

# THE VAULT



PRESENTED BY



**WSECU**

WASHINGTON STATE EMPLOYEES CREDIT UNION

# Students, Welcome to

This is the place that holds one of the most valuable commodities there is: **Knowledge!**

Knowing the basics about budgeting, saving and investing, and credit is like having the combination to unlock the door to financial success. Developing sound money habits early is a must so that when the time comes (and it comes sooner than you think), you'll be ready to meet your financial goals and fulfill your dreams. Money isn't everything, but it is an important part of life. Why not learn all you can about it?

Washington State Employees Credit Union developed this financial education curriculum to help you see the link between responsible financial habits and future success.

*So come on in and see what's in **The Vault.***

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## Welcome to *The Vault*

### **It was a dark and stormy mid-morning.**

*It was the first day of the semester. The bell for second period rang. Maya, Hector, Joel and Yuki met at their usual spot: the entrance to hall 4.*

*"What's next?" asked Joel.*

*"Personal Finance," said Maya. "Ms. Moruzzi. She's new."*

*"She's weird," said Hector. "She wears orange every single day. Even her hair's orange."*

*"What's Personal Finance?" asked Yuki.*

*"Money and stuff."*

*"Boring," yawned Joel. "Wake me up when it's over."*

*"Are you coming in or not?" demanded a voice. The friends looked around. There was no one to be seen.*

*"In or out?" demanded the voice. Suddenly, a door swung open. It would have looked like a regular classroom door, except that holding it open was a tall, stern-looking woman in an orange muu-muu with her bright hair piled on top of her head. She looked over her orange glasses. "Well?"*

*"In, I guess," said Maya. She looked at her friends and shrugged.*

*"There is no guessing here," said the orange woman.*

*"Estimation. Calculated risk. Hypothesis. No guesses." She skewered them with her stare. "Within these four walls you will learn the secrets of the wealthy and the powerful. The tools of the financially solvent. The rules of the game of life, fiscally speaking." She stood aside, and gestured into the classroom. "Enter," she said, "And leave monetary mayhem behind you."*

*They walked into the classroom.*

*"Excellent choice," said Ms. Moruzzi with satisfaction. She looked around the room, and for the first time, smiled. "Welcome to The Vault."*

# What's in a Budget?

Name: \_\_\_\_\_ Date: \_\_\_\_\_

In your group, answer the following questions, and then share them with your class.

1. What's a budget? List all the ways in which you've heard the word used.

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2. Look at all the responses your group gave. Now, try to come up with a single sentence that defines the word budget.

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3. When have you used budgeting in the past? List all group responses.

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4. How can budgeting help you?

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5. What's challenging about budgeting?

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# Developing Your Budget

Name: \_\_\_\_\_ Date: \_\_\_\_\_

"Dude," said Joel to Hector after school. "Let's go get a burger after practice."

"Sounds good," said Hector. Inside, he groaned. Would he be Joel's personal ATM yet again, or would this afternoon be different?

The line at the Tas-T-Burger was long, and Hector's stomach rumbled. Joel was first at the counter.

"I'll have the number four dinner special. And triple-size it, please. And throw in an extra order of fries."

"Ten fifty-four," said the cashier.

Joel slapped his pocket, and turned to Hector. "Dude," he said. "Can you spot me? I'm short on cash."

"Come on, man," said Hector. "You're always short on cash. What are you gonna do if I'm not around?" He handed Joel some money.

"I dunno," said Joel, picking up his tray. "Learn to budget, I guess."

"Fantastic," said Hector, stepping up to the counter. "You're officially cut off."

## A budget is a spending plan based on your estimated income and expenses.

Budgeting is a learned skill that takes discipline and practice, but many people find it to be worth their while. It may seem restrictive when you start, but focusing on long-term goals can help you make short-term sacrifices. For example, if you really want a car, you might forgo daily trips to the espresso stand and put the money into savings instead. You'll miss the lattes at first, but just imagine driving around in your new (or used) car, and you may find the sacrifice worthwhile.

List some goals you've achieved (they may or not be related to finances):

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What steps did you take to achieve these goals?

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How did you feel when you reached these goals?

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## A Personal Budget

Learning to develop and stick with a budget means understanding how much money you have and how much you spend: your **income** (money you receive from a paycheck, gifts, allowance, etc.) and **expenses** (money you spend or give away). There are two main types of expenses: fixed and variable. **Fixed expenses** are regular expenses that are the same amount of money each time you pay them, like a car payment. **Variable expenses** are flexible, like the amount of money you spend on going out with friends or buying clothing.

To have a working budget, your total expenses should not exceed your income. Sounds simple, but some people have trouble living within their income. That's where budgeting problems start.

What are some of your sources of **income**? (Where does your money come from?)

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What are some of your **fixed expenses**? (What do you regularly spend the same amount of money on?)

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What are some of your **variable expenses**? (What expenses do you have that are more flexible?)

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# Joel's Budget

Name: \_\_\_\_\_ Date: \_\_\_\_\_

"So why do you always have to mooch?" Hector asked Joel.  
"You work."

"Well, my Ice Creamery paycheck doesn't make me a millionaire."

"You think I'm loaded from stocking shelves at Dad's hardware store?"

"Okay, okay," said Joel. "I got it. You're turning tightwad on me."

"No, man," said Hector. "But I've got priorities and your dinner isn't always one of them."

"What priorities?"

"Things I want. Basketball camp. A car. College. Stuff like that."

"Don't your parents pay your way?"

"Some. But that's why I'm working weekends now," said Hector. "I've got two brothers in college and a little sister. My folks can't afford everything for all of us."

Joel chewed in silence. Then he spoke. "I guess it's like what Ms. Moruzzi said in class," he said. "Needs and wants."

"Yeah. I want to go to basketball camp. I need to buy my lunch everyday. So I make a plan to pay for lunch, and a plan of how to save for camp."

Joel stuffed the rest of his fries into his mouth. "I need Tas-T-Burgers."

"Then you need to look at how much money you've got and put them in your budget."

"You budget for Tas-T-Burgers?"

"Sure. I know I'm gonna have them, so I plan for them. If I get more than two a week, it comes out of my music download money. Or movies. So one more Tas-T-Burger is one less DVD rental."

Define **"needs"**:

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What are some examples of needs?

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Define **"wants"**:

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What are some examples of wants?

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## Setting Goals; Making Plans:

"It's not hard, once you get the hang of it," Hector said. "What's something you want? Dream big."

Joel didn't hesitate. "An MP3 player. Two hundred dollars at Music City. But I saw one online for \$150.00, including shipping and handling."

Hector flipped over the paper placemat on Joel's tray and grabbed a pencil from his backpack. He wrote: JOEL'S BUDGET at the top and looked at his friend. "Okay. Let's get down to business."

# Joel's Budget

Name: \_\_\_\_\_ Date: \_\_\_\_\_

**Budget for:** Joel

**Income:** (Ice Creamery paycheck, parents): \$285.00

**Expenses:** January

1. First, label each expense N for need or W for want. Next, think about each expense in terms of its importance. What must Joel absolutely spend money on? Label it number 1. What is least important? Label it number 12. Rank the rest of the items accordingly.

N or W	Rank	
		Pizza Palace: \$40.00
		Tas-T-Burger: \$40.00
		Movies: \$32.00
		School lunch: \$60.00
		Savings: \$0
		Gift for Mom's birthday: \$15.00
		New pants: \$50.00
		New shoes: \$50.00
		Music downloads: \$20.00
		Student activity dues: \$10.00
		Bus pass: \$12.00
		Haircut: \$25.00

How did you decide what should be considered a need and what should be considered a want?

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## 2. Fill in Joel's Budget Planning Sheet.

Joel has the following sources of income. Write these figures in the appropriate blanks.

**Cash:** \$8.00

**Estimated income** (Wages/Allowance): \$285.00

Total these two figures. Write your total in the blank for "Total Estimated Cash."

List Joel's expenses on the budget sheet under the appropriate categories and follow the steps to calculate the totals.

How did Joel do?

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What was Joel's "Cash on Hand" at the end of the month?

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How did you decide to categorize each of Joel's expenses?

What problems do you see with Joel's budget?

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What can Joel do differently to save for an MP3 player?

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Rewrite Joel's budget in the second column so that he ends up with \$8.00 cash at the end of the month.

# Joel's Budget Planning Sheet

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Budget for: Joel

Pay Period: January

	Estimated Budget	Revised Budget
Cash on Hand (+)		
Estimated Income (Salary/Wages) (=)		
<b>Total Estimated Cash</b>		
Estimated expenses		
Savings		
School lunch		
Bus pass		
Entertainment		
Grooming needs		
Clothing fund		
School activity fee/expenses		
Miscellaneous expenses		
<b>Total Estimated Expenses</b>		
Total Estimated Cash (-)		
Total Estimated Expenses (=)		
Cash on Hand		

# Hector's Budget

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Hector is preparing his budget for the next month. Help him write his plan for January on the blank planning sheet.

Cash on Hand	\$12.10
Salary	\$295.50

Total the estimated cash lines and write them on the form.

List the following estimated expenses on the blank budget form under the appropriate categories and follow the steps to calculate the totals.

Savings	\$60.00
Lunches	\$60.00
Bus pass	\$12.50
Entertainment	\$80.00
Grooming needs	\$25.00
Clothing fund	\$25.00
School fees/expenses	\$10.00
Miscellaneous expenses	\$25.00

# Hector's Budget Planning Sheet

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Budget for: Hector

Pay Period: January

	Estimated Budget	Revised Budget
Cash on Hand (+)		
Estimated Income (Salary/Wages) (=)		
<b>Total Estimated Cash</b>		
Estimated expenses		
Savings		
School lunch		
Bus pass		
Entertainment		
Grooming needs		
Clothing fund		
School activity fee/expenses		
Miscellaneous expenses		
<b>Total Estimated Expenses</b>		
Total Estimated Cash (-)		
Total Estimated Expenses (=)		
Cash on Hand		

# Hector's Budget

Name: \_\_\_\_\_ Date: \_\_\_\_\_

How close was Hector's actual spending to his estimated budget? Does he need to make any changes?

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## Hector's Actual Budget

DATE	EXPLANATION	AMOUNT
Jan. 1	ASB dues	\$10.00
Jan. 2	Tas-T-Burger	\$10.17
Jan. 2	Bus pass	\$12.50
Jan. 3	Savings	\$60.00
Jan. 7	Movies and popcorn	\$14.00
Jan. 10	Tas-T-Burger	\$9.82
Jan. 10	School lunch account	\$60.00
Jan. 14	Girlfriend's birthday	\$35.00
Jan. 15	New sweatshirt	\$19.00
Jan. 17	Tas-T-Burger	\$10.12
Jan. 18	Movies and snack	\$14.00
Jan. 20	Lent Joel money	\$5.00
Jan. 22	Haircut	\$15.50
Jan. 24	DVD rental	\$4.50
Jan. 24	Pizza delivery (split w/friends)	\$8.00
Jan. 29	New music downloads	\$12.50

# Your Own Budget

Track your spending for a week and see where your money is going.

**Before beginning:**

Think about your fixed and variable expenses and estimate how much money you'll spend by answering these questions:

What do you spend money on every week (fixed expenses)?

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About how much?

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What do you spend money on some weeks but not others (variable expenses)?

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About how much?

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What do you think you'll spend the most money on this week? Why?

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Will you have any unusual expenses coming up this week — a friend's birthday gift, or special weekend plans? If yes, how much do you think you might spend?

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Use the Budget Planning Sheet to predict how much you'll spend on each of the listed expenses. Add any other expenses you know you'll have coming up.

**At the end of the week:**

Compare your predictions to your actual spending by answering the following questions.

What did you spend the most money on this week?

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How close were your predictions to your actual spending?

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What surprised you about where your money went this week?

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If your total expenses exceeded your income, what did you have to do?

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# Budget Planning Sheet

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Budget for: \_\_\_\_\_

Pay Period: \_\_\_\_\_

	Estimated Budget	Actual Budget
Cash on Hand (+)		
Estimated Income (Salary/Wages) (=)		
<b>Total Estimated Cash</b>		
Estimated expenses		
Savings		
Lunches		
Bus pass/transportation		
Entertainment		
Grooming needs		
Clothing fund		
School activity fee/expenses		
Miscellaneous expenses		
Other		
<b>Total Estimated Expenses</b>		
Total Estimated Cash (-)		
Total Estimated Expenses (=)		
Cash on Hand		

## SMART Budgeting

Joel stared at the budget Hector wrote out for him.

"Wow," he said. "So in four months I can have an MP3 player? I thought it was just a dream."

"You can have it if you can stick with the plan and put away money every month," said Hector. "You can have anything if you plan for it."

Joel looked at him. "A car?"

"Make a plan."

"A trip to Europe after graduation?"

"Make a plan."

"A girlfriend?"

Hector folded his arms. "That, my friend, is up to you."

### Start with a dream

Making a financial plan starts with your dreams. What do you want to make happen for yourself this month? This year? In the future?

### Make a commitment

You can make any dream happen by planning for it, and then working to stick with your plan. Want to be an actor? Start getting involved in school productions and looking for drama schools. Want to buy a car? Figure out how much money you'll have to put away each month to make it happen.

Attainable financial goals are **SMART** goals. They are:

**Specific:** Easily understood and pictured.

**Measurable:** Progress can be tracked over time.

**Attainable:** Can be planned; broken into smaller, achievable steps that help you reach the goal.

**Realistic:** Within the realm of your capabilities.

**Time-bound:** Has a set timeline and end date.

Here's an example:

**Specific goal:** I want to purchase a car by my senior year of high school.

**Measurable:** I'll need to save enough money for the price of the car, tax, insurance and registration fees.

**Attainable:** I'll save \$150.00 each month from my paycheck and half of all money gifts I receive.

**Realistic:** I can achieve this because I have two-and-a-half years to save.

**Time-bound:** By August of my senior year, with this plan I'll have enough money saved to buy a reliable used car.

# Dream Big... Budget SMART

Your group is in charge of an all-school event. Pick one of the following scenarios to organize (or come up with one of your own). Then decide on a financial plan that will make the event happen. Last, your group will present its plan to the class for approval.

