Introduction to Credit and Debt Management

Chapter 12, Credit Management, is the first of four chapters dedicated to credit and debt-management issues. This is a revision from the prior edition and is designed to allow the learner to focus on a specific and discrete topic and its related on-the-job behavioral tasks.

Chapter 12 focuses on credit management, a topic that primarily requires the CFS to be able to educate Sailors effectively on how to get it, use it, and keep from abusing it.

Chapter 13 focuses on the credit report. Learners are asked to come to class with their own credit report and are given a series of tasks that mirror what they would do to help a Sailor with various credit-report issues. The chapter focuses on knowing how to read a credit report, understanding credit scoring, helping the Sailor improve his or her credit score, and steps to take when errors occur.

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

Chapter 15 addresses two specific issues for which the CFS routinely offers assistance: processing Letters of Indebtedness and helping clients who have received security-clearance revocation Letters of Intent. Simple flow charts provide a job aid for the CFS, and practical application is provided to train the learner in using the aids.

Later in the day, the learner is given a demonstration of the electronic Financial Planning Worksheet (eFPW), including its Full Steam power-payment capabilities, and can apply what they learned in the credit and debt-management chapters to their group case studies. Newly acquired knowledge also is applied via a short homework case study involving a BAH screening.

I. INTRODUCTION TO CHAPTER 12 , CREDIT MANAGEMENT

This chapter covers all aspects of credit education.

Student Instructors: If learner will be presenting this segment (see Recommendations in Chapter 7), ensure that some of the non-presenting learners are assigned as observers who evaluate the presenter on content and technique. Use the Instructional Techniques Critique Sheet provided in Chapter 7. Also, an assessment is provided and should be administered at the end of the chapter to ensure that learning has taken place. The quiz can be scored in the class and results provided to the learner instructors as feedback.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter correlates directly to the PFMSC Credit Management module. Although the PFMSC chapter is not strictly modeled, learners have adequate exposure to the topic to allow them to present this segment of training.
2. **Information and Referral:** Appropriate credit referral resources are discussed.
3. **Counseling:** The CFS will meet with clients interested in credit issues, so all topics in this chapter correlate to the counseling task.

II. LEARNING OBJECTIVES

If student instructors present the material:

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

If the class instructor presents the material:

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

III. OUTLINE

1. Introduction
   a. Optional Activity: Credit Conversations
2. Using Credit
   a. Optional Activity: Empty Pockets
   b. Wise Uses of Credit
   c. Unwise Uses of Credit
3. Qualifying for Credit
   a. The Three "C's" of Credit
   b. Credit Reports and Scores

4. Establishing a Credit History
5. Reducing the Cost of Credit
    a. Credit-Worthiness
    b. Comparison Shopping
    c. Where to Borrow
    d. How Much to Borrow
    e. How Long to Repay
    f. Minimum Monthly Payment
    g. Minimizing Interest Charges
6. Choosing and Using Credit Cards
    a. Credit Terminology
    b. Other Costs and Features
    c. Saving on the Cost of Credit Cards
7. Military Cards
    a. Military Star Card
    b. Government Travel Card
8. Conclusion
    a. Activity: Credit — You Got It!

IV. CHAPTER PREPARATION

Presentation Time: 60 minutes

Presentation Materials

- PowerPoint slides, “Credit Management”
- Student Manual Chapter 12
    - Empty Pockets/Wise Use of Credit
    - Credit Conversations Sheets
    - 10 Things to Think About BEFORE: Getting a New Credit Card or Using the One You Have
    - How to Establish, Use and Protect Your Credit
    - FTC Facts for Consumers: Choosing a Credit Card: The Deal Is in the Disclosures
    - Credit — You Got It! Quiz
    - Summary of the Credit CARD Act of 2009

- Markers and newsprint
- Pens and pencils
- Items for the Empty Pockets activity
- Material for Credit Conversations activity
- Training Techniques Critique Sheet (from Chapter 7, if student instructors are used)

Preparation

- If using the Empty Pockets activity, bring in suggested items needed for the training including car and house keys; pictures of family members; Band-Aids; pens and pencils; lipstick and makeup; credit cards; money, etc.

NOTE: *The Credit CARD Act of 2009 was signed into law as this product was going to production. A list of major provisions is included at the end of the chapter and in the Student Manual. Instructors should update material as needed, especially the FTC Facts for Consumers, if available.*

Summary of Learner-Centered Activities

- **Empty Pockets**: A brainstorming activity that helps learners understand the difference between a living expense and a debt, as well as recognize wise and unwise use of credit.
- **Credit Conversations:** An interactive alternative for presenting all chapter content. Working alone and in groups, learners use materials in their Student Manual as well as the knowledge of the facilitator and class members to respond to and complete mini-problem statements and create dialogue on a given set of credit-related topics.
- **Credit — You Got It! Quiz:** A short Level 2 assessment measuring the learners' understanding of the topic. This assessment should be used if the Credit Conversations activity is not the chosen delivery method.

V. REFERENCES

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

Federal Reserve System. 2008. *Consumer Handbook for Credit Protection Laws*. www.federalreserve.gov.

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

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

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

SECNAVINST 1754.1B, Family Service Center Program.

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

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

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

www.annualcreditreport.com (free annual credit report)

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

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

www.consumerlaw.org (National Consumer Law Center)

www.cuna.org (Credit Union National Association)

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

www.equifax.com (credit-reporting agency)

www.experian.com (credit-reporting agency)

WWW.FEDERALRESERVE.GOV (FEDERAL RESERVE SYSTEM)

www.ftc.gov (Federal Trade Commission)

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

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

www.militaryonesource.com (Military Resource Web site)

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

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

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

www.neweradebtsolutions (debt-resolution services)

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

www.privacyrights.org (Privacy Rights Clearinghouse)

www.transunion.com (credit-reporting agency)

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

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

VI. CONTENT

Slide 1

Introduction

Slide 2

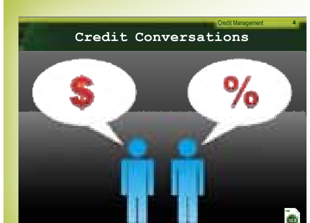
Back on Monday morning, we cited some credit statistics for you. ASK do any of you remember them?

- Of the 73 percent of American families with credit cards, 46 percent carry a balance from month to month.
- The median credit-card debt has hovered around $3,000 for the past six years. This is not to be confused with the much higher, more popular amount typically quoted in the news media, $8,300 or more, which is an average debt amount that includes business use as well as personal use of credit cards (Survey of Consumer Finances, 2007).
- Total consumer debt in 1980 was $355 billion. In 2008, it stood at $2.6 trillion.
- There were 822,590 personal bankruptcies in 2008
- The national savings rate is a very low 1.7 percent.

Slide 3

With so many people using credit as a regular part of their money management, credit education must be a critical part of your job as a CFS. This chapter will provide you with in-depth information on credit — what it is, different kinds of credit available, how to shop and qualify for it, and credit issues unique to the military. When it comes to credit, the CFS is responsible primarily for educating Sailors on these topics. Credit reports, credit scores, debt management, Letters of Indebtedness and Letters of Intent will be covered in the next three chapters. For now, we turn attention to everything you need to know about credit.

If using the whole group activity Credit Conversations, continue here. If using student instructors, skip this activity and proceed to slide 5.



Slide 4

Optional Activity: Credit Conversations

This activity can be used to teach the content of the whole chapter. Learners work alone and in groups to complete tasks and create dialogue on topics relevant to credit. Learners will use the printed material in their Student Manuals to complete the tasks.

Time: 50 minutes

Preparation:

Label four small bowls, boxes or index cards with the following: "Credit-Card Tips," "Wise Guys," "Just Can't Get It," and "Costly Credit." Ensure you have some scissors available. Decide if you will use some or all of the conversations.

Procedure:

SM
12.5

Have learners turn to page 12.5 in their Student Manual, where they will find four "Credit Conversation" forms. TELL them to sign the bottom of each game sheet, read the directions, and work alone, in pairs or in groups as directed on the forms. Recommend that they spend 10 to 15 minutes on each "conversation," using the informational materials in Chapter 12 as resources. When they finish one conversation, they should move on to the next conversation, following the instructions for the size of the group.

The activity begins with learners working alone in the first conversation and proceeds by adding individuals to form groups in subsequent conversations. When they finish a conversation they should bring the bottom portion to you, and you should deposit it in the pre-marked container or with the labeled index card. Reserve at least 15 minutes at the end of the session for debriefing.

When group time is up, draw one or more entries from each container or stack, and invite the learners who submitted those entries to share their input with the group. You can poll learners to vote for the most interesting, practical or original answers, and award prizes based on the votes. You also can compile answers and distribute them to the learners for their use at their commands. REINFORCE that there are many ways to educate members on credit issues, and encourage them to be consistent and creative in providing effective credit education to command members.

NOTE *that the activity can be adjusted for time available and the size of the group. The number of game sheets used can be adjusted to meet the time available, as can the size of the group activities. You can make it competitive by awarding points based on the number of game sheets each learner completes.*

Credit Conversations #1: Credit-Card Tips

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

Credit Conversations #2: Wise Guys

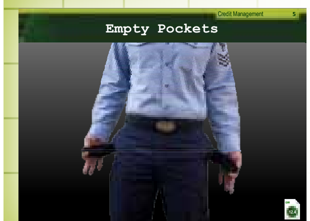
Instructions: Find a partner. As a team, develop two suggestions for how to educate junior Sailors effectively on the wise and unwise uses of credit. Be prepared to discuss why you believe your two suggestions will be effective. When you are done, detach the bottom portion of this page, put your names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

Credit Conversations #3: Just Can't Get It

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

Credit Conversations #4: Costly Credit

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



Slide 5

Using Credit

Optional Activity: Empty Pockets

This activity will help learner discern the difference between living expenses and debt and indicate whether their use of debt was wise or unwise. It can be used by the CFS instructor or the student instructors.

Time: 20 minutes

Preparation:

Have available a collection of items commonly carried in a purse or pocket, such as car and house keys; pictures of family members; Band-Aids; pens and pencils; lipstick and makeup; credit cards; money, etc. Have one piece of newsprint and markers for each group.

Procedure:

SM 12.4

Refer to the worksheet Empty Pockets/Wise Use of Credit on page 12.4 in the Student Manual. There are four steps to this activity.

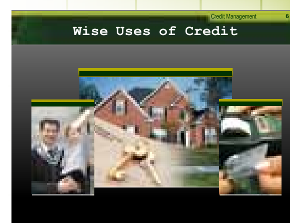
Step One: Empty Pockets. Working in groups of four to six, have learners empty their pockets, wallets and/or purses and place the contents on their group table. Ask them to create a list of expenses the items represent. For example, car keys obviously would represent a car loan; a house key would represent a mortgage, utility expenses, upkeep expenses, etc. A Band-Aid might represent medical expenses; pictures of children could represent the cost of raising children, student loans, clothing, etc. Allow three to five minutes for each group to write a list of answers on newsprint. If learners are short on items, provide them with typical items from your own collection.

Step Two: Living Expense or Debt? After the groups have completed Step One, have them go back through their list and determine whether it is a living expense or a debt. This will require you to explain the difference — if they had to borrow money or use any form of credit for the item, it is a debt. Each item can be labeled "LE" or "D." Allow about three minutes for this part of the activity.

Step Three: Wise or Unwise Use? Have each group determine whether the items they labeled as debt were wise or unwise uses of credit. Allow about three minutes for this discussion.

Step Four: Debrief. When all groups have finished, go around the room asking for input from each group as to what was a wise or unwise use of credit. Comment and commend as appropriate, and conclude with the following discussion of wise and unwise use as necessary.

Slide 6



Wise Uses of Credit

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

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

Slide 7

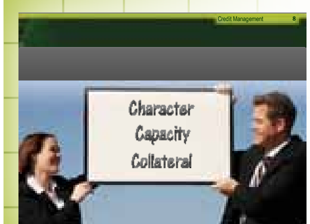
Unwise Uses of Credit

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

- *Impulse Buying.* Easy access to credit often leads to a "buy now, pay later" mentality. Impulse buying can occur when we are bored, nervous, sad, angry or happy. During these times, consumers often will charge items they never would buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about one-third more than they would if they first compared prices at other locations where the same item might be on sale. By nature, impulse items are not planned expenses.
- *Spending for Status.* Many people feel they need to spend to impress others.

Advertising appeals to these emotions. Ads for credit cards often portray the person using the card as having power or status. The message they are sending is that if you use their card, you will be able to do great things, have more fun, attract others, and be more successful.

- *Retaliatory Spending.* In a family where there is not a clear spending plan on which partners agree, each party has a common tendency to spend on themselves first. After all, they work hard, so why shouldn't they treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves in order to "even the score" with the other.
- *Spending to Feel Good.* This feeling can become addictive. Like other addictive behaviors, the good feelings are temporary; the debt "hangover" can last a long time. Individuals always should decide before charging any purchase whether they are buying an item because they really need it or because they are under stress and want to feel better. People who spend to feel good or to get a "fix" sometimes will not even open their parcels or use the items, because it is not about the item purchased but rather about the feeling they get from the transaction.
- *Purchasing Consumables.* Credit becomes more dangerous when used to purchase consumables such as food, clothing, entertainment and vacations — items that lose much or all of their value immediately after purchase.
- *Everyday Living Expenses.* Meeting everyday living expenses is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, what makes you believe you will be able to pay for it next month?



Slide 8

Qualifying for Credit

Three C's of Credit

Creditors look for an ability to repay debt and a willingness to do so — and sometimes for a little extra security to protect their loans. The factors they use to evaluate a borrower are summarized by the three Cs of credit: character, capacity and collateral.

- *Character.* Will you repay the debt? Creditors will look at your credit history: how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means. They also will look for signs of stability: how long you have lived at your present address, whether you own or rent your home, and the length of your present employment.
- *Capacity.* Can you repay the debt? Creditors ask for employment information: your occupation, how long you have worked, and how much you earn. They also want to know your expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.
- *Collateral.* Is the creditor fully protected if you fail to repay? Creditors want to know what you may have that could be used to back up or secure your loan and other resources you have for repaying debt other than income, such as savings,

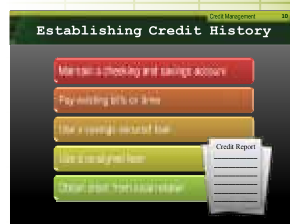
investments or property. Creditors use different combinations of these factors to reach a lending decision. Different creditors may reach different conclusions based on the same set of facts. One may find a borrower an acceptable risk, whereas another may deny the same borrower. "Collateral" sometimes also is called "capital." Whichever term is used, both refer to a borrower's assets that can be used to back up the loan, such as savings or a home (in the case of a mortgage).

Slide 9

Credit Reports and Scores

Creditors rely heavily on the contents of a potential borrower's credit report to make a lending decision. They also often will rely on a potential borrower's credit score. Both credit reports and credit scores will be explored in-depth in the next chapter.

Slide 10



Establishing a Credit History

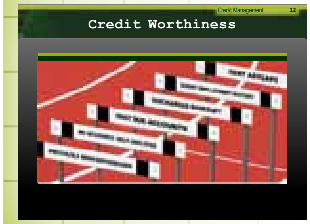
Young consumers should start building their credit-worthiness early, so when they need credit they will be able to get it. Lenders look for evidence of financial responsibility and stability. This can be achieved in several ways:

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

targeted at consumers with the best credit ratings. We will explore how to choose and use credit cards in more detail shortly.

Slide 11

Reducing the Cost of Credit



Slide 12

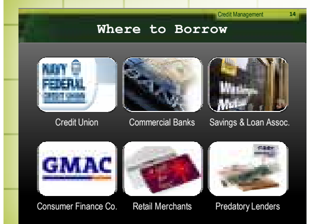
Credit-Worthiness

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

Slide 13

Comparison Shopping

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



Slide 14

Where to Borrow

Where you borrow will affect your cost.

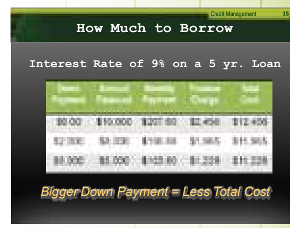
- *Credit Union.* Owned by members; lends to members only; normally offers the most attractive rates.
- *Commercial Banks.* Offer a wide variety of products; average rates; for lower-risk people.
- *Savings Banks and Savings and Loan Associations.* Focus on mortgages;, often offer other services; similar to banks.
- *Consumer Finance Companies.* Accept higher credit risks; rates often high.
- *Retail Merchants.* In-store loans and credit cards; often have promotional introductory rates that rise rapidly after 90 to 180 days. Rates often are unattractive. Whether you are buying a car, a TV or anything else, normally the most expensive place to finance any consumer purchase is the place you are buying

it. You pay for the convenience.

- *Predatory Lending.* Advance-fee loans, payday loans, sub-prime mortgages, title pawn lenders, rent-to-own, refund-anticipation loans: JUST SAY NO! These types of lenders charge excessive interest rates and fees, wrap in unnecessary insurance, and often have pre-payment penalties. This is the most expensive money to borrow. If members find themselves contemplating getting money from this type of lender, they should talk to you immediately.

Slide 15

How Much to Borrow



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

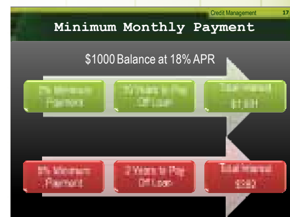
Slide 16

How Long to Repay

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

Slide 17

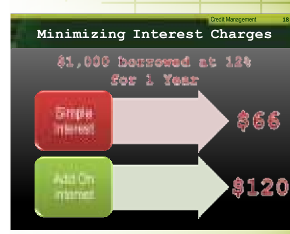
Minimum Monthly Payment



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

Slide 18

Minimizing Interest Charges

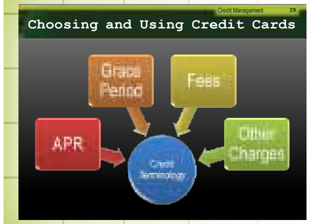


Interest on loans can be calculated in a number of ways:

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

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

Methods for calculating interest on credit cards is different, and we will talk about that in the next section.



Slide 19

Choosing and Using Credit Cards

Instructor Note: Choosing and Using Credit Cards adapted from the FTC Facts for Consumers included in the Student Manual.

Credit Terminology

2009

Before choosing a credit card, borrowers should know these terms:

Annual Percentage Rate. The APR is a measure of the cost of credit, expressed as a yearly rate. It also must be disclosed before you become obligated on the account and on your account statements. The card issuer also must disclose the "periodic rate" — the rate applied to your outstanding balance to figure the finance charge for each billing period.

Some credit card plans let the issuer change the APR when interest rates or other economic indicators — called indexes — change. Because the rate change is linked to the index's performance and varies, these plans are called "variable-rate" programs. Rate changes also can raise or lower the finance charge on your account. If you are considering a variable-rate card, the issuer must tell you that the rate may change and how the rate is determined. Before your account is activated, you also must be given information about any limits on how much your rate may change, and how often.

Grace Period. The grace period, also called a "free period," lets you avoid finance charges by paying your balance in full before the due date. Knowing whether a card gives you a grace period is especially important if you plan to pay your account in full each month. Without a free period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account. If your card includes a free period, the issuer must mail your bill at least 14 days before the due date so you will have enough time to pay.

Fees. Many credit cards charge membership and/or participation fees. Issuers have a variety of names for these fees, including "annual," "activation," "acceptance," "participation" and "monthly maintenance" fees. These fees may appear monthly, periodically or as one-time charges and can range from $6 to $150. Plus, they can have an immediate effect on your available credit. For example, a card with a $250 credit limit and $150 in fees leaves you with $100 in available credit.

Transaction Fees and Other Charges. Some issuers charge a fee if you use the card to get a cash advance, make a late payment, or exceed your credit limit. Some charge a monthly fee whether or not you use the card.

Slide 20

Balance Computation Method for the Finance Charge. If you do not have a grace period or if you expect to pay for purchases over time, it is important to know what method the issuer uses to calculate your finance charge. This can make a big difference in how much of a finance charge you will pay — even if the APR and your buying patterns remain relatively constant. Examples of balance computation methods include the following:

- *Average Daily Balance.* This is the most common calculation method. It credits your account from the day payment is received by the issuer. To figure the balance due, the issuer totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. While new purchases may or may not be added to the balance, depending on your plan, cash advances typically are included. The resulting daily balances are added for the *billing cycle.* The total is then divided by the number of days in the billing period to get the "average daily balance."
- *Adjusted Balance.* This is usually the most advantageous method for card holders. Your balance is determined by subtracting payments or credits received during the current billing period from the balance at the end of the previous billing period. Purchases made during the billing period are not included. This method gives you until the end of the billing cycle to pay a portion of your balance to avoid the interest charges on that amount. Some creditors exclude prior, unpaid finance charges from the previous balance.
- *Previous Balance.* This is the amount you owed at the end of the previous billing period. Payments, credits and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.
- *Two-Cycle or Double-Cycle Balances.* Issuers sometimes calculate your balance using your last two months' account activity. This approach eliminates the interest-free period if you go from paying your balance in full each month to paying only a portion each month of what you owe. For example, if you have no previous balance, but you fail to pay the entire balance of new purchases by the payment due date, the issuer will compute the interest on the original balance that previously had been subject to an interest-free period. Read your agreement to find out if your issuer uses this approach and, if so, what specific two-cycle method is used. Note that this method is prohibited under the provisions of the new Credit CARD Act of 2009.

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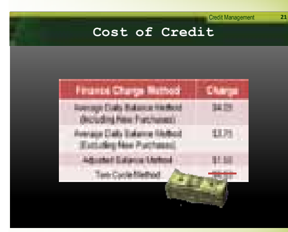


How do these methods of calculating finance charges affect the cost of credit?

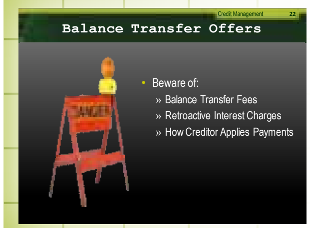
Suppose your monthly interest rate is 1.5 percent, your APR is 18 percent, and your previous balance is $400. On the 15th day of your billing cycle, the card issuer receives and posts your payment of $300. On the 18th day, you make a $50 purchase. Listed below are the finance charges calculated by the various computation methods:

- Average Daily Balance Method: Including new purchases, your finance charge would be $4.05.
- Average Daily Balance Method: Excluding new purchases, your finance charge

would be $3.75.

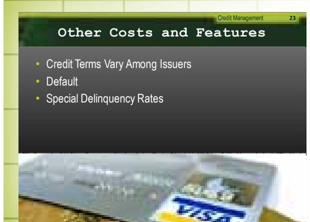
- Adjusted Balance Method: Your finance charge would be $1.50.
- Average Daily Balance Double-Cycle Method: Including new purchases and the previous month's balance, your finance charge would be $6.53.

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



Slide 22

Balance Transfer Offers. Many credit-card companies offer incentives for balance transfers — moving your debt from one credit card (Card Issuer A) to another (Card Issuer B). All offers are not the same, and their terms can be complicated. For example, many credit-card issuers offer transfers with low introductory rates. Some issuers also charge balance-transfer fees. If Card Issuer B charges 4 percent to transfer $5,000 from Card Issuer A, your fee would be $200. In addition, if you make a late payment or fail to pay off your transferred balance before the introductory period ends, Card Issuer B may raise the introductory rate and/or charge you interest retroactively. And if you use your card from Card Issuer B to make new purchases, any payments you make will go toward your balance with the lowest interest rate — and finance charges at the higher interest rate will be assessed on the portion of your balance that came from new purchases.



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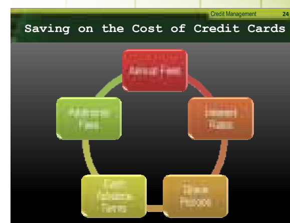
Other Costs and Features

Credit Terms Vary Among Issuers. When considering a credit card, think about how you plan to use it. If you expect to pay your bills in full each month, the annual fee and other charges may be more important than the periodic rate and the APR, and whether there is a grace period for purchases. If you use the cash-advance feature, many cards do not permit a grace period for the amounts due, even if they have a grace period for purchases. That makes considering the APR and balance computation method a good idea. But if you plan to pay for purchases over time, the APR and the balance computation method definitely are major considerations. You also will want to consider if the credit limit is high enough, how widely the card is accepted, and the plan's services and features. For example, you may be interested in "affinity cards" — all-purpose credit cards sponsored by professional organizations, alumni associations, and some members of the travel industry. An affinity-card issuer often donates a portion of the annual fees or charges to the sponsoring organization or qualifies you for free travel or other bonuses.

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

Special Delinquency Rates. Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. This can exceed 20 percent. Information about delinquency rates should be disclosed in credit-card applications and in solicitations that do not require an application. Note that universal default is prohibited under the provisions of the new Credit CARD Act of 2009.

