



# *Building Native Communities*



*Financial Skills for Families*



FOURTH EDITION  
PARTICIPANT'S WORKBOOK

# Building Native Communities

## Financial Skills for Families

A Native community is more than the sum of its parts. It embodies the mystique of community, the circle of inclusion. Within each member it generates powerful feelings of cultural solidarity. That precious spirit cannot survive without the underpinnings of economic development. But the development must be for everyone— not for just a few. That is the Native understanding.

This financial skills curriculum is for Native communities. Our purpose is to:

Enable community members to realize their traditional values by learning financial skills that will help each person make informed financial decisions for themselves, their family, and their community.



First Nations Development Institute is a nonprofit organization that helps Native communities build sound, sustainable economies. First Nations helps community members to identify assets and build models to create and retain wealth in ways that reflect the culture and desires of the people in those communities. The strategy coordinates local grassroots projects with national program and policy development initiatives to build capacity for self-reliant economies.



Oweesta is the first and only national Native Community Development Financial Institution (CDFI) intermediary in the country. Utilizing an integrated asset building strategy, our mission is to provide opportunities for Native people to develop assets and create wealth by assisting in the establishment of strong, permanent institutions and programs, leading to economic independence and strengthening sovereignty for all Native communities.

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Ricardo Cate from the Santo Domingo Pueblo in New Mexico provided creativity and talent with his illustrations throughout the publication. Mr. Cate is the father of three, teaches social studies to 7th and 8th graders and also draws for the Santa Fe New Mexican newspaper.



Statement of Ricardo Cate: *I have been drawing for the Santa Fe New Mexican for 5 years now. I am a father of three children (teenagers) Eddie 17, Amber 14, and Nicolette 14. I am also a GED teacher here on the reservation (Santo Domingo Pueblo) and an amateur film maker. I love to volunteer working with kids and projects that involve the community. I am a former U.S. Marine (served from 1985 to 1989). I love to read, do crossword puzzles and play cards with my kids.*

We also offer our gratitude to Fannie Mae, The Allstate Foundation and Enterprise Community Partners for their contributions.

## Disclaimer

All names and examples provided in the *Building Native Communities: Financial Skills for Families* 4th Edition are fictional. Any resemblance to actual individuals or their financial situations is coincidental.

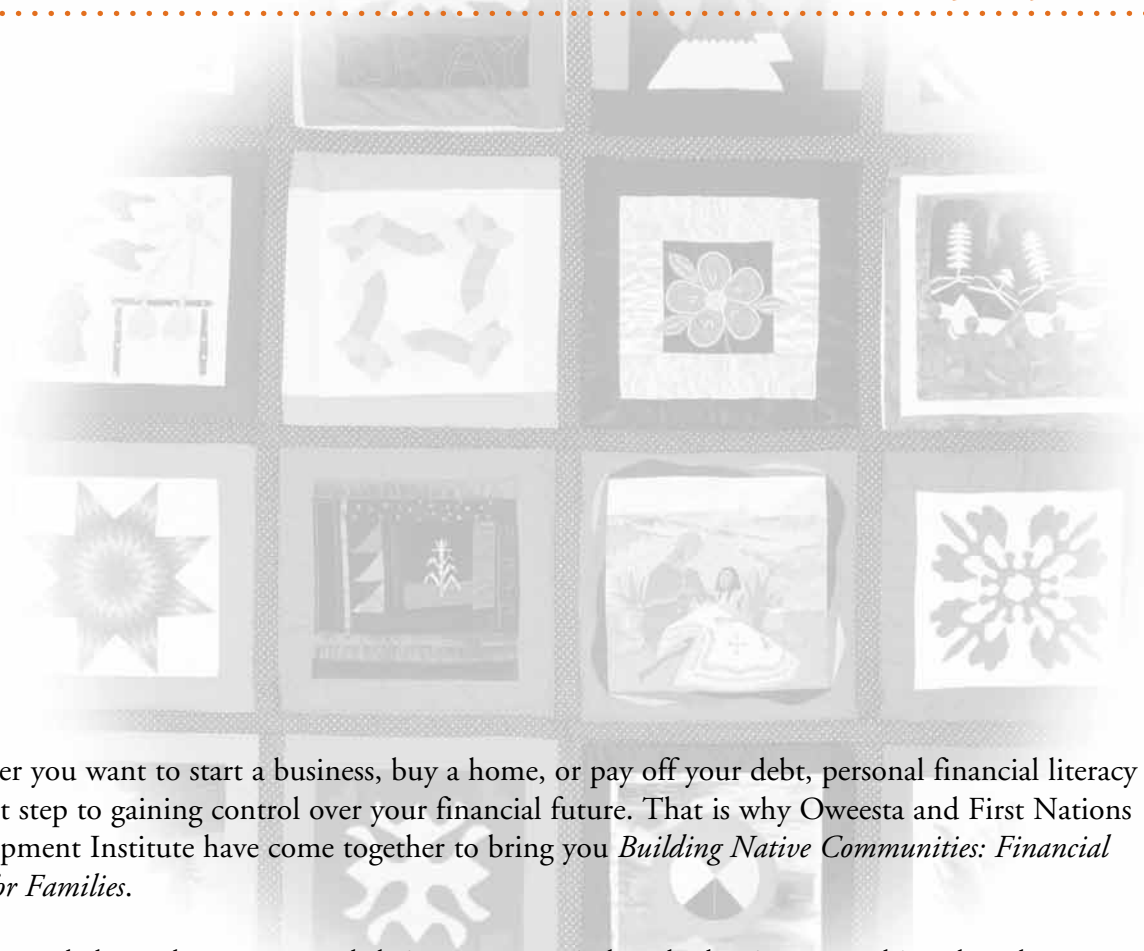
The *Building Native Communities* curriculum is intended to be used as guidance and should not be relied on as legal or tax advice. Please seek the counsel of a qualified attorney or tax professional for further assistance.

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## More Information

To obtain additional copies of this workbook, more information about training opportunities for your community, or to become a certified instructor, please visit the First Nations Development Institute website at [www.firstnations.org](http://www.firstnations.org) or email [info@oweesta.org](mailto:info@oweesta.org).

# Introduction



Whether you want to start a business, buy a home, or pay off your debt, personal financial literacy is a first step to gaining control over your financial future. That is why Oweesta and First Nations Development Institute have come together to bring you *Building Native Communities: Financial Skills for Families*.

Native people have always managed their resources wisely, whether it was catching the salmon, harvesting wild rice, or herding sheep. This curriculum is designed to help Native communities and their members adapt their traditional skills to the wise management of financial resources.

As you work through your participant guide, you will learn about:

- building a healthy economy;
- developing a spending plan;
- working with checking and savings accounts;
- understanding credit and your credit report;
- accessing credit.

These materials will help you make informed financial decisions and feel in control of your personal and family finances. Using these skills, you can actually save money that you might have lost because of poor planning or insufficient information about financial management. Information on credit will better prepare you when it's time to apply for a credit card or a loan. Finally, the materials will illustrate how your everyday decisions and actions can help to support the economy of your local community.

Over time, personal financial literacy skills will help you to achieve the goals that are most important to you, your family, and your community. This will enable you to build self-reliant, economically healthy communities now and for future generations.

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# Session 1:

## Building a Healthy Economy



### Objectives

In today's session we will discuss:

- Native resource management strategies;
- the flow of money through our community;
- actions we can take to build a healthier community economy.

### Circle of Life

Our Native communities have traditionally demonstrated tremendous skill in managing resources to support their needs on an ongoing basis.

For years, our people have understood and practiced the present-day concepts of budgeting and savings. We managed our resources through conservation so that they lasted throughout the year by saving additional supplies for future use.

Consider the planning done by the Canadian Bands, Nit Nat and Sooke, when they prepared for one of their women to marry. They saved for one year to provide a feast and gifts for all guests at the ceremony. Traditionally, gifts included blankets, canoes, dried fish, and many kinds of animal skins. If the woman's family was of high status, the man's family/community provided them with a number of canoes to demonstrate they could take care of her. The wedding ceremony required a lot of preparation and planning.

Our people also saved for the purpose of acquiring goods that we could not produce ourselves. By producing more than the community needed, we had goods to trade. For instance, the Northwest Coastal Indians traded a wide variety of products, including smoked or dried fish and venison, as well as tools made from elk, deer, fish, or other indigenous animals.

Budgeting and savings are core skills that allow individuals and families to contribute to the economy. In today's modern economy these skills allow us to make informed financial decisions.

Our people have successfully practiced resource management skills for generations. Now we call upon their example to strengthen our own abilities.



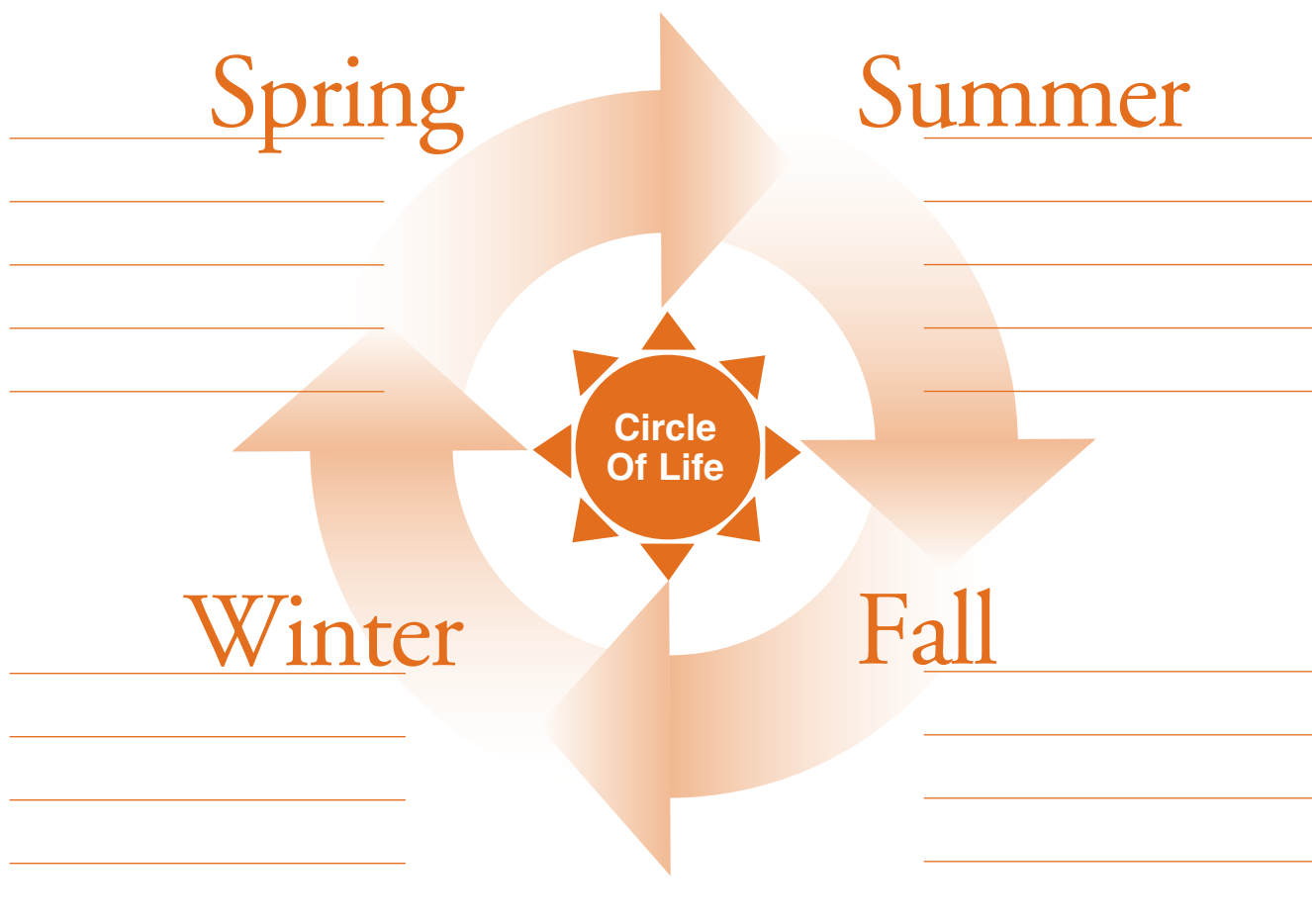
*This block is my story.  
My grandmother and I  
would work on a quilt,  
and she would tell me  
stories of our family.  
She told stories of her  
childhood in the hills of  
Kentucky. These stories  
were my favorites.  
We spent many hours  
sewing and creating  
the fabric of my life.  
The very being of our  
family's experiences  
are woven into me.  
These are precious to  
me and hold me steady  
as roots hold a tree  
when the winds of life  
blow.... Making quilts  
brings me to this place  
of peace and joy again  
and again.*

Nancy Naranjo  
(Eastern Cherokee)

## Exercise: Circle of Life

Complete this exercise based on your traditional community. On the diagram below, list what your ancestors (elders) would harvest throughout the year.

*Example: In the winter to early spring, Northwest tribes harvested venison such as deer and elk. They stopped in the early spring, when the young animals were born, to ensure the survival of the herd.*



### Helpful Hints:

- Did your people preserve/save any resources used year round? What?
- How did they budget resources used throughout the year?
- Why do you think they developed this type of schedule?
- What types of goods did they trade? Were goods specifically put aside for the purpose of trading?

## Strengthening the Local Economy

An economy is the way a society organizes itself to meet the physical needs of its people. Economies can be local, tribal, regional, and international. Our economy is made up of businesses that serve our needs. When you make a purchase, you contribute to the economy by supporting a business owner. A successful business owner contributes to the economy by providing goods or services that people want to purchase. A business owner also contributes by employing community members, being a role model for youth, and making purchases at other businesses.

Think about who owns the businesses where you buy things. Do you make purchases from businesses owned by community members? From the tribe? Non-Native-owned businesses?

Support your community's financial independence by building your local economy. It all begins with you!



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## Exercise: The Local Economy

List some of the businesses that serve the community (e.g., gas station, grocery store, movies, restaurant, car dealer, plumber, and landlord) in the appropriate circle.



What does this diagram say about our economic independence?

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## Plugging the Leaking Economy

The economic impact of spending your money at businesses owned by community members or the tribe is significant.

The majority of Native communities spend their money in surrounding communities. Money is leaking out of Native communities and into non-tribally owned businesses. When this occurs, we do not retain or build our wealth.



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## Exercise: How Much Do You Support Your Local Economy?

Complete the chart using various expenses to determine how much of your money is supporting community vs. non-community businesses. Enter the amounts spent for each item in the applicable column and then calculate the totals below.

Monthly take home pay: \$\_\_\_\_\_

Monthly Expenses	Community	Non-Community
Rent		
Food		
Gas		
Electricity		
Phone		
TV		
Propane		
Waste Removal		
Entertainment		
Car Payment		
Auto Insurance		
Childcare		
Restaurants		
Mechanical Repairs		
Other		
<b>TOTALS</b>		

Total Community Expenses \$\_\_\_\_\_

Total Non-Community Expenses \$\_\_\_\_\_

What's the Difference? \$\_\_\_\_\_

**Taking Action**

What are the community benefits of strengthening our local economy?

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**Next Steps**

List some short- and long-term actions we can take as a community and as individuals to build our local economy.

Short-Term	Long-Term





# Session 2:

## Developing a Spending Plan



### Objectives

In today's session we will discuss how to:

- determine your money culture;
- develop savings goals;
- develop a spending plan;
- use your spending plan to meet your financial needs and goals.

### Building on a Solid Foundation

One of many strengths traditional Native cultures affirm is a clear understanding of one's beliefs and values. As proud Native people today we can continue to uphold these principles by acknowledging who we are and what we strive for.

For example, many families among the Pacific Northwest coastal tribes built totem poles. These massive hand carved structures often illustrated social status, clan loyalties, important family events, and other significant cultural history. Today, these landmarks serve as lasting reminders of the attitudes and values cherished by families who built them.

List some of the traditional values that your tribe is respected for.

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#### Precious

*This is the Morning  
Star of the Lakota people.*

*I choose this to honor  
my mother, who passed  
away September 23, 1991.  
My mother said we are  
just a common people—  
the ike wicasa. She  
stressed that the home  
is the most important  
in our lives. From there  
we learn our culture,  
language, and get our  
strength. She also taught  
me that the Great Spirit  
is our strength when all  
is gone and when you  
have no one, Tunkashila  
is all there is. From these  
teachings I picked the  
colors and the symbols  
to use to tell my story.*

Lula Red Cloud  
(Oglala Lakota)

## Exercise: Discovering Your Values

Our values are the set of beliefs that make up who we are. It's difficult to manage money well unless you know your values surrounding money. A positive value system is a sense of how to act in a way that is right or good.

Prioritize the following values beginning with the most important (#1) and working up to the least important (#15).

Ranking	Values
	Family
	Health
	Financial Security
	Education
	Heritage/Culture
	Community
	Language
	Environment
	Independence
	Right to Vote
	Respect
	Honesty
	Commitment
	Acceptance by Family
	Self-Respect

Which value did you rank highest? \_\_\_\_\_

Which value did you rank lowest? \_\_\_\_\_

Did you discover anything new about yourself? If so, what?

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## Money in Native Culture

Culture is a set of shared attitudes, values, goals, and practices that characterizes an institution, organization, or group. “Money culture” is what we incorporate from our values, attitudes, goals, and practices into how we manage or view the importance of money.

Now that we’ve had a chance to see how attitudes shape who we are, here are some thoughts on money from Native people with different backgrounds.

*My parents never talked about money, but my dad carried money with him all the time. I just didn’t know how or where you got the money – my dad had it! I like to have cash on me at all times. I am constantly overdrawn on our accounts and we have high credit card debt.*

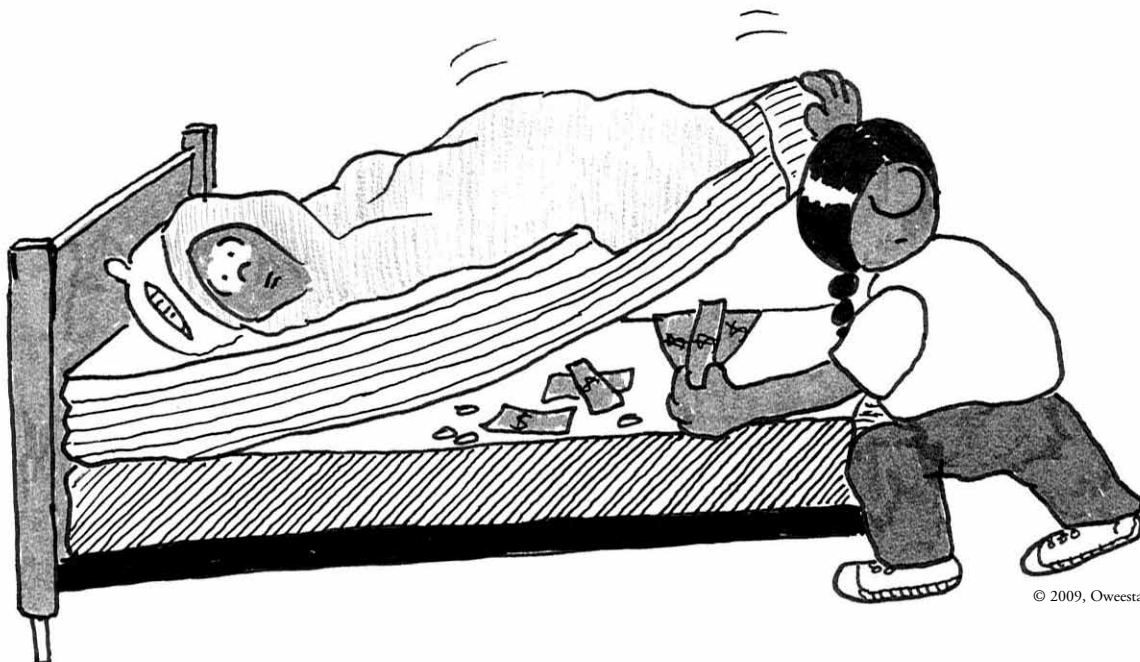
– Ben, Fond du Lac, WI

*I grew up not having a lot of money, but I want my children to have what I didn’t. Unfortunately, we are spending money today that we don’t have and collectors are calling us nonstop.*

– Shari, Standing Rock Sioux Tribe, ND

*My grandpa didn’t use a bank, but I always remember watching him put a certain amount aside for future use.*

– Bessie, Navajo Nation, AZ



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## Exercise: What is Your Money Culture?

1. Does your family discuss money?

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2. How do your parents handle money?

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3. What money habits do you have now that you can trace back to your childhood?

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4. How can you improve your money culture?

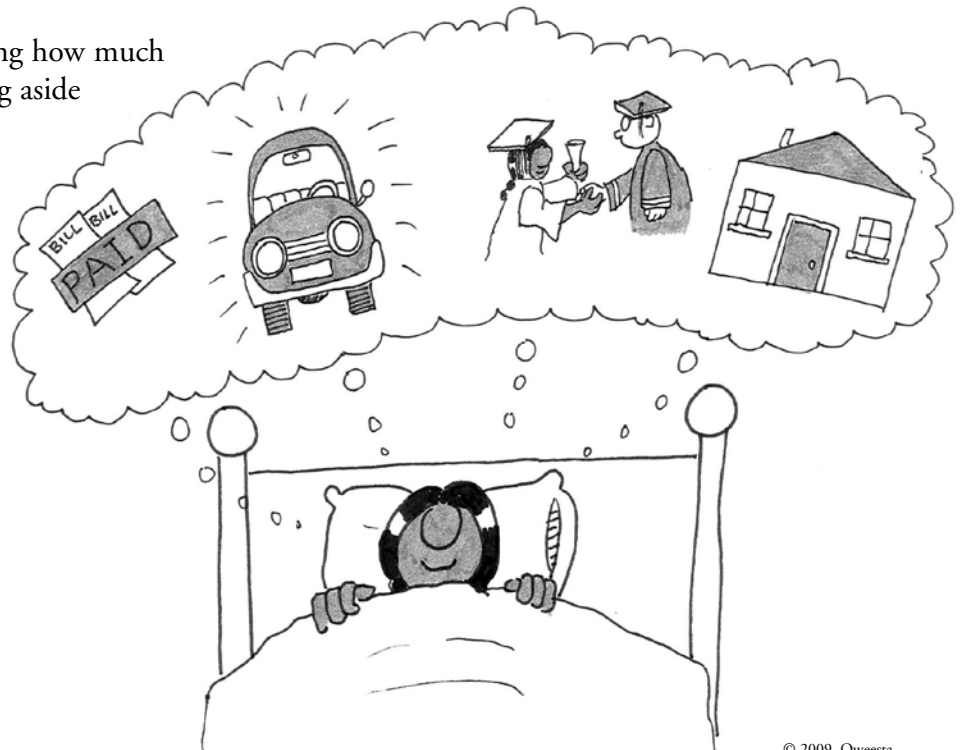
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## Creating Savings

In today's economy, you can still create savings for your family. However small, there is almost always a difference between what is earned and what is spent. Moreover, you can build wealth by putting aside small amounts on a regular basis, increasing savings into a substantial and useful quantity. Native people understand this concept. We know the value of an acorn. A few acorns might be meaningless, but a five-gallon basket of acorns can make enough flour to last for weeks.

Savings grow by managing how much you consume and putting aside the small amount that's left over. Savings create opportunities to improve your family's quality of life.

Let's begin developing your road map to financial freedom.



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## Savings Goals

Savings goals are statements about things you wish you could afford. You can accomplish these goals if you manage your finances and put aside money (savings) on a regular basis.

### WORKSHEET: Savings Goals

List some things you would like to be able to afford.

**Short-term goals:** Identify some things you can save enough money for in a few weeks or months.

**Long-term goals:** Identify some things you can save enough money for in a few years.

Short-Term Goals	
Item	Approximate Cost
<i>Ex: Kids' bicycles</i>	<i>\$500 in 6 months</i>

Long-Term Goals	
Item	Approximate Cost
<i>Ex: Used car</i>	<i>\$1500 in 1 year</i>



#### Save Now for a Brighter Financial Future

Think about how long it will take to reach your savings goals. Divide the cost of your first goal by the number of weeks you think it will take to reach it. This will show you how much money you need to save each week to meet your goal.

