



Credit Management

I. INTRODUCTION

- This chapter covers all aspects of credit management. Credit reports and scores will be covered in Chapter 13, Debt Management will be covered in Chapter 14, and Letters of Indebtedness and Letters of Intent will be covered in Chapter 15.
- Chapter correlation to major OPNAVINST task areas:
 1. **Education and Training:** This chapter correlates directly to the PFMSC Credit Management module. Although the PFMSC chapter is not strictly modeled, students have adequate exposure to the topic to allow them to present this segment of training.
 2. **Information and Referral:** Appropriate credit referral resources are discussed.
 3. **Counseling:** The CFS will meet with clients interested in credit issues.

II. LEARNING OBJECTIVES

If student instructors present the material:

Learners will demonstrate the ability to educate Sailors on the basics of credit by participating in presenting the information and being evaluated using a standard training techniques critique sheet.

If class instructor presents the material:

Learners will demonstrate an understanding of credit issues by accurately completing an assessment quiz or by actively participating in the “Credit Conversations” group activity.

III. REFERENCES

DoD Financial Management Regulation (FMR) Volume 9, Chapter 3 dated March 2005 (Government Travel Card section).

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Garman, E.T., and Fogue, R.E. 2007. *Personal Finance*. Chula Vista: Southwestern College Publications.

National Consumer Law Center. 2008. *Surviving Debt: Counseling Families in Financial Trouble*. Boston: National Consumer Law Center. (www.consumerlaw.org)

OPNAV Instruction 1740.5B, Personal Financial Management Education, Training and Counseling Program.

SECNAVINST 1754.1B, Family Service Center Program.

Sugar, Steve. 1998. *Games That Teach*. San Francisco: Jossey-Bass/Pfeiffer.

www.aafes.com (Army Air Force Exchange System)

www.aiccca.com (Association of Independent Consumer Credit Counseling Agencies)

www.annualcreditreport.com (free annual credit report)

www.bankrate.com (Bankrate Web site for comparison shopping)

www.brightscore.com (InCharge Institute Web site for credit reports and score education)

www.consumerlaw.org (National Consumer Law Center)

www.cuna.org (Credit Union National Association)

www.debtadvice.org (NFCC Web site for credit education and counseling)

www.equifax.com (credit-reporting agency)

www.experian.com (credit-reporting agency)

www.federalreserve.gov (Federal Reserve System)

www.ftc.gov (Federal Trade Commission)

www.hud.gov (foreclosure options from the U.S. Department of Housing and Urban Development)

www.lifelines.navy.mil (Lifelines Services Network)

www.militaryonesource.com (Military Resource Web site)

www.myfico.com (credit reports and scoring information)

www.mymoney.gov (U.S. Government financial education Web Site)

www.myvesta.org (Non-profit debt-management counseling)

www.neweradebtsolutions (debt-resolution services)

www.nfcc.org (National Foundation for Credit Counseling)

www.privacyrights.org (Privacy Rights Clearinghouse)

www.transunion.com (credit-reporting agency)

www.uscourts.gov/video/bankruptcybasics/bankruptcyBasics.cfm (U.S. courts bankruptcy videos)

www.usdoj.gov/ust/ (pre-bankruptcy counseling resources from the U.S. Trustee's Office)



IV. CONTENT

Credit Conversations

Instructions: You have been asked to write a “Top Seven” list of credit-card “do’s” and “don’ts” for distribution to junior Sailors at your command. Working alone, use the material in your Student Manual to choose seven tips you believe are most important for a young Sailor to know. The tip you put next to #1 should be the tip you believe is MOST important. When you are done, detach the bottom portion of this page, put your name on it, and give it to the instructor.

Credit Conversations #1: Credit-Card Tips

1.

2.

3.

4.

5.

6.

7.



Credit Conversations #1: Credit-Card Tips

Name _____

Credit Conversations #2: Wise Guys

Instructions: Find a partner. As a team, develop two suggestions for how to educate junior Sailors effectively on the wise and unwise uses of credit. Be prepared to discuss why you believe your two suggestions will be effective. When you are done, detach the bottom portion of this page, put your names on it, and give it to the instructor.

1.

2.



Credit Conversations #2: Wise Guys

Name _____

Name _____

Credit Conversations #3: Just Can't Get It

Instructions: Form a group of three. As a team, develop three approaches to this issue: A young Sailor comes to you and says, "I applied for a loan and got denied. They said I didn't have a credit history. They're denying me credit because I don't have any credit... help!" How could you help this Sailor and others in the command with the same problem? Be specific. When you are done, detach the bottom portion of this page, put your names on it, and give it to the instructor.

1.

2.

3.



Credit Conversations #3: Just Can't Get It

Name _____

Name _____

Credit Conversations #4: Costly Credit

Instructions: Form a group of four. You have noticed a trend of expensive credit being used by command members and have approached the command about educating members on minimizing the cost of credit. The command says you can have 10 minutes at quarters, or figure something else out. Working as a team, suggest two effective ways to educate the command on this topic. How will you know your education has been effective? When you are done, detach the bottom portion of this page, put your names on it, and give it to the instructor.

1.

How will you know they learned?

2.

How will you know they learned?

Credit Conversations #4: Costly Credit

Name _____

Name _____

Name _____

Name _____



Wise Uses of Credit

Success or failure with money depends much more on appropriate behavior than it does on the amount of money one has. Using credit wisely is the result of good planning (a behavior). Conversely, inappropriate behavior, such as lack of planning or emotional spending, usually is the cause of unwise uses of credit that can lead to serious financial problems.

The best use of credit is for a planned purchase of assets — things that will grow or increase in value over time, such as a home or an education. Credit also is useful for convenience — avoiding having to carry large sums of cash or as a management tool. But, it assumes you do not carry a balance month-to-month, or if you do, that you have planned for the monthly payments. Using credit to take advantage of sales or discounts when you do not have immediate access to your cash is a good use as well. The wise use of credit virtually always falls into one of these two categories — assets or convenience, and always includes planning (deliberate spending).

Unwise Uses of Credit

Unwise uses of credit revolve around behavior — poor or no planning, or emotional spending. Unwise uses include:

- **Impulse Buying.** Easy access to credit often leads to a “buy now, pay later” mentality. Impulse buying can occur when we are bored, nervous, sad, angry or happy. During these times, consumers often will charge items they never would buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about one-third more than they would if they first compared prices at other locations where the same item might be on sale. By nature, impulse items are not planned expenses.
- **Spending for Status.** Many people feel they need to spend to impress others. Advertising appeals to these emotions. Ads for credit cards often portray the person using the card as having power or status. The message they are sending is that if you use their card, you will be able to do great things, have more fun, attract others, and be more successful.
- **Retaliatory Spending.** In a family where there is not a clear spending plan on which partners agree, each party has a common tendency to spend on themselves first. After all, they work hard, so why shouldn't they treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves in order to “even the score” with the other.
- **Spending to Feel Good.** This feeling can become addictive. Like other addictive behaviors, the good feelings are temporary; the debt “hangover” can last a long time. Individuals always should decide before charging any purchase whether they are buying an item because they really need it or because they are under stress and want to feel better. People who spend to feel good or to get a “fix” sometimes will not even open their parcels or use the items, because it is not about the item purchased but rather about the feeling they get from the transaction.

- Purchasing Consumables. Credit becomes more dangerous when used to purchase consumables such as food, clothing, entertainment and vacations — items that lose much or all of their value immediately after purchase.
- Everyday Living Expenses. Meeting everyday living expenses is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, what makes you believe you will be able to pay for it next month?

Establishing a Credit History

Young consumers should start building their credit-worthiness early, so when they need credit they will be able to get it. Lenders look for evidence of financial responsibility and stability. This can be achieved in several ways:

- Properly maintain a checking and savings account at a financial institution.
- Pay existing bills (such as rent and utilities) on time.
- Use a “savings-secured loan.” Credit unions and banks will give a loan up to the amount of money in a related savings (or share savings) account. The money in savings is frozen until some or the entire loan is paid off. Since the financial institution knows it will get its money even if the borrower defaults, the interest rate on the loan normally is very low, usually only slightly more than the interest rate they are giving for savings. In a way, the borrower is paying to borrow his or her own money, but the idea is to help the borrower establish credit, and a savings-secured loan is an excellent tool with which to do that.
- Use a co-signed loan. This is a good option for borrowers with little credit history, but they will need someone willing to co-sign for the loan. For someone who already has a good credit history, caution should be used if considering co-signing a loan for a friend or a relative. Statistically, more than half of these types of loans end with the co-signer paying back part, most or all of the money owed!
- Get a charge card from a local retailer or oil company. These often are the easiest type of credit card to get. Encourage members to start small, using just one card, to make small purchases and pay the bill in full at the end of the month; and to guard against overspending, as interest rates for these cards normally are high.
- After establishing a good credit history with other loans, a consumer eventually will qualify for a Visa or MasterCard from a major bank. More than 6,000 banks issue these cards. Consumers must be aware that terms and rates will vary considerably, from so-called “secured” cards that often require a cash deposit and have low credit limits and high rates; to the “premium” cards (often called gold or platinum) targeted at consumers with the best credit ratings.



Reducing the Cost of Credit

Credit-Worthiness

Using someone else's money is going to cost you money in the form of interest and fees. The better your credit history is, the better your chance of qualifying for lower rates and fees. If you have a history of slow or no payments in your report, you may be denied credit, or you may be charged more for the credit that lenders are willing to give you. Paying your existing bills on time and maintaining a spotless credit record can improve your credit-worthiness.

Comparison Shopping

Credit is a product for which you should shop, just like you would shop for a car or a home appliance. Since the amount of interest that can be charged on various types of credit differs from state to state, it is important to shop carefully. Try to get pre-approved by arranging financing for large items before you go shopping. This will help you get a firm fix on what you can afford to pay. Compare options from different lenders to get the best deal. Besides your own personal credit-worthiness, the cost of credit is determined by a number factors such as where you borrow; how much you borrow; how long you take to repay; and how interest is calculated. We will look at each of these in more detail.

Where to Borrow

Where you borrow will affect your cost.

- Credit Union. Owned by members; lends to members only; normally offers the most attractive rates.
- Commercial Banks. Offer a wide variety of products; average rates; for lower-risk people.
- Savings Banks and Savings and Loan Associations. Focus on mortgages, often offer other services; similar to banks.
- Consumer Finance Companies. Accept higher credit risks; rates often high.
- Retail Merchants. In-store loans and credit cards; often have promotional introductory rates that rise rapidly after 90 to 180 days. Rates often are unattractive. Whether you are buying a car, a TV or anything else, normally the most expensive place to finance any consumer purchase is the place you are buying it. You pay for the convenience.
- Predatory Lending. Advance-fee loans, payday loans, sub-prime mortgages, title pawn lenders, rent-to-own, refund-anticipation loans: JUST SAY NO! These types of lenders charge excessive interest rates and fees, wrap in unnecessary insurance, and often have pre-payment penalties. This is the most expensive money to borrow. If members find themselves contemplating getting money from this type of lender, they should talk to you immediately.

How Much to Borrow

How much you borrow has a big impact on total cost. A down payment often can result in substantial savings. The bigger the down payment, the less the total cost.

How Long to Repay

Borrowing for a longer period lowers your monthly payment but results in higher cost. The shorter your repay period, the less the total cost.

Minimum Monthly Payment

Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible. If you have a \$1,000 balance on an 18 percent credit card and pay only the minimum — 2 percent of the balance, for example — it will take 19 years to pay off and cost a total of \$1,931. However, increasing the payment to 5 percent of the balance results in a two-year payoff and \$382 in interest paid.

Minimizing Interest Charges

Interest on loans can be calculated in a number of ways:

Simple interest. The finance charge is computed by applying a percentage rate to the balance outstanding during each payment period. This is the most attractive method. As you make payments, the interest charged decreases along with the loan balance due. Credit unions always charge simple interest; banks normally do as well. Ask for it!

Add-on Interest. The finance charge is calculated on the amount financed and then added on to it. The sum total has to be repaid. No matter how many payments you have made, the interest charged always will stay the same. Read all financing contracts carefully before signing! Example: \$1,000 at 12 percent for one year. Using simple interest, you will pay \$66 in interest. Using add-on interest, you will pay \$120 in interest.



Saving on the Cost of Credit Cards

To save on the cost of credit cards, inquire about issues such as those listed below so you can make comparisons.

- Is there an annual fee, and if so, how much? Can it be waived?
- What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?
- What is the grace period on purchases — the time you have to pay before any interest is charged? (Some cards have a zero grace period.)
- What are the terms for a cash advance? Most cards charge a higher interest rate for cash advances, and the interest starts to accrue immediately.
- What additional fees apply, such as late payment, over credit limit, cash advances and others? Are there other hidden charges, such as a rise in the interest rate in the event of a late payment?
- One easy way to save money is to call your existing credit-card company, tell them you plan to switch to a card with a lower interest rate, and ask what they can do for you. In many cases, they will lower your interest rate to keep you as a customer. This can be effective if you have been a client with an account in good standing for a year or more, carry a balance, and are being charged over 14 percent.
- If you pay off your balance each month, get an account with a low or no annual fee. If you carry a balance, look for low APR and low or no fees.
- Avoid high priced add-ons such as credit life, credit disability, or credit unemployment insurance.

Military Cards

Military Star Card

The Military Star Card is a credit card that can be utilized at all military exchanges. This is a regular credit card, and the government does not run the program. This card allows you to make purchases and defer payment over time just like any other credit card. The application and screening process is similar to other credit cards, and finance charges will be assessed if the bill is not paid in full each month. The interest rate is variable, which means it will change with changes in overall interest rates. There also is a uniform purchase plan available under the Military Star Card. Under this plan, you can purchase uniforms and uniform-related items, pay for them over time, and no interest will be charged.

Military Star Card debts are considered debts owed to the government. This means it is easy for them to reach into your paycheck to get the money you owe.

Government Travel Cards

General. Unless otherwise exempted in accordance with the provisions of the relevant sections of the FMR, all DoD personnel are required to use the government-sponsored, contractor-issued travel charge cards for all expenses arising from official government travel. Although a traveler may be required to use the government travel charge card, failure to use the government travel charge card shall not be a basis for refusing to reimburse the traveler for otherwise appropriate charges. Such failure, however, may subject the traveler to appropriate administrative or disciplinary action.

Credit Checks. Title 10 U.S.C. 2764a requires the evaluation of credit-worthiness before issuing a government travel charge card to an individual. The card contractor will perform a credit check on each new card applicant. Applicants will receive a standard card, a restricted card, or may not be eligible for a card depending on their credit score. If the applicant agrees to a credit check, the fact that a credit check has been performed will appear on the credit bureau's record for the applicant and will be evident to subsequent credit grantors who request a credit check. The issuance of a travel card and the credit limit on the card are not reported to credit bureaus. This process is similar to instances when the applicant personally applies for credit, except that the only information evident to subsequent credit grantors is that an inquiry was made and has little impact on a credit score. Applicants who refuse to permit a credit check may be asked to self-certify to their credit-worthiness in order to obtain a restricted travel card.

Misuse of Government Travel Cards. Government travel cards are issued only for official travel-related expenses. Examples of misuse include but are not limited to: (1) expenses related to personal family or household purposes; (2) cash withdrawals from ATMs or banks when not related to official travel requirements; and (3) intentional failure to pay undisputed charges in a timely manner. Cardholders who misuse their DoD travel cards shall be subject to administrative or disciplinary action, as appropriate. While these cards generally shall be used only for reimbursable expenses



associated with official travel, certain expenses, while not reimbursable, are considered related to official travel. Guidelines should be consulted for specific details.

Split Disbursement. To assist the traveler in fulfilling his or her payment responsibility, DD Form 1351-2 (Travel Voucher or Subvoucher) has been modified to permit reimbursement for travel card charges to the travel charge card contractor with the remainder of any entitlement to be sent to the traveler. This process is known as split disbursement. All military personnel are required to split disburse the total outstanding charges against the travel charge card.

Monthly Statements. Cardholders are responsible for payment in full of the amount stated on the monthly billing statement by the due date on the statement. Accounts are considered delinquent if unpaid 60 days after the billing date.

Disputed Charges. In the event that the billed amount contains charges that are disputed by the traveler, he or she shall obtain a dispute form or use the dispute form included with monthly account statements sent to each cardholder. The cardholder shall complete and send the form to the travel card contractor.