Slide 24



Saving on the Cost of Credit Cards

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

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

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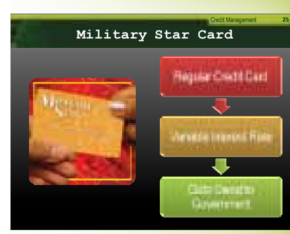

Military Cards

Military Star Card

The Military Star Card is a credit card that can be utilized at all military exchanges. This is a regular credit card, and the government does not run the program. This card allows you to make purchases and defer payment over time just like any other credit card. The application and screening process is similar to other credit cards, and finance charges will be assessed if the bill is not paid in full each month. The interest rate is variable, which means it will change with changes in overall interest rates.

There also is a uniform purchase plan available under the Military Star Card. Under this plan, you can purchase uniforms and uniform-related items, pay for them over time, and no interest will be charged.

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

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Government Travel Cards

> **NOTE:** *Government Travel Card regulations can be found in DoD Financial Management Regulation (FMR) Volume 9, Chapter 3 dated March 2005. Highlights of the FMR are included below for instructor background. Key points to raise are that it is required to be used when directed; that credit-worthiness will be checked by the issuing contractor; and that misuse of the card will result in disciplinary action. The CFS should be encouraged to counsel or educate command members new to using the Government Travel Card.*

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

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

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

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

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

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

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

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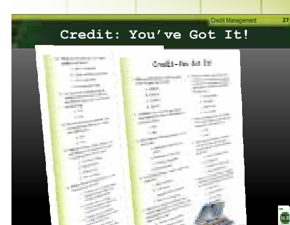

Conclusion

Activity: Credit — You Got It! Quiz

Time: 10 minutes

Preparation:

SM 12.33

Refer learners to the "Credit — You Got It! Quiz" on page 12.33 of the Student Manual.

Procedure:

This quiz functions as a Level Two evaluation assessment, measuring the learning that took place during the presentation of the credit material. It should not be used if the "Credit Conversations" option was chosen. It is especially important to use this if the student instructor option was chosen, so that scores can be provided to the student instructors as a means of providing feedback on training effectiveness.

At the discretion of the trainer, the quiz can be done alone or in pairs, closed- or open-book. The quiz has been updated to reflect the provisions of the Credit CARD Act of 2009.

Credit—You Got It!

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

10. Which one of the following is NOT a way to establish a credit history?
    a. Open a bank account
    b. Obtain credit from a local retailer
    c. Use a co-signed loan
    d. Pay existing bills on time
11. As a rule, you always should pay only the minimum payment on a loan or credit card, since that frees up your cash to spend on other important things.
    a. True
    b. False
12. The various fees often associated with credit cards are billed separately and do not affect your available balance.
    a. True
    b. False
13. Which type of finance calculation is prohibited under the Credit CARD Act of 2009?
    a. Average daily balance
    b. Adjusted balance
    c. Previous balance
    d. Two-cycle balance
14. Which of the following statements is true about reducing the cost of credit?
    a. To reduce the cost of credit, extend the repayment period and/or decrease the monthly payment.
    b. To reduce the cost of credit, shorten the repayment period and/or increase the interest rate.
    c. To reduce the cost of credit, increase the monthly payment and/or increase the interest rate.
    d. To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.
15. Which of the following statements is not true?
    a. You usually can tell if you should borrow money by who is willing to lend it to you; a credit union usually is a good deal, while predatory lenders are not.
    b. The military consumer has no safeguards against predatory lenders.
    c. Contacting your current credit-card issuer and asking for a lower rate is a great way to save on the cost of credit.
    d. When it comes to credit, the primary role of the CFS is to educate members on using it wisely.

Answer Key

1. c) Capability
2. a) True
3. d) Purchasing assets
4. b) Credit unions
5. d) Average daily balance
6. a) The card with the highest rate
7. a) True
8. b) Grace period
9. c) Add-on interest
10. a) Open a bank account
11. b) False
12. b) False
13. d) Two-cycle balance
14. d) To reduce the cost of credit, increase the monthly payment and/or decrease the repayment period.
15. b) The military consumer has no safeguards against predatory lenders.

VII. FORMS

- Empty Pockets/Wise Use of Credit
- Credit Conversations Sheets
- 10 Things to Think About BEFORE: Getting a New Credit Card or Using the One You Have
- How to Establish, Use and Protect Your Credit
- FTC Facts for Consumers: Choosing a Credit Card: The Deal Is in the Disclosures
- Summary of the Credit CARD Act of 2009

Empty Pockets/
Wise Use of Credit

Living Expenses	**Debts**
Wise Use of Credit	
Unwise Use of Credit	

Credit Conversations

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

Credit Conversations #1: Credit-Card Tips

1.

2.

3.

4.

5.

6.

7.

- -

Credit Conversations #1: Credit-Card Tips

Name ____

[intentionally left blank]

Credit Conversations #2: Wise Guys

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

1.

2.

Credit Conversations #2: Wise Guys

Name ____

Name ____

[Intentionally Left Blank]

Credit Conversations #3: Just Can't Get It

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

1.

2.

3.

Credit Conversations #3: Just Can't Get It

Name ____

Name ____

[Intentionally Left Blank]

Credit Conversations #4: Costly Credit

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

1.

How will you know they learned?

2.

How will you know they learned?

- -

Credit Conversations #4: Costly Credit

Name ______________________ Name ______________________

Name ______________________ Name ______________________

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

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

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

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

4. Interest rate is important in choosing a card, but not the only consideration. You should always try to get a card with an interest rate as low as possible. But it is rarely a good idea to take a new card just because of a low rate. The rate only matters if you carry a balance from month to month. Also, the rate can easily change, with or without a reason. Remember that even the best credit cards are expensive unless you pay your balance in full every month. And other credit terms can add to your your cost, like annual fees, late charges, over-the-limit fees, account set-up fees, cash advance fees, and the method of calculating balances. Sometimes a credit card that appears cheaper is actually more expensive.

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

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

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

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

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

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

. . . or Using One you Have

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

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

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

4. **Don't get hooked on minimum payments.** Credit card lenders usually offer an optional "minimum payment" in their monthly billing. These are usually set very low (usually 2% of the balance), barely covering the monthly interest charge. If you pay only the minimum, chances are that you will be paying your debt very slowly or not at all, and you may think you are managing the debt when you are really getting in over your head. For example, if you make only the monthly minimum payments to pay off a $1,000 balance at a 17% interest rate, it will take over 7 years pay your debt! If you are also making new purchases every month while making minimum payments, your debt will grow and take even longer to pay off. This means that your monthly interest obligations will increase and you will have less money in the monthly budget for necessities.

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

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

7. **If you can afford to do so, always make your credit card payments on time**. Be careful to avoid late payment charges and penalty rates if you can do so while still paying higher priority debts. Bad problems get worse fast when you have a new higher interest rate and late charge to pay during a time of financial difficulty. Most lenders will waive a late charge or default interest rate one time only. It is worth calling to ask for a waiver if you make a late payment accidentally or with a good excuse.

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

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

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

FTC Facts For Consumers

focus on CREDIT

Federal Trade Commission
For The Consumer

www.ftc.gov ■ 1-877-ftc-help

June 2008

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

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

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

Credit Card Terms

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

Fees

Many credit cards charge membership and/or participation fees. Issuers have a variety of names for these fees, including "annual," "activation," "acceptance," "participation," and "monthly maintenance" fees. These fees may appear monthly, periodically, or as one-time charges, and can range from $6 to $150. What's more, they can have an immediate effect on your available credit. For example, a card with a $250 credit limit and $150 in fees leaves you with $100 in available credit.

Transaction Fees and Other Charges

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

Annual Percentage Rate

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

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

Some credit card plans let the issuer change the APR when interest rates or other economic indicators – called indexes – change. Because the rate change is linked to the index's performance and varies, these plans are called "variable rate" programs. Rate changes also can raise or lower the finance charge on your account. If you're considering a variable rate card, the issuer must tell you that the rate may change and how the rate is determined.

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

Grace Period

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

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

Balance Computation Method for the Finance Charge

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

Balance Transfer Offers

Many credit card companies offer incentives for balance transfers – moving your debt from one credit card (Card Issuer A) to another (Card Issuer B). All offers are not the same, and their terms can be complicated.

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

Balance Computation Methods

Average Daily Balance

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

Adjusted Balance

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

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

Previous Balance

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

Two-cycle or Double-cycle Balances

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

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

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

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

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

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

Other Costs and Features

Credit Terms Vary Among Issuers

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

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

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

Default and Universal Default

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

Special Delinquency Rates

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

For Help & Information

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

Office of the Comptroller of the Currency:
Regulates banks with "national" in the name or "N.A." after the name:

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

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

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

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

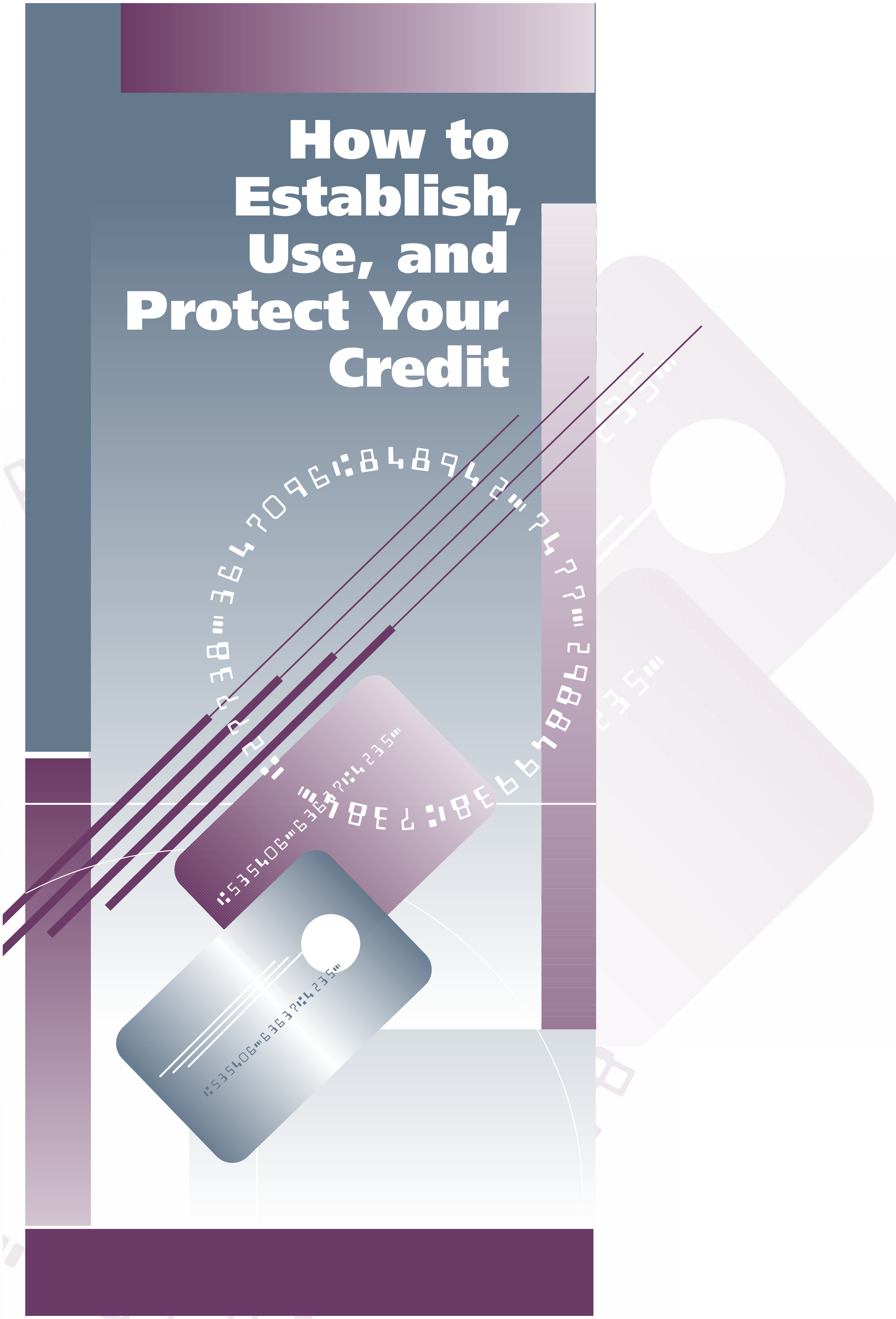
Division of Supervision & Consumer Protection
550 17th Street, NW
Washington, DC 20429
877-ASK-FDIC (275-3342) toll-free
www.fdic.gov

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

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

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

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


How to
Establish,
Use, and
Protect Your
Credit

How to Establish, Use, and Protect Your Credit

What you need to know

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

What Lenders Look For

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

Income & Expenses

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

Assets

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

Credit History

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

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

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

How to Establish Credit

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

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

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

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

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

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

Protecting Credit

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

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

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

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

Common Reasons for Denying Credit

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

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

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

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

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

Improving Poor Credit

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

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

Divorce and Credit

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

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

Paying Off a Loan Early

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

Rule of 78

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

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

Actuarial Method

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

Daily Simple Interest

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

For More Information

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

Learn about . . .

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

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

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

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

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

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

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

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

Title I—CONSUMER PROTECTION

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

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

Sec. 103. Limits on fees and interest charges.

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

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

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

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

Sec. 104. Consumer right to reject card before notice is provided of open account. Gives cardholders who get preapproved the right to reject the card up until they activate it without having their credit adversely affected.

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

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

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

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

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

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

Sec. 111. Clerical amendments.

Title II—ENHANCED CONSUMER DISCLOSURES

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

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

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

Title III—PROTECTION OF YOUNG CONSUMERS

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

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

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

Title IV—FEDERAL AGENCY COORDINATION

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

Title V—MISCELLANEOUS PROVISIONS

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

Sec. 502. Study and report on credit card rating system. Requires the Comptroller General of the GAO to establish a Credit Card Safety Rating Commission that will determine whether a rating system to allow cardholders to quickly assess the level of safety of credit card agreements would be beneficial to consumers, and to make recommendations to Congress concerning how such a system should be devised.

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Credit Reports and Scores

I. INTRODUCTION

This chapter teaches the CFS how to help clients obtain, review and, if necessary, correct their credit reports and scores. A group activity helps the learners sift through the information presented to determine the critical issues about which command members should be educated. The learners should have a copy of their own credit report for this session. The Brightscore Promotion Code should be provided to the learners prior to the end of class on Tuesday. The learners are directed to get their Brightscore and print out their "Brightscore Action Plan" for homework and bring it in for this class. All credit report and score information should remain confidential, and is strictly for the use of the learner.

Chapter correlation to major OPNAVINST task areas:

1. **Education and Training:** This chapter directly correlates to the PFMSC Credit Management module, credit report and score section. Although the PFMSC chapter is not strictly modeled, students have adequate exposure to the topic to allow them to present this segment of training. The "What's Worth Knowing" activity introduces learners to the "need to know, nice to know, where to go" method of prioritizing training content.
2. **Information and Referral:** Appropriate credit-report and score-referral resources are discussed.
3. **Counseling:** The CFS will meet with clients interested in credit-report and score issues, so all topics in this chapter correlate to the counseling task.

II. LEARNING OBJECTIVES

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

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

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

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

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

III. OUTLINE

1. Introduction
   a. Activity: What's Worth Knowing
   b. Topics
2. Understanding the Credit Report
   a. What It Is
   b. How to Get a Credit Report
   c. Components of a Credit Report
   d. Disputing and/or Correcting Information
   e. Improving a Credit Report
3. Understanding the Credit Score
   a. What It Is
   b. How to Get a Credit Score
   c. Components of a Credit Score
   d. Improving a Credit Score
   e. Credit and Divorce
   f. Activity: Moving Scores in the Right Direction
4. Conclusion
   a. What's Worth Knowing Wrap-up

IV. CHAPTER PREPARATION

Presentation Time: 60 minutes (about 30 minutes should be spent covering the content, with the remaining time divided between the two activities)

Presentation Materials

- PowerPoint slides, "Credit Reports and Scores"
- Student Manual Chapter 13
  - Personal Credit Report Review
  - What's Worth Knowing
- Markers and newsprint
- Pens, pencils and highlighters
- Brightscore promotion code for all learners (provided Tuesday for homework)

Summary of Learner-centered Activities

- **What's Worth Knowing:** During the presentation, learners will prioritize the chapter's key learning points as "need to know," "nice to know" or "where to go" for educating command members on credit reports and scoring issues. At the end of the session, the lists are reviewed and discussed, along with possible appropriate training techniques.

- **Moving Scores in the Right Direction:** After participating in a discussion of credit scores, learners will work in groups to propose ways to improve credit scores presented in short case study scenarios.

V. REFERENCES

See reference list for Chapter 12.

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

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

VI. CONTENT

Slide 1

Introduction

Slide 2

SM 13.3

Activity: What's Worth Knowing

Time: Used during the course of the whole presentation

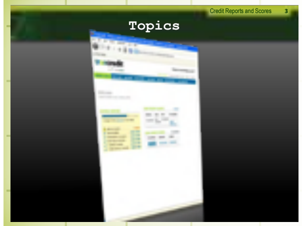
Materials: Student Manual page 13.3

Process: This activity will work well having the learners work in pairs. ASK learners to turn to page 13.3 in their Student Manual, where they will find a page titled "What's Worth Knowing." EXPLAIN that one way to determine how much information to include in training, and to prioritize the information, is to classify it as "need to know," "nice to know" or "where to go." "Need to know" information is critical for a person to understand a topic or behave in a particular way. "Need to know" information must be presented to the learners. "Nice to know" information is helpful for the learner to know and may back up the "need to know" information, but if it is left out it won't degrade the quality of the learning that takes place. This type of information often can be put on a handout or other resource for the learner to have, but you don't necessarily need to spend time on it in class. "Where to go" information is important but does not necessarily need to be discussed in the classroom setting. "Where to go" information can be obtained independently by the learner after the training and typically results in some type of resource listing so the learner knows where to go to get the additional information.

STRESS that with limited time available for training, sifting through all the financial information that could be given in a session and zeroing in on the critical "need to know" information is a fundamental skill that a CFS needs to develop. TELL the learners that they will use this topic to practice this method of prioritizing information and using the prioritization to help develop training on the topic.

POINT OUT that the page in the Student Manual is divided into the three categories of “need to know,” “nice to know” and “where to go.” TELL the learners that as the session progresses, they should think about how much time they would have to educate command members on the topics, what ways they could conduct the education, and then categorize the information presented.

EXPLAIN that at the end of the session, suggested categorizations will be reviewed, and options for educating command members will be discussed. Note: As the session progresses, be prepared to remind the learners to keep using the “What’s Worth Knowing” sheet. Pause occasionally to give the pairs time to reflect on what just was discussed and determine the priority.



Slide 3

Topics

One of the most fundamental steps people should take with their personal financial management is to review their credit report and score once a year. A credit report is a detailed summary of the credit, employment and residence history of an individual used by a prospective lender to help determine credit-worthiness. It is a snapshot of one’s credit at a particular point in time. A credit score usually is a three-digit number that lenders use to help them decide whether to extend credit such as a mortgage, a credit card or some other line of credit, and the interest rate to be charged for this credit. It is calculated based on the information included in the credit report. (Note: At this early point in the session it will be helpful if you prompt the learners to pause and think if any of what just was said is “need to know,” “nice to know” or “where to go” information. ASK if they think everyone will know what a credit report or score is, and for the people at their command, would defining these terms be a critical piece of information. EXPLAIN that this is the thought process they should use throughout the session. Responses should vary depending on the makeup of the command.)

Slide 4

Although the primary user of credit reports is a potential lender, there are many other people interested in the information included in the document. Often a potential employer will check the applicant’s credit report. Potential insurers will check an applicant’s credit report. Potential landlords also will check a credit report (along with potential mortgage lenders). Equally as important, checking a member’s credit report is a regular part of the process of granting and reviewing security clearances. With so many parties interested in what a credit report contains, helping members obtain, review and correct (if necessary) their credit reports is a key function of the CFS. Educating them on the importance of the document, as well as on credit scoring, should be a regular part of the CFS’s tasks at the command. This chapter will help you get familiar with credit reports and scores, know how to read them, look for errors, take steps to fix or improve them, and determine how to educate command members. We will start with credit reports and move on to credit scores.

Slide 5

Understanding the Credit Report

What It Is

As we just said, a credit report is a record of a person's credit history. It lists credit, employment and residence history. A credit report also lists any judgments, tax liens, bankruptcies or similar matters of public record entered against an individual.

Slide 6

The industry is dominated by three credit-reporting agencies (CRAs): Equifax, Experian and TransUnion (also called "credit-reporting companies"). These CRAs maintain independent databases and compete with one another to sell information to lenders, insurance companies and employers. For the most part, they don't share information with each other and so may not have identical information about an individual. For someone who has moved a lot, such as the typical military member, information in one report may be incomplete, so it is important to get a copy of the report from all three bureaus.

Slide 7

How to Get a Credit Report

Credit reports should be reviewed at least once a year to verify that the information is correct and complete. Mistakes happen, and if undetected, they could prevent someone from getting future credit. Also, a lot of identity theft is uncovered by reviewing credit reports. The major credit bureaus all have Web sites and toll-free numbers where consumers can request a copy of their credit report.

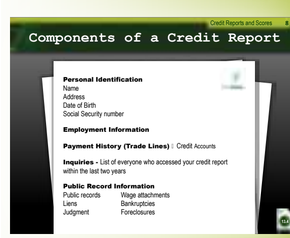
Current law ensures that every American with a credit history can get one free credit report per year from each of the big three CRAs. The reports are available online at www.annualcreditreport.com.

Free copies of credit reports also are available from the three CRAs for people who have been denied credit, insurance or employment in the past 60 days due, in part, to the information on their credit report; for people who are on welfare; and for people whose credit report is inaccurate due to fraud.

> **NOTE:** *Learners should have visited www.annualcreditreport.com and printed out their credit reports before coming to class. As you review the rest of the information in this section, have the learners refer to their credit report and highlight the corresponding sections. This is also a good time to ask the learners if they completed the Personal Credit Report Review on page 13.2 of the Student Manual, and if they found any surprises on their reports.*

SM 13.2

Slide 8



Components of a Credit Report

All credit reports have the same categories of information, although they may be listed in differing forms.

Personal Identification and Employment Information. Your name, date of birth, Social Security number, employer, and spouse's name are noted routinely. The CRA also may provide information about your employment history, home ownership, income and previous address, if a creditor requests this type of information. Note: For each of these sections, pause so learners can find the information on each of their credit reports. Suggest that they highlight the information, and note any differences among the different CRA reports (if they have more than one). Ask them if the information on the report is accurate.

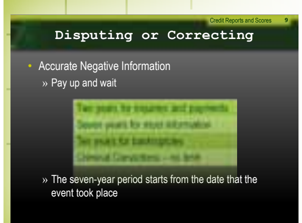
Payment History. Current and past loans and credit accounts, credit limits, current balances and payment histories are noted. Payment history includes late payments, repossessions, charge-offs and collection activity. This data also is known as "trade lines."

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

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

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

ASK the learners if anyone noted any discrepancies in the report. Note that there is a difference between negative information and wrong information, and continue with the next section.



Slide 9

Disputing and/or Correcting Information

Accurate Negative Information. When negative information in your report is accurate, only the passage of time can assure its removal. A CRA can report most accurate negative information for seven years and bankruptcy information for 10 years. (Inquiries and payments are reported for two years.) Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you've applied for more than $150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the event took place.

Slide 10

STRESS to the learners that the credit report is a credit history, and if the history is negative, the only way to change the report is to use credit wisely and wait the appropriate amount of time for the information to come off the report. There is no magic bullet to fixing a credit report, and there isn't anything anyone or any business can do that a consumer can't do on their own. The Command Financial Specialist needs to get this point across to command members and caution them again using any type of credit-repair company.

Slide 11

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

1. Missing accounts should be added to the report. To add missing accounts, contact the credit-reporting agency and the creditor and ask that the credit history be updated to show the missing account.
2. Errors should be removed. To remove an error in a credit report, send a letter to the credit-reporting agency that clearly explains the error and includes supporting documentation.
3. Consumers can put a statement on a report. If the credit-reporting agency doesn't agree with a disputed item and will not remove it, consumers may send a 100-word consumer statement along with a cover letter to the credit-reporting agency asking that the statement be added to the credit report.

Slide 12

The FCRA includes the following provisions:

> **NOTE:** *Although this information is included primarily for instructor background, be sure to highlight the military fraud alert allowed under the Fair and Accurate Credit Transaction Act (FACTA).*

1. The right to find out what your credit report says. At your request, the CRA must give you the information in your file. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, if you request the report within 60 days of receiving notice of the action. You also are entitled to one free report every 12 months upon request if you certify that your report is inaccurate due to fraud (among other things).
2. The right to an accurate and complete file.
3. The right to ask the CRA to fix any mistakes. If you tell a CRA that your file contains inaccurate information, the CRA must investigate the items (usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is frivolous. The source must review your evidence and report its findings to the CRA. The CRA must give you a writ-

ten report of the investigation. Inaccurate information must be corrected or deleted. A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after your dispute. However, the CRA is not required to remove accurate data from your file unless it is outdated or cannot be verified. All credit reports come with a form to dispute any wrong marks. Note that the form is for incorrect marks. Negative, but legitimate, marks will stay on your credit report. It is, after all, a credit history.