- Bring a celebrity to school
- Raise money for a charity
- Plan a class trip to a dream destination
- Cater school lunches for a day through a local restaurant

**Make a SMART action plan by filling out the following checklist and answering the questions:**

### Is your goal...?

#### \_\_\_\_\_ **SPECIFIC**

Write a short but detailed description of the event, including all the specifics you can. What celebrity will visit? What will he/she do at your school? Will your charity event be a garage sale or a fun run? What charity will it support?

Include a statement on why this event should take place. What benefits will it provide? What will make it worth the expense and effort? The more detail you include, the better idea you'll have of what it will take to pull off the event.

#### \_\_\_\_\_ **MEASURABLE**

How will you know you are making progress? What smaller goals will have to be met along the way to make the end result a success?

#### \_\_\_\_\_ **ATTAINABLE**

What steps will you need to follow to make the event happen? How much money will it cost? What sources of income are currently available to you? Will they be enough to cover the event? If not, how can you plan to increase your cash flow?

#### \_\_\_\_\_ **REALISTIC**

Can students of your age and income feasibly pull it off? How do you know?

#### \_\_\_\_\_ **TIME-BOUND**

When would this event occur? How can you reasonably plan for it in the amount of time allotted?

### **Present Your Findings:**

Most groups that seek to produce an event present their financial plan to an overseeing board for approval. Your class will serve as your board of directors. Make a presentation based on your answers to the above questions. Your event will be given the go-ahead if it meets the criteria listed on the SMART Project Evaluation Form.

# SMART Project Evaluation Form

## Self Evaluation

Project title: \_\_\_\_\_

Group members: \_\_\_\_\_

Use this form to plan your own group project.

	1	3	5
<b>SPECIFIC?</b>	Goal unclear; details vague	General goal clear; some details provided; some questions left unanswered	Clear idea of the goal of project; specific details provided
<b>MEASURABLE?</b>	No plan at all	A few smaller financial goals provided	Smaller financial goals are set regularly
<b>ATTAINABLE?</b>	Smaller goals can't be met	Some smaller goals could be met	All smaller goals can reasonably be met
<b>REALISTIC?</b>	Hard to imagine students being able to pull it off	A big challenge, but not impossible	Realistic, attainable, very achievable
<b>TIME-BOUND?</b>	No	Vague schedule, clear deadline	Specific schedule and deadline

Rate your group's project plan on this chart. What are the strengths of your project plan?

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Where does it need improvement?

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# SMART Project Evaluation Form

## Group Evaluation

Project title: \_\_\_\_\_

Group members: \_\_\_\_\_

Use this form to evaluate other groups' presentations.

	1	3	5
<b>SPECIFIC?</b>	Goal unclear; details vague	General goal clear; some details provided; some questions left unanswered	Clear idea of the goal of project; specific details provided
<b>MEASURABLE?</b>	No plan at all	A few smaller financial goals provided	Smaller financial goals are set regularly
<b>ATTAINABLE?</b>	Smaller goals can't be met	Some smaller goals could be met	All smaller goals can reasonably be met
<b>REALISTIC?</b>	Hard to imagine students being able to pull it off	A big challenge, but not impossible	Realistic, attainable, very achievable
<b>TIME-BOUND?</b>	No	Vague schedule, clear deadline	Specific schedule and deadline

Rate the group's presentation using the criteria above. What are the strengths of the project plan?

\_\_\_\_\_

\_\_\_\_\_

Where could the plan use improvement?

\_\_\_\_\_

\_\_\_\_\_

How likely would you be to approve this plan and give the group the go-ahead to start planning the event?

\_\_\_\_\_

\_\_\_\_\_

Why?

\_\_\_\_\_

\_\_\_\_\_

## A Personal Budget

**Smart budgeters break their goals down into three categories:**

- Short-term: within three months
- Intermediate-term: three months to a year
- Long-term: one year or more

List three of your own short-term goals:

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List three intermediate-term goals:

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List three long-term goals:

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Pick one of the goals you've listed above. Is this a short, intermediate or long-term goal?

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Make it a **SMART goal** by answering the following:

**Is it specific?** Explain your goal in more detail. What exactly do you want and why do you want it? How will you benefit from it? Why will it be worth the expense and effort?

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**Is it measurable?** How will you know you're making progress on the goal? How will you know when you've achieved it?

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**Is it attainable?** What steps can you take to achieve it? What plan will you follow?

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**Is it realistic?** Can a person of your age, ability and resources reasonably achieve this goal? Why?

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**Is it time-bound?** What's your timeline for achieving this goal? Is the timeline reasonable?

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# A Personal Budget

Using the chart, evaluate how attainable this goal is.

	1	3	5
<b>SPECIFIC?</b>	Goal unclear; details vague	General goal clear; some details provided; some questions left unanswered	Clear idea of the goal of project; specific details provided
<b>MEASURABLE?</b>	No plan at all	A few smaller financial goals provided	Smaller financial goals are set regularly
<b>ATTAINABLE?</b>	Smaller goals can't be met	Some smaller goals could be met	All smaller goals can reasonably be met
<b>REALISTIC?</b>	Hard to imagine students being able to pull it off	A big challenge, but not impossible	Realistic, attainable, very achievable
<b>TIME-BOUND?</b>	No	Vague schedule, clear deadline	Specific schedule and deadline

How attainable is your goal? What are the strengths of your financial plan? Where could it use improvement?

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Share your goal with a partner and explain your plan to achieve it. Your partner will evaluate your goal's attainability using the chart above.

Evaluate your partner's goal using the chart above. How attainable is his/her goal? What are the strengths of his/her financial plan? Where could the plan use improvement?

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## Financial Records

Part of becoming a smart budgeter is knowing where your financial records are. Some common financial records include pay stubs, dividend statements and bank statements. It's also important to keep records of your spending. By reviewing your receipts, account statements and check registers regularly, you can see where your money is going and make adjustments accordingly.

What financial records do you currently use? (If you don't know, find out which one you have available. As an alternative, interview a parent or another adult about what financial records they currently use.)

Where do you keep them? (If you don't know, make a plan for them now. As an alternative, interview a parent or another adult about where they keep their financial records.)

# Chapter One Assessment

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. What is a budget?

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2. What has been challenging for you about budgeting in the past?

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3. What budgeting practices can you see yourself using in the future?

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4. What is the difference between a need and want?

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5. What advice would you give to someone about balancing the needs and wants in their budget?

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6. What are the characteristics of an attainable goal?

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7. How will you plan for goals?

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8. How will you keep track of your financial records?

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9. What's the most useful thing you learned about budgeting?

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## How do You Decide What to Buy?

Write A for agree or D for disagree next to each statement.

1. \_\_\_\_\_ I like to be spontaneous when shopping. I often buy on impulse.
2. \_\_\_\_\_ I can be easily persuaded by store clerks to buy things, even if I don't really need or love them.
3. \_\_\_\_\_ I can't turn down a great deal, even if it's for something I don't really need or want.
4. \_\_\_\_\_ I do research for things I plan to spend money on: I talk to friends, check out consumer websites or magazines, or consult experts before making a decision.
5. \_\_\_\_\_ I often shop for recreation, not because I need or want something specific.
6. \_\_\_\_\_ Putting money into savings is the last thing I plan for when writing a budget.

## What's Your Spending Breed?

*Yuki sat down on the front steps of the school and sighed.*

*"What's wrong with you?" asked Maya.*

*"My mom's getting me a cell phone," said Yuki glumly.*

*"That's great!" cried Maya. "You're so lucky."*

*"But only if I help pay for it. She'll pay the start-up fee if I buy the phone and pay for the plan. She wants me to find the plan that gives me the most value for my money."*

*"So?"*

*"So? So I spent all yesterday looking at cell phone ads. I got brochures. I called different providers. They all tried to sell me stuff. My head is so full of numbers and times and weekend minutes that I close my eyes at night and hear ringing. I'm sick of the whole thing."*

*Maya shut her magazine. "But you just started yesterday!"*

*"I don't care. I hate this shopping around thing. I just want to go to the mall, walk up to the booth I see and get the first plan they offer me. Then I'd just be done with the whole thing."*

*"Don't do it, Yuki!" said Maya. "Remember what Ms. Moruzzi was talking about in Personal Finance class. Don't be a Yorkie!"*

*"A Yorkie?"*

*"Remember? What breed of spender are you? The Yorkshire Terriers are impulsive and stubborn."*

*Yuki laughed. "And not easily housebroken."*

*Maya rolled up her magazine and held it up. "Don't make me use this."*

*"Then help me!"*

*Maya threw down the magazine and held out her hand. "Okay, girl. Let's see your brochures. Then I'll get you a biscuit."*

## What's Your Spending Breed?

### Directions:

Read through the following breed descriptions, and decide which is most like you as a spender. Then, write three reasons why you are like that breed and draw a picture of your spending breed to share with classmates.

### Spending Breeds

**Maltese:** Energetic, affectionate, playful. Demands time, attention and constant grooming. Likes the finer things in life. Will not settle for bargain brands or cheaper dog food; only the best will do. Over pampering makes him unstable.

**Newfoundland:** Calm, gentle, and trustworthy. Thinks for herself. Intelligent. Can recognize quality, but values inner peace, family, and relationships above all. Tends to drool.

**Beagle:** Sweet, lively, and curious. Highly intelligent, brave and sociable. Wants to try out everything. Adventurous. Sometimes takes risks that are beyond her capabilities. Has a loud baying bark.

**Collie:** Loyal, steadfast, determined. Collies are known for picking a course and sticking to it—one legend says a collie traveled over 2,000 miles to find his lost master. Hard-working, friendly, and dependable.

**Yorkshire Terrier:** Overeager for adventure and trouble. Impulsive. Fun-loving. Cannot delay gratification: desires treats immediately, even if he spoils his appetite for a larger payoff. Can be stubborn, but very trainable. Sometimes hard to housebreak.

### Which breed is most like you?

My spending breed is \_\_\_\_\_ because \_\_\_\_\_

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Draw a poster or visual representation of your spending breed.

# The Three “R’s” of Money

For most people, getting their money’s worth means considering the price of an item and how the amount of money available to spend.

People make spending choices for a variety of reasons including likes, dislikes, values and needs.

Part of becoming a responsible spender is deciding how to balance your needs, wants, and values. Remembering The Three “R’s” of Money: **reality**, **responsibility** and **restraint** can help in your decision-making.

## Vocabulary Pictographs

Either by yourself or with a partner, show what each term means to you in pictures or symbols. Then draw or write several examples of the symbol around your pictograph.

On the back of each drawing, write an explanation of the symbols you used.

**REALITY** (of money): Knowing there are limits to the time and money you have at your disposal.

**RESPONSIBILITY** (of money): Making decisions about how to spend and save; taking ownership and control for your own financial decisions, accepting consequences of those decisions.

**RESTRAINT** (in spending): Using self-control; delaying immediate spending and momentary pleasure to achieve a more distant goal.

## You Better Shop Around

*"So did you decide what I should buy?" Yuki asked as she and Maya were walking home.*

*Maya eyed her. "Very dangerous, handing over your decision-making power to your best friend."*

*"Why? Joel does it all the time to Hector."*

*"You wanna be like Joel?"*

*"Good point."*

*The girls reached Maya's door and went inside. Maya opened a kitchen drawer and pulled out an old copy of Consumer's Digest magazine. She flipped through the pages.*

*"Here it is," she said. "Cell phone reviews. You're on the right track. You've gotten some brochures and called a few of places. You're comparing prices and plans. How much can you spend per month?"*

*"Well, I make \$250.00 from my job. But I also have to buy my lunches and pay for movies and stuff. And I have to have my music. So I figure the lower the better." Yuki flipped open a brochure.*

*"Here's the one I want. It takes pictures, has a video camera, text messaging, and a data plan. Oh! And look! It's free if I get this plan! That's a \$275.00 value for FREE!!" She picked up the phone and started to dial. "I'm signing up now!"*

*Maya clicked down the receiver. "Hold it. What's the offer?"*

*Yuki glanced at the brochure, then put the phone down. "Oh...\$150.00 a month. And a \$100.00 start-up fee. But it has unlimited minutes!" She thought. "If I stop eating lunch, and never go to the movies again, I could swing \$150.00 a month."*

*Maya flipped the page over. "Now look. Here's a free phone, free shipping. Plan is \$19.99 a month."*

*"Yeah, but it has no camera. And only 60 minutes a month before you have to pay extra."*

*"Well, who are you going to call?"*

*"You. Hector. Joel. My mom."*

*"So how many minutes do you really need? You see us all day, and you'll only talk to your mom for a couple minutes."*

*"But I really want the video camera! It's just so cool. Marcia Flores has one just like it."*

*Maya picked up another brochure. "Well, that's a great reason to blow \$150.00 a month. How often do you think you'll be recording videos during the day anyway?"*

*"Okay, okay. How should I decide, then?"*

*Maya tossed over a stack of brochures and the Consumer's Digest magazine. "Here you go. Start researching."*

## You Better Shop Around

**Time To Decide:**

What factors should Yuki take into consideration when buying a phone and a plan? Rank the most important factor 1. Rank the least important factor 8. Rank the rest of the factors according to their importance.

- \_\_\_\_\_ Low price of phone and plan
- \_\_\_\_\_ Special features: video, text messaging, digital camera, etc.
- \_\_\_\_\_ Income available to spend on phone
- \_\_\_\_\_ Popularity of phone
- \_\_\_\_\_ When she'll realistically use phone
- \_\_\_\_\_ How she'll realistically use phone
- \_\_\_\_\_ Most necessary features
- \_\_\_\_\_ Phone's reputation for reliability and customer service, according to experts, consumer groups, etc.

How did you decide which factors were most or least important?

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Share your answers with a classmate. How did his/her ranking differ from yours? How was it the same?