Salary Offset. Under regulations promulgated in Volumes 7A and 8 of the FMR, and upon written request of the card contractor, the department will, on behalf of the government travel charge card contractor, collect by deduction from the amount of pay owed to the cardholder any funds the cardholder owes to the government travel charge card contractor as a result of delinquencies not disputed by the cardholder on the government travel charge card. Specifics on the procedures are contained in Volume 7A of the Financial Management Regulation.



Ten Things to Think about *Before* Getting a New Credit Card . . .

1. Don't apply for a credit card until you are ready. Unfortunately, bankruptcy may not have permanently resolved all of your financial problems. It is a bad idea to apply for new credit before you can afford it.

2. Avoid accepting too many offers. There is rarely a good reason to have more than one or two credit cards. Having too much credit can lead to bad decisions and unmanageable debts, and it will lower your credit rating. This can make it harder for you to get other lower interest rate loans. Avoid accepting a credit card just to get a discount at a store or a "free" gift.

3. Remember that lenders are looking for people who run up big balances, because those consumers pay the most interest. You may find that credit card companies are pursuing you aggressively by mail and phone even though you filed bankruptcy. Do not view this as a sign that you can afford more credit. The lender may have a marketing profile telling them you are someone who is likely to carry a big credit card balance and pay a good deal of interest. Or they may see you as a good credit risk because you cannot file a Chapter 7 bankruptcy again for quite a few years.

4. Interest rate is important in choosing a card, but not the only consideration. You should always try to get a card with an interest rate as low as possible. But it is rarely a good idea to take a new card just because of a low rate. The rate only matters if you carry a balance from month to month. Also, the rate can easily change, with or without a reason. Remember that even the best credit cards are expensive unless you pay your balance in full

every month. And other credit terms can add to your cost, like annual fees, late charges, over-the-limit fees, account set-up fees, cash advance fees, and the method of calculating balances. Sometimes a credit card that appears cheaper is actually more expensive.

5. Beware of temporary "teaser" rates. A teaser rate is an artificially low initial rate that applies only for a limited time. Most teaser rates are good only for six months or less. After that, the rate automatically goes up. Remember that if you build up a balance under the teaser rate, the much higher permanent rate will apply when you repay the bill. This means that the permanent long-term rate on the card is much more important than the temporary rate.

6. If your rate is variable, understand how it may change. Variable interest rates can be very confusing. Some variable rate terms can make your rate go up steeply over time. Read the credit contract to understand how and when your rate may change. And don't be misled by advertisements that claim "fixed rate", as this may mean the rate is fixed only until the lender decides to change it again.

7. Check terms related to late payment charges and penalty rates of interest. Most credit card contracts have terms in the small print for late charges or penalty interest rates that increase if you make even a single late payment. Try to avoid cards with late fees as high as \$25-35 or penalty interest rates of 21-24% or higher. Even if you are not having financial problems, these terms may become important, because they apply equally to accidental late payments.

8. Get a card with a grace period and learn the billing method. It is important to understand how

you will be billed. Look for a card with a grace period that lets you pay off the balance each month without interest. If the card does not have a grace period and interest will apply from the date of your purchase, a low interest rate may actually be higher than it looks. The terms of the grace period are also important, as it may not apply to balance transfers and cash advances. And look out for different interest rates that may apply depending upon the type of charge: these usually include a higher rate for cash advances.

9. Don't accept a card just because you qualify for a high credit limit. It is easy to assume that because a card offer includes a high credit limit, this means the lender thinks you can afford more credit. In fact, the opposite may be true. Lenders often give high credit limits to consumers hoping that they think will carry a bigger balance and pay more interest. You must evaluate whether you can afford more credit based on your individual circumstances.

10. Always read both the disclosures and the credit contract. You will find disclosures about the terms of a credit card offer, usually in small print on the reverse or at the bottom of the offer. Review these carefully. However, the law does not require that all relevant information be disclosed. For this reason, you must also read your credit contract, which comes with the card. This will include terms such as late payment fees, default rates of interest, and a description of the billing method. Since these terms are not easy to understand, you may want to call the lender for an explanation. Or better yet, refuse credit with too many complex provisions, because those terms are likely to work to your disadvantage.

... or Using One you Have

1. Establish a realistic budget. Before using a credit card after bankruptcy, try paying cash for a while. This will help you learn how much money you need each month to pay the basic necessities. Don't forget to budget for the payments on any debts you reaffirmed in your bankruptcy.

2. It is important not to use credit cards to make up for a budget shortfall. Credit card debt is expensive. Sometimes credit cards are so easy to use that people forget they are loans. Be sure to charge only things you really need and plan to pay the balance off in full each month. If you find you are constantly using your card without being able to pay the bill in full each month, you need to consider that you are using cards to finance an unaffordable lifestyle.

3. If you get into financial trouble, do not make it worse by using credit cards to make ends meet. If you find that you are using credit cards to get through a period of financial difficulty, it is likely that additional credit will only make things worse. For example, if you use cash advances on your credit card to pay bills, the interest due will only add to your debt burden sooner rather than later.

4. Don't get hooked on minimum payments. Credit card lenders usually offer an optional "minimum payment" in their monthly billing. These are usually set very low (usually 2% of the balance), barely covering the monthly interest charge. If you pay only the minimum, chances are that you will be paying your debt very slowly or not at all, and you may think you are managing the debt when you are really getting in over your head. For example, if you make only the monthly minimum payments to pay

off a \$1,000 balance at a 17% interest rate, it will take over 7 years pay your debt! If you are also making new purchases every month while making minimum payments, your debt will grow and take even longer to pay off. This means that your monthly interest obligations will increase and you will have less money in the monthly budget for necessities.

5. Don't run up the balance based on a temporary "teaser" interest rate. Money borrowed during a temporary rate period of 6% is likely to be paid back at a much higher permanent rate of 15% or more. Also be careful about juggling cards to take advantage of teaser rates and balance transfer options. It takes a great deal of time and effort to take advantage of terms designed to be temporary. Remember that all teaser rate offers are designed to get you locked into the higher rate for the long term, because that is how the lender makes the most money.

6. Avoid the special services and programs credit card lenders offer to bill to your card. You are likely to get many mail offers and telemarketer calls from your credit card lender about special services such as credit card fraud protection plans, credit report protection, travel clubs, life and unemployment insurance, and other similar offers. These products are generally overpriced. It is best to throw out and refuse these offers, or at a minimum, treat them with a high degree of caution. And avoid "free trial" offers as you will be billed automatically if you forget to cancel the service.

7. If you can afford to do so, always make your credit card payments on time. Be careful to avoid late payment charges and penalty rates if you can do so while still paying higher priority debts. Bad

problems get worse fast when you have a new higher interest rate and late charge to pay during a time of financial difficulty. Most lenders will waive a late charge or default interest rate one time only. It is worth calling to ask for a waiver if you make a late payment accidentally or with a good excuse.

8. Know exactly when the grace period ends. The grace period usually ends on the payment "due date," which may change every month. Many lenders do not mail bills until late in the grace period, so your payment may be due quite soon after you receive the bill. This also means that the grace period may be less than a full month, usually about 20-25 days. Some lenders are slow in posting payments or have strange rules about deadlines (like payments received after 10:00 a.m. on the due date are considered late). Try to mail your payment well before the due date so there will be no question it gets there on time. Paying credit cards on time not only saves you interest and late fees but is a good way to improve your credit rating after bankruptcy.

9. Beware of unsolicited increases by a credit card lender to your credit card limit. Some lenders increase your credit limit even when you have not asked for more credit. Avoid using the full credit line as your debt can easily spiral out of control. And going over the credit limit even by a few dollars can be very costly as you will likely be charged an over-the-limit fee and a higher penalty interest rate.

10. If you do take a credit card and discover terms you do not like: Cancel! You can always cancel any credit card at any time. Although you will be responsible for any balance due at the time of cancellation, you should not keep using a card after you discover that its terms are unfavorable.

How to Establish, Use, and Protect Your Credit



How to Establish, Use, and Protect Your Credit

What you need to know

Good credit is valuable. Having the ability to borrow funds allows us to buy things we would otherwise have to save for years to afford: homes, cars, a college education. Credit is an important financial tool, but it can also be dangerous, leading people into debt far beyond their ability to repay. That is why learning how to use credit wisely is one of the most valuable financial skills anyone can learn.

What Lenders Look For

Before creditors lend money, they need to be assured that the funds will be repaid. In other words, is the prospective borrower creditworthy? To find out, they ask for various types of information:*

Income & Expenses

Lenders will look at what you earn and your regular expenses, such as rent, utilities, food, and other ongoing items. The amount left tells them whether you can afford to take on additional debt.

Assets

Do you have assets that can serve as collateral? Lenders will look for things like bank accounts, insurance, and valuable items such as a house, if you own one.

Credit History

How do you manage debt? If you have credit cards or have borrowed money before, you have a history that shows prospective lenders whether you are creditworthy by revealing details about the amount of debt you already have, how many credit cards you have, and whether you make payments on time.

**Creditors obtain much of this information from your credit report, a computerized profile of your borrowing, charging, and repayment activities. For information on credit reports, see "Your Credit Report," a Federal Reserve Bank of San Francisco brochure.*

It's easy to qualify for credit if you have a good credit history, but what if you have never used credit before? This is a common problem for people who just started working, those who work in the home, people who always pay in cash, and those who do not have assets or accounts in their own names. For them, the first step is to establish a credit history.

How to Establish Credit

Begin by opening individual savings and checking accounts in your name. Over time, your deposits, withdrawals, and transfers will demonstrate that you can handle money responsibly.

Applying for a loan is another option, but be aware that this method of establishing a credit history will cost, since loans require the payment of interest.

You could take out a bank loan secured by the funds you have on deposit or by items you own, such as a car. You could also ask a friend or relative who has good credit to cosign a loan, which means that he or she shares liability for the loan with you.

You could also apply for department store and gasoline credit cards, which generally are easier to obtain than major credit cards. Before you apply for any credit, however, make sure you understand the terms. For example, how long is the grace period or the time you have to pay the current balance in full before finance charges are added? Is there an annual fee or other fees associated with the credit? If you believe that you will carry a balance, you need to know how finance charges are calculated.

Patience is important in this process. It takes time to establish credit and build a record of consistency in making payments to demonstrate your creditworthiness. And it is much better to go slowly and develop a strong credit record than to apply for too many credit cards or a loan that is larger than you can handle.

Start slowly, be cautious, keep track of your overall debt, and pay on time. Most importantly, remember that credit actually represents real money and has to be repaid with interest.

Protecting Credit

Once you have obtained credit, it is necessary to protect it. This means being careful with your credit, debit, and ATM cards, as well as your account and personal identification numbers (PIN).

Carry only the cards you expect to use, and keep the others in a safe place. Maintain a list of account and telephone numbers of the companies that issued your cards. Then, if the cards are lost or stolen, you can notify the companies quickly. If your notification is received before the cards are used, you have no legal responsibility for the bills; if it is received after the cards are used, your legal responsibility is \$50 for each card.

Be cautious about giving anyone your account numbers, especially over the telephone when someone calls you. Save sales receipts to compare with your bill, and when you discard documents with account numbers on them, be certain that the numbers can't be read.

If you disagree with an item on a bill, you are responsible for notifying the creditor in writing within 60 days of receiving the bill. You should include your name, account number, the item you believe is in error, and the reasons why.

Common Reasons for Denying Credit

Among the most common reasons people are turned down when they apply for credit are:

- Too little time in current job or at current residence.
- Too much outstanding debt.
- Unreasonable purpose for requesting credit.
- Cosigner cannot take on additional debt liability.
- Errors on applicant's credit report.**
- Strict creditor's standards.

** *For information on correcting credit report errors, see "Your Credit Report," a brochure published by the Federal Reserve Bank of San Francisco.*

In general, creditworthiness must be determined on the basis of criteria that relate to your ability and willingness to repay debt. You cannot be denied credit based on your sex, marital status, race, religion, national origin, age, or dependence on income from public assistance.

If you are denied credit, the creditor must provide you with a written statement of the action and your rights, as well as the reason for denial or how to request the reason. For information on the laws applying to credit, see “Your Credit Rights,” a Federal Reserve Bank of San Francisco brochure.

Improving Poor Credit

If you have fallen behind in your payments, begin immediately to repair your credit record. Here’s how:

- *Face up to the problem.* Recognize that you are overextended, and contact your creditors to see if they will set up a new payment schedule that you can maintain. In any case, don’t ignore your bills.
- *Immediately stop purchasing with credit.* Take your credit cards out of your wallet. Store them in a spot that is hard to reach, or even cut them up.
- *Consider consolidating debts.* You may find it easier to make a single payment rather than several. You might also get a lower interest rate that will make it easier to keep up with payments. Remember that debt consolidation is not a cure-all. You have to learn to control your spending to avoid future debt.
- *Contact a credit counseling organization.* You can obtain referrals for organizations in your area through the National Foundation for Consumer Credit, (800) 388-2227.
- *Don’t expect miracles.* Don’t believe companies that promise to fix a poor credit rating quickly and painlessly for a fee. As long as it is accurate and timely, negative information cannot be removed from your credit record. The only way to improve a credit record is to let time pass and establish a record of on-time payment.

Divorce and Credit

Aside from its non-financial effects, divorce can cause problems with your credit record. The end of a marriage does not erase the debts you and your former spouse took on as a couple. Even if your former spouse is ordered by the court to pay debts from the marriage, you can become liable if they are not paid. Here are a few suggestions to protect your financial standing:

- Decide how to divide or dispose of property. If necessary, you can use a mediator to work through this with your former spouse.
- Close or separate joint accounts. Decide with your former spouse who will be responsible for paying bills, and notify your creditors of your divorce.
- Establish independent credit, if you do not already have it.
- Make sure bills are paid.

Paying Off a Loan Early

If you are applying for a loan and think you may want to pay it off before it has run its full term, you should be aware that lenders have several methods of calculating interest. The method they use affects the amount you will owe if you decide to pay off early. Since lenders are not required to disclose which method they use, you may have to ask. Here is a brief description of the most common interest-calculation methods.

Rule of 78

This method uses tables based on a mathematical formula to determine how much interest you have paid at any point during a loan. It requires that you pay more interest at the beginning of a loan when you have the use of more of the money and that you pay less interest as the debt is reduced. Since all of your payments are the same in amount, the amount of your payment that is going toward the principal increases while the amount going toward interest decreases. State law may mandate the use of the Rule of 78.

Generally, the longer the term of a loan and the higher the interest rate, the less favorable the Rule of 78 is to borrowers who wish to pay off early. However, for loans of less than five years and with interest lower than 15 percent, the payoff calculated by the Rule of 78 is similar to that calculated with the actuarial method, described below.

Actuarial Method

This method is most often used for mortgages and other loans in which a periodic rate is applied to a declining balance. It does not take into consideration whether a payment is made before or after the due date. Late payments are subject to a flat penalty, but interest does not continue to accrue.

Daily Simple Interest

In this method, a daily periodic rate is applied to an outstanding balance. Therefore, borrowers benefit by reducing the outstanding balance through early payments or lump-sum payments, both of which reduce the balance and the interest due. Under a simple interest system, late payers will end up owing more.

For More Information

The Federal Reserve Bank of San Francisco has several other consumer brochures. These brochures are posted on our web site at: <http://www.frbsf.org>.

Learn about . . .

- **Bank Products**
- **Credit and Charge Cards**
- **Frauds and Scams**
- **Your Credit Rights**
- **Private Mortgage Insurance (PMI)**
- **Your Credit Report**
- **Plastic Fraud**

Questions and concerns about credit agencies and credit practices can be directed to:

Federal Trade Commission
Consumer Response Center - FCRA
600 Pennsylvania Avenue, NW
Washington, D.C. 20580
<http://www.ftc.gov>
(877) FTC-HELP

For information on organizations that help with credit counseling, contact:

National Foundation for Consumer Credit
8611 Second Avenue
Silver Spring, MD 20910
<http://www.nfcc.org>
(800) 388-2227

FTC Facts

For Consumers



FEDERAL TRADE COMMISSION
FOR THE CONSUMER

www.ftc.gov ■ 1-877-ftc-help

June 2008

Choosing A Credit Card: *The Deal is in the Disclosures*

A credit card lets you buy things and pay for them over time. Using a credit card is a form of borrowing: you have to pay the money back.