## *Developing a Spending Plan*

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You can reach your savings goals by using a spending plan. A spending plan is a strategy for saving and spending money.

Why is it important to develop a spending plan?

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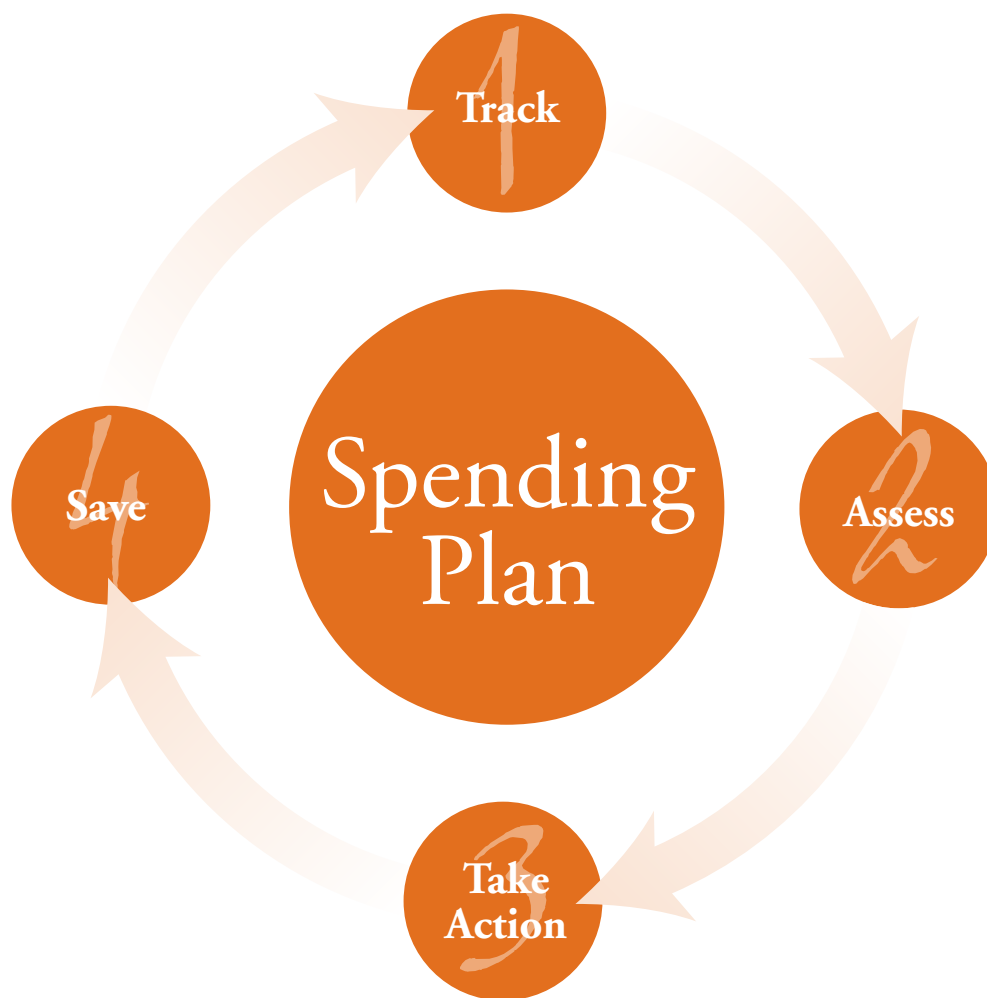
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A spending plan tracks how much money comes into your household and shows how it needs to be divided to meet expenses and savings goals.

## Steps to SUCCESS

Developing a spending plan is a four-step process that may take time to create so that it meets your family's needs and goals. This process is similar to managing resources in a traditional Native community. Remember, effective resource management successfully supported our communities for generations.



### 1: Track

Every year our ancestors estimated their needs based on what they used in previous years.

### 2: Assess

Next, our ancestors compared the available harvest to their current needs.

### 3. Take Action

Our ancestors put this plan into motion!

### 4: Save

Finally, our ancestors planned what portion of the harvest to set aside for their future needs.

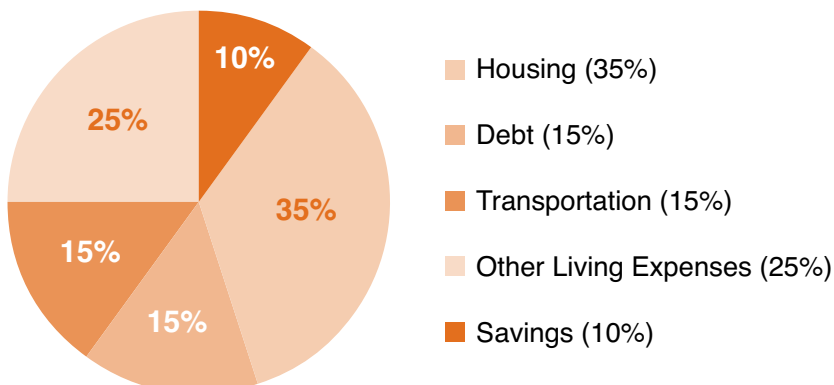
## Tools to Develop a Spending Plan

Here's an overview of the worksheets we'll use to develop a spending plan. In this process, you will need to assess both your income and expenses. Each block represents a worksheet you will complete in order to develop your spending plan.



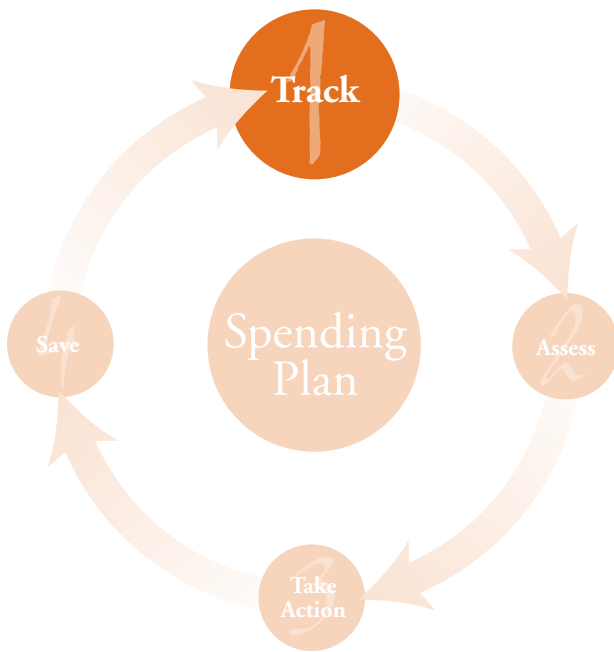
Income	Expenses
<p>A. Find those paycheck stubs! Calculate your income according to your job (annual, seasonal, hourly, or salary).</p>	<p>B. Track your daily spending habits.</p> <p>C. Identify money spent on an annual basis (car insurance or holidays).</p> <p>D. Assess your total debt and determine how much you will pay off each month.</p> <p>E. Summarize your daily spending and record your total monthly expenses.</p>

### Spending Guideline



This Spending Guideline chart illustrates an example of a balanced spending plan.

## Step 1: Track



Tracking makes you aware of the flow of money in and out of your household.

I'm glad we started cooking meals at home and taking our lunches to work. Do you realize we saved \$200 this month just from cutting back on eating out?



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### Use the Best Tracking Tool for You

There are many ways to track how you spend: 1) online banking; 2) a calendar; 3) financial journal; 4) Excel spreadsheet; 5) software programs, etc. Find what works best for you to reach your goals.



## WORKSHEET: Monthly Income

First, you need to identify the money that comes into your household – your income. Afterwards, calculate your total monthly income.

Monthly Income	
Salary	\$
Per Capita Earnings	\$
Food Stamps	\$
Seasonal Earnings	\$
Social Security	\$
Military	\$
Child Support	\$
Dividends/Investment Income	\$
Other	\$
Other	\$
<b>TOTAL</b>	\$

## WORKSHEET: Daily Money Tracker

The next step to develop a spending plan is tracking how much you spend on a daily basis. For the next few weeks, use this worksheet to keep track of everything you spend each day.

Day	What did you buy?	How much did it cost?
Sunday		\$
		\$
		\$
	Daily Total	
Monday		\$
		\$
		\$
	Daily Total	
Tuesday		\$
		\$
		\$
	Daily Total	
Wednesday		\$
		\$
		\$
	Daily Total	
Thursday		\$
		\$
		\$
	Daily Total	
Friday		\$
		\$
		\$
	Daily Total	
Saturday		\$
		\$
		\$
	Daily Total	

Evaluate your week's spending. Circle items that you could have gone without. Calculate how much money you could have saved by adding all the circled items.

What could you have saved? \$\_\_\_\_\_

## WORKSHEET: Annual Expenses

In addition to your monthly spending, you need to think about those bills that are due periodically throughout the year. If you don't know exactly how much you spend on these less frequent expenses, then look through your account statements, old receipts, or just call the companies you owe. The following worksheet will help you calculate the amount you need to put aside each month to prepare for these bills.

What costs do you have multiple times a year?

Expense	Cost	Divided by # of months	To be saved each month
<i>Example Expense</i>	<i>\$300/year</i>	<i>\$300/12 months = \$25 per month</i>	<i>\$25</i>
1. Car Insurance			
2. Renters Insurance			
3. Ceremony Expenses			
4. Sport Activities			
5. School Supplies			
6. Holidays & Gifts			
7. Vacation & Travel			
8. Taxes			
9. Other:			
10. Other:			
11. Other:			
12. Other:			
<b>Total Annual Expenses</b>		<b>Total to be Saved Each Month for Annual Expenses</b>	



## WORKSHEET: Debt Tracker

Your spending plan needs to include a strategy for paying off debt. Some types of debt (i.e., installment credit, such as car loans) require a set monthly payment that needs to be a part of your spending plan. Other types of debt allow you to pay a minimum monthly payment (i.e., revolving credit, such as a credit card). Try to repay more than the minimum payment due each month.

*It would have taken us 25 years to pay off our debts if we continued to pay only the minimum monthly payments on our credit cards. Tracking our debt helped us realize where we could save money.*

– Tom and Martha, Saginaw Chippewa Tribe, Mt. Pleasant, MI

List your debts in the chart below.

Creditor/Debts	Balance	Interest Rate	Other Finance Charges	Minimum Payment	Amount You Can Pay Each Month	New Balance
<i>Example: credit card</i>	<i>\$1,500.00</i>	<i>% 26</i>	<i>\$30.00</i>	<i>\$39.00</i>	<i>\$50.00</i>	<i>\$1,488.00</i>
1.	\$	%	\$	\$	\$	\$
2.	\$	%	\$	\$	\$	\$
3.	\$	%	\$	\$	\$	\$
4.	\$	%	\$	\$	\$	\$
5.	\$	%	\$	\$	\$	\$
6.	\$	%	\$	\$	\$	\$
7.	\$	%	\$	\$	\$	\$
8.	\$	%	\$	\$	\$	\$
9.	\$	%	\$	\$	\$	\$
10.	\$	%	\$	\$	\$	\$
11.	\$	%	\$	\$	\$	\$
<b>Estimated Total Debt Repayment You Can Make Each Month</b>					\$	



### Prepare to Make Adjustments in Your Financial Plans

Changes occur in our daily lives and so must our spending plans. Be prepared to revisit and make adjustments as you move forward.

## WORKSHEET: Monthly Expenses

Use the information gathered from your Daily Money Tracker worksheet on page 19 to estimate your monthly expenses. How much do you spend each month on the following items? Add any additional items that you regularly purchase that aren't on your Daily Money Tracker worksheet.

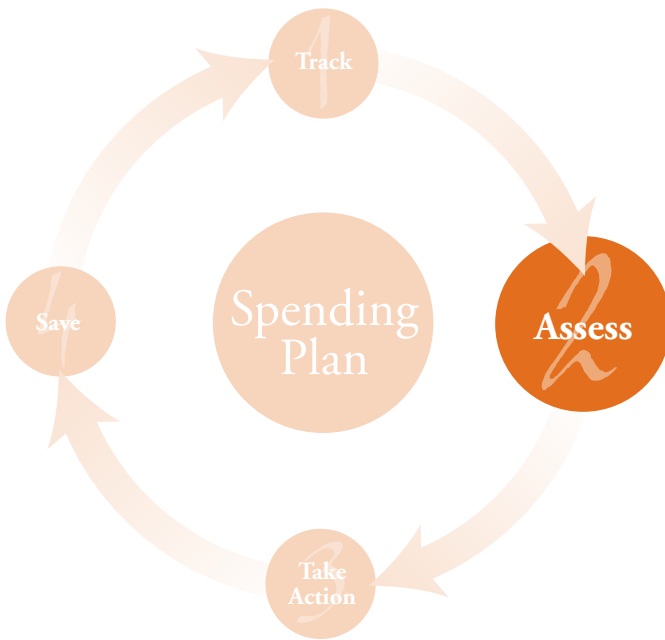
Income		Savings	
<b>Subtotal of Monthly Income</b> (from Monthly Income Worksheet, page 18)	\$	Monthly Contributions for Savings	\$
		Monthly Contributions for Investments	\$
		<b>Subtotal Monthly Savings Contributions</b>	\$
<b>Spendable Income</b> (Subtotal of Monthly Income <b>minus</b> Subtotal of Monthly Savings Contributions)		\$	

Annual Expenses		Miscellaneous Expenses	
<b>Subtotal of Amount to be Saved Each Month for Annual Expenses</b> (from Annual Expenses Worksheet, page 20)	\$	Church Tithes & Offerings	\$
<b>Debts</b>		Other Charitable Contributions	\$
<b>Subtotal of Monthly Debt Repayment</b> (from Debt Tracker Worksheet, page 21)	\$	Childcare	\$
<b>Housing Expenses</b>		School Tuition/Supplies	\$
Rent or Mortgage	\$	Ceremonies/Powwows	\$
Utilities (Elec., Phone/Cell, Cable/Sat., Water/Sewer)	\$	Medical Bills and CoPays	\$
Insurance (do not enter here if already included in Annual Expenses)	\$	Prescription Medicines	\$
Repairs (do not enter here if already included in Annual Expenses)	\$	Pet Supplies & Vet Exams	\$
Taxes (do not enter here if already included in Annual Expenses)	\$	Entertainment, Going Out, Video Rentals	\$
<b>Subtotal of Housing Expenses</b>	\$	Club Dues (Homeowner's Assoc., Fitness, etc.)	\$
<b>Car Expenses</b>		Newspaper, Magazine Subscriptions	\$
Loan Payment(s)	\$	Clothing	\$
Gas	\$	Haircuts	\$
Insurance (do not enter here if already included in Annual Expenses)	\$	Gifts	\$
Maintenance & Repairs (do not enter here if already included in Annual Expenses)	\$	Cash (impulse purchases: coffee, soda, snacks)	\$
<b>Subtotal of Car Expenses</b>	\$	Finance - Check cashing, bank fees	\$
<b>Food Expenses</b>		Tribal Credit Loan Program	\$
Groceries		Finance - Check cashing, bank fees	\$
Eating out		Other _____	\$
<b>Subtotal of Food Expenses</b>		Other _____	\$
<b>Monthly Expense Totals</b>		Other _____	\$
Subtotal of Monthly Annual Expenses	\$	Other _____	\$
Subtotal of Monthly Debt Repayment	\$	<b>Subtotal of Miscellaneous Expenses</b>	\$
Subtotal of Housing Expenses	\$		
Subtotal of Car Expenses	\$	<b>Monthly Surplus or Shortage</b>	
Subtotal of Food Expenses	\$	<b>Total Spendable Income minus Total Expenses</b>	\$
Subtotal of Miscellaneous Expenses	\$		
<b>Total Expenses</b>	\$	negative number = spending too much, adjust spending positive number = spending in control, good job!	



## Step 2: Assess



Was your calculation for your Monthly Surplus or Shortage on the Monthly Expenses worksheet a negative or positive number? A *positive number* means you have more income than you spend each month. A *negative number* means that you spend more than you make.

To decrease the amount you are spending, consider your different types of expenses. Expenses can be put into three basic categories:

### Fixed Expenses

Monthly costs that do not change every month

- rent
- car payments
- loans

### Flexible Expenses

Monthly costs that you control

- groceries
- long-distance phone bill
- cell phone bill
- utilities
- gas
- credit card payments
- ceremony costs

### Luxury Expenses

Monthly costs you choose

- new clothes
- going out to eat
- entertainment
- gifts
- gambling



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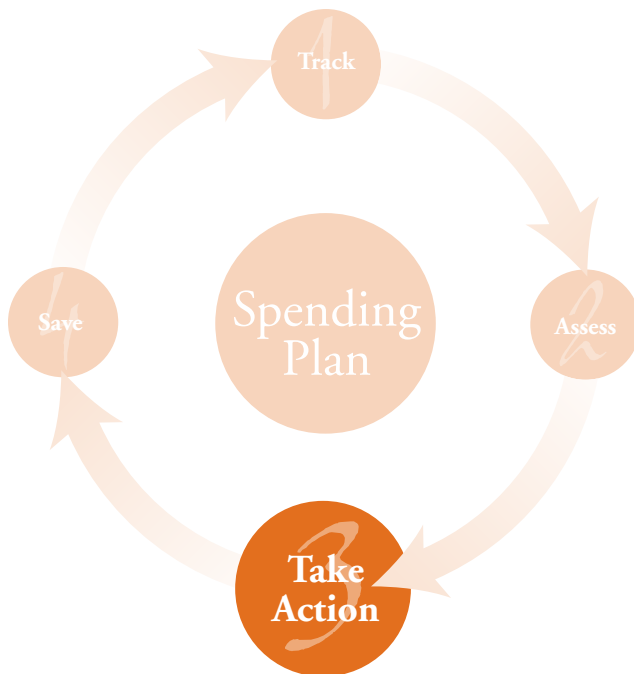


### Spend Less, Save More

If you need to decrease your monthly spending, look first at lowering your “flexible” and “luxury” expenses. It may help to ask yourself the following questions:

1. What are your biggest expenses?
2. How might you decrease them?
3. What were your short- and long-term savings goals?
4. What luxury expenses can you reduce or eliminate?

### Step 3: Take Action

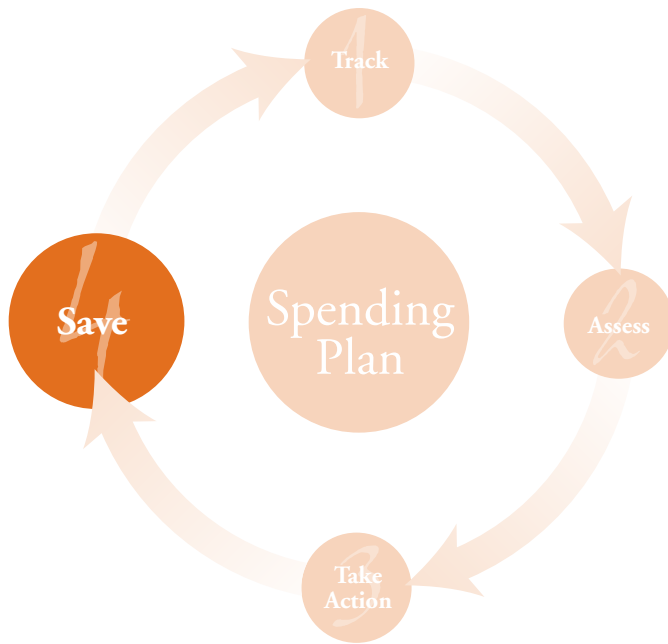


Taking Action is the third step in the spending plan process. Use the chart on the following page to continue to track your monthly spending. Use the projected column to fill in what your expected income and expenses will be for the month. This will be your Spending Plan. Use the actual column to track what your income and expenses actually were for the month. Then compare the two columns to see if you are on track to achieve your financial goals. Make any necessary adjustments in spending or saving along the way.

	Projected	Actual		Projected	Actual
Income			Savings		
<b>Subtotal of Monthly Income</b> (from Monthly Income Worksheet, page 18)	\$	\$	Monthly Contributions for Savings	\$	\$
			Monthly Contributions for Investments	\$	\$
			<b>Subtotal Monthly Savings Contributions</b>	\$	\$
<b>Spendable Income</b> (Subtotal of Monthly Income <i>minus</i> Subtotal of Monthly Savings Contributions)				\$	\$

	Projected Monthly Payments	Actual Monthly Payments		Projected Monthly Payments	Actual Monthly Payments
Annual Expenses			Miscellaneous Expenses		
<b>Subtotal of Amount to be Saved Each Month for Annual Expenses</b> (from Annual Expenses Worksheet, page 20)	\$	\$	Church Tithes & Offerings	\$	\$
<b>Debts</b>			Other Charitable Contributions	\$	\$
<b>Subtotal of Monthly Debt Repayment</b> (from Debt Tracker Worksheet, page 21)	\$	\$	Childcare	\$	\$
<b>Housing Expenses</b>			School Tuition/Supplies	\$	\$
Rent or Mortgage	\$	\$	Ceremonies/Powwows	\$	\$
Utilities (Elect., Phone/Cell, Cable/Sat., Water/Sewer)	\$	\$	Medical Bills and CoPays	\$	\$
Insurance (do not enter here if already included in Annual Expenses)	\$	\$	Prescription Medicines	\$	\$
Repairs (do not enter here if already included in Annual Expenses)	\$	\$	Pet Supplies & Vet Exams	\$	\$
Taxes (do not enter here if already included in Annual Expenses)	\$	\$	Entertainment, Going Out, Video Rentals	\$	\$
<b>Subtotal of Housing Expenses</b>	\$	\$	Club Dues (Homeowner's Assoc., Fitness, etc...)	\$	\$
<b>Car Expenses</b>			Newspaper, Magazine Subscriptions	\$	\$
Loan Payment(s)	\$	\$	Clothing	\$	\$
Gas	\$	\$	Haircuts	\$	\$
Insurance (do not enter here if already included in Annual Expenses)	\$	\$	Gifts	\$	\$
Maintenance & Repairs (do not enter here if already included in Annual Expenses)	\$	\$	Cash (impulse purchases: coffee, soda, snacks)	\$	\$
<b>Subtotal of Car Expenses</b>	\$	\$	Finance - Check cashing, bank fees	\$	\$
<b>Food Expenses</b>			Tribal Credit Loan Program	\$	\$
Groceries	\$	\$	Other	\$	\$
Eating out	\$	\$	Other	\$	\$
<b>Subtotal of Food Expenses</b>	\$	\$	Other	\$	\$
<b>Monthly Expense Totals</b>			Other	\$	\$
Subtotal of Monthly Annual Expenses	\$	\$	Other	\$	\$
Subtotal of Monthly Debt Repayment	\$	\$	<b>Subtotal of Miscellaneous Expenses</b>	\$	\$
Subtotal of Housing Expenses	\$	\$			
Subtotal of Car Expenses	\$	\$	<b>Monthly Surplus or Shortage</b>		
Subtotal of Food Expenses	\$	\$	<b>Total Spendable Income <i>minus</i> Total Expenses</b>	\$	\$
Subtotal of Miscellaneous Expenses	\$	\$	negative number = spending too much, adjust spending positive number = spending in control, good job!		
<b>Total Expenses</b>	\$	\$			

## Step 4: Save



Money set aside as savings is a very important part of your spending plan. One way to put aside money is to save into three categories.

### Short-Term Goals

- Put money into an account and take out as you are able to afford your goals. You should be able to reach your short-term goals after a few weeks or months of consistent saving.

### Long-Term Goals

- Invest or set aside money for a larger purchase. It may take a few years of consistent saving to reach your long-term goal.

### Emergency Reserve Fund

- Put money into an account and leave there until there is an emergency.



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### How to Save and Meet Your Financial Goals

- Buy what you need.
- Play with a little.
- Save the rest.

Any amount of money you save is an accomplishment. Keep up the good work!



## Using Your Spending Plan

The spending plan can become a tool to help you accomplish your goals and manage how much you spend. It should not feel confining or unrealistic. A spending plan is a tool to help you practice resource management skills and realize your goal.

List some challenges to using a spending plan:	List several actions you can take to accomplish your spending goals:
<i>Example: not enough time</i>	<i>Example: access community resources</i>

“We found an extra \$200 a month to save, which is \$2,400 a year. We will reach our home purchase goal within a year and have money left over... we can't wait to get a new home.”