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# Calling All Spenders

### Evaluate the following cell phones and plans:

#### MegaTechTronic Phone+Plan

Digital camera! With the MegaTechTronic 6620 phone, you have advanced imaging features to stream video over EDGE, MP3 player, digital camera with 2x zoom, and PDA functionality so you can manage your life at work and play. Key feature for this phone includes 12 MB of memory plus 32 MB included MMC card. This phone features:

- Integrated camera and video recorder
- Mobile Internet
- Combine image, video, text and voice clip and send as multimedia
- Play music with MP3 player

\$500.00 value! Your price: \$99.00 with plan

Plan includes:

- 1250 Anytime minutes
- Unlimited night/weekend minutes
- \$75.99/month; \$250.00 one-time start-up  
(Internet charges additional: check with Internet provider)

Consumer Digest review: "The MegaTechTronic is the Cadillac of on-the-go wireless technology. Ideal for frequent travelers or busy professionals. Superior customer service; lifetime guarantee."

#### MobileTalk: Stay Connected Phone and Plan

The MobileTalk 2000 cell phone from MobileTalk is a superior messaging device, with fold-open access to a full keyboard that makes text input faster and easier.

This phone also includes:

- Choosing your method of messaging: e-mail, text, instant messaging or picture-messaging
- Managing contacts, calendar and to-do list with reminders
- Java™ technology for application downloads

\$150.00 value! FREE with plan!

Plan includes:

- 1000 Whenever minutes
- Free long distance and roaming within MobileTalk network
- Included features: voicemail, numeric paging, caller ID, call waiting, call forwarding, and conference calling.
- Only \$29.99 a month!

Consumer Digest review: A nice, basic plan and reliable phone. Customer can wait a long time for service, but good help is available. Good value at the price. Ideal for family members.

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### RK Wireless: Basic Phone and Service

Sleek and stylish without being complicated, RK Wireless' 710 features a folding design with color main display, Java, voice dialing, speakerphone, assignable ring tones, long battery life, and more.

#### Features Include:

- Large color display
- Voice dialing
- Voice memo
- Games

\$100.00 value. Free with plan.

#### Plan includes:

- No roaming fees
- Call hold and call waiting
- Unlimited night and weekend minutes
- 60 Anytime minutes
- Text messaging: 15 cents/message
- Long-distance: 10 cents/minute

Consumer Digest review: Decent budget phone for local emergency-only purposes; however, don't rely on it for long-distances trips as this new company does not provide service in many areas. Customer service available M-F 8-5 EST only.

Which phone and plan should Yuki choose? Remember that she has \$250.00 of income per month.

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Explain how you made your decision:

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## The Education Pay-Off

*The door opened and Maya's mother rushed in. She was still wearing her cashier's apron from the Food Mart where she worked. "Hello and goodbye," she said, and ran up the stairs.*

*"What's her rush?" asked Yuki.*

*"She's off to school," said Maya and walked to the stairs. "Hurry up, Mom! You're late!"*

*Mrs. Jones came down again. The apron was gone and she was carrying a backpack. "See you later," she said, rushing out the door.*

*"School!?!?" asked Yuki. "What for?"*

*"She's getting her college degree," said Maya. "She got married and had us kids before she had a chance to go. But she's always wanted to be a nurse. And she really wants to get a job that pays more money so she can help send us to college in a couple of years."*

*"Cool," said Yuki. "But isn't she spending money to go to college? How will that help her make money to send you?"*

*"It's like Ms. Moruzzi said in class," said Maya. "She's investing. She pays out money now for her education, and then her job pays her back with a higher salary. It's hard work and we all have to help out around the house, but Mom's happier and in the long run, it'll be better for our family."*

*"Hmm," said Yuki. "So you're saying that if I save money now on my phone service, I can put it away for college. Then I shell out a bunch of money for college. And then, someday I'll have a great job and be able to afford a really cool cell phone with a video camera in it."*

*"That's your big pay-off?" said Maya. "That stupid phone? What about personal satisfaction? What about doing some job that makes you feel good about yourself? What about being able to take care of yourself and your family, or buying the apartment or house or car you really want?"*

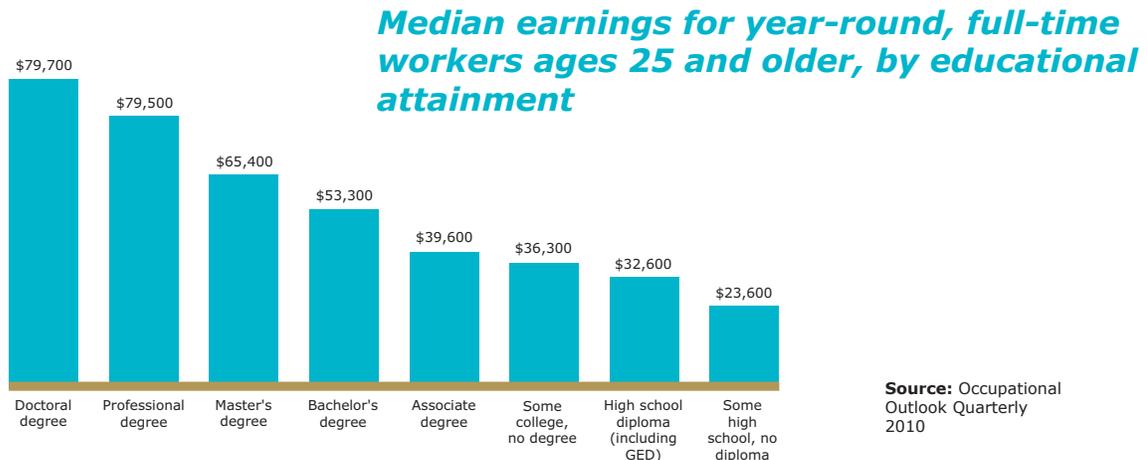
*Yuki sighed. "Fine. Basic service it is."*

## Education Pays

There aren't any guarantees when it comes to making money, and money isn't guaranteed to buy you happiness. But education is an investment that does pay off in the future, and it gives you more choices and control about the path you want your life to take.

In general, the more education you receive, the higher your earnings will be. With more earnings, you have more choices—about saving, purchasing, traveling, donating to charity, starting a business—and otherwise making your dreams come true. You'll also have the security of being able to provide for your and your family's future. Investing in your education is a sound financial decision.

Education Pays Graph:



Study the above graph. How would your life be different if you earned a professional degree? If you had an associate degree? If you didn't graduate from high school? What are the advantages and disadvantages of each level of education?

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## Family Scenarios:

**Married couple:** Doctor and architect  
**Children:** Ages 8 and 10  
**Education level:** Graduate degree  
**Income:** \$250,000  
**House price range:** \$500,000-\$750,000  
**Car price range:** \$60,000-\$75,000  
**Vacation price range:** \$12,000/year  
**Extras:** \$24,000/year

**Single mom:** Teacher  
**Children:** Ages 11 and 15  
**Education level:** Bachelor's degree  
**Income:** \$46,300  
**House price range:** \$125,000-\$135,000  
**Car price range:** \$9,000-\$12,000  
**Vacation price range:** \$2,000-\$3,000/year  
**Extras:** \$1,500/year

**Married couple:** Homemaker and state worker  
**Children:** Ages 2, 4 and 7  
**Education level:** Master's degree (both)  
**Income:** \$55,300  
**House price range:** \$135,000-\$145,000  
**Car price range:** \$12,000-\$15,000  
**Vacation price range:** \$2,500-\$3,500/year  
**Extras:** \$1,800/year

**Single mom:** Beautician  
**Children:** None  
**Education level:** Associate degree  
**Income:** \$35,400  
**House price range:** \$95,000-\$105,000  
**Car price range:** \$5,000-\$7,000  
**Vacation price range:** \$1,000/year  
**Extras:** \$600/year

**Married couple:** Part-time store clerk and receptionist  
**Children:** Age 1  
**Education level:** Some college, no degree (both)  
**Income:** \$45,400  
**House price range:** \$125,000-\$135,000  
**Car price range:** \$8,500-\$10,500  
**Vacation price range:** \$2,000-\$2,500/year  
**Extras:** \$1,200/year

**Single dad:** Mechanic  
**Children:** Age 4  
**Education level:** High school diploma  
**Income:** \$28,800  
**House price range:** \$85,000-\$90,000  
**Car price range:** \$5,000-\$6,000  
**Vacation price range:** \$1,000/year  
**Extras:** \$900/year

**Single dad:** Waiter  
**Children:** None  
**Education level:** Some high school, no diploma  
**Income:** \$21,400  
**House price range:** Rent \$500-\$550/month  
**Car price range:** \$2,000-\$2,500  
**Vacation price range:** \$600/year  
**Extras:** \$600/year

## Chapter Two: Assessment

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. What are some influences that affect the way people spend their money?

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2. What are some of your spending influences?

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3. What's the relationship between a person's level of education and his or her income level?

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4. How do you see this relationship affecting your decisions about your own education in the future?

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5. Define values and give an example of how they can affect financial decision-making.

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6. When making a spending decision, what are some strategies you can use to know that you're getting your money's worth?

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# List-Group-Label

Name: \_\_\_\_\_ Date: \_\_\_\_\_

**List** all the reasons you have saved money in the past or what you might save for in the future.

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**Group** similar items together.

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**Label** each group and explain why the items belong together.

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## Saving: The Time Value of Money

"Last week," boomed Ms. Moruzzi, the orange-haired Personal Finance teacher, "you acted as family groups to plan your family's budget. This week, we will speak of another type of family." She held up two dollars. "Meet the Bills! This is Mr. Bill. This is Mrs. Bill. We want their family to grow into lots of other bills, of large denominations. How can we do this?"

"We already covered that in Health class, Ms. M," called Joel.

"Very funny," said Ms. Moruzzi. She put the dollars down and walked around the class, handing out paper money. "Today, we begin a race. In teams, you will receive \$500.00. Your job is to make that money grow. We will count every day in class as a year. You will each set goals. There will be prizes for teams who meet their goals at the end of 5, 10, 15, 20 and 30 years. Plus, I will award a grand prize for the team with the most money at the end of 30 years."

"What prizes?" asked Yuki.

"Wait and see." Ms. Moruzzi paused. "What are some ways you know of to make money grow?"

"Savings?" someone volunteered. "My savings account earns interest every year."

Joel raised his hand. "How about those account thingies at the bank? DVDs?"

"You mean CDs. Certificates of Deposit." Ms. Moruzzi wrote CD on the board. Other students began to volunteer.

"Bonds."

"Bills."

"Mutual funds!"

"Fine," said Ms. Moruzzi. "You now have some instruments to work with. Meet in your teams and plan your financial strategy."

Hector, Maya, Yuki and Joel pushed their tables into a circle.

"So what should we do?" asked Yuki. "How do we grow our money?"

"I have a plan," said Joel. "Let's do nothing. I think everyone else is going to try really risky stuff like crazy stocks to make their money grow. If we just sit on it, we'll still have \$500.00 at the end of the month and win the prize."

"No way." Maya shook her head. "That's like keeping your money in a piggy bank. Over 30 years, you'd actually lose money, if you count inflation and the cost of living and all. We've got to look into some investments."

"Yeah," said Hector. "Let's find some awesome stocks."

"But not too awesome. They crash all the time. Remember the dot com bust?"

"Well," said Yuki, "what if we try a lot of different stuff? Some risky that might make a bunch of money, and some safe, so we have a cushion."

"Good idea," said Hector. "Diversify."

"Okay, then," said Maya. "We've got our strategy. Now let's get to work."

But Joel was muttering under his breath.

"What, Joel?"

He spoke up. "There's nothing wrong with piggy banks."

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## WHY SAVE?

“Spend less than you earn and put the rest into savings.”

You might call the statement above the golden rule of saving.

Some people might feel that saving money is a burden. Consider this: many of us have a latte-a-day habit. Say one latte is \$2.50. If you buy five lattes a week, you’re spending \$12.50 a week on your coffee habit.

Now say you gave up two of those lattes by making coffee at home twice a week. You just saved \$5.00 a week. Multiply that by 52 weeks in year, and you’ve saved \$260.00 by cutting down on your caffeine.

The question is, what will you do with that \$2.50 you kept in your wallet every time you walked by the espresso stand? Will you spend it on something else or will you make a plan for it... for something bigger in the future?

## SAVINGS AS AN INVESTMENT: EARNING INTEREST

You can put that \$2.50 to work for you by earning interest. Interest is a fee paid by the financial institution for the use of money. For example, if you put the money you save by skipping your latte into a savings account, the financial institution will pay you interest. In this way, your savings will become an investment.

Investing is one of the smartest financial decisions you can make. Savings that start working for you by earning profit or interest are investments.

When you invest your savings and then take the income earned and invest it in turn, the increase over time will be substantial.

# The Time Value of Money

To understand investing, you need to understand the Time Value of Money. The Time Value of Money is the relationship between time, money and the rate of return (the rate at which your savings grow). The \$260.00 you saved in a year from the previous example is worth so much more over time if you invest it wisely because of the interest it is earning. Over time it will grow. Understanding the Time Value of Money will help you make smart investment choices.

Take a look at the chart below to see what happens to a \$1,000.00 investment at different rates of interest over time:

	5 years	10 years	15 years	20 years
5%	\$1,276.30	\$1,628.90	\$2,078.90	\$2,653.30
6%	\$1,338.20	\$1,790.80	\$2,396.60	\$3,207.10
7%	\$1,402.60	\$1,967.20	\$2,759.00	\$3,869.70
8%	\$1,469.30	\$2,158.90	\$3,172.20	\$4,661.00
9%	\$1,538.60	\$2,367.40	\$3,642.50	\$5,604.40
10%	\$1,610.50	\$2,593.70	\$4,177.20	\$6,727.50
11%	\$1,685.10	\$2,839.40	\$4,784.60	\$8,062.30
12%	\$1,762.30	\$3,105.80	\$5,473.60	\$9,646.30

What happens to \$1,000.00 invested at 7% over five years?

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Over 15 years?

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Why is it important to understand the Time Value of Money?

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## Simple and Compound Interest

Name: \_\_\_\_\_ Date: \_\_\_\_\_

To recognize your money's true value over time, you need to understand two ways of calculating interest rates.

### Simple Interest

Simple interest means that you will earn a specific rate of interest on your initial deposit amount over time.

Dollar amount X interest rate X length of time (in years) = amount earned

For example, say you put \$100.00 in a savings account earning 2% simple interest.