When you are choosing a credit card, there are many features – and several kinds of cards – to consider: Fees, charges, interest rates, and benefits can vary among credit card issuers. As a result, some credit cards that look like a great deal at first glance may lose their appeal once you read the terms and conditions of use and calculate how the fees could affect your available credit.



“acceptance,” “participation,” and “monthly maintenance” fees. These fees may appear monthly, periodically, or as one-time charges, and can range from \$6 to \$150. What’s more, they can have an immediate effect on your available credit. For example, a card with a \$250 credit limit and \$150 in fees leaves you with \$100 in available credit.

Transaction Fees and Other Charges

Some issuers charge a fee if you use the card to get a cash advance or make a late payment, or if you exceed your credit limit.

CREDIT CARD TERMS

Important terms of use generally must be disclosed in any credit card application and even in solicitations that don’t require an application. Here are the most important terms to understand – or ask about – when you are choosing among credit offers.

Fees

Many credit cards charge membership and/or participation fees. Issuers have a variety of names for these fees, including “annual,” “activation,”

Annual Percentage Rate

The APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before your account can be activated, and it must appear on your account statements.

The card issuer also must disclose the “periodic rate.” That’s the rate the issuer applies to your outstanding balance to determine the finance charge for each billing period.

Some credit card plans let the issuer change the APR when interest rates or other economic indicators – called indexes – change. Because the rate

change is linked to the index's performance and varies, these plans are called "variable rate" programs. Rate changes also can raise or lower the finance charge on your account. If you're considering a variable rate card, the issuer must tell you that the rate may change and how the rate is determined.

Before your account is activated, you also must be given information about any limits on how much your rate may change – and how often.

Grace Period

A grace period, also called a "free period," lets you avoid finance charges if you pay your balance in full before the date it is due. Knowing whether a card gives you a grace period is important if you plan to pay your account in full each month. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

Balance Computation Method for the Finance Charge

If you don't have a grace period – or if you plan to pay for your purchases over time – it's important to know how the issuer calculates your finance charge. Which balance computation method is used can make a big difference in how much of a finance charge you'll pay – even if the APR and your buying patterns stay pretty much the same.

Balance Transfer Offers

Many credit card companies offer incentives for balance transfers – moving your debt from one credit

card (Card Issuer A) to another (Card Issuer B). All offers are not the same, and their terms can be complicated.

For example, many credit card issuers offer transfers with low introductory rates. Some issuers also charge balance transfer fees. If Card Issuer B charges four percent to transfer \$5,000 from Card Issuer A, your fee would be \$200. In addition, if you pay late or fail to pay off your transferred balance before the introductory period ends, Card Issuer B may raise the introductory rate and/or charge you interest retroactively. And if you use your card from Card Issuer B to make new purchases, any payments you make will go toward your balance with the lowest interest rate – and finance charges at the higher interest rate will be assessed on the portion of your balance that came from new purchases.

When choosing a credit card, consider fees, charges, interest rates, and benefits.

BALANCE COMPUTATION METHODS

Average Daily Balance

This is the most common calculation method. It credits your account from the day the issuer receives your payment. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, cash advances typically are included. The resulting daily balances are added for the billing cycle. Then, the total is divided by the number of days in the billing period to get the "average daily balance."

Adjusted Balance

This usually is the most advantageous method for cardholders. The issuer determines your balance by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period aren't included.

This method gives you until the end of the billing period to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior unpaid finance charges from the previous balance.

Previous Balance

This is the amount you owed at the end of the previous billing period. Payments, credits, and purchases made during the current billing period are not included. Some creditors exclude unpaid finance charges.

Two-cycle or Double-cycle Balances

Issuers sometimes calculate your balance using your last two month's account activity. This approach eliminates the interest-free period if you go from paying your balance in full each month to paying only a portion each month of what you owe. For example, if you have no previous balance, but you fail to pay the entire balance of new purchases by the payment due date, the issuer will compute the interest on the original balance that previously had been subject to an interest-free period. Read your agreement to find out if your issuer uses this approach and, if so, what specific two-cycle method is used.

How do these methods of calculating finance charges affect the cost of credit?

Suppose your monthly interest rate is 1.5 percent, your APR is 18 percent, and your previous balance is \$400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of \$300. On the 18th day, you make a \$50 purchase. Using the:

- Average Daily Balance method (including new purchases), your finance charge would be \$4.05.
- Average Daily Balance method (excluding new purchases), your finance charge would be \$3.75.
- Adjusted Balance method, your finance charge would be \$1.50.
- Average Daily Balance Double-cycle method (including new purchase and the previous month's balance), your finance charge would be \$6.53.

It's important to know how the issuer calculates your finance charge.

If you don't understand how your balance is calculated, ask your card issuer. An explanation also must appear on your billing statements.

OTHER COSTS AND FEATURES

Credit Terms Vary Among Issuers

When considering a credit card, think about how you plan to use it: If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, and whether there is a grace period for purchases. If you use the cash advance feature, many cards do not permit a grace period for the amounts due – even if they have a grace period for purchases.

That makes considering the APR and balance computation method a good idea. But if you plan to pay for purchases over time, the APR and the balance computation method definitely are major considerations.

You'll also want to consider if the credit limit is high enough, how widely the card is accepted, and the plan's services and features. For example, you may be interested in "affinity cards" – all-purpose credit cards sponsored by professional organizations, alumni associations, and some members of the travel industry. An affinity card issuer often donates a portion of the annual fees or charges to the sponsoring organization, or qualifies you for free travel or other bonuses.

Default and Universal Default

Your credit card agreement explains what may happen if you "default" on your account. For example, if you are one day late with your payment, your issuer may be able to take certain actions, including raising the interest rate on your card. Some issuers' agreements even state that if you are in default on any financial account – even one with another company – those issuers' will consider you in default for them as well. This is known as "universal default."

Special Delinquency Rates

Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. This can exceed 20 percent. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

FOR HELP & INFORMATION

Questions about a particular issuer should be sent to the agency with jurisdiction.

Office of the Comptroller of the Currency:

Regulates banks with "national" in the name or "N.A." after the name:

Office of the Ombudsman
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743 toll-free
www.occ.treas.gov

Board of Governors of the Federal Reserve System:

Regulates state-chartered banks that are members of the Federal Reserve System, bank holding companies, and branches of foreign banks:

Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (TTY: 877-766-8533) toll-free
ConsumerHelp@FederalReserve.gov

Federal Deposit Insurance Corporation:

Regulates state-chartered banks that are not members of the Federal Reserve System:

Division of Supervision & Consumer Protection
550 17th Street, NW
Washington, DC 20429
877-ASK-FDIC (275-3342) toll-free
www.fdic.gov

National Credit Union Administration:

Regulates federally chartered credit unions:
 Office of Public and Congressional Affairs
 1775 Duke Street
 Alexandria, VA 22314-3428
 703-518-6330
www.ncua.gov

Office of Thrift Supervision:

Regulates federal savings and loan associations
 and federal savings banks:
 Consumer Programs
 1700 G Street, NW
 Washington, DC 20552
 800-842-6929 toll-free
www.ots.treas.gov

Federal Trade Commission:

Regulates non-bank lenders:
 Consumer Response Center
 600 Pennsylvania Avenue, NW
 Washington, DC 20580
 877-FTC-HELP (382-4357) toll-free
www.ftc.gov

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Credit—You Got It!

1. Which one of the following is NOT one of the three C's of qualifying for credit?
 - a. Character
 - b. Collateral
 - c. Capability
 - d. Capacity
2. Cardholders who misuse their government travel cards shall be subject to administrative or disciplinary action.
 - a. True
 - b. False
3. Which one of the following is considered a wise use of credit?
 - a. Purchasing everyday living expenses
 - b. Purchasing to relieve stress
 - c. Purchasing consumables
 - d. Purchasing assets
4. Which of the following is likely to have the best credit rates?
 - a. Retail merchants
 - b. Credit unions
 - c. Consumer finance companies
 - d. Rent-to-own companies
5. Which finance charge computation method totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day?
 - a. Previous balance method
 - b. Adjusted balance method
 - c. Two-cycle balance method
 - d. Average daily balance method
6. If you have multiple credit cards with one company, under the Credit CARD Act of 2009, the company must apply above-the-minimum payments to which of your cards?
 - a. The card with the highest rate
 - b. The card with the lowest rate
 - c. The card with the highest balance
 - d. The card with the lowest balance
7. Debts accrued using a Military Star Card are owed to the government and can result in garnishment of the service member's pay.
 - a. True
 - b. False
8. What is the period that allows you to make credit-card purchases and avoid finance charges by paying your balance in full before the due date?
 - a. Double-cycle balance period
 - b. Grace period
 - c. Average daily balance period
 - d. Adjusted method period
9. What is interest calculated on the full amount of the original principal and then immediately added to the original principal for a sum total?
 - a. Simple interest
 - b. Compound interest
 - c. Add-on interest
 - d. Adjusted interest



10. Which one of the following is NOT a way to establish a credit history?
- Open a bank account
 - Obtain credit from a local retailer
 - Use a co-signed loan
 - Pay existing bills on time
11. As a rule, you always should pay only the minimum payment on a loan or credit card, since that frees up your cash to spend on other important things.
- True
 - False
12. The various fees often associated with credit cards are billed separately and do not affect your available balance.
- True
 - False
13. Which type of finance calculation is prohibited under the Credit CARD Act of 2009?
- Average daily balance
 - Adjusted balance
 - Previous balance
 - Two-cycle balance
14. Which of the following statements is true about reducing the cost of credit?
- To reduce the cost of credit, extend the repayment period and/or decrease the monthly payment.
 - To reduce the cost of credit, shorten the repayment period and/or increase the interest rate.
 - To reduce the cost of credit, increase the monthly payment and/or increase the interest rate.
 - To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.

15. Which of the following statements is not true?
- You usually can tell if you should borrow money by who is willing to lend it to you; a credit union usually is a good deal, while predatory lenders are not.
 - The military consumer has no safeguards against predatory lenders.
 - Contacting your current credit-card issuer and asking for a lower rate is a great way to save on the cost of credit.
 - When it comes to credit, the primary role of the CFS is to educate members on using it wisely.

Summary of the Credit Card Accountability, Responsibility and Disclosure (Credit CARD) Act of 2009

On May 22, 2009, President Barack Obama signed the Credit CARD Act into law. The legislation will improve consumer disclosures and end some egregious practices in the credit card industry, but it stops short of capping interest rates and fees. Most of the provisions go into effect February 22, 2010, but some will go into effect August of 2009.

The CFS Curriculum, 2009 edition, went to print before the Credit CARD Act went into effect. This section-by-section Summary includes all provisions of the Act. Command Financial Specialists should be familiar with all relevant portions of the Act.

Title I—CONSUMER PROTECTION

Sec. 101. Prior notice of rate increases required. Prohibits increase in APR without 45 days-notice. Prohibits applying rate increases retroactively to existing balances. Requires clear notice of right to cancel credit card when APR is raised.

Sec. 102. Freeze on interest rate terms and fees on canceled cards. Prevents APR from being raised, or repayment terms being cancelled, if a cardholder cancels a card.

Sec. 103. Limits on fees and interest charges.

Prohibits double cycle billing: Prohibits credit card issuers imposing interest charges on any portion of a balance that is paid by the due date.

Over-the-limit fee restrictions: Cardholders must be given the option of having a fixed credit limit that cannot be exceeded, and card companies cannot charge overlimit fees on cardholders with fixed limits. Cardholders may elect to prohibit the creditor from completing overlimit transactions that will result in a fee or constitute a default under the credit agreement. Overlimit charges can only be charged when an extension of credit, rather than a fee or interest charge, causes the credit limit to be exceeded. Overlimit charges can only be applied once during a billing cycle.

Prohibits charging interest on fees: Prohibits the charging of interest on credit card transaction fees, such as late fees and overlimit fees.

Limits on charging certain fees: Prohibits credit card issuers from charging a fee to allow a credit card holder to pay a credit card debt, whether payment is by mail, telephone, electronic transfer, or otherwise. Requires fees to be reasonably related to cost. Foreign currency exchange fees may only be imposed in an account transaction if the fee reasonably reflects costs incurred by the creditor and the creditor publicly discloses its method for calculating the fee.

Sec. 104. Consumer right to reject card before notice is provided of open account. Gives cardholders who get preapproved the right to reject the

card up until they activate it without having their credit adversely affected.

Sec. 105. Use of terms clarified. Prevents card companies from using the terms “fixed rate” and “prime rate” in a misleading way by establishing a single definition.

Sec. 106. Application of card payments. Prohibits credit card companies from setting early deadlines for credit card payments. Requires payments to be applied first to the credit card balance with the highest rate of interest, and to minimize finance charges. Prohibits late fees if the card issuer delayed crediting the payment. Prohibits card companies from charging late fees when a cardholder presents proof of mailing payment within 7 days of the due date.

Sec. 107. Length of billing period. Requires credit card statements to be mailed 21 days before the bill is due (current requirement is 14 days).

Sec. 108. Prohibition on universal default and unilateral changes to cardholder agreements. Prevents credit card issuers from increasing interest rates on cardholders in good standing for reasons unrelated to the cardholder’s behavior with respect to that card. Prevents credit card issuers from changing the terms of a credit card contract for the length of the card agreement. Allows penalty rate increases only for specific, material actions or omissions of the consumer specified in the card agreement. Requires issuers to lower penalty rates that have been imposed on a cardholder after 6 months if the cardholder commits no further violations.

Sec. 109. Enhanced penalties. Increases existing penalties for companies that violate the Truth in Lending Act for credit card customers.

Sec. 110. Enhanced oversight. Requires the credit card issuer’s primary regulator to evaluate the credit card policies and procedures of card issuers to ensure compliance with credit card requirements and prohibitions. Improves existing data collection efforts related to credit card interest rates, fees, and profits.

Sec. 111. Clerical amendments.

Title II—ENHANCED CONSUMER DISCLOSURES

Sec. 201. Payoff timing disclosures. Requires credit card issuers to provide individual consumer account information and to disclose the period of time it will take the cardholder to pay off the card balance if only minimum monthly payments are made. Also requires issuers to disclose the total amount of interest the cardholder will pay to pay off the card balance if only minimum monthly payments are made.

Sec. 202. Requirements relating to late payment deadlines and penalties. Requires full disclosure in billing statements of required payment due dates and applicable late payment penalties. Requires that cardholders be given a reasonable period to make payment. Requires that payment at local branches be credited same-day.

Sec. 203. Renewal disclosures. Requires card issuers to provide account disclosures to consumers upon card renewal when the terms of the card have changed.

Title III—PROTECTION OF YOUNG CONSUMERS

Sec. 301. Extensions of credit to underage consumers. Requires that credit card issuers, when soliciting to persons under the age of 21, obtain an application that contains either: (1) the signature of a parent, guardian, other qualified individual willing to take financial responsibility for the debt; (2) information indicating an independent means of repaying any credit extended; or (3) proof that the applicant has completed a certified financial literacy or financial education course.

Sec. 302. Restrictions on certain affinity cards. Mandates that credit card issuers, as a condition for entering into commission-based affinity cards with higher education institutions, require that all affinity card customers under the age of 21 comply with the requirements listed above.

Sec. 303. Protection of young consumers from prescreened offers of credit. Prohibits consumer reporting agencies from furnishing reports in connection with firm offers of credit or insurance that are not initiated by consumers under age 21. Allows consumers who are at least 18, but not yet 21, to elect, in writing, to have their names and addresses included in any list of names provided by such agencies in connection with such transactions.

Title IV—FEDERAL AGENCY COORDINATION

Sec. 401. Inclusion of all Federal banking agencies. Amends the Federal Trade Commission Act to transfer to each federal banking agency, with respect to depository institutions it supervises, the authority to prescribe regulations governing unfair or deceptive practices by banks and savings and loan institutions. Requires the federal banking agencies to prescribe such regulations: (1) jointly to the extent practicable; and (2) in consultation with the Federal Trade Commission (FTC). Instructs the Comptroller General to report to Congress on the status of regulations of the federal banking agencies and the NCUA regarding unfair and deceptive acts or practices by depository institutions.

Title V—MISCELLANEOUS PROVISIONS

Sec. 501. Study and report on interchange fees. Requires the Comptroller General of the GAO to conduct a study on interchange fees and their effects on merchants and consumers, and to report the findings to Congress in 180 days.

