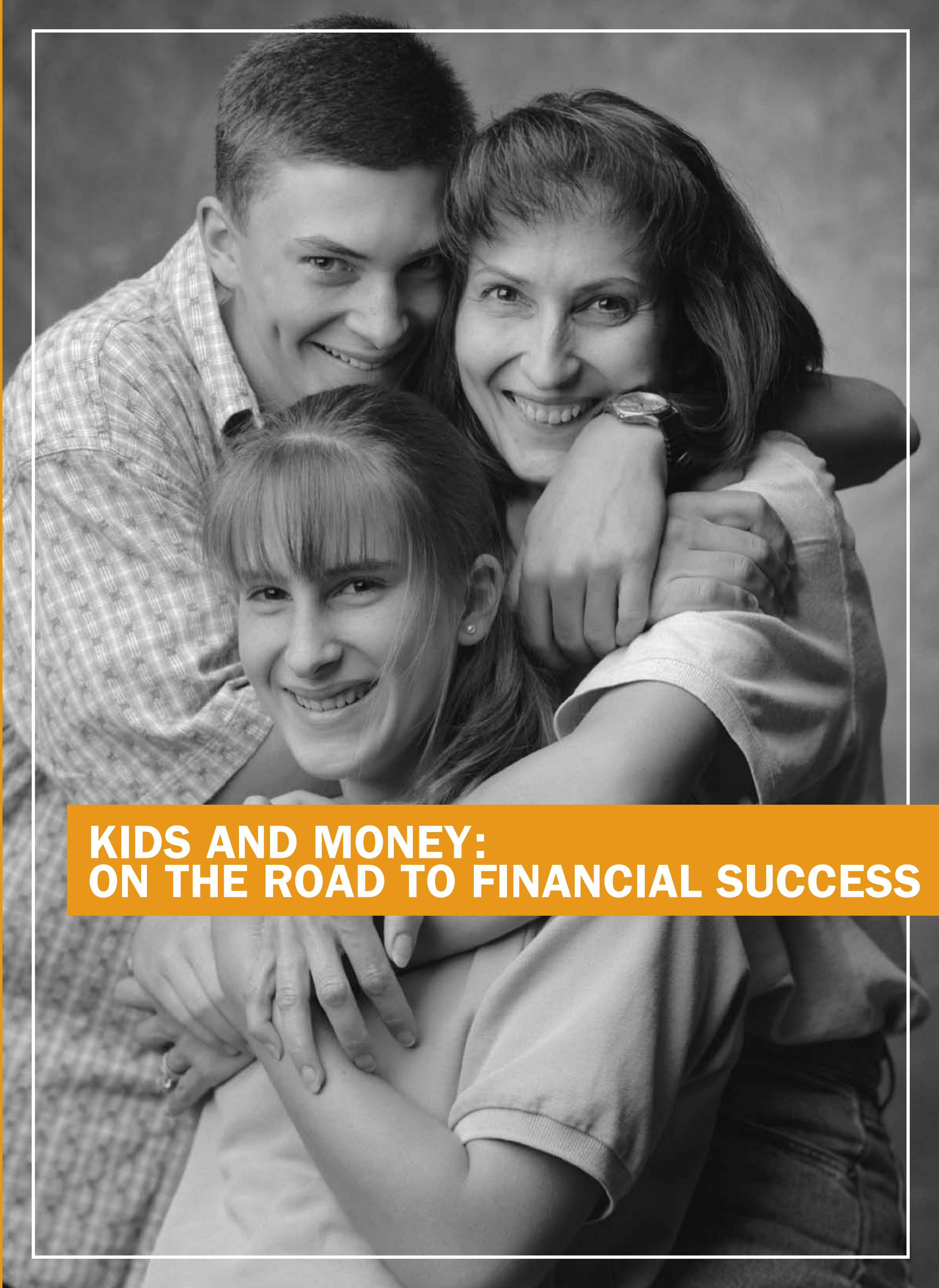

KIDS AND MONEY: ON THE ROAD TO FINANCIAL SUCCESS

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It's your life and it's your money. How would you like to be a great money manager and achieve all of your personal financial goals? Well, you can. The first step is to make managing your money a task that you take seriously and work on with as much energy as you use for your most favorite hobby, pastime or job. If you master and use the basic tools for financial success including setting goals, budgeting, using credit wisely and making savings a way of life, you will achieve your own personal financial freedom.

A GUIDE TO BUDGETING

What is a Budget?

A budget is a tool that can help you manage your money better. Budgeting is an important part of financial planning, which is the process of organizing your finances in a way that can help you reach important financial goals.

While not all budgets are exactly the same, they are all written records of the money you receive and the money you spend. A budget tracks your money over a set period of time, usually by month. By subtracting your total monthly expenses from your total monthly income, you can quickly see how much you have left over to save for specific financial goals.

Think of a budget as a roadmap. If you drive to some destination without a map, you might get there, but it will probably take you longer and may cost you more money. The same is true for your financial life. With no budget, you might reach your destination, but it will take you longer and your chances of getting lost along the way are greater.

Setting Goals

Everyone has financial goals. Some are short-term goals like buying CDs, computer games or clothes. Some are mid-term goals such as saving to buy a new computer. And others are long-term goals like saving for college.

You will set and achieve goals throughout your financial life. Your goals will change based upon your life stage. Goals reflect your values and provide direction. Setting goals will help you balance your needs and wants.

There are many stages in a financial life cycle. In each stage of your life, you will be faced with different financial challenges and goals to achieve. As you set your current goals, consider the following financial issues:

- Establish a financial identity
- Make a spending plan
- Develop an effective financial record keeping system
- Develop an effective financial planning system
- Buy a car
- Purchase car insurance
- Train for a career

Characteristics of Goals

Understanding the difference between a dream and a goal is important. If you say that you want to have a great car, then you have a dream. But, if you say that you will buy a car at age 19, will need to save $1,000 dollars over the next 12 months and will open a savings account to save the money, then you have a goal. What is the difference between the two?

Specific
Goals should be specific. How much do you need to save? How long of a time frame do you have before you need the money? How many pay periods are available to save the money? For example, you might need to save $5,000 in 2 years for a down payment to buy a house. Since you get paid once each month, you would have to save $208.33 each pay period to achieve your goal.

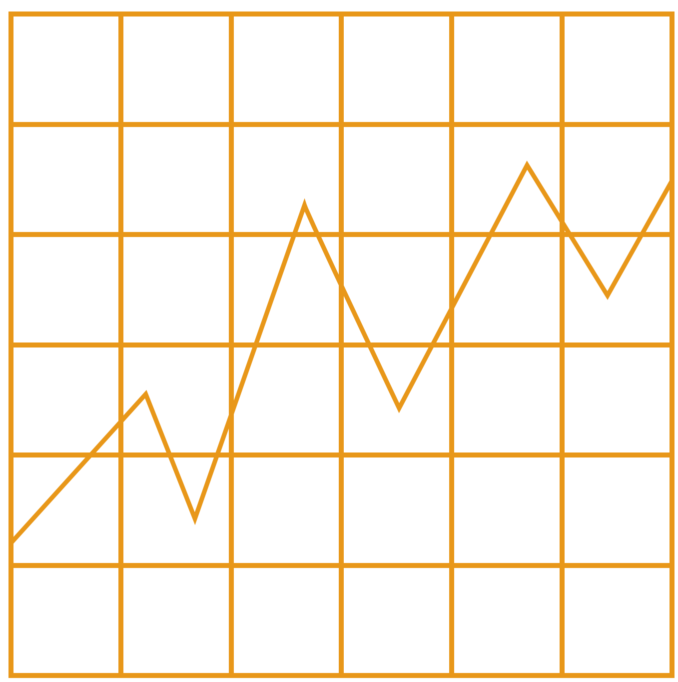
Measurable
You will have to measure and monitor your progress. How will you do this? Do it in a way that makes sense to you. As you save money each week or each month you can track it on a computer, or write it down, or even see it logged on your paycheck as money is moved from your paycheck to a savings account. In any event, measure your progress as you move toward achieving your goal.