– The Smith Family, Seneca Tribe-Tonawanda, NY



### How to Save and Meet Your Financial Goals

Include the entire family in your spending plan. It is important to discuss your financial goals such as buying a home, paying off debt, buying new basketball shoes, or paying for college.

Suggest ways that everybody can contribute to the family's success by sticking to the spending plan.

## Tips for Managing Spending



### Reach Your Financial Goals

Maintain a financial journal to help manage your spending and reach your goals.

Brainstorm some ways to manage your spending:

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Here are some tips for managing your spending.

- Tap into your community resources.
- Ask your community liaisons, housing or social programs for additional resources.
- Call the utility companies for energy saving credits or bill payment plans.
- Make a shopping list before you go to the grocery store and buy only the items you list.
- Carry an ice chest in your car for your children's snacks during long trips or sport activities.
- Use direct deposit to have your paycheck automatically put into your account.
- Freeze your ATM and credit cards in a container of water. This will definitely give you time to think before you make a purchase.
- Avoid check-cashing stores, pawnshop loans, and rent-to-own stores. They can cost you a lot of money in fees and high interest rate charges!
- Label envelopes or purchase a multi-file folder to maintain your weekly expenses.
- Check to see if you are eligible for the Earned Income Tax Credit.
- Find out if there are down payment assistance programs available to you.
- Ask if there is a savings-match program or Individual Development Accounts (IDAs) to help in your savings plan.



# Session 3:

## Working with Checking and Savings Accounts



### Objectives

In today's session we will discuss:

- the purpose and benefits of checking and savings accounts;
- how to open an account;
- activities involved in using and managing an account;
- tools to manage your account.

### Resource and Money Management

Traditional life involved choices about how to utilize resources. Wise choices were made about the best ways to use and save resources so that they provided for the community's needs throughout the year. For instance, in the traditional economy of Alaska Natives, the spring fish run was an important time for the community. A good catch was followed by a number of activities. Some fish were eaten fresh (like using cash); others were smoked or dried for the future (like putting money in your savings account).

In today's society, money is a resource used to meet the needs of family and community. How you manage money affects your ability to meet your family's present and future needs.

What would be other examples of how your community traditionally managed/preserved resources?

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*The design on this quilt square represents the cultural life of many Alaska Native groups, and specifically the Yup'ik Eskimo people of Southwest Alaska.*

*The salmon are hanging on a fish rack, a traditional way of drying and smoking salmon. The woman is wearing a "qaspeq" or cloth parka. Qaspeqs are worn on a daily basis in this region. The bucket the woman is carrying signifies the importance of gathering berries and greens from the tundra. Finally, there is the sun, which shines for long hours, allowing the fish to dry, berries to grow, and giving light to people through the busy summer months.*

Anastasia Cooke Hoffman (Yup'ik)

## Exercise: Managing Your Money

Each of us handles money differently. How do you manage your money? Answer the following questions to get a sense of your money management practices.

1. When you want to purchase something but don't have the cash—what do you do?

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2. When you have extra money—where do you keep it?

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3. How do you pay your monthly expenses (e.g., check, money order)?

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4. Where do you cash checks (e.g., bank, check cashing store)?

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5. What works well about your approach to managing money?

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6. What doesn't work well for you?

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## Money Management Tools

Before European contact, each Native community provided for its own needs and acquired additional goods by trading with surrounding communities. In recent history, Native people used a local trading post or other venues to interact with the money economy. As Native communities move further away from a subsistence lifestyle and become more economically engaged in the world economy, we need additional tools, such as checking and savings accounts, to manage our finances.

When you make choices about managing your money, it's important to consider all of your options. Sometimes we don't consider something because we don't have any information or experience with it. Checking and savings accounts are often not used in Native communities, although these accounts are the safest and least expensive way to manage money.

Why do you think our people are hesitant about opening an account at a financial institution?

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## Bank Account Features

Financial institutions offer checking and savings accounts so that you have a safe and secure place to keep your money. Having a checking and savings account is another way to manage your money. You can deposit and withdraw money from both checking and savings accounts.

List some benefits of having a checking or savings account:

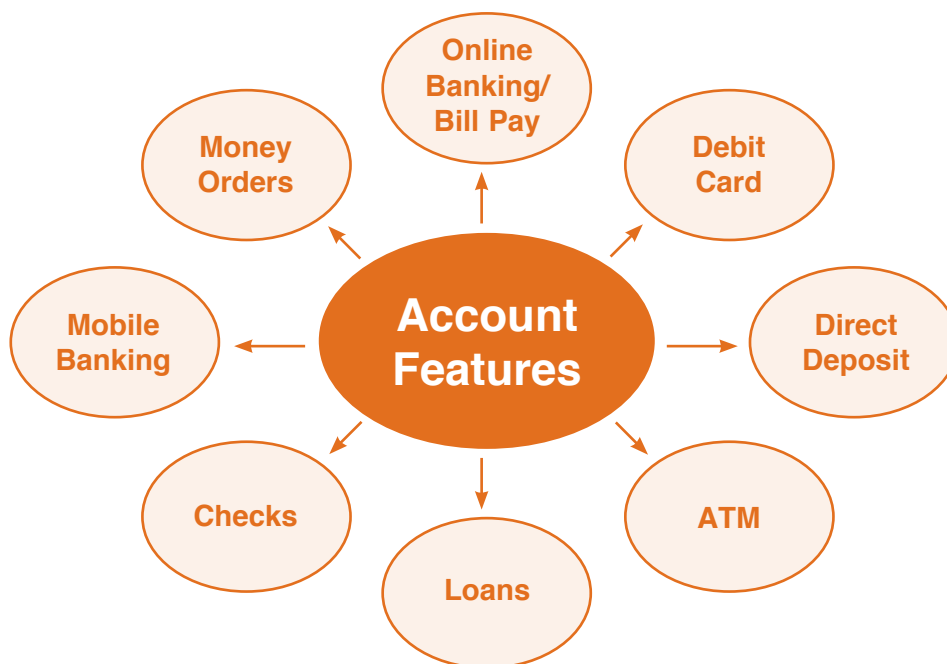
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Common features of an account include the following:



**Checks:** Checks are used for paying bills and making purchases when you do not want to use cash. Checks allow you to use the money in your account to pay for things without having to withdraw cash.

**ATM:** An ATM, or an automated teller machine, is a machine you can use anytime to handle your financial transactions. Many ATMs allow you to electronically do the same transactions you do at a financial institution, such as withdraw cash, make a deposit, check account balances, receive a copy of your statement, and transfer money between accounts.

*We will talk more about the ATM features on page 47.*

**Debit Card:** A debit card is a plastic card, sometimes called a “check card.” It is branded with either a VISA or MasterCard logo and, unlike an ATM card, can be used at a Point of Sale (POS) terminal to pay for goods or services.

*We will talk more about the Debit Card features on page 48.*

**Online Banking/Bill Pay:** Available 24/7 and a few clicks away, online banking will allow you access to your savings and checking account, view previous account statements, make payments, transfer funds between accounts, and see copies of checks you’ve written. This service is efficient and paper-free!

*We will talk more about Online Banking on page 49.*

**Direct Deposit:** This service allows your paycheck to be directly deposited into your bank account. The amount of money deposited is available immediately.

**Mobile Banking:** Mobile banking allows you to use your cell phone to check your account balances, transfer money between accounts, check on your recent deposits or withdrawals, and stop payment on a check.

**Money Orders:** Similar to a check, you can use a money order to pay bills or make purchases when cash is not accepted. There is a fee to get a money order. A money order does not expire, so it can be cashed at anytime.

**Loans:** A loan is money you borrow with the intent to repay the financial institution at a later time. With a loan, the financial institution will charge you fees and interest to borrow money.

*We will discuss this topic more in depth in Session 6.*

### Fees and Interest

Just keep in mind that some accounts have fees and others do not. When you open your account with a financial institution they will provide you with a list of fees related to your account.

Sometimes a financial institution will pay you for keeping your money in an account at their institution. This payment is called interest. The interest you receive is calculated as a percentage of the total funds you have in your account. If you do not take money out of your account, the balance continues to grow.

For example, let's say that you deposited \$200.00 into your saving account that earns 2% interest. You decide to put \$50.00 each month into your account and let it grow. Let's take a look at the chart below and see how much money you could potentially earn.

*\*This is an estimate. It can be tricky to get the "true" interest when money is being added incrementally at \$50.00 per month.*

	6 Months	12 Months	18 Months
Starting Balance	\$200.00	\$200.00	\$200.00
Add \$50.00 per month	\$300.00	\$600.00	\$900.00
Subtotal	\$500.00	\$800.00	\$1,100.00
Earn 2% interest *	\$4.98	\$15.98	\$33.04
<b>TOTAL</b>	<b>\$504.98</b>	<b>\$815.98</b>	<b>\$1,133.04</b>

What could you purchase or do with this additional amount of money?

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## Exercise: Evaluating Banking Services

It's important to choose a financial institution that meets your financial needs. It's also important to choose a place where you feel comfortable asking questions and working with the employees. If possible, visit a number of financial institutions before you choose one.

Ask yourself the following questions for each financial institution you consider working with:

	Financial Institution A	Financial Institution B	Financial Institution C
What types of accounts does this institution offer?			
How much money do I need to open the account?			
How much money do I have to keep in my account to avoid fees?			
Are there fees for the services offered? How much?			
Does an ATM or debit card come with this account?			
Does the institution have ATMs? Are they located near where I live, work, or shop?			
Fees for ATMs?			
Do they offer a service for overdraft protection?			
Does this account pay interest?			
Do any employees speak my language?			
What kind of identification is accepted?			
Do the employees take the time to answer questions?			
Is the facility a comfortable place to visit?			
How familiar is the institution with my community (tribal law and doing business on trust land)?			

Take some time to explore and shop for a financial institution that fits your needs. Ask a friend, relative or co-worker where they bank and have them share their experiences about the various institutions they are using.

## ***Eligibility for Opening an Account***

Some banks may use a consumer report for banking services to determine an individual's eligibility to open an account. These reports contain banking history information and can be obtained from ChexSystems.

An individual may find they are denied opening a checking account for several reasons such as having an overdrawn account closed by a financial institution or outstanding debts to a financial institution.

You can discuss the reasons with the financial institution and request a ChexSystems report. If an account is denied within the past 60 days, the report will be provided free of charge.

ChexSystems can be reached by:

**Phone**  
1-800-428-9623  
(Recording  
only-Instructions)

**Mail**  
ChexSystems  
Attn: Consumer Relations  
7805 Hudson Road,  
Suite 100  
Woodbury, MN 55125

**Fax**  
602-659-2197



### **Overcoming Denial**

Not all financial institutions use ChexSystems so check with your bank first!



## Opening an Account

1. *Before* you open a new account, go over any questions you may have with a representative at the financial institution.
2. Bring a valid picture ID (e.g., driver license, tribal ID, passport, or government issued ID) and a second form of ID (e.g., social security card or credit card).
3. Bring an official piece of mail to verify your address (e.g., power bill).
4. You will need to know your social security number, but do not have to bring the actual card unless you are using it as a second form of ID or opening an account for one of your children, as this is often their only form of ID.
5. Decide who you will name as the beneficiary and/or POD (Payable on Death) on your account.
6. Sign the account agreement papers, and keep the copies given to you. Also be sure to get a copy of the written account disclosures from your financial institution.
7. You will receive your account number; make sure to put this number in a safe place.
8. Order checks, debit, and/or ATM cards.
9. Get a username and password, if you would like to access your account online.
10. Make your first deposit into the account.



### Arrive Prepared to Open Your Account

Some banks require you to make a deposit when you open an account. Call ahead so that you arrive prepared.



1. Go over any questions you may have with a representative at the financial institution.



2. Bring a valid picture I.D.



3. Bring official mail to verify your address.

Five...three...



4. You will need to know your Social security number.



5. Decide who you will name as the beneficiary on your account.

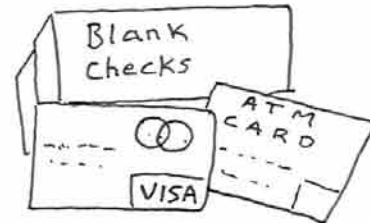
Here are your copies



6. Sign and keep your copies of the Account Agreement Papers.



7. Put your account number in a safe place.



8. Order checks, debit and/or credit cards.



9. Get a user name and password.



10. Make your first deposit into the account.

## Managing Your Account

Once you open a checking or savings account it is your responsibility to manage your finances. Understanding your accounts and the tools provided will help you to avoid overdrawing on your account and getting Non-Sufficient Fund (NSF) notices in the mail. An NSF fee is charged when you do not have enough money in your account to honor a payment.

Again, it is very important to keep enough money in your account to cover all outstanding checks, debit transactions, online bill payments, or any withdrawals. A financial institution will charge you a substantial overdraft fee of \$15 - \$50, plus the institution usually does not pay the person/business that tried to retrieve the amount owed to them.

Remember community businesses depend on you as a customer to be responsible. Support the businesses in your community by providing on-time and complete payments.

### Using a Check Register

A check register is a tool for keeping track of the daily balance in your checking account. When you have a checking account, it is VERY important that you keep track of how much money is in your account. You NEVER want to write a check for more money than you have in your account.

You should use your check register to record ALL account transactions, such as check payments, deposits, fees, and ATM withdrawals. It is your responsibility to track the checks you have written. This way you will know how much is in your account at all times. Your financial institution does not know what checks you have written until they are applied to your account.

This is an example of Lucy's check register. Her checking account has been open for one month and she has recorded the following transactions in her check register:

Check #	Date	Description	Debit (-)	Credit (+)	Balance
	6/5	Starting Balance			\$175.25
300	6/5	Walmart	50.25		125.00
		Nonbank ATM (cash)	20.00		105.00
	6/6	ATM fee	1.50		103.50
301	6/10	Lucky Mart Groceries	12.65		90.85
302	6/12	Acme Gas	15.00		75.85
303	6/15	Lucky Mart Groceries	11.75		64.10
	6/15	Deposit—paycheck		400.00	464.10
	6/16	ATM (cash)	30.00		434.10
	6/16	ATM (cash/regalia repair)	100.00		334.10

### Exercise: Using a Check Register

Using Lucy's check register, answer the following questions:

1. How much did Lucy start with in her checking account?

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2. To whom did Lucy write check #301? How much was the check for?

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3. What transactions did Lucy complete on 6/15? For how much?

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4. What was the new checking account balance after Lucy wrote check #303?

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5. Record the following transactions on the check register on page 41. Then calculate the new account balance.

- On June 16th Lucy wrote check #304 to Elk River Electric Company for \$32.75.
- On June 17th Lucy made an ATM withdrawal for \$20.00 from a machine not at her bank. There was also a service fee of \$1.50.
- On June 28th Lucy wrote check #305 to ABC Credit Company for \$60.00.
- On June 30th Lucy deposited her \$400.00 paycheck.
- On July 1st Lucy began writing check #306 but made a mistake and voided the check.
- On July 1st Lucy wrote check #307 to Lucky Mart Groceries for \$25.50.
- On July 2nd Lucy's bank charged her \$3.00 for account fees.

6. What is Lucy's new account balance?

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## **Balancing Your Checkbook**

Balancing or reconciling your checkbook is comparing your check register with your account statement to ensure all transactions have been properly recorded. This is an important task so that a person does not overdraw their account. After all financial transactions have been recorded in both places, the balances should be the same.

Balance your checkbook each month to ensure that you know where and how you spend your money.

### **How to Balance Your Checkbook**

Use the following four-step process to reconcile your check register with your account statement:

- Step 1:** Compare the account statement with the check register.
- Step 2:** Revise the check register to include all financial transactions listed in the account statement.
- Step 3:** Revise the account statement balance to reflect all financial transactions listed in the check register.
- Step 4:** Compare the new check register balance with the new account statement balance.

## Exercise: Balancing Rebecca's Checkbook

Rebecca is a member of the Fond du Lac Bank of Lake Superior Chippewa. She works at Fond du Lac Tribal College and also weaves sweet grass baskets for the Black Bear Casino Gift Shop.

Using the four-step process explained in "How to Balance Your Checkbook," reconcile Rebecca's checkbook with her account statement.

### Check Register

Date	Check #	Description	Payment/Debit (-)	✓	Deposit/Credit (+)	Balance
1/1		Opening Deposit			500.00	500.00
1/3	101	Grocery Store	75.00			425.00
1/4	102	Electric Bill	35.00			390.00
1/7		Deposit/paycheck			250.00	640.00
1/20	103	VOID-writing error				640.00
1/25		Deposit/craft sales			150.00	790.00
1/26		ATM Withdrawal	40.00			750.00
1/30	105	Rent	300.00			450.00
2/1		Deposit/bonus			50.00	500.00

### Account Statement

<b>Rebecca Raven</b> <b>Happiness Lane</b> <b>Cloquet, MN 55720</b> <b>Statement Period: 1/1/00 to 1/31/00</b>			<b>ABC Bank</b> <b>Zhooniyaa Lane</b> <b>Cloquet, MN 55720</b> <b>1-800-000-0000</b>	
<b>Beginning Balance:</b>	\$0.00	<b>Total Withdrawals:</b>	\$246.50	
<b>Total Deposits:</b>	\$900.00	<b>Ending Balance:</b>	\$653.50	
Date	Description	Debits	Credits	Balance
1/1/00	BALANCE LAST STATEMENT			0.00
1/1/00	DEPOSIT		500.00	500.00
1/5/00	CHECK # 101	75.00		425.00
1/7/00	DEPOSIT		250.00	675.00
1/10/00	CHECK # 102	35.00		640.00
1/15/00	AUTOPAY INSURANCE	50.00		590.00
1/21/00	CHECK # 104	40.00	150.00	550.00
1/25/00	DEPOSIT			700.00
1/26/00	ATM	40.00		660.00
1/26/00	NON-ATM FEE	1.50		658.50
1/26/00		5.00		653.50
1/31/00	SERVICE CHARGE			653.50
1/31/00	ENDING BALANCE THIS STATEMENT			653.50



**Goal:** Rebecca's check register and account statement should have the same balance after all transactions have been recorded in both places.

**Step 1:** Compare the account statement with the check register.

- Place check register and account statement next to each other.

**Step 2:** Revise the check register to include all financial transactions listed in the account statement.

- Determine if all figures are accurate and identify transactions that have not cleared the bank.
- Place a check mark next to transactions that are listed in both the check register and account statement. Make sure to place a check mark next to the item in both places.
- Record transactions from your account statement that don't appear on your check register. Remember to place checkmarks in both places next to each item you add.
- Calculate the new check register balance.

**Step 3:** Revise the account statement balance to reflect all financial transactions listed in the check register.

Outstanding Deposits		Outstanding Checks/Debits	
<i>Date</i>	<i>Amount</i>	<i>Check #</i>	<i>Amount</i>
<b>Total Outstanding Deposits (+)</b>		<b>Total Outstanding Checks (-)</b>	

- Calculate the new account statement balance.

<b>Account Statement Ending Balance</b>	
<b>Total Outstanding Deposits (+)</b>	
<b>Total Outstanding Checks (-)</b>	
<b>Revised Account Statement Balance</b>	

**Step 4:** Compare the new check register balance with the new account statement balance.

- Your revised account statement balance should equal your check register balance. If figures do not match, go back and check your calculations.



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## Automated Teller Machines (ATMs)

The best way to avoid ATM fees is to use a machine that is owned by the financial institution that holds your account. Sometimes when you use another bank's ATM, you'll be charged a fee by that bank and possibly another fee by your own bank as well.

For example, Sarah has a debit card from her local credit union. One day she needs some cash to buy lunch and the only ATM nearby is owned by a large national bank. Sarah withdraws \$20 and is charged \$1.50 by the large bank. On her next credit union account statement, there is also a \$1.50 charge from the credit union for the same transaction. It just cost Sarah \$3 to withdraw \$20 from her account. That's a whopping 15%. Ouch!

### ATM Card Safety Tips

Using an ATM can be a very convenient way to access financial services, however, take precautions to ensure your personal safety and account security. What are some measures you can take to ensure your safety and the integrity of your account when using an ATM card?

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### Decrease Your Liability

Your personal liability can actually be higher if you are a victim of debit card fraud as opposed to credit card fraud. The maximum liability you face if someone steals your credit card is \$50. Your liability for a stolen debit card can be much greater.

## Debit Cards

A debit card is sometimes called a “check card.” It withdraws money straight from your account. Each time you use your debit card, you should immediately enter the transaction into your check register.

Debit or credit - what’s the difference? Well, that depends on how the transaction was processed and how your financial institution handles that transaction. In most cases, when you use “debit” it will require you to enter your Personal Identification Number (PIN) and the money from your account is almost always withdrawn immediately from your account. You should be the only person who knows this code to protect your account.

If you use “credit” you may be asked to enter your PIN or to sign a receipt for your purchases. Depending on your financial institution, your money may NOT be taken out of your account immediately. Keep in mind that this is not a credit card, because it is taken directly out of your bank account.

On another note, it is good to know how the amount authorized can be different from the amount taken. For example, if you use your debit or credit card to buy gas, your card will usually pre authorize \$1 or \$50. What that means is that amount (\$1-\$50) will be removed from your available funds and the actual amount will be taken when the gas station closes and reconciles their records, usually daily.

Another common transaction to be cautious about is using your debit card to secure a rental car or hotel room. That business may place an authorization hold on the funds which could cause you to not have access to your money. Your financial institution would have to agree to release those funds before they can be used. This is why every transaction you do with a debit card will need to be recorded in your check register!



### Precautions for Check Cards

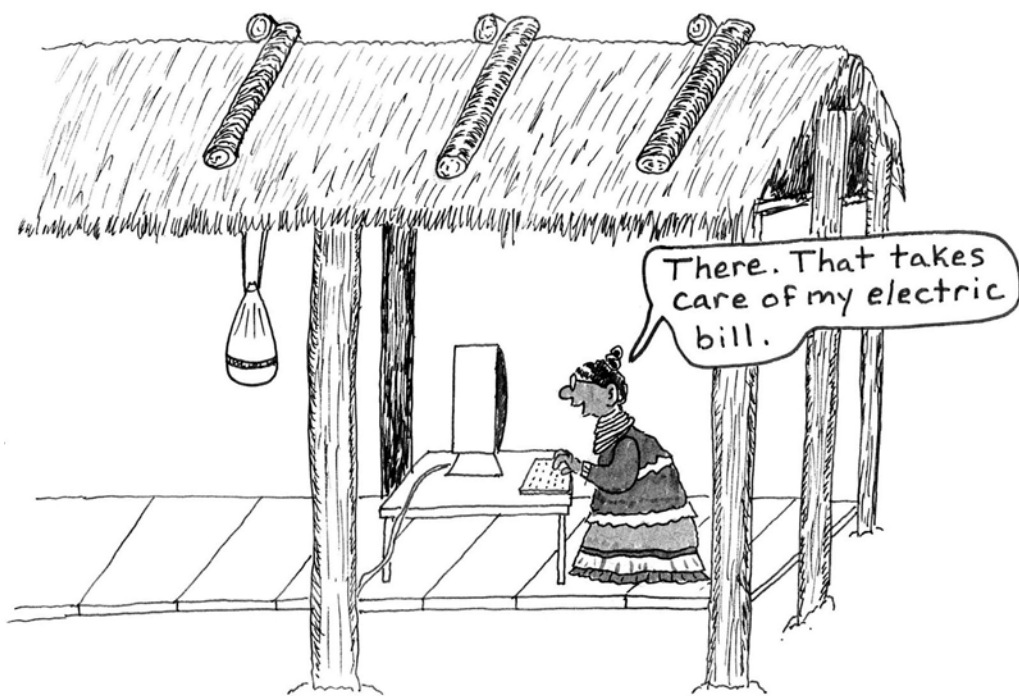
Check cards can be used in many more locations than old fashioned ATM cards. Furthermore, POS transactions often don’t require a PIN. This can make check cards more susceptible to fraud. Also, just because you don’t have money in your account doesn’t mean your bank will deny transactions. It is important to know your bank’s policies regarding denied transactions.

## Online Banking

Online banking uses today's computer technology to give you the option of bypassing the time-consuming, paper-based aspects of traditional banking in order to manage your finances more quickly and efficiently.

What are some benefits and challenges in using online banking services?