After one year, you will have earned \$2.00 ( $100 \times .02 \times 1 = \$2.00$ ).

You will continue to earn \$2.00 a year. After two years, you will have earned \$4.00. After three years, you will have earned \$6.00, and so on. Your money will always grow at a rate of 2% of your initial deposit of \$100.00.

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## Compound Interest

Not many investments use a simple interest rate. You are far more likely to put your money into investments that earn compound interest. Compound interest means interest is paid on your **original deposit plus earned interest**. In other words, your profit from interest helps you earn more interest.

(Original dollar amount + earned interest) X interest rate X length of time = amount earned

If you deposited \$100.00 in a savings account at 2% interest compounded annually, you would earn \$2.00 the first year.

$$\begin{aligned} \$100.00 \times .02 \times 1 &= \$2.00 \\ \$100.00 + 2 &= \$102.00 \end{aligned}$$

During the second year, your interest would be earning interest. So you would be calculating 2% interest on your new amount of \$102.00.

$$\begin{aligned} (\$100.00 + 2) \times .02 \times 1 &= \$2.04 \\ \$2.04 + \$102 &= \$104.04 \end{aligned}$$

Now, say you saved \$260 a year by giving up two lattes a week. What if you took that \$260 and put it in a savings account earning 2% a year compounded annually?

Original deposit	After one year	After 5 years	After 10 years
\$260.00	\$265.20	\$287.06	\$316.94

Your money went to work for you and all you did was drink coffee from home two times a week. Just imagine if you had given up three lattes a week. Or if you found an investment with a higher interest rate. Saving and investing money is lifelong skill that helps people prepare for the future. Making smart choices about investing helps you reap greater payoffs.

Explain how compound interest can help your money grow:

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# Making Your Money Grow

Financial institutions make it convenient for you to calculate interest. One reference is a compound interest rate table. An example of such a table is shown below:

## Compound Interest Table

Periods	1%	3%	5%	6%	8%
1	\$1.0100	\$1.0300	\$1.0500	\$1.0600	\$1.0800
2	\$1.0201	\$1.0609	\$1.1025	\$1.1236	\$1.1664
3	\$1.0303	\$1.0927	\$1.1576	\$1.1910	\$1.2597
4	\$1.0406	\$1.1255	\$1.2155	\$1.2625	\$1.3605
5	\$1.0510	\$1.1593	\$1.2763	\$1.3382	\$1.4693
6	\$1.0615	\$1.1941	\$1.3401	\$1.4185	\$1.5869
7	\$1.0721	\$1.2299	\$1.4071	\$1.5036	\$1.7138
8	\$1.0829	\$1.2668	\$1.4775	\$1.5938	\$1.8509
9	\$1.0937	\$1.3048	\$1.5513	\$1.6895	\$1.9990
10	\$1.1046	\$1.3439	\$1.6289	\$1.7908	\$2.1589
11	\$1.1157	\$1.3842	\$1.7103	\$1.8983	\$2.3316
12	\$1.1268	\$1.4258	\$1.7959	\$2.0122	\$2.5182
13	\$1.1381	\$1.4685	\$1.8857	\$2.1329	\$2.7196
14	\$1.1495	\$1.5126	\$1.9799	\$2.2609	\$2.9372

### Using the Compound Interest Table:

Say you put \$100.00 into an account that earns 6% compounded interest annually for two years. Your periods would be 2 and your interest rate would be 6%. The figure you get from this table is \$1.1236.

Multiply your original investment by the figure from the table. The result is your new balance over two years.

$$\$100.00 \times \$1.1236 = \$112.36$$

## TVM Calculators:

You may have access to a Time Value of Money (TVM) calculator at your school. If not, you can easily find one by doing a quick search on the web.

Using a TVM calculator makes determining your interest easy. A TVM calculator typically looks like this:

The image shows a screenshot of a 'TVM Calculator' interface. It features several input fields and a set of function buttons. Red arrows and numbers 1 through 7 point to specific elements: 1. points to the 'PV: \$' input field; 2. points to the 'PMT: \$' input field; 3. points to the 'FV: \$' input field; 4. points to the 'Rate: %' input field; 5. points to the 'Periods:' input field; 6. points to a dropdown menu currently set to 'Annual'; and 7. points to a row of five buttons labeled 'PV', 'PMT', 'FV', 'Rate', and 'Periods'.

Many versions of this calculator are available online.

Here's how each field is used:

1. PV (Present Value): The amount of money you're starting with, such as an initial deposit.
2. PMT (Payment): Tells you how much each of your payments would be; for example, a house or car loan.
3. FV (Future Value): Determines what your total amount of money will be after a certain amount of time, taking into account compounded interest.
4. Rate: The interest rate is entered here.
5. Periods: Tells you how many payments you will make or receive. For example, if you make a monthly payment on a car loan for two years, the number of periods is 24 (12 months x 2 years = 24 payments)
6. Compounding field: Will tell you how often interest is compounded; for example, weekly, quarterly, monthly or annually.
7. Function buttons: This is where you tell the calculator which value you'd like it to calculate.

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### Using the TVM Calculator:

Enter in all the information you have, and press the button for the value you're trying to determine.

For example:

Say you deposit \$100.00 dollars into a savings account with a 6% interest rate compounded annually. You want to find out how much you'll have in three years.

Enter the following values into the appropriate fields:

PV: 100.00

PMT: 0 [Not applicable in this situation]

FV: blank [the value you're trying to calculate]

Rate: 6%

Periods: 3

Compounding: annual

Now, press the FV button.

Your total should be \$119.10

## Making Your Money Grow

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Using either the Compound Interest Table or a TVM calculator, solve the following. If applicable, show your work:

\$100.00 at 1% interest for 3 years

\$200.00 at 1% interest for 5 years

\$200.00 at 3% interest for 5 years

\$200.00 at 5% interest for 5 years

\$200.00 at 8% interest for 5 years

\$500.00 at 5% interest for 4 years

\$500.00 at 8% interest for 20 years

## The Rule of 72

"We're not getting anywhere!" groaned Yuki, looking at her group's Asset Chart. It was three days—or "years"—into the Great Investment Race.

"Sure we are," said Hector. "Our savings account is doing great. Just chugging along."

"Crawling along, you mean," said Joel. "We've made \$95.51 in three years."

"Relax," said Maya. "It takes a little time, is all. You don't see amazing results right away in a savings account."

"Well then when?" demanded Yuki. "I want to at least double our money. When's that going to happen?"

"Wanna see a magic trick?" asked Hector. "I'll show you when our money will double."

"What magic trick?" asked Yuki.

"It's called the Rule of 72. You just take the number 72 and divide it by your interest rate. That tells you about how many years it is until the money doubles."

"No way," said Joel.

"Way."

"Any interest rate?"

"Yup."

"And always 72?"

"Yup."

"And it always works?"

"Pretty much."

"Prove it," said Yuki. "Work your magic. I want to see our money grow."

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## RULE OF 72:

$\frac{72}{\text{interest rate}} = \text{approximate no. of years until money doubles}$

Example: \$100.00 dollars at 6%  
 $72 / 6 = 12$  years until money doubles

This works backwards, too. If you want to know what interest rate you need to double your investment in certain amount of time, simply reverse the equation:

$\frac{72}{\text{years to double investment}} = \text{interest rate needed}$

So, if Yuki, Joel, Hector and Maya want to double their investment of \$500.00 in 10 years, they'd need to divide 72 by 10, to get 7.2%.

$\frac{72}{10 \text{ years}} = 7.2\%$

## Practice:

1. You have \$100.00 to invest right now. Using the Rule of 72, determine about how long it will take to double your money.

At 6% interest:

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At 8% interest:

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2. You have \$200.00 and you'd like to double your investment in 7 years. What interest rate will you need to reach this goal?

3. A credit card company offers a card with a 17% interest rate. If you charge \$150.00 and don't plan to pay it off, about how long will it take your debt to double?

# Save Yourself

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Savings accounts are typically the first type of account most students open. Make sure you're keeping on top of your investment by answering the following questions. *(Note: If you don't currently have a savings account, call a credit union or other local financial institution and find out what rates they're offering on savings accounts. Use this information to answer the questions.)*

1. Do you have a savings account? How long have you had it? \_\_\_\_\_
2. What interest rate is your savings account currently earning? \_\_\_\_\_
3. Say you have \$500.00 in your savings account right now. What would your balance be after a year at the current interest rate? \_\_\_\_\_  
After 2 years? \_\_\_\_\_  
After 5 years? \_\_\_\_\_
4. Now say your interest rate was 2% higher than it currently is. Start with the same \$500.00 initial deposit. What would your balance be after a year? \_\_\_\_\_  
After 2 years? \_\_\_\_\_  
After 5 years? \_\_\_\_\_

# Risk vs. Return

"I've had it with the savings account," said Yuki after five days. "I want to make some serious money."

"Okay," said Maya. "It's time to invest."

"I thought that's what we were doing." Joel was puzzled.

"Well, yeah, a savings account is an investment. It's a safe one, because it has just a small amount of risk. It's really unlikely we'd lose any money in it. But it also has a small return. We're not making a heck of a lot."

"You can say that again," said Yuki. "Show me the money." She picked up a stock portfolio for an experimental drug company. "See this?" she said, pointing. "They've got this drug that will change your hair color naturally. No more dying! Just natural, beautiful highlights, every month. Let's get in on the ground floor."

"Hold it," said Maya. "I read about that. That might or might not get approved by the government. It's risky."

"Yeah, but if it takes off, it will make us a mint."

"We don't want that much risk," said Maya. She shoved over the power company prospectus. "Here. This is a good one."

"Bo-ring," said Yuki. "Look at the return on that. Unless something really changes for them that helps the company really boom, that's not a big moneymaker."

"But it also won't crash and burn... and take all our money with it," said Maya.

"I think it's safe to say that you two have different tolerance for risk," said Hector.

"Yeah, so what do we do now?" asked Joel. "Let them duke it out in the hallway?"

"Not yet," said Hector. "We can get a little of both and keep everybody happy. The secret is time. And diversification."

"Why?"

"The longer you hold any investment, the more likely it will pay off," said Hector. "Remember that story in the textbook? Even people who had General Electric stock in 1929, when the big stock market crash happened, still made money after 10 years. It's all about riding out your investments over time. And making sure you don't have all your eggs in one basket, so to speak."

"Speaking of time, let's quit wasting it," said Yuki. "I'm ready to invest."

**Smart Investing:**  
Smart investing not only involves understanding your own tolerance for risk, but also making sure you have diversity among your investments.

**Diversification:**  
A mixture of high- and low-risk investments in your portfolio will help reduce your risk of loss. Your high-earning investments, like stocks, may also carry greater possibility of loss. Including investments that are more stable will help ensure that you have some "safer" money to fall back on.

What does the concept of diversifying your investments mean to you?

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## Your Risk Factor

Name: \_\_\_\_\_ Date: \_\_\_\_\_

If you ever seek advice from a professional financial planner, one of the first things you'll be asked is how you see your tolerance for risk. Knowing how much risk you're comfortable with will help you determine what type of investments to choose.

Describe your tolerance for risk when it comes to money. You can use an analogy of a famous character in a movie, book, TV show or play to describe how you feel about taking risks. Give three reasons that make your analogy true. Then, share your analogy with the class.

Example:

"When it comes to money, my tolerance for risk makes me like Indiana Jones, because I love excitement, I will work hard to chase potential rewards, but I also study where I'm going and know what to expect when I get there."

Fill in the following blank:

When it comes to money, my tolerance for risk makes me like \_\_\_\_\_,  
because:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

# Investments: A Quick Reference

## Stocks

A stock is a share in the ownership of a company. As a stockholder, you are a partial owner of a company and own a tiny fraction of every asset the company has. You also have a claim to your share of the company's earnings. The more stock you have, the greater your ownership in the company. So if you own 100 shares of Scoop It Up Ice Cream's stock and there are 10,000 shares outstanding, then you own 1% of the company.

Being an shareholder or stockholder doesn't mean you have a say in the daily operations of a company. That's left to the management team. But in holding stock, you can usually vote on the election of the company's board of directors and some other matters at annual meetings. The largest stockholders have the most influence.

Companies issue stock in order to raise money. Just about every company at one time or another needs to raise money in order to expand its business. Taking out a loan is one option to accomplish this, but that requires repayment. By issuing stock, a company receives money to invest in its own growth by giving up part ownership in the company. Investors take the risk that the growth will lead to higher earnings and in turn, a higher value for their stock.

Stockholders have limited liability. That means that as partial owners, stockholders are not personally responsible if the company does not pay its debts. If a company is sued, only its business assets are at risk, not the stockholders. Stockholders can lose only the maximum value of their investment even if a company files for bankruptcy.

People purchase stocks as investments with the hope that their shares of stock will one day be worth more than when they paid for them. Stocks historically have out-performed other investments. But there is no such thing as a perfect investment. Investing in stocks holds higher risk than some other kinds of investments, but also the possibility of higher returns.

## Bonds

A bond is an investment instrument in which you are lending money to a government or company. In return, you can expect to retain your principle and earn interest over a pre-determined term. Like all investments, bonds do carry risk, but it is considered lower than the risk of investing in the stock market.

## Mutual Funds

When you invest in a mutual fund, you are investing in a professionally-managed investment pool that can be made up of stocks, bonds or a combination of those and/or other investments.

Mutual funds are a way to receive instant diversification in your investments, because when you buy a share of a mutual fund, you become owner of a small part of all the assets in the fund. When you invest in a mutual fund, you are pooling your money along with other investors to buy shares in companies or buy bonds.

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The funds have professional managers who choose how to invest the fund's assets according to the goals or objectives set out by the fund's prospectus. A prospectus is a document that outlines the fund's operating rules and goals for growth. Mutual funds are popular and offer several benefits including:

**Diversification:** One mutual fund can invest in many different assets. You might not have the money to invest in several stocks at one time. Having many investments is important because it reduces your risk of loss in the event of a downturn or problems in any one company or area of business.

**Professional Management:** Very few of us have the time, interest or knowledge to follow and track the performance of hundreds or thousands of companies. With investments in mutual funds, that work is left to the professionals.