Reasonable and Realistic
Set goals that are reasonable and realistic. Don't try to save too much each period and end up sacrificing other parts of your budget. You might have to lengthen your time frame to achieve a goal and decrease the amount you save each time. Remember, saving is a lifelong process and a consistent, systematic approach will pay off.

Set Your Goals

Take some time to set your financial goals. Short-, mid-, and long-term goals are important. Although the time frame that you put on your goals may vary, here are some rules of thumb:

- **Short-term goals** are those that can be achieved in a year or two
- **Mid-term goals** are those that can be achieved in two to five years
- **Long-term goals** are those that can be achieved in greater than five years



To start, list some of your goals here:

GOALS EXERCISE

Goals you would like to accomplish within the next 1 to 2 years: ____________________

____

____

Goals you would like to accomplish in the next 2 to 5 years: ____________________

____

____

Goals you would like to accomplish in more than 5 years: ____________________

____

____

After you have identified your specific goals, use the worksheet in Appendix A – Setting Goals to complete the financial details. Here are two examples:

SAMPLE GOALS

Goal	Short-, Mid- or Long- Term	Total Amount Needed	Months until Goal Is Reached	Amount to Save each Month
Save money for next school year	Short-	$1,000	2 1/2	$400
Save money for new furniture	Mid-	$3,600	36	$100

Goals change continuously over a lifetime. As goals are reached, new ones should be established.

A budget can help you save to achieve all of your goals, regardless of the amount of money required or the amount of time necessary to reach them.

Use Your Budget to Achieve Your Goals

The idea of budgeting may seem tedious and boring. But, if your money always seems to "disappear" before you can save it, a budget could be exactly what you need. In fact, budgeting might help you find money you didn't know you had.

Whether you are saving for a computer, clothes, a car or college tuition, using a budget is one way to help you accumulate funds so you can get what you want, when you need it.

Creating Your Budget

A budget will always be the cornerstone of your personal financial plan, whether you're saving a lot of money already for a car or if you're not able to save at all. A budget tells a financial story. The financial story that your budget tells will be a successful one by planning, tracking and adjusting.

Since a budget must be written down, start by grabbing a piece of paper and pen or pencil, or by creating a new file on your computer.

In its most basic form the budget includes income and expenses. Income is normally easy to identify and list. It's the expense side of the budget that always seems to be the most challenging for people. When preparing your budget, include as many expense categories as possible in order to see where your money is really going. Do you know where your money goes? Spending too much can sabotage your goals. <u>It's not how much you earn in your life, but how much you spend that keeps you from achieving your goals</u>.

Create your own budget using the My Budget worksheet in Appendix B as a guide. If your budget does not balance, consider which areas of the budget can be adjusted. Will you increase income or decrease expenses? What expenses will be reduced? Will your goal time frames be adjusted? As you add new goals to your plan, analyze your budget to determine how you will incorporate them into it. You can have a beautifully written goal, but if it is not reasonable and realistic as it relates to your budget, then it may be difficult to accomplish.

Review your budget and goals at least once each year. The annual budget will take into account a number of items including your goals, expected income, what you spent this year and your expected expenses for the upcoming year.

Keeping track of your income and expenses will allow you to continually monitor your budget as you move toward accomplishing your goals. Remember, your budget is like a muscle. If it is not worked and exercised, it will get weak. So, exercise your budget often to keep your finances strong.

You Can Do It!

A budget alone is not the answer. The only way to reach your financial goals is to make a commitment to save. That may mean less impulse shopping. Impulse shopping occurs when you are in a store and you buy an item that you didn't plan to buy. Perhaps you really could live without that new pair of earrings or video game. It may also mean planning ahead. The following savings tips could help you take control of your money.

- The best way to stick to a budget is to make sure it is realistic. Get a notebook and list what you buy for a few weeks to help you pinpoint how much you are spending and on what types of items. Review the list and ask yourself honestly if you could spend less.

- Rather than choosing an arbitrary savings goal, take a close look at your budget and decide what percentage of your monthly income could be set aside for your goals. If you don't earn enough money to save for your goals, can you (a) earn more money or (b) reduce some of your expenses?

- Once you know how much you can save, put the money away in safe place like a savings account

Because of inflation, the money you save today may not buy as much in the future. That's why earning interest on your savings is so important. While savings accounts don't pay a great deal of interest, any interest is better than none. As your money grows, you may be able to invest a portion of your savings to pursue higher returns. That will allow you to outpace inflation, so your money will be worth more tomorrow than it is today.

Wise Money Management

Here are some tips to help you manage your money effectively:

- Start now
- Create a financial plan
- Open a checking account
- Start a savings account
- Develop a budget
- Use credit wisely
- Save regularly
- Balance your checkbook
- Make timely payments on your bills

CHECKING ACCOUNTS AND ELECTRONIC MONEY

Some of the first financial tools that you will use include a checking account and electronic money such as an Automated Teller Machine (ATM) card and a debit card.

Checking Accounts

There are a number of advantages to opening and using a checking account. These include:

Safety – Checks are safer to carry and to mail than cash

Proof of payment – Checks that have been cashed are known as "cancelled" checks. They serve as proof that you paid your bill.

Convenience – You can send checks through the mail to pay your bills. This allows you to make payments any time of the day and eliminates the need to pay in person. Paying by check also allows you to make purchases at stores without running to your financial institution for money.

Establish credit – Your checking account can serve as a good reference for you when you want to open a charge account or apply for a loan

Here are some questions you can ask to help you choose the checking account that's right for you:

- What is the minimum balance required to avoid fees?
- Will I be able to maintain this minimum balance?
- If I fall below this minimum balance, what are the charges?
- What fees are charged: Monthly fee? ATM fee? Withdrawal fee?
- What is the rate of interest?
- Is there a minimum balance required to earn interest and how much is required?
- What is the cost for printed checks?
- What is the fee for bouncing a check?
- What is the charge for a returned check?
- Can I get overdraft protection and is there a cost for that service?
- Is it possible to get free checking with direct deposit of payroll?
- What about conveniences such as branch locations, Saturday and evening hours, ATM locations, drive through availability, or banking by phone or on-line?

ATM Cards

ATM cards give you complete access to your account anytime, anywhere. You can make deposits, transfers and withdrawals at your convenience. It's easy to tell where you can use your card. Simply match up the logos on the back of your card to those displayed on the ATM.