4. The right to tell your side of the story. Under the FCRA, consumers have the right to enter a statement explaining an entry. They can put up to a 100-word statement on their report. Consumers also can place a ”fraud alert” on their credit report. This states that the consumer has been the victim of fraud (typically identify theft) and requests that lenders get verbal confirmation from the consumer before approving any additional credit.
5. The right to a fresh start. Outdated information may not be reported. In most cases, a CRA may not report negative information that is more than seven years old, or 10 years for bankruptcies. The length of time information remains on your credit report is as follows:
   a. Credit accounts: Accounts paid as agreed remain for up to 10 years.
   b. Accounts not paid as agreed remain for seven years.
   c. Collection accounts remain for seven years.

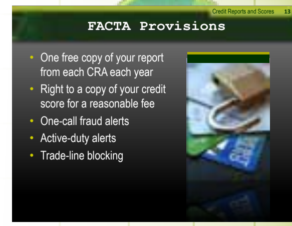
(Note that the time periods listed above are measured from the date in your credit file shown in the “Date of last activity” field accompanying the particular credit or collection account.)

   d. Courthouse records: Remain for seven years from the date filed except Chapter 7 and Chapter 11 bankruptcies, which remain 10 years from the date filed. Chapter 13 bankruptcy, non-dismissed or non-discharged, remains for 10 years from the date filed. Unpaid tax liens remain indefinitely. Paid tax liens remain for up to seven years from the date released. (Bankruptcies actually stay in the credit report forever, but it is reported to general creditors only for 10 years.)

6. The right to understand what your file says.
7. The right to find out who has seen your credit file. At your request, the CRA must give you a list of everyone who has requested your report recently. Access to your file is limited — a CRA may provide information about you only to people with a need recognized by the FCRA. Your consent is required for reports that are provided to employers, prospective lenders, or reports that contain medical information.
8. The right to confidentiality. You may choose to exclude your name from CRA lists for unsolicited credit and insurance offers, called “opting-out.”
9. The right to know when your credit report has been used for adverse action. You must be told if information in your file has been used against you, such as denying an application for credit, insurance or employment.

10. The right to sue the CRA. You may seek damages from violators of the FCRA.

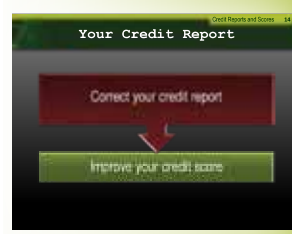
Slide 13



An amendment to the FCRA, the Fair and Accurate Credit Transaction Act (FACTA), includes the following provisions:

1. The right to one free copy of your credit report and specialty reports annually. Specialty reports are medical records, insurance reports, and check-writing history.
2. The right to a credit score from a CRA for a reasonable fee.
3. One-call fraud alerts: Establishes the right of any consumer to request a fraud alert for 90 days or, if a consumer provides an "identity-theft report" (which could include an FTC identity-theft affidavit if filed with a law-enforcement agency), the consumer could place an extended fraud alert of seven years in his or her credit file. The alert must be included with a credit report and with the delivery of a credit score. Under FACTA, users of reports and scores have a duty to honor fraud alerts. They cannot issue a new credit line, extension of credit, new cards or a requested higher credit limit on existing accounts unless the consumer is called or other reasonable verification steps are taken. Any national credit bureau contacted by a consumer must inform other bureaus that a fraud alert has been placed (one-call fraud alert). Non-national bureaus are required to advise consumers how to contact national bureaus. Persons who file an extended fraud alert are opted-out of pre-screening automatically for five years.
4. Creation of "active-duty alerts" that allow active-duty military members to put a notation on their credit reports as a way to alert potential creditors to possible fraud. This alert is maintained for at least 12 months. This is an excellent way for members going overseas to protect themselves from identity theft. All consumers who place an alert may receive a free credit report. Anyone who places an extended fraud alert also may get two free reports in the first year.
5. Trade-line blocking: Requires credit-reporting agencies (CRAs, or credit bureaus) to block fraudulent trade lines when a consumer provides an identity-theft report, provided that it has been filed with a law-enforcement agency.

Slide 14



Improving a Credit Report

The first step to improving a credit report is to make sure it is accurate, as we just noted. Since a credit report should be an accurate history of a consumer's credit use, there really isn't any other way to improve it, other than to make sure credit is used wisely and in a way that leads to a high credit score. Therefore, let's turn our attention to the credit score, since it is calculated based on information in the credit report, and because increasing your credit score means having a better credit report. (Note: Before moving on to credit scores, pause to allow learners to continue adding to their "What's Worth Knowing" page.)

Slide 15

Understanding the Credit Score

What It Is

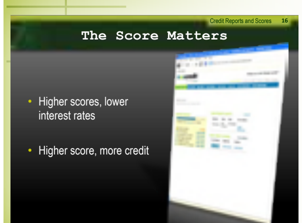
Many people do not know about the credit-scoring system — much less their credit score — until they attempt to buy a home, take out a loan to start a business, or make a major purchase. As we mentioned at the start, a credit score usually is a three-digit number that lenders use to help them decide whether you get a mortgage, a credit card, or some other line of credit, and the interest rate you are charged for this credit. The score is a picture of you as a credit risk to the lender at the time of your application.

Each individual has his or her own credit score. If you're married, both you and your spouse will have an individual score, and if you are co-signers on a loan, both scores will be scrutinized. The riskier you appear to the lender, the less likely you will be to get credit or, if you are approved, the more that credit will cost you. In other words, you will pay more to borrow money.

Scores range from about 400 to 850. When it comes to locking an interest rate, the higher your score, the better the terms of credit you are likely to receive.

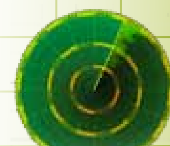
The best-known credit-scoring system was developed by Fair Isaac Corp. and is called the FICO® score. The three major credit bureaus — Equifax, TransUnion, and Experian — use the FICO scoring model for their proprietary systems. Since each scoring system uses a slightly different statistical model, your score from each of the three will not be exactly the same. This is because lenders and other businesses report information to the credit-reporting agencies in different ways, and the agencies may present that information through their proprietary systems differently.

Because different lenders have different criteria for making a loan, where you stand depends on which credit bureau your lender uses for credit scores. According to Experian's National Score Index, the national average credit score is 674. But a score of 720 and above can give you access to some of the best rates and most favorable terms.



Slide 16

How Your Credit Score Affects You. Suppose you want to borrow $150,000 in the form of a fixed-rate 30-year mortgage. If your credit score is in the highest category, 760 to 850, a lender might charge you 5.778 percent interest for the loan. This means a monthly payment of $878. If, however, your credit score is in a lower range, 620 to 659 for example, lenders might charge you 7.094 percent that would result in a $1,007 monthly payment. Although quite respectable, the lower credit score would cost you $129 a month more for your mortgage. Over the life of the loan, you would be paying $46,440 more than if you had the best credit score. Think about what you could do with that extra $129 per month. Perhaps you would invest in a mutual fund, a college fund, or otherwise use it to increase your net worth. This is the root of the idea of "it takes money to make money."



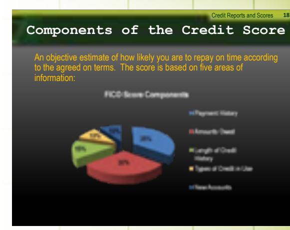
For credit cards, your credit score not only affects your ability to get a card but also may affect the way the issuing company handles your account once you have a card.

You can see the importance of the credit score and why it is critical to ensure your credit report is accurate, since the information on it is used to calculate the score.

Slide 17

How to Get a Credit Score

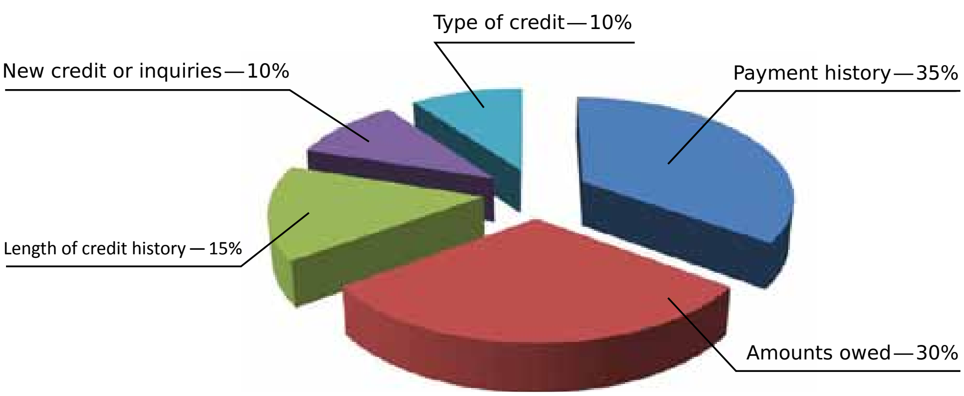
There are many ways to obtain your credit score. You can request your credit score (for which there is a charge) at www.annualcreditreport.com. If you are having debt problems or think your score may be low (below 620), the Brightscore site gives military members access to a free credit score and action plan report based on the Experian credit-reporting agency report.



Slide 18

Components of a Credit Score

Fair Isaac has developed a unique scoring system for each of the three credit bureaus, taking the following five components into account:



Here is what each component says about you:

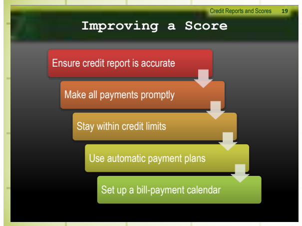
Payment history (35 percent) details your record of paying your debts on time. This component encompasses your payments on credit cards; retail accounts; installment loans such as automobile loans; finance-company accounts; and mortgages. Public records and reports detailing such items as bankruptcies,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

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

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

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

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



Slide 19

Improving a Credit Score

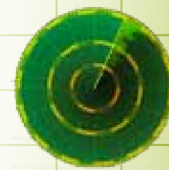
Good credit management leads to higher credit scores, which in turn lowers your cost to borrow. Living within your means, using debt wisely, and paying all bills — including credit-card minimum payments — on time, every time, are smart financial moves. They help improve your credit score, reduce the amount you pay for the money you borrow, and put more money in your pocket to save and invest.

To improve a credit score, start by ensuring that the credit report is accurate and up-to-date. Then focus on the components of the score by following these steps, and develop a written plan to correct any negative item(s) that are affecting your score. Specify what you have to do and how you will know that you have fixed the problem.

1. *Payment History.* A history of prompt payments of at least the minimum amount due helps your score. Late or missed payments hurt your score. Action: Make all payments promptly and stay within your limits; use automatic payment plans; or set up a bill-paying calendar to ensure that you pay all your bills on time.

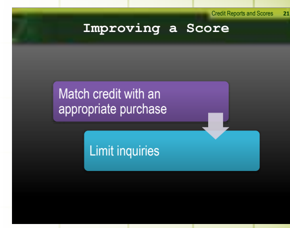
Slide 20

2. *Amounts Owed or Credit Utilization.* A good rule of thumb is not to exceed 30 percent of the credit limit on a credit card. Large account balances can be a negative. Paying down an installment loan is viewed favorably. For example, if you borrowed $20,000 to buy a car and have paid back $5,000 on time, even though you still owe a considerable amount on the original loan, your payment pattern demonstrates responsible debt management, which favorably affects your credit score. Action: Pay down your existing credit balances.



3. *Length of Credit History.* It helps your score to have older accounts that you have kept in good standing. Financial experts agree that you should not open multiple new accounts just to show a credit history. Action: Do not add new accounts in order to lower balances on old accounts, and do not close long-term accounts. Establish new credit but only if you have little or no existing credit history.

Slide 21



4. *Type of Credit.* This factor considers the various types of credit you have and whether you use that credit appropriately. For example, using a credit card to purchase a boat could hurt your score, but matching a bank loan with the purchase of a boat looks better.

5. *New Credit or Inquiries.* Opening many credit accounts in a short amount of time can be riskier, especially for people who do not have a long-established credit history.

Slide 22

SM 13.7

Credit and Divorce

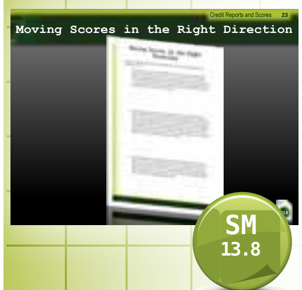
REFER learners to age 13.7 in their Student Manual and review the information on credit and divorce. REMIND the learners that they play an important role in helping members navigate the financial perils associated with a divorce. This especially is true when it comes to credit issues. This CFS should bring the following credit- and debt-related issues to the attention of divorcing members:

1. Know the current credit and debt situation. Divorcing members should obtain a copy of their credit report as well as their spouse's credit report, if possible. Make a list of all debts and decide who is responsible for each account. Any negative information in joint accounts affects the credit histories of both spouses.

2. The divorce decree should state what will happen (frozen assets, wage garnishment, etc.) if a spouse stops making payments. Tell the member to ensure that he or she has quick legal recourse if a spouse stops paying, and ensure that the member has the ability to make those payments, if necessary.

3. A divorce decree has no impact on joint debts, including credit cards, car loans, home mortgages and lines of credit. A consumer still is obligated to repay any joint debts incurred while married — NO MATTER WHAT THE DIVORCE DECREE SAYS. Creditors typically are not party to a divorce decree and only care that the responsible parties (that is, those who signed the credit application) pay on time. Joint accounts mean joint liability. The member should contact the creditor immediately if they anticipate trouble. (In community-property states, spouses are considered co-owners of all debts, regardless of whose name is on the account.)

4. Divorcing members should contact each credit grantor and either close all joint accounts or convert them to individual accounts. All authorized users should be removed from individual accounts.
5. Even if a member is an authorized user on a spouse's account, the member may have no credit history at all. Members should request a copy of their individual credit report to find out and get at least one individual credit card and utility in their own name to begin to establish a credit history.
6. If a member fears that a former spouse is going to file for bankruptcy, advise the member to contact his or her divorce attorney immediately to protect credit and finances.



Slide 23

Activity: Moving Scores in the Right Direction

Time: 15 minutes

Materials: Student Manual page 13.8

Process: REFER learners to page 13.8 in their manual. Working in pairs or small groups, the learners should read the three scenarios and suggest corrective steps. After 10 minutes, review the scenarios and suggested answers with the class. Each pair or group can work on each scenario, or if time is short, divide the three scenarios so that pairs or groups do only one.

1. A member comes to you because she pulled her credit report and it has the following discrepancies: wrong address; two credit-card accounts missing; one account for which she doesn't remember applying; and incorrect payment information on her car loan showing she has been 60 days late two times in the past year. The member says she never has been late and is concerned about taking care of this issue before she deploys next month. What steps will you tell this member to take to correct her report?

   Suggestions should include: Contacting the CRA to update the home address; request that the credit history be updated to show the two missing accounts (she will need to contact the creditor as well); getting the account that doesn't belong to her removed from the credit report (filing a fraud report with the FTC if necessary); and providing the correct paperwork to prove she never was late on her auto loan (may need to work with the creditor as well). Under FACTA, the member will want to put a military fraud alert on the report. Stress the importance of checking the report periodically to guard against fraud and keeping good financial records to prove when payments were made. The member should document everything in writing and keep a copy in her financial files. If necessary, the member can put a statement on her credit report disputing the errors as well.
2. When completing a member's Financial Planning Worksheet, you calculate a 45 percent debt-to-income ratio. The member says he has missed several payments on his credit cards due to over-extending himself but is up-to-date

now. He sometimes rotates paying his bills if money is tight. His credit report is accurate, and his credit score is 540. He wants to apply for a mortgage but is worried he won't get one, and he is asking you what he can do to improve his score. When you ask him what steps he already had taken, he says he has heard that the more credit he has, the better his score, so he has three credit-card applications at home he is about to submit to three banks. What do you recommend?

Suggestions should include: Use standard financial counseling suggestions for getting the budget balanced (increase income, decrease living expenses, decrease indebtedness). If the member cannot fix the budget so he no longer will rotate bills, he should be sent to a debt-management program (learners may not know this yet; if they don't list it, add it to their list and note that the topic will be covered in the next session). The member is better off paying down the balance on existing credit than taking on new credit. Recommend that the member NOT take on any new credit and not apply for the three credit cards, but instead to focus on getting his current bills in good standing. The member also may want to consult with his credit union for their suggestions.

3. A senior chief comes to you absolutely furious about his financial situation. He recently pulled his credit report because he and his wife want to buy a home, and he has five delinquent accounts listed and a credit score of 620. He said all the delinquent accounts were supposed to be paid by his ex-wife (to whom he hasn't spoken in five years), and he has the divorce decree to prove it. He asks what you know about this type of situation and what he should do. What do you suggest to the senior chief?

   Suggestions should include: Talk to the member about how credit and debt are affected by a divorce. Suggest the member bring as many accounts current as possible, regardless of who was supposed to pay them. Offer to assist with a Financial Planning Worksheet. The member should write to the creditors to ensure that joint accounts are closed, and he should put a statement on his credit report regarding the cause of the delinquent accounts. The member will want to talk to a lawyer to explore the possibility of a civil suit against his ex-wife to recoup the money she was supposed to pay. If the member was planning to apply for a joint mortgage with his current wife, it is possible that his low score could be offset by her score if it is higher. The couple should review the wife's credit report and score. They also should make an appointment with their bank or credit union to discuss the situation with a potential lender.

Slide 24

Conclusion

Activity: What's Worth Knowing Wrap-Up

Time: 10 to 15 minutes

Using a whiteboard or sheets of newsprint, make three lists titled "Need to Know," "Nice to Know" and "Where to Go." Learners can come up to the board or posted newsprint and list the information they have in each category, or the trainer can write down the information as each pair is called. If there are differing ideas of what should be included in each category, ask for the reasoning behind the prioritizing. After completing the three categories, ask the learners what methods they would use to educate on the topics. Suggestions could include:

1. Live classroom training
2. POD notes
3. E-mails
4. Informational fliers
5. Indoc sessions
6. One-on-one counseling
7. Command-wide stand-downs

Comment and commend as appropriate, and tell the learners that the credit and debt information will continue in the next session.

VII. FORMS

Personal Credit Report Review

What's Worth Knowing

Activity: Personal Credit Report Review

(This information will remain confidential.)

1. Source of Report ___________________

2. Date of Report _____________________

3. Is your personal information up-to-date? ___ Yes ___ No

4. Is your payment history accurate? ___ Yes ___ No

5. How many inquiries are on your report? _________________

6 What public record information is listed? ___________________________

____

7. Do you need to take any action to correct your report? ___ Yes ___ No

   If yes, what action will you take? _________________________________

____

____

8. What is your credit score? ________________________

9. Do you need to take any action to improve your score? ___ Yes ___ No

   If yes, what action will you take?

What's Worth Knowing?

Need to Know information:

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Nice to Know information

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Where to Go information:

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Possible training techniques:

Debt Management

I. INTRODUCTION

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

II. LEARNING OBJECTIVES

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

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

III. OUTLINE

1. Debt-Management Counseling
    a. Warning Signs of Credit Abuse
    b. Activity: Recalling the Implications
    c. Areas of Caution
    d. Bankruptcy
    e. Recovering From Debt
2. Collections
    a. Collection Procedures
    b. Collection Agencies
    c. Fair Debt Collection Practices Act
    d. Student Loans
3. Developing an Action Plan/Debt-Management Programs
    a. Action Plan
    b. Power Payment Plan — Full Steam

c. Debt-Management Programs

4. Sources of Help

    a. FSSC

    b. Non-Profit Debt-Management Program

    c. Navy Legal Service Office or Civilian Attorney

    d. Dispute Resolution

    e. State Attorney General/Office of Consumer Affairs

    f. Credit Union and Credit-Counseling Agency

5. Summary and Conclusion

    a. Activity: Debt Management in Practice

IV. CHAPTER PREPARATION

Presentation Time:

- Content: 50 minutes
- Debt Management Guest Speaker: 30 minutes

Presentation Materials

- PowerPoint slides, "Debt Management"
- Student Manual Chapter 14
    - Warning Signs of Credit Abuse
    - Implication of Financial Problems
    - Collection Issues
    - Sample Letter to Collection Agency
    - Developing an Action Plan
    - Sample Letter to Creditor From an Individual
    - Sample Letter to Creditor From a CFS
- Markers and newsprint
- Pens and pencils

Preparation:

Contact a local credit-reporting agency, the collections department at the Navy Exchange or Commissary, or a local non-profit debt-management program for potential guest speakers. Be prepared to present information if no speakers are available. If guest speakers will cover contents of this chapter, provide them with the appropriate portions ahead of time.

Summary of Learner-centered Activities

- **Recalling the Implications.** Learners list the civilian and military implications of financial problems as a way to review information presented on Monday, and put it in the context of debt management.
- **Debt Management in Practice.** Working alone or in groups, learners will apply session content by suggesting questions and solutions for short case scenarios.

V. REFERENCES

See the reference listing in Chapter 12

VI. CONTENT

Slide 1

Debt-Management Counseling

SAY now that we have looked at the fundamentals of credit, credit reports and credit scores, let's move to working with clients who have debt problems. As a Command Financial Specialist, you often will have clients whose financial problems consist of too much debt. After helping them construct a budget, there are specific steps you can take with the client depending on the size of their debt. If the debt problems are beyond the scope of what you can do as a CFS, your job is to make the appropriate referral. This session will help you determine the scope of the debt problem and the appropriate solution.

Slide 2

Warning Signs of Credit Abuse

SM 14.2

REFER learners to page 14.2 in the Student Manual and review the "Warning Signs of Credit Abuse." Credit cards make spending easy and may encourage you to spend more than you can repay. Warning signs range from the moderate to the very severe. As you work with clients to assess the extent of their debt problems, ask questions that will help you make an assessment based on the following categories:

Moderate — Client is having trouble with:

- Seasonal bills
- Routine gifts for birthdays, holidays, etc.
- Car, appliance, home repair
- Lack of money for unexpected events or special needs
- Little or no savings
- Worry, anxiety, family arguments about money

- Increasing balances on credit cards and charge accounts
- Using credit to pay credit; seeking consolidation loans for the wrong reason
- Debt-to-income ratio approaching 20 percent

Serious (financial counseling recommended) — Client experiencing:

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

Severe (financial counseling essential) — Client experiencing:

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

Very Severe (financial counseling essential) — Client experiencing:

- Spending 6 percent or more of take-home pay on alcohol or non-prescribed drugs
- Physical survival endangered
- Loss of food, housing or utilities
- Legal action by creditors in process: wage assignment (garnishment), repossession, foreclosure, seizure of assets or property, etc.
- Filing or decision to file bankruptcy

- Defendant in a criminal case
- Large medical expenses
- Loss or severe reduction in family income
- Considering bankruptcy
- Debt-to-income ratio of 40 percent or higher

TELL the learners that no matter how severe the problem, the first stop always should be the Command Financial Specialist, followed by any appropriate combination of referral resources, such as a debt-management program; NLSO; behavioral counseling; and emergency resources for basic living expenses. Stress to the learners that part of their job, especially with clients in difficult debt situations, is to help them find solutions and exhaust every possible alternative before considering bankruptcy.

Slide 3

Activity: Recalling the Implications

Time: 5 minutes

Materials: REFER students to page 14.3 in the Student Manual, “Implications of Financial Problems.”

SM 14.3

Procedure: Working in pairs, have the learners try to recall the implications of financial mismanagement from both the military and civilian perspective. Allow a few minutes, and then review the answers with the class.

As a client’s financial problems slip from moderate to serious to severe and beyond, it becomes critical that they get professional assistance. The CFS should be their first stop. Sometimes the client will come on their own, and sometimes they will be referred due to a Letter of Indebtedness or other indicator that has prompted the command to make a referral to you. Part of your job is to explain the implications of financial problems to the client, as discussed Monday morning.

Civilian implications:

- Bounced checks (NSF, or non-sufficient funds)
- Credit denied
- Bad credit report or score
- Repossession
- Foreclosure
- Bankruptcy
- Jail

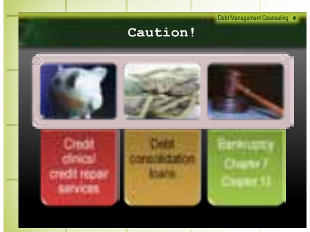
Military implications:

- Negative evaluation

- Loss of promotions
- Loss of overseas transfer
- Loss of security clearance
- Reduction in rank
- Non-judicial punishment
- Administrative discharge

If a client is unable to keep up with monthly payments, creditors can take legal measures to get the money owed them and/or repossess the items. Creditors normally will start by sending letters requesting payment. They also can send a Letter of Indebtedness to the command notifying them of the client's failure to pay and asking the command to get involved. Further action such as judgments for garnishment, liens, repossession and foreclosure are common legal remedies.

Often a creditor will turn to a third-party debt-collection agency for assistance in collecting a debt. As a CFS, it is helpful for you to understand typical collection procedures. We will discuss this in greater detail shortly.