Advantages	Disadvantages
<i>i.e., Available 24/7</i>	<i>i.e., Susceptible to fraud</i>



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It is important to know that when using on-line banking there may be a fee, but that depends on the financial institution. One popular feature is Bill Pay. Bill Pay will allow you to pay your bills on-line anytime and literally anywhere! Most Bill Pay features will have a tutorial to help you set up your account and get started as a paper-free consumer.

When you set up your account, you will enter the amount and date you want your bill paid. As some bills vary each month, you will decide to either have the total automatically withdrawn from your account or have an e-mail sent so that you may approve the withdrawal each month. Just remember to be sure that there is enough money in your account before bills are set to be paid. You can pay for your credit cards, loans, and even services like your water bill with Bill Pay. You do not have to worry about postage, late payments, or receiving paper statements in the mail anymore and you are helping the environment by going paperless!



### **Protect Yourself From Overdraft Fees**

If you can get Overdraft Protection, get it! For a small fee, many banks offer Overdraft Protection to cover any transactions should your account become overdrawn.

### ***Timing on Funds***

Timing is very important. Many people get confused about the timing of checking account deposits and withdrawals. When you deposit money in your account, there is usually a delay before you can access the funds. Federal laws set the time limits for “holds” on funds and your access to them. You will want to check with your financial institution to understand its policies on availability of funds.



## Forgery

Forgery is when a person purposefully tries to withdraw money from your account by pretending to be you. An example of forgery is when someone else writes your signature on the back of a check to cash it.

If for any reason you think that someone has taken one of your checks, immediately call your financial institution. Explain the situation and request that they cancel the check before anyone has an opportunity to cash it. This is called a stop-payment. There may be a fee for placing a stop-payment on a check, but it is better than having someone rob you of your savings.



### Fraud Comes in Multiple Forms

Forgery is a form of fraud. We'll talk about another form of fraud, identity theft, in Session 6.



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# Session 4:

## Understanding Credit and Your Credit Report



### Objectives

In today's session we will discuss:

- the purpose of credit;
- the importance of your credit history;
- how to read and analyze a credit report;
- steps you can take to correct errors on your credit report;
- steps you can take to build, maintain, and rebuild your credit history.

### Traditional Migration Patterns

For generations, Native communities migrated throughout the year to be near natural resources that supported the community. Our people lived in a subsistence economy where the community was able to provide for its own needs.

History has forced Native communities to transition from people who could provide for their own needs (**subsistence economy**) to a situation where the majority of goods and services must be purchased from others (**market economy**). The raw materials used to make most of the things we consume no longer come from places that are within walking distance. This means we need financial resources to purchase the goods that we use.

Can you think of some goods and services that people from your community once provided for themselves but today must purchase from others?

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What are some advantages of purchasing goods and services from others as opposed to providing them for ourselves? What are some disadvantages?

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#### *Three Fires Confederacy*

*The three fires represent the Three First Nations, the Ojibway, the Odawa, and the Potawatomi. We are nations whose languages are similar, whose cultures and teaching are close, and whose lands we often share.... In these times of stress and turmoil, it is of utmost importance that we remember and practice the direction that was given to us by the Creator.*

*As a member of the Ojibwe First Nation and believing in the responsibility placed on me as a woman, mother, and grandmother, I have and will continue to promote and preserve this special relationship and harmony with my extended kinship in the Odawa and Potawatomi First Nations.*

Rita Corbiere  
(Ojibwe)

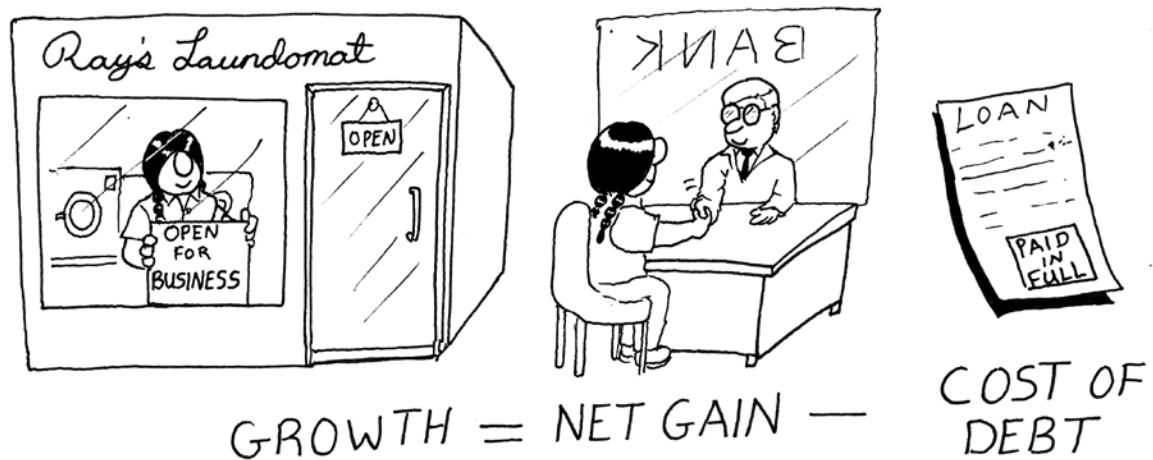


## Importance of Credit

In the present market economy, credit helps a community to develop. It is one of the best ways for a community to grow without having to accumulate tremendous savings in advance.

Credit is used to start businesses, build or buy houses, and conduct daily commerce. It is the lifeblood of a community. Credit helps a community to grow if the net gain of borrowing is greater than the cost of debt.

$$\text{Growth} = \text{Net Gain (Borrowing)} - \text{Cost of Debt}$$



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Our ancestors were constantly evaluating the consequences of their actions. They weighed the costs and benefits of their decisions before they took action. Similarly, credit has both costs and benefits. The costs include interest payments and fees. The benefits include leveraging credit as a tool to make purchases. **Before you use credit, always determine if the benefits are greater than the costs!**



### What is Credit?

Credit is when you borrow funds with the intent to repay them. Any time a bank, a family member, or a business lends you money and you agree to pay it back later, you're using credit. In most cases there's a charge for borrowing the money. The charge can be both in the form of fees and interest.

## ***Advantages and Disadvantages of Using Credit***

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### **Advantages of using credit**

List some reasons you might use credit.

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### **Disadvantages of using credit**

List some reasons you might not want to use credit.

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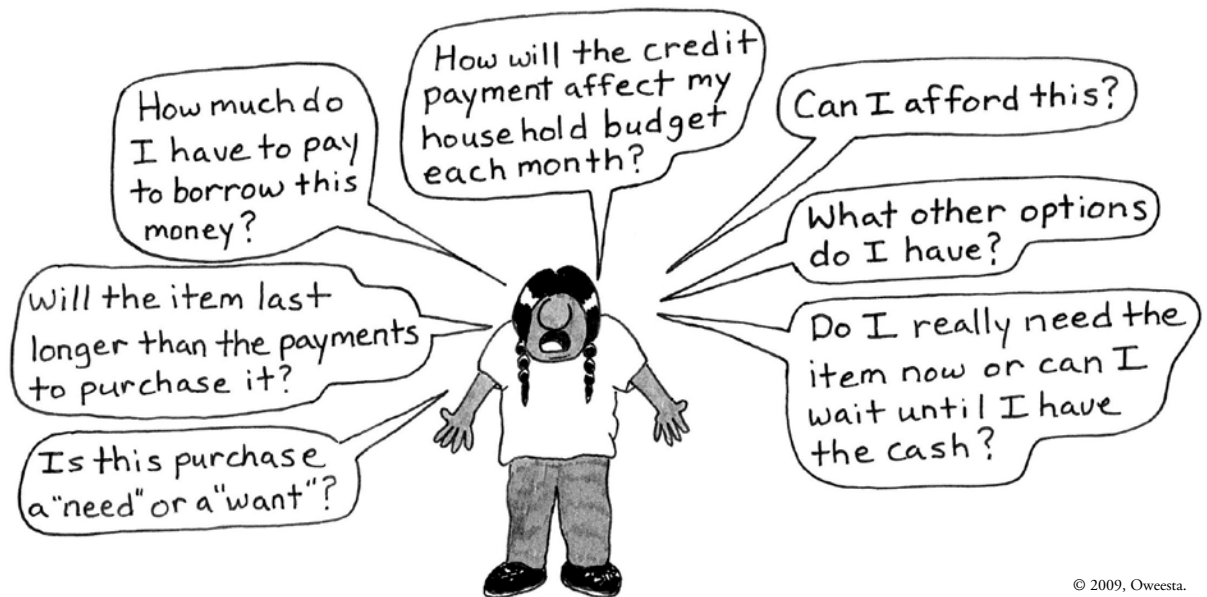
## Using Credit

In the circle of life, traditional resource management teaches us that our actions today affect the resources that we will have available in the future.

Historically, Native communities did not hunt deer in the spring when the does were giving birth to new fawns. Native communities worked within the natural cycle so that future generations could enjoy the deer and their gifts. In the fall, our people hunted what they needed to support the community. Hunting practices demonstrated an understanding of the costs and benefits of working within the natural cycle. The benefit of fresh meat year round did not justify the cost.

Before you make a purchase, ask yourself if the item is a “*need*” or “*want*.” Needs are items that are essential, based on your lifestyle and values. Housing and education might qualify as needs. Wants are items that you desire, but that are not necessary, such as a snack or expensive clothes. Because credit generally costs more money, it is best to use it for “need” type purchases. Satisfy your “wants” with cash that you save over time.

Try asking yourself the following questions before using credit for a purchase:



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### Use Credit to Manage Your Resources

Use traditional resource management skills to manage credit wisely. When you spend money, there is an impact on the financial resources you will have available in the future. You want to balance purchasing what you need with conserving financial resources for the future.

## Exercise: Using Credit

Review the following situations. Based on what we have discussed, determine if you would use credit for any of these purchases and mark your answer. There are no right or wrong answers, but list your reason in the space provided. Remember to ask yourself the questions on the previous page before you make a decision!

Item/Situation	Need/Want	Would you use credit for this purchase?			Reason
		Yes	No	Maybe	
A Friend's Birthday Present					
Weekly Groceries					
College Education					
New Basketball Shoes					
New Refrigerator Because Yours Broke					
A Snack					
Materials for a Beadwork Project					
Medical Procedure That the Doctor Told You to Have Done Immediately					
Overdue Bills					
Fixing a Car					
Attending a Powwow					



## Types of Credit

When used wisely, credit can be an effective tool to make purchases. There are a number of different types of credit. The most common types of credit are:

### Revolving Credit

This type of credit allows you to borrow money at any time up to a set limit. As you pay back the borrowed money, it becomes available again to borrow. The lender allows you to pay back the money in a lump sum or over an extended period of time. If you pay back the debt over time, you are charged a fee each month on the amount that you owe. This fee is called interest.

The most common types of revolving credit are credit cards, such as VISA or Mastercard, department store cards, and gasoline cards.



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### Installment Credit

Installment credit allows you to borrow a specific amount of money at one time for a defined purpose. You establish a payment plan with your lender to repay the loan on a regular basis over a period of time. The amount of interest that you will pay during this time is determined in advance and calculated into your set monthly payments.

This type of credit is common for larger purchases such as a home, car, or education.



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### Noninstallment or Service Credit

Some businesses and utility companies offer this type of credit. It allows you to pay for a used service at a later date. Often, if you pay the complete sum within a specified period of time, usually 30 to 60 days, you do not have to pay fees or interest. If you are unable to make the payment within the specified time, there is usually a penalty charge that will be added to your debt. Service credit has a long history in Native communities. For example, at some feed stores, trading posts, and small grocers, customers can purchase necessities on account and pay for them at a later date.



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## Secured and Unsecured Credit

Most types of credit can be obtained in two forms—*secured* or *unsecured* credit.

### Secured Credit

This is when you are asked to provide something of value as a guarantee that you will repay your debt. If you fail to repay, the lender takes your item as repayment. Personal valuables, known as “collateral,” such as cash or a car are used to secure loans.

A secured credit card is an example of secured credit and is one method for a person who cannot obtain a conventional credit card to make purchases. For example, the cardholder would deposit a sum of money (the collateral) into a savings account specifically opened for the secured card. That deposited money would be equivalent to the amount of credit available to the cardholder. The savings account is not accessible and cannot be used to pay back the charges on the secured card, but will earn interest!

The cardholder can use the secured card just like a conventional credit card. The card holder must pay off or make payments for what is charged on the card. After 12 -18 months of on-time payments or proper usage of the secured credit card, the savings account money is released and the card converts to a conventional credit card (unsecured).

### Unsecured Credit

This is when a guarantee is not required. A conventional credit card is a form of unsecured credit because no collateral is required. Some personal loans that don't require collateral are also examples of unsecured credit.

## Exercise: Types of Credit Overview

Choose an appropriate type of credit for the following scenarios:

1. Candace got a promotion at work and wants to buy a house in a city near her reservation.

What type of credit will this require? \_\_\_\_\_

Will this type of credit be secured? \_\_\_\_\_

If so, what will Candace most likely offer as collateral for her loan? \_\_\_\_\_

2. Dan and Vickie need to borrow \$500 to purchase gifts during the holiday season and pay for small expenses in the year to follow.

What type of credit will suit their needs well? \_\_\_\_\_

Where can Dan and Vickie obtain this type of credit? \_\_\_\_\_

Will the credit cost less if they pay it off in full or spread it out over several months? \_\_\_\_\_

\_\_\_\_\_

3. John is a rancher and purchases feed and supplies at a family owned mercantile store on the reservation. He's done business there for years and the owners understand that ranching can be an unpredictable business. Sometimes John purchases what he needs by signing his name to a ledger and pays the balance later.

What type of credit is this? \_\_\_\_\_

Do you think it would make sense for John to stop making purchases in this way and switch to a credit card? \_\_\_\_\_ Why or why not? \_\_\_\_\_

\_\_\_\_\_

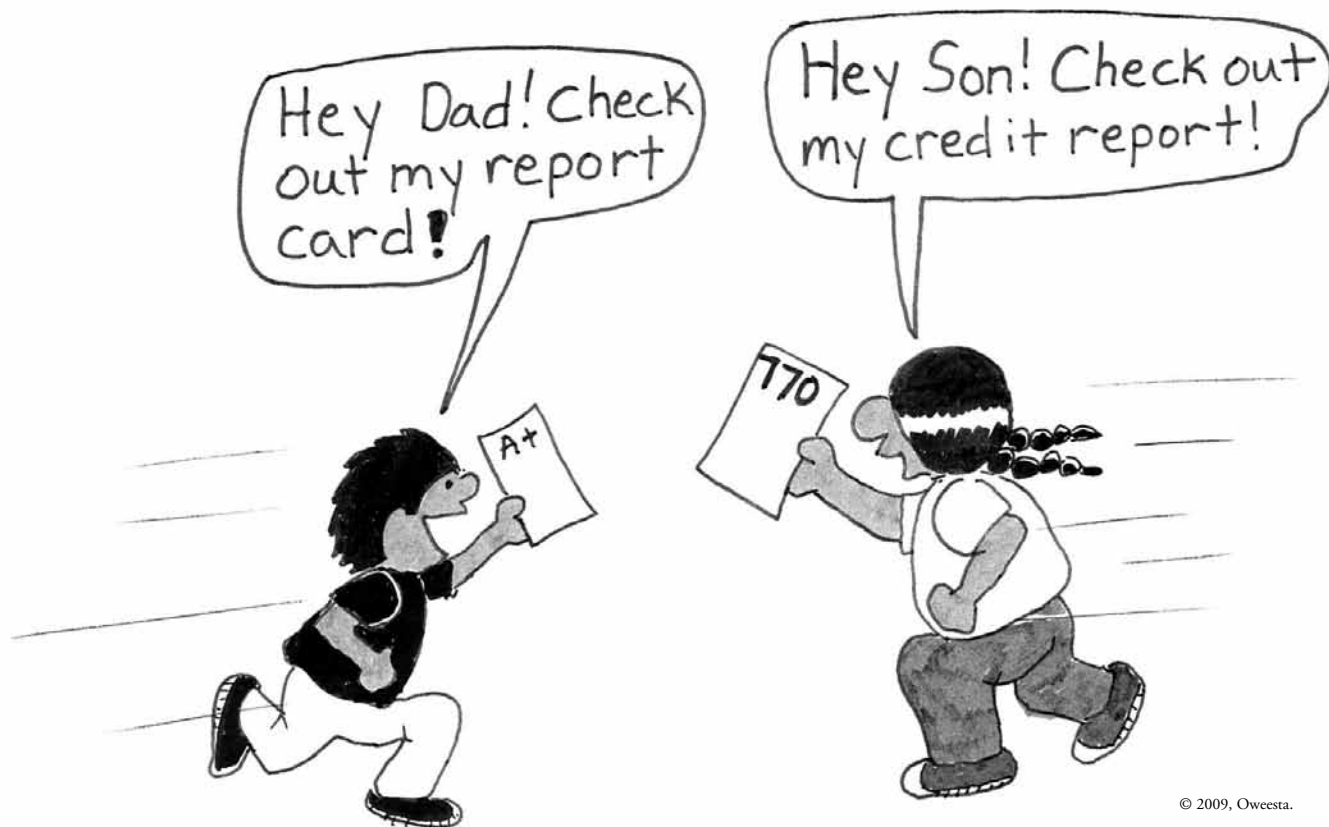
## Your Credit Report

When you apply for credit, your success is influenced by how you have handled credit in the past. A record of this information is kept by organizations called *credit bureaus*. They gather information from a variety of sources such as banks, department stores, medical providers, and credit card companies. This record indicates whether you have repaid your bills on time. It is called a *credit report*.

Credit reports are used for many purposes. They are an important part of your loan application. Landlords and employers use them to evaluate your reliability and your ability to manage your finances. Many insurance companies check your credit report when issuing an auto or homeowner's policy. A poor credit history can mean higher premiums or even rejection of coverage altogether. In fact, recent studies suggest that a person's credit history is a better indicator of their likelihood to file an auto claim than their driving record.

Therefore, it is very important that you maintain a good credit history and that it is accurately reflected on your credit report. Moreover, it is crucial that you understand the personal and private nature of the information contained in your credit report; and be very selective about who you authorize to access and view your credit report.

**Think of your credit report like a report card that shows how well you manage your finances.**



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## Accessing Your Credit Report

Because mistakes do happen, you should review a copy of your credit report each year. There are three major credit bureaus, and you should order a copy of your credit report from each one. Credit bureaus are required by law to provide a report to you, and to include any corrections you have. The credit bureau will usually charge you a small fee for sending you the report. However, you are legally entitled to one free credit report once a year from each of the three bureaus. You can go online at **[www.annualcreditreport.com](http://www.annualcreditreport.com)** to download a free report or call **1-877-322-8228** to have one mailed to you.

### Equifax

P.O. Box 105873  
Atlanta, GA 30348  
1-800-685-1111  
[www.equifax.com](http://www.equifax.com)

### Trans Union Corporation

P.O. Box 390  
Springfield, PA 19064-0390  
1-800-916-8800  
[www.transunion.com](http://www.transunion.com)

### Experian

P.O. Box 2350  
Chatsworth, CA 91313-2350  
1-888-EXPERIAN (397-3742)  
[www.experian.com](http://www.experian.com)



### Maximize Your Accessibility to Your Credit Report

Don't pull free reports from all three bureaus at one time. Instead pull one report from each bureau every four months. Staggering reports in this way will provide free up-to-date credit reports throughout the year rather than pulling all three at once and waiting a whole year until qualifying for a new free report.

## Reading Your Credit Report



March 13, 2009  
Page 1

### Sample Credit Report

#### Consumer Information

	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
<b>Name:</b>	Michael T. Iron	Michael Todd Iron	Michael Iron
<b>Current Address:</b>	Box 10, Basom, NY	Box 10, Basom, NY	#3 Sage Ln., Basom, NY
<b>Previous Address:</b>	123 Mill St., Buffalo, NY	123 Mill St., Buffalo, NY	123 Mill St., Buffalo, NY
<b>Current Employer:</b>	IronWorks Co.	IronWorks Company	IronWorks Co.

#### Consumer Information

Your name, current and previous addresses, and employer information reported by your creditors

#### Consumer Statement

My loan payment to Quick and Easy Payday Loans on 5/21/05 was not late because I called their office on my due date and informed them I was caught in traffic and might not be able to make it by 5pm. The office manager told me not to worry as long as I dropped my payment in the mail slot that evening. I did this but they still marked my payment as late.

#### Consumer Statement

Information you provide the credit bureau for the purpose of explanation, clarification, or dispute

#### Summary Information

	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
<b>Real Estate Accounts</b>	1	1	1
Count	134100	134100	134100
Balance (\$)	1257	1257	1257
Payment	1	1	1
Current	0	0	0
Delinquent	0	0	0
Derogatory	0	0	0
Unknown	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
<b>Revolving Accounts</b>	3	2	2
Count			

#### Summary Information

List of accounts, both installment and revolving and credit are included

*Note: This sample credit report is an example of a tri-merge report. It contains information from all three major credit bureaus. Your actual credit report may look different.*

**Account History Information**

Specific information regarding current status of various accounts

**Account History Information****Creditor Name**

	<b>Experian</b>	<b>TransUnion</b>	<b>Equifax</b>
Account Number:	1234***	1234***	1234***
Type:	Real Estate	Real Estate Mortgage	Real Estate
Condition:	Open	Open	Open
Responsibility:	Individual	Individual	Individual
Pay Status:	60 days late	Charge off	30 days late
Date Opened:	06/01/2000	06/2000	06/2000
Date Reported:	01/01/2009	01/2009	01/2009
Balance and Limit:	Balance of \$134000	Balance of \$134000	\$134,100
Payment and Terms:	\$1257 for 360 months	\$1257 for 360 months	Payment \$1257
High Balance:	\$135000	\$135000	\$135,400
Past Due:	\$0	\$0	\$0
Remarks:			
Two Year Payment History:			

**Experian**

OK 30 60 OK OK OK OK OK OK OK OK OK OK OK OK OK OK OK OK OK OK OK  
 Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar

**TransUnion**

OK  
 Aug

**Public Record****Public Record Information**

Public record items obtained from local, state, federal, and tribal courts

**Bankruptcy**

	<b>Experian</b>	<b>TransUnion</b>	<b>Equifax</b>
Type:	Chapter 7 Bankruptcy	Chapter 7 Bankruptcy	Chapter 7 Bankruptcy
Status:	Filed	Filed	Filed
Date File/Reported	08/2003	08/2003	08/2003
How Filed:	Individual Acct	Individual Acct	Individual Acct
Reference #:	10-11-15	10-11-15	10-11-15
Closing Date:	12/15/2003	12/2003	12/15/2003
Court:	County Court	County Court	County Court
Liability:	\$50000	\$50000	\$50000
Exempt Amount:	\$1000	\$1000	\$1000
<b>Asset Amount:</b>	<b>\$15000</b>	<b>\$15000</b>	<b>\$15000</b>

**Inquiry Information**

<b>Creditor Name</b>	<b>Date of Inquiry</b>	<b>Inquiry Type</b>	<b>Credit Bureau</b>
Bank	01/02/2009	Solicited	TransUnion
Credit Card Company	12/13/2008	Unsolicited	Equifax
Credit Card Company	12/05/2008	Unsolicited	Equifax
Insurance Company	10/08/2008	Unsolicited	Experian
Mortgage Lender	09/22/2008	Solicited	Experian

**Inquiry Information**

List of businesses that have received your credit report in the last 24 months



## Exercise: Reading Your Credit Report

Answer the following questions using the sample credit report on the previous pages.

1. Whose credit report is this?

---

2. What is his address?

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3. What is the date of this report?

---

4. Who is his employer?

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5. Is there conflicting information collected by the three credit bureaus on this report?

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6. List three examples.

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7. What is his monthly mortgage payment?

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8. Does he have any public record items that might be of interest to a potential lender? If yes, what are they?

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9. Based on the information in this credit report would you feel comfortable loaning this person \$20,000 for a pick-up truck? Why or why not?

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## Correcting Errors on Your Report

Sometimes there are errors on credit reports. When you receive your credit report, read it carefully and be sure that it is correct. Directions for correcting mistakes will come with the copy of your report. You can use the sample letters on the following pages to help you contact your credit bureau.

If you identify an error on your credit report, you need to take the following steps:

- Copy your credit report.
- Highlight the error.
- Write a letter of dispute that includes an explanation of the error (see example).
- Locate and copy any additional information that can help establish that the item is an error.
- Send the highlighted copy of your credit report, the letter of explanation (see example), and the copy of additional information to the credit bureau.
- Make copies of everything you send.