Debit Cards

A debit card works like other types of plastic cards. When you make a purchase at a store, you slide your card through the terminal, enter your Personal Identification Number (PIN), or sign, and the transaction is complete. Unlike a credit card, where you buy now and pay later, when you use a debit card, the money for the purchase is transferred directly from your account. It is as though you used cash for the purchase.

SAVING AND INVESTING

Saving – just saying the word sounds good and it brings to mind financial success and achieving financial goals. And yet, for many Americans, saving money is a challenge. National savings rates show that Americans have one of the lowest savings rates among industrialized countries.

We've probably all heard the saying, "Pay yourself first." As a rule of thumb, financial experts, families, friends and even strangers will encourage us to put aside some money in savings before we pay our bills. Problem is – many of us don't follow the advice. Instead, we pay our bills and at the end of the month there is no money to save.

Saving means refraining from spending all of your income on the things you buy now, such as food, clothing, housing, transportation and entertainment. When you save, you give up the opportunity to spend now, in order to have the spending power available sometime in the future.

Cash

You can save your money in a number of different places. The most common first place to save is in a savings account or a money market account at your financial institution.

Savings accounts keep your money safe and readily available. Savings accounts are insured up to $100,000 and pay interest. Money market accounts differ from savings accounts in that they usually pay a higher rate of interest because they typically require a minimum balance of $1,000 or more.

Savings accounts and money market accounts are considered cash investments. When you deposit your savings in an interest bearing account, you earn interest on your savings. But, you also earn interest on the interest that you receive and keep in your account. Interest that is paid on the amount that you deposit and on the interest that has been added to your account is called compounding interest. Interest may be compounded daily, monthly, quarterly, semiannually or annually.

The earlier you start saving, the more you will benefit from compound interest.

Here's an example of two friends, Grace and Drew, who had different saving strategies. Grace saved $1,000 a year for 10 years, starting at age 25. Drew saved $1,000 a year for 25 years, starting at age 40. Both earned the same 8 percent return.

Who ended up with more money at age 65? It had to be Drew, right? Wrong. Grace benefited from her head start and the power of compounding. Here's the breakdown:

Grace	Drew
Began saving at 25	Began saving at 40
Saved for 10 years	Saved for 25 years
Age now is 65	Age now is 65
Total saved: $10,000	Total saved: $25,000
Grew to: $157,435.17*	**Grew to: $78,954.42***

*Totals assume $1,000 savings is made at the beginning of each year.

The pace at which your savings grows when you receive compound interest lies in something called the "Rule of 72." When you divide the interest rate you receive on your account into 72, the answer tells you approximately how many years it will take your savings to double.

For example, suppose your rate of interest is 5% and you want to know how long it will take for $1,000 to double. The answer is 14.4 years (72/5). If you received a rate of interest of 10%, your savings would double in 7.2 years.

There are a number of ways to invest your cash. The most popular is a savings account. Once you have enough money set aside for emergencies in your savings account, you can begin saving money in other cash vehicles such as certificates of deposit, or CDs.

Certificates of deposit generally pay a higher rate of interest than savings accounts because they are less "liquid." Liquidity refers to the readiness with which an item can be converted into cash without losing some of its value. The money in your savings account is very liquid because you can withdraw it at any time. A CD, on the other hand, is less liquid than a savings account. With a CD, you leave your savings on deposit for a period of time, say 6 months, one year, two years or five years. You agree not to take your money out until the time period expires. In return, you are paid a higher rate of interest. If, however, you take your money out before the maturity date, you can be penalized. That is, you might lose some of the interest you have earned or even some of the original deposit.

Another reason that you receive a higher rate of interest on longer term commitments is because of inflation, or rising prices. Ideally, you want your money to grow faster than inflation. For example, if the annual inflation rate is 3%, you want to earn greater than a 3% rate of interest.

Bonds

The second method of investing your savings is through bonds.

Bonds are loans you make to corporations or governments. Buying bonds makes you a creditor. Bonds pay you a specified amount of interest on a regular basis. A bond is basically an IOU that says if you buy a bond with a stated face value (usually $1,000), the issuing company or authority will pay you a set amount of interest twice a year and the face value at maturity – that is, the date on which you, the bondholder is repaid.

One type of bond is a U.S. Savings Bond. When you buy savings bonds, you are lending money to the U.S. Government. Two major advantages of buying U.S. Savings Bonds are: 1) you don't have to pay income tax on the interest you earn each year and 2) you can postpone paying the tax until you "cash-in" your bond.

Stocks

Some people like to put their savings into the stock market where they buy stocks. This is the third major category where you can save your money.

When you buy a stock, you buy part of a company. Stock is often called equity because the word means "ownership." If the company you own does well, you receive dividends, which are your part of the profits. And if the share price goes up, you can sell your stock at a profit. If the company doesn't do well, you could lose some or all of your money. The advantages of investing in stocks include higher potential returns over time than most investments offer and returns that historically have outpaced inflation.

Mutual Funds

Instead of investing in individual stocks or bonds, you can buy shares in professionally managed mutual funds. Mutual funds buy shares in many different companies. So, even if one company does poorly, your loss will be limited because other companies may do better.

When you buy shares of a mutual fund, your money is pooled with the money of thousands of other people. This allows fund managers to buy a wide variety of investments; more than most people could buy on their own. By placing money in a mutual fund, rather than an individual stock and/or bond, you become part of a multimillion-dollar organization. This gives you more clout in the marketplace and an edge over the small, individual investor. You also receive professional management, reduced brokerage fees and a greater diversification than most small investors can afford.

There are also other ways to invest your money. You could invest in different assets like undeveloped land, residential rental property, business property, commodities, gold and other precious metals, art, your family's business and so on. These investments can either increase or decrease in value and most often offer you less liquidity. That is, if you need cash right away, you might not be able to get it by selling one of these investments because it generally takes more time to sell them to generate the cash you need.

Smart Strategies

Saving and investing will be a lifelong process. The sooner you get started, the more wealth you will accumulate. Here are some principles that will help guide you:

Save for emergencies first and think long term – your initial savings should be set aside for emergencies. Once you have funded your emergency savings account, move on to investing in bonds, stocks and mutual funds to achieve your longer term goals.

Open an IRA – an Individual Retirement Account (IRA) provides a way for you to invest your money in bonds, stocks and mutual funds with some advantages. Contributions to or earnings from certain IRAs are tax-free, and some IRAs allow you to withdraw money for college expenses or a first-home down payment.

Stay the course – the keys to savings and long-term wealth accumulation are learning the basics, keeping it simple and having patience. Don't invest in things you don't understand. Save money out of each paycheck. Understand that your investments will not grow overnight, but they will over a lifetime.

THE WORLD OF CREDIT

In its simplest form, credit allows you to buy now and pay later. When someone extends credit to you through a credit card, a loan or other arrangement, they trust that you will pay back what you owe. In exchange for extending credit, the lender usually will charge interest, or a percentage of what you borrowed.

While credit can make it easier to purchase what you want and when you want, it's not a way to buy what you can't afford. Sooner or later you will have to pay your credit card bill or pay off your loan. And since interest accumulates until you pay back a debt in full, delaying payments can add greatly to the cost of what you buy.