Sec. 502. Study and report on credit card rating system. Requires the Comptroller General of the

GAO to establish a Credit Card Safety Rating Commission that will determine whether a rating system to allow cardholders to quickly assess the level of safety of credit card agreements would be beneficial to consumers, and to make recommendations to Congress concerning how such a system should be devised.

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Credit Reports and Scores

I. INTRODUCTION

This chapter will teach you how to help clients obtain, review and, if necessary, correct their credit reports and scores. You should have a copy of your own credit report for this session (available at www.annualcreditreport.com). You also will be asked to obtain your Brightscore Action Plan for this session. Your instructor will provide you with a promotion code which will allow you free access to your score and Action Plan. Both your credit report and your Brightscore will remain confidential and are for your use only.

- Chapter correlation to major OPNAVINST task areas:
 1. **Education and Training:** This chapter directly correlates to the PFMSC Credit Management module, credit report and score section. Although the PFMSC chapter is not strictly modeled, you have adequate exposure to the topic to allow you to present this segment of training. You also will be introduced to a quick method for prioritizing training information.
 2. **Information and Referral:** Appropriate credit-report and score referral resources are discussed.
 3. **Counseling:** As a CFS you often will meet with clients interested in credit-report and score issues. One of your key tasks is to help members obtain, review and, if necessary, correct their credit report. You also will be assisting clients with a high debt-to-income ratio obtain their credit score and take appropriate action to raise it.

II. LEARNING OBJECTIVES

Using their personal credit report, learners will demonstrate the ability to obtain a credit report and identify the four major sections of a credit report.

Working with their personal credit report, learners will identify common credit-reporting errors and appropriate corrective actions.

Working in pairs or groups, learners will use short case studies to identify appropriate corrective actions to improve a credit score.

Using their Brightscore Action Plan, learners will demonstrate the ability to obtain a score, determine if a score needs improvement, and identify ways to increase a score.

Participating in a group exercise, learners will prioritize credit-report and score issues that should be taught to command members.

III. REFERENCES

See reference list for Chapter 12.

www.saveandinvest.org (FINRA Financial Education Web site, accessed April 2009)

www.brightscore.com (InCharge Institute of America Credit Score Web site, accessed April 2009)

IV. CONTENT



Activity: Personal Credit Report Review

(This information will remain confidential.)

1. Source of Report _____
2. Date of Report _____
3. Is your personal information up-to-date? Yes No
4. Is your payment history accurate? Yes No
5. How many inquiries are on your report? _____
6. What public record information is listed? _____

7. Do you need to take any action to correct your report? Yes No
If yes, what action will you take? _____

8. What is your credit score? _____
9. Do you need to take any action to improve your score? Yes No
If yes, what action will you take?

What's Worth Knowing?

Need to Know information:

- ▶
- ▶
- ▶
- ▶
- ▶
- ▶
- ▶
- ▶

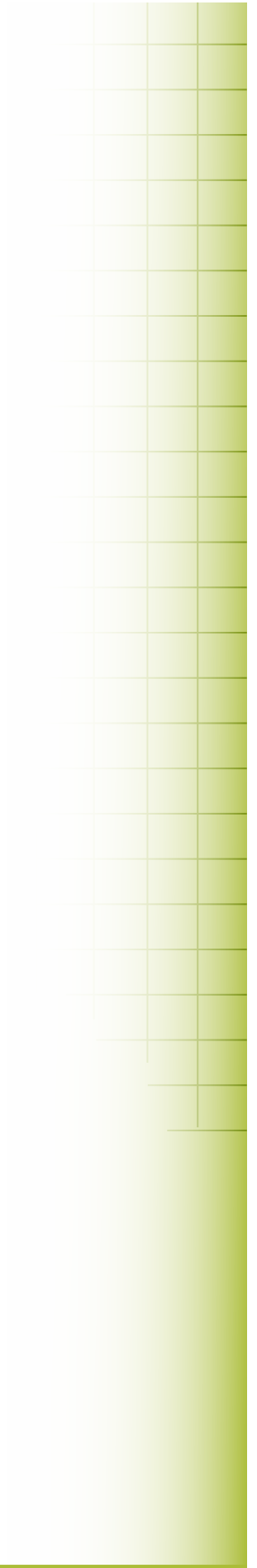
Nice to Know information

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Where to Go information:

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Possible training techniques:



Source for Obtaining Credit Reports

A free copy of a credit report is available annually from each of the three credit-reporting agencies through www.annualcreditreport.com.

Components of a Credit Report

Personal Identification and Employment Information. Your name, date of birth, Social Security number, employer, and spouse's name are noted routinely. The credit-reporting agency also may provide information about your employment history, home ownership, income and previous address, if a creditor requests this type of information.

Payment History. Current and past loans and credit accounts, credit limits, current balances and payment histories are noted. Payment history includes late payments, repossessions, charge-offs, and collection activity. This data also is known as "trade lines."

Inquiries. Credit-reporting agencies must maintain a record of all creditors who have asked for your credit history within the past year, and a record of those persons or businesses requesting your credit history for employment purposes for the past two years. There are two types of inquiries: "hard" inquiries, which are inquiries a creditor makes because you have applied for credit and thus triggered the inquiry; and "soft" inquiries, which are inquiries a creditor makes for marketing purposes and are not triggered by the consumer. This distinction will be important when we look at the components of the credit score.

Public Record Information. Events that are a matter of public record, such as bankruptcies, foreclosures or tax liens, may appear in your report.

NOTE: Credit reports do not contain information about race, religion or political preference.

Steps to Fix a Credit Report

The [Fair Credit Reporting Act \(FCRA\)](#) requires that credit reports be accurate and specifies what can be done to have errors on a report removed or corrected. The CFS should help members with inaccurate reports take the following steps to fix their reports:

- Missing accounts should be added to the report. To add missing accounts, contact the credit-reporting agency and the creditor and ask that the credit history be updated to show the missing account.
- Errors should be removed. To remove an error in a credit report, send a letter to the credit-reporting agency that clearly explains the error and includes supporting documentation.

Consumers can put a statement on a report. If the credit-reporting agency doesn't agree with a disputed item and will not remove it, consumers may send a 100-word consumer statement along with a cover letter to the credit-reporting agency asking that the statement be added to the credit report.



Sources for Obtaining a Credit Score

Multiple sources are available for a fee, including www.annualcreditreport.com. A free score and analysis/action plan is available through Brightscore for military members with credit problems and a score of 620 and below. Command Financial Specialists should help members determine if they qualify for a Brightscore report.

Components of a Credit Score

Payment history (35 percent) details your record of paying your debts on time. This component encompasses your payments on credit cards; retail accounts; installment loans such as automobile loans; finance-company accounts; and mortgages. Public records and reports detailing such items as bankruptcies, foreclosures, suits, liens, judgments and wage attachments also are considered.

Amounts owed or credit utilization (30 percent) reveals the extent of your debt and contributes to determining if you can handle what you owe. If you have high outstanding balances or nearly are “maxed-out” on your credit cards, your score will be affected negatively.

Length of credit history (15 percent) refers to how long you have had and used credit. The longer your history of responsible credit management, the better your score will be because lenders have a better opportunity to see your repayment pattern. If you have paid on time, every time, then you will look particularly good in this area.

Type of credit (10 percent) concerns the “mix” of credit you have, including credit cards, retail accounts, installment loans, finance-company accounts, and mortgage loans. You do not have to have each type of account. Instead, this factor considers the various types of credit you have and whether you use that credit appropriately.

New credit or inquiries (10 percent) suggest that you have or are about to take on more debt. Each time you apply for a new line of credit, it counts as an inquiry or a “hard” hit. When you rate-shop for a mortgage or a car loan, there may be multiple inquiries. However, because you are looking for only one loan, inquiries of this sort in any 14-day period count as a single “hard” hit. By contrast, applying for numerous credit cards in a short period will count as multiple “hard” hits and potentially lower your score. “Soft” hits — including your personal request for your credit report, requests from lenders to make you “pre-approved” credit offers, and those coming from employers — will not affect your score.

Steps to Improve a Credit Score

To improve a credit score, start by ensuring that the credit report is accurate and up-to-date. Then focus on the components of the score by following the steps below. Command Financial Specialists should assist members in developing written plans to improve their scores. The plans should specify what needs to be done and steps to be taken to fix the problem.

1. *Payment History.* A history of prompt payments of at least the minimum amount due helps your score. Late or missed payments hurt your score. Action: Make all payments promptly and stay within your limits; use automatic payment plans or set up a bill-paying calendar to ensure that you pay all your bills on time.
2. *Amounts Owed or Credit Utilization.* A good rule of thumb is not to exceed 30 percent of the credit limit on a credit card. Large account balances can be a negative. Paying down an installment loan is viewed favorably. For example, if you borrowed \$20,000 to buy a car and have paid back \$5,000 on time, even though you still owe a considerable amount on the original loan, your payment pattern demonstrates responsible debt management, which favorably affects your credit score. Action: Pay down your existing credit balances.
3. *Length of Credit History.* It helps your score to have older accounts that you have kept in good standing. Financial experts agree that you should not open multiple new accounts just to show a credit history. Action: Do not add new accounts in order to lower balances on old accounts, and do not close long-term accounts. Establish new credit but only if you have little or no existing credit history.
4. *Type of Credit.* This factor considers the various types of credit you have and whether you use that credit appropriately. For example, using a credit card to purchase a boat could hurt your score, but matching a bank loan with the purchase of a boat looks better.
5. *New Credit or Inquiries.* Opening many credit accounts in a short amount of time can be riskier, especially for people who do not have a long-established credit history.

Credit and Divorce

Command Financial Specialists can play an important role in helping members navigate the financial perils associated with a divorce. This especially is true when it comes to credit issues. Here is a list of things to bring to the attention of a member involved in a divorce:

1. Know the current credit and debt situation. Divorcing members should obtain a copy of their credit report as well as their spouse's credit report, if possible. Make a list of all debts and decide who is responsible for each account. **Any negative information in joint accounts affects the credit histories of both spouses.**
2. The divorce decree should state what will happen (frozen assets, wage garnishment, etc.) if a spouse stops making payments. Tell the member to ensure that he or she has quick legal recourse if a spouse stops paying, and ensure that the member has the ability to make those payments, if necessary.
3. A divorce decree has no impact on joint debts, including credit cards, car loans, home mortgages and lines of credit. The CFS should emphasize strongly to divorcing members that a consumer still is obligated to repay any joint debts incurred while married — **NO MATTER WHAT THE DIVORCE DECREE SAYS**. Creditors typically are not party to a divorce decree and only care that the responsible parties (that is, those who signed the credit application) pay on time. Joint accounts mean joint liability. The member should contact the creditor immediately if they anticipate that their ex-spouse will not pay debts as agreed. (In community-property states, spouses are considered co-owners of all debts, regardless of whose name is on the account.)
4. Divorcing members should contact each credit grantor and either close all joint accounts or convert them to individual accounts. All authorized users should be removed from individual accounts.
5. Even if a member is an authorized user on a spouse's account, the member may have no credit history at all. Members should request a copy of their individual credit report and get at least one individual credit card and utility in their own name to begin to establish a credit history.
6. If a member fears that a former spouse is going to file for [bankruptcy](#), advise the member to contact his or her divorce attorney immediately to protect credit and finances.

Moving Scores in the Right Direction

Directions: Working in pairs or groups, as directed by your trainer, provide suggestions for the following scenarios:

1. A member comes to you because she pulled her credit report and it has the following discrepancies: wrong address; two credit-card accounts missing; one account for which she doesn't remember applying; and incorrect payment information on her car loan showing she has been 60 days late two times in the past year. The member says she never has been late and is concerned about taking care of this issue before she deploys next month. What steps will you tell this member to take to correct her report?
2. When completing a member's Financial Planning Worksheet, you calculate a 45 percent debt-to-income ratio. The member says he has missed several payments on his credit cards due to over-extending himself but is up-to-date now. He sometimes rotates paying his bills if money is tight. His credit report is accurate, and his credit score is 540. He wants to apply for a mortgage but is worried he won't get one, and he is asking you what he can do to improve his score. When you ask him what steps he already had taken, he says he has heard that the more credit he has, the better his score, so he has three credit-card applications at home he is about to submit to three banks. What do you recommend?
3. A senior chief comes to you absolutely furious about his financial situation. He recently pulled his credit report because he and his wife want to buy a home, and he had five delinquent accounts listed and a credit score of 620. He said all the delinquent accounts were supposed to be paid by his ex-wife (to whom he hasn't spoken in five years), and he has the divorce decree to prove it. He asks what you know about this type of situation and what he should do. What do you suggest to the senior chief?



Debt Management

I. INTRODUCTION

This chapter focuses on debt management. In cases where proactive PFM credit education has failed to keep a Sailor away from debt problems, the Command Financial Specialist will be asked to work with the Sailor in resolving his or her debt problems. Chapter 14 helps the CFS recognize the warning signs of credit abuse, assess the extent of a debt problem, assist the Sailor in prioritizing debt and, if applicable, develop a “Full Steam” power-pay plan. The CFS also is trained to identify alternative solutions for the client when debt issues exceed the CFS’s capabilities. Included as part of Chapter 14 is the option of having a guest speaker from a debt-management program such as Consumer Credit Counseling Service (or local equivalent resource) speak with the learners.

II. LEARNING OBJECTIVES

Using short scenarios, the learner will indicate the appropriate questions to ask and referrals to make for debt-management problems.

Working with their group case study, the learner will apply the appropriate debt-management options for the debt problem presented.

III. REFERENCES

See the reference listing in Chapter 12

IV. CONTENT

Warning Signs of Credit Abuse

Moderate — Client having trouble with:

- Seasonal bills
- Routine gifts for birthdays, holidays, etc.
- Car, appliance, home repair
- Lack of money for unexpected events or special needs
- Little or no savings
- Worry, anxiety, family arguments about money
- Increasing balances on credit cards and charge accounts
- Using credit to pay credit; seeking consolidation loans for the wrong reason
- Debt-to-income ratio approaching 20 percent

Serious — Client experiencing:

- Spending 4 percent or more of take-home pay on alcohol or non-prescribed drugs
- Can't afford basic essentials
- No auto insurance
- Money often runs out before payday
- Frequent worry, family arguments regarding money
- Interference in job, family duties or relationships
- Paying only the minimum on credit cards
- Receiving late notices
- Using cash advances to pay regular living expenses
- Debt-to-income ratio 20 to 30 percent
- Being denied additional credit

Severe — Client experiencing:

- Spending 6 percent or more of take-home pay on alcohol or non-prescribed drugs
- Rotating bills or inability to pay bills
- Threat (possibility) of loss of food, housing, utilities
- Legal action threatened by creditors, collection agencies
- Litigation fees from divorce, civil suits, etc.
- Negative cash flow
- Some reduction in family income
- Debt-to-income ratio 30 to 40 percent
- Hiding bills, dishonesty with family
- Considering bankruptcy

Very Severe — Client experiencing:

- Spending 6 percent or more of take-home pay on alcohol or non-prescribed drugs
- Physical survival endangered
- Loss of food, housing or utilities
- Legal action by creditors in process
- Filing or decision to file bankruptcy
- Defendant in a criminal case
- Large medical expenses
- Loss or severe reduction in family income
- Debt-to-income ratio 40 percent or higher

Implications of Financial Problems

Civilian	Military
Information to Remember	

Collection Issues

Collection Procedures

1. The original creditor has three options:
 - ▶ Stop doing business with the consumer.
 - ▶ Report the default to a credit-reporting agency.
 - ▶ Sue the consumer.
2. In-house collection departments:
 - ▶ Send a series of letters and notices at 15- and 30-day intervals.
 - ▶ Write off the debt.
 - ▶ File a legal action.
 - ▶ Turn over the debt to a collection agency.
3. Collection agencies:
 - ▶ Take their cues from the original creditor.
 - ▶ Are experts in tracking down the debtor.
 - ▶ Consumers have more rights with collection agencies due to the Fair Debt Collections Practices Act (FDCPA).

Responding to Collectors

- Try to contact the original creditor and negotiate with them.
- Offer a lump sum or a payment plan.
- Try the same with the collection agency.
- Ask the collection agency to stop contacting you under the FDCPA.