Slide 4

Areas of Caution

1. **Credit Clinics/Credit-Repair Services.** Many of these services charge up-front fees promising to "clean up your credit report" fast and get you out of debt. These services cannot do anything for your client that they cannot do for themselves. It actually is illegal for a company to charge a fee (up front) for this service. Violations should be reported to www.ftc.gov. Beware also of organizations offering debt-management programs in the form of consolidation loans. Steer clients to non-profit debt-management programs and away from taking on more debt. Organizations promoting consolidation loans for debt management make the solution sound very attractive to financially stressed clients, but in most cases these solutions end up being a bigger problem.
2. **Debt-Consolidation Loans.** These loans at best are a temporary fix. In a consolidation loan, the client takes out one loan large enough to pay off several or all smaller loans. Consolidation loans may reduce the total amount of dollars expended each month on indebtedness, but the cost of credit (interest) will increase because the repayment time has been extended. Also, the interest very well could be at a higher rate. If indebtedness can be managed without a consolidation loan, it usually will save money in the long term. Consolidation loans do not improve money-management skills for the client and tend to be a "Band-Aid" solution. If your client is considering a consolidation loan not because they have a debt problem but because they can lower their interest rates, they should consider the cost of the credit and it may be an option. However, if your client is considering a consolidation loan because they can't afford the debt they currently have, they should consider other options. **You cannot borrow your way out of debt**. Note especially

that behavior modification is critical for consolidation loans to work. Studies have shown that more than 70 percent of people who take out a consolidation loan have a higher debt-to-income ratio 18 months later than before they took out the loan.

3. **Bankruptcy.** This often has been the last-resort option for protection from bill collectors, lawsuits and foreclosures, but legislative reforms are making it much harder to use this option to get a fresh start. Bankruptcy does not allow your client to walk away from problems. It may impact severely their ability to get credit in the future, in addition to potential negative career implications. Rarely will the CFS recommend bankruptcy to a client, because there are so many other options that will work. Often the determining factor in deciding to file for bankruptcy is the client's willingness to cut back on expenses and change their lifestyle. Very few military members should be filing for bankruptcy.

Bankruptcy

Your job as a CFS with clients considering bankruptcy is to ensure they have exhausted all other options, and that they are educated properly on how bankruptcy works and the implications of bankruptcy, before they consult with a bankruptcy attorney. Although our goal is to keep people out of bankruptcy, at the same time it is a right, governed by state and federal law, to ask a court to declare a person unable to pay his or her debts. The law exists for a reason but was designed primarily for people caught in severe financial circumstances beyond their control, such as illness or loss of a job.

There are two kinds of personal bankruptcy that typically will be used by military personnel:

- **Chapter 7.** Straight bankruptcy is used when there is little chance of repaying debts. Assets are sold and partial repayment made, then unsecured debts are wiped out.
- **Chapter 13.** This plan forces debtors to live on a government-prescribed allowance and repay lenders under a court-supervised plan.

Judges apply a means test for people with income above the median state income. A debtor's reasonable monthly expenses will be subtracted from their estimated monthly income. If the remaining discretionary income is below $100 a month, the debtor can file for Chapter 7. If the remaining discretionary income is over $100, the debtor likely will not be allowed to file for Chapter 7 and instead be forced to file a Chapter 13 plan and pay off the debts.

Before filing for bankruptcy, debtors must submit to counseling from an approved non-profit credit-counseling agency.

NOTE: *State-by-state listings of median family income are available at www.census.gov/hhes/income/4person.html.*

NOTE: *The following information is presented for instructor knowledge. Presentation to the class depends on time available and class interest.*

Factors to Consider Before Filing:

- *Some clients may refuse to consider bankruptcy as a viable option. Others may believe it is a quick "cure-all" for their financial problems. Bankruptcy can cause feelings of guilt and embarrassment due to the social stigma associated with the lack of ability to manage their personal financial affairs.*
- *What is the effect on receiving credit in the future? Bankruptcies stay on the credit report for 10 years. As you know, a negative credit report can make it difficult to make major purchases, buy a house, or rent an apartment. Future lenders know that people who have declared bankruptcy have difficulty paying debts and may regard them as poor credit risks, which ultimately leads to higher interest rates.*
- *What is the potential loss of assets? The client will be able to keep certain property that can be exempt under state or federal bankruptcy laws. State exemptions vary widely. If the client does not want to lose certain property such as a car or a house, then he or she will have to continue to pay off the debt or "reaffirm" the debt. Examples of exemptions allowed under federal law include home equity of up to $15,000; disability and unemployment benefits; life insurance policies with a loan value of up to $8,000; alimony and child support; personal property such as clothing and household goods, to $400 per item and $800 total; and tools of the person's trade, such as books and computers, to $1,500. Examples of property that may be used to pay debts when bankruptcy is filed include cash and bank account balances; stocks, bonds and investments; equity in a house over $15,000; luxury items such as fur coats, jewelry, coins and stamps; a second house or motor vehicle; musical instruments, unless the person is a professional musician; and private pension plans.*
- *What types of debt does the client have? Certain debts cannot be discharged in bankruptcy, such as alimony and child support; certain federal, state and local taxes; money received via fraud or misrepresentation; luxury goods or services purchased within 60 days of filing for bankruptcy, with a value or $1,000 or more; and some student loans, to name a few.*
- *What is the effect of filing bankruptcy on the military career? Under the Milpersman, all bankruptcies are to be reported.*
- *Are there any co-signers to debts being brought into the bankruptcy? Although a creditor cannot collect a discharged debt from the client, a creditor can collect it from anyone who co-signed or was a co-debtor on the discharged debts.*
- *Have all attempts to control spending and credit use failed, even with the help of a credit counselor or a debt-consolidation plan?*
- *Has the debtor been unable to meet debt obligations with current income?*
- *Have attempts to set up repayment plans with creditors failed?*
- *Is the debt-to-income ratio 40 to 50 percent or more?*

Types of Bankruptcy. There are two types of personal bankruptcy most often used by individuals — Chapter 7, or ”straight bankruptcy”; and Chapter 13, or ”the wage earner plan.” With either type, the moment the bankruptcy is filed an ”automatic stay” occurs, which requires all creditors to cease collection efforts. A trustee is appointed and conducts a ”creditors” meeting, which the filer must attend. Creditors can attend, too, but rarely do. Also, with both plans co-signers to the debtor’s accounts can be required to pay off the contract by the creditor.

Bankruptcy Procedure. Generally, the entire bankruptcy procedure will take four to six months from initial filing to approval of the plan by the court. When a petition for bankruptcy is filed, the court appoints a trustee to oversee the bankruptcy proceedings. After the filing, the court issues an automatic stay, which is a court order that temporarily prevents all creditors from obtaining funds from the debtor before the plan is approved by the court. Creditors cannot start collection efforts such as wage garnishment or repossession of goods. Generally, the debtor cannot sell assets. The trustee will sell non-exempt property and distribute the proceeds to the creditors. If you believe you have exhausted all options and your client is in a position to consider bankruptcy, refer them to the Navy Legal Service Office for a final consultation before they seek a bankruptcy attorney. Bankruptcy attorneys will ask for their fee up front. Fees can range from several hundred to several thousand dollars.

Slide 5

Recovering From Debt

How, specifically, are you expected to help a client who has debt problems? Start by encouraging your clients to talk with their creditors. It always is possible they can work out a payment plan on their own or find a solution working WITH the creditors. Suggest that they:

- Stay in contact with creditors; let them know if there is a problem. If a friend owed you money and was avoiding you or not returning phone calls, you would think he or she was trying to “stiff ” you. Businesses are the same way. Just talk with them.
- Be honest.
- Approach creditors with a plan. Be careful of promising more than you can deliver.
- Change behavior.

Slide 6

Collections

REFER learners to page 14.4 in the Student Manual, Collections Issues worksheet.

SM 14.4

Collection Procedures

For bills in collection, first determine if the bill is being collected by the original creditor or if it now is with a collection agency. If it is with the original creditor, they have three options:

1. Stop doing business with the consumer
2. Report the default to a credit-reporting agency
3. Sue the consumer

It is hard to predict whether a creditor will sue. If they do, however, the consumer has the right to respond, and the worst that can happen is that the consumer will lose the lawsuit and a judgment will be rendered against the consumer ordering them to pay. Any time your client is facing legal action, refer them to NLSO.

Many creditors have in-house collection departments. The lengths a creditor will take to collect on a debt will depend on the type of creditor: In a small business, the collections may be done by the owner, so they are more limited in what they will do than in a large business with a collections department. Typical procedures include sending a series of letters and notices, also known as "dunning" letters, at 15- and 30-day intervals. The letters and notices will get successively more serious until they either write off the debt, file a legal action, or turn the debt over to a collection agency. If the creditor reports to a credit-reporting agency, you can expect a negative remark on the credit report after 30 days past due.

Collection efforts by NEX for the Star Card or NEX and Commissary for bounced checks may vary.

Slide 7

Collection Agencies

SM 14.5

REFER learners to page 14.5 in the Student Manual, "Sample Letter to a Collection Agency."

In general, if the collection agency was hired by the original creditor to collect a debt, they will take their cues from the original creditor. A client with a bill at a collection agency will hear from them immediately. Collecting is a serious (read, "lucrative") business. A collection agency can keep anywhere from 10 to 60 percent or more of a debt they collect. The collection agency will find the client, as they are experts in skip tracing. However, consumers have more rights with collection agencies than they do with the original creditor thanks to the Fair Debt Collections Practices Act (FDCPA). If a client has a bill or bills with a collection agency, first try to contact the original creditor and negotiate with them. Offer a lump-sum payment or a payment plan, based on their budget and spending plan. If the original creditor is out of the picture, try the same with the collection agency. At a minimum, a client can ask the collection agency to stop contacting them under the FDCPA, and they must do so. This may relieve some of the stress, as collection agencies tend to call often.

Slide 8

Fair Debt Collection Practices Act

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

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

Slide 9

Student Loans

Student loans are a unique area of credit where collections efforts vary. If a client has a student loan they cannot pay, first determine the type of loan and the creditor. Go back to the original creditor and ask about options for keeping the loan current. Options for dealing with student loans may include deferring payments for a predetermined period of time; getting a forbearance (payments are decreased or postponed until the client is in a better financial position); or outright cancellation. Work with the holder of the debt to determine options.

Slide 10

Developing an Action Plan/Debt-Management Programs

SM 14.6

REFER learners to page 14.6 in the Student Manual, "Developing an Action Plan."

Action Plan

Now that we have addressed the warning signs and some of the basics of collection practices, let's talk specifically about what you can do with a client and their debt. You may recall that one of the options on the Action Plan portion of the Financial Planning Worksheet was "decrease indebtedness." ASK by way of review, what were the other two options? The answers should be: increase income and decrease living expenses.

Your action plan for debt should sound very familiar at the beginning:

1. **Track Spending.** Clients must track all of their spending. In order to decrease their indebtedness, they will need to come up with the money needed to pay at least the minimum monthly payments.
2. **Set Goals.** The client will need to set some goals, such as pay off certain debts within certain periods of time. Remember our goal-setting exercise on Monday? Reinforce the importance of goal-setting, and ensure your client has set some SMART goals.

3. **Develop a Spending Plan.** The client's debt-management plan will fail if there is not a workable spending plan in place. Be sure the budget has been completed and a flexible and agreed-to spending plan is in place so the client and/or you can make reasonable commitments to a debt-management plan, and therefore reliable commitments to the creditors. Reinforce with the client that they be flexible, work on increasing their income, and seriously dedicate time to decreasing their living expenses, the other two options on the action plan. REMIND the class of the discussion on plans that took place Monday.

4. **Plastic Surgery.** Depending on the severity of the debt situation, it may be necessary for the client to conduct "plastic surgery" — that is, cut up their credit cards and close the accounts. The client will need to request the creditor to close the account in writing, and keep copies of everything. This commitment to taking on no more credit is critical to the success of the debt-management plan — GET THEM TO DO IT.

Slide 11

5. **Develop a Debt-Repayment Plan.** Once your client is tracking all spending, has set realistic goals, has developed a spending plan to which they can stick, and is committed to taking on no more debt, hopefully they have enough money to pay at least the minimum monthly payments on their debts, and in a perfect world (it can happen …) they have additional sums to commit to a debt-management plan. In preventive financial counseling and planning, it is recommended that one should try to keep debt payments to within 20 percent of net income (debt-to-income ratio). Most clients and families need 70 to 75 percent of their net income for basic living expenses. Using this as a gauge, a realistic debt-management program could use as much as 25 percent of the client's net pay.

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

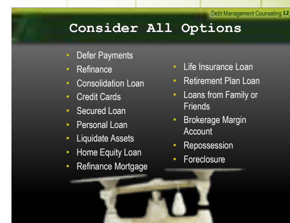
6. **Examine All Debt.** Analyze the list of creditors on the Indebtedness page, considering the following:

- Have any debts been turned over to an attorney or collection agency/department?
- Which debts need to be repaid first? Priority should be given to secured creditors, or the collateral probably will be repossessed.
- Other priorities include bills that are current, bills owed to the government, and any bills that could result in jail (traffic tickets, bounced checks, etc.). It is recommended that you prioritize the creditors by numbering each in terms of urgency.
- Has legal action been taken or pending by any of the creditors?
- What is the total balance owed and payment due each month for each creditor?
- What is the original monthly payment, according to the contract?

- How much was the last payment to each creditor, and when was it made?
- When was the last time you heard from the creditor? How old is the last bill? Has the bill been written off?

7. **Use Savings.** Are any savings available to pay down debts? If so, pay off smaller debts, or provide a lump-sum offer to a creditor.

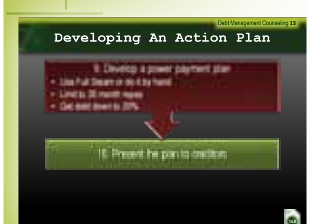
Slide 12



8. **Consider All Options.** Examine all possibilities for eliminating debt. This may mean working with the creditor on deferring payments; taking out a consolidation loan; or using other cash resources to pay down some of the debt in order to work out a repayment plan for the rest. Examine each of these options with the client very carefully. Try to expand the client's options and create solutions to the debt problem.

- **Defer Payments.** Can the client work with the creditor to extend the life of the loan by the number of delinquent payments? This is done by adding the payments to the end of the loan, and the client's account is considered current. An extension fee equal to the interest for the deferred months usually is charged and must be paid before the creditor will agree to a deferment plan. This applies only to pre-computed installment loans.
- **Refinancing.** Can the client negotiate a new loan agreement with a creditor making it possible for the client to extend the life of the loan and reduce payments each month? Refinancing can be accomplished with no additional money being borrowed other than what is needed to pay off the outstanding balance on the existing loan; or with proceeds, where more money is borrowed than is needed to pay off the loan.
- **Credit Cards.** Does the client have credit cards that can be used to "consolidate" other cards into one account? Is the interest rate lower, and would it be to the client's benefit to pursue this option?
- **Secured Loans.** Does the client qualify for a secured loan? Would the cost of the loan be lower than the debt currently held? What collateral does the client have to secure the loan?
- **Personal Loans.** Does the client qualify for an unsecured loan? Would the cost of the loan be lower than the debt currently held?
- **Liquidate Assets.** Can the client sell any assets to generate cash to pay off some of the debts? This can be done only if the client has clear title to these assets or has the permission of the individual or financial institution holding title to sell the property.
- **Home-Equity Loans.** Does the client have a home on which she can get a home-equity loan or line of credit? Would the cost of a home-equity loan be lower than the debt currently held? What are the chances that the client would default on the loan and lose her home?

- **Refinance a Mortgage.** Can the client take out a new loan on his home for the present value and use the money to pay off the balance on the original loan? The leftover money can be used to pay other creditors.
- **Life Insurance Policies.** Does the client have any whole life insurance policies with a cash value that can be borrowed? An insurance agent can inform the client as to how much cash value, if any, that is available to be borrowed.
- **Retirement Plans.** Does the client have any retirement plans with loan provisions? Is there any money that can be borrowed from the plan?
- **Family and Friends.** Does the client have any family or friends who can help with a short-term loan or gift to help pay down the debts?
- **Brokerage Margin Accounts.** Does the client have a brokerage account on which they can take out a loan? This is a very risky option and should not be recommended.
- **Repossession.** Can the client relinquish property that has been pledged as security on a loan?
  - **Voluntary repossession.** In a voluntary repossession, the client returns the secured property (collateral) to the lender voluntarily. The client will be responsible for paying any outstanding balances due, known as the "deficiency balance." The client may save some repossession or foreclosure fees in a voluntary repossession.
  - **Involuntary repossession.** In an involuntary repossession, the creditor takes back the secured property. The client will be responsible for paying any outstanding balance on the loan after the property is sold or auctioned by the creditor. This has a more negative impact on the credit rating of the client.
- **Foreclosure.** Does the client want to give up their house and let the bank foreclose on it? If the client is facing foreclosure, they need to get professional counseling from someone knowledgeable about housing options. The lender may be willing to work with the client: They may be able to offer a deed in lieu of foreclosure, or defer payments. They also may be able to sell quickly at a better price instead of simply walking away.



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9. **Power Payment Plan.** Once you have explored all options with your client, you should know whether a debt-management plan can be developed for them. If so, you can use the Full Steam section of the FPW program.

> **NOTE:** *If this program has not yet been demonstrated to the class, this is an excellent time to show how it works.*

SM 14.9

REFER learners to pages 14.9 and 14.10 in the Student Manual, sample letters to creditors from an individual and from the CFS.

10. **Present Plan to Creditors.** Once you have put together the debt-management plan and the client is confident they can stick to it, present the plan

to the creditors, as necessary. If no changes in payments need to be made, there is no need to talk with the creditor. However, if you need to work with a creditor to request lower or deferred payments, you will need to contact them and get their agreement.

Remind learners that they should not do anything for the client that the client can do for themselves. They should encourage the client to get in touch with the creditor themselves and negotiate the payment plan. If one or more creditors won't work with the client or the CFS, you may need to rework the plan, or it may be time to refer the client to a non-profit debt-management program.

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Debt-Management Programs

Talk With a Pro. If these steps prove unsuccessful, seek help from a professional financial counselor. You may want to consider a non-profit credit-counseling agency which can administer a debt-management program. These agencies aim to help people pull themselves out of debt by using an approved debt-repayment plan. This is a plan developed for you that is personalized to your repayment capabilities. It is a creditor-approved arrangement that allows you to repay unsecured debt at reduced interest rates. You must agree to take on no new debt and to make one monthly payment to the agency that is sent to your creditors. Resources are listed on the slide, and you also can check with your local bank and credit union for debt management.

Slide 15

Non-Profit Debt-Management Programs. Non-profit debt-management programs are organizations that help people experiencing financial difficulties to solve their money problems and pay their obligations without resorting to bankruptcy. They generally strive to prevent debt problems through counseling, money management and debt negotiation. Debt-management programs ultimately benefit both the debtor and the creditor, as the debtor has a debt-management plan that works within their budget and the creditor doesn't need to write off bills that otherwise would have been dismissed through bankruptcy.

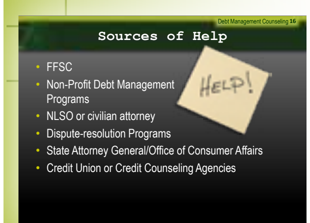
Evaluating Debt-Management Programs. There are a lot of organizations that promote themselves as debt-management programs. As a CFS, you should steer your client to the non-profit organizations whose ultimate goal is a debt-management plan and not a consolidation loan or other extension of credit. There may be a nominal fee for a client to participate in a debt-management program as they have some administrative costs, but the fee should be affordable. Before committing to trusting any credit-counseling agency, there are some things to know:

1. Is this agency a non-profit organization? (yes)
2. How much will these services cost? (nominal fee, perhaps $10 to $15 per month)
3. Are agency services confidential? (yes)

4. Will they devise a plan tailored to fit the client's needs? (yes)
5. Are the counselors certified? (AFC/AHC or other)
6. Are budget and credit-education opportunities offered? (yes)
7. Will the client's funds be protected? (yes)
8. Is the agency accredited? (through NFCC or other accrediting agency)
9. Is the client allowed to take on new debt while in the debt-management program? (no)

Using Debt-Management Programs. If a client does not have enough money to pay at least 100 percent of their minimum monthly payments on their credit obligations, it probably is wise to refer them to a debt-management program. The client will need to make an appointment with a counselor at the program. The client should bring his budget and all relevant bills, statements and paperwork to the appointment. The counselor will interview the client, put together a budget, and determine whether a debt-management program would be appropriate. In many cases, the debt-management program will have agreements with the creditors whereby they can lower the amount of the monthly payment, lower interest rates, or perhaps even cancel interest for the duration of the debt-management program. Usually the client will make one payment to the debt-management program, and the program will disburse the funds to the creditor. Clients going on a debt-management program typically will commit to a three-year plan and agree not to take on more credit for the duration of the program.

Availability of Debt-Management Programs. There are many ways to find debt-management programs. You can look in the phone book under Debt Management and probably will see some very reputable organizations listed there. Again, be wary of for-profit organizations, or agencies masking as non-profit but funded by for-profit organizations. Some of these organizations are available 24/7 online or by phone. You also can check with the local federal credit union to see if they offer debt-management programs.



Slide 16

Sources of Help

As a CFS, you have a variety of resources available to help you help your client. You are the first line of defense when it comes to credit education and debt management. Other sources of help discussed in the credit and debt-management sessions today include:

- FFSC — Financial Education Specialist
- Non-profit debt-management programs
- NLSO or civilian attorney
- Dispute-resolution programs (available through Better Business Bureaus)
- State Attorney General/Office of Consumer Affairs

- provide a range of services to members, and non-profit consumer credit-counseling agencies

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Summary and Conclusion

Activity: Debt Management in Practice

Time: 10 minutes

Materials: page 14.11 in the Student Manual

Procedure: REFER learners to page 14.11 in the Student Manual where they will see five short case scenarios. Working alone, in pairs or groups, learners should read each case scenario and suggest appropriate questions to ask and referrals to make. When all are done, review their suggestions and comment as appropriate. Appropriate questions should reflect the material included in the lecture and the Student Manual. EXPLAIN that they now should be able to apply debt-management solutions to their various group case studies at the end of the day.

VII. FORMS

- Warning Signs of Credit Abuse
- Implications of Financial Problems
- Collection Issues
- Sample Letter to a Collection Agency
- Developing an Action Plan
- Sample Letter to a Creditor From an Individual
- Sample Letter to a Creditor From a CFS
- Debt Management in Practice

Warning Signs of Credit Abuse

Moderate — Client having trouble with:

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

Serious — Client experiencing:

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

Severe — Client experiencing:

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

Very Severe — Client experiencing:

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

Implications of Financial Problems

Civilian	Military
Information to Remember	

Collection Issues

Collection Procedures

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

Responding to Collectors

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

Fair Debt Collection Practices Act

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

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

Student Loans

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

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

Sample Letter to Collection Agency

Date

Address of Collection Agency

To whom it may concern:

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

Sincerely,

Name
Address

Account No.

Enclosures (copies of correspondence)

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

Developing an Action Plan

Ways you can help the client:

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

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

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

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

m. Repossession. Can the client relinquish property that has been pledged as security on a loan?

   i. Voluntary repossession. In a voluntary repossession, the client returns the secured property (collateral) to the lender voluntarily. The client will be responsible for paying any outstanding balances due, known as the "deficiency balance." The client may save some repossession or foreclosure fees in a voluntary repossession.

   ii. Involuntary repossession. In an involuntary repossession, the creditor takes back the secured property. The client will be responsible for paying any outstanding balance on the loan after the property is sold or auctioned by the creditor. This has a more negative impact on the credit rating of the client.

n. Foreclosure. Does the client want to give up their house and let the bank foreclose on it? If the client is facing foreclosure, they need to get professional counseling from someone knowledgeable about housing options. The lender may be willing to work with the client: They may be able to offer a deed in lieu of foreclosure, or defer payments. They also may be able to sell fast instead of walking away.

9. **Power Payment Plan.** Once you have explored all options with your client, you should know whether a debt-management plan can be developed for them. If so, you can use the Full Steam section of the FPW program. It is recommended that a debt-management plan take no more than three years to pay off all creditors, and to get the debt-to-income ratio down to a workable level — 20 percent or less.

10. **Present Plan to Creditors.** Once you have put together the debt-management plan and the client is confident they can stick to it, present the plan to the creditors, as necessary. If no changes in payments need to be made, there is no need to talk with the creditor. However, if you need to work with a creditor to request lower or deferred payments, you will need to contact them and get their agreement. If one or more creditors won't work with the client or the CFS, you may need to rework the plan, or it may be time to refer the client to a non-profit debt-management program.

Debt-Management Program Resources:

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

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

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

www.militaryonseource.com (Military OneSource Web site)

Sample Letter to Creditor From an Individual

Date

Address of Creditor

Dear sir:

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

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

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

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

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

Sincerely,

Name
Account No.
Enclosures

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

Sample Letter to Creditor from a CFS

Date

Address of creditor
Re: (name of client) (client's address)
Account number:
Total indebtedness:
Proposed payment:

Dear sir:

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

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

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

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

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

Sincerely,

Name
Command Financial Specialist
Enclosures

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

Debt Management in Practice

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

1. A Sailor and her husband with a 25 percent debt-to-income ratio tell you they have difficulty meeting all their monthly payments.