The Benefits of Credit

Credit can offer you many benefits when it is handled responsibly. Credit allows you to spread out payments for costly goods such as computers and cars, make purchases over the phone or Internet and pay for things in an emergency. Credit can also make it easier to return unwanted merchandise. And, unlike cash, if a credit card is lost or stolen, it can easily be replaced by contacting the issuer immediately. You should tell the credit card company immediately when a card is lost or stolen because you're not responsible for any charges that are made afterwards. In fact, you can't be responsible for more than $50 of unauthorized charges per card.

So Many Choices

You will use different types of credit for different purposes. For example, you might need a secured loan, which requires you to offer collateral, which is a valuable possession that the lender may take if you fail to repay your loan. Or, you might need an unsecured loan, which doesn't require collateral, but usually charges a higher interest rate.

Here is a list of the most common types of credit:

- **Borrowing from a friend or family member** – may be your only chance for an interest-free form of credit

- **Credit cards** – are a type of unsecured credit issued by stores and other financial institutions that can be used to make purchases or to obtain cash advances. The issuer sets a credit limit which is the maximum amount you can borrow and may charge an annual fee and interest on balances carried over from one month to another.

- **Charge cards** – require you to pay back in full what you charge each month

- **Debit cards** – allow you to withdraw money from a cash machine or issue a charge against an account

- **Secured credit cards** – allow you to charge up to a specified amount you've placed in a savings account as collateral

- **Installment credit** – is an arrangement offered by some stores that allows you to pay for something over a set period of time with interest

- **Consumer loans** – offered by financial institutions that can help you pay for larger items such as a car or college tuition. The lender gives you a check for the full amount borrowed, but requires you to pay it back with interest over a period of time.

- **Mortgages** – a mortgage loan is the most common method of financing a home and in most cases will be the largest secured consumer loan you'll ever obtain

- **Home equity loans** – let homeowners borrow against equity (the difference between the market value of the home and the balance owed on the loan) they have in their homes. These secured loans usually offer competitive interest rates, and you can generally deduct the interest expense on your tax return.

Shopping for Credit

Just as you shop for the best buy on jeans or sports equipment, you can shop for the most affordable credit as well. For example, credit cards generally give you a choice between a lower interest rate with an annual fee or a higher interest rate with no annual fee. If you plan to pay off your bill each month, take the no-annual-fee card with the higher interest, since you won't be paying the finance charges anyway. If you plan to carry a balance, you can minimize your interest expense by getting the lower-interest-rate card with the annual fee. Ideally, look for a card that has no annual fee and a low interest rate – the best of both worlds.

Other items to consider when you shop for credit include:

- **Annual Percentage Rate (APR)** – this is the standardized interest rate you must pay the lender each year for the use of borrowed money
- **Finance charge** – this is the total dollar amount the loan will cost you. It includes fees, interest plus other charges.
- **Loan maturity** – a longer repayment period lowers your monthly payments, but increases the total amount of interest you pay
- **Grace period** – this is the time between the date of the credit card purchase and the date the company starts charging you interest
- **Transaction fees and other charges** – most creditors charge a fee if you don't make a payment on time. Other common credit card fees include those for cash advances and going beyond the credit limit. Some credit cards charge a flat fee every month, whether you use the card or not.
- **Customer service** – customer service is something most people don't consider until there's a problem. Look for a 24-hour toll-free telephone number.

Applying for Credit

If you are 18 or older, you can apply for credit on your own. If you are younger, your parents will need to co-sign for you, but you will still be responsible for the debt.

Everyone has a right to apply for a loan under the Equal Credit Opportunity Act. A lender can't discriminate on the basis of race or gender or on the basis of age, once you're legally old enough to sign a contract. To be eligible to get a loan all you need to be is creditworthy.

When you apply for credit, you complete an application that includes information about income from your job, savings account balances and any debts that you have. After reviewing your completed application, the lender will check with a credit bureau, an organization that keeps track of your credit worthiness. If your credit history meets the required criteria, the lender may approve your application and ask you to sign a contract binding you (and your co-signer, if you have one) to certain terms.

The "C's" of Credit

Qualifying for credit and proving that you are creditworthy will involve your ability to repay, your assets that serve as security and your attitude toward responsibility. In reviewing your application for credit, a creditor may use a point system called credit scoring or more commonly will look for what sometimes is called the 4 C's – capacity, capital, character and conditions.

These items help creditors analyze their risk for approving your application for credit.

Capacity
Capacity looks at whether you have the financial capacity to take on the credit you are seeking. Creditors look at your income and your financial obligations to determine if you have the capacity to handle the additional debt.

Capital or Collateral
Creditors will look for what assets and resources you have. Do you have equity in a home? What is the value of your car? When evaluating capital, creditors will not only look at means of payment, they will also seek assurance that a debt could be paid from your assets if needed.

Character
Character is also very important to creditors. Have you been responsible in paying your other debts according to the terms of the contract? Creditors rely on credit bureau reports to determine your character. They also verify information provided by you on your application to determine if you have given accurate information.

Conditions
Creditors analyze current economic trends to determine if your ability to pay is at risk. If statistics show that your occupation is subject to high unemployment, strikes, layoffs, and seasonal work, it may affect the credit granting decision or change the terms of the loan.

How to Establish Credit

Many people want to know how they can establish or re-establish their credit history. This is an important issue because credit records are essential to obtain credit. The information in your credit report is used by potential creditors to determine if you are a good risk.

You can help yourself establish a good credit history by doing the following:

- Open a checking and savings account at a local financial institution to establish a relationship with them. Make sure you show a savings habit and do not overdraft your checking account.

- Apply for a loan that has collateral. For example, a car loan is many times easier to obtain because it is a secured loan. In the event you can't pay, the creditor can take the security (car). Unsecured loans, for example credit cards, are of more risk to creditors because there is rarely merchandise to take back in the event you can no longer make the payments.

- Obtain a co-signer for your first loan or charge card. This will help you establish your credit history.

- Apply for a secured credit card. With a secured card, the issuer allows you to deposit a certain amount of money, say $300, and in return they provide you a credit card with a limit of $300. Make sure you have investigated the institution before you send any money. Be cautious of anyone who guarantees a card but requires up-front money to process your application.

- Use your savings account as collateral and obtain a small loan from you financial institution. Deposit the loan amount in your checking account and use it to make payments on the loan.

- Open a charge account at a local department store with a small credit limit

The Cost of Credit

The benefits of credit can be great when it is used as a convenient money management tool. However, credit can be expensive if it is not used wisely. As the illustrations below show, if you make a large purchase on credit and you make only minimum payments each month, the actual cost of the item you purchase will be significantly higher than the original purchase price. In order to minimize the cost of credit, save before making a purchase to put a larger down payment on the item and/or make larger than minimum payments each month after the purchase.

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	$500	18%	$439	$939	8
Computer	$1,000	18%	$1,899	$2,899	19
Furniture	$2,500	18%	$6,281	$8,781	34

As you can see, making the minimum monthly payment on credit cards can cost you a lot of money in interest payments. Be smart and budget your money so you can make more than the minimum payment each month. Look at the benefits of making more than the minimum payment each month.