Fair Debt Collection Practices Act

Besides the ability to ask a collection agency to stop contact, consumers have other important rights under the FDCPA, including:

- Debt collectors can't go public with your debt.
- Debt collectors can't call you at all hours — not before 8 a.m. or after 9 p.m.
- Unfair practices are prohibited — they can't force you to send a postdated check; they can't collect more than the amount you owe on the original debt.
- Harassment is illegal — they can't use threats, violence or criminal means against you or your family, abusive or obscene language, or call you repeatedly.
- Debt collectors can't use false or deceptive collection methods.
- You are entitled to written notification of your debt.

Student Loans

Student loans are a unique area of credit where collections efforts vary.

- Determine the type of loan and the identity of the creditor.
- Go back to the original creditor and inquire about options for keeping the loan current. Options for dealing with student loans may include:
 - ▶ Deferring payments for a predetermined period of time
 - ▶ Getting a forbearance (payments are decreased or postponed until the client is in a better financial position)
 - ▶ Outright cancellation
- Work with the holder of the debt to determine options.

Sample Letter to Collection Agency

Date

Address of Collection Agency

To whom it may concern:

I have been contacted by your company about a debt you allege I owe. I am instructing you not to contact me any further in connection with this debt. Under the Fair Debt Collections Practices Act, a federal law, you may not contact me further once I have notified you not to do so.

Sincerely,

Name

Address

Account No.

Enclosures (copies of correspondence)

(Use certified mail, return receipt requested. Keep copies of all correspondence.)

Developing an Action Plan

Ways you can help the client:

1. **Track Spending.** Clients must track all of their spending. In order to decrease their indebtedness, they will need to come up with the money needed to pay at least the minimum monthly payments.
2. **Set Goals.** The client will need to set some goals, such as pay off certain debts within certain periods of time. Reinforce the importance of goal-setting, and ensure your client has set some SMART goals.
3. **Develop a Spending Plan.** Be sure the budget has been completed and a flexible and agreed-to spending plan is in place so the client and/or you can make reasonable commitments to a debt-management plan and therefore reliable commitments to the creditors. Reinforce with the client that they be flexible, work on increasing their income, and seriously dedicate time to decreasing their living expenses.
4. **Plastic Surgery.** Depending on the severity of the debt situation, it may be necessary for the client to conduct “plastic surgery” — that is, cut up their credit cards and close the accounts. The client will need to request in writing that the creditor close the account, and keep copies of everything.
5. **Develop a Debt-Repayment Plan.** In preventive financial counseling and planning, it is recommended that one should try to keep debt payments to within 20 percent of net income (debt-to-income ratio). Most clients and families will need at least 70 to 75 percent of their net income for basic living expenses. Using this as a gauge, a realistic debt-management program could use as much as 25 percent of the client’s net pay.

If the client does not have money for at least the minimum, review the following options to see if there are any possibilities:

6. **Examine All Debt.** Analyze the list of creditors on the Indebtedness page, considering the following:
 - a. Have any debts been turned over to an attorney or collection agency/department?
 - b. Which debts need to be repaid first? Priority should be given to secured creditors, or the collateral probably will be repossessed.
 - c. Other priorities include bills that are current, bills owed to the government, and any bills that could result in jail (traffic tickets, bounced checks, etc.). It is recommended that you prioritize the creditors by numbering each in terms of urgency.
 - d. Has legal action been taken or pending by any of the creditors?
 - e. What is the total balance owed and payment due each month for each creditor?
 - f. What is the original monthly payment, according to the contract?
 - g. How much was the last payment to each creditor, and when was it made?
 - h. When was the last time you heard from the creditor? How old is the last bill? Has the bill been written off?
7. **Use Savings.** Are any savings available to pay down some debts, pay off smaller debts, or provide a lump-sum offering to a creditor?

8. **Consider All Options.** Examine each of these options with the client very carefully. Try to expand the client's options and create solutions to the debt problem.
- a. **Defer Payments.** Can the client work with the creditor to extend the life of the loan by the number of delinquent payments? This is done by adding the payments to the end of the loan, and the client's account is considered current. An extension fee equal to the interest for the deferred months usually is charged and must be paid before the creditor will agree to a deferment plan. This applies only to pre-computed installment loans.
 - b. **Refinancing.** Can the client negotiate a new loan agreement with a creditor making it possible for the client to extend the life of the loan and reduce payments each month? Refinancing can be accomplished with no additional money being borrowed other than what is needed to pay off the outstanding balance on the existing loan; or with proceeds, where more money is borrowed than is needed to pay off the loan.
 - c. **Credit Cards.** Does the client have credit cards that can be used to "consolidate" other cards into one account? Is the interest rate lower, and would it be to the client's benefit to pursue this option?
 - d. **Secured Loans.** Does the client qualify for a secured loan? Would the cost of the loan be lower than the debt currently held? What collateral does the client have to secure the loan?
 - e. **Personal Loans.** Does the client qualify for an unsecured loan? Would the cost of the loan be lower than the debt currently held?
 - f. **Liquidate Assets.** Can the client sell any assets to generate cash to pay off some of the debts? This can be done only if the client has clear title to these assets or has the permission of the individual or financial institution holding title to sell the property.
 - g. **Home-Equity Loans.** Does the client have a home on which she can get a home-equity loan or line of credit? Would the cost of a home-equity loan be lower than the debt currently held? What are the chances that the client would default on the loan and lose her home?
 - h. **Refinance a Mortgage.** Can the client take out a new loan on his home for the present value and use the money to pay off the balance on the original loan? The leftover money can be used to pay other creditors.
 - i. **Life Insurance Policies.** Does the client have any whole life insurance policies with a cash value that can be borrowed? An insurance agent can inform the client as to how much cash value, if any, that is available to be borrowed.
 - j. **Retirement Plans.** Does the client have any retirement plans with loan provisions? Is there any money that can be borrowed from the plan?
 - k. **Family and Friends.** Does the client have any family or friends who can help with a short-term loan or gift to help pay down the debts?
 - l. **Brokerage Margin Accounts.** Does the client have a brokerage account on which they can take out a loan? This is very risky and not recommended.

- m. **Repossession.** Can the client relinquish property that has been pledged as security on a loan?
- i. **Voluntary repossession.** In a voluntary repossession, the client returns the secured property (collateral) to the lender voluntarily. The client will be responsible for paying any outstanding balances due, known as the "deficiency balance." The client may save some repossession or foreclosure fees in a voluntary repossession.
 - ii. **Involuntary repossession.** In an involuntary repossession, the creditor takes back the secured property. The client will be responsible for paying any outstanding balance on the loan after the property is sold or auctioned by the creditor. This has a more negative impact on the credit rating of the client.
- n. **Foreclosure.** Does the client want to give up their house and let the bank foreclose on it? If the client is facing foreclosure, they need to get professional counseling from someone knowledgeable about housing options. The lender may be willing to work with the client: They may be able to offer a deed in lieu of foreclosure, or defer payments. They also may be able to sell fast instead of walking away.
9. **Power Payment Plan.** Once you have explored all options with your client, you should know whether a debt-management plan can be developed for them. If so, you can use the Full Steam section of the FPW program. It is recommended that a debt-management plan take no more than three years to pay off all creditors, and to get the debt-to-income ratio down to a workable level — 20 percent or less.
10. **Present Plan to Creditors.** Once you have put together the debt-management plan and the client is confident they can stick to it, present the plan to the creditors, as necessary. If no changes in payments need to be made, there is no need to talk with the creditor. However, if you need to work with a creditor to request lower or deferred payments, you will need to contact them and get their agreement. If one or more creditors won't work with the client or the CFS, you may need to rework the plan, or it may be time to refer the client to a non-profit debt-management program.

Debt-Management Program Resources:

www.nfcc.org (National Foundation for Consumer Credit)

www.aiccca.org (Association of Independent Consumer Credit Counseling Agencies)

www.myvesta.org (non-profit debt-management counseling)

www.militaryonsource.com (Military OneSource Web site)

Sample Letter to Creditor From an Individual

Date

Address of Creditor

Dear sir:

I understand that my account is past due. Due to present financial difficulties that resulted from (explain personal reason why account is delinquent), I am unable to continue paying on my account as was originally agreed.

I plan to meet all of my financial obligations in full. Currently, I am working with the financial specialist at my command. We have developed a spending plan that my Command Financial Specialist will help me monitor and follow.

In order to provide for necessary household expenses plus credit payments, it is necessary that I ask each creditor to accept a reduced payment. I request that all past-due balances be transferred to the final amount on my account. Instead of my regular payment of \$_____, I propose that you accept payments of \$_____ per month due on the _____th day of each month.

Enclosed is my first payment (if a payment can be sent) and my destroyed credit card. Please ensure that my account remains closed until my balance is paid in full. You can be assured that I will increase my payments as my situation improves.

I would appreciate your cooperation in making the payment plan work and a written response to this letter within 30 days to aid my Command Financial Specialist in monitoring my progress.

Sincerely,

Name

Account No.

Enclosures

(Send by certified mail, return receipt requested. Keep copies of all correspondence.)

Sample Letter to Creditor from a CFS

Date

Address of creditor

Re: (name of client) (client's address)

Account number:

Total indebtedness:

Proposed payment:

Dear sir:

I have met recently with (client's name) regarding his/her budgeting and debt problems. Due to (explain problem briefly), he/she has not been able to make regular payments on the above account.

(Client's name) understands that his/her account is past due and plans to meet all financial obligations in full. A spending plan has been developed outlining an equitable payment schedule for all creditors. He/she is willing to make whatever changes are necessary to overcome these financial difficulties and has agreed not to create any new credit until current obligations are met.

Enclosed is his/her first payment (if a payment can be sent) and his/her destroyed credit card. Please ensure that this account remains closed until the balance is paid in full. You can be assured that payments will be increased as his/her situation changes.

On behalf of (client's name), I am asking that you accept the proposed monthly payment shown above. By so doing, you not only will help in his/her efforts to get out of debt but also will be helping a service member learn to budget and use credit wisely.

If I can be of any help or if you have any questions, please call me at (phone number).

Sincerely,

Name

Command Financial Specialist

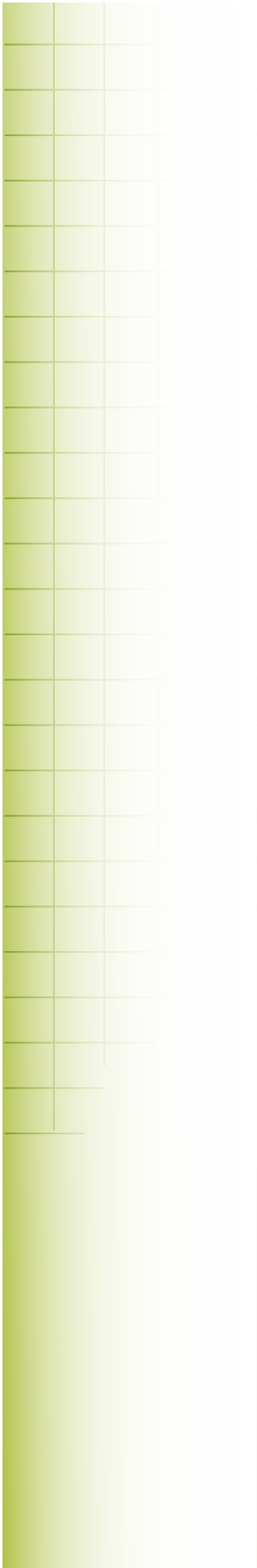
Enclosures

(Use certified mail, return receipt requested. Keep copies of all correspondence.)

Debt Management in Practice

Directions: Using the information from the class discussion and contained in your Student Manual, what questions would you ask each client, and what resources would you suggest?

1. A Sailor and her husband with a 25 percent debt-to-income ratio tell you they have difficulty meeting all their monthly payments.
2. A single E-4 tells you he has been late paying his rent for two months. You calculate his debt-to-income ratio, and it is 38 percent. He often eats on the ship because he is short of food money. He has four credit cards and all are maxed out, for \$7,800 in total debt. The trouble started three months ago when he bought a brand new truck.
3. A Sailor with a black eye asks you where he can get help with his utility bills and food expenses for the month. He says he is over his head in debt, has no food in the house, needs diapers for the baby, and has a shut-off notice from the electric company. Three of his bills are in collection. He tells you the “debt thing” is taking a toll on his marriage — he and his wife are fighting all the time, and last night she took a swing at him. He says he tried to sell his second car to eliminate a large car payment, but he is “upside-down” on the debt.
4. A chief asks you what you know about student loans. He says he has two problems. One is his young wife’s student loans, which are about to come due, and he doesn’t have the money to pay them. Also, his daughter from his first marriage just got accepted at Brown University, he can’t afford the tuition, and he is desperate to find a way to work it out. He mentions he has a lot of equity in his home (his credit score is 680). When he shows you his budget, you see he pays on a consolidation loan.
5. A day after conducting a session for command members on credit reports, a senior member of the command tells you she pulled her report the previous night and it is a disaster. She has fallen two months behind on all her bills, and her bank is threatening to foreclose on her home if she doesn’t bring her account up-to-date. When you suggest sitting down and putting together a budget, she tells you she doesn’t really have the time but wants to know if you know anything about Chapter 7 bankruptcy.





The Two LOI's: Letters of Indebtedness and Letters of Intent

I. INTRODUCTION

When service members become delinquent on their debts, creditors frequently send letters to commanding officers requesting their assistance. They are hoping that official pressure will be used to encourage payment. These letters are called Letters of Indebtedness. Your CFS duties may include assisting the command by processing these letters and in providing counseling assistance to the members who are the subject of these letters.

Command Financial Specialists also may play a role in assisting members when they receive a Letter of Intent. These letters are sent to a member from the Department of the Navy Central Adjudicating Facility (DoN CAF) when they are considering denying or revoking a security clearance. If the reason for the denial or revocation is financial considerations, you can assist the member in responding to the letter and in putting his or her financial house in order.

This chapter discusses both Letters of Indebtedness and Letters of Intent as well as garnishments, and it explains Navy policy, procedures for processing, and the role of the CFS.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** No direct correlation to any PFMSC modules, although general information may be incorporated into any training on credit and indebtedness. Training techniques include lecture and training tools (flowchart).
2. **Information and Referral:** No direct correlation.
3. **Counseling:** The CFS often is asked to provide counseling to members because the command has received a Letter of Indebtedness, garnishment or Letter of Intent regarding a member. This chapter will prepare the CFS to assist with these issues.

II. LEARNING OBJECTIVES

After participating in the session, the learner should be able to explain Navy policy on indebtedness, explain garnishment, and discuss procedures for processing Letters of Indebtedness and assisting with Letters of Intent.

Using a flowchart, the learner should be able to recognize a legal Letter of Indebtedness.

III. REFERENCES

Military Personnel Manual 7000-020

Navy Security Manual

SECNAV Instruction M-5510.30

DoN CAF Brief “Financial Issues That Affect Clearances” (2009)

IV. CONTENT

Garnishment

A garnishment occurs when a creditor gets a court order to have pay taken directly from the military paycheck and sent to the creditor. By the time a wage garnishment occurs, the member has had ample opportunity to make good on the debt. Creditors usually will send a series of letters and notices to try to collect on an unpaid debt and may send the debt to a collection agent before they ever go to court for a judgment to garnish.

Garnishment facts:

- It can take up to 25 percent of a member’s disposable pay.
- Disposable pay consists of:
 - ▶ Basic pay
 - ▶ Special pay
 - ▶ Accrued leave payments
 - ▶ Severance pay
 - ▶ Disability severance pay
 - ▶ Inactive duty training pay
- DFAS processes all garnishment requests.
- The commanding officer is responsible for processing the final action at the command.

A Legal Letter of Indebtedness

A legal Letter of Indebtedness requires full disclosure by the creditor. It has four parts:

1. The Letter of Indebtedness
2. A copy of the signed contract (or cancelled check)
3. A Certificate of Compliance



4. A statement that the Standards of Fairness have been met

If the Letter of Indebtedness is from a third-party debt collector, the letter falls under the rules of the Fair Debt Collections Practices Act, which prohibits contact by a debt collector with third parties, such as a commanding officer, for the purpose of aiding debt collection unless there has been prior consent by the debtor or a court order has been obtained.