2. A single E-4 tells you he has been late paying his rent for two months. You calculate his debt-to-income ratio, and it is 38 percent. He often eats on the ship because he is short of food money. He has four credit cards and all are maxed out, for $7,800 in total debt. The trouble started three months ago when he bought a brand new truck.

3. A Sailor with a black eye asks you where he can get help with his utility bills and food expenses for the month. He says he is over his head in debt, has no food in the house, needs diapers for the baby, and has a shut-off notice from the electric company. Three of his bills are in collection. He tells you the "debt thing" is taking a toll on his marriage — he and his wife are fighting all the time, and last night she took a swing at him. He says he tried to sell his second car to eliminate a large car payment, but he is "upside-down" on the debt.

4. A chief asks you what you know about student loans. He says he has two problems. One is his young wife's student loans, which are about to come due, and he doesn't have the money to pay them. Also, his daughter from his first marriage just got accepted at Brown University, he can't afford the tuition, and he is desperate to find a way to work it out. He mentions he has a lot of equity in his home (his credit score is 680). When he shows you his budget, you see he pays on a consolidation loan.

5. A day after conducting a session for command members on credit reports, a senior member of the command tells you she pulled her report the previous night and it is a disaster. She has fallen two months behind on all her bills, and her bank is threatening to foreclose on her home if she doesn't bring her account up-to-date. When you suggest sitting down and putting together a budget, she tells you she doesn't really have the time but wants to know if you know anything about Chapter 7 bankruptcy.

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

I. INTRODUCTION

- This chapter discusses Letters of Indebtedness and Letters of Intent, explaining Navy policy, procedures for processing, and the role of the CFS.
- Chapter correlation to major OPNAVINST task areas:
  1. **Education and Training:** No direct correlation to any PFMSC modules, although general information may be incorporated into any training on credit and indebtedness. Training techniques include lecture and training tools.
  2. **Information and Referral:** No direct correlation.
  3. **Counseling:** The CFS often is asked to provide counseling to members because the command has received a Letter of Indebtedness or a Letter of Intent regarding the member. This chapter will prepare the CFS to assist in processing with these issues.

II. LEARNING OBJECTIVES

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

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

III. OUTLINE

1. Letters of Indebtedness
   a. Introduction
   b. Impact of Illegal Letters
   c. Navy Policy on Indebtedness
   d. Implications
   e. Garnishment
   f. What is a Legal Letter of Indebtedness
   g. Role of the CFS in Processing Letters of Indebtedness
   h. CFS Don'ts
2. Letters of Intent

a. Introduction

b. Procedures

c. Overview of the Statistics

d. Financial Considerations

e. CFS Action Items for Letters of Intent

3. Conclusion

IV. CHAPTER PREPARATION

Presentation Time: 30 minutes

Presentation Materials

- PowerPoint slide, "The Two LOIs"
- Student Manual Chapter 15
  - Sample Letter of Indebtedness
  - Certificate of Compliance
  - Standards of Fairness
  - Processing Letters of Indebtedness
  - Personal Financial Management and Letters of Intent

V. REFERENCES

Military Personnel Manual 7000-020

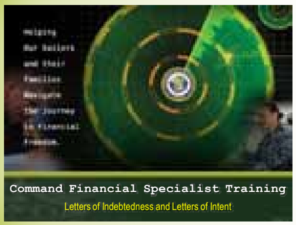
Navy Security Manual

SECNAV Instruction M-5510.30

Department of the Navy Central Adjudication Facility (DoN CAF) Brief "Financial Issues That Affect Clearances" (2009)

CONTENT

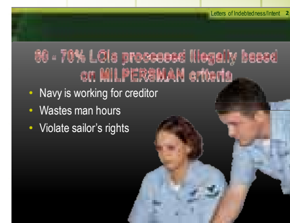
Slide 1



Letters of Indebtedness

Introduction

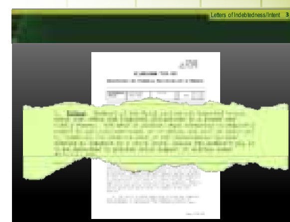
When service members become delinquent on their debts, creditors frequently correspond with commanding officers requesting assistance, hoping that official pressure will be extended to satisfy debts. When you return to your command, one of your first duties as a CFS may be to assist the commanding officer by processing Letters of Indebtedness. You also may be asked to assist when a member receives a Letter of Intent stating that the Navy is considering denying or revoking a security clearance. In this chapter, we address the Navy and DoD policies on both LOIs and the role the CFS can take to help.



Slide 2

Impact of Illegal Letters

Processing illegal Letters of Indebtedness is a burden on the command. About 60 to 70 percent of Command Financial Specialists report seeing Letters of Indebtedness processed illegally based on MILPERSMAN criteria. When illegal letters are processed, it means the Navy is working as a collection agent for the creditor. It wastes man-hours and violates the Sailor's legal rights.

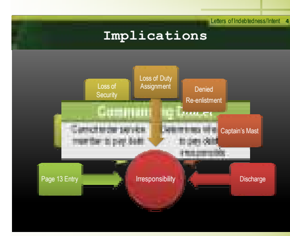


Slide 3

Navy Policy on Indebtedness

The MILPERSMAN states that "Members of the Naval service are expected to pay their just debts and financial obligations in a proper and timely manner. The Navy is without legal authority to require a member to pay a private debt, or to deduct any part of their pay to reimburse the creditor, even if the indebtedness has been reduced to judgment by a civil court, unless the member's pay is to be garnished to provide child support or alimony under 42 U.S.C. 659."

TELL learners that there really is no gray area when it comes to legal debts — *what* needs to be paid (i.e., "just debts and financial obligations") will be disclosed in a contract or written agreement; *when* it needs to be paid (i.e., the "proper and timely manner") also will be disclosed clearly in the legal agreement the client accepted when he incurred the debt. If there is a legal dispute over the debt, the client should work with NLSO or other appropriate civil authority. Otherwise, members need to pay their just debts.



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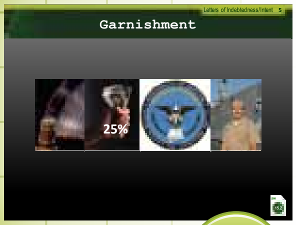
Implications

According to the MILPERSMAN, a commanding officer cannot order a service member to pay a debt. He or she is limited to administrative referral of the correspondence to the member, absent aggravated circumstances. Even within these limits, the command may refer only certain correspondence to the member. The Fair Debt Collections Practices Act clearly states that third-party debt-collection agencies should not contact a person's employer to collect a debt unless given permission to do so by the consumer. The CO can, however, determine when failure to pay a just debt is viewed as irresponsible. The implications of such a determination can include:

- Page 13 entry
- Lower evaluation

- Loss of security clearance
- Loss of duty assignment
- Denied re-enlistment
- Captain's mast
- Discharge



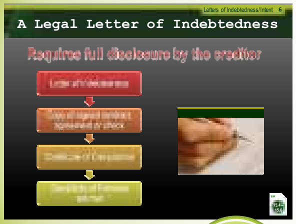
SM
15.2

Slide 5

Garnishment

REFER learners to page 15.2 of the Student Manual, "Garnishment." STATE that implications also can include garnishment of wages if the member continues not to pay the debt and the creditor decides to go to court and get a judgment. A garnishment occurs when a creditor gets a court order to have pay taken directly from the military paycheck and sent to the creditor. A garnishment can take up to 25 percent of a member's disposable pay (basic pay, special pay, accrued leave payments, severance pay, disability severance pay, and inactive duty training pay). DFAS processes all garnishment requests, and the CO has the sole responsibility for processing the final action at the command. Garnishment takes away control of some of the member's money from the member, which is undesirable by any PFM standards. However, by the time a wage garnishment actually occurs, the member has had ample opportunity to make good on the debt. Creditors usually will send a series of letters and notices to try to collect on an unpaid debt and may send a debt to a collection agent before they ever go to court for a judgment to garnish. The garnishment process itself is lengthy, generally taking about 90 days to complete, and the process includes notification and response from the member regarding the possible garnishment. Therefore, the member should have had ample opportunity to pay the debt and stave off the garnishment.

Upon receipt of a Letter of Indebtedness, the command should inform the member of the letter, recommend that contact be made with the creditor to work out a debt-repayment plan, and explain available financial counseling services. Disciplinary action rarely is appropriate, unless there is evidence of intentional deceit/non-payment. The CFS should counsel the member as usual, working through the eight-step counseling cycle, and assist the member in developing a Financial Planning Worksheet, if they don't already have some type of money-management system in place.



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Slide 6

What is a Legal Letter of Indebtedness?

REFER learners to page 15.2 in the Student Manual, "A Legal Letter of Indebtedness." What is a legal Letter of Indebtedness? A legal Letter of Indebtedness requires full disclosure by the creditor. It has four parts:

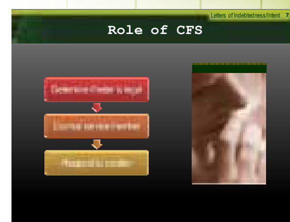
1. The Letter of Indebtedness

2. A copy of the signed contract (or cancelled check)
3. A Certificate of Compliance
4. A statement that the Standards of Fairness have been met.

SM 15.4

REFER learners to pages 15.4 through 15.6 in the Student Manual for a sample Letter of Indebtedness, Certificate of Compliance and Standards of Fairness.

In cases where the Letter of Indebtedness is from a third-party debt collector, the letter falls under the rules of the Fair Debt Collections Practices Act, which prohibits contact by a debt collector with third parties such as a commanding officer for the purpose of aiding debt collection unless there has been prior consent by the debtor or a court order has been obtained. In other words, short of a court order, the debt collector must have the permission of the member to contact the command.



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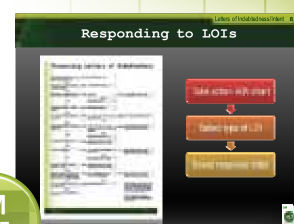
Role of the CFS in Processing Letters of Indebtedness

The Command Financial Specialist should:

- Assist the command in determining if the Letter of Indebtedness is legal
- Counsel the member
- Respond to the creditor



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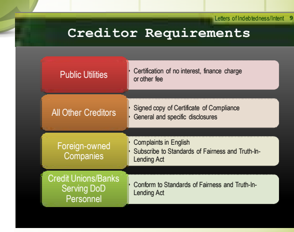
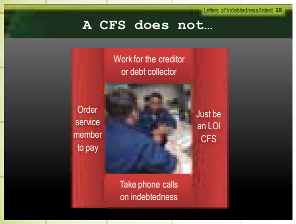
SM 15.7

REFER learners to page 15.7 in the Student Manual for a Processing Letters of Indebtedness Flowchart. REVIEW AND EXPLAIN the flowchart and the corresponding response letters. The following requirements should be met by creditors before receiving assistance in collecting debts:



Slide 9

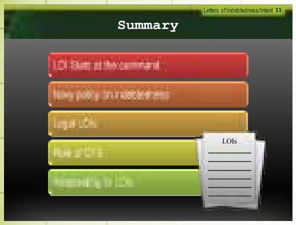
1. Public utility creditors are not subject to the FDCPA requirements but must submit certification that no interest, finance charge or other fee is in excess of that permitted by law when they apply for assistance.
2. All other creditors must submit:
   a. A signed copy of the Certificate of Compliance, and
   b. General and specific disclosures.
3. Foreign-owned companies shall submit complaints in English and certify that they have subscribed to the Standards of Fairness and Truth in Lending Act.
4. Credit unions or banks serving DoD personnel, regardless of whether they are on or off the installation, shall conform to the Standards of Fairness and Truth in Lending Act.



Slide 10

CFS "Don'ts"

- The CFS does not work for the creditors and debt collectors; you work for the U.S. Navy. ASK the class who their client is. The answer should be the member. There is a second client as well, and that is the Navy. Particularly when working with a client with an Letter of Indebtedness, the CFS must satisfy two clients — help the member resolve the financial issues that have kept them from paying his or her debt; and satisfy the command that the Letter of Indebtedness has been resolved. Remember, if the CFS is processing illegal Letters of Indebtedness, then the CFS and the Navy are acting as bill-collectors.
- Don't take telephone calls regarding indebtedness. Tell the caller that any complaints must be put in writing and sent to the command before any action will be taken.
- The CFS cannot order (nor can the CO) a member to pay their debts.
- The CFS should not function only as an "LOI CFS." Processing Letters of Indebtedness may be a part of your job but certainly not all of it.
- ASK for any questions before moving on to Letters of Intent. ENCOURAGE the CFS to return to their command and assess the command's current method for processing Letters of Indebtedness and determine what their role will be in the process. ASK the learners to insist that they become a part of the process, even when a letter is illegal — it still presents an opportunity to counsel a member who could use their expertise as a CFS.



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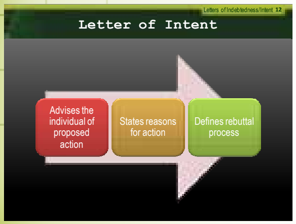
Review

REVIEW the Letter of Indebtedness topics before moving on to Letters of Intent.



Slide 12

Letters of Intent

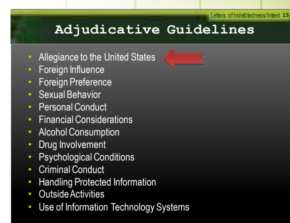
> **NOTE:** *Some of the information included in this section is for instructor background and may not need to be covered in order for the CFS to understand Letters of Intent. Instructors should be familiar with all the information but tailor it to the time available.*

Introduction

The Navy regularly grants new security clearances and periodically reviews existing ones. When an unfavorable personnel security-eligibility determination is being contemplated by the Department of the Navy Central Adjudication Facility (DoN CAF), the DoN CAF will issue to the individual concerned a Letter of Intent to revoke or deny security-clearance eligibility, Special Compartmented Information (SCI) access or sensitive-position eligibility. The Letter of Intent advises the individual of the proposed action, the reasons therefore, and the rebuttal process associated with the proposed action. The majority of the annual security-clearance revocations and denials are due to financial considerations. An individual who is overextended financially is at risk of having to engage in illegal acts to generate funds. Unexplained affluence often is linked to proceeds from financially profitable criminal acts.

The Command Financial Specialist may be involved in working with a member to respond to a Letter of Intent. The Command Financial Specialist can help lower the number of security-clearance revocations and denials by offering appropriate financial education and counseling to command members.

The following information is from the Navy Security Manual, SECNAV M-5510.30 and 2009 DoN CAF brief on Financial Considerations. These should be reviewed in their entirety by any CFS who will be assisting with security-clearance issues.



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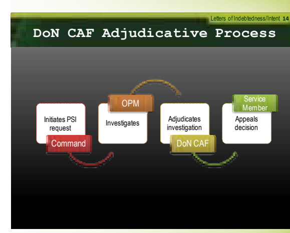
Procedures

Adjudicative Guidelines

There are 13 adjudicative guidelines used by DoN CAF. For each guideline, there are disqualifying conditions and mitigating factors.

1. Allegiance to the United States
2. Foreign Influence
3. Foreign Preference
4. Sexual Behavior
5. Personal Conduct
6. Financial Considerations
7. Alcohol Consumption
8. Drug Involvement
9. Psychological Conditions
10. Criminal Conduct
11. Handling Protected Information
12. Outside Activities
13. Use of Information-Technology Systems



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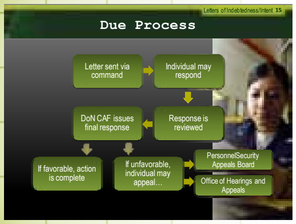
DoN CAF Adjudicative Process

There are four possible steps in a security-clearance review: First, the command initiates a PSI request. Next, an investigation is conducted by OPM. Third, DoN CAF adjudicates the investigation, either approving or denying the clearance. Finally, if denied or revoked, the member has the option or appealing DoN CAF's decision.



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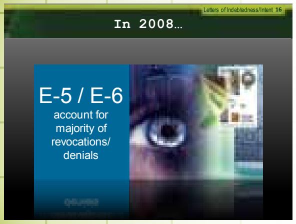
Due Process

The procedure for a Letter of Intent from DoN CAF is as follows:

- The Letter of Intent is sent to the individual via the command specifically citing reasons for DoN CAF's proposed unfavorable action.
- The individual is allowed to respond in writing to DoN CAF's concerns.
- The response to the Letter of Intent is reviewed.
- A final decision by DoN CAF is issued to the individual via the command.
- If the decision is favorable, the action is complete.
- If the due-process decision is unfavorable, the individual can do one of two things
    - Appeal the decision to the Department of Navy Personnel Security Appeals Board (PSAB). This appeal may be made in writing directly to the PSAB.
    - Appeal the decision via the Defense Office of Hearings and Appeals (DOHA). This option results in a hearing before an administrative judge, who makes the recommendation to the PSAB.



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Overview of the Statistics

In 2008, 1,288 security clearances were revoked or denied. The No. 1 reason was for financial mismanagement (1,020 revocations and denials). At 84 percent of the total, this is an astounding and problematic figure. Statistics also show that the majority of these occurred at the E-5 and E-6 pay-grade levels.

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Financial Considerations

DoN CAF provides the following details that specifically relate to the personal financial health of a member with a security clearance:

Failure or inability to live within one's means, satisfy debts, and meet financial obligations may indicate poor self-control, lack of judgment, or unwillingness to abide by rules and regulations, all of which can raise questions about an individual's reliability, trustworthiness and ability to protect classified information.

An individual who is overextended financially is at risk of having to engage in illegal acts to generate funds.

Compulsive gambling is a concern, as it may lead to financial crimes including espionage. Affluence that cannot be explained by known sources of income also is a security concern. It may indicate proceeds from financially profitable criminal acts.

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

(a) Inability or unwillingness to satisfy debts.

(b) Indebtedness caused by frivolous or irresponsible spending and the absence of any evidence of willingness or intent to pay the debt or establish a realistic plan to pay the debt.

(c) A history of not meeting financial obligations.

(d) Deceptive or illegal financial practices such as embezzlement, employee theft, check fraud, income-tax evasion, expense-account fraud, filing deceptive loan statements, and other intentional financial breaches of trust.

(e) Consistent spending beyond one's means, which may be indicated by excessive indebtedness, significant negative cash flow, high debt-to-income ratio, and/or other financial analysis.

(f) Financial problems linked to other security concerns, such as drug abuse, alcoholism, gambling problems, or other issues of security concern.

(g) Failure to file annual federal, state or local income-tax returns as required or the fraudulent filing of the same.

(h) Unexplained affluence, as shown by a lifestyle or standard of living, increase in net worth, or money transfers that cannot be explained by the subject's known legal sources of income.

(i) Compulsive or addictive gambling as indicated by an unsuccessful attempt to stop gambling; "chasing losses" (i.e., increasing the bets or returning another day in an effort to get even); concealment of gambling losses; borrowing money to fund gambling or pay gambling debts; family conflict or other problems caused by gambling.

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Mitigating Factors (circumstances that may mitigate disqualifying information)

(a) The behavior occurred so long ago, was so infrequent, or occurred under such circumstances that it is unlikely to recur and does not cast doubt on the individual's current reliability, trustworthiness or good judgment.

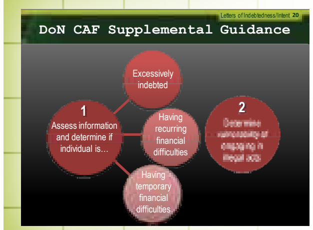
(b) The conditions that resulted in the financial problem largely were beyond the person's control (e.g., loss of employment; a business downturn; medical emergency; or a death, divorce or separation), and the individual acted responsibly under the circumstances.

(c) The person has received or is receiving counseling for the problem and/or there are clear indications that the problem is being resolved or is under control.

(d) The individual initiated a good-faith effort to repay overdue creditors or otherwise resolve debts.

(e) The individual has a reasonable basis to dispute the legitimacy of the past-due debt that is the cause of the problem and provides documented proof to substantiate the basis of the dispute or provides evidence of actions to resolve the issue.

(f) The affluence resulted from a legal source of income.



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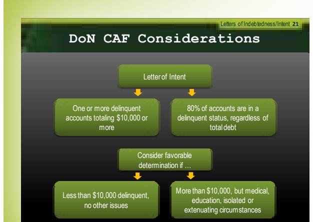
Supplemental Guidance for DoN CAF

The following supplemental guidance shall be followed in cases where an individual is overextended financially and financial considerations are the sole or primary guideline causing consideration of a due-process action:

(1) When analyzing cases involving individuals who are experiencing financial difficulties, it is DoN CAF's responsibility to assess the situation and determine whether the individual is:

- Excessively indebted (e.g., an unacceptable debt-to-income ratio)
- Experiencing recurring financial difficulties (e.g., a history of not paying debts)
- Experiencing temporary or situational difficulties (e.g., loss of job, as shown by period(s) of unemployment on the security questionnaire/clearance application or as described in the subject interview)

(2) DoN CAF's purpose as adjudicators is to assess the individual who is overextended and determine if he or she may be at risk of having to engage in illegal acts to generate funds. If it is determined that an individual is vulnerable due to their financial situation, then a Letter of Intent is warranted. Also, DoN CAF has been instructed expressly by Congress, through the General Accounting Office (GAO), to pay particular attention to individuals with clearances or in sensitive positions who misuse government credit or purchase cards. Reported fraudulent use of government credit/purchase cards (e.g., buying unauthorized goods or services; not paying the credit-card holder) will be reviewed carefully, as it may result in a Letter of Intent.



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DoN CAF will consider a Letter of Intent if the situation meets one or more of the following scenarios:

- Subject has one or more delinquent accounts totaling $10,000 or more.
- Eighty percent of the subject's accounts are in a delinquent status, regardless of the total amount of delinquent debt.

(*Delinquent accounts include, but are not limited to, accounts denoted as 30 to 180 days past due; collection accounts; charged-off accounts; repossessions; bad debts; judgments; tax liens; foreclosures; and bad checks returned due to insufficient funds). For accounts that are 30, 60 or 90 days past due, we will include only the past-due amount in the total delinquent debt. For accounts 120 days or more past due, we will include the full balance of the account in the total delinquent debt.

DoN CAF will consider a favorable determination if the situation meets one of the following scenarios:

Scenario A. Subject has less than $7,500 in delinquent debt with no other disqualifying issues. In these cases, clearance may be granted with financial considerations mitigated as "too insignificant to pursue" (unless 80 percent of the subject's accounts are in a delinquent status as specified above).

Scenario B. Subject has $7,500 to $10,000 in delinquent debt with no other disqualifying issues. In these cases, clearance may be granted if accompanied by a financial warning letter.

Scenario C. Subject has more than $10,000 in delinquent debt, but the debt is due primarily to medical treatment, education loans, isolated vehicle repossession, or foreclosure caused by extenuating circumstances credibly beyond the subject's control. In these cases, clearance may be granted if accompanied by a financial warning letter.

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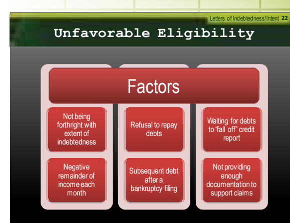

Reasons for Unfavorable Eligibility Determination

- Not being forthright with the extent of indebtedness
- Refusal to repay debts
- Waiting for debts to "fall off" credit report
- Negative remainder of income each month
- Subsequent debt after a bankruptcy filing
- Not providing adequate/sufficient documentation to support claims

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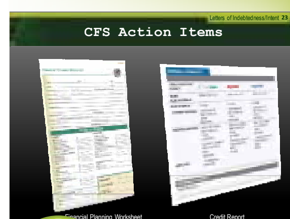

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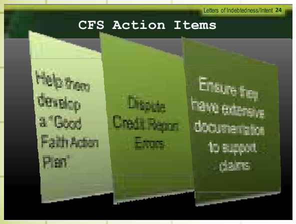
CFS Action Items for Letters of Intent

Refer learners to page 15.9 in the Student Manual.

- Stress the importance of a member being proactive in contacting you or another financial-counseling resource when experiencing financial difficulties.
- Provide a realistic Financial Planning Worksheet.
- Assist the member in obtaining a credit report from www.annualcreditreport.com.



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- Assist the member in developing a good-faith action plan to resolve financial issues.
- Ensure that the member formally disputes to one of the three credit-reporting agencies account(s) that he or she does not believe they are obligated to pay. The agencies have 30 days to provide a resolution to the dispute.
- Ensure the member has documentation to support all claims made in his or her response to the Letter of Intent. (DoN CAF indicates this is the most important action a CFS can take to assist a member.)

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Conclusion

ASK if there are any questions about Letters of Indebtedness and Letters of Intent. REINFORCE that the role of the CFS is both remedial and proactive. The remedial role occurs when a CFS assists with processing Letters of Indebtedness, responding to Letters of Intent, and any related counseling. The proactive role occurs when the CFS runs a deliberate, planned education program to keep problems from happening. ASK the learners what educational topics would be most useful to command members to reduce incidences of the LOIs. ASK what options exist for providing educational interventions other than stand-up training. ENCOURAGE learners to meet with command leadership as soon as possible to determine the current number of LOIs coming into the command and to be prepared to suggest proactive approaches to reducing (and eliminating) them. TELL them that on Thursday night, they will be asked to begin formulating a Plan of Action and Milestones for running their program back at the command, and that the topic of this session should be a part of it.