As with stocks, there are no guarantees of return with mutual funds. Careful investors do their research to find mutual funds that are appropriate for their needs and risk tolerance. Things to keep in mind are performance, the cost of any fees associated with a mutual fund and its tax impacts.

### Alternative Forms of Savings

**U.S. Saving Bonds:** The U.S. government sells saving bonds. One type is the EE series. These bonds are guaranteed by the federal government and can be purchased for as little as \$25.00. The interest rate is usually higher than a savings account, but may take many years to reach the face value of the bond.

**Certificate of Deposits (CD):** A financial institution pays a fixed amount of interest on a fixed amount of money for a fixed amount of time.

**Benefits to CDs are:**

- No risk of losing your money
- A set expiration or maturity date that you can plan for
- Simplicity
- No fees
- Higher interest than a basic savings account

**Drawbacks to CDs are:**

- You are restricted from accessing your money until the CD matures
- There is a withdrawal penalty if you cash out the CD before the expiration date

# Investment Reference Chart

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Type of investment: \_\_\_\_\_

Group members: \_\_\_\_\_

In a group, research and report on one type of investment. Your report should include an accurate and clear definition of the investment (how it works), its advantages and disadvantages, a general assessment of its risk and some examples of the investment.

Type of Investment	Time Frame	Risk Factor	Rate of Return	Minimum Balance	Advantages	Disadvantages	Examples
<b>Savings Account</b>							
<b>Certificate of Deposit</b>							
<b>Bonds</b>							
Corporate							
Municipal							
<b>Stocks</b>							
<b>Mutual Fund</b>							

# Starting Early

"This is pretty good information," said Hector, studying the investment information. "I might use it for some of my own investments."

"You have investments?" asked Yuki. "What are you, Donald Trump? You're only a kid."

"Yeah, but my dad showed me this chart he got at work. If you don't start saving and investing young, you have to put away a whole lot more money when you're older. So I'm trying to sock away just a little bit now. If my investments go well, I can retire at age 50 instead of 70."

"Yeah?" asked Joel. "But what will you do with all your spare time?"

Hector grinned. "Buy an NBA team. Travel the world in my private jet. You know, the usual."

"Great!" said Joel. "You do that. Then I'll tag along for the ride."

Hector laughed. "Like I said. The usual."

## Ready... Set... Save

Right now, you're probably more concerned about what you're having for lunch than about what you'll do in retirement. But think about this for a moment: what would you rather be doing in 50 or 60 years: traveling and enjoying yourself or working long hours to bring in a monthly income so you don't fall into poverty? If the first scenario appeals to you more, you do need to think about starting to save for retirement early.

Read through the following chart, then answer the questions about why it pays to start saving for retirement early.

Age you started saving	Monthly contributions to retirement account needed (if earning 6%) to accumulate \$200,000 by age 65
25	\$100
35	\$200
45	\$425
55	\$1,200

1. What happens to the amount you need to put away for retirement if you start saving later in life?

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2. How much more per month does a 55-year-old need to put away in order end up with the same amount as someone who has been saving since 25?

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3. Why does it make sense to start saving for retirement early?

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## Paying Yourself First

If “spend less than you earn, and put the rest into savings,” is the golden rule of saving, then “pay yourself first” is platinum.

What does this mean?

Every month, people with an income need to pay their bills. People who don't pay themselves first go ahead and write checks to the dentist, the credit card company, the gas and power company, and so on. After that, they go about their daily life, shopping at the grocery store, going to the movies, buying books, etc. By month's end, they might find that their bank account is getting close to zero. They wait anxiously for their next paycheck to come in so that they can pay the new round of bills and start spending again. They may worry that they “don't have enough” to put into savings. Their savings never grow and their goals remain far in the future and out of reach.

People who “pay themselves first” put their goals first. When they sit down to pay bills each month, the first payment they make goes directly into savings. It's all a part of their larger financial plan. They've determined how much of their income they need to put away to reach their goals and they make sure they do it regularly. Their savings grow and they feel comfortable making and sticking to budgets, knowing that their goals are growing closer every day.

You may feel that you have no money to save. But even the smallest amounts, saved regularly, will add up over time as we have seen from looking at compound interest and investments.

If you give up just \$5.00 a week on lattes or video games, you can put away \$260.00 a year. Invested wisely, that \$260.00 will grow over time to help you meet whatever financial goal you have set for yourself.

For most people, a reasonable goal is to save eight percent of their income after taxes. Using an eight percent savings rate as a guideline, if you get paid \$200.00 a month from an after school job, you should pay yourself \$16.00 ( $\$200.00 \times .08 = \$16.00$ ). Set that money aside and consider it “off limits.”

Here are tips for saving money.

1. Have a concrete goal.
2. Be realistic about what you can save.
3. Stick to a set savings plan.
4. Make yourself wait a day to think over purchases.

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If you have a job, you might be able to authorize your employer to take a set amount of money out of your paycheck and put it into your savings account.

From each of your paychecks or allowance, deposit a set dollar amount or a percentage of it into a savings account before using your money for anything else. Think of this money as off limits for spending now. You could save 5% or 10%, or you could save a set dollar amount such as \$5.00, \$10.00 or more. By paying yourself first, you can use savings as an investment and put your money to work for you.

Students who don't earn a paycheck often earn money in other ways. You may get an allowance. Relatives often give gifts of cash. Some students put their loose change into a jar at the end of each day. By the end of a month, there could be enough in the jar to deposit into a savings account.

No matter how small the amount, paying yourself first is the sure way to save and to help start making your money work for you.

### **Paying Yourself First:**

What are some ways you save money?

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What could you do differently to save money?

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How much could you "pay yourself first" each month right now?

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## The Winners

*"What's up, Joel?" asked Yuki. "You're never early for class."*

*"I wanna find out if we won the big prize," said Joel. "Today's the day, right?"*

*"Come in," thundered Ms. Moruzzi, opening the door to the classroom. Students eagerly took their seats.*

*Ms. Moruzzi asked each team to report out on their 30-year earnings. Most teams had met their goals.*

*"Well done," said Ms. Moruzzi. "But I can see here that we do have a clear winner: one team certainly made the most money... and that is team D! Will Ben, Vathani, Melissa and David come to claim their prize?"*

*Joel slumped in his seat, and Maya, Yuki, and Hector looked at each other. "Oh, well," said Hector, shrugging.*

*"We missed it by \$20.00" said Joel. "I can't believe it!"*

*"And the grand prize is..." Ms. Moruzzi took a large box from under her desk and handed it to the winning group. Vathani opened it and took out an envelope. Inside was a paper.*

*"A pizza and ice cream party for 30?" read Vathani, puzzled.*

*"That's right!" said Ms. Moruzzi, beaming. "It's a prize for all of you! Because the one thing you should know is that everyone who invested wisely is a winner in this scenario. Financial planning is about security. It's about the realization of dreams. It's not about who has the most money. If you reached your goals, you won."*

*"Hmm," said Hector. "Nice. Corny, but nice."*

*"It's time now to talk about what we've learned," said Ms. Moruzzi. "Get out a piece of paper for a quiz."*

*"But what about the pizza?" wailed Joel.*

*Ms. Moruzzi eyed him. "Delayed gratification, young man," she said. "Work today. Pay off tomorrow."*

*Joel pulled out a piece of paper. "And you better believe I'll be paying myself first," he said.*

*For the first time, Ms. Moruzzi smiled. "You're learning. At last."*

## The Winners

Write a letter to yourself to be read in 10 years. Describe your goals, hopes and dreams for the person you'll be 10 years from now.

You can include:

- What type of education you'd like to have
- What your family situation will be
- What type of career you'd like to be in
- Where you might be living
- What you'll be doing with your spare time

Also include:

- What you're doing now, financially or otherwise, to reach the above goals.
- Some words of advice or encouragement to the person you'll be in 10 years.

# Chapter Three Assessment

Name: \_\_\_\_\_ Date: \_\_\_\_\_

### True or False

1. \_\_\_\_ A stock is a share in the ownership of a company.
2. \_\_\_\_ Compound interest means interest is paid on your original deposit plus any earned interest.
3. \_\_\_\_ Using the Rule of 72 at an interest rate of 4%, it would take 16 years for your money to double.
4. \_\_\_\_ Starting to invest regularly at an early age is a good idea.
5. \_\_\_\_ Savings accounts usually pay higher interest rates than Certificates of Deposit.

### Multiple Choice

6. \_\_\_\_ "Pay Yourself First" means: **A:** Pay your credit card bill first each month. **B:** Pick up your paycheck as soon as it's ready. **C:** Put something into savings each month before you do other things. **D:** Carry enough cash to cover your expenses every day.
7. \_\_\_\_ The concept of diversification means: **A:** You have a mixture of higher risk and lower risk investments. **B:** You have a savings account, a checking account and an ATM card. **C:** You earn a minimum of 5% interest. **D:** You hold on to your investments for at least 10 years.
8. \_\_\_\_ Which of the following is not a good reason to save: **A:** For emergencies. **B:** For college. **C:** For expensive purchases. **D:** For a fast-food lunch.
9. \_\_\_\_ The total interest earned on \$100.00 for two years at 4% compounded annually would be: **A:** \$4.00 **B:** \$4.04 **C:** \$8.00 **D:** \$8.16
10. \_\_\_\_ Which of the following is not a way to save money: **A:** Put aside a set part of your allowance each week. **B:** Put your change in a jar every day. **C:** Write yourself an IOU. **D:** Have your employer automatically deposit part of your paycheck into your savings account.

### Short Answer

Describe some of the savings goals that a family of a newborn baby should be thinking about. Be mindful of short-term, medium-term and long-term goals.

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# Being a Smart Consumer

Name: \_\_\_\_\_ Date: \_\_\_\_\_

*Joel, Maya, Hector and Yuki were on their way to the movies.*

*"Hold on!" said Joel as Hector drove past the bank. "I gotta go by the ATM. I don't have cash."*

*"What a shock," said Maya.*

*Hector pulled over. "Hey, it's better than lending him the money again."*

*Joel leaped out. He was back in a minute.*

*"Let's go!" he said. "I'm loaded."*

*"How much did you get?" demanded Yuki. "Enough for popcorn, too?"*

*"Don't worry about me," said Joel. "I got twenty bucks of my very own to cover me tonight. And then, if we go for pizza after, we can stop at that ATM in the theater for more."*

*"I hate that ATM," said Maya. "It charges a \$2.50 fee for every withdrawal. And was that your bank we just stopped at?"*

*"No," said Joel.*

*"Then you probably just paid at least another \$1.50 to get your \$20.00," said Maya. "You're giving away a nice little gift to two different banks. Why didn't you get more money when we stopped?"*

*"I'm trying not to overspend," said Joel with dignity.*

*Yuki slapped her forehead. "What would you call paying a \$4.00 fee to use your own money?"*

*"All right, fine," said Joel. "I've got this credit card my dad gave me for emergencies. Do you think this constitutes an emergency? A sudden, uncontrollable desire for anchovy and olives at 11 pm?"*

*Yuki and Maya both groaned.*

*Hector pulled into the movie parking lot. "Give him a break," he said to Maya and Yuki. "At least you're not buying his ticket."*

*Joel smirked at them as he leaped out of the car. "Baby steps, girls," he said. "Baby steps."*

**What fees do you pay regularly?**

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**What could Joel do differently to manage his money better?**

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# Know Your Financial Institution

Like any other service you might use, seeking financial services can cost you money. When you are looking for a checking or savings account, make sure you read up on withdrawal fees for using the ATM, overdraft fees, minimum balance requirements, or other fees you may incur. Often, institutions such as credit unions will not charge you to use their ATMs. However, when you use the ATM of another institution, you may be charged a fee.

If the fee for using an ATM is \$1.50, and you withdraw money twice a week, the charges will add up to \$156.00 a year. Think what that \$156.00 could be earning if you invested it at a 5% interest rate. If you invested that \$156.00 every year at a 5% interest rate, at the end of five years, you'd have \$819.00.

Call a local bank or credit union and investigate their checking account options. Pay close attention to the following features:

### **Fees and charges:**

The monthly fees, per-check charge, printing of checks, balance inquiry fees, ATM fees, bounced check charge, availability of a debit card, and fees for falling below a required balance.

### **Interest:**

The rate earned, how rates are calculated.

### **Features:**

How soon you can draw against a deposit as well as, direct deposit, automatic payment, overdraft protection, online banking, discount and free features.

### **Location:**

The number of branches, hours of operation and availability of ATMs. This impacts the fees you will pay. Typically a credit union will not charge a withdrawal fee from an ATM from its own members. If your institution doesn't have a lot of branches, you may be stuck with other ATMs and their fees.

### **Debit card:**

A bank card that is linked to your checking account. This allows funds to be withdrawn at the ATM or retail stores that accept Visa® without writing a check. Payment is completed by signing a receipt or by entering a PIN (Personal Identification Number). A debit card allows you to pay for purchases directly via your checking account. Debit cards offer lots of flexibility. You need to be careful, however, that you have the money to cover your purchases. A debit card is not a credit card. Write down when you use it.

# Check Out Checking Accounts

Name: \_\_\_\_\_ Date: \_\_\_\_\_

## Choosing a Checking Account:

For most people, the checking account is the workhorse of their money management system. If you don't have a checking account now, you will probably have one as soon as you leave high school. This is the account that allows you to write checks, use a debit card, make ATM withdrawals and generally manage the money you spend on a day-to-day basis.

Call a financial institution in your area and find out what options and fees their checking accounts offer. Compare your findings to your classmates to get an idea of the range of checking accounts available to you.