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	Total of Payments
$2,500	18%	Min Pmt	404	34	$8,781
$2,500	18%	Min Pmt +$50	94	8	$4,698
$2,500	18%	Min Pmt +$100	32	3	$3,163

Here is another way to look at the cost of credit. The following chart shows the interest you will pay each year if your average daily balance is $1,000, $3,000 or $5,000.

Annual Percentage Rate (APR)	**Average Daily Balance**		
	$1,000	**$3,000**	**$5,000**
12.0%	$120	$360	$600
13.0%	$130	$390	$650
14.0%	$140	$420	$700
15.0%	$150	$450	$750
16.0%	$160	$480	$800
17.0%	$170	$510	$850
18.0%	$180	$540	$900
19.0%	$190	$570	$950
20.0%	$200	$600	$1,000
21.0%	$210	$630	$1,050
22.0%	$220	$660	$1,100
23.0%	$230	$690	$1,150
24.0%	$240	$720	$1,200
25.0%	$250	$750	$1,250

Under the Fair Credit and Charge Card Disclosure Act, credit card companies are required to tell you the methods they use to calculate finance charges and when those charges begin.

Some credit card companies calculate interest in different ways. Some base the interest charge on the average amount you owe during the month. And others base it simply on how much you owed at the end of the previous month.

Using Credit Wisely
Here are a few suggestions to use your credit wisely:

- **Budget** what you can charge or borrow each month, just as you budget what you spend in cash. If you won't be able to pay off your bills next month or meet monthly loan payments, you are over budget.

- **Keep all charge receipts** so you can check them against your monthly statements. If there is an error on the statement, contact the card issuer immediately.

- **Pay on time** and preferably, in full. Remember, if you pay only the minimum balance due on credit cards, finance charges will continue to accumulate and add considerably to the cost of your purchase.

Protecting Your Credit History
Once you begin using credit, you must follow the rules. The most important rule is to protect your credit history. If you don't pay your bills responsibly, your credit history will be tarnished. That could make it difficult to obtain additional credit in the future, rent your own apartment or even get a new job.

Your Credit Report
A credit report is a record of data or information regarding the credit history of an individual. Credit Reporting Agencies keep and organize this information as a service to their clients. The Fair Credit Reporting Act gives you the right to access your credit report.

A credit bureau is essentially a clearinghouse of consumer credit information. They compile information from many sources including:

- You when you apply for credit

- Creditors with whom you do business

- Public records such as judgments and bankruptcy filings

Subscribers, or users, of the information in your credit report include creditors, banks, credit unions, department stores, leasing and finance companies, insurance companies, landlords and employers. Credit bureaus provide a very clear way for users of credit information to obtain information on how you've paid your bills in the past.

In the United States, there are three major credit bureaus. They are:

Experian 1-888-397-3742

PO Box 2002 Allen, TX 75013
www.experian.com

Equifax 1-800-685-1111

PO Box 740241 Atlanta, GA 30374-0241
www.equifax.com

TransUnion 1-800-916-8800

PO Box 1000 Chester, PA 19022
www.transunion.com

Keep in mind that providers of information to credit bureaus don't always report to all three major bureaus. So, when you review your credit report, you may want to review all three.

From SAT Score to Credit Score
As a student you will work hard in high school to attain good grades and to do well on the SATs – a score that's critical to getting into your college of choice. As important as this score is, there's another score that will impact your life for a far longer time. It's your credit score and the credit choices you make will impact that score the rest of your life.

A credit score is a number lenders use to help them decide – "If I give this person a loan or credit card, will I get paid back on time?" It is one of several pieces of information that auto, mortgage, credit card and other lenders use when evaluating your application for credit.

There are different types of credit scores. Credit bureau scores are based solely on information in consumer credit reports. Other types of scores may also include information from credit applications or bank files. A credit score is provided by the credit bureaus to your lender.

A credit score is a snapshot of your credit risk picture at a particular point in time. It changes as new information is added to your credit bureau report. Only information that is proven to be predictive of future credit performance is used.

Your credit score is based on information in your credit report such as:

- Payment history - current and historical delinquencies
- Level of indebtedness - outstanding debt balances, both in terms of dollars owed and as a percent of available credit
- Age of credit history
- Pursuit of new credit - generally called inquiries
- Variety of credit in use

Your credit score is not based on factors prohibited under the Equal Credit Opportunity Act (ECOA) including:

- Race
- Age
- Gender
- Religion
- National origin
- Marital status

Other factors excluded are income, employment and where you live.

The most common model for credit scoring is the FICO score. FICO scores range from 300 to 850 with the higher the score, the lower the risk of default. Each of the major credit bureaus can produce a FICO score based on credit information in its files and each bureau markets FICO scores under its own trade name:

- Equifax has the Beacon score
- TransUnion has the Empirica score
- Experian has the Experian/FICO score

There is no legal requirement for a lender to reveal a credit score to an applicant. But if an application is denied, the lender must reveal the reason(s) for the denial.

People often wonder what a good score is. A "good" score is a number that matches the level of risk a lender is willing to accept for a particular loan or credit card. For example, a score of 750 may qualify you for a gold credit card, whereas a score of 675 may indicate you're a better match for a standard card. Scoring systems have varying numeric scales. A score of 825 could indicate high risk in one system and low risk in another. It's hard to say what a good score is – it varies from lender to lender.

While you can improve your future score, it is unlikely that any single action you take will have a large impact on your score immediately. That's because your score reflects your credit patterns over time.

ME AND MY CAR

Buying your first car can be one of the most exciting times of your life and it can be one of the most confusing times as well. How do you decide whether to buy new or used, whether to purchase or lease and how much auto insurance you will need? There is no correct answer. But you will need to consider the pros and cons of each option in order to decide what is best for you.

Should I Buy New or Used?

Choosing between a new and used car may be easy. A used car may be the only option that fits your budget. Below are some of the advantages and disadvantages of buying a new or buying a used vehicle.

	New Car	Used Car
Advantages	• You get the year, make, model, color and features you want • You'll have fewer concerns about mechanical problems	• Normally less expensive • There is a possibility of not taking out a loan • You'll have lower insurance costs • It doesn't lose value as quickly
Disadvantages	• Normally more expensive • Usually requires you to take out a loan • Expect increased insurance costs • It loses value quickly	• There is an increased risk of mechanical problems • It might not come with a warranty • Your choice of cars is limited

Buying New

If you've decided on a new car, it may be tempting to choose one based on looks alone. Be sure to consider the car's reputation for quality and whether it fits your budget. When shopping for a new car, follow these steps:

- **Research your car choices** – Read *Consumer Reports* and car magazines, which offer ratings for value, quality, performance and safety. After you do your homework, visit the dealerships to test drive various makes and models.

- **Research prices** – One way to determine a fair price for a specific car is by going to the library and checking out *Edmund's New Car Prices & Reviews*. It lists the differences between the dealer's costs and the sticker price, which is the dealer's profit. Many dealers will negotiate with you. It's up to you to inquire and shop around for the best deal.