VII. FORMS

- Sample Letter of Indebtedness
- Certificate of Compliance
- Standards of Fairness
- Processing Letters of Indebtedness Flowchart and Response Letters
- Action Items for Letters of Intent

Sample Letter of Indebtedness

06/1/09

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

Dear Sir:

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

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

Please assist us in counseling your crew member.
Sincerely,

Butch Cassidy

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

Certificate of Compliance

Certificate of Compliance

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

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

Harry Fibs
Authorized Representative

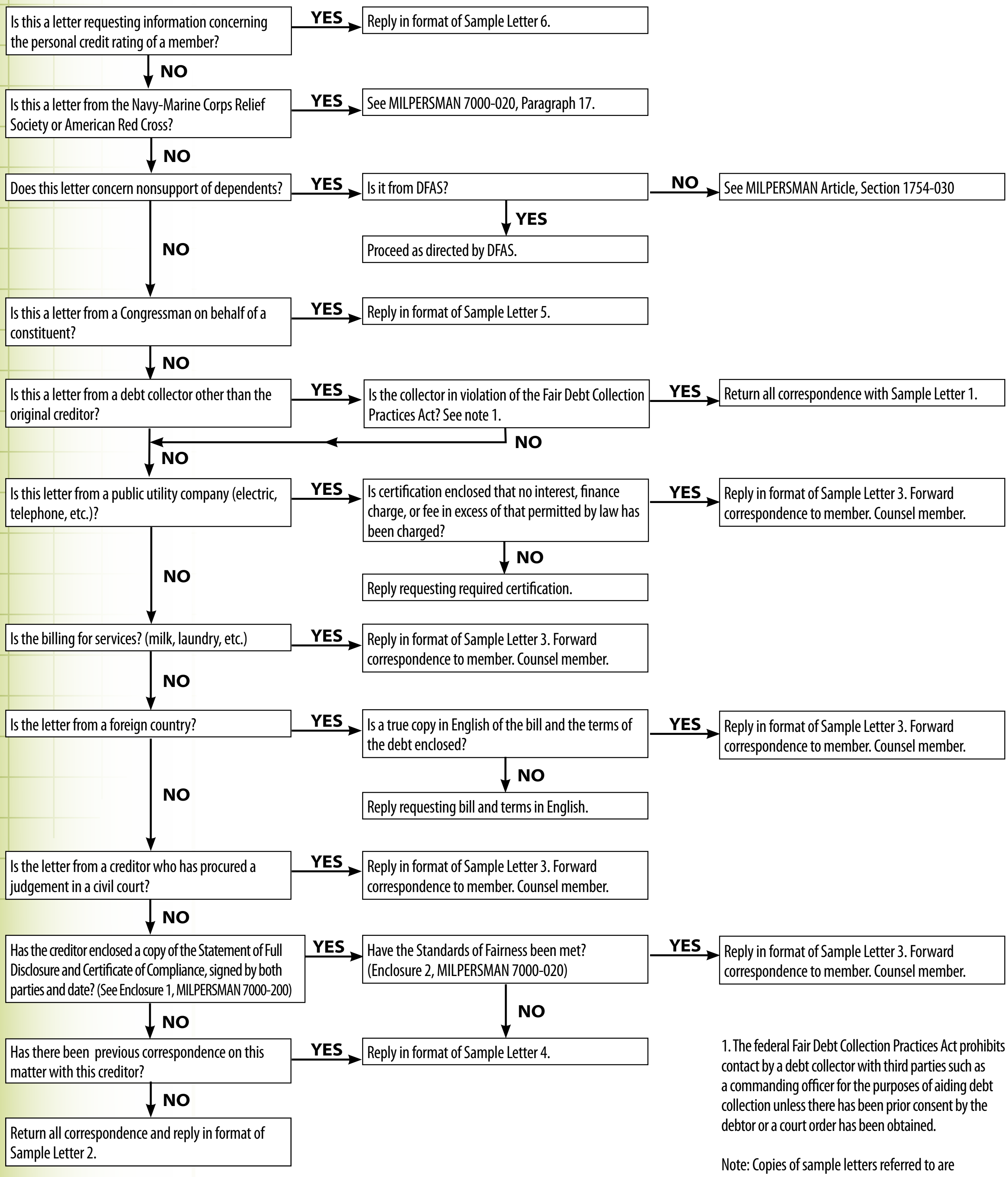
9603 Shore Drive
Street Address

Anywhere, USA
City, State and Zip Code

Standards of Fairness

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

Processing Letters of Indebtedness



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

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

Sample Letter No. 1

Dear Sir/Madam:

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

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

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

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

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

Sincerely,

Enclosure(s)

Sample Letter No. 2

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

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

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

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

Sincerely yours,

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

Sample Letter No. 3

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

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

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

Sincerely yours,

Sample Letter No. 4

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

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

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

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

Sincerely,

Encl: (1) Correspondence in this case.

Copy to : NAVPERSCOM

Sample Letter No. 5

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

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

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

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

Sincerely yours,

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

Copy to : NAVPERSCOM

Sample Letter No. 6

My Dear Sir/Madam:

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

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

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

Sincerely yours,

Action Items for Letters of Intent

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

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

Mitigating Factors (circumstances which may mitigate disqualifying information)

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

CFS Action Items for Letters of Intent

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

Life Insurance and Survivor Benefits

I. INTRODUCTION

This 60-minute session will develop the knowledge and skills that will enable the learners to provide adequate education and referrals for command members when it comes to insurance needs. Be prepared to provide local phone numbers for the appropriate sources of help and to provide information on relevant state automobile coverage requirements. Also, update all rates discussed in the content (see the update chart in Chapter 1 for source citations).

The session has two parts. The first follows the handout, "Life-Cycle Approach to Insurance Needs," which walks learners through various life-cycle events and their impact on insurance needs. The handout reviews most major types of insurance. The goal of this approach is to help the learners to understand that insurance is purchased to meet a need, and the need usually is the result of some type of life-cycle event such as marriage, birth, death, retirement, etc. Command Financial Specialists should be on the lookout for command members who experience a life event that could trigger the need to review insurance coverage, and provide the appropriate education and/or referral resources for the member.

The second part of the module focuses on life insurance. It explains the major types of life insurance and walks learners through the comprehensive "Life Insurance Needs Calculator" available at www.insurance.va.gov.

Chapter correlation to major OPNAVINST task areas:

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

II. LEARNING OBJECTIVES

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

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

If student instructors present the material:

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

III. OUTLINE

1. Introduction
   a. Purpose of Insurance
   b. Risk
2. The Life Cycle Approach to Insurance Needs
   a. Optional Presentation Method: The Life-Cycle Approach to Insurance Needs
   b. Single in Quarters
   c. Moving Off-Base
   d. Buying a Car
   e. Getting Married
   f. Having Children
   g. Buying a Home
   h. Increasing Assets
   i. Divorce
   j. Retirement/Separation
   k. Death
   l. Optional Activity: Survivor Benefits, Fact or Fiction?
3. Shopping Tips for Insurance
4. Focus on Life Insurance
   a. Optional Activity: The Life Insurance Needs Calculator
   b. How Much and What Type?
   c. Term Insurance
   d. Permanent Insurance
   e. Whole Life
   f. Universal Life

   g. Variable Universal Life
   h. Comparison of Term and Permanent Insurance
5. Common Mistakes Consumers Make When Buying Life Insurance
6. Organizing Your Records
7. Summary and Conclusion
   a. Optional Activity: Ball Toss/True or False

IV. CHAPTER PREPARATION

Presentation Time: 60 minutes

Presentation Materials

- PowerPoint slides, "Insurance"
- Student Manual Chapter 16
  - ► Life-Cycle Approach to Insurance Needs
  - ► Shopping Tips for Insurance
  - ► Your Insurance Needs: Organizing Your Records
- Life Insurance Needs Calculator
- Case Study: AT1 George Flier
- Summary of Assets and Financial Obligations for AT1 George Flier
- Life Insurance Needs Calculator for AT1 George Flier
- Survivor Benefits — Fact or Fiction? (paper version or PowerPoint game from PFMSC)
- White board, chalkboard or newsprint paper
- Markers or chalk
- Internet connection preferred but not strictly required
- Soft Koosh ball or other item to pass in class

Summary of Learner-centered Activities

- **Life-Cycle Approach.** An interactive approach to content that highlights the fact that life-cycle events determine the need to make an insurance purchase. The bulk of course content can be taught using this activity.
- **Survivor Benefits — Fact or Fiction?** Use this activity in lieu of just reviewing the information from the slide. It is a review of survivor benefits using a handout or a pre-programmed PowerPoint game.
- **The Life Insurance Needs Calculator.** An interactive approach to using a life insurance needs calculator using a case study.

- **Ball Toss/True or False.** A quick interactive method of reviewing course material by passing a ball or other item to learners and having the recipient answer a review question.

V. REFERENCES

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

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

Pike, Robert, and Busse, Chris. 1995. *101 Games for Trainers.* Minneapolis, Minn.: Lakewood Books.

Vaughan, Emmett J., and Vaughan, Therese M. 2003. *Fundamentals of Risk and Insurance. 9th ed.* Hoboken, N.J.: John Wiley and Sons Inc.

Graves, Edward E., editor. *McGill's Life Insurance, 6th ed.* Bryn Mawr, Pa.: The American College Press.

www.ambest.com (A.M. Best Co.)

www.annualcreditreport.com (free annual credit report)

www.ssa.gov (Social Security Administration)

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

www.consumerworld.org (Consumer World — insurance section)

www.insurancefraud.org (Coalition Against Insurance Fraud)

www.iii.org (Insurance Information Institute)

www.insweb.com (InsWeb.com — learning center)

www.tricare.mil (TRICARE military health system)

www.defenselink.mil (OSD — military compensation)

www.ffsp.navy.mil (Fleet and Family Support Program)

www.insurance.va.gov (Department of Veterans Affairs — VA insurance home page)

www.ltcfeds.com (Federal Long-Term Care Insurance Program)

www.cem.va.gov (National Cemetery Administration)

VI. CONTENT

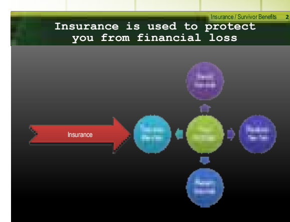
Slide 1

Introduction

Close your eyes and think about where you live. Imagine yourself sitting on your couch and think about all the items around you — things such as your TV, stereo, chair, rugs, lamps and clothes. Do you have a mental picture? If there was a terrible fire and you lost everything you have right now, would you be able to replace it? Do you have that kind of money in the bank, or do you have enough insurance to cover this loss? Imagine you were in a car accident. Do you have enough money to pay for the repairs to the cars involved? What if someone is injured in the accident — could you pay for the victim's medical expenses?

Although it never is easy to think about events like this, you can give yourself tremendous peace of mind by preparing for the possibility that they could happen. This session will cover different types of insurance plans available to help you cope with potential losses; and a common-sense approach to how, when and which product to purchase. This is called the Life-Cycle Approach to Insurance Needs.

Slide 2



Purpose of Insurance

The purpose of any insurance is protection from financial loss. Life, health, auto, homeowner's/renter's, and long-term care insurance products are designed to protect you from losses you cannot afford to cover yourself. Insurance allows an individual to substitute a small certain cost (the premium) for a large uncertain financial loss (the contingency covered by the insurance). All policies have limits, which define the maximum amount you will be paid for any loss.

Risk

There are several ways to manage the various risks to which we all are exposed. One way to do this is to *avoid* the risk altogether. For example, if you don't want anyone to drown in your pool, don't install a pool. If you don't want a disabling injury, stay away from dangerous activities. A second way is to *reduce* the risk. For example, taking a defensive driving course will reduce the risk that you will get into an accident. You also can *retain* a risk. This means you are willing to pay for whatever financial loss occurs (usually smaller losses).

For everything else you can *transfer* the risk, which means you pay an insurance company a specific fee (premium) for the promise that they will pay for a larger loss that may or may not occur. Whether it's your life, property, health or personal liability, the principles are the same — avoid and reduce the risks you can, pay for the losses you can afford, and insure whatever is left. So, what do we have left, and when do we insure it?

The Life-Cycle Approach to Insurance Needs

Optional Presentation Method:
The Life-Cycle Approach to Insurance Needs

Time: 45 minutes

Materials:

- Life-Cycle Approach to Insurance Needs handout
- Large newsprint paper and markers

Instructors have several options in presenting the majority of the information in this module. It can be presented as a straight lecture using the PowerPoint slides; by reviewing the handout as a large group; or by having small groups brainstorm insurance needs based on the life cycle and then reviewing as a group, providing the handout after the activity.

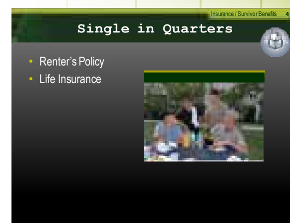
Large Group Method. Distribute the handout and allow the class to answer the questions as to what new insurance need(s) arise as a result of each life-cycle event. As each type of insurance coverage is reviewed, the instructor can ask the class if they know how the insurance works. The instructor should be prepared to discuss the basic use and workings of each type of insurance as it arises. Alternatively, the instructor can record the life event on the board and the insurance needs associated with it as the class responds to the life-cycle event. Consider using stick drawings to represent each life event and record the insurance need next to the drawing. When all the events have been covered, conduct a "silent review" of the material by flipping through the PowerPoint slides. Ask learners to read the slides silently as a review.

Small Group Method. Divide the class into 10 small groups. Assign each group a stage of life from the "Life-Cycle Approach" handout, but do not distribute the handout. Have each group brainstorm insurance needs for their stage in the life cycle, taking into consideration the prior stage in the cycle. Ask for a member of each group to report and record the responses on the board or a sheet of newsprint. After completing all 10 life events, provide the handout to the learners and congratulate them on their ideas. You also can conduct a "silent review" using the PowerPoint slides once the group work is done.

PowerPoint method. Slides 3 to 15 follow the handout and provide greater detail on the insurance need for each life event. The presentation can be done as a straight lecture using the slides along with the handout.

Slide 3

REFER learners to page 16.3 in the Student Manual, "Life-Cycle Approach to Insurance Needs." SAY everyone goes through a number of major events in their life that have an impact on their insurance needs. We all start out single and then go through a progression of different housing situations, family situations, accumulation of assets, retirement, and ultimately death. Insurance planning begins with a detailed assessment of your insurance needs and reviews each life event and the insurance requirements that go with it. Some insurance, such as health and disability, are provided by the government while on active duty — we will touch on these briefly. Other types of insurance are partly or totally the responsibility of each individual. Let's take a look at major life-cycle events and explore how we can use them to make the best insurance-purchasing decision.



Slide 4

Single in Quarters

"I don't need any insurance. I live in government quarters. I don't even have a car."

Insurance needs:

- Renter's — Yes.
- Life — Single, no dependents: Nobody suffers any real financial consequences; therefore, the need is not present, beyond covering one-time expenses such as burial costs and any outstanding debts. However, most Sailors are covered by Servicemembers' Group Life Insurance (SGLI).

Government Quarters. You need renter's insurance. The government insures the building but may not always cover your losses. Check with the Housing Office to find out what is covered. Talk with your insurance company to make sure your possessions are covered while residing in the barracks or on a ship.

Renter's Insurance. Many young service members have no renter's insurance to replace their personal property if it is destroyed or stolen. Those who fail to purchase renter's insurance can face a double problem. Not only do they lose their possessions, but the creditor will expect payments to continue. Renter's insurance is relatively inexpensive — about $10 to $25 per month. Once you have your property insured, take an inventory and keep a copy of the list somewhere safe and away from your residence. Photographs or video of your property may help in getting a full-value settlement.

Replacement-Cost Coverage. Replacement-cost coverage will pay fully to replace lost items. Actual cash value will pay only the depreciated value of the items. Always ask for replacement-cost coverage!

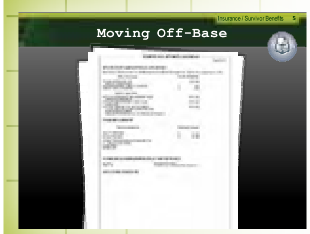
Personal Property. Some personal property, particularly high-cost items such as jewelry, guns, collectibles, sporting gear or computer equipment, usually is not covered fully under a standard policy; you may need a special rider or even a separate policy. If your personal property is not covered adequately, purchase a rider to an existing policy or a separate personal property policy. (A rider is like a mini-policy added to a bigger policy to cover specific items.) Make sure you know what is covered, what is not covered, and the policy limits. This is the case with both homeowner's and renter's policies.

Personal Liability and Medical Payments to Others. Personal liability insurance covers you when you are held responsible for the losses of others arising from your own negligence. This is included in renter's insurance policies and can be increased if needed. Such medical coverage pays for medical expenses for those injured while visiting your home.

Life Insurance: SGLI/TSGLI

Servicemembers' Group Life Insurance (SGLI) is a program of low-cost group life insurance for service members on active duty; ready reservists; members of the National Guard; members of the Commissioned Corps of the National Oceanic and Atmospheric Administration and the Public Health Service; cadets and midshipmen of the four service academies; and members of the Reserve Officer Training Corps. SGLI coverage is available in $50,000 increments up to the maximum of $400,000. Premiums currently are $0.065 per $1,000 of insurance, or $26 per month for maximum coverage, regardless of the member's age. Rates are available at www.insurance.va.gov.

Traumatic Injury Protection Under Servicemembers' Group Life Insurance (TSGLI). Every member who has SGLI also has TSGLI effective 1 Dec 2005. This coverage applies to active-duty members, reservists, National Guard members, funeral honors duty, and one-day muster duty. This benefit also is provided retroactively for members who suffer severe losses as a result of traumatic injury between 7 Oct 2001 and 1 Dec 2005, if the loss was the direct result of injuries incurred in Operations Enduring Freedom or Iraqi Freedom.



Slide 5

Moving Off-Base

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

Insurance needs:

- Renter's— Renter's insurance is necessary to replace your possessions. Without it, our friend here could end up having to continue making payments on that new furniture that was lost in the fire, as well as trying to replace it with new furniture.

Slide 6

Buying a Car

"I am buying a car with a big monthly payment, so there's no way I can afford insurance. I'll just take my chances."

Insurance needs:

- Auto — There are four basic areas of auto insurance coverage:
    1. **Liability.** Refers to your responsibility for other people's losses, both prop-

erty damage and bodily injury. It's written as three numbers. For example, 100/300/50 means $100,000 in bodily-injury coverage per person, $300,000 in bodily-injury coverage per accident, and $50,000 in property-damage coverage per accident.

2. **Collision and Comprehensive Coverage (physical damage).** If you cause an accident, collision coverage will pay to repair your vehicle (the actual cash value, not the replacement cost). Comprehensive coverage pays for damage to your car not caused by an accident, such as fire, a falling tree, theft, etc. Your insurer will pay only as much as the car was worth when the wreck occurred and not the cost of a new car.

3. **Uninsured/Underinsured Motorist Coverage.** Protects you if you are in an accident with a hit-and-run driver or someone that is uninsured or underinsured. This is a very important coverage and is mandated in some states. Despite laws requiring auto insurance, many drivers choose to go without.

4. **Medical Payments.** Covers you and your passengers for injuries no matter who is at fault.

Optional features include: rental-car reimbursement; towing and labor; and gap coverage, which pays the difference between the actual cash value and the amount left on your loan if your vehicle is totaled. Gap coverage also usually is used with leased vehicles.

Most states require drivers to purchase automobile liability insurance, and most young military drivers purchase only the minimum coverage required. However, those with assets to protect should consider increasing their level of protection. If you want to protect yourself from big repairs or a possible lawsuit, you will want to buy more than what's required.

Often, junior personnel purchasing their first car will buy their insurance from the dealer; frequently this is collision coverage only and protects only the lender's interest in the car. The service member still will need liability coverage to register the car on-base.

Purchasing auto insurance from a dealer generally is not recommended; investigating insurance coverage from several companies before going to purchase the vehicle usually is the best solution. Premiums can vary greatly from company to company.

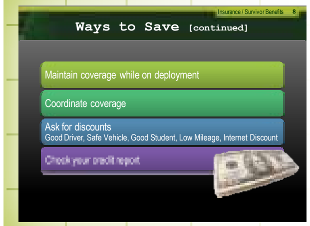
Slide 7

Ways to save:

- Select higher collision and comprehensive deductibles. This is the out-of-pocket expense you will pay for repairs. Many consumers find a deductible of $500 to $1,000 to be more cost-effective. Call and find out what your savings will be at varying levels. When opting for higher deductibles, make sure you have emergency funds to cover potential repair costs.
- If you have a second car and could afford to replace it or you could do without it for a while, you may wish to drop collision and comprehensive coverage on that

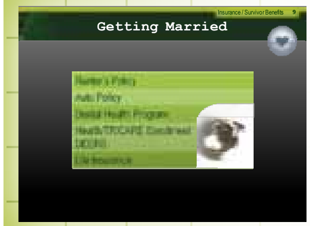
car. Compare the actual cash value (ACV) of your vehicle to the premium cost of collision and comprehensive to help you decide.

- A safe driving record helps to minimize insurance costs. For very small claims (or only slightly higher than your deductible) that involve no injuries, consider not filing for reimbursement; the increase in premium for having the accident may cost more than the amount you receive to cover the repairs!



Slide 8

- Drivers should be very selective when lending their cars.
- Maintain coverage while on deployment. Some companies will allow continued coverage at a reduced rate while service members are deployed. Contact them and let them know your car will be "off the road." If you drop coverage, your rates likely will go up when you reinstate it. If you still owe money on the vehicle, the creditor will require you to maintain coverage.
- Coordinate coverage. Many companies give discounts to customers who buy multiple policies.
- Ask about discounts. Many insurers will give discounts for safety features, such as antilock brakes, side air bags, alarms, etched windows and other antitheft devices.
- Check your credit report. Insurance companies use credit scores to determine your rates. Make sure your credit report is accurate.



Slide 9

Getting Married

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

Insurance needs:

- Renter's — Review and adjust as necessary. Add spouse's possessions to policy.
- Auto — Review and adjust as necessary. Add spouse and spouse's vehicle.
- Dental — Sign up your new family for the dental health program.
- Health — Sign up in DEERS. Use the Tricare system for lowest costs. Consider a supplemental policy if you live far from military treatment facilities.
- Life — If someone depends on your income, review your plan and determine your needs. FSGLI offers inexpensive spousal coverage.

Health Insurance. While on active duty, all of your health care and most of your family members' care is covered at no cost to you by TRICARE. In order to be covered, your dependent family members must be enrolled in the Defense Eligibility Enrollment Reporting System (DEERS) by you and then be enrolled in the TRICARE program. TRICARE has three options: Prime, Extra and Standard.

It is a good idea to consider a TRICARE supplemental policy, particularly when approaching retirement. This especially is true if you will be retiring to an area that is not near a military treatment facility, plan to use TRICARE Standard, or expect particularly high medical expenses out-of-pocket. The Navy Times has a special TRICARE issue each year that includes information on the many supplemental policies available.

Life Insurance. Do you need more life insurance at this point? That depends on your family situation.

- **The Purpose of Life Insurance.** Life insurance protects those who depend on you financially, should you die. The single most important reason to have life insurance is to replace one's income. It also can provide funds to pay off a mortgage, eliminate debts, pay educational costs, or any other financial need. If you have dependents or expect to acquire them, you probably need life insurance.
- **Married, One Income, No Children.** One spouse is dependent financially on the other. Insurance would be needed to provide for the non-working spouse during his or her adjustment period and possibly longer, depending on his or her education, employment potential and health.
- **Married, Dual Income, No Children.** Since both spouses are working, the major consideration will be providing money to pay off debts that they share and final expenses such as medical and funeral costs. Dual-income couples often have more debts as well as more money.

One thing you must remember is that all insurance policies have a beneficiary designation form. The death benefit will be paid to the person specified on the form. It is important to change your beneficiary form for your SGLI if you want your current spouse to receive the money when you pass away.

NOTE: *Additional instructor information on FSGLI follows.*

Cost. The monthly premiums for coverage for a spouse are based on his or her age and amount of coverage. This is not the least expensive term insurance available, but it is the easiest. SGLI coverage for children is free. Coverage will continue, at no extra cost to you, for 120 days after your separation from service. You will pay no premiums for your children, since coverage for them is free.

Termination. Coverage for your spouse will end 120 days after any of the following events:

- *The date you elect in writing to terminate your spouse's coverage.*
- *The date you elect in writing to terminate your own coverage.*
- *The date of your death.*
- *The date your coverage terminates.*
- *The date of your divorce.*

However, your spouse can convert his or her coverage to a permanent policy with a commercial company.