### **Name of Financial Inst.**

Number of branches: \_\_\_\_\_

Branch nearest you: \_\_\_\_\_

Branch nearest school/job: \_\_\_\_\_

Number of ATMs: \_\_\_\_\_

Hours open: \_\_\_\_\_

Funds insured: \_\_\_\_\_

Type of account: \_\_\_\_\_

### **Fees**

Minimum daily balance: \_\_\_\_\_

Average daily balance: \_\_\_\_\_

Maintenance charges (withdrawals, etc): \_\_\_\_\_

Printing checks: \_\_\_\_\_

Overdraft fee: \_\_\_\_\_

Stop payment: \_\_\_\_\_

Debit card usage: \_\_\_\_\_

Other: \_\_\_\_\_

### **Interest**

Interest rate you earn: \_\_\_\_\_

How is it calculated: \_\_\_\_\_

### **Withdrawal at**

Teller window: \_\_\_\_\_

Financial Institution-owned ATMs: \_\_\_\_\_

Regional network ATMs: \_\_\_\_\_

National network ATMs: \_\_\_\_\_

International ATMs: \_\_\_\_\_

**Noteworthy options:** \_\_\_\_\_

# Balancing Your Checkbook

Anyone who has a backyard knows that regular maintenance comes with the territory. The same is true for checking accounts.

Part of managing your checking account is reconciling what your financial institution tells you you've spent each month with your own records, usually your check register. This is called balancing your checkbook.

The purpose of balancing your checkbook is to make sure you and the credit union or bank agree on how much you've spent and what you still have in your account. That way, you can avoid having a check returned for non-sufficient funds (NSF)...more commonly known as an NSF check.

Financial institutions and merchants both charge fees on returned checks. These fees can range from \$15.00 to \$50.00 or even higher, depending on the merchant. For this reason, you should keep track of your spending and make sure you always know how much money you have in your account.

There are several different ways to balance your checkbook. Many financial institutions have online banking where you can check your account balance and see a record of recent transactions. Sometimes these services are also available by calling a phone number given to you by your financial institution.

Each month, financial institutions are required to send you an account statement, or record of your transactions. Use your check register — where you've kept your own personal spending record — to compare your records with the credit union's or bank's.

# Using Your Check Register

Use the check register provided (Appendix) to record your spending for the month of February.

Practice filling out the sample checks and deposit slips in the Appendix as you record your spending.

1. You have a checking account with a balance of \$250.00. Enter this amount in your check register. This amount goes in the top right corner of the check register under "balance."
2. On February 6, you write a check for new stereo speakers to Xenon Hi-Fi for \$100.00.
3. On February 12, you are issued your paycheck for \$165.48. You also get a birthday check from your grandfather for \$25.00 and \$15.00 in cash from Aunt Carolyn.
4. On February 16, you go on a ski weekend. You use your debit card at TGIF Ski Weekends to cover the cost of your room at the Glacier Lodge for \$60.78 and your lift tickets and equipment rental for \$42.97. Even though you used your debit card, don't forget to record these expenses in your check register.
5. On February 22, you receive another paycheck for \$165.48. You put the check in your account, but you only deposit \$40.00. You ask for the rest in cash (you can do this because you have enough money in your account to cover the amount of the check until it has cleared.)
6. On February 26, you write a check to the Girl Scouts of America for five boxes of cookies. The total comes to \$22.78.
7. On February 28, you write a check to the Computer Gamers Association for your annual membership of \$35.00.
8. On February 28, your Uncle Max sends you a belated birthday gift of \$20.00, which you deposit in your checking account.

## Squaring Up

Follow the directions below to reconcile your statement with your check register (use your register from the previous assignment).

1. Look on the account statement and see if the credit union paid you any dividends or charged you any fees (service or check charges). Enter these in your check register and check them off in the appropriate column.
2. The checks listed on the account statement have cleared the credit union. Check them off in the check register.
3. The deposits listed on the account statement have cleared the credit union. Check them off in the check register.
4. The basic rule is that anything not checked off goes on the reconciliation form since it has not cleared the credit union. The starting point on the reconciliation form is the ending account balance. Write the ending account balance from the account statement in the blank that says "Account balance shown on this statement."
5. List all of the checks you have written that are not checked off in your check register on the reconciliation form in the blank for outstanding checks. Also list any outstanding debit card transactions.
6. List all the deposits you made that are not checked off in your check register on the reconciliation form in the "add (deposits not credited)" section.
7. On the reconciliation form, add the outstanding deposits to the ending balance. This is your new account total.
8. Next, subtract the outstanding checks from your new total.
9. The number you get should be the same as your balance total in your check register. If they are different, either you or the credit union made a mistake (most often it's the member's error; but sometimes not. It pays to check.) Check your own math before contacting the institution about any potential errors.

# Squaring Up: Account Statement

<b>Community</b>		
C R E D I T U N I O N		
<b>Closing balance</b>		291.73
<hr/>		
<b>Closing date</b>	2/28	
<b>Previous balance</b>		250.00
<hr/>		
<b>Total checks or debits: \$203.75</b>		
<hr/>		
<b>Total deposits: \$245.48</b>		
<hr/>		
<b>Checks/debits</b>		
<b>Date</b>	<b>Check #</b>	<b>Amount</b>
2/6		100.00
2/16	Debit	60.78
	Debit	42.97
<hr/>		
<b>Deposits</b>		
2/12		165.48
2/12		40.00
2/22		40.00

## Reconciliation form

Account balance shown on this statement	
Add (deposits not credited)	
Total	
Subtract (checks outstanding and/or outstanding debit card transactions)	
Balance	

## The Fine Print

Everyday we're flooded with advertising for financial institutions, credit cards, auto dealers that will finance our new cars... there are all kinds of options available for getting loans and managing money.

But remember that credit card companies are businesses and they need to protect their own assets. They also want to make money. So do car salespeople and electronic equipment stores.

Financial institutions are good places to keep your money, but you should be aware of what fees they are charging for their services. One checking account may be better than another when you look at service charges.

Any time you finance a large purchase, sign up for a credit card, take out a loan, start a checking account, or do any type of long-term financing, it pays to be educated about the process. That means reading the fine print, understanding the real terms of the deal, and shopping for the best terms.

If you are willing and realistically able to follow the terms, you and your money will be fine. However, many people run into trouble by not keeping track of their money and not reading the fine print. Then they are surprised by a \$20.00 overdraft fee when they bounce a check. Or they find out that that the 0% intro rate turns into 24% after three months.

# Shop 'Til You Drop

Name: \_\_\_\_\_ Date: \_\_\_\_\_

You don't actually have to drop but it pays to look around for the best deal when you are financing a larger project. When buying a car, a house or even a big-screen TV, many people don't pay full price up front. Instead, they finance the item, which means that they work through a lender on a plan to pay the full price over time. This is worth it when you're buying something big you wouldn't be able to buy otherwise... like a house or car. It can be very helpful in buying furniture, large appliances or electronic equipment—if you are vigilant about the terms you accept and you look around for the best deals. Compare the two offers on a new car below:

**Car A**

Cost: \$22,000  
6.5% financing for 60 months  
\$485.83 monthly payment  
\$29,150 total payment  
\$7,150 finance charge

**Car B**

Cost: \$24,000  
3.9% financing for 30 months  
\$878.00 monthly payment  
\$26,340 total payment  
\$2,340 finance charge

What did you notice about the two cars' total payments?

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What did you notice about the monthly payments?

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What did you notice about the finance charges?

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What are the advantages and disadvantages of each deal?

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# The Cost of Convenience

Ever seen a TV commercial for a payday loan outlet? These money lenders might offer to give an advance on future paychecks, and they generally show smiling people who are happy to have the ready cash.

In reality, payday loan places often charge exorbitant fees for the use of their services, which is, obviously, how they make a profit. In Washington state, you can borrow up to \$700.00 on a payday loan. A lender can charge a fee of \$15.00 on every \$100.00 you borrow. That is equal to paying an APR (Annual Percentage Rate) of 391%!

Lenders make it easy to extend a loan period, or to take out second and third loans. Unfortunately, people who regularly use such outfits find themselves losing money at an accelerated rate. If they are using the payday loan money to pay off other creditors, say a credit card company, they can get into deep financial trouble.

Also, beware of rapid-refund tax services. These services will give you a loan based on your expected tax return. However, they can also charge high fees, sometimes with an interest rate as high as 120%.

Getting an advance or a loan from an outlet like these is convenient. On face value, a fee of \$50.00 or so may not seem like much when you're borrowing \$375.00. However, if you consider that you are paying quite a bit of extra money for the early use of your own money, you may decide that the costs of payday or other fast-cash loans often outweighs the convenience factor.

However, a few credit unions and banks offer short-term loans at reasonable rates. Be sure you shop carefully before you use one of these "convenience" services.

# Choices, Choices

Many people turn to fast-cash loans like payday check advances or rapid tax refund loans out of a feeling of financial desperation. You can offset this feeling of desperation by thinking about all your options in case you need cash.

Say your car has broken down and you need some cash for the repairs. Think about each option available to you, then evaluate the benefits and costs of each choice. Option 1 has been done for you. Options 5 and 6 are for your own ideas.

	Benefits	Costs
<b>Option 1:</b> Get a cash advance on my next paycheck	Fast cash	Have to pay steep finance charge; will end up paying \$150.00 more than original bill
<b>Option 2:</b> Borrow money from my parents		
<b>Option 3:</b> Plan for financial emergencies by putting aside money each month		
<b>Option 4:</b> Put the bill on a low-interest credit card, then make a plan to pay it back next month		
<b>Option 5:</b>		
<b>Option 6:</b>		

## What is a Credit Union?

Credit unions are not-for-profit financial cooperatives owned by their members. They offer most financial services that are found at banks and other financial institutions. Funds deposited in a credit union are usually federally insured up to \$250,000.

Membership eligibility in a credit union is determined by your affiliation with a particular group. Sometimes that is a narrow group such as employees of a particular employer or industry. Other times, membership is open to anyone living or working within a region such as a county or even an entire state.

Credit unions are overseen by a volunteer board of directors and earnings are returned to members in the form of lower rates on loans and higher rates on savings or by offering low or no-cost financial services. As soon as you join a credit union, you become an owner.

The credit union philosophy is "Not for profit, not for charity, but for service." Credit unions earn very high ratings from their members in the areas of loyalty and trustworthiness.

# Credit Card Basics

Name: \_\_\_\_\_ Date: \_\_\_\_\_

*The movie was over, and Maya, Joel, Hector and Yuki headed out of the theater. At the front of the lobby was a table with a large banner that read BE CITY SMART: GET CITYCARD. Underneath, in smaller letters, it read, "Free movie tickets with your application!"*

*"Free movie tickets! Sweet!" shouted Yuki, seizing a brochure. She started filling it out.*

*"I've got news for you," said Maya. "You'll never get approved. You're a kid. You have no credit history. You'll have to take that card out in your parents' name."*

*Yuki crumpled up the application. "They just let my sister get a card because she went to college. I don't have a chance of them letting me have one until then."*

*"That's so unfair," said Joel. "Why would they put this table here in the movies where tons of teenagers are if the company won't even let us get a card? Much less our parents?"*

*"Because the college students come here all the time, too," said Hector.*

*"Yeah, my sister still gets mail at our house," interrupted Yuki, "and credit card companies send her applications all the time. Some times she gets five a day."*

*"So how come she just has one?" asked Joel.*

*"It's like yours, Joel," said Yuki. "It's really on my parents' account. She's establishing a credit history."*

*"I hate my parents looking over my shoulder all the time," said Joel. "I'm getting my own card when I'm 18. And a debit card."*

*"A what?" asked Yuki.*

*"You know, a debit card. It works like a credit card, except the payment comes out of your checking account right away instead of you paying the bill at the end of the month."*

*"If you want either one of those, you better not run up the bill on your dad's card," said Maya. "To get your own card, you need a decent credit history. Which means paying off your own bills."*

*"So what you're really saying," said Joel, "Is that you don't want me to use this ATM because it charges \$2.50 to get my own money, and you don't want me to use my credit card to buy pizza. You know what this means."*

*"What?" asked Yuki.*

*"I'm gonna need one of you to lend me five bucks."*

**Have you thought about getting a credit card? Why or why not?**

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**What's the difference between a credit card and a debit card?**

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**What would be the advantages of having a credit card? What would be the disadvantages?**

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**How would you keep track of purchases you made on a debit card?**

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# Building a Credit History

It seems like just about everyone has a credit card. Or two. Or five. Or more. You probably will have a few credit cards in your adult lifetime, which can be very helpful in establishing you as a trustworthy person when it comes time for you to make a big purchase, like a house or car.

But credit card companies and other lending institutions want customers who they know will pay their bills. How do you establish yourself as one of those people who's worthy of their loans?

- Establish a steady work record and don't move around too much.
- Pay your bills promptly.
- Open a checking and savings account and don't overdraw them.
- Apply for a local store credit card and make regular monthly payments.
- Get a co-signer for a first loan and pay back the loan as agreed.

### The Downside of Credit

Using credit for some purchases makes sense. Credit card companies want young people as their customers because they want to nurture long-time clients. And getting a credit card that you use responsibly will help you establish your credit history so that down the road when you're ready for a really major purchase, like a house, you'll have a record of being a borrower who lenders can trust.

But be aware that young people may be inexperienced in sticking with a financial plan and can therefore be more likely to carry a balance rather than paying off their debt every month. That little piece of plastic can feel like free money. But it's not. It's money you owe. If you don't have a plan for paying off your balance, you can get into serious financial trouble.

When you carry a balance, the credit card company collects fees on your balance through the APR (Annual Percentage Rate – the rate you'd pay over a year's time). It costs money to borrow money.

On average, students have 4.6 credit cards, and half of college students had four or more cards. The average balance is \$3,173.00. (Source: How Undergraduate Students Use Credit Cards: Sallie Mae's National Study of Usage Rates and Trends, 2009). To a young adult on a tight budget, this balance would be difficult to pay off and the temptation to keep "charging it" is tremendous.

Using a \$2,000.00 Visa balance at 9.9% interest as an example, if you were to make only the minimum required payment each month (\$50.00), it will take you approximately 90 months to pay off the debt. That's a long time!

Always try to make more than the minimum payment so that you get out of debt sooner.

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## Debit Cards

Financial experts predict that some day, checks will be a thing of the past. Debit cards work like checks, but they work immediately. Rather than waiting for your check to be processed, sometimes by multiple banks, you can make a purchase and have the money immediately transferred out of your bank account to wherever you're making a payment.

Debit cards are incredibly quick and convenient—if you keep track of your spending. Imagine this: you go on errands and visit five different places where you make payments. If you use your debit card and don't write down the amounts you've paid out, you can lose track of the balance in your checking account. That can lead you to come up short by the end of the month.