Sample Letter of Indebtedness

06/1/09

COMMANDING OFFICER
USS ALWAYS SAIL
FPO AE 09557-1516
RE: ET1 JOHN DOUGH

Dear Sir:

We wish to inform you of one of the activities of your crew members. ET1 John Dough is currently delinquent two payments on his account with Fibs Auto. The total amount due is \$650.00 and his balance is \$4,872.00.

We have attempted to work out an arrangement with him, but he has not responded to our requests. Let us assure you that we are in total compliance with all standards of fairness and disclosures.

Please assist us in counseling your crew member.

Sincerely,

Butch Cassidy

Butch Cassidy
Collections Manager
Fibs Auto
9603 Shore Drive
Anywhere, USA

Certificate of Compliance

Certificate of Compliance

I certify that FIBS AUTO, upon extending credit to John Dough six months ago, complied with the full disclosure requirements of the Truth-in-Lending Act and Regulation Z, and the Fair Debt Collection Practices Act (or the laws and regulations of the Commonwealth of Virginia), and that the attached statement is a true copy of the general and specific disclosures provided the obligor as required by law.

I further certify that the Standards of Fairness set forth in DoD Directive 1344.9 have been applied to the consumer credit transaction to which this form refers. (If the unpaid balance has been adjusted as a consequence, the specific adjustments in the finance charge and the annual percentage rate should be set forth below.)

Harry Fibs

Authorized Representative

9603 Shore Drive

Street Address

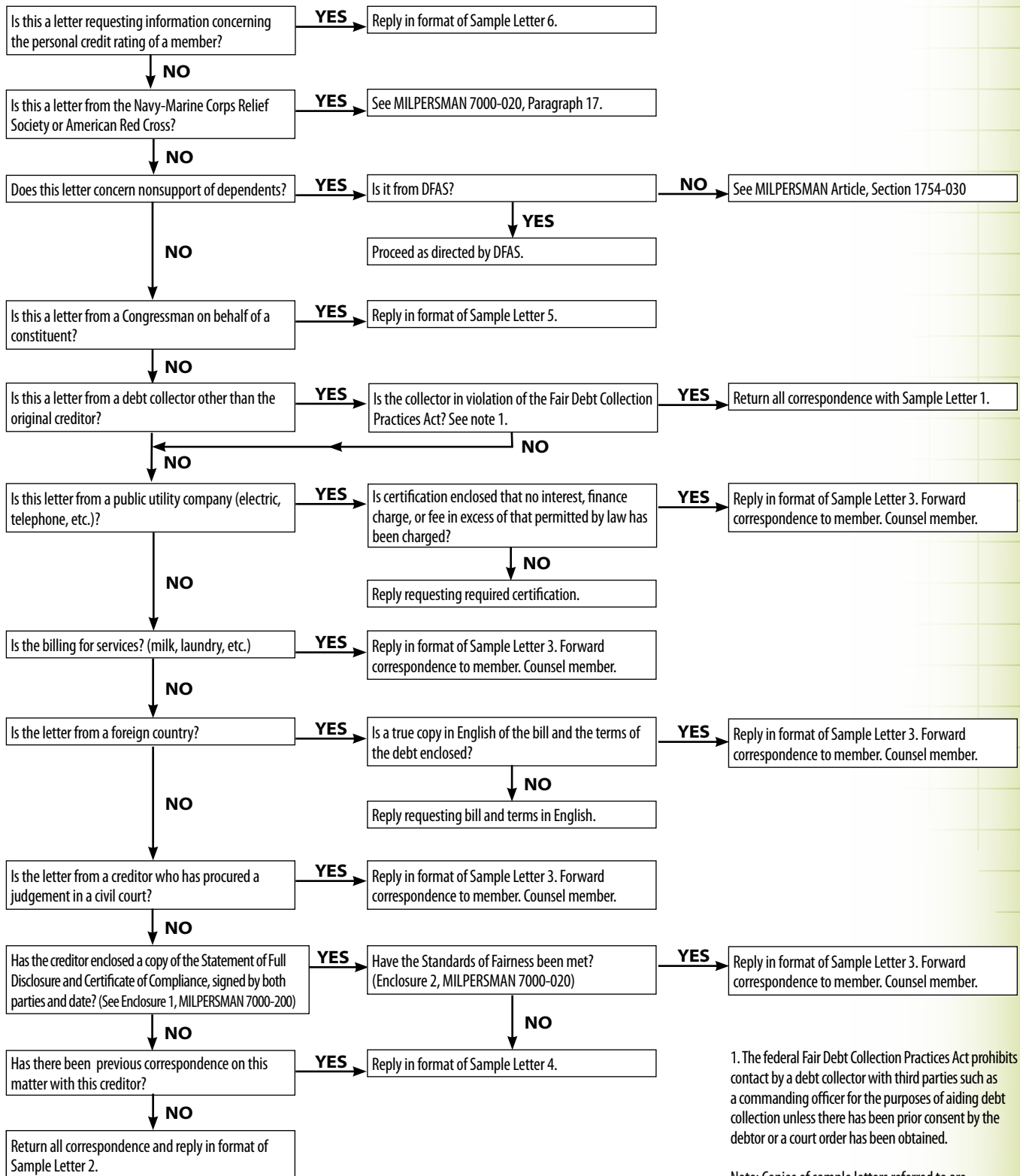
Anywhere, USA

City, State and Zip Code

Standards of Fairness

1. No finance charge contracted for, made, or received under any contract shall be in excess of the charge which could be made for such contract under the law of the place in which the contract is signed in the United States by the military member.
 - a. In the event a contract is signed with a U.S. company in a foreign country, the lowest interest rate of the State or States in which the company is chartered or does business shall apply.
 - b. However, interest rates and service charges applicable to overseas military banking facilities will be as established by the Department of Defense.
2. No contract or loan agreement shall provide for an attorney's fee in the event of default unless suit is filed, in which event the fee provided in the contract shall not exceed twenty percent of the obligation found due. No attorney fees shall be authorized if the attorney is a salaried employee of the holder.
3. In loan transactions, defenses which the debtor may have against the original lender or its agent shall be good against any subsequent holder of the obligation. In credit transactions, defenses against the seller or its agent shall be good against any subsequent holder of the obligation, provided that the holder had actual knowledge of the defense or under conditions where reasonable inquiry would have appraised the holder of this fact.
4. The military member shall have the right to remove any security for the obligation beyond State or national boundaries if the military member or family moves beyond such boundaries under military orders and notifies the creditor in advance of the removal, of the new address where the security will be located. Removal of the security shall not accelerate payment of the obligation.
5. No late charge shall be made in excess of 5 percent of the late payment or \$5.00 whichever is the lesser amount, or as provided by law or applicable regulatory agency determination. Only one late charge may be made for any tardy installment. Late charges will not be levied where an allotment has been timely filed, but payment of the allotment has been delayed. Late charges by overseas banking facilities are a matter of contract with the Department of Defense. Late charges by Federal credit unions are set at 20 percent of the interest due with a minimum of not less than 5 cents.
6. The obligation may be paid in full at any time or through accelerated payments of any amount. There shall be no penalty for prepayment and in the event of prepayment, that portion of the finance charges which has incurred to the benefit of the seller or creditor shall be prorated on the basis of the charges which would have been ratably payable had finance charges been calculated and payable as equal periodic payments over the terms of the contract and only the prorated amount to the date of prepayment shall be due. As an alternative the "Rule of 78" shall be applied.
7. If a charge is made for loan insurance protection, it must be evidenced by delivery of a policy or certificate of insurance to the military member within 30 days.
8. If the loan or contract agreement provides for payments in installments, each payment, other than the down payment shall be in equal or substantially equal amounts, and installments shall be successive and of equal or substantially equal duration.
9. If the security for the debt is repossessed and sold in order to satisfy or reduce the debt, the repossession and resale will be governed by the laws of the State in which the security is requested.
10. A contract for personal goods and services may be terminated at any time before delivery of the goods or services without charge to the purchaser. However, if goods made to the special order of the purchaser result on reproduction costs, or require preparation for delivery, such additional costs will be listed in order form or contract.
 - a. No termination charge will be made in excess of this amount. Contracts for delivery at future intervals may be terminated as to the undelivered portion.
 - b. The purchaser shall be chargeable only for that proportion of the total cost which the goods or services delivered bear to the total goods called for by the contract.
(This is in addition to the right to rescind certain credit transactions involving a security interest in real estate provided by P. L. 90-321 (reference (b)) and the FRB Regulation Z (reference (k)).)

Processing Letters of Indebtedness



1. The federal Fair Debt Collection Practices Act prohibits contact by a debt collector with third parties such as a commanding officer for the purposes of aiding debt collection unless there has been prior consent by the debtor or a court order has been obtained.

Note: Copies of sample letters referred to are contained in NAVAL MILITARY PERSONNEL MANUAL, ARTICLE 7000-020.

Sample Letter No. 1

Dear Sir/Madam:

This is in reply to your letter of (date) concerning the alleged indebtedness of (grade/rate, name).

It is the policy of the Department of the Navy that members of the Naval Service shall honorably discharge their just and fair debts. The Department of the Navy, however, has no authority to enforce settlement of any private claims made against members of the naval service, nor is adjudication of disputed claims a matter under the cognizance of the Department of the Navy.

The Navy will forward complaints of indebtedness to members advising them to communicate directly with the claimant regarding his/her intention in the matter, provided that the letter of indebtedness complies with statutory and regulatory requirements.

A careful review of the contents of your correspondence suggests that it is in violation of (statute, federal or state or both), in that (brief description of apparent violation, i.e., correspondent is a member of the class of persons prohibited from contacting third parties.) Therefore, the correspondence is returned to you without action.

You are advised to communicate directly with (grade/rate, name) about this matter.

Sincerely,

Enclosure(s)

Sample Letter No. 2

Dear Mr./Miss/Mrs. (surname):

This is in reply to your letter of (date) concerning the alleged indebtedness of (grade/rate, name).

It is the policy of the Department of the Navy that members of the Naval Service shall honorably discharge their just and fair debts. The Department of the Navy has no authority to enforce settlement of any private claims made against members in the Naval service nor is adjudication of disputed claims a matter under the cognizance of the Department of the Navy.

Department of Defense directives require that as a condition precedent to forwarding complaints of indebtedness to a service member, the enclosed forms must be completed and the Standards of Fairness complied with. If, after review, it appears that the provisions of the Department of the Defense directives have been fully satisfied, the matter will be referred to the service member for reply directly to you.

Sincerely yours,

Encl: (1) Standards of Fairness and forms for a statement of Full Disclosure and a Certificate of Compliance.

Sample Letter No. 3

Dear Mr./Miss/Mrs. (surname):

This is in reply to your letter (date) concerning the alleged indebtedness of (grade/rate, name).

In view of your letter, the service member has been advised to communicate directly with you regarding his/her intention in the matter. It is hoped that the above action will result in the matter being satisfactorily resolved.

Sincerely yours,

Sample Letter No. 4

Dear Mr./Miss/Mrs. (surname):

This is in reply to your letter of (date) concerning the alleged indebtedness of (grade/rate, name).

After a careful review of the contents of your correspondence, it does not appear that the Full Disclosure test and the Standards of Fairness requirement have as yet been met. (Specify particulars to the extent appropriate.) This command is not permitted to assist you until the Standards of Fairness have been complied with or until such time as you have obtained a civil judgment in a court of competent jurisdiction which complies with the provisions of the Soldiers' and Sailors' Civil Relief Act.

By copy of this letter, the Chief of Naval Personnel is being advised of the foregoing.

Sincerely,

Encl: (1) Correspondence in this case.

Copy to : NAVPERSCOM

Sample Letter No. 5

My Dear Mr./Miss/Mrs. (Congressman/Congresswoman):

This is in reply to your letter (date) concerning the alleged indebtedness of (grade/rate, name), United States Navy.

Navy personnel are well-indoctrinated in the Department of the Navy's policy of expecting all members of the Naval service to discharge their acknowledged debts and just obligations. The department desires to cooperate and be of assistance to persons who are experiencing difficulty in collecting from Naval personnel acknowledged personal debts. There is no legal authority to exercise control or direction over Federal pay in matters of personal indebtedness. Cooperation is restricted to bringing the matter of delinquency in indebtedness to the attention of the member concerned, with the request that he/she communicate with the creditor regarding his/her intentions in the matter.

Department of Defense directives require that, as a condition precedent to forwarding complaints of indebtedness to a service member, the enclosed forms must be completed and the Standards of Fairness complied with. Your constituent should be advised to forward the forms to the Commanding Officer, (fill in).

Sincerely yours,

Encl: (1) Standards of Fairness and forms for a Statement of Full Disclosure and a Certificate of Compliance

Copy to : NAVPERSCOM

Sample Letter No. 6

My Dear Sir/Madam:

This is in reply to your letter of (date) requesting certain information relative to the credit rating of (grade/rate, name), United States Navy.

(Grade/rate, name) is currently a member of the Naval service on active duty. His/Her official address is (fill in). His/Her basic rate of pay is (fill in) per month. Current policy of the Department of the Navy precludes furnishing further information in this regard. If more detailed data is required, it is suggested that it be requested directly from (grade/rate, name) or from credit bureaus or other commercial rating agencies.

It is hoped that the foregoing information satisfactorily answers your inquiry.

Sincerely yours,

Action Items for Letters of Intent

Disqualifying Factors (behavior or condition falls within one or more of the following categories)

- Inability or unwillingness to satisfy debts.
- Indebtedness caused by frivolous or irresponsible spending and the absence of any evidence of willingness or intent to pay the debt or establish a realistic plan to pay the debt.
- A history of not meeting financial obligations.
- Deceptive or illegal financial practices such as embezzlement, employee theft, check fraud, income-tax evasion, expense-account fraud, filing deceptive loan statements, and other intentional financial breaches of trust.
- Consistent spending beyond one's means, which may be indicated by excessive indebtedness, significant negative cash flow, high debt-to-income ratio, and/or other financial analysis.
- Financial problems linked to other security concerns, such as drug abuse, alcoholism, gambling problems, or other issues of security concern.
- Failure to file annual federal, state or local income-tax returns as required or the fraudulent filing of the same.
- Unexplained affluence, as shown by a lifestyle or standard of living, increase in net worth, or money transfers that cannot be explained by the subject's known legal sources of income.
- Compulsive or addictive gambling as indicated by an unsuccessful attempt to stop gambling; "chasing losses" (i.e., increasing the bets or returning another day in an effort to get even); concealment of gambling losses; borrowing money to fund gambling or pay gambling debts; family conflict or other problems caused by gambling.

Mitigating Factors (circumstances which may mitigate disqualifying information)

- The behavior occurred so long ago, was so infrequent, or occurred under such circumstances that it is unlikely to recur and does not cast doubt on the individual's current reliability, trustworthiness or good judgment.
- The conditions that resulted in the financial problem largely were beyond the person's control (e.g., loss of employment; a business downturn; medical emergency; or a death, divorce or separation), and the individual acted responsibly under the circumstances.
- The person has received or is receiving counseling for the problem and/or there are clear indications that the problem is being resolved or is under control.
- The individual initiated a good-faith effort to repay overdue creditors or otherwise resolve debts.
- The individual has a reasonable basis to dispute the legitimacy of the past-due debt that is the cause of the problem and provides documented proof to substantiate the basis of the dispute or provides evidence of actions to resolve the issue.
- The affluence resulted from a legal source of income.

CFS Action Items for Letters of Intent

- Stress the importance of a member being proactive in contacting you or another financial-counseling resource when experiencing financial difficulties.
- Provide a realistic Financial Planning Worksheet.
- Assist the member in obtaining a credit report from www.annualcreditreport.com.
- Assist the member in developing a good-faith action plan to resolve financial issues.
- Ensure that the member formally disputes to one of the three credit-reporting agencies account(s) that he or she does not believe they are obligated to pay. The agencies have 30 days to provide a resolution to the dispute.
- Ensure the member has documentation to support all claims made in his or her response to the Letter of Intent. (DoN CAF indicates this is the most important action a CFS can take to assist a member.)