- **Get pre-approved** – Stop by or call your financial institution to be pre-approved for a loan amount, and find out the amount of payment you can afford

Buying Used

You can purchase a used car from a dealer or directly from the previous owner. Used cars are advertised in the newspaper's classified section, on bulletin boards and on the Internet. When shopping for a used car, follow these steps:

- **Research your car choices** – Go to the library and check out a copy of *Edmund's Used Car Prices and Ratings*. Compare the features and costs of several types of cars.

- **Get pre-approved** - Stop by or call your financial institution to be pre-approved for a loan amount, and find out the amount of payment you can afford

- **Test cars** – Test drive a number of cars before you make your choice. Once you have made your selection, have it inspected by a mechanic to ensure that it is in good working condition. If substantial repairs are necessary, you might want to keep looking. If the repairs that are needed meet your expectations, factor the cost of repairs into the amount you are willing to pay.

- **Negotiate** – Don't pay the asking price. Sellers expect you to negotiate. Keep in mind what your budget allows for your car payment and don't go over that amount.

Paying for My Car

Unless you can afford to pay in cash, you will probably need an auto loan. Because the interest expense can add substantially to the cost of your purchase, finding the most competitive lender is as important as negotiating a fair sale price. Work with a trusted financial institution. If you are under age 18 or have not previously taken out a loan, your parents may need to co-sign the loan.

Should I Buy or Lease the Car?

You might consider leasing a car instead of buying it with a loan. What's the difference between buying and leasing a car? While buying a car makes you the owner, leasing is a way of obtaining a car for a set period of time without owning it.

Buying a Car

If you purchase a car that costs $15,000 you may pay up to $5,000 up front as a down payment and the balance, plus the interest, over a three-to-five year loan period.

Leasing a Car

If you lease a car that costs $15,000 you may pay $10,000 plus interest over a two-to-five year lease period and pay the remaining $5,000 only if you choose to buy the car outright at the end of the lease. There is usually a small fee when you sign the lease and a lower down payment. There may also be extra charges when the lease terminates if you have exceeded the annual mileage limits specified in the lease agreement or have not adequately maintained the car.

Remember, your loan payments will be due each month on a certain date. If you fail to pay back your loan, the lender can and will reclaim your car and your credit history will be negatively affected.

Which is the Best Option for Me?

Some of the considerations you should look at when deciding whether to buy or lease a car follow:

	Buying a Car	Leasing a Car
Advantages	• You can keep the car for as long as you want • You are not limited on the amount of miles you can drive	• You might be able to drive a more expensive car than you could afford outright • Eliminates the need for a large down payment • Taxes are spread out over the life of the lease
Disadvantages	• You are required to pay the full price • Usually requires a sizeable down payment • Taxes are paid at purchase	• Could be a costly option if you exceed the mileage limits or do not adequately maintain the car

Wait, There's More...

In addition to your monthly loan payment or lease payment, you will have other auto-related expenses. You will need to register your vehicle in the state where you live and purchase license plates and insurance.

Registration

A registration card is issued by a government motor vehicle authority that assigns an identification number to your car. It also includes information such as your name, address, make, model and year of the car. You must have the registration with you whenever you drive, and it must be renewed periodically as long as you own the car.

License Plates

The motor vehicle authority will issue you license plates specific to your vehicle. Your plates must be attached to your car before you can drive it.

Auto Insurance

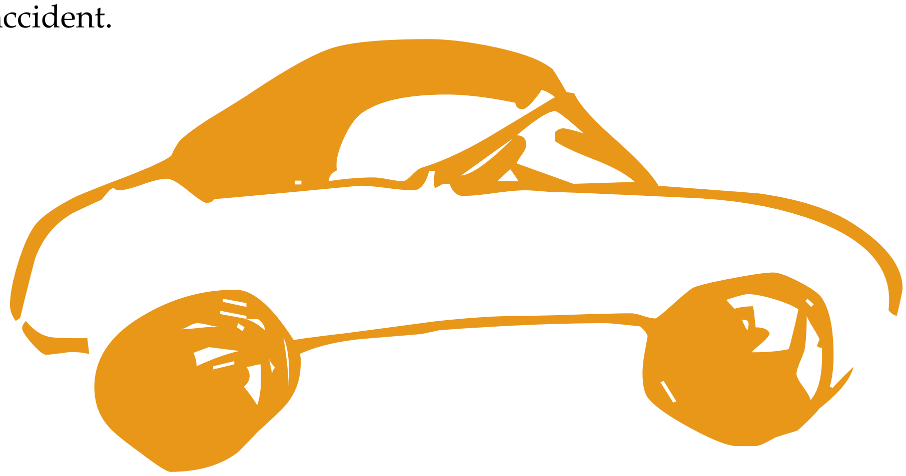
All drivers must be covered by auto insurance. Auto insurance can cover medical costs for you, your passengers and anyone with whom you are involved in an accident. Insurance can also cover the cost of repairs or replacement in the event of theft, vandalism or an accident. Other types of auto insurance that you may need include bodily injury liability, uninsured and underinsured motorists, collision and/or comprehensive coverage. Shop around to find the most affordable auto insurance, but be sure to purchase adequate coverage.

Maintaining Your Car

Whether you buy a new or used car or whether you buy or lease your car, you will need to do periodic maintenance in order to keep it running well. Routine maintenance generally will lead to reduced risk of larger and more expensive repairs down the road.

Be sure to include a budget item in your list of expenses for car repairs and maintenance. The amount of money that you will need to include in your budget for maintenance is based upon how old your car is and how many miles you drive. Most cars come with a recommended maintenance schedule. Take a look at the recommended schedule and then determine how much the maintenance will cost on an annual basis. Divide that number by 12 and set aside money each month so you have it when the maintenance is due.

Getting your own car can mean more freedom and a lot more responsibility. Be sure to pay your auto loan on time, keep your license, registration and insurance up to date and of course, drive safely.



IT'S OFF TO WORK I GO

Use your time at home during your teen years as a dress rehearsal for real life. You have the opportunity to earn income, spend money, save and manage your money under the safety of your family roof. You may make mistakes, but learn from them so you can master the skills needed for a successful "money" life.

You and your peers will be earning and spending billions of dollars each year. Where will your money come from? If you're like most kids your age, your money will come from a number of places like your parents, from allowance, from gifts and from your job. The percentage of money that you earn from each of these options will shift over time.

As you get older and have more opportunity to work outside your house, you will begin to earn more money from a job compared to the allowance you may receive at home. There will be a natural transition in your income categories. Your parents may not be able to compete with an employer in terms of the hourly wage that you are paid. But, parents can still be counted on to add financial support for necessities such as food, clothing and insurance.

In addition, request that you receive an increase in your allowance from your parents. The increase can be based upon the amount of money that your parents spend on your necessities such as clothing, insurance and medical expenses. For example, the money that your parents are spending each year on you for clothes can be transferred to you so you can make clothing purchases on your own.

You should be able to decide how you will spend your money. Wise choices are essential. By the time you are working, you should be able to assume more of the responsibility for buying your own clothes, paying for your car expenses, saving money and even paying for your own medical and dental expenses.