If you choose to contest your credit report, the law entitles you to a response within 30 days. When the credit bureau receives your letter, it will contact the creditor to investigate your claim. If you are correct, the credit bureau will remove the incorrect item from your report. If the creditor does not believe that it is a mistake, you will need to address the issue with the creditor. Until the issue is resolved, you will want to have the credit bureau include a statement of explanation on your credit report (see sample letter).



### Mistakes Happen More Often Than You Think

Did you know that 80% of credit reports have mistakes on them?



## Common Credit Report Errors

Here are some common errors to lookout for:

### Duplicate Information

Sometimes accounts will appear more than once on your credit report. If this happens, take the proper steps to correct the error.

### Uninvited Inquiries

Everyone that has looked at your credit report over the past two years is listed in the inquiry section of your report. A lender will look at the number of inquiries that were made for the purpose of acquiring additional credit. Too many inquiries for this purpose can work against you when you apply for a loan, so resist frivolous applications for credit or pushy sales tactics. Knowledge of the credit process combined with sound spending practices can help you avoid this pitfall. If someone has looked at your report without your permission, take the proper steps to correct the problem.

### Items That Should No Longer Be Listed

Items stay on your credit report for a specific period of time.

- Inquiries stay on your credit report for two years.
- Delinquencies, garnishments, repossessions, court orders, evictions, and unpaid child support stay on your credit report for seven years.
- Bankruptcy stays on your credit report for 10 years.

Make sure items don't stay on your report longer than necessary.



### Putting the Effort Into Repairing Your Credit is Well Worth It!

A negative credit history can take time to repair. And, although fixing your credit may appear as a daunting or even hopeless task, do not get discouraged. A positive attitude combined with a resourceful approach is your best route to success.

## Example Letter of Dispute

If you find an error on your credit report, you can complete and send the following letter to the credit bureau:

example

*[Date]*

TO: *[Name of credit reporting agency]*

ATTN: Consumer Relations

RE: *[Your name]*  
*[Address]*  
*[Telephone]*  
*[Social Security number]*  
*[Date of birth]*

I recently obtained a copy of my credit report and found items to be in error. Please begin an immediate investigation of the item(s) listed below and highlighted on the attached copy of my credit report.

Identified errors *[List errors and provide an explanation.]*

1. *[Merchant name]* *[Account number]* *[Date reported]*

*[Explain the error]*

Please remove any unverifiable or inaccurate information from my credit file. Please send me a new copy of my credit report at the conclusion of your investigation.

Thank you for your help and prompt attention to this matter.

Respectfully,

*[Your signature]*  
*[Your name typed]*

## Example Statement of Explanation

If you would like the credit bureau to include an explanation of an item on your credit report, you can complete and send the following letter:

example

[Date]

TO: [Name of credit reporting agency]

ATTN: Consumer Relations

RE: [Your name]  
[Address]  
[Telephone]  
[Social security number]  
[Date of birth]

In accordance with the Fair Credit Reporting Act, please include the following statement in my credit report. It should be positioned with the disputed account.

Disputed account

[Merchant name] [Account number] [Date reported]

Statement of explanation

*[Insert your own explanation of no more than 100 words. The following is an example:*

*On July 4, 2009, I was involved in an automobile accident. I was sent to the hospital. The medical bills were sent to my insurance company. Because the other party was responsible for paying the bills, my insurance company did not pay the hospital. The hospital sent my account to collections. About 90 days later my insurance company paid the hospital bills. Unfortunately, the hospital's collection agency refused to reflect the circumstances that resulted in a late payment on my record.]*

Please send me a copy of my updated credit report after the above statement has been added.

Thank you for your prompt attention to this matter.

Respectfully,

[Your signature]  
[Your name typed]

## Tips for Creating, Maintaining, and Reestablishing Your Credit History

Whether you are establishing, maintaining, or reestablishing your credit record, there are a number of steps you can take to accomplish your goal. Here are some suggestions. Can you think of others?

### **Tip #1** Pay your bills on time.

This is one of the best steps to achieve a good credit record. Even if you have no credit history at this time, you can establish a positive record through timely payment of your bills (e.g., rent, utilities).

*What action can you take to remind yourself to pay your bills on time?*

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### **Tip #2** Contact lenders immediately if you expect to have a payment problem.

Sometimes there are extenuating circumstances that make it very difficult or impossible to pay your bills on time. If you find yourself in this situation, it is important that you immediately contact the organization to which you owe money. Often you can set up an adjusted payment schedule that will work for you. Working with the organization can help you avoid additional fees and having your overdue bills turned over to a collection agency.

*What risks do you take by contacting your lender if you think there may be a problem with making your payment?*

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### **Tip #3** Borrow no more than you can comfortably pay back.

When you are opening a line of credit or taking out a loan, refer back to your monthly spending plan. Be sure that you don't overextend yourself financially with additional monthly debt repayments. If you borrow more than you are comfortable paying back, this can have an adverse effect on your credit.

*What action can you take to make sure you borrow only what you can comfortably pay back?*

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#### **Tip #4   Don't bounce checks.**

Don't write checks that exceed existing funds in your checking account. Penalties for a bounced check can run as high as \$50, and it's a waste of money. A bounced check can make a bill payment late so that it's reported to the credit bureau.

*What action can you take to make sure that you don't bounce checks?*

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#### **Tip #5   Read and understand loan terms and agreements before you sign anything.**

It's important that you understand the fine print to avoid committing to payments you can't afford. If you are unable to repay a loan, it hurts your credit report and your future access to credit.

*What action can you take to make sure you understand your loan terms and agreements?*

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#### **Tip #6   Be cautious about co-signing or guaranteeing loans for others.**

Always consider a person's intention, commitment, and ability to repay a debt before you agree to co-sign or guarantee a loan. When you co-sign or guarantee a loan, you agree to take responsibility for repaying that person's debt if he or she is unable to do it. Additional debt can significantly affect your budget, and if you can't make the payment, the debt negatively affects your credit report. Also, co-signing can affect your ability to secure additional credit in the future. Many creditors consider co-signing as an actual debt when evaluating your credit.

*What actions should you take before you co-sign or guarantee loans for others?*

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**Tip #7    Apply for a secured credit card.**

A secured credit card is when you deposit a certain amount of cash in a savings account and use it to guarantee your credit card. Secured credit cards can help build a credit history and demonstrate that you can responsibly handle a credit card, just pay special attention to fees and interest they may charge. They can really add up!

*What action can you take to apply for a secured credit card?*

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**Tip #8    Avoid excessive inquiries into your credit report.**

Too many inquiries on your credit report regarding applications for credit can work against you. Be aware of situations, such as shopping for a car, where a business may check your credit without you realizing it. Be particular about who you give permission to check your credit report.

*What action can you take to avoid excessive inquiries into your credit report?*

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**Tip #9    Review your credit report at least once a year and correct any inaccurate information it may contain.**

Sometimes credit reports contain errors. Make sure that your credit report accurately reflects your credit history. If you know that you are going to apply for a loan, review your credit report at least three months in advance. Remember to check all three credit bureaus because their reports may differ.

*What action can you take to ensure that your credit report accurately reflects your credit history?*

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### **Tip #10 Create a nontraditional credit history.**

If you don't have an established credit history, you can create a nontraditional one as an alternative. You can use it to apply for credit in the future. This is what you need to create a nontraditional credit history:

- copies of bills and receipts;
- copies or computer files of canceled checks used to pay bills;
- letters of recommendation from people/organizations with whom you have maintained a strong payment history.

Show this information to lenders when you apply for credit.

### **Tip #11 Think long term.**

Establishing or reestablishing your credit takes time. It may take a couple of years paying bills on time to build a strong enough credit history to qualify for a car loan, maybe even longer to qualify for a mortgage. If you are fixing poor credit, it may take several years of consistent bill payment before a lender will give you another chance. Stick with it. A good credit history is worth working for!

*What action can you take to remind yourself that establishing, reestablishing, or maintaining credit is a long-term process?*

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# Session 5:

## Accessing Credit, Part I

### Objectives

In today's session, we will discuss:

- the lending process;
- the five C's of credit;
- planning a strong loan application;
- the FICO score;
- completing a loan application.

### Adopting New Ideas to Benefit the Community

Years ago, Navajo families did most of their business at trading posts located on or near their vast reservation spread out among parts of present day New Mexico, Arizona, Colorado, and Utah. They bought and sold goods, bartered for supplies, and often purchased necessities on credit. Supporting a family then, like now, was not easy and cash was not always on-hand. These people learned to use credit as a tool and understood how to manage it wisely to help meet their needs. Did you think credit was a new concept in Native communities? It's not.

Can you think of goods and services that people from your community purchased on credit?

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#### "Taro"

*The taro plant, with its ruffled, heart-shaped leaf and starch-filled corm (underground stem), ...is the staple in the diet of the Hawaiian people.*

*The taro growth cycle reflects that of a family unit. Generation after generation descends from a single root. The small buds that shoot from the taro's corm is called "oha." After the mature corm is cut off and set aside for cooking, the "huli" (stalk) and "oha" on the very top of the corm are saved and replanted, yielding a new crop of taro. "Ohana" means family or offshoot. To grow taro you must have a "huli"—that same single root!*

Harriet Soong  
(Hawaiian)



### Review of Credit Concepts

- Credit is the act of borrowing money with the intent to repay it.
- It costs money to borrow money (fees and interest).
- Credit used responsibly promotes community and economic growth.

### *Karla's Catering Business*

Karla Sweetrain is a secretary for the tribal administration. Each month she places a number of catering orders at an off-reservation restaurant. She realizes that the tribe is spending hundreds of dollars each month to cater its meetings. To top it off, she knows she cooks better than the restaurant!

Karla talks to a few members of the tribal council and they agree that her cooking is better than the restaurant's. She's pretty sure they will hire her to cater their meetings. All Karla needs is a few hundred dollars to purchase some supplies to get started.

One afternoon in the community library, a story in the tribal newspaper catches Karla's attention. It is about a Warm Springs woman who took out a small loan to start her own restaurant. The restaurant specialized in Native foods such as frybread, huckleberry jam, salmon, and baked camas root. The restaurant was successful and employed three people, including youth and elders who share an interest in preserving their culture and eating good food. This really got Karla thinking!

The article inspired Karla to learn about the lending process. A small loan could help her open a catering business. If successful, the business has the potential to support her family and positively affect other people in the community.

What ideas have you or your friends had that might be possible if you had access to a small amount of money?

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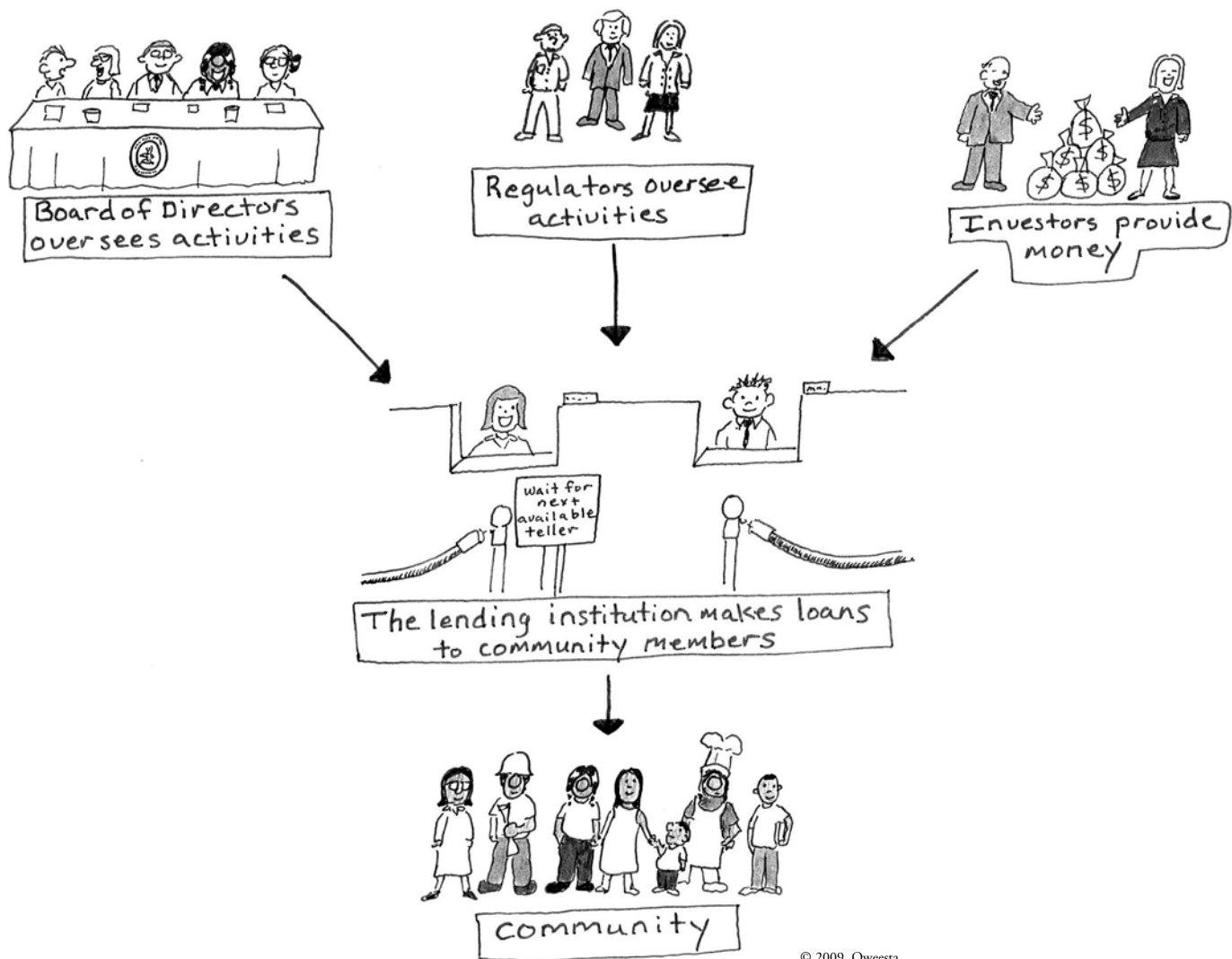
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## Credit Systems

People gain access to credit from many sources, such as banks, loan funds, credit unions, and pawnshops. Working with a lending institution (e.g., a bank, a loan fund, a credit union) provides you with more consumer protection than an informal source of credit (e.g., a pawnshop, a finance company). Lending institutions' activities are monitored by outside organizations to ensure fair lending practices. The following diagram describes how lending institutions work.



While different lending institutions offer different types of products and services, they also have some things in common. Lending institutions are:

- accountable for their activities. Most lending institutions' activities are overseen by at least one outside organization (e.g., government regulators, boards of directors, or investors). These regulating and oversight organizations make sure that the lenders make loans that will be repaid. They also monitor the lender so that it does not take advantage of borrowers.
- dependent on borrowers' loan repayment to stay in business. Lending organizations must be repaid in order to have money to lend other borrowers as well as repay debts to their own investors.



## How Lending Decisions are Made

Whether you seek credit from a bank, a community loan fund, a credit union, or a car dealer, the important thing to remember is that lending decisions are made based on an applicant's ability to repay the loan.

## Applying for a Loan

There are a number of steps in the loan application process.



## Completing a Loan Application

To get credit from a lending institution, you must complete a loan application. Lenders use the application to collect information about you. This information will help them evaluate you using the five C's of credit and help them feel comfortable that you will repay the loan.

Here's what's usually included:

- loan purpose (What are you going to use the money for?)
- repayment history (Do you pay your bills on-time?)
- repayment sources (How are you going to repay the loan? What's your income? Savings? Do you have a co-applicant to pool resources with?)
- other debts (Do you owe any other money? Are there other loans you'll be paying off at the same time, using the same repayment sources?)

Loan applications can take time to complete. Everyone asks for similar information, as well as authorization to get a copy of your credit report. Here's what you'll need to provide:

- name and social security number
- current address and length of time living there
- current employer and length of time working there
- all monthly income from verifiable sources
- monthly expenses
- all debts (e.g., loans, credit cards), including lenders' names and account numbers

They might also ask for:

- pay stubs covering the past 30 days
- copies of income tax returns for the last two years
- paperwork showing the cost of what you are buying, if you are borrowing to make a purchase
- recent bank statements





### Ensure a Fair Decision

A lender will verify your information, so be honest, forthcoming, and thorough when you complete a loan application. Be sure to share any previous credit problems and explain the steps you have taken to address your situation. If you have problems you haven't dealt with, make sure you discuss actions you can take to address them.



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The following is an example of a loan application.

<h2 style="margin: 0;">Consumer Loan Application</h2>				<div style="background-color: #0070c0; color: white; padding: 5px; display: inline-block;"><h2 style="margin: 0;">ABC Bank</h2></div>	
Purpose: <input type="checkbox"/> Auto Loan      Make _____ Model _____ Year _____ Amount Requested: \$ _____					
<input type="checkbox"/> Boat Loan      Insurance Co. _____					
<input type="checkbox"/> Other _____      Term Requested: <input type="checkbox"/> 1 yr. <input type="checkbox"/> 2 yrs. <input type="checkbox"/> 3 yrs. <input type="checkbox"/> 4 yrs. <input type="checkbox"/> 5 yrs.   Other: _____					
<b>APPLICANT INFORMATION</b>					
FULL NAME: FIRST      MIDDLE INITIAL      LAST			DATE OF BIRTH / /		SOCIAL SECURITY NO.
PRESENT HOME ADDRESS: STREET      CITY      STATE      ZIP			HOW LONG THERE YRS.      MOS.		PHONE (      )
PREVIOUS ADDRESS (IF ABOVE IS LESS THAN TWO YEARS)					HOW LONG THERE YRS.      MOS.
HOME <input type="checkbox"/> OWN <input type="checkbox"/> RENT OTHER _____		MORTGAGE/RENTAL PAYMENT (INCLUDE PITI AND CONDO FEES) \$		MTG. HOLDER OR LANDLORD	
NAME, RELATIONSHIP, ADDRESS AND PHONE NUMBER OF CLOSEST RELATIVE NOT LIVING WITH YOU					
NAME AND ADDRESS OF CURRENT EMPLOYER					
OCCUPATION OR POSITION		HOW LONG THERE YRS.      MOS.		BUSINESS PHONE (      )	
				PRESENT EARNINGS GROSS MONTHLY \$      NET MONTHLY \$	
NAME AND ADDRESS OF PREVIOUS EMPLOYER (IF ABOVE IS LESS THAN TWO YEARS)				OCCUPATION OR POSITION	
				HOW LONG THERE YRS.      MOS.	
NOTICE: Alimony, child support or separate maintenance payments need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.					
OTHER INCOME      SOURCES OF OTHER INCOME					
\$      PER					
CHECKING ACCOUNT #		INSTITUTION		SAVINGS ACCOUNT #	
				INSTITUTION	
<b>JOINT APPLICANT INFORMATION</b>					
FULL NAME: FIRST      MIDDLE INITIAL      LAST			DATE OF BIRTH / /		SOCIAL SECURITY NO.
PRESENT HOME ADDRESS: STREET      CITY      STATE      ZIP			HOW LONG THERE YRS.      MOS.		PHONE (      )
NAME, RELATIONSHIP, ADDRESS AND PHONE NUMBER OF CLOSEST RELATIVE NOT LIVING WITH YOU					
NAME AND ADDRESS OF CURRENT EMPLOYER					
OCCUPATION OR POSITION		HOW LONG THERE YRS.      MOS.		BUSINESS PHONE (      )	
				PRESENT EARNINGS GROSS MONTHLY \$      NET MONTHLY \$	
NAME AND ADDRESS OF PREVIOUS EMPLOYER (IF ABOVE IS LESS THAN TWO YEARS)				OCCUPATION OR POSITION	
				HOW LONG THERE YRS.      MOS.	
NOTICE: Alimony, child support or separate maintenance payments need not be revealed if you do not wish to have it considered as a basis for repaying this obligation.					
OTHER INCOME      SOURCES OF OTHER INCOME					
\$      PER					
CHECKING ACCOUNT #		INSTITUTION		SAVINGS ACCOUNT #	
				INSTITUTION	
<b>CREDIT REFERENCES</b>					
AUTO(S) (YR., MAKE, MODEL)		FINANCED BY (NAME AND ADDRESS)		ACCOUNT NO.	
				BALANCE REMAINING	
				MO. PAYMENT	
CREDIT REFERENCES: list all debts currently outstanding and/or paid off. (Include credit cards, home mortgages and amount due other banks, finance companies, credit unions, alimony, child support, separate maintenance payments, etc. Attach extra sheets if necessary.) Please list separately any credit references you may have in a name other than the one above.					
CREDITORS NAME AND ADDRESS		ACCOUNT NO.		BALANCE REMAINING	
				MO. PAYMENT	
				\$      \$	
				\$      \$	
				\$      \$	
				\$      \$	
				\$      \$	
APPLICANT'S SIGNATURE		DATE		CO-APPLICANT'S SIGNATURE	
				DATE	
<b>CREDIT INSURANCE INFORMATION</b>					
<input type="checkbox"/> I (we) would like Credit Life Insurance					
<input type="checkbox"/> I (we) would like Credit Life Insurance and Disability Insurance					
Credit Life Insurance or Disability Insurance is optional and is not a condition for approval of your application. The insurance premium will vary based on the amount of the loan for which you apply and the state in which you live. If insurance is elected, the premium will be included in your monthly payments. Disability Insurance is not available jointly.					
APPLICANT'S SIGNATURE			CO-APPLICANT'S SIGNATURE		

## Evaluating a Loan Application

When a financial institution evaluates a loan application, it's assessing an applicant's ability to repay a loan. This process is often referred to as evaluating the five C's of credit: character, capacity, capital, collateral, and conditions.

### Character

Lenders look at a person's credit report as well as the person's checking and savings accounts to assess how well the person handles financial obligations. An applicant's credit history is one of the most important factors in establishing his or her ability to repay a loan. If a person does not have any established credit, lenders will look at a nontraditional credit history.

*We discussed how to build a nontraditional credit history in Session 4 on page 73 in part of the exercise, "Tips for Creating, Maintaining, and Reestablishing Your Credit History".*

Lenders also consider the length of time someone has lived at his or her current residence as part of character. Lenders often feel most comfortable lending to people who have demonstrated stability in their residence.



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### Capacity

Lenders look at the amount a potential borrower can afford to pay. This aspect of the evaluation will assess your current income and expenses. Lenders will consider all verifiable sources of income, including employment checks, government checks, and alimony. Expenses include all outstanding loans, credit card debt, child support, and any other expenses you pay each month.

A lender assesses an applicant's capacity by calculating the relationship between the applicant's debt and income. The loan officer will divide the applicant's total monthly debt by his or her total monthly income to come up with a **DTI (Debt-to-Income) Ratio**.

$$\text{Total Debt} / \text{Total Income} = \text{DTI Ratio}$$



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Here's an example:

Keith earns \$1000 a month. He lives in tribal housing and pays \$150 a month for rent. His car payment is \$175 a month. He pays his ex-wife \$200 a month alimony and the minimum payment of \$35 on each of two credit cards.

Follow these steps to calculate Keith's DTI Ratio:

1. *Total Monthly Debt* =  $\$150 + \$175 + \$200 + \$35 + \$35 = \$595$
2. *Total Monthly Income* =  $\$1000$
3. *DTI Ratio* =  $\$595/\$1000 = 59\%$

Keith's DTI is too high for most lenders to feel comfortable making a loan. A lender will not want to place any added financial burden on Keith's monthly income. He will likely need to pay off some of his debt before a lender is willing to extend him credit.

## Exercise: Debt-to-Income Ratio

### Debt-to-Income Ratio Exercise

Kelly earns \$1,500 a month. She pays \$300 a month for rent. She pays her entire credit card bill each month and does not owe any money. She pays \$50 a month for her car payment and \$50 a month to repay a student loan. Calculate Kelly's debt-to-income ratio.