When using a debit card, you should write down all your purchases just as you would when writing checks.

## Credit Reports:

You thought you'd be done with report cards after you were done with school... but there is another type of report card that follows most adults through their financial lifetime. That report card is called a credit report, and it is basically an accounting of how responsible an individual has been in using credit.

For example, if you don't pay a bill within 30 days, a lender may report you as delinquent to a credit reporting agency. This agency will assign you a credit rating based on how many delinquent payments you have in your file, the types of credit you've had in the past and basically your record as a good financial citizen. Future creditors can use this information to decide whether or not they will give you a loan, or how much they're willing to risk lending you, which can affect your credit card limit or your ability to get a car loan, among other things.

With a good credit rating you'll be in great shape if you ever want a loan to start a business, build a house, or finance your first independent feature film. However, if you seriously damage your credit rating, you may find yourself unable to borrow money at all. And your credit history stays with you—it can take up to 10 years to clear a bad credit rating.

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## The Three C's Of Credit:

In general, potential lenders look for three things when deciding to extend credit:

**Character:** Are you the kind of person who can be counted on to repay debts on time? Lenders will look at your credit report, and they also may call for references, like a boss, who can vouch for your responsibility. They may want to know how long you've lived at one address or held one job. All these things help them to paint a picture of how stable your finances are and the likelihood that you'll pay them back.

**Capital:** In the event that you don't pay back the debt, do you own something else that the lender can collect instead, like real estate, savings, investments, etc.? You may have heard the term "collateral" in the past. In this context, it means that you have substantial enough assets to assure your lender that they can recoup their costs if you don't pay them back.

**Capacity:** Can you repay the debt? Lenders will want to know what your income is and how steady it is. They'll also look at the other types of debt you have. If your debt load looks too burdensome for your income, they may choose not to extend credit.

## There are three types of credit:

**Non-installment credit** means that you've received a good or service which you will pay in full at a set time after the purchase. For example, when you visit the doctor, the office may mail you a bill to be paid within 30 days. A plumber or electrician may extend you the same courtesy. Interest is typically not charged.

**Regular installment credit** means that you will pay for your purchase in two or more regularly scheduled payments of a set amount. Interest will be charged. This type of credit is typically used when buying a car or large appliance. The car dealership or retail outlet will sometimes help you arrange this type of credit through a financial lender they partner with, or you can arrange for your own credit through a bank, credit union, or consumer finance company.

**Revolving credit** is the type used for credit cards. This type of credit means that the lender issues you a set dollar limit to your credit, which you pay back over regular time intervals. Typically, you are required to make a regular minimum payment, and interest is charged on the balance. You can get revolving credit through a financial institution or department store that offers credit cards.

## Building a Credit History

Name: \_\_\_\_\_ Date: \_\_\_\_\_

What are you currently doing that will help build your credit history?

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At this time, how would you assess your character, capital, and capacity to repay debt?

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How do you see this changing in five years?

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In 10 years?

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In 20 years?

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## Credit Paperwork

Fill out the paperwork for a Visa® application.

What kind of information does a lender require when you're applying for credit?

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What parts of the application were easy to fill out?

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Which parts were harder? Why?

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Which questions surprised you? Why?

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**WSECUCU**

**Washington State Employees Credit Union**

P.O. Box WSECUCU  
Olympia, WA 98507  
(800) 562-0999

**VISA APPLICATION**

**SAMPLE APPLICATION**

- Credit Card Account:**     Individual     Joint     New Credit Card Account     Adding Authorized Signer
- Account Type:**         Platinum Rewards     Gold Rewards     Student Rewards
- Gold Rebate             Classic             Secured Classic

Number of Cards \_\_\_\_\_

Visa Account Number \_\_\_\_\_

**If you have applied for a Credit Card and you wish to have two (2) cards issued, you must check one of the following:**

- Please issue the 2nd card (with the same account number as mine) in the name of the co-applicant who completed and signed this application.
- Please issue the 2nd card to my authorized signer as follows:

**APPLICANT**

Complete only "Applicant" section if you are requesting an Individual Loan Account and not relying on another's income or assets to repay the debt.

APPLICANT NAME		WSECUCU MEMBER #	
DATE OF BIRTH	SOCIAL SECURITY #	AGE OF DEPENDENTS	
ADDRESS		DAY PHONE	EVENING PHONE
EMPLOYER	MO/YR HIRED	GROSS MONTHLY INCOME*	
		\$	

**CO-APPLICANT**

Complete "Co-Applicant" section for one of the following reasons: 1. Applying for joint credit, 2. If your spouse will use or be liable for the account, 3. You will rely on your spouse's income to pay the loan, or 4. If you reside or the collateral offered is located in a community property state. Community property states include: AK, AZ, CA, ID, NM, NV, TX, WA, and WI.

CO-APPLICANT NAME	DATE OF BIRTH	SOCIAL SECURITY #	DAY PHONE
EMPLOYER	MO/YR HIRED	GROSS MONTHLY INCOME*	
		\$	

*\*Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.*

**FINANCIAL INFORMATION**

HOME/RENT PAYMENT	ALIMONY/CHILD SUPPORT PAYMENTS
\$	\$

By signing below, you certify that this request is submitted for the purpose of obtaining credit and you agree (a) that the Credit Union can use credit reporting agencies to verify information about you; (b) that the Credit Union can tell others about its credit experience with you and receive information from others about your credit history and performance. You will receive a disclosure of credit card terms and fees on a separate form. By signing below, you acknowledge receipt of a copy of the credit card disclosures and Fair Credit Billing notice and agree to the terms and conditions of the Visa Credit Card Account Agreement which will accompany any card(s) issued to you.

We may report information about your account to credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report.

**If you purchase voluntary credit insurance or other products in connection with this loan, you understand that a portion of the premium or fee you pay will be retained by the credit union (or paid back to the credit union by the service provider) as compensation for making these services available to you.**

SIGNATURE OF APPLICANT	DATE	SIGNATURE OF CO-APPLICANT	DATE
X		X	

**INSURANCE INFORMATION**

Credit Life and Credit Disability Insurance is available to protect your loan. Credit Life Insurance can reduce or pay off your loan if you die. Credit Disability Insurance can help make your loan payments if you should become disabled and unable to work.

- I am interested in applying for the insurance coverage(s) checked below. I understand that this is not an application for insurance. This insurance is voluntary and is not a condition for approval of my loan or credit plan. I understand that the cost will be disclosed on my Truth-in-Lending Disclosure Statement. Insurance coverage will become effective after I apply and meet the eligibility requirements of the group policies when my loan or credit plan is approved.
- I would like information on the insurance coverage(s) checked below.

<input type="checkbox"/> Single Credit Life	<input type="checkbox"/> Joint Credit Life	<input type="checkbox"/> Credit Disability
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## Credit Interviews

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Find out how an adult in your life uses credit. To protect his/her privacy, don't use his/her name or relationship to you.

### Interview questions:

1. What types of credit are you currently using (non-installment, regular installment, revolving)?
2. What do you use these types of credit for?
3. Do you carry a balance on your credit cards? Why or why not?
4. What plans do you have for paying off your balance?
5. What types of debt do you have?
6. What is your plan to pay off your debt?
7. What advice would you give to a younger person about credit and debt?
8. Have you ever made a mistake regarding credit or debt? What did you do about it, and what would you do differently next time?
9. Other:

What did you learn from the person you interviewed about managing credit and debt?

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Share your most interesting fact or best strategy in class. Write down three things you learn from other classmates' presentations:

1. \_\_\_\_\_

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2. \_\_\_\_\_

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3. \_\_\_\_\_

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# A Safe Debt Load and the 20-10 Rule

Name: \_\_\_\_\_ Date: \_\_\_\_\_

## How much debt is too much?

When you're making that first big paycheck, it may seem reasonable to spend half on monthly payments toward new furniture or a large screen TV. If you're like most first-time salary earners, you've never seen a check that big with your name on it.

But it's useful to remember the 20-10 Rule to avoid getting in over your head:

**Never borrow more than 20% of your yearly net income.**

**Monthly payments should not exceed 10% of your monthly net income.**

This means that if you earn \$400.00 a month, your yearly income is  $\$400.00 \times 12 = \$4,800.00$ . Calculate 20% of \$4,800.00 to find your safe debt load:  $\$4,800.00 \times .20 = \$960.00$

To figure out what your limit on monthly payments should be, calculate 10% of your monthly income of \$400.00:

$$\$400.00 \times .10 = \$40.00$$

You should never have more than \$980.00 of debt outstanding, and your total monthly payments should not exceed \$40.00.

Housing debt should not be counted as part of the 20-10 Rule, but debt on cars, student loans, and credit cards should be.

## Safe Debt Load Exercises:

**DIRECTIONS:** Read each of the following scenarios and use the 20-10 Rule to determine the largest amount of debt each person can safely carry.

Write your answers in the blanks provided and show how you reached your answer.

**1.** David has a monthly net income of \$1,360.00. His fixed monthly expenses consist of a rent payment of \$450.00. He is paying off a student loan of \$116.00 per month. David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford for the television set so that his credit card payments and student loan keep him from exceeding the 10% payment guideline?

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**2.** Marsha and Michael have a combined monthly net income of \$3,500.00. Their fixed monthly expenses consist of \$675.00 for rent. They also have a student loan balance of \$6,000.00 and a balance of \$1,000.00 for the stereo they bought last month. How much debt can they take on and still be within a safe debt load?

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**3.** Juanita has a monthly net income of \$2,500.00. Her fixed monthly expenses consist of \$500.00 for rent. She also pays a car insurance premium of \$68.00 and a car payment of \$167.00. Are these payments within Juanita's safe debt load?

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## Identity Theft

"Hey, Yuki," said Joel, pulling a crumpled paper out of his pocket. "I've got a present for you." It was the credit card application she'd filled out partway and then thrown away earlier.

"Uh... thanks," said Yuki. "But I think I'm not gonna bother with this Joel." She crumpled it back up again.

"No, no," he said. "You have to shred it."

Yuki stared at him. "Shred it?"

"Don't you watch L.A. Investigators?" asked Joel. "On the Crime Channel?" Yuki shook her head.

"At last!" Joel crowed. "I know something you don't know!" He grabbed the paper from Yuki and waved it in her face. "Identity theft, my dear Ms. Hashimoto, is a growing crime wave in the U.S. Over 1,000 people a day are victims."

"What's identity theft?" asked Yuki.

"It's when someone sees a half-filled out application like this in a garbage can, takes your name, your birthdate, your address... oh, and looky here, even your Social Security Number and then uses it to pretend they're you. They'll get this credit card in your name and max it out. Or open a checking account in your name and start paper-hanging all over the country. You'll get the bill, and the delinquent marks on your credit report when people figure out that they're not getting paid. Some people get their reputation totally destroyed. It takes them years to get out of a mess like that."

"What?" Yuki couldn't believe it. "People do that?"

"You better believe it," said Joel. He leaned back in his seat and grinned. "But it's kind of weird to be the one who knows stuff for once. Any other questions I can answer for you?"

"Don't get a big head," said Yuki. "You still owe me five bucks for dinner."

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## Protecting Yourself

Unfortunately, identity theft is a real and widespread problem. Unscrupulous people have ways of using your good name and good credit to their own advantage and it can be a long, complicated process to restore your reputation.

There are steps you can take to protect yourself, however:

- Make sure you know and trust anyone you share your financial information with. The financial aid office at a college is probably trustworthy; someone offering financial aid over the phone is probably not.
- Don't give out your Social Security Number unless it's absolutely necessary. Many institutions have stopped using your SSN as a common form of identification but if it is requested, ask if you can use your driver's license number or other form of identification instead.
- Keep your personal information in a safe place and shred or tear it up when you're done with it.
- Make copies of all your financial, insurance and personal information (like your birth certificate) and keep them in a safe

place. Also, write down all the numbers you'd need to report lost or stolen information. If your wallet or bag is ever stolen or misplaced, you'll have the information you need to get back on track.

- Pay attention to your statements. Check them for unauthorized or suspicious activity.
- Check your credit report yearly. You can order a copy from different agencies and make sure that it is accurate, with no unauthorized activity.
- Be careful when filling out surveys or sweepstakes forms. Some of the information, like age and income, is optional and can be kept private.
- Be vigilant when sending financial information over the Internet. Check to make sure you are working with a reputable company that has security measures in place to keep your information private when buying something online.

## Recovering from Identity Theft

If you believe you are the victim of identity theft, there are several steps you should take:

- Contact one of the three major credit bureaus (Equifax<sup>®</sup>, Experian<sup>™</sup>, TransUnion<sup>®</sup>) and ask them to put a fraud alert in your file.
- Contact all your creditors and alert them to the theft. Put this information in writing so that you have a record of your actions.
- Close the affected accounts and open new ones.
- File a report with the police and again, keep a record of this file.
- File a complaint with the FTC. You can call their Identity Theft Hotline toll free at 877.ID.THEFT, or go to their website at [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft). The FTC can provide you with an identity theft affidavit, which will allow you to report information to several creditors simultaneously.

## Chapter Four Assessment

Name: \_\_\_\_\_ Date: \_\_\_\_\_

### True or False

1. \_\_\_\_\_ ATMs are always surcharge fee.
2. \_\_\_\_\_ Debit cards and credit cards are not the same thing.
3. \_\_\_\_\_ The sign of getting a good deal on a loan is a low monthly payment.
4. \_\_\_\_\_ Using the 20-10 Rule, a person making \$55,000 a year after taxes should have no more than \$11,000 of outstanding debt.
5. \_\_\_\_\_ Using your Social Security card is a good form of identification.