Now, back to work. Don't be shocked when you get your first paycheck and you find that your take home pay is a lot less than you expected. The difference between gross income (before taxes) and net income (after taxes) can be significant. Your paycheck will show that money is deducted from your gross income for federal income taxes, social security and state and local taxes. You can expect to take home 70-80% of your gross income. Your net income is the money you will have available to pay your bills and save.

As your income increases, practice these sound savings tips:

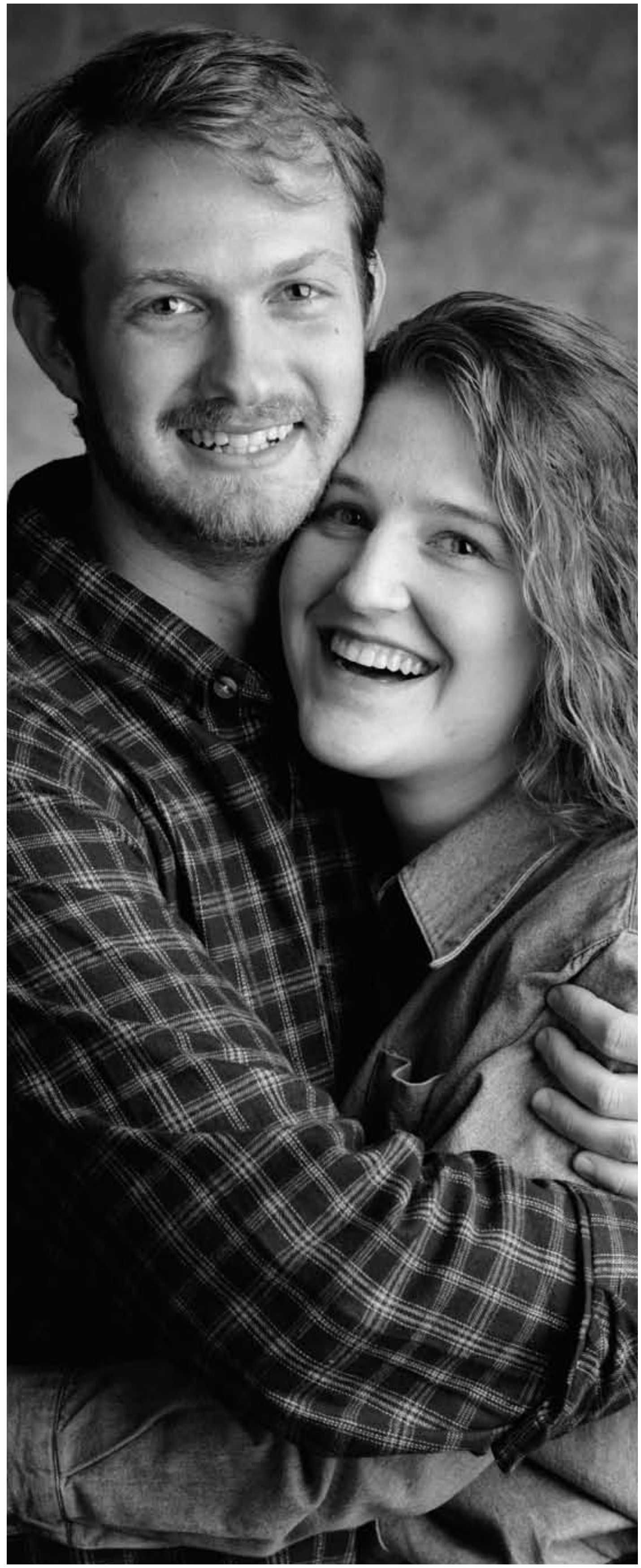
- **Pay yourself first** - Save a portion of every paycheck that you receive. Every time you get a raise, increase the amount that you save. Pace yourself. Don't try to save too much too soon. Consistently save for the future, but leave enough money to enjoy your life now.

- **Save automatically** – You may have heard the saying, "Out of sight, out of mind." This refers to the fact that if you don't see something, you tend to forget about it. This applies to money as well. If you automatically have money taken from your paycheck and deposited in a savings account, you won't even miss it. Look into direct deposit or payroll deduction programs with your employer and financial institution.

Do you have an entrepreneurial spirit? Have you thought about starting your own business? Most businesses in the United States are small companies. Pursue your dreams and if you have a skill that others need, work towards your goal of being your own boss.

Here are some entrepreneurial options that are alternatives to minimum wage jobs:

- Lawn service
- Pet sitting/walking/grooming
- Snow removal
- Baby sitting
- Birthday party planning
- Read to kids
- Garage cleaning
- Golf caddy
- Coaching
- Umpiring
- Computer or academic tutor
- Car wash
- Farm stand
- Piano, art or chess lessons



BEFORE YOU MOVE OUT

Before you leave home to work on your own or to go to college, there are a number of life skills that you should know how to do. You can first practice these skills with the help of your parents and then you can move on to do them on your own. Mastering the basic life skills below as soon as possible will place you ahead of your peers. Can you think of any additional skills that can be added to the list?

