

Take a look at your debt-to-income ratio. Bankers like to see a DTI in the range of 36 percent or less to consider you a creditworthy prospect for a loan. But 36 percent is by no means the "gold standard." If you are really serious about trying to save money, you want your DTI ratio to be as low as possible. It is probably not realistic for most of us to adopt a "zero debt" policy, but having as a goal the elimination of all your debt is a pretty smart idea. In other words, a DTI ratio of 0 percent might be thought of as representing perfection in the world of consumer budgeting. Certainly, though, you need to work toward reducing as much as possible the amount of your income that must go toward paying debts. The lower your DTI ratio, the more flexibility you'll have and the less susceptible you'll be to bumps in the road, whether your annual income is $25,000 or $250,000.

If you are really serious about trying to save money, you want your DTI ratio to be as low as possible.

YOUR NET WORTH

Especially now, as you begin your financial makeover, it's important to know your net worth. In fact, you may want to calculate this important financial benchmark and use it to set one or more of your financial goals. Additionally, since you've probably just emerged from bankruptcy or another major alteration in your financial circumstances, you need to know where you stand. You should also review your net worth regularly to be certain you are staying on the course toward your goals. A simple net worth worksheet is shown on the opposite page.

You should take this important financial snapshot on a regular basis—once a year, at least, and more often if your financial situation is changing frequently, either positively or negatively—and use it to reevaluate your financial situation and form goals for the future.

Personal Net Worth Statement

ASSETS

Checking account	$ _____
Savings account	$ _____
Cash on hand	$ _____
Life insurance policy cash surrender/loan value	$ _____
Total cash/cash equivalent holdings	$ _____

Real and Personal Property

Property #1	$ _____
Property #2	$ _____
Property #3	$ _____
Automobile #1	$ _____
Automobile #2	$ _____
Automobile #3	$ _____
Personal property	$ _____
Personal property	$ _____
Personal property	$ _____
Total real and personal property	$ _____

Retirement, Pension, and Investment Plans

Stocks	$ _____
IRAs	$ _____
401(k) plans	$ _____
Certificates of deposit	$ _____
Mutual funds	$ _____
Total retirement, pension, and investment plans	$ _____
Total assets	$ _____

LIABILITIES

Home Debt

Home loan	$ _____
Second lien	$ _____
Home-improvement loan	$ _____
Total home debt	$ _____
Automobile loan	$ _____
Student loan	$ _____
Credit card debt	$ _____
Personal loan	$ _____
Any other debt	$ _____
Total liabilities	$ _____
Bottom line (subtract liabilities from assets)	$ _____

RESOURCES FOR MORE FINANCIAL EDUCATION

There are lots of options available for free training and education in the basics of finance and money management. Here are just a few of the web-based resources available:

- www.MyMoney.gov is a website maintained by the U.S. Financial Literacy and Education Commission that has some great links, including interactive, web-based programs to help you learn the basics of household financial management. It features free online calculators for figuring mortgage payments, student loans, rent-versus-buy analysis, and lots more. You'll also find a variety of reports and information about financial topics such as smart borrowing strategies, budgeting, and taxes. There's even a whole section devoted to interactive and informational financial training for kids.
- The Federal Reserve Bank of Dallas sponsors a site called Building Wealth: A Beginner's Guide to Securing Your Financial Future (www.dallasfed.org/ca/wealth/index.cfm). This site has an interactive curriculum to show you, step by step, how to calculate your net worth, create a budget, understand the basic principles of saving and investing, and make better borrowing decisions.
- The Federal Deposit Insurance Corporation (FDIC) developed the "Money Smart" program to offer financial training and information to persons "outside the financial mainstream" (www.fdic.gov/moneysmart).

The site offers a section called "computer-based instruction" that allows you to educate yourself at your own pace on the basics of banking, credit, savings, and mortgages.

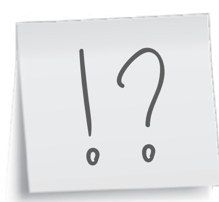
- The Jump$tart® Coalition for Personal Financial Literacy is a national organization made up of educational, governmental, industry, and special interest groups "dedicated to improving the financial literacy of kindergarten through college-age youth by providing advocacy, research, standards, and educational resources." Their website (www.jumpstart.org) features a wide array of free and downloadable publications covering many different aspects of personal financial management, both for kids and adults.

MOVING FORWARD WITH HOPE

By now, if you have been applying the principles outlined in this booklet, you have begun dealing (or have successfully dealt) with the debt that is hampering your choices and preoccupying your attention and energy. You have applied the communication skills needed to work with your creditors; you have taken personal responsibility for understanding your rights and obligations as a consumer and a debtor. You have made decisions based on knowledge rather than fear of consequences, and you have taken proactive steps to do what is best for yourself and your family.

Hopefully you have already felt the new confidence that comes from going through a difficult situation and emerging successfully on the other side. And hopefully you will take to heart the lessons presented here about budgeting, controlling your spending, exercising careful discernment in your use of credit, and adhering to the steps required to meet the financial goals you have set for yourself and your household.

Hopefully you have already felt the new confidence that comes from going through a difficult situation and emerging successfully on the other side.



As you continue to move forward into a brighter future, remember that sticking with the basics is what separates the successful from those doomed to repeat past mistakes. Don't be tempted to fall back into old patterns. Remember that your budget is your road map to financial success, and follow it.

Earning your financial freedom depends on making hard choices and forming good habits that don't come naturally to most people. If it doesn't seem at least a little challenging or difficult, you probably aren't doing it right! Some individuals successfully make the transition into stable, financially responsible lifestyles. Others, a year, two years, or five years down the road, find themselves back in the same kind of trouble they had originally hoped to escape.

What makes the difference between those who are able to "kick the debt habit" and those who find themselves repeating the cycle of overspending, problem debt, and financial crisis? One word: *discipline*. The people who get out of trouble and stay out are those who are determined to practice sound financial fundamentals: they stick to their budgets and don't spend more than they earn; they plan ahead and save for major purchases instead of getting them with credit; they plan ahead for future needs and, over time, build the cash reserves needed to deal with the unexpected.

We live in a time and place of almost unlimited opportunity. Regardless of the state of the economy, your company, interest rates, or any other external variables, there will always be resources available for those with the determination and discipline to seek them. By reading this booklet and absorbing the information it contains, you have taken a firm step toward becoming one of those people.

By applying the principles set forth in this booklet, you can begin building a more secure financial future. This booklet has the specific purpose of helping you live a more stress-free, balanced, and enjoyable life. Hopefully reading it has given you both a positive vision for the future and a roadmap for reaching it. It takes determination, knowledge, and, above all, discipline—but it is possible.

I wish you the best of luck in this next stage of your financial life.