### Multiple Choice

6. \_\_\_\_\_ Using credit can be helpful when **A:** You have bounced a check. **B:** You want to buy something you don't really need. **C:** Making large purchases. **D:** Your friend doesn't have the money to buy something.
7. \_\_\_\_\_ Which is not true of debit cards? **A:** The card is linked to your checking account. **B:** It has a lower interest rate than a credit card. **C:** You should write down your debit purchases immediately in your check register. **D:** You sometimes have to enter a PIN to use it.
8. \_\_\_\_\_ Which of the following is not a feature of you should consider when choosing a financial institution? **A:** Interest rate earned on accounts. **B:** Convenience of locations. **C:** Whether you can do your banking online. **D:** The picture on the checks.
9. \_\_\_\_\_ Which of the following is not something you need to consider when shopping for a car loan? **A:** ATM fees. **B:** The term of the loan. **C:** The amount of the monthly payment. **D:** The interest rate.
10. \_\_\_\_\_ Which of the following statements is not true? **A:** Anyone can become a victim of identity theft. **B:** Your financial institution will check your monthly statements for you to see if there are any inaccuracies. **C:** It's a good idea to shred papers that have personal information when you are done with them. **D:** If you believe you are a victim of identity theft, you should contact the credit bureaus.

### Short Essay

Use your own words to discuss some of the positives and the negatives of credit.

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# Vocabulary

**ACCOUNT** - Money deposited with a financial institution for investment and/or safekeeping purposes.

**APR (Annual Percentage Rate)** - A fixed or variable rate that a financial institution charges for borrowing money, which translates to the amount of interest a borrower pays on a loan (e.g., auto loan, credit card, etc.).

**APY (Annual Percentage Yield)** - The return (interest or dividend) that a financial institution pays on a deposit account (e.g., savings, certificates, etc.).

**ASSETS** - Items of monetary value (e.g., house, land, car), owned by an individual or a company.

**ATM** - Acronym for automated teller machine.

**BALANCE** - An outstanding amount of money. In banking, balance refers to the amount of money in a particular account. In credit, balance refers to the amount owed.

**BANK** - A for-profit financial institution that offers deposit and loan products to consumers.

**BOND** - An IOU issued by a corporation, the U.S. government, or a city that is held by the lender as receipt that the business or institution has borrowed a specific amount of money. All bonds pay interest yearly and are payable in full at a specified date written on the bond.

**BOUNCED CHECK** - A check that a financial institution has refused to cash or pay because you have no funds to cover it in your account.

**BUDGET** - A plan for spending and saving money based on a person's goals during a given time period.

**CANCELLED CHECK** - A check that has been paid and deducted from the issuer's account. Images of cancelled checks can be requested from the financial institution as needed for record-keeping and tax purposes.

**CAPITAL** - A stock of accumulated wealth used or available for producing more wealth.

**CASH** - Money in form of paper and coins (e.g., U.S. dollars and cents). In banking, this is the act of paying a check.

**CASH FLOW** - A measure of money a person receives and spends.

**CASH MANAGEMENT** - How a person manages money (cash) coming in and money going out.

**CASHIERS CHECK** - A check issued by a financial institution, drawn on its own funds rather than on one of its depositor's funds.

**CERTIFICATE OF DEPOSIT** - A term account in which an individual promises to deposit the money for a set period of time, for which the financial institution pays higher interest than a regular savings account.

**CHECK** - Any written document instructing a financial institution to pay money from the writer's account.

**CHECK CARD** - See debit card.

**CHECKING ACCOUNT** - An account for which the holder can write checks. Checking accounts pay less interest than savings accounts or none at all.

**CLEAR** - A check clears when its amount is debited (subtracted) from the payer's account and credited (added) to the payee's account.

**COLLATERAL** - Anything that a financial institution accepts as security against the debtor's failure to repay a loan. If the debtor fails to repay the loan, the financial institution is allowed to keep the collateral. Collateral is most commonly in the form of real estate (e.g., a home).

**COMPOUND INTEREST** - Interest calculated not only on the original principal, but also on the interest already accrued.

**CORPORATE BONDS** - Bonds are sold on the market just like stock. When you purchase a bond you are lending money to the corporation who sold the bond. The price of the bond is a percentage of the face value printed on the bond.

**CREDIT** - In business, buying or borrowing on the promise to repay at a later date. In any credit arrangement there is a creditor (a person, bank, store, or company to whom money is owed) and a debtor (the person who owes money). In bookkeeping, credit is a sum of money due to an individual or institution.

**CREDIT BUREAU** - An agency that checks credit information and keeps a complete file on people who apply for and use credit.

**CREDIT CARD** - A plastic card that gives access to line of credit. Users are limited to how much they can charge but they are not required to repay the full amount each month. Instead the balance (or revolve) accrues interest calculated not only on the original principal, but also on the minimum payment due.

**CREDIT RATING** - A financial institution's evaluation of whether a person is suitable to receive credit. Credit ratings are based on an individual's character, capacity to repay, and capital.

**CREDIT UNION** - A member-owned financial institution, either state or federally chartered. Credit unions are often more competitive than banks because their not-for-profit status makes their operating costs lower.

**CURRENCY/MONEY** - anything used as a common medium of exchange. In practice, currency means cash, particularly paper money. Bankers often use the phrase "coin and currency" to refer to cents and dollars.

**DEBIT** - A bookkeeping term for a sum of money owed by an individual or institution; a charge deducted from an account.

**DEBIT CARD** - A card that can be used in place of cash or checks to purchase goods or services. Transactions are deducted from the cardholder's checking account. The cardholder can either sign a receipt or use a Personal Identification Number (PIN) to authorize the transaction.

**DECISION MAKING** - The process of considering and analyzing information in order to make a choice.

**DELAYED GRATIFICATION** - A willingness to give up something now in return for a benefit later.

**DEPOSIT SLIP** - An itemized slip showing the exact amount of paper money, coin, and checks being deposited to a particular account.

**DEPOSITOR** - An individual or company that puts money in an account at a financial institution.

**ENDORSE** - To sign as the payee, the back of a check before cashing, depositing, or giving it to someone else. The first endorsement must be made by the payee to authorize the transaction. Later endorsements may be made by whoever receives the check.

**EXPENSES** - Any money a person spends.

**FEDERAL RESERVE SYSTEM** - An entity established by Congress to organize and regulate banking throughout the United States. The 12 reserve banks keep paper and currency reserves for affiliated banks.

**FINANCIAL PLANNING** - A blueprint or plan for managing all aspects of a person's money.

**FIXED EXPENSES** - An expense that is an exact amount of money every time. e.g., rent, mortgage, car payment, etc.

**GOAL** - A statement of something a person wants or need to do.

**INCOME** - Any money a person receives.

**INTEREST** - The fee paid for the use of money. Interest may be paid, for example, by an individual to a financial institution for credit card use, or by a financial institution to an individual for holding a savings account.

**JOINT ACCOUNT** - A savings or checking account established in the names of more than one person (e.g., parent/child, wife/husband).

**LIABILITIES** - Money owed to individuals, businesses, or institutions.

**LINE OF CREDIT** - An authorized amount of credit given to an individual, business, or institution.

**LOAN MODIFICATION** - To revise a loan agreement to make the terms of payment more suitable to a borrower's present income and ability to repay. Refinancing usually provides a lower interest rate and lower monthly payments over a longer period of time.

**MARKET ECONOMY** - An economic system permitting an open exchange of goods and services between producers and consumers, such as is found in the United States.

**MOBILE BANKING** - Electronic banking using a mobile device. Mobile banking provides instant account access and the ability to conduct transactions at the accountholder's convenience.

**MONEY** - Anything generally recognized as a medium of exchange.

**MORTGAGE** - A long-term loan obtained by individuals to buy a home that legally transfers ownership from the debtor to the creditor until the debt is paid.

**NEEDS** - The essential basics of life.

**NET INCOME** - The amount of a paycheck that a person can actually spend; essentially gross income less any payroll deductions.

**ONLINE BANKING** - This service enables accountholders to manage their accounts and conduct transactions using their personal computers. Online banking is accessed through the financial institution's website.

**OPPORTUNITY COST** - The value of what is given up when a person chooses one option over another.

**OVERDRAFT** - A check written for more money than is currently in the account. If the financial institution refuses to cash the check, it is said to have "bounced."

**PAYEE** - An individual or company to whom a check is written; one who receives money as payment.

**PAYER** - An individual or company who writes a check; one who gives money as payment.

**PIGGY BANK** - A holding place for your money. It does not earn interest.

**PRINCIPAL** - The original amount of money borrowed, deposited, or invested before interest accrues.

**REFINANCE** - Borrower applies to refinance an existing loan, usually to receive a lower rate and/or monthly payment.

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**SAVINGS ACCOUNT** - An account that accrues interest in exchange for use of the money on deposit.

**SAVINGS BONDS** - The U.S. government sells saving bonds. One type is the EE series. These bonds are guaranteed by the federal government and can be purchased for as little as \$25. The interest rate on bonds is usually higher than on a savings account, but may take many years to reach the face value of the bond.

**SERVICE CHARGE** - A monthly fee a bank charges for handling a checking account.

**STOCKS** - Owners of shares of stock are part owners of the corporation issuing the stock. The amount you pay for stock depends on the cost per share, the number of shares you buy and the stockbroker's commission. Stock prices are listed in the newspaper and on the Internet. Money is earned when the price of stocks rise and you sell your shares at the higher price. However, if the stock prices drop and you sell, you lose money.

**STOP PAYMENT** - A request made to a financial institution to not pay a specific check. If requested soon enough, the check will not be debited from the payer's account. Normally there is a charge for this service.

**TERMS** - The period of time and the interest rate arranged between creditor and debtor to repay a loan.

**VALUES** - The beliefs and practices in a person's life that are very important.

**VARIABLE EXPENSES** - An expense that is not an exact amount of money everytime. e.g., gas, groceries, etc.

**WANTS** - Items, activities, or services that increase the quality of life.

**WITHDRAWAL** - An amount of money taken out of an account.

## WSECU's *The Vault* – Student Evaluation

**Please rate the following from a scale of 1-5, with 5 being the highest possible score.**

I give *The Vault* financial education lessons an overall rating of: \_\_\_\_\_

I can use what I learned from this program in my everyday life: \_\_\_\_\_

I know more about money management than before: \_\_\_\_\_

The material in *The Vault* is presented in an interesting and easy-to-understand style: \_\_\_\_\_

**Based on the sections your teacher used, rate the following chapters of *The Vault* curriculum from 1-5.**

Budgeting: \_\_\_\_\_

Getting Your Money's Worth: \_\_\_\_\_

Saving and Investing: \_\_\_\_\_

Managing Your Money: \_\_\_\_\_

Credit: \_\_\_\_\_

What section/lesson did you like the most? \_\_\_\_\_ Why? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What information is the most valuable to you in terms of helping you with money management?

\_\_\_\_\_

\_\_\_\_\_

What could we do to improve the program?

\_\_\_\_\_

\_\_\_\_\_

**WSECU  
PO BOX WSECU, OLYMPIA, WA 98507  
800.562.0999**



# Sample Checks

**Thomas B. Anderson**  
2063 Pleasant Rd  
Anywhere, USA 12345  
SAMPLE-VOID

**0131**  
98-8102/3251

Date \_\_\_\_\_

Pay to the Order of \_\_\_\_\_ \$ \_\_\_\_\_

Dollars  Security Features Details on Back.

 **WSECU**  
WASHINGTON STATE EMPLOYEES CREDIT UNION  
PO BOX WSECU | OLYMPIA, WA 98507  
wsecu.org | 800.562.0999

For \_\_\_\_\_ MP

⑆ 3 25 18 10 28 ⑆ ⑆ 0900000000 0 13 ⑆

**Thomas B. Anderson**  
2063 Pleasant Rd  
Anywhere, USA 12345  
SAMPLE-VOID

**0131**  
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For \_\_\_\_\_ MP

⑆ 3 25 18 10 28 ⑆ ⑆ 0900000000 0 13 ⑆

# Sample Deposit Slips

**THOMAS B. ANDERSON**  
 2063 Pleasant Road  
 Anywhere, USA 12345  
 360-123-4567

98-8102/3251

CASH

C  
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C  
K  
S

CHECKS OR TOTAL FROM OTHER SIDE

DATE \_\_\_\_\_  
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

SIGN HERE IF CASH RECEIVED FROM DEPOSIT \_\_\_\_\_

**WSECU**  
 WASHINGTON STATE EMPLOYEES CREDIT UNION  
 PO BOX WSECU | OLYMPIA, WA 98507  
 wsecu.org | 800.562.0999

TOTAL ITEMS  SUB TOTAL

LESS CASH

NET DEPOSIT \$

DO NOT USE DEPOSIT TICKET ROUTING # FOR AUTOMATIC PAYMENTS. USE VOIDED CHECK.

⑆ 3 2 5 1 8 1 0 2 8 ⑆ 1 2 3 4 5 6 7 8 9 0 1 2 ⑆

**THOMAS B. ANDERSON**  
 2063 Pleasant Road  
 Anywhere, USA 12345  
 360-123-4567

98-8102/3251

CASH

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CHECKS OR TOTAL FROM OTHER SIDE

DATE \_\_\_\_\_  
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

SIGN HERE IF CASH RECEIVED FROM DEPOSIT \_\_\_\_\_

**WSECU**  
 WASHINGTON STATE EMPLOYEES CREDIT UNION  
 PO BOX WSECU | OLYMPIA, WA 98507  
 wsecu.org | 800.562.0999

TOTAL ITEMS  SUB TOTAL

LESS CASH

NET DEPOSIT \$

DO NOT USE DEPOSIT TICKET ROUTING # FOR AUTOMATIC PAYMENTS. USE VOIDED CHECK.

⑆ 3 2 5 1 8 1 0 2 8 ⑆ 1 2 3 4 5 6 7 8 9 0 1 2 ⑆

**THOMAS B. ANDERSON**  
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 360-123-4567

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CASH

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CHECKS OR TOTAL FROM OTHER SIDE

DATE \_\_\_\_\_  
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SIGN HERE IF CASH RECEIVED FROM DEPOSIT \_\_\_\_\_

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TOTAL ITEMS  SUB TOTAL

LESS CASH

NET DEPOSIT \$

DO NOT USE DEPOSIT TICKET ROUTING # FOR AUTOMATIC PAYMENTS. USE VOIDED CHECK.

⑆ 3 2 5 1 8 1 0 2 8 ⑆ 1 2 3 4 5 6 7 8 9 0 1 2 ⑆