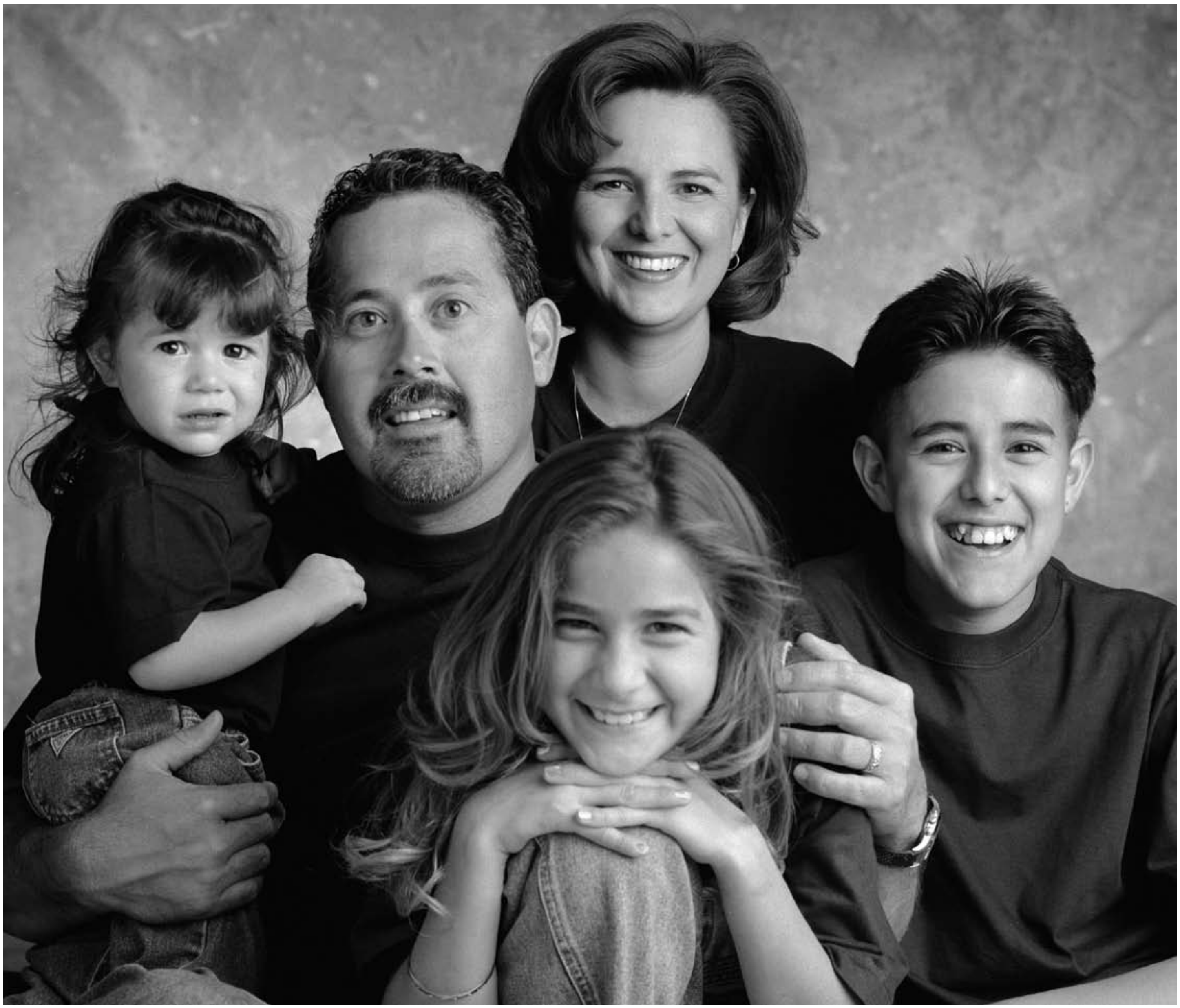
LIFE SKILLS EXERCISE

DO YOU KNOW HOW TO...?	YES	NO
Pay your bills monthly		
Open a checking account		
Open a savings account		
Use an ATM		
Balance a checkbook		
Stop payment on a check		
Reorder checks		
Apply for a credit card		
Read a lease		
Get car insurance		
Get a telephone installed		
Get an account with an electric company		
Register to vote		
Get a passport		
Follow the proper procedure in case of a car accident		
Apply for student aid (loans, scholarships, grants)		
Check your credit report		
Buy insurance		
Build an investment portfolio		
Fill out an income tax return		

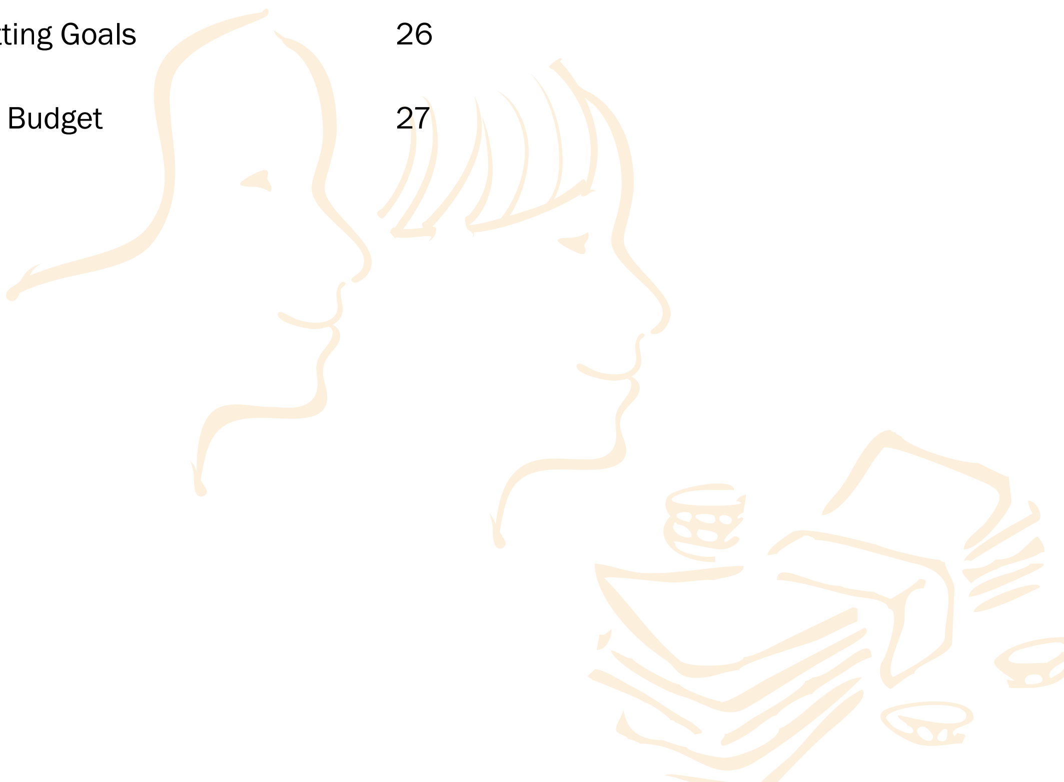
CONCLUSION

You are just beginning your financial life.

Look at your financial life as a marathon. It takes many years to train. It takes dedication, hard work and analysis. When the race is finished it brings great satisfaction and a sense of accomplishment. Too often, we look at our financial life as a sprint – how quickly can I get to where I want to be? For most people, financial freedom does not come quickly. It's a step by step process that generates positive results along the way and leads to living free from financial burden later in life. You are just beginning your trek. Learn sound fundamentals and you'll be on the right track.



Appendices



SETTING GOALS

Goal	Short-, Mid- or Long-term	Total Amount Needed	No. of Months until Goal is Reached	Amount to Save Each Month

MY BUDGET

Per Month

SOURCES OF INCOME	AMOUNT (NET)
Allowance	$
Odd jobs	$
My job or business	$
Gifts	$
Money I borrowed	$
Other	$
Other	$
Other	$
TOTAL INCOME	**$**

SUMMARY OF EXPENSES	AMOUNT
Money I owe	$
Saving	$
College savings	$
Church or other charity	$
Gifts for family and friends	$
Car payments and/or insurance	$
Gasoline, oil, car repairs and registration	$
Public transportation (bus, subway)	$
Lunch money	$
Eating out and snacks	$
Clothing and accessories	$
Personal care	$
School supplies and fees	$
Telephone bills	$
Recreation and hobbies	$
Sporting equipment and fees	$
Entrance fees (skating rink, rec center, etc.)	$
Club dues, uniforms, etc.	$
Arts and crafts supplies	$
Things I collect	$
Things for my room (posters, decorations, etc.)	$
Books, magazines and library fees	$
Electronic equipment	$
CDs, DVDs	$

SUMMARY OF EXPENSES (cont...)	AMOUNT
Video and computer games and software	$
Movies	$
Concerts	$
Other outings	$
Prom, dances or parties	$
Vacations, special trips	$
Odds and ends	$
Other	$
Other	$
Other	$
Other	$
TOTAL EXPENSES	**$**

SUMMARY	
Total Income	$
Less - Total Expenses	$
Surplus (Deficit)	$

KIDS AND MONEY: ON THE ROAD TO FINANCIAL SUCCESS

Managing money is a skill that will last a lifetime. With Kids and Money, you will learn how to take charge of your credit, how to determine the cost of credit, how to manage a budget, the importance of credit reports and much more. It isn't easy and it is time consuming, but money management is one of the best things you can learn.

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