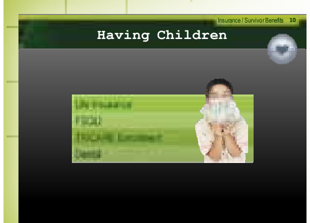
Coverage for your children ends 120 days after any of the following events:

- *The date you elect in writing to terminate your coverage.*
- *The date you separate from service.*
- *The date of your death.*
- *The date your child no longer is your dependent.*

Beneficiary. The beneficiary of the spouse and the child coverage will be the member. If the member were to die before payment could be made, the proceeds of a spouse or child claim would be paid to the member's beneficiary.

Current Spousal Premium Rates (Effective 1 Jul 2006)

Amount of Insurance	Age of Spouse						
	Under 35	35-39	40-44	45-49	50-54	55-59	60 & Over
$100,000	$5.50	$7	$9	$14	$27	$40	$52
$90,000	$4.95	$6.30	$8.10	$12.60	$24.30	$36	$46.80
$80,000	$4.40	$5.60	$7.20	$11.20	$21.60	$32	$41.60
$70,000	$3.85	$4.90	$6.30	$9.80	$18.90	$28	$36.40
$60,000	$3.30	$4.20	$5.40	$8.40	$16.20	$24	$31.20
$50,000	$2.75	$3.50	$4.50	$7	$13.50	$20	$26.00
$40,000	$2.20	$2.80	$3.60	$5.60	$10.80	$16	$20.80
$30,000	$1.65	$2.10	$2.70	$4.20	$8.10	$12	$15.60
$20,000	$1.10	$1.40	$1.80	$2.80	$5.40	$8	$10.40
$10,000	$0.55	$0.70	$0.90	$1.40	$2.70	$4	$5.20



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Having Children

"I have a new baby. I'm supposed to be responsible, but I don't even know where to begin."

Insurance needs:

- Life — Need will increase with the long-term financial responsibility of raising children. In addition, insure the other parent. Family SGLI (FSGLI) is available up to $100,000. Children under 18 are covered automatically for $10,000 under FSGLI.
- Health — Add child to DEERS and Page 2.
- Dental — Wait until the child has teeth or needs to begin care (usually age 2 to 3) and then change your enrollment to the full family plan.
- Auto — Review and adjust as needed.

- Renter's — Review and adjust as needed.

Life Insurance. Now your needs really will change. Consider a few of the issues:

- **Married With Children.** This is the time of greatest need for life insurance. Regardless of employment status, the surviving spouse generally is going to have a significant need for additional funds to offset the loss of the other spouse's income while the children are living at home or are in college. Serious insurance planning is needed for both spouses, even if one is not currently employed. Consider costs of child care if an active-duty military member is the surviving spouse. When the spouse is nonmilitary, there could be a need for additional life insurance as FSGLI benefits alone may not be sufficient.
- **Single Parents.** A single parent will want to consider who will take care of the children, if the parent should die. A significant consideration when designating a guardian should be the guardian's ability to provide for the children's financial needs. Adequate insurance should be in place to compensate the guardian for the additional expenses of raising the children.
- **Children.** Unless your child provides significant income to the home, the financial consequence of their death would be medical and burial expenses only. FSGLI provides $10,000 per child at no cost to you.
- **SGLI Family Coverage (FSGLI).** SGLI family coverage is available for the spouses and children of active-duty service members. Spousal coverage is available in $10,000 increments, up to $100,000, and cannot be greater than the service member's coverage. Premiums for spousal coverage are deducted from the member's monthly pay. Any dependent child under the age of 18 is covered automatically under family insurance which is limited to $10,000. In addition, children ages 18 to 23 who are full-time students are covered.

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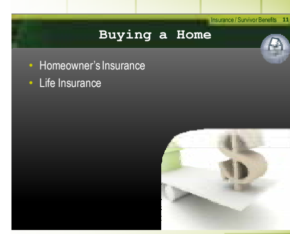

Buying a Home

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

Insurance needs:

- Homeowner's — Required by your lender to cover both the property and your personal possessions. This includes the liability coverage for someone injured on your property.
- Life — Needs increase again based on the mortgage you are carrying. In order to pay it off in the event of your demise, you will need to carry more insurance.

Homeowner's Insurance. When shopping for homeowner's insurance, there's much more to consider than how much your coverage will cost. You need to buy the right type of policy. You need the proper level of protection, plus special provisions for valuables such as jewelry, computer equipment and other possessions. You also might need additional coverage for such things as earthquakes or flooding.

- **Standard Policy.** Most homeowners purchase a standard HO-5 (homeowner's) "all risks" policy. This covers property damage to the home; damage to contents; liability against injury to others while on your property; and expenses if you are displaced for some time. Standard policies provide the same coverage regardless of which company issues them; the only real difference is the cost. Like renters, homeowners should buy replacement-cost coverage and not actual cash value.
- **Other Coverage.** Homeowner's insurance does *not* cover certain types of damage, including earth movement, water damage, power failure, neglect, war, nuclear accident, or intentional damage. Most of these perils can be covered by a separate policy specific to that issue, such as earthquake insurance. Water damage — flooding — is the most common of these other hazards. Insurance against damage due to flooding is required (and expensive) in high-risk areas. However, it generally is inexpensive elsewhere and often a wise purchase. Flood insurance is offered under the Federal Flood Insurance Program. Even though it is sold through commercial companies, the cost will be the same regardless of which company you choose; it is the one type of insurance for which comparison shopping does no good.
- **Take Inventory.** Once you have your property insured, take an inventory and keep a copy of the list somewhere safe and away from your residence. Photos or videos of each room and its contents will help you to settle a claim in the event of a loss. Don't wait until the fire to find out whether you have enough coverage. Take an inventory to help you decide how much insurance you need.

Slide 12

Increasing Assets

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

Insurance needs:

- Umbrella policy — This is in addition to your homeowner's and auto insurance. It covers you above the limits of these policies for your liability in a lawsuit.
- Long-term care — Designed to cover nursing-home and in-home care over longer periods of time.
- Homeowner's — Review and adjust as needed.
- Auto — Review and adjust as needed.
- Life — Review and adjust as needed.

Umbrella Insurance. An umbrella policy protects against loss in the event of a large damages award in a lawsuit, over and above the limits of an auto or homeowner's liability policy. Anyone with substantial assets to protect should consider an umbrella policy, as should anyone who may face particular risks. This could include owning an in-ground swimming pool; having a potentially dangerous dog for a pet; or regularly transporting other neighborhood children in your vehicle. You usually are required to have $300,000 to $500,000 of insurance coverage on your regular policies before qualifying for an umbrella policy. In addition, insurers require that you have both your homeowner's and auto policies with them. A $1 million umbrella policy often can be purchased at a relatively low cost (under $150 per year) and could prevent someone from taking years of your future income in a judgment. Members with few assets to protect probably do not need an umbrella policy.

Long-Term Care Insurance (LTC). Will long-term care costs wipe out your assets? LTC insurance is designed to help protect your assets in case you need nursing-home or in-home care.

- **Military Program.** Long-term care insurance is available to service members, retirees, spouses and certain other family members under the Long-Term Care Program. The federal government sponsors the program, but it does not pay for it. Learners choose the time period for which they will receive benefits as well as the daily benefit amount. There are a variety of options available in this program, and premiums will vary based on the options chosen. For most people, Medicare and medical insurance does not pay for long-term care. This program needs to be researched thoroughly and understood in order to make a decision on participation.
- **When to Buy.** Industry experts recommend considering buying this coverage from ages 50 to 55.

NOTE: *A full discussion about long-term care insurance is beyond the scope of this presentation. However, recommend that interested parties contact the LTC Program for details at www.ltcfeds.com or 1-800-582-3337.*

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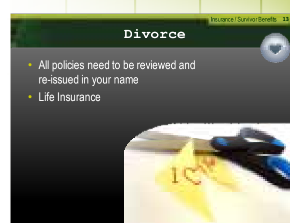

Divorce

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

Insurance needs:

- All policies need to be reviewed. Be certain to have your own policies, in your own name, for all of the areas of insurance.
- Life — It is time to re-evaluate how much you need. What expenses are you required to cover, and what plans have you made for any children? Review and update your beneficiary designation (which is different from your Page 2).

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Retirement/Separation

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

Many of the benefits you have had at little or no cost through the military now must be covered on your own. Your new employer may provide some benefits if you continue to work. However, in most cases you will have to share the cost.

Insurance needs:

- Life — You have three options. SGLI can be converted to VGLI (Veterans Group Life Insurance) at a much higher price. You can convert your SGLI to permanent insurance on a guaranteed basis with one of 54 commercial companies listed at www.va.gov. Or, if you are in good health, you can apply for new insurance.
- Health/dental — Individual health insurance policies can be very expensive. Consider your employer's policy if available. You must enroll in TRICARE as a retiree, and there will be costs attached. You may need a supplemental policy even if you are eligible for Medicare/Medicaid.
- Disability — This will replace a portion of your income should you be injured or become ill and are unable to work for an extended period. Disability coverage may be provided by your employer or purchased on an individual basis.
- Homeowner's — Review and adjust as needed.
- Auto — Review and adjust as needed.

Disability Insurance. Could you continue to pay your bills if you were injured or suffered a long-term illness? Did you know that before age 60, you are more likely to become disabled than to die in any given year? While on active duty you have disability coverage, but when you get out, you need to look at this again. Industry experts recommend minimum disability coverage of 60 percent of your annual income, but consider 70 to 80 percent, depending on your expenses.

If your spouse works, and you rely upon that income for family needs, make sure you review his or her disability coverage as well.

Disability income insurance can be obtained through an employer's group insurance policy or an individual plan. If an employer pays the group disability insurance premium, disability benefits will be taxed when you receive them. When you purchase individual disability insurance with after-tax dollars, disability benefits are received tax-free.

Your options to cover living expenses should you become disabled are:

1. Savings: The majority of families have less that $5,000 in savings.
2. Social Security disability: 70 percent of those who apply are rejected.
3. Sell your home: 48 percent of foreclosures are caused by disability.
4. Borrow: Access to credit will be based on your income.
5. Live on your spouse's income: Many families depend on two incomes already.
6. Disability insurance.

Death

Optional Activity: Survivor Benefits, Fact or Fiction?

Time: 10 minutes

Preparation: The material for this activity can be presented using the pre-programmed PowerPoint game package or conducted manually using the "Survivor Benefits, Fact or Fiction?" hard copy on page 16.9 of the Student Manual. If using the PowerPoint game, directions for running the game can be found in the introduction to the PFM Standardized Curriculum.

Procedure:

The pre-programmed PowerPoint game is Tic-Tac-Toe. Divide the class into two teams, X's and O's. The team will provide the response as either fact or fiction in answer to each question. Detailed explanation of the correct responses follows.

Alternatively, REFER learners to page 16.9 in the Student Manual and either complete it as a large group or have learners complete it independently and then review as a class.

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Answers:

1. An immediate gratuity will be paid to my survivors, usually within 36 hours.

   FACT: This is called the "Death Gratuity."

2. SGLI will be paid to my spouse or next-of-kin immediately upon confirmation of my death.

   FICTION: The death benefit of any insurance policy will be paid to whomever you have listed as your beneficiary. It is not controlled by your will. Keep this information current if you marry or divorce.

3. Any unused leave or arrears in pay is lost at the time of my death.

   FICTION: Payment is made to survivors for all the member's unused accrued leave and any arrears in pay. For example, if you die on the 10th, you are due pay from the 1st to the 10th.

4. My spouse and any children will receive monthly compensation from the government.

   FACT: This is called Dependency and Indemnity Compensation (DIC) and truly is a great benefit!

5. Social Security provides survivor benefits to both my spouse and/or my children.

   FACT: Social Security provides a $255 payment, and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from Social Security.

6. Paying for my funeral is the responsibility of my family. The government does not provide any financial assistance in this area.

   FICTION: The government will reimburse up to $6,900 of expenses for the member's burial. They will provide up to $2,000 if the remains are not recoverable. For retirees, this changes to $300 toward burial and funeral expenses and $300 toward plot interment, or $2,000 if the veteran's death is service-connected.

7. My family must vacate housing or will lose BAH within 180 days of my death.

   FICTION: Survivors are provided rent-free government housing or retain BAH for 365 days.

8. My family will be provided a no-cost final move.

   FACT: Survivors also are entitled to a transportation per diem and shipment of household goods.

9. The government will provide a flag, headstone and a burial plot in a national cemetery.

   FACT: This benefit is provided through the Department of Veterans Affairs.

10. My survivors are guaranteed acceptance at any college that receives federal funds.

    FICTION: Guaranteed college acceptance is not an educational benefit provided to survivors.

11. My family will be provided transportation to and from my funeral.

    FACT: The government will provide travel for next-of-kin under invitational travel orders.

12. My children will receive free child care at on-base Child Development Centers while my spouse attends college courses.

    FICTION: No such care is guaranteed.

13. My dependents will lose their commissary and exchange privileges at the end of one year.

    FICTION: Surviving spouses and dependents are eligible to shop at military facilities and retain that privilege until the spouse remarries or children no longer are qualified as dependents.

14. VA provides a survivors' and dependents' education-assistance program that provides monthly payments for college enrollment.

    FACT: This is called Survivors' and Dependents' Education Assistance (SDEA).

15. The Survivors Benefit Program will pay my spouse or children a portion of my monthly retirement pay.

    FACT: Active-duty members are covered by SBP at no cost until retirement.

16. A surviving spouse gets both SBP and DIC.

    FACT: However, the SBP amount is offset by the DIC amount.

17. Retirees' survivors get the same survivor benefits as active-duty survivors.

    FICTION: The benefits for the survivors of retirees differ dramatically from the benefits for survivors of active duty. Go to the VA Web site for specific information.

18. A surviving spouse continues to receive all survivor benefits, even upon remarriage.

    FICTION: Many of the benefits a surviving spouse receives stop upon remarriage. DIC, for example, ceases for the spouse if he or she gets remarried before age 57. NEX and commissary privileges cease upon remarriage as well.

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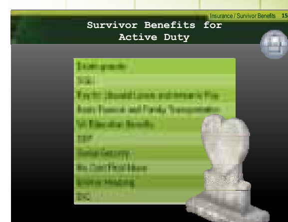


"My spouse just passed away. What can I expect financially now?"

Survivor Benefits for Active Duty. Active-duty members have a number of benefits provided by the government. These must be included in any consideration of insurance needs. Members who have left the service must depend on the policies they have put in place. Retirees will have burial benefits, Social Security and SBP as well as their own policies.

- **Death Gratuity.** A payment of $100,000 paid within 72 hours.
- **SGLI.** Standard $400,000. This coverage can be decreased or even declined entirely by the service member. It could be difficult to find a better deal elsewhere, though. Military occupations are considered "high risk," which means that a traditional policy may not cover you if you die accidentally. Remember that the beneficiary of the policy, the one who will get the money, is determined by you. This is separate from your will.
- **DIC (Dependency and Indemnity Compensation, provided by the VA).** This is $1,154 (December 2008) per month, payable to a surviving spouse. DIC is adjusted annually in accordance with the cost of living and is income tax-free. An additional benefit of $286 will be paid monthly for each child (December 2008). Survivors must apply for these benefits.
- **Social Security.** A $255 lump-sum payment, and if the surviving spouse has children 18 or under, the family will be eligible for one or more monthly checks from Social Security. The benefit amount depends on the worker's earnings history. Individuals receive an estimate of Social Security benefits yearly.
- **Supplemental VA Education Benefits.** Educational benefits are available to a surviving spouse for up to 20 years after the service member dies. Children also are eligible to use these benefits from ages 18 to 26.
- **SBP.** This is like insurance on your retirement pay. It is provided at no cost while on active duty, but you must pay for it after retirement. The amount you receive is

based on your retirement pay and the benefit amount chosen. Any SBP payment to the spouse will be offset by the amount of DIC received. Child DIC payments do not affect SBP payments. Note: Additional information on SBP can be found in the PFMSC Module on this topic.

- **Other Benefits.** The military will pay the cost of a basic funeral and provide transportation for family members. The family will be provided a no-cost final move; receive BAH or permission to live in housing for 12 months; and be paid for any accumulated leave or arrears in pay.

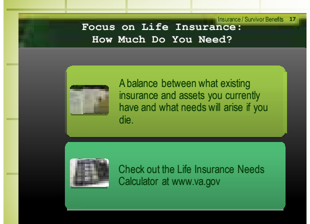
All of the above taken together provide the foundation for a sizable estate for the average service member. In fact, the U.S. government often is said to be the best benefit-paying corporation in the world if a member dies on active duty.

Slide 16

Shopping Tips for Insurance

REFER learners to page 16.5 in the Student Manual, "Shopping Tips for Insurance," which offers many ideas on keeping down insurance costs. Remember, it's your money. Don't be talked into purchasing more than you need or a product you don't understand.

- Know what you need. Don't automatically rely on what an agent says you need.
- Comparison shop. Look at the costs and benefits of several policies and types of policies.
- Understand your policy. Ask the agent lots of questions. Read the fine print!



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Focus on Life Insurance

NOTE: *If possible, save enough time to conduct the case study showing learners how the VA's Life Insurance Needs Calculator works. If no Internet connection is available, you can conduct the exercise manually with the handouts or, if time is short, simply let learners know that there is an excellent calculator available at the VA Web site and encourage them to try it in the near future.*

Optional Activity: Life Insurance Needs Calculator

Time: 20 minutes

Materials:

- Internet hookup
- Instructor notes below

Handouts:

- Life Insurance Needs Calculator Case Study: AT1 George Flier
- Life Insurance Needs Calculator (if no classroom Internet is available)

Procedure: Choose your presentation method below.

Internet Method. Ideally, an Internet hookup is available in the classroom so you can give a live demonstration of the calculator. Go to www.insurance.va.gov. Click on the SGLI/VGLI section at the left, click on the Insurance Needs Calculator, click on Use the Life Insurance Needs Calculator. Use the AT1 George Flier case study to explain the use of the calculator and determine this hypothetical service member's life insurance needs. Once you have calculated the need, click on the View Summary link to show the "Total Needs" information at the bottom. You will find it helpful to have the completed printouts available. Be sure to practice with the calculator before presenting this workshop. Note that using the numbers in the case study, the results show that AT1 Flier currently has adequate coverage.

SM
16.8

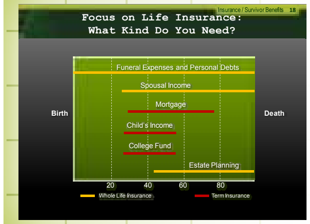
Handout Method. Refer learners to pages 16.7 and 16.8 in their Student Manual for a Life Insurance Needs Calculator blank form and Case Study. Have each learner determine the life insurance needs of AT1 George Flier. Learners can work individually, in groups, or the exercise can be done as a whole group. Write on the board the Total Financial Obligations, Total Income Needed, Total Assets and Your Insurance Needs figures from the Instructor Guide.

Discussion. Explain that the easiest way to know how much life insurance to purchase is to conduct a needs assessment. There are many life insurance needs calculators, and the VA provides one specifically for military members. By looking at your family's financial needs, your own assets that can be used to provide for them, and any gap that may exist between the two, you will determine the amount of additional insurance you need. When all existing benefits are taken into account, you may decide that you have little or no need for additional life insurance. Once you know how much you need, you then need to find the right product to meet that need. That will be discussed after looking at the calculator. Encourage all learners to spend some time in the near future putting their personal information into the calculator and assessing their own need for additional life insurance coverage.

How Much and What Type?

As we have seen, life insurance needs vary during your life. Some needs will be shorter-term (provide income until children graduate) and some longer-term, lasting until death (covering funeral expenses and personal debt). In young adulthood, the need for life insurance is minimal if you have no dependents. When you marry, and particularly when you start raising a family, the need for life insurance greatly increases. Later in life, after your children have grown up and are independent, and you have acquired other assets, the need for life insurance declines and possibly disappears.

Figuring how much life insurance to purchase (if any) is relatively easy to determine with the many needs calculators available on the Internet. The VA provides an excellent calculator specifically designed with the military member in mind. These calculators look at existing assets, employer-provided benefits, and insurance you currently have, and determine if they will cover the financial needs that will result from your death. If they do, you don't need additional insurance. If they don't, the calculators will tell you exactly how much additional insurance you need to purchase. Your next decision, then, is which type of policy will meet your needs best.



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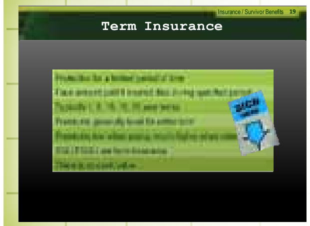
There are many different life insurance products. Some are perfect for shorter-term needs (needs that have a beginning and an end), and some are perfect for perpetual needs (providing a stream of income for a spouse or providing for burial needs). By considering your position in the life cycle and the specific need you want covered, you can determine the most appropriate product to use. The expenses you will need to cover throughout your life may be covered best by permanent insurance (also known as "whole life"), while those of limited duration may be covered best by temporary insurance (also referred to as "term").



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Term Insurance

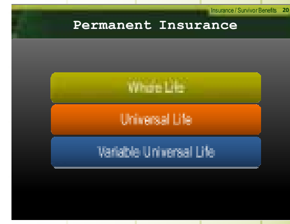
Term insurance provides protection for a limited period (the term of the policy). The face amount will be paid if the insured dies during the specified period. Nothing is paid if the insured survives. Term insurance is purchased for periods of 1, 5, 10, 15, 20 and even 30 years. Premiums for 1-year term plans increase annually. For 5-, 10-, 15-, 20- and 30-year plans, the premiums generally remain level for the entire term. Some term plans allow you to renew for an additional term. You also may be able to convert your term policy to a permanent insurance plan in the future on a guaranteed basis. Make sure you understand the options.

Term insurance is known as "pure" insurance; you pay only for the cost of insurance, no frills.

Example: Statistics tell us that 1.07 percent of 21-year-old women will die. If we have a group of 100,000 21-year-old women and want to provide each of them with $1,000 of life insurance for the year, we need to collect $1.07 from each to cover the 107 ($107,000) deaths in the year. At age 25, as the percentage of deaths increase, we need to collect $1.16 from each member to provide the $1,000. At age 40, the cost increases to $2.42. At age 50, it is up to $4.96. When the members of this group are age 70, the cost has reached $22.11!

It is easy to see that term insurance becomes prohibitively expensive when death becomes more likely to occur.

Term insurance is a good way to provide much-needed protection when you are young and have financial obligations. It also is a good buy if you want permanent insurance but cannot afford it yet. SGLI and FSGLI are term insurance. If you die during the term, the face amount is paid to your beneficiary.



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Permanent Insurance

Unlike term insurance, which covers you for a certain period of time, permanent insurance covers you whenever you die. There are many types and variations of permanent insurance. All feature a cash-value component. The three most common are whole life, universal life and variable universal life.

Whole Life

Premiums for whole life insurance are much higher than for a comparable amount of term insurance in the early years. The higher premiums are used to cover the small amount needed for "pure insurance," and the rest is set in reserve to offset increasing costs in the future. This reserve money (cash value) is invested conservatively and belongs to the insurance company until the insured surrenders the policy, borrows it, or dies. If the company finds that it did not need the entire premium charged, it may return it to the insured. This return of the unused premium is called a dividend. Insurance policy dividends are not taxed and can be received in cash, used to buy paid-up additional insurance, purchase term insurance, or be held by the company and receive interest. The dividends also can be used to pay future premiums.

Once it is purchased, a whole life policy remains in place for as long as you pay the premiums, normally for the whole life of the insured.

Universal Life

Universal life insurance became popular in the 1980s. It offers more flexibility to the policy owner in setting premium amounts and death-benefit options. Another unique feature of universal life is that all policy costs are disclosed fully, which offers a transparency not available with other forms of insurance.

The premium is deposited into an interest-sensitive fund (accumulation fund). The insurance company periodically withdraws money from the fund to cover term insurance costs, company expenses, and any other policy-related fees. The excess premium dollars continue to earn interest. Similar to whole life, the accumulated money can be borrowed or withdrawn at the discretion of the policy owner. As long as enough money remains in the fund to cover term insurance charges and company expenses, the policy stays in force. Of course, it is important to understand your policy, as each company has its own rules and requirements.

Universal life also allows the insured to increase (with company approval) or reduce the policy face amount as needs change.

Variable Universal Life

Variable universal life insurance is similar to universal life except that, in addition to an interest-sensitive fund, it offers the policy owner the option to invest in mutual fund sub-accounts to achieve a potentially higher return than whole or universal life. This type of policy carries higher risk, as it is subject to market fluctuations. Potential buyers also should be mindful of fees relating to the investment accounts. Make sure to ask for a prospectus. Insurance agents selling variable universal life must be securities-licensed.

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Comparison of Term and Permanent Insurance

Advantages of term life insurance:

- Less costly, particularly in the early years, when the purchaser is young. This is the time when the need for the insurance normally is greatest.
- Useful for limited-duration needs such as a mortgage or education expenses.

Disadvantages of term life insurance:

- Cost increases steadily with age.
- There is no cash-value buildup.