Totally Monthly Debt = \_\_\_\_\_

Total Monthly Income = \_\_\_\_\_

Debt-to-Income Ratio =  $\$ \frac{\text{debt}}{\text{income}} = \text{_____} \%$

Based on Kelly's debt-to-income ratio, do you think a lender will feel comfortable making Kelly a loan? \_\_\_\_\_

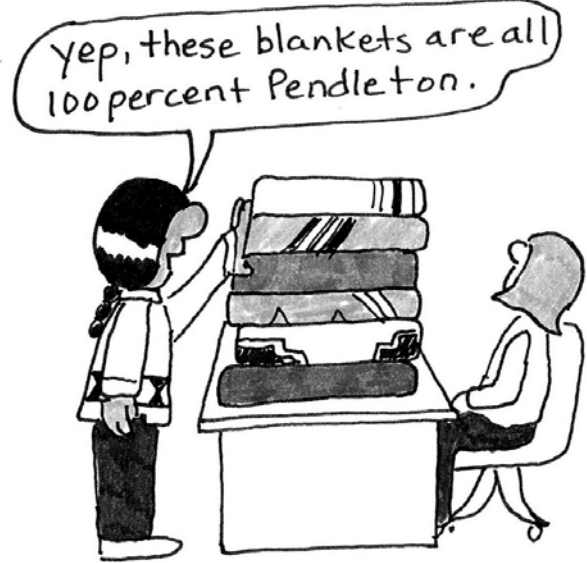


### How Your DTI Ratio Effects Lending Decisions

The allowable debt-to-income ratio depends on the type of lending institution and the type of loan. A generally acceptable debt-to-income ratio is 45%.

## Capital

Depending on the type of loan, lenders are interested in how much of your own money you plan to invest in a purchase. In addition, lenders consider all items of value owned by the loan applicant. They're interested in the applicant's resources in case there is a problem repaying the loan. From the lender's perspective, someone who owns property or items of value can sell them to repay a loan.



## Collateral

Remember this term from Session 4? Lenders often ask a borrower to commit something of value to guarantee repayment of a loan. If a borrower is unable to repay a loan, the lender accepts ownership of the item as repayment. When evaluating a loan application, lenders look at the value of the borrower's collateral. Often borrowers use their home, car, or savings account as collateral for a loan. Ideally, a lender never wants to repossess a borrower's collateral. Worse yet, if the lender deems the collateral worth less than the outstanding balance on the loan, the borrower might still have to pay the difference! Repossession is the last resort.



## Conditions

Lenders are interested in any conditions that may affect the applicant's ability to repay the loan (e.g., stormy economy, job loss, emergency medical bills). The consistency of an applicant's employment is important in this part of the evaluation. If you have been at a job for less than two years, you may be asked to furnish additional information about your work history.



## Defining Value in Native Culture

People assess value differently in different communities. It's important to educate lenders about items that are valuable in a Native context. It is also crucial to understand what lenders consider as capital and collateral. Lending institutions have requirements that define the item they can accept. Talk with your lenders to come to a mutual understanding.

**Character:** credit history

**Capacity:** repayment sources, debt-to-income ratio

**Capital:** personal investment, alternative repayment sources

**Collateral:** personal valuables to guarantee repayment

**Conditions:** situations that affect repayment



## Exercise: Evaluating a Loan Application

As a loan officer for the Sitting Bear Loan Fund, you make recommendations to the loan committee about who should receive a loan. This month the following applications are on your desk and it is time for you to make your recommendations. Use the five C's of credit to assess the following applicants.

1. Wanda Bell is a 25-year-old mother of one. She has worked for three years at the reservation trading post and makes \$15,000 a year. She also makes beadwork barrettes and sells them to a local store for \$850 a year. She has managed to save \$600, which she keeps in an account at the trading post. She has one credit card with a nearby department store. She uses the credit card to purchase large items such as her refrigerator. She has made all of her credit card payments on time and does not owe the store any money. Her monthly debt/expenses are \$500.

Wanda would like to borrow \$300 to buy beadwork supplies and increase her production. She will use the money in her savings account as collateral.

*Using the five C's of credit, what observations can you make about Wanda's ability to repay a loan?*

### Character:

credit history

### Capacity:

repayment sources,  
debt-to-income ratio

### Capital:

personal investment,  
alternative repayment  
sources

### Collateral:

personal valuables to  
guarantee repayment

### Conditions:

situations that affect  
repayment

### Character:

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### Capacity:

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### Capital:

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### Collateral:

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### Conditions:

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*What questions would you like to ask Wanda?*

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*Given what you know, would you recommend a loan to Wanda?* \_\_\_\_\_

2. Rocky Thompson is a 40-year-old single man. His ex-wife lives in a nearby community with their 10-year-old-son. He makes \$17,000 a year working at the local gas station. He has been at this job for one year. He has no savings. He pays his ex-wife \$200 for child support each month. He pays \$400 for rent each month. He owes \$1,200 on his credit card debt and pays the minimum \$20 payment each month.

Rocky would like to borrow \$1,500 to purchase mechanic's tools so that he can start his own car repair business. There are no car repair shops on Rocky's reservation. He plans to keep his current job and use his home business to earn additional income.

*Using the five C's of credit, what observations can you make about Rocky's ability to repay a loan?*

**Character:**

**Capacity:**

**Capital:**

**Collateral:**

**Conditions:**

**Character:**  
credit history

**Capacity:**  
repayment sources,  
debt-to-income ratio

**Capital:**  
personal investment,  
alternative repayment  
sources

**Collateral:**  
personal valuables to  
guarantee repayment

**Conditions:**  
situations that affect  
repayment

*What questions would you like to ask Rocky?*

*Given what you know, would you recommend a loan to Rocky?* \_\_\_\_\_

3. Sandy Nighthorse is a 33-years-old single mother of two children. She has held three different jobs in the past year because her car continues to break down, leaving her with no transportation. She spends \$300 fixing the car each time it breaks down. Currently, she is working part-time at a local grocery store making \$7.25 an hour. She lives in reservation housing and pays the minimum rent payment each month. Sandy's total debt/expenses each month are around \$200. Her total monthly income is around \$400. In the past six months she has bounced three checks buying groceries for her family.

Sandy would like to borrow \$2,000 to buy a car. She feels that a more reliable car will help stabilize her employment and get her finances under control.

*Using the five C's of credit, what observations can you make about Sandy's ability to repay a loan?*

**Character:**

credit history

**Capacity:**

repayment sources,  
debt-to-income ratio

**Capital:**

personal investment,  
alternative repayment  
sources

**Collateral:**

personal valuables to  
guarantee repayment

**Conditions:**

situations that affect  
repayment

**Character:**

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**Capacity:**

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**Capital:**

---

**Collateral:**

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**Conditions:**

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*What questions would you like to ask Sandy?*

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*Given what you know, would you recommend a loan to Sandy?* \_\_\_\_\_

4. Sharon and Ron Colman recently retired and returned from Seattle to their home reservation. Together they raised two of Sharon's children from her first marriage and three of their own. They always paid their bills on time. A few years ago, their oldest son asked them to co-sign a loan for them. He had a job and wanted to buy his first car. Sharon and Ron agreed to help. They were unaware of any problem until they received a notice from the bank indicating that their son had fallen behind on his car loan payments. The bank asked them, as co-signers on the loan, to pay the overdue balance. Unfortunately, Sharon and Ron did not have the needed cash, and the car was ultimately repossessed. Sharon and Ron are not familiar with the lending process. They do not realize that a record of repossession now exists on their credit report and negatively affects their ability to get credit.

Sharon and Ron would like to borrow \$3,000 to remodel their kitchen. Their monthly debt/expenses are \$600 and their monthly income is \$2,200.

*Using the five C's of credit, what observations can you make about Sharon and Ron's ability to repay a loan?*

**Character:**

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**Capacity:**

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**Capital:**

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**Collateral:**

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**Conditions:**

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**Character:**  
credit history

**Capacity:**  
repayment sources,  
debt-to-income ratio

**Capital:**  
personal investment,  
alternative repayment  
sources

**Collateral:**  
personal valuables to  
guarantee repayment

**Conditions:**  
situations that affect  
repayment

*What questions would you like to ask Sharon and Ron?*

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*Given what you know, would you recommend a loan to Sharon and Ron?*\_\_\_\_\_

5. Anderson Begay is an 18-year-old college student at Southwest Indian Polytechnic Institute in Albuquerque, New Mexico. A tribal scholarship provides \$250 monthly income that he supplements with part-time work study at \$7.25 an hour. He has never had a loan or applied for credit. Because he lives on campus both his housing and meals are taken care of, and he saves \$150 each month in a rainy day fund. He spends the rest of his money on eating out with his girlfriend, concerts, and electronics. So far he has saved \$1,800.

Anderson does not own a vehicle and wants to travel home to Arizona on weekends to help his family with their livestock. He would like to borrow \$18,000 to buy a brand new pick up truck.

*Using the five C's of credit, what observations can you make about Anderson's ability to repay a loan?*

**Character:**

credit history

**Capacity:**

repayment sources,  
debt-to-income ratio

**Capital:**

personal investment,  
alternative repayment  
sources

**Collateral:**

personal valuables to  
guarantee repayment

**Conditions:**

situations that affect  
repayment

**Character:**

---

**Capacity:**

---

**Capital:**

---

**Collateral:**

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**Conditions:**

---

*What questions would you like to ask Anderson?*

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*Given what you know, would you recommend a loan to Anderson?* \_\_\_\_\_

6. Now that you've evaluated other people's loan applications, how can you prepare a strong application for yourself? Under each of the five C's of credit, list some actions that will help you develop a strong loan application.

**Character:**

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**Capacity:**

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**Capital:**

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**Collateral:**

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**Conditions:**

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**Character:**

credit history

**Capacity:**

repayment sources,  
debt-to-income ratio

**Capital:**

personal investment,  
alternative repayment  
sources

**Collateral:**

personal valuables to  
guarantee repayment

**Conditions:**

situations that affect  
repayment

## Credit Interview

After completing your loan application, a loan officer might conduct a personal interview. It's their job to review your application and make sure it's complete. They'll probably ask you some specific questions about your request, so don't be offended if it feels like they're being nosy. Be cooperative and patient, it's all part of the process.



### A More Personal Approach to Credit

Years ago lenders took a more personal approach in evaluating a loan application and an interview was the primary factor in deciding whether to approve a loan. Lending today is much more complicated and computers decide who gets a loan. However, smaller banks or loan funds might still weigh an interview heavily, so consider those options if your credit is less than stellar.

## Credit Scoring

After your loan application is complete, the lender uses a credit scoring process to evaluate the application. The credit scoring system is based on the lending industry's historical experience with borrowers. Scores are calculated by assigning points to income and debt levels, length of time at residence, whether you own or rent, and other information. The better your score, the more comfortable a lender feels that you will repay the loan.

Lenders won't provide specifics about their scoring process because they don't want to influence how you complete your application. Also, don't confuse a lender's credit score with a FICO score. A FICO score is also a computer generated credit score; however, FICO is a special company that provides their own credit scores directly to the three credit bureaus discussed in Session 4. More information on FICO scores ahead.



## Credit Denials

Credit applications are not always approved. Here are some common reasons why:

- poor credit history
- too many open credit cards (Credit cards are an opportunity to assume more debt. So it might make sense to close accounts you don't need.)
- too much debt
- employment history (The longer and more stable the better)
- loan request is too high (Remember, you can't borrow more money than your DTI Ratio allows.)
- too many credit inquiries (A request to view your credit report is noted as an inquiry.)



### How Inquiries Effect Your Credit Application

Too many inquiries within a short time signify that a person might be trying to get a lot of credit quickly. This worries lenders because it may mean the person is struggling financially. Don't authorize anyone to run a credit check on you unless you are serious about making a purchase. Check your credit report for unauthorized inquiries and have them removed. More specifics on inquiries just ahead.

If you are denied credit, a lender must provide you with a reason within 30 days. If the reason is unclear, ask for clarification.

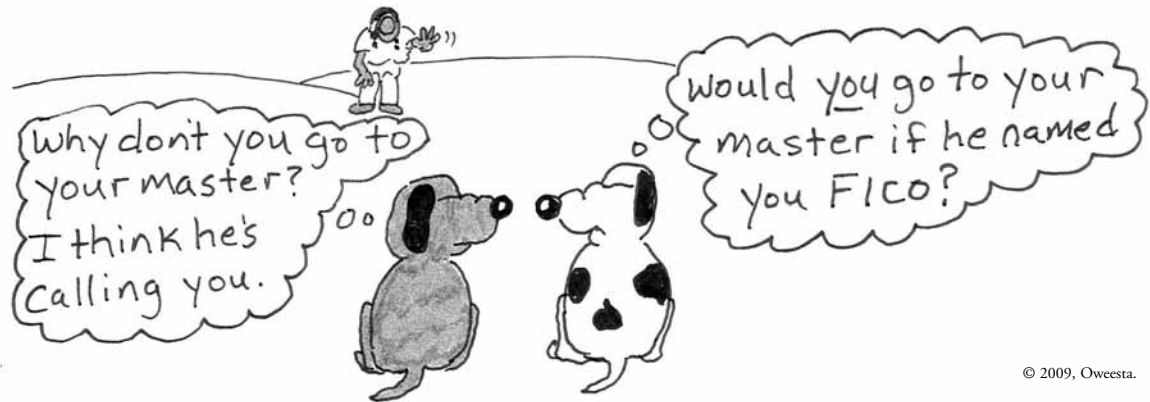
Can you think of some additional reasons why a loan application might be denied?

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## Understanding the FICO Score

A number of years ago banks and other lending institutions developed a need for a centralized system to rate consumers based on their individual creditworthiness. Originally, several companies provided this information, however, a private firm known as **Fair Isaac Corporation (FICO)** developed specific computer scoring models that ultimately emerged as the industry standard. Today, virtually all lenders use the FICO score to help determine whether or not they will extend credit, making it a major piece of information they consider when reviewing your credit application. As a result, a person's FICO score is a critical measure of their financial health and a crucial component of their credit history. A person with a poor FICO score can pay a higher interest rate or fee on a loan, be required to furnish a larger down payment, or be denied credit all together.

### How is a FICO Score Calculated?

Unfortunately, Fair Isaac does not share its actual scoring procedure with consumers nor does the public know exactly how a FICO score is calculated. However, we do have enough basic information to know how to manage our finances in a manner that best suits a favorable FICO score.

All three credit bureaus: Experian, Equifax, and TransUnion issue separate FICO scores that may vary for an individual. Also, although you are entitled to one free annual credit report, your FICO score is not free. To view your FICO score(s) you'll have to pay a small fee.



### What is a Good FICO Score?

FICO scores range from 300 to 850. A good score is generally considered anything over 700 while a poor score falls below 630.

Here's how the FICO score breaks down:

**35% Payment History**

Your track record paying bills is the biggest factor determining your score.

**30% Current Debt**

How much total debt you carry comes next.

**15% Length of History**

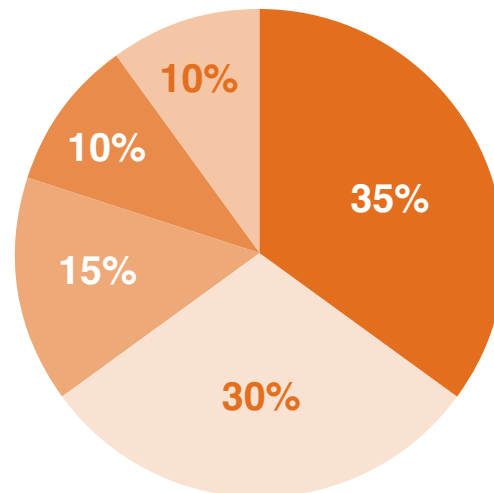
How long you've been borrowing is important.

**10% Types of Credit**

Revolving or installment, auto loan, or mortgage matters, too.

**10% Applications**

How recently and often you apply for credit is another consideration.



**Tips for Maintaining or Improving Your FICO Score**

- Pay bills on time. If you can't avoid being late once, ask the creditor to delete a 30 day late item.
- Don't max out your credit cards. To achieve a good score you should never utilize more than 30% of your available credit.
- Start early. The younger you establish credit, the longer your history. Just make sure you have the maturity to manage credit wisely.
- Try to maintain at least three good accounts. If you can't do that then make sure you maintain at least one good account. Sometimes even that is enough to save your score.
- Use different types of credit. Installment credit scores higher than revolving credit, so loans help your score more than credit cards. Also a mortgage is weighed more than an auto loan because a home is viewed as a more stable purchase than a car.
- Don't apply for credit too often or send away for every credit card offer that comes in the mail. Every time someone looks at your credit report it's judged as either a "hard" or "soft" inquiry. *Soft inquiries*, those you don't request (e.g., unsolicited credit card offers) don't hurt your score. *Hard inquiries* (when you authorize someone to view your report because you want credit) lower your score for a brief period. Requesting a credit limit increase counts as a hard inquiry, too.
- If you do close accounts, close the newest ones first. The older ones provide a longer credit history that helps your score.
- Shop for loans within a short period of time. Multiple inquiries within a 30-day period (like going car shopping over a weekend) are counted as a single inquiry, but inquiries spread out longer than that will lower your score.



**Not All Inquiries Are Equal**

Think twice before you apply for in-store credit. That 10% discount they offer might be tempting but an in-store application can immediately lower your score by as many as 30 points! Regular hard inquiries only lower it by two points.



### An Alternative Rating System

A new credit scoring system called VantageScore has been developed by the three credit bureaus. VantageScores range from 501 to 990. To learn more, check out [www.vantagescore.com](http://www.vantagescore.com).

### Exercise: FICO Score

Tamara has a 600 FICO score. She has three different credit cards. Two are maxed out, and another is 60 days late. She also has a small personal loan that is in good standing. She wants to buy a new TV and thinks it is smart to purchase it from a large electronics store that will give her a 15% discount when she applies for in-store credit. What are some ways Tamara can improve her FICO score?

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Orville has a 715 FICO score. He has one credit card that he pays the balance in full on every month. He has a mortgage and two student loans, all in good standing. He also has a fairly long credit history; however, the company he works for is struggling and he was recently laid off. What can Orville do to maintain his favorable credit score?

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## Getting to YES

Lenders are in the business of making loans that will be repaid. Applying for credit can be a frustrating process. Remember that denials and requests for more information may not be acts of bias or discrimination. Knowledge of the credit process and specific lending criteria are your best tools to help you achieve your dreams. The two examples below demonstrate how an individual can overcome barriers and still work within the credit system to meet one's goals.

*Cindy applied for a \$20,000 car loan. Her credit application was denied. When she spoke with her lender, he explained that she didn't make enough money to support the debt. Cindy and her lender then discussed how much money she could afford to borrow. Ultimately, Cindy was approved for a \$10,000 car loan, and she bought an older, used model of the car she wanted.*

*Dan applied for a \$7,000 business loan. His credit application was denied. He asked the lender why and was told that his credit report listed a number of late payments, too many open credit cards, and a marginal FICO score. Dan explained that his son had been hurt in a car accident and the insurance money did not come on time to pay the hospital. Everything had been dealt with and there were no other late payments on his report. At the lender's suggestion, Dan closed three of the credit card accounts he didn't use (starting with the newest ones first). After a few months Dan was able to borrow the \$7,000 he requested.*



### Tips to Help Strengthen Your Loan Application:

- Use collateral to secure your loan.
- Put a substantial down payment on your purchase. For instance, if you want to buy an \$8,000 car, a \$4,000 down payment may improve your chances of getting a loan.
- Consider a co-signer. Just make sure you can repay the loan before asking a relative or friend to put their own credit at risk on your behalf.
- Work on cleaning up your credit history or establish a nontraditional credit history. Be patient. Reestablishing your credit takes time.





# Session 6:

## Accessing Credit, Part II



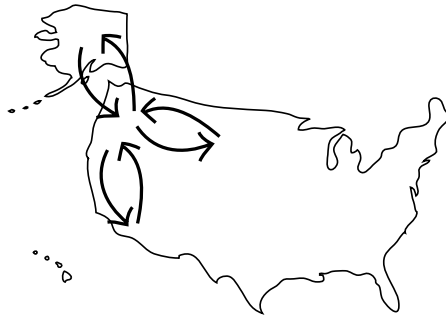
### Objectives

In today's session, we will discuss:

- different types of financial institutions;
- how to evaluate loan rates, terms, and fees;
- ways to identify and avoid predatory lenders;
- ways to prevent identity theft;
- the importance of insurance.

### Financial Systems Before European Contact

Long before the modern banking and financial system, there was interaction and trade between Native communities across great distances. For example, the Columbia trade network was a prosperous trade route that included established trade networks and eventually linked Alaska to California and the Pacific Ocean to the Dakotas.



Ivory, furs, fish, stone, hides, meat, shells, edible seeds, and medicinal plant treasures were brought to the mouth of the Columbia River where the Chinook Tribe maintained a busy exchange and trading post. Goods were left with the Chinook and traded with other Native people. Trade was conducted in a common tongue (Chinook Jargon) and used a regulated currency in the form of dentalium shell (harvest of the shell was restricted to prevent inflation). Value of the shells was determined by the size of shells grouped on a six-foot string.

Whom did your community trade with? What was the economic system before European contact?

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We must remember our ancestral experience developing and participating in a complex economic system. We can build on this knowledge and incorporate the tools and resources of the modern economy to benefit our community.



#### Symbolism—

##### Seven Generations

*Seven generations: the seven tiers of the tree.*

*The white roots of peace go out in four directions, welcoming anyone who wishes to take shelter under the tree.*

*The people are men and women. Notice the skirt shape on the women. The people are purple because our wampum belts are made of purple and white wampum shells.*

*The trees are on Eagle feathers. The first one is standing, like years ago when the Haudenosaunee Confederacy was established and peace was brought to the people.*

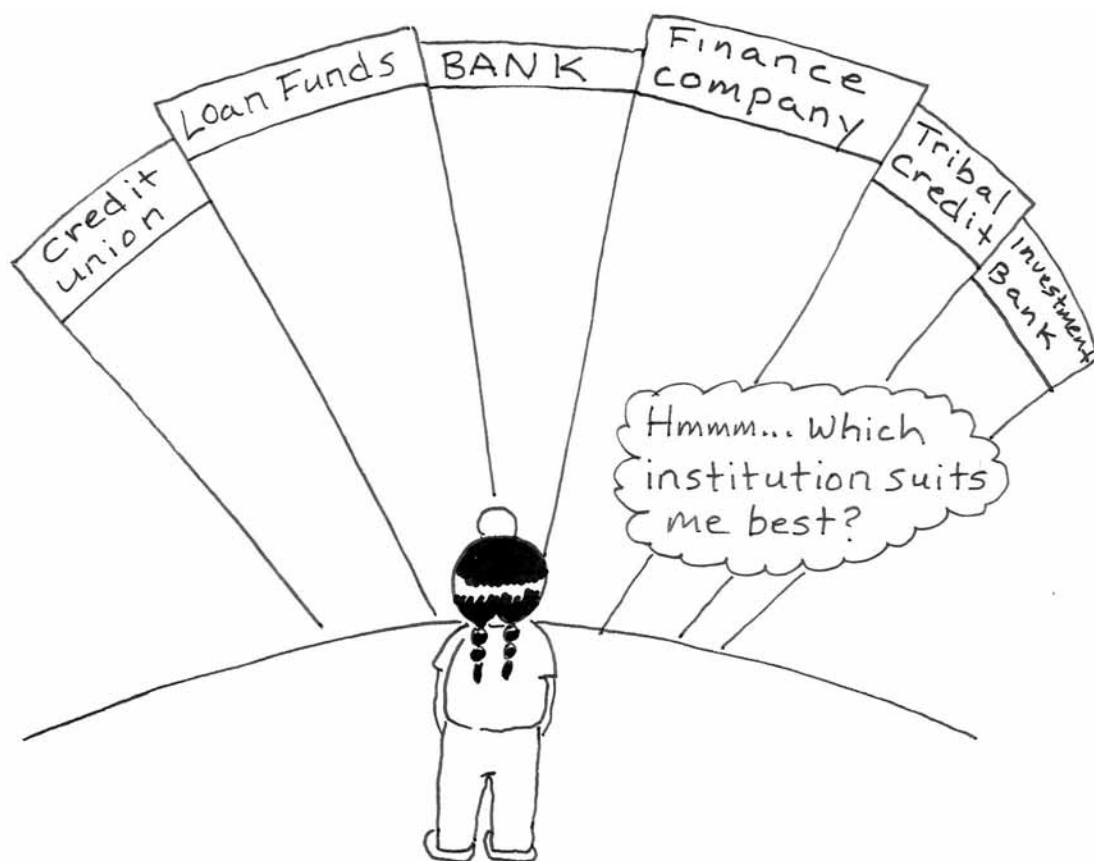
*The second feather is falling. The third feather is caught by the people. And the fourth feather is being set upright, in unity and spiritual strength.*

Sharee Bonaparte  
(Akwasasne Mohawk)



## Types of Financial Institutions

Financial institutions are a tool in the modern economy that Native people benefit from understanding. It's also important to understand that banks are not the only businesses offering financial services. In fact, a person can choose to do their banking with a wide assortment of financial service providers of which there are two major types: *depository institutions* like banks and credit unions and *non-depository institutions* like loan funds and community development corporations. Whether you need depository services or an extension of credit, financial institutions play an important role in realizing economic self-sufficiency and good community health.