Insurance and Survivor Benefits

I. INTRODUCTION

This chapter covers the basics of insurance and survivor benefits and is designed to help you help command members make insurance-buying decisions. This assistance may come in the form of educating command members, providing information and referral, and/or providing one-on-one counseling. The information starts with major life-cycle events, such as births, marriages, home purchases and death, and shows how you can use those events as triggers for exploring and assessing the need for insurance.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter directly correlates to the PFMSC Your Insurance Needs module. Learners have adequate exposure to the topic to allow them to conduct this training at the command. Training techniques include quiz, lecture and case scenario.
2. **Information and Referral:** Some insurance resources are discussed in the chapter.
3. **Counseling:** Command Financial Specialists often are asked to help with insurance questions, whether it be to explain an existing policy or help to buy a new one. This chapter will equip the CFS with the basic information to help members make an insurance-buying decision by understanding the benefits they already have provided to them, and how to assess the need for additional coverage.

II. LEARNING OBJECTIVES

Learners will demonstrate sufficient knowledge to educate command members on the life-cycle approach to insurance by participating in the “Life Cycle” activity.

Learners will demonstrate knowledge of survivor benefits by participating in the Survivor Benefits Fact or Fiction? activity.

III. REFERENCES

Department of Defense. February 2007. *A Survivor's Guide to Benefits*.

Garman, E. Thomas, and Fogue, Raymond E. 1997. *Personal Finance*. Boston, Mass.: Houghton Mifflin Co.

- Pike, Robert, and Busse, Chris. 1995. *101 Games for Trainers*. Minneapolis, Minn.: Lakewood Books.
- Vaughan, Emmett J., and Vaughan, Therese M. 2003. *Fundamentals of Risk and Insurance*. 9th ed. Hoboken, N.J.: John Wiley and Sons Inc.
- Graves, Edward E., editor. *McGill's Life Insurance*, 6th ed. Bryn Mawr, Pa.: The American College Press.
- www.ambest.com (A.M. Best Co.)
- www.annualcreditreport.com (free annual credit report)
- www.ssa.gov (Social Security Administration)
- www.lifelines.navy.mil (Lifelines Services Network)
- www.consumerworld.org (Consumer World — insurance section)
- www.insurancefraud.org (Coalition Against Insurance Fraud)
- www.iii.org (Insurance Information Institute)
- www.insweb.com (InsWeb.com — learning center)
- www.tricare.mil (TRICARE military health system)
- www.defenselink.mil (OSD — military compensation)
- www.ffsp.navy.mil (Fleet and Family Support Program)
- www.insurance.va.gov (Department of Veterans Affairs — VA Insurance Home Page)
- www.ltcfeds.com (Federal Long-Term Care Insurance Program)
- www.cem.va.gov (National Cemetery Administration)

VI. CONTENT

Life Cycle Approach to Insurance Needs

Insurance planning begins with an assessment of your needs. If nothing changes, leave your plan alone. But with major life events, reconsider your plan.

Single in Quarters

“I don’t need any insurance. I live in government quarters. I don’t even have a car.”

- Renter’s policy — Still necessary to cover your possessions.
- Life insurance — Only if someone depends on your income, otherwise consider a small amount to cover final expenses. SGLI is enough.

Moving Off-Base

“I commute to work with a friend and I am just buying some furniture on credit. Since I don’t have much, I don’t need insurance to cover it.”

- Renter’s policy — Absolutely necessary to replace your possessions including those you are paying off.

Buying a Car

“I am buying a car with a big monthly payment, there’s no way I can afford insurance. I’ll just take my chances.”

- Auto insurance — required for on-base driving. Required by state law at set minimums.
 1. Liability coverage pays for others’ losses if you are responsible.
 2. Collision and Comprehensive coverage
 3. Uninsured/Underinsured motorist coverage
 4. Medical payments

Getting Married

“Wow, this is such a big step, with so many things to consider. I don’t want to think about those negative things right now.”

- Life Insurance — If someone depends on your income, review your plan and determine your needs. FSGLI offers inexpensive spousal coverage.
- Health — Use the Tricare system at low or no cost. Consider a supplemental policy if far away from a military treatment facility or there are special health needs. Sign up for DEERS and add to Page 2.
- Dental — Remember to sign your new family member up for the Dental Health Program.
- Auto — Review and adjust as necessary.
- Renter’s policy — Review and adjust as necessary.

Having Children

“I have a baby now. I’m supposed to be responsible but I don’t even know where to begin.”

- Life insurance — Needs will increase now due to the long-term financial responsibilities of raising a child. In addition, insure the other parent. FSGLI is available up to \$100,000. Children under 18 get \$10,000 automatic coverage under FSGLI.
- Health — Add child to DEERS and Page 2.
- Dental — Wait until the child has teeth and/or needs to begin care, first visit around age 2–3 years.
- Auto — Review and adjust as necessary.
- Renter’s policy — Review and adjust as necessary.

Buying a Home/Condo/Mobile Home

"I've just made the biggest purchase of my life, now I want to protect my investment and find a way to pay off this debt if something happens to me."

- Homeowner's Insurance — Required by your lender and needed to cover both the real property and your personal possessions. It also includes liability coverage for someone injured on your property.
- Life insurance — Needs increase at this time due to the mortgage you are carrying. If you want to be able to pay it off, then you must carry enough insurance to do so.

Increasing Assets

"I am finally starting to accumulate some possessions and put money aside in investments. Now I worry about how to protect these assets from a lawsuit."

- Umbrella Policy — Wide coverage for minimal costs. This is in addition to homeowners and auto insurance. It covers you above the limits of these policies for your liability in a lawsuit.
- Long Term Care — Coverage for nursing/in-home care later in life.
- Homeowner's — Review and adjust as necessary.
- Auto — Review and adjust as necessary.
- Life — Review and adjust as necessary.

Death

"My spouse just passed away, what can I expect financially now?"

Active Duty members:

- Death Gratuity: \$100,000 paid within 36 hours
- SGLI: Up to \$400,000
- Dependency and Indemnity Compensation
- Accumulated leave and/or arrears in pay
- Burial
- Travel or funeral
- 12 months BAH or time in quarters
- Final household goods shipment

Divorce

Divorce

"My spouse said she would continue to cover me on the auto insurance policy, but now it's been cancelled. What should I do?"

- Divorce can happen anytime in the lifecycle. Review all policies and adjust as necessary.
- Reconsider your life insurance needs and who you list as your beneficiary.

Retirement/Separation

"I am getting out of the military in a few months, will my insurance needs change?"

You have been provided many benefits at low or no cost which you now must cover yourself.

- Life insurance — Increase your policy to cover the loss of SGLI or consider VGLI (Veterans Group Life Insurance).
- Health/Dental — Shop for a policy if not provided by your next employer. Personal health policies can be very expensive. Even if you are eligible for Medicare/Medicaid, you may need a supplemental policy.
- Disability — You may be provided coverage by your employer, otherwise you should look for a policy to replace a portion of your income should you be injured or become ill.
- Auto — Review and adjust as necessary.
- Homeowner's — Review and adjust as necessary.

- Survivor Benefit Plan (SBP) Automatic
- Social Security Survivor Benefits
- VA Education Benefits

Out of Military:

- Benefits will depend on the policies you have put in place.

Retirees:

- SBP if elected
- Social Security
- Burial

Shopping Tips for Insurance

Save Money on Auto Insurance

- Compare prices. Get at least 3 quotes.
- Use the auto-insurance buyer's guide.
- Don't buy collision and comprehensive coverage from the lender.
- Buy a car that is inexpensive to repair.
- Raise the deductibles (but have money in savings).
- Have sufficient liability coverage.
- Consider dropping collision insurance on older cars.
- Take advantage of discounts: good driver, safe vehicle, good student, low mileage, occupational, internet.
- Describe exactly how your car is used.
- Notify insurer about changes that could lower rates.
- Pay entire premium when due.
- Share your car with a teenager (insurance for a car they own is even more expensive!)
- Drive safely.
- Check with the Insurance Institute for Highway Safety for vehicle ratings.
- Multi-policy Insurance: Buy all policies from the same company.

Tips to Remember

- Purchase insurance to cover catastrophic losses, not small losses.
- Generally, one comprehensive policy is better than a number of smaller ones.
- Always shop for a policy which is guaranteed renewable and non-cancelable.
- Never drop essential coverage until another policy is in force.
- Purchase insurance from a financially strong company.

Save Money on Homeowner's Insurance

- Compare prices. Get at least 3 quotes.
- Buy all your property and casualty insurance from the same company.
- Install deadbolt locks, smoke detectors, a fire extinguisher, and burglar alarms.
- Pay annually.
- Raise the deductible.
- Quit smoking.
- Buy replacement-cost coverage.
- Have sufficient liability coverage.
- Buy a recently built house.
- Don't over-insure (don't include price of the land your house is on).

Websites

Military Specific:

www.va.gov

www.tricare.osd.mil

www.ltcfeds.gov

www.insurance.va.gov

Consumer Information:

www.consumerworld.org

www.insurancefraud.org

www.iii.org

www.insweb.com

www.ambest.com

www.standardandpoors.com

www.naic.org

www.term4sale.com

www.accuquote.com

www.ssa.gov

www.quotesmith.com

Your Insurance Needs: Organizing Your Records

INFORMATION TO KEEP:

1. For each individual life insurance policy on your life, record the following information:
 - The full name of the life insurance company that issued the policy.
 - The city and state of the home office of the company that issued the policy.
 - The name and U.S. headquarters of the group, if the issuing company belongs to a group of companies.
 - The policy number.
 - The date the policy was issued.
 - The amount of the death benefit.
 - The name and address of the agent/broker who sold you the policy.
 - The type of policy (e.g., term, whole life, etc.).
 - The location of the original life insurance policy.
2. For each employer-provided or group (trade association, etc.) insurance benefit, record the following information:
 - The name of the employer or group that sponsors the insurance.
 - The office or person to contact when it's time to file a claim.
 - The certificate number (comparable to the policy number under an individual policy).
 - The date the insurance was started.
 - The amount of the death benefit.
3. For death benefits that are features of annuities, workers compensation programs, disability insurance, travel accident insurance, etc., record the following information:
 - The type of policy that has a death benefit as part of its features.
 - The full name of the life insurance company that issued the policy.
 - The city and state of the home office of the company that issued the policy.
 - The policy number.
 - The date the policy was issued.
 - The amount of the death benefit.
 - The name and address of the agent/broker who sold you the policy.
 - The location of the original insurance policy.
4. For each life insurance benefit on your life dedicated to paying off a loan (credit cards, etc.), record the following information:
 - The full name of the lending institution through which you obtained the life insurance.
 - The loan number and issue date of the loan.
 - The name of the person or office to contact when it's time to file a claim.
 - The policy number of the life insurance policy that pays off the loan.

WHERE TO KEEP THE INFORMATION:

Keep one set of these records in your home, in a place where others who need this information are likely to find it. After placing the information there, make your family/loved ones aware of its location. This could be the same place you keep other financial records, legal papers, or anywhere your survivors are likely to look for them. Keep another set of these records “off site”—that is, outside of your home, perhaps in a safe deposit box, or with a professional or trusted relative who can produce them when needed. On each page, record the date on which the information was last updated.

Life Insurance Needs Calculator

Financial Obligations: Immediate Cash Needs

Death Expenses (Burial and Funeral Costs, Uninsured Medical Costs, Estate Taxes, and Estate Settlement expenses such as legal fees)

Housing Costs

- I own my home.
- I rent my home.

Total Estimated Education Costs

- I want to estimate educational costs for my children.
- I don't need to estimate educational costs.

Car Loans Outstanding Balance

Home Equity Loans Outstanding Balance

Credit Card and Other Personal Debt

Emergency Fund

Income Available to Your Survivors

Annual VA Dependency and Indemnity Compensation (DIC) or Death Pension Income

Annual Social Security Survivor Benefit

Annual Survivor Benefit Plan Income

Annual Pension Plan Amount

Survivor's Annual Earnings from Work

Survivor's Annual Earnings from Dividends and Interest

Survivor's Other Annual Income (Money from Rental Properties, Private Loan Payments from Others, Annuities)

Income Needed to Support Your Survivors

Annual Income Amount Needed

Number of Years Income will be Needed

Net Income Needed to Support Survivors

Assets: Lump Sum Payments Available to Your Survivors

Thrift Savings Plan Benefit

Current Investments

Servicemembers' or Veterans' Group Life Insurance Coverage

Other Life Insurance Coverage

VA Educational Benefits for Spouses and Children

Other Lump Sum Payments

Life Insurance Needed:

Life Insurance Needs Calculator Case Study

AT1 George Flier

Petty Officer Flier, age 35, is married and has three children, ages 3, 6 and 14. He and his wife, Susan, have just purchased their first home for \$180,000 using a no down payment loan option. They spent their emergency fund during the move to the new house and to put in landscaping. They have begun furnishing their home buying \$6,500 of furniture on installment. In addition to this, they have \$3000 in personal debt. Susan's Taurus station wagon is paid off and is 5 years old. George used his SRB for the down payment on a new truck and to pay off other bills. His truck loan is \$10,000. As yet they have not had the opportunity to start college funds for the kids, but have agreed that they would like to have the kids work or get loans/scholarships and hope that the VA has some benefits for them too. They have added up all their living expenses and find they total \$3,800 per month. They would like to have an emergency fund of three months living expenses (\$11,400). They have no other sources of income.

They have not made any life insurance plans other than SGLI for \$400,000. George has heard that the military will pay for his funeral, but thinks they will still need \$2,000 to cover other final expenses. George figures his family would still need \$3,800 per month to live even if he was not around, and doesn't see that number changing until the youngest leaves the house in 15 years. Susan thinks she would go back to work part-time and could earn at least \$10,000 a year.

George's no cost monthly SBP benefit is \$1,566 but is offset (reduced) by \$1,067 for the DIC his spouse would receive (but not the \$265 per child they would get monthly.) The family monthly maximum for Social Security Survivors Benefits is \$2,517.

At the moment, the Fliers do not have any money stashed away, other than \$1,000 that George has accumulated in the TSP, which he started contributing to last year.

Utilize this worksheet to help the Fliers figure how much additional life insurance they need to purchase on George.

SURVIVOR BENEFITS: FACT OR FICTION

Fact	Fiction
<input type="checkbox"/>	<input type="checkbox"/> 1. An immediate gratuity will be paid to my survivors, usually within 36 hours.
<input type="checkbox"/>	<input type="checkbox"/> 2. SGLI will be paid to my spouse or next-of-kin immediately upon confirmation of my death.
<input type="checkbox"/>	<input type="checkbox"/> 3. Any unused leave or arrears in pay is lost at the time of my death.
<input type="checkbox"/>	<input type="checkbox"/> 4. My spouse and any children will receive monthly compensation from the government.
<input type="checkbox"/>	<input type="checkbox"/> 5. Social Security provides survivors benefits to both my spouse and/or my children.
<input type="checkbox"/>	<input type="checkbox"/> 6. Paying for my funeral is the responsibility of my family. The government does not provide any financial assistance in this area.
<input type="checkbox"/>	<input type="checkbox"/> 7. My family must vacate housing or will lose BAH within 180 days of my death.
<input type="checkbox"/>	<input type="checkbox"/> 8. My family will be provided a no-cost final move.
<input type="checkbox"/>	<input type="checkbox"/> 9. The government will provide a flag, headstone, and a burial spot in a national cemetery.
<input type="checkbox"/>	<input type="checkbox"/> 10. My survivors are guaranteed acceptance at any college which receives federal funds.
<input type="checkbox"/>	<input type="checkbox"/> 11. My family will be provided transportation to and from my funeral.
<input type="checkbox"/>	<input type="checkbox"/> 12. My children will receive free childcare at on base Child Development Centers while my spouse attends college courses.
<input type="checkbox"/>	<input type="checkbox"/> 13. My dependents will lose their commissary and exchange privileges at the end of one year.
<input type="checkbox"/>	<input type="checkbox"/> 14. VA provides a survivors' and dependents' education assistance program that provides monthly payments for college enrollment.
<input type="checkbox"/>	<input type="checkbox"/> 15. The Survivors Benefit Program will pay my spouse or children a portion of my monthly retirement pay.
<input type="checkbox"/>	<input type="checkbox"/> 16. A surviving spouse gets both SBP and DIC.
<input type="checkbox"/>	<input type="checkbox"/> 17. Retirees' survivors get the same survivor benefits as active duty survivors.
<input type="checkbox"/>	<input type="checkbox"/> 18. A surviving spouse continues to receive all survivor benefits, even upon remarriage.

www.ssa.gov (Social Security Administration)

www.defenselink.mil (OSD — Military Compensation)

www.insurance.va.gov (Veteran's Affairs Home Page)



eFPW Demonstration

I. INTRODUCTION

You have been provided with an important tool in financial planning, the Financial Planning Worksheet. This chapter will introduce and demonstrate the Excel version of the FPW. There will be situations in which the paper copy will be the best form to use and others in which you will want to use the Excel version.