Advantages of whole life insurance:

- Premiums remain level.
- Insurance coverage is for life as long as premiums are paid.
- Builds cash value which may be used later.
- Loans can be taken against the cash value at a low interest rate, but this option will reduce the death benefit by the amount of the loan.
- Often, additional insurance may be purchased without evidence of insurability.
- Cost-effective way to purchase insurance you intend to keep long-term.

Disadvantages of whole life insurance:

- Far more expensive than term policies, particularly when an individual is young.
- Since insurance and savings are “bundled” together, it often is difficult to compare policies accurately.
- The actual return on the cash-value build-up can be very low; it is difficult to estimate future cash values accurately; other than a low guaranteed minimum (normally based on a 3.5 percent or 4 percent rate of return), there are no assurances of any dollar amount available in the future. Computer projections may or may not be realistic.
- Initial expenses generally mean there is little or no cash buildup in the early years of the policy. Some surrender charges are in effect for the first 10 to 20 years.

1. Features to consider:

   When shopping for new insurance, or when considering replacing an existing policy, you must compare the various features and costs involved to determine which policy best meets your needs at the cost you can afford.

   - The first feature to consider is face amount — the amount of coverage you need. If, for example, you need $250,000 of coverage, you cannot compromise on that amount. To do so would be to put your family's financial future at risk. Once you have determined the face amount, you then can determine which policy is the best value, both now and in the future.
   - Any insurance policy worthy of consideration must have a guarantee of renewability through the entire period when the protection will be needed. If, for example, you reasonably foresee a need for insurance until you are 65 years old, you should consider only those policies that guarantee protection through that age.
   - As an active-duty military member, you should ensure that any policy you purchase contains no war clause (excluding coverage due to combat or any combat-related activity). Many companies have suspended or eliminated war clauses. Ask for a specimen policy to review. Don't buy based solely on someone's word.
   - Check for other possible limitations on coverage that may apply to you. Check the financial strength of the company. Past failures of some large insurers make it essential to check the financial stability of the company from which you plan to purchase a policy. Rating agencies such as A.M. Best, Standard and Poor's, Moody's, and Weiss rate insurance company strength. A++, AAA and Aaa are the highest ratings for safety. While these ratings vary and are somewhat complicated, a good general guideline might be to use extreme caution when dealing with a company that has a letter less than "A" in its ratings.
   - Finally, cost. Cost comparisons between cash-value policies often are difficult. If you are considering a cash-value policy, use caution when you analyze illustrations. Be sure to compare the return on the policy with a similar investment type you could purchase outside of the policy. The projected rate of return should be reasonable considering current market conditions. Check carefully both guaranteed and projected dollar figures on any illustration. The predicted cash-value build-up within an insurance policy may not be based on any historical or factual data. In addition, commissions take a larger bite out of the cash value in the early years (as much as 100 percent of premiums in year one), thus reducing the amount of money working for you.

NOTE: *Additional information is provided here for questions that may arise during the discussion of life insurance..*

- An excellent way to compare policies and research costs, particularly for term insurance, is to use the Internet price-comparison resources. Double-check your findings. Consumer or financial publications often can provide valuable insurance information. *Consumer Reports magazine,* for example, periodically publishes an extensive series of articles dealing with life insurance. This includes comparative ratings for sample policies from many companies. Several quote services are available that provide low-cost insurance, particularly term insurance. The Internet offers numerous opportunities for comparing life insurance quotes. Active-duty service members also should check with Navy Mutual Aid Association for an additional comparison. (The association is non-profit and has no sales agents.)

2. Should you replace your old policy?

WARNING!! Emphasize that learners should not cancel an existing policy until they have done a thorough needs assessment and spoken with a qualified life insurance or financial planning professional. Put any new policy in place before canceling an old one.

In general, you may consider replacing an old policy if:

- You are healthy (insurable).
- You can lower your cost per $1,000 of coverage significantly.
- You currently hold several policies. (Each policy typically has an annual administrative fee of $25 to $50. For someone with five policies, that could be as much as $250 a year that could be applied toward the premiums of just one policy.)
- Your current policies are based on old mortality tables. Life expectancy is increasing; therefore, the cost per $1,000 of insurance protection for any age group is going down. Depending on the age of your policies, the difference between the older rates and the current rates can be significant.

Do not replace an existing policy if:

- Your health has declined to the point where it would affect the cost of the premiums adversely.
- Your costs per $1,000 of coverage will not decrease.
- You don't plan on saving the difference between the old and new premiums.
- You don't think you can handle the pressure that your old agent might put on you to keep the existing policy. (Since most insurance commissions are paid in the first year, there seldom will be pressure not to replace a policy over one year old. Even if there is, that should not influence your decision.)
- Also remember that canceling any existing cash-value policy in the early years usually will result in the loss of the cash value. Even an attractive cash-value policy generally must be held 20 years or more to receive a good rate of return.

3. Factors affecting life insurance costs:

   - Age. The possibility of death increases each year as you grow older; therefore, the "risk" being assumed by the insurance company is greater. The cost of the "insurance" portion of any policy will increase with age.
   - Gender. For any age, women have a longer life expectancy than men; therefore, their insurance costs are less.
   - Occupation. The cost of life insurance can increase dramatically for those in "high-risk" jobs such as demolition specialists, race drivers, or scuba divers. People with dangerous hobbies also can be affected the same way.
   - Health. Your state of health determines not only your costs but in some instances will determine if you even are insurable. Those with chronic health problems will face higher insurance premiums.
   - Lifestyle. Certain lifestyle choices can affect insurance premiums. For example, smokers will pay almost twice as much for life insurance as a non-smoker of the same age. Most insurance companies consider you to be a smoker if you have used tobacco in any form at any time in the previous 12 months. Once a smoker quits, the rate for insurance normally will be reduced to the non-smoker rates after 12 or more months.

4. Selecting an agent:

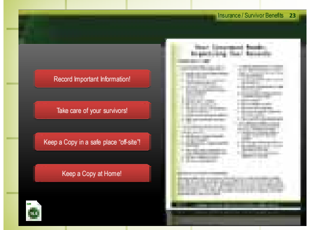
   Interview a number of agents that specialize in the type of insurance you need. The person that handles your auto and homeowner's insurance may not be the best person for advice on life or disability insurance. Make sure they are operating with your best interests in mind. Credentials such as CFP® (Certified Financial Planner®), CLU (Chartered Life Underwriter) or ChFC (Chartered Financial Consultant) are designations that indicate the agent has undergone considerable training and has continuing education requirements. Anyone who uses these designations signs an ethics agreement.

Slide 22

Common Mistakes Consumers Make When Buying Life Insurance

- Using term insurance for long-term needs.
- Using permanent insurance for short-term needs.
- Not understanding the true purpose of insurance. Buy life insurance to protect your loved ones from a catastrophic loss of income.
- Using life insurance purely as a savings vehicle. These policies offer protection with cash-value, which adds to the cost and reduces returns. An IRA, TSP and/or 401(k) are better options for savings.
- Not understanding what you're buying.

- Putting too much trust in an agent. Do your homework, and don't rely on your agent exclusively to tell you what's best. Remember, they usually work on commission, and their advice may be slanted. Let the life-cycle event determine the need, not the salesperson.
- Holding onto a policy forever. Your needs change when your life changes. Stay up-to-date and change your insurance, too.
- Buying unnecessary insurance.
- Feeling rushed. Take your time; give yourself at least a 24-hour "cooling-off" period just as you should before making any other big-dollar purchase. Be aware that you have at least 10 days after delivery to return a life insurance policy for a full refund if you change your mind.

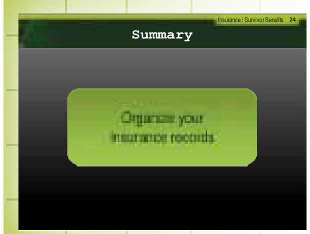


Slide 23

Organizing Your Records

SM 16.6

REFER learners to page 16.6 in the Student Manual, "Organizing Your Records." This form provides important suggestions for keeping all of your life insurance policies in order. Ensure that your beneficiaries will be able to locate and submit a claim on your life insurance quickly and efficiently by having copies of your life insurance records in at least two places. This will make it less likely that you'll lose them and more likely that, after your death, your beneficiaries will find them.



Slide 24

Summary and Conclusion

If other people are dependent on you for their financial well-being, having no insurance plan in place, or being underinsured, can be a costly mistake.
Be sure to:

- Determine your needs according to life-cycle events.
- With every event, review all insurance.
- Shop around for the best deal.
- Buy insurance; don't let it be "sold" to you.
- Use the VA's Life Insurance Needs Calculator.
- Organize your insurance records.

By using the basic information, handouts and calculator information in this program, not only will you be sure to purchase the best insurance for your needs, you also will have purchased tremendous peace of mind.

Optional Activity: Ball Toss/True or False

Time: 3 to 5 minutes

Preparation: Any soft ball, stuffed animal, even a large wad of paper will work.

Procedure: Ask the class to stand and form a circle. Ask the first question below and then toss the ball to a learner for the answer. If they do not know, they can pass it to another learner. Once any discussion about the question has been completed, ask the next question and allow the ball to be tossed to someone new. Continue in this manner until the review is complete.

1. Whole life insurance is the only type of life insurance you'll ever need.

   FALSE: It depends on your personal financial situation, and usually term is less expensive.

2. You should insure against large losses and take care of the small losses yourself.

   TRUE: You cannot insure against all risk. Don't be "insurance poor."

3. Since I carry the maximum, I have $400,000 in cash value in my SGLI.

   FALSE: SGLI is term insurance and so has no cash value.

4. You should match your insurance product with the type of need you have.

   TRUE: Use term for needs with a distinct end, and use permanent or whole life for perpetual needs.

5. Term insurance is more costly than whole life in the early years.

   FALSE: Whole life is more expensive in the early years.

6. Any permanent product makes an excellent addition to your other investments because of the growth of cash value.

   FALSE: Although cash value may grow, life insurance shouldn't be purchased as a type of investment.

7. The insurance salesman will tell me how much life insurance I need to buy.

   TRUE: Any salesman will be happy to tell you how much you need to buy. However, you can figure it out yourself, and that is the better route.

8. A great way to reduce the cost of insurance is to reduce the deductible.

   FALSE: Increase the deductible to reduce cost. However, make sure you don't increase it so much that you can't afford to pay it!

9. You can get either DIC or DEA but not both.

   FALSE: In most cases, you are entitled to both.

10. You can get either SGLI or the Death Gratuity but not both.

    FALSE: You get both.

11. Renter's insurance is a waste of money.

    FALSE: It may be the best money you've spent in a while! Of course, if you have absolutely nothing to insure, then it is a waste.

12. Bonus: What does "SBP" mean?

    Survivor Benefit Plan.

VII. FORMS

- Life-Cycle Approach to Insurance Needs
- Shopping Tips for Insurance
- Your Insurance Needs: Organizing Your Records
- Life Insurance Needs Calculator
- Case Study: AT1 George Flier
- Summary of Assets and Financial Obligations for AT1 George Flier
- Life Insurance Needs Calculator for AT1 George Flier
- Survivor Benefits — Fact or Fiction?

Life Cycle Approach to Insurance Needs

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

Single in Quarters

"I don't need any insurance. I live in government quarters. I don't even have a car."

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

Moving Off-Base

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

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

Buying a Car

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

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

Getting Married

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

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

Having Children

"I have a baby now. I'm supposed to be responsible but I don't even know where to begin."

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

Buying a Home/Condo/Mobile Home

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

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

Increasing Assets

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

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

Divorce

Divorce

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

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

Retirement/Separation

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

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

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

Death

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

Active Duty members:

- Death Gratuity: $100,000 paid within 36 hours
- SGLI: Up to $400,000
- Dependency and Indemnity Compensation
- Accumulated leave and/or arrears in pay
- Burial
- Travel or funeral
- 12 months BAH or time in quarters
- Final household goods shipment
- Survivor Benefit Plan (SBP) Automatic
- Social Security Survivor Benefits
- VA Education Benefits

Out of Military:

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

Retirees:

- SBP if elected
- Social Security
- Burial

Shopping Tips for Insurance

Save Money on Auto Insurance

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

Tips to Remember

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

Save Money on Homeowner's Insurance

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

Websites

Military Specific:

www.va.gov

www.tricare.osd.mil

www.ltcfeds.gov

www.insurance.va.gov

Consumer Infomation:

www.consumerworld.org

www.insurancefraud.org

www.iii.org

www.insweb.com

www.ambest.com

www.standardandpoors.com

www.naic.org

www.term4sale.com

www.accuquote.com

www.ssa.gov

www.quotesmith.com

Your Insurance Needs: Organizing Your Records

INFORMATION TO KEEP:

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

WHERE TO KEEP THE INFORMATION:

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

Life Insurance Needs Calculator

Financial Obligations: Immediate Cash Needs

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

Housing Costs
- ☐ I own my home.
- ☐ I rent my home. ________________

Total Estimated Education Costs
- ☐ I want to estimate educational costs for my children.
- ☐ I don't need to estimate educational costs. ________________

Car Loans Outstanding Balance ________________

Home Equity Loans Outstanding Balance ________________

Credit Card and Other Personal Debt ________________

Emergency Fund ________________

Income Available to Your Survivors

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

Annual Social Security Survivor Benefit ________________

Annual Survivor Benefit Plan Income ________________

Annual Pension Plan Amount ________________

Survivor's Annual Earnings from Work ________________

Survivor's Annual Earnings from Dividends and Interest ________________

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

Income Needed to Support Your Survivors

Annual Income Amount Needed ________________

Number of Years Income will be Needed ________________

Net Income Needed to Support Survivors ________________

Assets: Lump Sum Payments Available to Your Survivors

Thrift Savings Plan Benefit ________________

Current Investments ________________

Servicemembers' or Veterans' Group Life Insurance Coverage ________________

Other Life Insurance Coverage ________________

VA Educational Benefits for Spouses and Children ________________

Other Lump Sum Payments ________________

Life Insurance Needed: ________________

Life Insurance Needs Calculator Case Study

AT1 George Flier

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

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

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

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

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

Summary of Assets and Financial Obligations for AT1 George FlIer

Financial Obligations: Immediate Cash Needs		Income Needed to Support Your Survivors		Assets:	
		Annual Income Available:			
Death Expenses:	$2,000	DIC or Death Pension:	$22,344	Thrift Savings Plan:	$1,000
Housing Costs:	$180,000	Social Security Survivor Benefit:	$30,204	Current Investments:	$0
Estimated Education Costs:	$0	Survivor Benefit Plan Income:	$5,988	SGLI or VGLI Coverage	$400,000
Car Loans:	$10,000	Pension Plan Amount:	$0	Other Life Insurance Coverage:	$0
Home Equity Loans:	$0	Survivor's Work Earnings:	$10,000	Lump Sum Pension Plan:	$0
Credit Card and Personal Debt:	$9,500	Survivor's Dividends& Interest:	$0	Other Lump Sum Payments	$0
Emergency Fund:	$11,400	Survivor's Other Income:	$0	VA Educational Benefits:	$0
		Total Annual Income Available:	$68,536		
		Survivors Annual Income Needed	$45,600		
		Number of years needed:	15		
Total Financial Obligations:	$212,900	Net Income Needed:	$0	Total Assets:	$401,000

$212,900 + $0 - $401,000 = ($188,100)

Your Insurance Needs: NONE

Life Insurance Needs Calculator for AT1 George Flier

Financial Obligations: Immediate Cash Needs

Death Expenses (Burial and Funeral Costs, Uninsured Medical Costs, Estate Taxes, and Estate Settlement expenses such as legal fees)	2000
Housing Costs ☒ I own my home. ☐ I rent my home.	180,000
Total Estimated Education Costs ☐ I want to estimate educational costs for my children. ☒ I don't need to estimate educational costs.	0
Car Loans Outstanding Balance	10,000
Home Equity Loans Outstanding Balance	0
Credit Card and Other Personal Debt	9,500
Emergency Fund	11,400

Income Available to Your Survivors

Annual VA Dependency and Indemnity Compensation (DIC) or Death Pension Income	22,344
Annual Social Security Survivor Benefit	30,204
Annual Survivor Benefit Plan Income	7,873
Annual Pension Plan Amount	0
Survivor's Annual Earnings from Work	10,000
Survivor's Annual Earnings from Dividends and Interest	0
Survivor's Other Annual Income (Money from Rental Properties, Private Loan Payments from Others, Annuities)	0

Income Needed to Support Your Survivors

Annual Income Amount Needed	45,600
Number of Years Income will be Needed	15
Net Income Needed to Support Survivors	0

Assets: Lump Sum Payments Available to Your Survivors

Thrift Savings Plan Benefit	1,000
Current Investments	0
Servicemembers' or Veterans' Group Life Insurance Coverage	400,000
Other Life Insurance Coverage	0
VA Educational Benefits for Spouses and Children	0
Other Lump Sum Payments	0

Life Insurance Needed: None

SURVIVOR BENEFITS: FACT OR FICTION

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

www.ssa.gov (Social Security Administration)

www.defenselink.mil (OSD — Military Compensation)

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

eFPW Demonstration

I. INTRODUCTION

This session provides a short demonstration of the electronic Financial Planning Worksheet (eFPW) before the learners use it with their group case studies. Trainers should be completely familiar with the eFPW, have the current version on their classroom computer, and provide a copy of it to each of the learners. The demonstration should take 30 to 45 minutes.

The eFPW demonstration consists of an overview of the format of the Excel version of the FPW, and a brief demonstration of inputting information. Upon completion of the demonstration, learners should proceed to the computer lab and practice using the spreadsheet with their group case studies. The real learning takes place in the computer lab, so this demonstration should be viewed as a familiarization exercise. Learners are provided with detailed instructions for using the eFPW in their manual; therefore, it is not necessary to spend a lot of time going over each of the options in the drop-down menus.

II. LEARNING OBJECTIVE

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

III. OUTLINE

1. Getting Ready
2. Net Worth
3. Monthly Income
4. Monthly Savings and Living Expenses
5. Indebtedness
6. Action Plan
7. Spending Plan
8. Monthly Spending Record
9. Full Steam
10. TSP Investments
11. Pay Scales
12. Printing
13. Frequently Asked Questions

14. Conclusion of the eFPW Demo
    a. Activity: Using the FPW

IV. CHAPTER PREPARATION

Presentation Time: Demo: 25 minutes; Group Case Study Application: 60 minutes

Presentation Materials

- Student Manual Chapter 17
- Student disk containing the most current eFPW, one for each learner
- Have the most current version of the eFPW on the classroom computer. Have enough computers available for each group to use with their case studies after the demo.

Summary of Learner-centered Activity

- **Using the FPW.** After seeing the eFPW demonstrated by the trainer, the learner will work in their groups to put their group case study financial planning worksheet into an eFPW file.

V. REFERENCES: N/A

VI. CONTENT

Getting Ready

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

- Under Macro, select Security.
- Under Security Level, select Medium.
- Click OK.

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

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

2. **Save.** Remind learners to save the file under a different name immediately, to ensure they don't write on the template.
3. **Tabs.** Explain each tab at the bottom without going into too much detail:
   - Net Worth: Personal Information and Net Worth Calculation. Several cells on this page must be filled out first for the rest of the form to calculate income and expenses.
   - Income: Calculates income, both actual and projected, and feeds into summary.
   - Living Expenses: Calculates Savings and Living Expenses, both actual and projected, and feeds into summary.
   - Indebtedness: Calculates indebtedness, summary, debt-to-income ratio and feeds into summary and net worth statement.
   - Action Plan: Proposed options/goals/referrals.
   - Spending Plan: Calculates the spending plan based on the projected (or actual) column of the budget.
   - Monthly Spending Record: Prints out a two-page form for daily expense tracking.
   - FullSteam: Contains a debt-reduction program through the use of power payments. Indebtedness/loan information entered on the "Indebtedness" page is entered automatically on the FullSteam page.
   - TSP: [Not functional in 2009 version.]
   - Pay Scale: Contains the pay scales as of the date of the template. Must be updated when pay scales change or download a new file from the Web site.
   - Help: [Not functional in 2009 version.]

4. **Detail on Sheets.** After you have given an overview of the tabs, go back to each tab and expand where necessary. You may find it helpful to use a fictional case and enter the numbers as you demonstrate the eFPW.

Net Worth (Page 1)

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

Personal Information Section

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

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

Statement of Net Worth Section

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

Monthly Income (Page 2)

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

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

Entitlements

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

Deductions

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

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

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

Monthly Savings and Living Expenses (Page 3)

Savings

- Savings and Investments are totaled separately from Living Expenses.
- TSP is entered automatically from Income page.
- A calculated Savings-to-Income ratio is displayed in the remarks column.

Living Expenses

- Relevant allotments and deductions entered on Page 1 or Page 2 are transferred automatically to this section.
- Living expenses are totaled separately and do not include savings and investment amounts from the top of the page.
- A calculated Living Expenses-to-Income ratio is displayed in the remarks column.
- If a line item is not used, it can be changed/overwritten to reflect other expenses a client may have.
- Show total monthly living expenses at the bottom, and then go to the summary at the bottom of the Indebtedness page and show how the amount has been carried forward.

- Encourage the Command Financial Specialists to use the "Remarks" column copiously.

Indebtedness (Page 4)

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

- Advance payments and overpayments are entered automatically, but outstanding balances for each must be entered.
- Enter remainder of creditors using required minimum monthly payment amounts, even if the member pays more than the minimum. This will result in a more accurate debt-to-income ratio calculation.
- If the sample case you are using has any advance pay or overpayments, show how these amounts are carried over automatically. For demonstration purposes, fill in any other debts. Be sure to use the minimum payment in the actual column to get an accurate debt-to-income ratio.
- Show how the FPW totals the columns, and carry the amounts into the summary.
- Show the completed summary and the debt-to-income ratio. Note "actual" and "projected" amounts.

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

Action Plan (Page 5)

Show all sections of the page, highlighting the section for proposed actions, referrals/ training, and goal-setting.

Spending Plan (Page 6)

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

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

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

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

- It will be necessary to subtract any other savings and living expenses that are deducted automatically from pay or are paid by allotment (e.g., other insurance and charity allotments when using the Take Home Pay method). When using the Net Pay option, advance payments and overpayments will be added automatically to the creditor's section.

- If using take-home pay, it will be necessary to delete any creditor paid by allotment. To delete creditors that are paid by allotment, use the checkbox next to the creditor name to remove amounts from the Spending Plan.
- Savings and Living Expenses are divided equally between the 1st and 15th. To move all or part of an expense, enter the amount paid on the 1st ("C" Column) and the remaining amount will be entered for the 15th automatically.
- Creditor amounts are entered automatically on the 1st by default. To move all or part of a payment, enter the amount paid on the 1st ("C" Column) and the remaining will be entered on the 15th automatically.
- To reset all formulas to the default settings, use the Control Button above Column "C."
- Using your fictional client, show that the amounts filled in default from the projected column of the budget.
- Explain that the client must fill in what they are planning on paying on the 1st and 15th, and then track what they actually pay on the 1st and 15th.
- For debts, clients should enter what they actually plan on paying, if it differs from the minimum monthly payment.
- Suggest that the client print this page to monitor expenses.

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

Monthly Spending Record (Pages 7 and 8)

These two pages are used to track daily expenditures.

FullSteam (Page 9)

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

Using FullSteam

- Indebtedness/loan information is entered on the "Indebtedness" page. This data is entered automatically on the FullSteam page. MO.PYMT/PROJ.PMT and BALANCE are mandatory entries. Creditor name and APR are optional. In order to make this a realistic and useful tool, APR should be entered.
- After data is entered on the "Indebtedness" page, select one of the FullSteam methods of repayment from the menu or by right-clicking on the "Indebtedness" or "FullSteam" page. Depending on the speed of the computer, this might take up to 10 seconds.

- After calculations occur, FullSteam will fill in the loan amortization. The user may view the amortization by scrolling through the worksheet or using the amortization menu to skip quickly to a specified loan.
- FullSteam contains cells for adding extra money (Extra Steam) each month and/or up to three lump sums of money (Blast of Steam) in a given month/year.
- FullSteam is limited to 23 loans/creditors with no more than 360 payments (30 years).

Printing FullSteam

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

TSP Investments (Page 10)

[This function is unavailable in the 2009 version.]

Pay Scales

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

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

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

Printing

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

- To print the current page, you can use the printer icon on the tool bar.
- To print the entire workbook, use File, Print and select "print entire workbook." Be aware this workbook is over 25 pages.

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

To print selected pages, hold down the CTRL key and click on the tabs of the pages you would like to print. Click once to select, and click the same tab again to de-select. Once you have selected the pages, click on the printer icon on the tool bar to print.

Frequently Asked Questions

1. The worksheet does not function correctly.

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

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

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

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

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

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

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

5. Pick Lists are blank or a solid color.

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

Conclusion of the FPW Demonstration

Activity: Using the eFPW

Time: 1 hour

Materials: one computer for each group, loaded with the current eFPW.

Process:

ASK for any questions on the eFPW. Explain that the learners will have the opportunity to use it with their case studies in the upcoming hour. If necessary, distribute disks with the current eFPW on it. As groups put their case study data on an eFPW, circulate among the groups and assist/clarify as needed.