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### What is a Depository Institution?

A depository institution, such as a bank or credit union, accepts money in the form of “deposits” from consumers.

## Exercise: Types of Financial Institutions

In the chart below, list local examples of each type of financial institution.

Type	Mission	Depository or Non-Depository?	Local Examples
<b>Banks/Savings*</b>	For-profit institutions; the largest source of deposits and credit in the economy. Banks are operated to generate a profit for the shareholders.		
<b>Credit Unions**</b>	Nonprofit cooperative institutions serve their members by distributing earnings in the form of lower rates, fees or dividends. Credit Unions are operated as a cooperative.		
<b>Finance Companies</b>	For-profit businesses that cash checks and/or provide loans, usually with higher interest rates and fees.		
<b>Loan Funds/CDFIs</b>	Institutions that lend money to borrowers on terms that are generally more favorable to the borrower. Lending practices in these organizations are usually guided by a community development mission.		
<b>Tribal Credit</b>	Organization that provides credit services to Tribal employees and/or community members with lower rates and flexible terms.		
<b>Investment Banks</b>	Specializes in buying and selling corporate securities (stocks, bonds, etc.).		

\* Currently, the Federal Deposit Insurance Corporation (FDIC) insures accounts at federal government-regulated financial institutions for up to \$250,000 per account. Check with your financial institution because this can change after 2013.

\*\* Nations Credit Union Share Insurance Fund (NCUSIF) insures accounts at federal government-regulated credit unions for up to \$250,000 per account. Check with your financial institution because this can change after 2013.

## Loan Rates, Terms, and Fees

When you borrow money, the lender charges you for using the funds (interest and fees). Usually, the cost of the credit is paid for in small amounts over the life of the loan. The monthly payment includes repayment of some of the borrowed amount (principal) and some of the cost of borrowing the money (interest).

$$\text{Monthly payment} = \text{principal payment} + \text{interest}$$

When you start to repay a loan, your monthly payments are mostly the interest and a small amount of the principal, because interest is repaid first. Throughout the life of the loan, your monthly payments become a greater portion of principal.



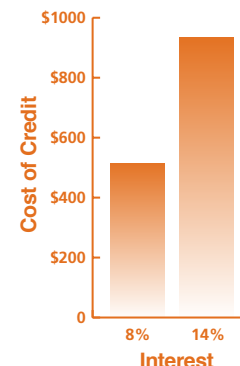
### Loan Terms

The process of paying off a loan by regular payments over time is known as *loan amortization*.

There are several factors that affect the cost of credit and the monthly payment on a loan. These variables are interest rates, terms (how long it will take you to pay the money back), and fees. Let's look at the examples below to see how the cost of credit can change.

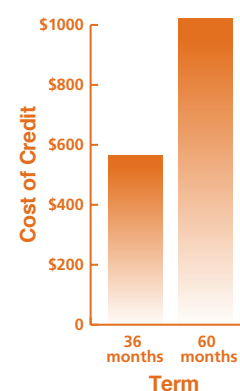
**The higher the interest rate, the greater the cost of the credit.**

Interest rate	8%	14%
Loan amount	\$3,000	\$3,000
Number of monthly payments	48	48
Monthly payment	\$73.24	\$81.98
Total amount of payment	\$3,515.46	\$3,935.01
<b>Cost of credit</b>	<b>\$515.46</b>	<b>\$935.01</b>



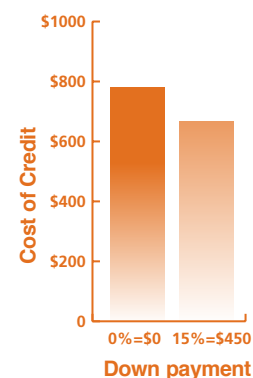
**The longer the term of the loan, the lower the monthly payment but the greater the cost of the credit.**

Number of monthly payments	36	60
Loan amount	\$3,000	\$3,000
Interest rate	12%	12%
Monthly payment	\$99.64	\$66.73
Total amount of payments	\$3,587.15	\$4,004
<b>Cost of credit</b>	<b>\$587.15</b>	<b>\$1,004.00</b>



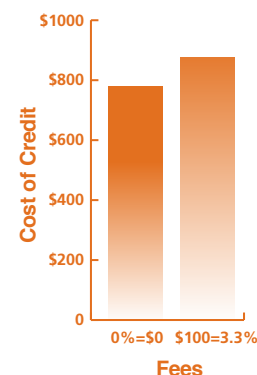
**The higher the down payment, the lower the loan amount and the cost of the credit.**

Down payment	\$0 Down	\$450 Down
Purchase price	\$3,000	\$3,000
Loan amount	\$3,000	\$2,550
Interest rate	12%	12%
Number of monthly payments	48	48
Monthly payment	\$79.00	\$67.15
Total amount of payments	\$3,792.07	\$3,223.26
<b>Cost of credit</b>	<b>\$792.07</b>	<b>\$673.26</b>



**The higher the loan fees, the higher the cost of the credit.**

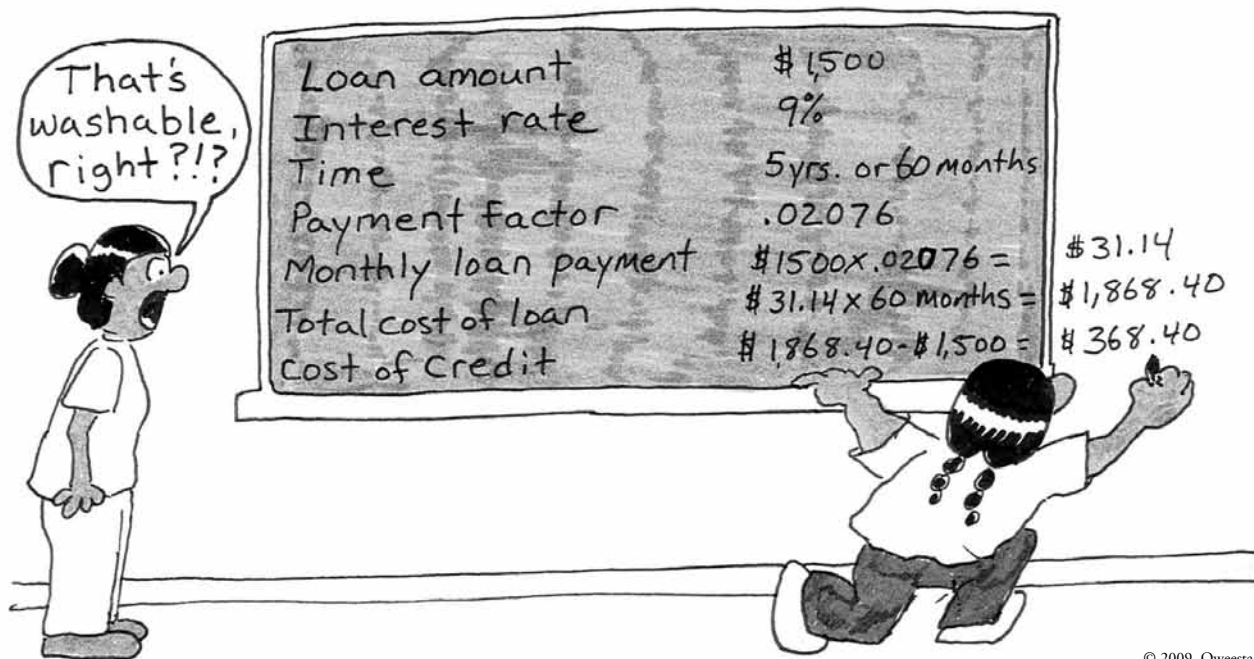
Loan fees	\$0 = 0%	\$100 = 3.3%
Loan amount	\$3,000	\$3,000
Net loan proceeds	\$3,000	\$2,900 (\$3,000 - \$100)
Interest rate	12%	12%
Number of monthly payments	48	48
Monthly payment	\$79	\$79
Total amount of payments	\$3,792.07	\$3,792.07
<b>Cost of credit</b>	<b>\$792.07</b>	<b>\$892.07</b>



## Payment Factor Table

Below is a Payment Factor Table. You can use the table to calculate monthly payments and the cost of credit for installment loans (e.g., car loans, boat loans). Look at the instructions on the following page to understand how to use this table.

Interest Rate	TERM, IN YEARS													
	1	2	3	4	5	6	7	8	9	10	15	20	25	30
3.00%	0.08469	0.04298	0.02908	0.02213	0.01797	0.01519	0.01321	0.01173	0.01058	0.00966	0.00691	0.00555	0.00474	0.00422
3.50%	0.08492	0.04320	0.02930	0.02236	0.01819	0.01542	0.01344	0.01196	0.01081	0.00989	0.00715	0.00580	0.00501	0.00449
4.00%	0.08515	0.04342	0.02952	0.02258	0.01842	0.01565	0.01367	0.01219	0.01104	0.01012	0.00740	0.00606	0.00528	0.00477
4.50%	0.08538	0.04365	0.02975	0.02280	0.01864	0.01587	0.01390	0.01242	0.01128	0.01036	0.00765	0.00633	0.00556	0.00507
5.00%	0.08561	0.04387	0.02997	0.02303	0.01887	0.01610	0.01413	0.01266	0.01152	0.01061	0.00791	0.00660	0.00585	0.00537
5.50%	0.08584	0.04410	0.03020	0.02326	0.01910	0.01634	0.01437	0.01290	0.01176	0.01085	0.00817	0.00688	0.00614	0.00568
6.00%	0.08607	0.04432	0.03042	0.02349	0.01933	0.01657	0.01461	0.01314	0.01201	0.01110	0.00844	0.00716	0.00644	0.00600
6.50%	0.08630	0.04455	0.03065	0.02371	0.01957	0.01681	0.01485	0.01339	0.01225	0.01135	0.00871	0.00746	0.00675	0.00632
7.00%	0.08653	0.04477	0.03088	0.02395	0.01980	0.01705	0.01509	0.01363	0.01251	0.01161	0.00899	0.00775	0.00707	0.00665
7.50%	0.08676	0.04500	0.03111	0.02418	0.02004	0.01729	0.01534	0.01388	0.01276	0.01187	0.00927	0.00806	0.00739	0.00699
8.00%	0.08699	0.04523	0.03134	0.02441	0.02028	0.01753	0.01559	0.01414	0.01302	0.01213	0.00956	0.00836	0.00772	0.00734
8.50%	0.08722	0.04546	0.03157	0.02465	0.02052	0.01778	0.01584	0.01439	0.01328	0.01240	0.00985	0.00868	0.00805	0.00769
9.00%	0.08745	0.04568	0.03180	0.02489	0.02076	0.01803	0.01609	0.01465	0.01354	0.01267	0.01014	0.00900	0.00839	0.00805
9.50%	0.08768	0.04591	0.03203	0.02512	0.02100	0.01827	0.01634	0.01491	0.01381	0.01294	0.01044	0.00932	0.00874	0.00841
10.00%	0.08792	0.04614	0.03227	0.02536	0.02125	0.01853	0.01660	0.01517	0.01408	0.01322	0.01075	0.00965	0.00909	0.00878
10.50%	0.08815	0.04638	0.03250	0.02560	0.02149	0.01878	0.01686	0.01544	0.01435	0.01349	0.01105	0.00998	0.00944	0.00915
11.00%	0.08838	0.04661	0.03274	0.02585	0.02174	0.01903	0.01712	0.01571	0.01463	0.01378	0.01137	0.01032	0.00980	0.00952
11.50%	0.08862	0.04684	0.03298	0.02609	0.02199	0.01929	0.01739	0.01598	0.01490	0.01406	0.01168	0.01066	0.01016	0.00990
12.00%	0.08885	0.04707	0.03321	0.02633	0.02224	0.01955	0.01765	0.01625	0.01518	0.01435	0.01200	0.01101	0.01053	0.01029
12.50%	0.08908	0.04731	0.03345	0.02658	0.02250	0.01981	0.01792	0.01653	0.01547	0.01464	0.01233	0.01136	0.01090	0.01067
13.00%	0.08932	0.04754	0.03369	0.02683	0.02275	0.02007	0.01819	0.01681	0.01575	0.01493	0.01265	0.01172	0.01128	0.01106
13.50%	0.08955	0.04778	0.03394	0.02708	0.02301	0.02034	0.01846	0.01709	0.01604	0.01523	0.01298	0.01207	0.01166	0.01145
14.00%	0.08979	0.04801	0.03418	0.02733	0.02327	0.02061	0.01874	0.01737	0.01633	0.01553	0.01332	0.01244	0.01204	0.01185
14.50%	0.09002	0.04825	0.03442	0.02758	0.02353	0.02087	0.01902	0.01766	0.01663	0.01583	0.01366	0.01280	0.01242	0.01225
15.00%	0.09026	0.04849	0.03467	0.02783	0.02379	0.02115	0.01930	0.01795	0.01692	0.01613	0.01400	0.01317	0.01281	0.01264
15.50%	0.09049	0.04872	0.03491	0.02808	0.02405	0.02142	0.01958	0.01824	0.01722	0.01644	0.01434	0.01354	0.01320	0.01305
16.00%	0.09073	0.04896	0.03516	0.02834	0.02432	0.02169	0.01986	0.01853	0.01753	0.01675	0.01469	0.01391	0.01359	0.01345
16.50%	0.09097	0.04920	0.03540	0.02860	0.02458	0.02197	0.02015	0.01882	0.01783	0.01706	0.01504	0.01429	0.01398	0.01385
17.00%	0.09120	0.04944	0.03565	0.02886	0.02485	0.02225	0.02044	0.01912	0.01814	0.01738	0.01539	0.01467	0.01438	0.01426
17.50%	0.09144	0.04968	0.03590	0.02911	0.02512	0.02253	0.02073	0.01942	0.01845	0.01770	0.01575	0.01505	0.01478	0.01466
18.00%	0.09168	0.04992	0.03615	0.02937	0.02539	0.02281	0.02102	0.01972	0.01876	0.01802	0.01610	0.01543	0.01517	0.01507
18.50%	0.09192	0.05017	0.03640	0.02964	0.02567	0.02309	0.02131	0.02003	0.01907	0.01834	0.01647	0.01582	0.01557	0.01548
19.00%	0.09216	0.05041	0.03666	0.02990	0.02594	0.02338	0.02161	0.02033	0.01939	0.01867	0.01683	0.01621	0.01598	0.01589
19.50%	0.09240	0.05065	0.03691	0.03016	0.02622	0.02366	0.02191	0.02064	0.01971	0.01900	0.01719	0.01660	0.01638	0.01630
20.00%	0.09263	0.05090	0.03716	0.03043	0.02649	0.02395	0.02221	0.02095	0.02003	0.01933	0.01756	0.01699	0.01678	0.01671
20.50%	0.09287	0.05114	0.03742	0.03070	0.02677	0.02424	0.02251	0.02127	0.02035	0.01966	0.01793	0.01738	0.01719	0.01712
21.00%	0.09311	0.05139	0.03768	0.03097	0.02705	0.02454	0.02281	0.02158	0.02067	0.01999	0.01831	0.01778	0.01760	0.01753
21.50%	0.09335	0.05163	0.03793	0.03124	0.02734	0.02483	0.02312	0.02190	0.02100	0.02033	0.01868	0.01817	0.01800	0.01795
22.00%	0.09359	0.05188	0.03819	0.03151	0.02762	0.02513	0.02343	0.02222	0.02133	0.02067	0.01906	0.01857	0.01841	0.01836
22.50%	0.09384	0.05213	0.03845	0.03178	0.02790	0.02542	0.02374	0.02254	0.02166	0.02101	0.01944	0.01897	0.01882	0.01877
23.00%	0.09408	0.05237	0.03871	0.03205	0.02819	0.02572	0.02405	0.02286	0.02200	0.02135	0.01982	0.01937	0.01923	0.01919
23.50%	0.09432	0.05262	0.03897	0.03233	0.02848	0.02602	0.02436	0.02319	0.02233	0.02170	0.02020	0.01977	0.01964	0.01960
24.00%	0.09456	0.05287	0.03923	0.03260	0.02877	0.02633	0.02468	0.02351	0.02267	0.02205	0.02058	0.02017	0.02005	0.02002
24.50%	0.09480	0.05312	0.03950	0.03288	0.02906	0.02663	0.02499	0.02384	0.02301	0.02240	0.02097	0.02058	0.02046	0.02043
25.00%	0.09504	0.05337	0.03976	0.03316	0.02935	0.02694	0.02531	0.02417	0.02335	0.02275	0.02136	0.02098	0.02088	0.02085
25.50%	0.09529	0.05362	0.04002	0.03344	0.02965	0.02724	0.02563	0.02451	0.02370	0.02310	0.02174	0.02139	0.02129	0.02126



To use the Payment Factor Table:

1. Identify the payment factor for a specific interest rate and terms (in years).
2. Calculate the monthly payment by multiplying the loan amount by the payment factor.

**monthly payment = loan amount x payment factor**

3. Calculate the total cost of the loan by multiplying the monthly payment by the number of months of the loan.

**total cost of loan = monthly payment x number of months**

4. Calculate the cost of the credit by subtracting the loan amount from the total cost of the loan.

**cost of credit = total cost of loan – loan amount**

## Exercise: Interest Rates, Loan Terms, and Fees

Answer the following questions.

- Sammy wants to buy a chainsaw that is \$150. The store offers him a payment plan of \$20 a month for 15 months. If Sammy uses the payment plan to purchase the chainsaw, how much will he pay? \$\_\_\_\_\_
- Lenora wants to buy a \$5000 car. She has saved \$500 toward this purchase. The interest rate for her loan is 8%.
  - How much will she need to borrow to purchase the car? \$\_\_\_\_\_
  - Will Lenora's cost for credit go down if she uses her \$500 as a down payment? \_\_\_\_\_
- Kala has a credit card with a 26% interest rate. If she pays the total amount due within 30 days of receiving her bill, she is not charged any interest.

One day Kala charges \$120.00 on her credit card. The next day she sends the credit card company a check for the full amount. What percent interest did Kala pay for her purchase? \_\_\_\_\_%

- Diane borrows \$5000.00 from the Rainflower Loan Fund to start her own floral business. She agrees to pay 10% on a five year loan. Using the payment factor table, calculate the cost of Diane's credit.

Loan Amount	1.
Interest Rate	2.
Time	3. _____(months)
Payment Factor	4.
Monthly Payment: <b>Line 1</b> _____ x <b>Line 4</b> _____	5.
Total Amount of Payments: <b>Line 5</b> _____ x <b>Line 3</b> _____	6.
Cost of Credit: <b>Line 6</b> _____ - <b>Line 1</b> _____	7.



5. Ruby is borrowing \$3000 to remodel her house. Credit Union A offers her a loan with an 8% interest rate over 48 months. Credit Union B offers her a loan with a 12% interest rate over 60 months. Use the payment factor table on page 104 to assist you in evaluating these two loan options.

CREDIT UNION A	
Loan Amount	1. _____
Interest Rate	2. _____
Time	3. _____ (months)
Payment Factor	4. _____
Monthly Payment: <b>Line 1</b> _____ x <b>Line 4</b> _____	5. _____
Total Amount of Payments: <b>Line 5</b> _____ x <b>Line 3</b> _____	6. _____
Cost of Credit: <b>Line 6</b> _____ - <b>Line 1</b> _____	7. _____

CREDIT UNION B	
Loan Amount	1. _____
Interest Rate	2. _____
Time	3. _____ (months)
Payment Factor	4. _____
Monthly Payment: <b>Line 1</b> _____ x <b>Line 4</b> _____	5. _____
Total Amount of Payments: <b>Line 5</b> _____ x <b>Line 3</b> _____	6. _____
Cost of Credit: <b>Line 6</b> _____ - <b>Line 1</b> _____	7. _____

- Which Credit union is offering the loan with the least expensive monthly payment? \_\_\_\_\_  
How much less? \_\_\_\_\_
- Which credit union is offering the least expensive loan? \_\_\_\_\_  
How much less? \_\_\_\_\_
- Why might Ruby choose to take out the more expensive loan?

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## Exercise: Calculating Monthly Payments on a New Loan

Jackson earns \$1,500.00 a month. He pays \$400.00 for rent and pays his entire credit card bill each month and does not owe any money. He pays \$50.00 a month for his student loan and another \$50.00 for a business loan. Calculate Jackson's debt-to-income ratio.

Total Monthly Debt	1.
Total Monthly Income	2.
Debt-to-Income Ratio: <b>Line 1</b> _____ / <b>Line 2</b> _____	3. %

Based on Jackson's debt-to-income ratio, do you think a lender will feel comfortable making him a loan? \_\_\_\_\_

Jackson is curious to know how much a lender will loan him. Because he knows the lender will go as high as a 45% debt-to-income ratio, calculate the maximum monthly payment Jackson will qualify for.

45% of Income: <b>Line 2</b> _____ x .45	4.
Maximum Payment on New Loan: (45% of Income – Total Monthly Debt) <b>Line 4</b> _____ – <b>Line 1</b> _____	5.

Finally Jackson wants to know how large a loan he can qualify for based on his maximum monthly payment. He wants an 8% interest rate for 5 years. Using the payment factor table on page 104 and the formula below, calculate Jackson's maximum loan amount.

Loan Qualification: <b>Line 5</b> _____ / Payment Factor _____	6.
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Finally, Jackson would like to see what the cost of credit will be with this loan.

Total Loan Payments: (Maximum Payment on New Loan x Term in Months) <b>Line 5</b> _____ x 60 Months	7.
Cost of Credit: (Total Loan Payments – Loan Qualification) <b>Line 7</b> _____ – <b>Line 6</b> _____	8.

## Asking the Right Questions

If you decide to apply for a loan, ask the lender the following questions:

- What is the total amount I am borrowing?
- What do I have to pay in fees?
- What is the interest rate?
- If the interest rate will change, when, how often, by how much, how high can it go?
- What is the total monthly payment?
- How many years do I have to repay the loan?
- Are there any prepayment penalties? If so, what are they?
- Does the interest rate go up if I am late on a loan payment or miss a payment?
- Is this loan reported to one of the credit bureaus?



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## Predatory Lending

Predatory lending is when an individual or company makes a loan to someone at very high interest rate or with very high fees.

Often times the borrower is not able to get a loan anywhere else.

What is a predatory lender?

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Who do they target?

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### Prevalence of Predatory Lending

In the U.S., there are more predatory lending businesses than McDonald's restaurants. Want an order of fries to go with that high interest loan?

While many lenders conduct honest business, some do not! Excessive interest rates, unnecessary charges, and highly questionable terms are a few of the things to watch out for. Predatory lenders share many traits. Here's how to recognize them:

- They offer loans based solely on the equity in a home and not on the borrower's ability to repay the loan.
- They charge unusually high interest rates for a loan.
- They add excessive points\*\* to the loan without lowering the interest rate.
- They include excessive fees.
- They tack on unnecessary costs, such as prepaid single-premium life insurance.
- They target the elderly, people of color, or people with low or moderate income levels.
- They might place a lien on your vehicle, home, or other form of collateral which far exceeds the value of the loan.

*\*\* A point or discount point is a form of pre-paid interest. By charging a borrower points, a lender can effectively increase the yield on a loan above the amount of the stated interest rate. Paying points is not necessarily a bad move, but paying excessive points will usually burden a borrower with a higher loan cost.*

You can do business with the coyote, but remember he is a trickster.

So, how about it?



PAYDAY  
LOANS

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### Make Smart Lending Choices

At all cost avoid predatory lenders!