The eFPW demonstration consists of an overview of the format of the Excel version of the FPW, and a brief demonstration of inputting information. Upon completion of the demonstration, you will practice using the spreadsheet with your group case study.

II. LEARNING OBJECTIVE

The learner will demonstrate proficiency with the eFPW by using it for their group case studies.

III. REFERENCES

N/A

IV. CONTENT

Accessing FPW

- Access Excel
- Show name of FPW file (use the most current version)
- Select FPW
- Enable macros. Many people have expressed difficulties with the eFPW after the initial download due to the macros. The macros are integral to the worksheet working properly. If you do not get a pop-up message on your screen asking whether you want to enable the macros when you open the worksheet, it will not work properly. What has been discovered is that many systems have the security-level settings in Excel set automatically to high. If you encounter this difficulty, here are the directions to change your settings so the worksheet will open properly:
 - ▶ Open a blank Excel worksheet.
 - ▶ On the Excel menu bar, select Tools.
 - ▶ Under Tools, select Macro.
 - ▶ Under Macro, select Security.

- ▶ Under Security Level, select Medium.
- ▶ Click OK.
- Customizing the BAH information for your local area is a fairly simple process.
 1. Have at hand your local area BAH rate charts (with dependents and without dependents). These can be obtained at: <http://www.perdiem.osd.mil/bah/acrobat/2009>. Partial BAH and Diff BAH are the same for every duty station and do not need to be modified.
 2. Open the current version of the standard e-fpw (enabling macros per usual).
 3. Select the “PayScale” tab at the bottom of the page.
 4. Using your local BAH information, overwrite the data in cells C34-D60.
 5. Save the worksheet under a new file name.

Save. Always save a new file under a different name immediately, to ensure you don't write on the template.

Tabs.

- Net Worth: Personal Information and Net Worth Calculation. Several cells on this page must be filled out first for the rest of the form to calculate income and expenses.
- Income: Calculates income, both actual and projected, and feeds into summary.
- Living Expenses: Calculates Savings and Living Expenses, both actual and projected, and feeds into summary.
- Indebtedness: Calculates indebtedness, summary, debt-to-income ratio and feeds into summary and net worth statement.
- Action Plan: Proposed options/goals/referrals.
- Spending Plan: Calculates the spending plan based on the projected (or actual) column of the budget.
- Monthly Spending Record: Prints out a two-page form for daily expense tracking.
- FullSteam: Contains a debt-reduction program through the use of power payments. Indebtedness/loan information entered on the “Indebtedness” page is entered automatically on the FullSteam page.
- TSP: [Not functional in 2009 version.]
- Pay Scale: Contains the pay scales as of the date of the template. Must be updated when pay scales change or download a new file from the Web site.
- Help: [Not functional in 2009 version.]



Net Worth (Page 1)

Information entered on the Net Worth page is used throughout the worksheets. Cells **MUST BE FILLED IN**. If they are not, the spreadsheet will not work properly. This information feeds to the Income page to calculate income. This page provides an Actual and Projected column for data entry. The Projected Column on this page must be completed for the worksheet to calculate Projections properly on the other pages.

Personal Information Section

The following information must be filled in for the worksheet to function properly:

- Age: This field is required to calculate the estimated TSP earnings.
- Pay grade: Select from drop-down menu.
- Years in Service: Select from drop-down menu.
- Marital Status: Select marital status (for BAH purposes) from the drop-down menu.
- Spouse's Age: This field is required to determine the amount of FSGLI. The FSGLI amount is dependent on the spouse's age and amount of coverage. If the spouse's age is left blank, FSGLI will be zero, regardless of coverage amount selected from the FSGLI drop-down menu.
- FSGLI and SGLI: Select amounts from the drop-down menus. Amounts are in thousands of dollars.
- TSP Base Pay Contribution: Enter percentage amount.
- TSP Bonus/Incentive/Special Pay: Enter dollar amount.
- MGIB: Select from the drop-down menu. This defaults to zero unless selected.

Statement of Net Worth Section

- Assets: Enter dollar amounts for total value of assets.
- Liabilities: These amounts will be entered automatically when Page 4, Indebtedness, is completed.
- Mortgage-Balances Due: Enter dollar amounts.

Monthly Income (Page 2)

Information entered on the Monthly Income page is used throughout the worksheet. This page provides an Actual and Projected column for data entry. If information from the Net Worth page is filled in properly, you already will have information on this page. Use the drop-down menus for other pays and allowances the client may be getting.

WARNING: Fields that have yellow backgrounds contain formulas in which amounts are generated automatically. You may override any calculated entry, but it will result in the permanent loss of the formula used to generate the entry.

Entitlements

- Base Pay: Amount is calculated automatically from the pay grade and number of years selected on the Net Worth page.
- BAH: Amount is calculated automatically from the Marital status entered on the Net Worth page.
- BAS: Select from drop-down menu.
 - ▶ “Standard” is the standard amount.
 - ▶ “Partial” is partial BAS and no longer is paid directly. However, the member may have a surplus left from BAS after the cost of meals is deducted.
 - ▶ “Rations not Avail” is when rations in kind are not available.
 - ▶ “None” if no BAS is received.
 - ▶ “Cooking not Avail” applies when living in government quarters with no cooking facilities, and government meals are not available.
 - ▶ BAS for officers will be the standard amount regardless of the BAS entry.
- FSA: Defaults to none unless “Yes” is selected from the drop-down menu.
- Submarine Pay: Defaults to “None” unless the number of qualified years is selected from the drop-down menu.
- Sea Pay: Defaults to “None” unless the number of qualified years is selected from the drop-down menu.
- All other entitlements such as Hazardous Duty and Flight Pay must be entered manually.
- Total Military Compensation (A) and Taxable Pay: This is calculated automatically based on information entered.

Deductions

- Allotment: Enter the allotment amounts. If the allotment is not for a specific purpose (i.e., it is deposited into a checking account for general spending), then check the box next to the allotment amount to include the allotment in the Spending Plan.
- For/Ends? The right-hand column can be used to provide details on line items, such as the purpose for which the money was used and when the payment ends.
- FSGLI, SGLI, TSP and MGIB: Amounts are calculated automatically from the entries on the Net Worth page.
- FITW Filing Status: Defaults to Married with zero exemptions. To change filing status and/or number of exemptions claimed, select from respective drop-down menus.
- State Income Tax: Must be entered manually. (Obtain this amount from Leave and Earnings Statement.)

NOTE: Taxable pays not listed on this form can be entered on the “Taxable COLA” line. This will ensure that amounts entered will be factored into the “taxable pay” amount. Non-taxable allowances not listed on this form can be entered on the “Other” line and will ensure that amounts entered will not be factored into the “taxable pay” amount.



- AFRH: Amount is calculated automatically from pay grade entered on the Net Worth page.
- TRICARE Dental Plan: Defaults to None. Select payment amounts from the drop-down menu.
 - ▶ “Single” is the premium for one dependent.
 - ▶ “Family” is the premium for two or more dependents.
- Advance and Over Payments: Enter amounts; values will be entered automatically on the Indebtedness page and Spending Plan page, if Net Pay options are used.
- Other Entries: To calculate net monthly income, manually enter other earnings and income received.
- Other Items to Note:
 - ▶ Double-clicking in the “Remarks” column allows you to edit them without deleting the existing contents.
 - ▶ Amounts that are deducted or allotted from pay are inserted automatically in the bottom section and then taken out on Page 3 or Page 4 as appropriate.
 - ▶ Total Net Monthly Income is calculated automatically, and the amount is transferred to the Summary at the bottom of Page 4.

Monthly Savings and Living Expenses (Page 3)

Savings

- Savings and Investments are totaled separately from Living Expenses.
- TSP is entered automatically from Income page.
- A calculated Savings-to-Income ratio is displayed in the remarks column.
- Be sure to use MONTHLY AMOUNTS saved or invested, not total balances, which should be entered in the Net Worth assets section of the first page.
- Total amounts are carried over to the Summary section at the bottom of page 4.

Living Expenses

- Relevant allotments and deductions entered on Page 1 or Page 2 are transferred automatically to this section.
- Monthly living expenses are totaled separately and do not include monthly savings and investment amounts from the top of the page.
- A calculated Living Expenses-to-Income ratio is displayed in the remarks column.
- If a line item is not used, it can be changed/overwritten to reflect other expenses a client may have.
- Total amounts are carried over to the Summary at the bottom of page 4.
- Encourage the Command Financial Specialists to use the “Remarks” column copiously.

Indebtedness (Page 4)

Information entered on this page will be used to fill in the liability totals automatically on the Net Worth page. Use the drop-down menu to select the appropriate purpose/category.

- Advance payments and overpayments are entered automatically, but outstanding balances for each must be entered.
- Enter remainder of creditors using required MINIMUM MONTHLY PAYMENT amounts, even if the member pays more than the minimum. This will result in a more accurate debt-to-income ratio calculation.
- Total amounts are transferred to the Summary section at the bottom of the page.
- The eFPW automatically calculated the debt-to-income ratio.

NOTE: *The FullSteam page uses the information entered on this worksheet to calculate power payments. CREDITOR, MO.PYMT, BALANCE, PROJ.PMT and APR are the fields used for FullSteam.*

Action Plan (Page 5)

Use with client to develop a plan. Type information directly into the appropriate sections.

Spending Plan (Page 6)

The four methods of using the Spending Plan are Actual or Projected Take Home Pay or Actual or Projected Net Pay; each method varies how data is entered automatically.

- Pay is calculated in the upper left corner dependent on the method selected from the drop-down menu. Any allotments that are checked on the Income page will be included in Total Take Home Pay. All allotments are included in Monthly Net Pay. Pay is divided evenly between the 1st and 15th pay periods. Allotments are included only in the 1st pay period.
- “B” Column amounts are dependent on the drop-down menu in the upper left. Default amounts are from each section of Savings and Living Expenses and Payments from the Indebtedness page. Use the drop-down menu to select either “Projected” or “Actual” and “Take Home” or “Net” amount.

NOTE: *FSGLI, SGLI and TRICARE Dental are not included in the total for insurance; MGIB is not included in total for education; and advance payments and overpayments are not included as creditors when using the Take Home Pay Method.*

- It will be necessary to subtract any other savings and living expenses that are deducted automatically from pay or are paid by allotment (e.g., other insurance and charity allotments when using the Take Home Pay method). When using the Net Pay option, advance payments and overpayments will be added automatically to the creditor’s section.
- If using take-home pay, it will be necessary to delete any creditor paid by allotment. To delete creditors that are paid by allotment, use the checkbox next to the creditor name to remove amounts from the Spending Plan.

NOTE: *Total Take Home Pay includes the member’s military take-home pay; take-home pay from the member’s other employment; the spouse’s take-home pay; child support and alimony payments; and other income from the monthly income page and checked allotments.*

- Savings and Living Expenses are divided equally between the 1st and 15th. To move all or part of an expense, enter the amount paid on the 1st (“C” Column) and the remaining amount will be entered for the 15th automatically.
- Creditor amounts are entered automatically on the 1st by default. To move all or part of a payment, enter the amount paid on the 1st (“C” Column) and the remaining will be entered on the 15th automatically.
- To reset all formulas to the default settings, use the Control Button above Column “C.”
- Clients must fill in what they are planning on paying on the 1st and 15th, and then track what they actually pay on the 1st and 15th.
- For debts, clients should enter what they actually plan on paying, if it differs from the minimum monthly payment.
- Suggest that the client print this page to monitor expenses.

NOTE: Use only the “C” column to change the allocation of payments between the 1st and the 15th. If you enter an amount manually in any column other than the “C” column, you will overwrite the calculation formula and the worksheet no longer will reallocate the payments automatically between the two pay periods.

Monthly Spending Record (Pages 7 & 8)

These two pages are used to track daily expenditures. They can be printed out and used manually by the client.

FullSteam (Page 9)

FullSteam shows how to achieve debt reduction through the use of power payments. FullSteam uses the total amount of all indebtedness payments until all debts are paid in full. When a loan/indebtedness is paid in full, FullSteam will use that payment amount or any portion left to apply it toward another debt in accordance with the method of repayment selected. All payments are estimated values. Actual payments and terms may vary depending on indebtedness due dates.

Using FullSteam

- Indebtedness/loan information is entered on the “Indebtedness” page. This data is entered automatically on the FullSteam page. MO.PYMT/PROJ.PMT and BALANCE are mandatory entries. Creditor name and APR are optional. In order to make this a realistic and useful tool, APR should be entered.
- After data is entered on the “Indebtedness” page, select one of the FullSteam methods of repayment from the menu or by right-clicking on the “Indebtedness” or “FullSteam” page. Depending on the speed of the computer, this might take up to 10 seconds.
- After calculations occur, FullSteam will fill in the loan amortization. The user may view the amortization by scrolling through the worksheet or using the amortization menu to skip quickly to a specified loan.
- FullSteam contains cells for adding extra money (Extra Steam) each month and/or up to three lump sums of money (Blast of Steam) in a given month/year.
- FullSteam is limited to 23 loans/creditors with no more than 360 payments (30 years).

Printing FullSteam

- Best accomplished by using the FullSteam print menu.
- Each loan amortization is printed on a separate sheet.
- A Summary and a Repayment printout also are available on this menu.
- When using Excel's printing functions, only the Summary page will print. To print an amortization or repayment schedule, use the custom print menu.

TSP Investments (Page 10)

[This function is unavailable in the 2009 version.]

Pay Scales

The Pay Scales page contains the Base Pay, Sub Pay, Sea Pay, BAH, BAS, SGLI, FSGLI, FSA, AFRH, Dental and TSP 10-year average tables. Entries in these tables can be changed or updated as necessary and then saved. Typically the pay scales are updated annually and then the revised eFPW is promulgated to field practitioners by the CNIC PFM Program Manager. BAH must be customized for each locale.

Customizing the BAH information for your local area is a fairly simple process:

1. Have at hand your local area BAH rate charts (with dependents and without dependents). These can be obtained at: <http://www.perdiem.osd.mil/bah/acrobat/2009/>. Partial BAH and Diff BAH are the same for every duty station and do not need to be modified.
2. Open the standard eFPW (enabling macros per usual).
3. Select the "Pay Scale" tab at the bottom of the page.
4. Using your local BAH information, overwrite the data in cells C34-D60.
5. Save the worksheet under a new file name.

Printing

Use Excel's built-in print features to print the pages one at a time, the entire workbook, or selected pages by one of the following methods:

- To print the current page, you can use the printer icon on the tool bar.
- To print the entire workbook, use File, Print and select "print entire workbook." Be aware this workbook is over 25 pages.
- To print selected pages, hold down the CTRL key and click on the tabs of the pages you would like to print. Click once to select, and click the same tab again to de-select. Once you have selected the pages, click on the printer icon on the tool bar to print.

NOTE: FullSteam contains several pages of information. If the end-user prints this page using Excel's print function, only the summary page will be printed. To print the FullSteam pages, use the Custom Print Menu located on the menu bar.



Frequently Asked Questions

1. The worksheet does not function correctly.

Macro settings may be too high. To set the macro security setting to Low or Medium, open a blank worksheet. On the menu bar, select Tools, Macro, and then Security. Choose either Low or Medium. Close the blank worksheet and reopen the FPW.

2. How do I use a local pay scale or change the pay scale?

The pay scales, with the exception of BAH, are updated annually by the CNIC PFM Program Manager. If additional updates are needed, the amounts can be entered manually. Access the current pay scales at the DFAS Web site and input the new amounts in the pay scale tab. Current BAH rates must be entered manually for each locale each time the rates change.

3. The Pick Lists on the Net Worth do not work.

Set macro security settings lower (see No. 1 above).

4. I cannot enter data into the Net Worth Liabilities section.

This area of the Net Worth page has formulas that calculate the totals for these categories entered on the Indebtedness page and cannot be changed.

5. Pick Lists are blank or a solid color.

This usually occurs when the desktop theme or a display appearance has a background and font set to the same color. Change the desktop theme/appearance back to "Windows Standard."