## Identify Theft

The modern age has brought the internet, wireless communications, and numerous other technological advances that our ancestors probably never dreamed possible. Many of these innovations make common tasks easier, faster, and more efficient, especially in regard to our finances. However, technology combined with larger financial networks has also made our society vulnerable to a new kind of crime: **Identity Theft**.

Identity theft occurs when someone fraudulently uses your name, personal information, or reputation for financial gain.

Common types of identity theft might include:

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How can a person get your information?

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Savvy criminals can rob unsuspecting victims without them even knowing it. Not to mention destroy their reputations and peace of mind. Some victims of identity theft spend years working to restore their lives, correcting their personal data, and paying for legal services all because someone used their good names to commit fraud.

**Steps to take if you become a victim of identity theft:**

Identity theft has become a prevalent problem and the cure is prevention! If someone has stolen your identity, the Federal Trade Commission recommends that you take the following actions immediately:

1. Place a fraud alert on your credit reports and review your credit reports.  
(Placing a fraud alert on your credit report can help prevent an identity thief from opening any more accounts in your name. Also by placing an alert with any one of the agencies, the other two will be notified automatically.)
2. Close the accounts that you know, or believe, have been tampered with or opened fraudulently.
3. File a complaint with the Federal Trade Commission.
4. File a report with your local police or the police in the community where the identity theft took place.

You can contact the FTC by the following methods:

**Email**

[www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)

**Phone**

1-877-ID THEFT (877-438-4338)

**Mail**

Consumer Response Center, FTC  
600 Pennsylvania Ave. N.W.  
Washington, DC 20580

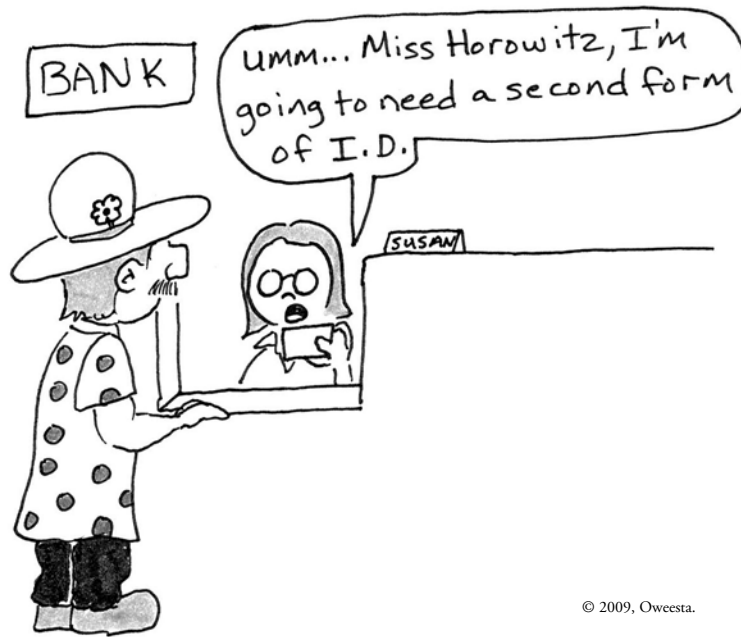
**TDD**

202-326-2502



**Take Steps Now to Save Trouble Later**

Prevention will save you time and money. On average, a person spends 600 hours working to repair damage from identity theft (e.g., calling creditors, filing a police report, and providing documentation).



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### Here are some tips to prevent you from becoming a victim of identity theft:

- Never give personal or financial information to strangers.
- Shred old credit cards.
- Avoid using easily available information (e.g., date of birth, social security number).
- Pay attention to billing cycles and statements.
- Check your account statements carefully.
- Don't lend your checkbook or ATM card to anyone.
- Consider purchasing credit monitoring protection.

### Exercise: Identity Theft

1. While driving home one night from playing BINGO, Franklin realizes he lost his wallet somewhere in the casino. His wallet contained a debit card, two credit cards, his driver's license, his social security card, and his tribal ID. What should Franklin do?

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2. Dan and Vickie are planning a summer vacation by taking the family to a powwow in Canada. They will need to make travel arrangements, get passports, and purchase gifts for a giveaway. What can they do to protect themselves from identity theft?

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3. While reviewing a recent credit report Donna notices a credit card account she never opened. The account has been open for nearly 4 months, has a large outstanding balance, and is over 90 days late. What should Donna do?

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4. Thomas receives an email informing him that he recently won a large sum of money in an online lottery he never entered! The email informs him that in order for him to claim his prize money, he must immediately provide his bank account information so they can transfer \$500. Lastly, the email instructs him to reply with his bank account number so the funds can be transferred quickly. Should Thomas follow through with this request?

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5. What other steps can you take to prevent identity theft?

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## Insurance

When you borrow money to purchase an item, most lenders will require you to insure the purchase (e.g., a car or home). **Insurance can best be understood as a back up plan to protect your family or community if something goes wrong.** It's simply another tool used to benefit and strengthen the community.

Why is insurance important?

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### What are my insurance needs?

Health: \_\_\_\_\_

Home: \_\_\_\_\_

Life: \_\_\_\_\_

Automobile: \_\_\_\_\_

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

Insurance tends to be the last and most misunderstood resource a family or individual considers. Most people do not realize how important insurance is until they experience an emergency. What are some reasons that people might delay getting insurance?

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## Types of Insurance

Insurance can be purchased for almost anything. The basic types of insurance are:

Insurance Type	Explanation
<b>Health Insurance</b>	<p>Health insurance helps pay the medical bills for everyone who is covered under the plan.</p> <p>The Indian Health Service (IHS), an agency within the Department of Health and Human Services, is responsible for providing federal health services to American Indians and Alaska Natives. For more information about Direct Care or Contract Health Services offered by IHS, visit their website at <a href="http://www.ihs.gov">www.ihs.gov</a>.</p> <p>If you are an enrolled Tribal member, you may be eligible to access services at your local Tribal Health Clinic. You will need to inquire by contacting your Tribe or by asking a local Tribal Health Clinic where you currently reside.</p> <p>If your employer offers health insurance, consider using it. By using an employer's insurance plan, you make more resources available for people who need IHS assistance. If your community does not offer adequate services or does not cover everyone in your family, you will want to consider purchasing health insurance.</p>
<b>Automobile Insurance</b>	<p>Automobile insurance is very important and in many states mandatory. It is essential to have enough coverage to fully cover any costs in the event that you cause harm to a person or property. If you do not have adequate insurance, an injured party can gain access to your assets such as savings or property. Everyone who drives a car should have the following types of insurance:</p> <ul style="list-style-type: none"> <li>• Bodily injury liability covers injuries suffered by others hurt in an accident while you are driving.</li> <li>• Property damage liability covers damage done by your car to the property of others.</li> <li>• Collision coverage pays for damage done to your car in an accident. You will want enough coverage to fully replace your car.</li> <li>• Comprehensive coverage pays for damage done to your car in an event other than an accident, such as theft or fire.</li> <li>• Uninsured or underinsured motorist insurance covers your expenses in the event that you are in an accident with someone who either does not have automobile insurance or is underinsured to cover the damages.</li> </ul>
<b>Homeowner's Insurance</b>	<p>Homeowner's insurance protects your housing investment. To receive a traditional mortgage, you will likely need the following:</p> <ul style="list-style-type: none"> <li>• Property damage coverage reimburses you for damage or loss to your house and belongings. It usually covers natural disasters (e.g., fire) and man-made disasters (e.g., theft, electric fire). Areas that are prone to certain types of weather may offer policies that exclude common circumstances in that area. In these cases, you will need to purchase a separate policy to cover the possibility of property damage.</li> <li>• Liability insurance protects you from people who might sue you for injuries or property damage. For example, if a dead tree on your property falls and damages the neighbor's property, you may be liable. This type of insurance would help cover the costs of repairing the damage to your neighbor's property.</li> </ul>
<b>Renter's Insurance</b>	<p>Covers your personal property (clothing, jewelry, computer hardware/software, electronics, furniture and other valuables) if you rent a room or an apartment. Typically, it also covers against personal liability (up to some specified amount) for those who are injured in your rental unit.</p> <p>Renter's insurance typically covers the possibility of damage from things like fire, smoke, lightning, wind, hail, explosions, and water damage from burst pipes, theft, and vandalism. It may also cover any costs associated with living somewhere else while your unit is being repaired.</p>
<b>Credit Life Insurance</b>	<p>This insurance repays the lender for the balance of a loan in the event of the borrower's death or disability. This type of insurance can be purchased from the lender when you take out a loan. Be aware that it will add to the total cost of your loan and make payments higher. A lender should not ask for a premium to be paid up front. Investigate your options before you choose a policy.</p>
<b>Disability Insurance</b>	<p>Disability insurance protects you against a loss of income if you are unable to work for a long time because of injury or illness. Before you purchase this type of insurance, be sure to investigate the coverage you already have, such as employer-provided sick leave, worker's compensation, Medicaid, and Social Security.</p>
<b>Life Insurance</b>	<p>A life insurance policy provides money to your beneficiaries if you die. Life insurance costs are based on many factors including age, health, occupation and sometimes gender. The younger you are when you obtain life insurance, the less expensive it is. The two basic types available are term insurance and cash value insurance.</p> <p>Term insurance is the least expensive type of life insurance. Term insurance provides a specific amount of coverage for a specific amount of time. For example, 10-year level term insurance offers 10 years of life insurance coverage at a level price. After the 10 years, you can renew the coverage, but the cost increases since you're now 10 years older. It may be better to lock in a rate for a longer period of time. Most companies offer level term rates from 1 to 30 years.</p> <p>Cash value insurance has a savings component. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance. The premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die or from the cash value if you stop paying premiums and take out the remaining cash value.</p> <p>The Life Insurance Buyer's Guide is a publication prepared by the National Association of Insurance Commissioners. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers. This guide does not endorse any company or policy. For more in-depth information on life insurance go to: <a href="http://www.naic.org/documents/consumer_guide_life.pdf">www.naic.org/documents/consumer_guide_life.pdf</a>.</p>



## Make Informed Insurance Decisions

Cash value life insurance policies are often sold to people who are actually better suited for term life insurance. Unfortunately, some insurance agents push cash value on uninformed clients, promoting the savings component as a fantastic benefit. This usually happens because insurance companies pay agents higher commissions for selling cash value than term life insurance. However, for most families there are other savings vehicles (such as a basic retirement plan) that will better suit their investing needs than a cash value insurance package. Bottom Line: Do your homework before buying a life insurance policy!

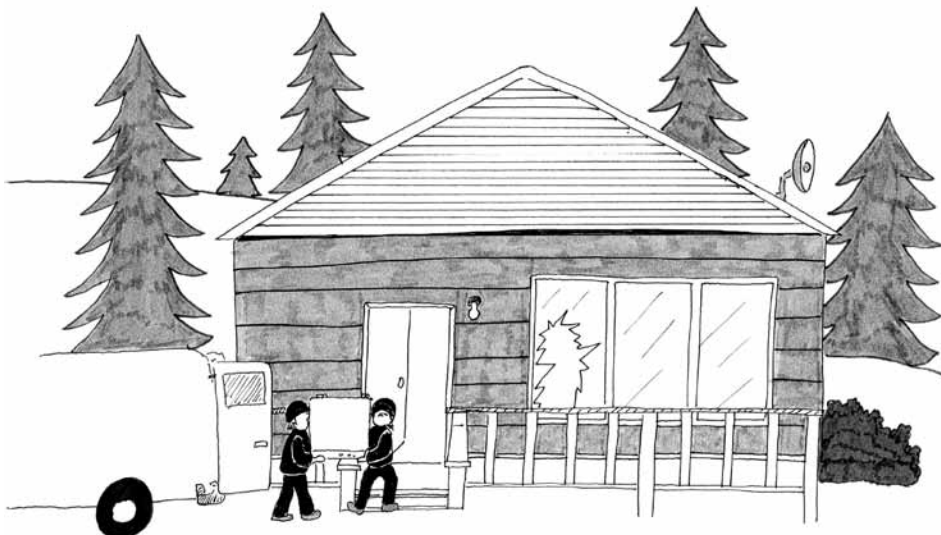
## Learning About Insurance

### *The Sampsons*

The Sampsons owned their home for 20 years. Then they experienced some financial hardships and were forced to reevaluate their budget they made some major cuts including their home insurance. Two months later, their home caught on fire and burnt down. The Sampsons' lives completely changed. Five years later, they are living in a trailer and their four children live with other relatives. The decision to let their insurance go cost the Sampsons their home and their family.

### *The Yazzies*

The Yazzies lived in a small town and then moved to the "big city". After moving, they purchased renter's insurance to protect their belongings. When they moved back to the small town, they wanted to save money so they canceled their renter's insurance; they felt a sense of safety living in a small town. A few months later, their house was robbed and all of their valuables were stolen, including a television they had recently finished paying for. Without insurance, they had to purchase all new items on their own. Their idea of saving a few dollars a month on renter's insurance ended up costing them hundreds of dollars instead.



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## Deductibles and Co-Pays

Other important considerations when choosing insurance are “deductibles and co-pays”.

- A *co-pay* is the flat amount you pay at the time of service for health care insurance. This means you pay that amount out of your own pocket. Most co-pays are from \$15.00 to \$25.00 per visit.
- A *deductible* is the amount you must pay on a claim before the insurance company’s coverage begins. A typical auto insurance policy or renter’s/homeowner’s policy may carry a \$250.00 to \$500.00 deductible.

*Anderson was recently working on the ranch when a cow slammed into his brand new truck. The body shop repair bill was \$2,500. He carries a \$500 dollar deductible on his auto policy. Therefore his insurance company paid \$2,000 and Anderson payed \$500 out of his own pocket. Ouch!*

Pay attention to co-pays and deductibles. Most people don’t give them a second thought until they have to pay them.

## Choosing Insurance Products

Before you purchase any type of insurance, be sure to research the options that are available. Call different insurance companies and investigate different types of coverage. If you have any questions or would like more information about a particular type of insurance, call the National Insurance Consumer Helpline at 1-800-942-4242.

Here are some tips when choosing insurance products:

- Estimate your needs.
- Shop around and talk with several agents.
- Select coverage that will fit your budget.
- Don’t over-insure.
- Insurance needs should be reviewed periodically. Some common times to review are: a change in income, a change in marital status, birth of a child, or retirement.
- With all types of insurance, make sure the insurance company has a very high financial rating with the insurance rating services.
- Check with your insurance agent or local library for the ratings.
- Friends and relatives can share experiences of companies’ payments on claims.

Many people hold off on insurance due to cost, time constraints, confusion over terms and policies, or some simply feel it’s a waste of money. Don’t overlook this vital issue when addressing your family’s financial needs!



### Keep Your Insurance Policies Working for You

Not all insurance products are created equal. Have your policies reviewed once a year!

# Financial Glossary

**Account statement** – A record of your account activity over a specific period of time.

**Amortization** – The gradual repayment of a mortgage by installments, calculated to pay off the obligation at the end of a fixed period of time.

**Annual percentage rate (APR)** – The annual interest rate that reflects all of the costs of financing. This rate probably will be higher than the original interest rate quote, because it includes all other costs of getting credit, such as loan fees.

**Assets** – Cash or something that can be converted into cash, such as a savings account, stocks, or real estate.

**Automated teller machine (ATM)** – A machine that provides many of the same services as a financial institution. Many financial institutions own ATMs to provide convenient service to their customers. There are various fees attached to using an ATM for financial transactions.

**Available balance** – The amount of money immediately available in your account. This amount does not reflect any withdrawals or deposits that have not yet cleared your account.

**Balloon loans** – Offer lower interest rates for shorter-term financing, usually five, seven, or ten years. At the end of this term, they require refinancing or paying off the outstanding balance with a lump-sum payment.

**Bounced check** – A check that is returned to you because there is not enough money in your account to cover it.

**Canceled check** – A check that has been processed and subtracted from the account on which it was written. Canceled checks are often used as proof of payment in place of receipts.

**Cashier's check** – A type of check that is as good as cash. To issue a cashier's check, the financial institution will deduct funds from your account and write the check from its own account. There is usually a fee for a cashier's check.

**Check card** – A special type of ATM/debit card that is branded with either a VISA or MasterCard logo and can be used at a Point of Sale (POS) terminal to pay for goods or services.

**Check register** – A tool for keeping track of the daily balance in your checking account and for keeping a description of every check you have written.

**Clears** – What happens when the amount of the check you write has been withdrawn from your checking account by the financial institution.

**Co-borrowers** – Two or more persons who legally agree to take out and be responsible for paying off a loan together.

**Co-pay** – The flat amount you pay at the time of service for health care insurance.

**Collateral** – Something of value that the borrower commits to guarantee repayment of a loan.

**Commitment letter** – A formal offer by a lender stating the terms under which a financial institution agrees to lend money. Sometimes called a "loan commitment."

**Contingency** – A condition that must be met before a contract is "legally binding," that is, before you must legally complete what was agreed to in the contract.

**Credit** – What a financial institution provides you when you borrow funds with the intent to repay them.

**Credit bureau** – An organization that keeps records of people's repayment histories (i.e., credit reports).

**Credit history** – A list of your debts and regular monthly expenses, including how much you owe and how timely you make your payments.

**Credit rating** – A rating that indicates how good a credit risk you are. Credit ratings are based on your personal credit history.

**Credit report** – A report that reflects your credit history. The lender orders this report from a credit bureau when you apply for a loan.

**Credit score** – A process lenders use to evaluate a loan application. A credit scoring system is based on the lending organization's historical experience with borrowers.

**Customer agreement** – A document provided by financial institutions that describes the costs and features of their accounts.

**Debit** – A withdrawal from an account. If you write a \$25 check, your account will have a debit of \$25 when the check clears.

**Debts** – Money you owe.

**Deductible** – The amount you must pay on a claim before the insurance company's coverage begins.

**Deposit** – To put money into your account.

**Depository** – A type of financial institution, such as banks or credit unions, that accept deposits and direct the money into lending activities.

**Default** – Failure to pay back money. If you do not make agreed-upon payments, you default on your loan.

**Direct deposit** – Funds deposited directly into your account. With your agreement, payroll earnings, Social Security benefits, retirement earnings, and other checks you receive on a regular basis may be direct-deposited into your account.

**Down payment** – The part of a purchase price that you pay when you buy an item such as a car or a house. The lender usually seeks a down payment to show that you are willing to invest in a purchase.

**Economy** – The way a society organizes to meet the physical needs of its people.

**Electronic funds transfer (EFT)** – Money transactions to or from checking and savings accounts that do not require paper (checks or cash) but use computer technology instead. Examples are direct deposit, automated teller machine (ATM), and debit card transactions.

**Endorse** – To sign the back of a check that is made out to you in order to release the funds.

**Expenses** – The amount of money you spend on a regular basis.

**FDIC** – Federal Deposit Insurance Corporation (FDIC). The FDIC insures accounts at federal government-regulated financial institutions for up to \$100,000 per account.



**FICO** – A private firm known as Fair Isaac Corporation (FICO) that was developed to help determine whether or not a lender should/will extend credit.

**Forgery** – When a person purposefully tries to withdraw money from your account by pretending to be you.

**Gross annual income** – Total yearly income from all sources before taxes are deducted.

**Hold** – The number of days a financial institution will hold a check before crediting your account.

**Identity theft** – When someone fraudulently uses your name, personal information, or reputation for financial gain.

**Insufficient funds** – A term meaning that the amount of money in your account is less than the amount you would like to withdraw.

**Insurance** – Coverage by a contract that protects your family or community if something goes wrong.

**Installment credit** – A type of credit that allows you to borrow a specific amount of money at one time for a defined purpose. You repay a set payment each month.

**Interest** – A fee paid for the use of money. A financial institution will pay you interest for keeping your money. You will pay interest to a financial institution for the use of borrowed funds.

**Loan processing** – The steps a lender takes to decide if a buyer can qualify for a loan.

**Market economy** – An economic system in which goods and services must be purchased from others.

**Market value** – The expected sale price of something.

**Minimum balance** – Necessary amount of money on deposit to qualify for special services.

**Minimum payment** – Smallest possible monthly payment.

**Monthly statement** – Account summary mailed monthly to a customer.

**National Credit Union Share Insurance Fund (NCUSIF)** – Fund that insures accounts at federal government-regulated credit unions for up to \$100,000 per account.

**Net income** – Your total income after taxes and other withheld items such as Social Security or Medicare are taken out.

**Non-Depository** – Loan funds and community development corporations that do not have depository services.

**Noninstallment or service credit** – A type of credit offered by some businesses and utility companies that allows you to pay for a used service at a later date.

**Nontraditional credit history** – A credit history you can prepare if you do not have credit cards or have never had a loan. It can include receipts and canceled checks from your monthly payments for rent, utilities, and other bills.

**Not sufficient funds (NSF)** – The expression used when a person tries to withdraw more money from an account than the existing balance.

**Online Banking** – A type of banking that uses today’s computer to give you the option of bypassing the time-consuming, paper-based aspects of traditional banking in order to manage your finances more quickly and efficiently.

**Overdraft protection** – A line of credit to cover insufficient funds.

**Overdrawn** – When more is withdrawn from an account than the existing balance.

**Payment factor table** – A table that you can use to calculate monthly payments and the cost of credit for installment loans.

**Predatory lender** – A lender that directs a borrower away from loans with more affordable interest rates and instead offers the applicant a loan with a high interest rate, questionable fees, or unnecessary charges.

**Principal** – The amount you can actually borrow.

**Purchase and sale agreement** – A written contract that the buyer and seller sign. It includes all of the terms and conditions of the sale.

**Qualify** – To determine how much money you are able to borrow.

**Reconciling** – Comparing your check register with your account statement to ensure all transactions have been properly recorded.

**Revolving credit** – A type of credit that allows you to borrow money at any time up to a set limit. As you pay back the borrowed money, it becomes available again to borrow (e.g., credit cards).

**Secured credit** – A type of credit requiring that you provide something of value to guarantee repayment of a loan.

**Secured credit card** – A type of credit card requiring that you deposit a certain amount of cash in a savings account to guarantee your credit card.

**Service charge** – A fee that financial institutions sometimes charge for specific services. The service charge will vary depending on the type of account you have. Ask about service charges and fees before you select a financial institution or a type of account.

**Stop payment** – An order by a customer to a financial institution not to release issued funds (i.e., not to cash a check).

**Subsistence economy** – An economic system in which people provide for their own needs (e.g., agriculture and hunting).

**Terms** – The conditions of a loan, including the type, size of down payment, amount you can borrow, interest rate, and length of time to repay.

**Tri-merge report** – A credit report that contains information from all three major credit bureaus.

**Unsecured credit** – A type of credit that does not require you to provide something of value to guarantee repayment of a loan.



*The Commemorative Quilt of the National Museum of the American Indian, 1997. This commemorative quilt was made by 20 Native artists in honor of the exhibit, "To Honor and Comfort: Native Quilting Traditions." The purchase of the quilt by the National Museum of the American Indian was made possible by a major grant from the Metropolitan Life Foundation. Native quilters from North America and Hawaii were asked to submit a block of their own design to this unique quilt. Ina McNeil (Hunkpapa Lakota) and Margot Cohen assembled and quilted the blocks.*

Each row is numbered from left to right starting with the top left corner.

- |                                      |  |
|--------------------------------------|--|
| 1. Paula White, Chippewa             | 11. Nancy Naranjo, Eastern Cherokee          |
| 2. Mary Bighorse, Osage              | 12. Harriet Soong (Hawaiian)                 |
| 3. Ina McNeil, Hunkpapa Lakota       | 13. Shirley Grady, Mandan/Hidatsa/Sioux/Crow |
| 4. Margaret Wood, Navajo/Seminole    | 14. J. Carole Stewart, Creek                 |
| 5. Anastasia Cooke Hoffman, Yup'ik   | 15. Alice Olsen Williams, Anishinaabe        |
| 6. Gussie Bento, Native Hawaiian     | 16. Rita Corbiere, Ojibwe                    |
| 7. Judy Toppings, Ojibwe             | 17. Marlene Sekaquatewa, Hopi                |
| 8. Share Bonaparte, Akwesasne Mohawk | 18. Ollie Napesni, Lakota Sioux              |
| 9. Lula Red Cloud, Oglala Lakota     | 19. Virginia Osceola, Seminole               |
| 10. Conrad House, Diné/Oneida        | 20. Bernyce (B.K.) Courtney, Wasco/Tlingit   |

*All photos are courtesy of the National Museum of the American Indian.*

