



FIRST NATIONS
DEVELOPMENT INSTITUTE



Building Native Communities

FINANCIAL SKILLS FOR FAMILIES

Fifth Edition

PARTICIPANT 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
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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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This publication was initiated and first published through a unique partnership between the Fannie Mae Foundation and First Nations Development Institute.



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Acknowledgments

This 5th edition of the ***Building Native Communities: Financial Skills for Families*** workbook was made possible by input from our Advisory Committee. The Advisory Committee was comprised of practitioners in the field of Native financial education and asset building and played a large role in revising and updating the curriculum. We would like to thank the following individuals for their assistance, careful reading, and feedback: Arnold Blum, Gallup Central High School; Lisa Garcia, Salt River Financial Services Institution; Sunny Guillory, Northwest Indian College; Chris Hansen, First Nations Oweesta Corporation; Krystal Langholz, First Nations Oweesta Corporation; Shawn Spruce, Independent Consultant, Dawn Wesley, Tlingit-Haida Housing Authority; Tawny Wilson, First Nations Development Institute; and Shawn Winters, Chi. Ishobak, Inc. A special thanks also to TM Design for providing design and layout services. Shawn Spruce drafted the text edits to the curriculum and the revision process was co-managed by Shawn Spruce, Sarah Dewees, and Krystal Langholz.

The ***Building Native Communities: Financial Skills for Families*** 5th edition team wishes to thank the models for our photo illustrations: Randal “Hawk” Atcitty, Cherolynda Bennett, Ashley Brooke Brown, Chicoah Ledford, Aaron & Terri Hogner and family (Tyce, Zakya, and Lyric), Marilyn Swayney, Tim Swayney, Nellie Taylor, Howard Valandra, Jacob Wildcatt, and Christian Yazzie; and thanks to Shawn Spruce for taking the photos.

We owe a debt of gratitude to Sherry Salway-Black for her support of this project while Vice President at First Nations Development Institute. We also thank the authors of the earlier editions of the ***Building Native Communities: Financial Skills for Families*** workbook for their input, time, and careful edits: Jennifer Cadotte, Joanna Donohoe, Heidi Davis, Vickie Oldman-John, Barbara Roloff, Deborah Schwartz, Natasha Shulman, and Shawn Spruce.



Ricardo Cate from the Kewa Pueblo in New Mexico provided creativity and talent with his illustrations throughout the publication. Mr. Cate is the father of three and a cartoonist for the Santa Fe New Mexican newspaper.

Statement of Ricardo Cate: *I’m a father, a teacher, a film maker, a stand-up comic, and a keeper of my Kewa Pueblo heritage. Most of you might know me as the writer of the enormously successful (well, in Santa Fe, NM anyway) cartoon “Without Reservations.” From those humble days when I walked into the Santa Fe New Mexican newspaper building to ask them to run my cartoon, to my hugely successful career in film and stage, I have remained true to myself as a traditional Kewa man. 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 the Fannie Mae Foundation, The Allstate Foundation, Enterprise Community Partners, KeyBank Foundation, and the Rose Foundation for their support of the ***Building Native Communities: Financial Skills for Families*** curriculum.

Disclaimer

All names and examples provided in the ***Building Native Communities: Financial Skills for Families*** 5th Edition workbook 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. The authors and publisher are solely responsible for the accuracy of the statements and interpretations contained in this publication.

More Information

To obtain additional copies of this workbook, more information about training opportunities, or to become a certified instructor, visit www.BNCweb.org or email info@oweesta.org or info@firstnations.org.

Introduction

Whether you want to manage your spending, get out of debt, buy a home, or start a business, personal financial empowerment is the first step to controlling 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 salmon, harvesting wild rice, or herding sheep, we knew how to manage our resources. This curriculum is designed to help Native communities adapt their traditional skills to the wise management of financial resources.

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

Over time, personal financial management 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.
- How advertising influences our spending decisions.
- Tips for being a savvy consumer.

Circle of Life

Our Native communities have traditionally demonstrated tremendous skill in managing resources to support our 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.



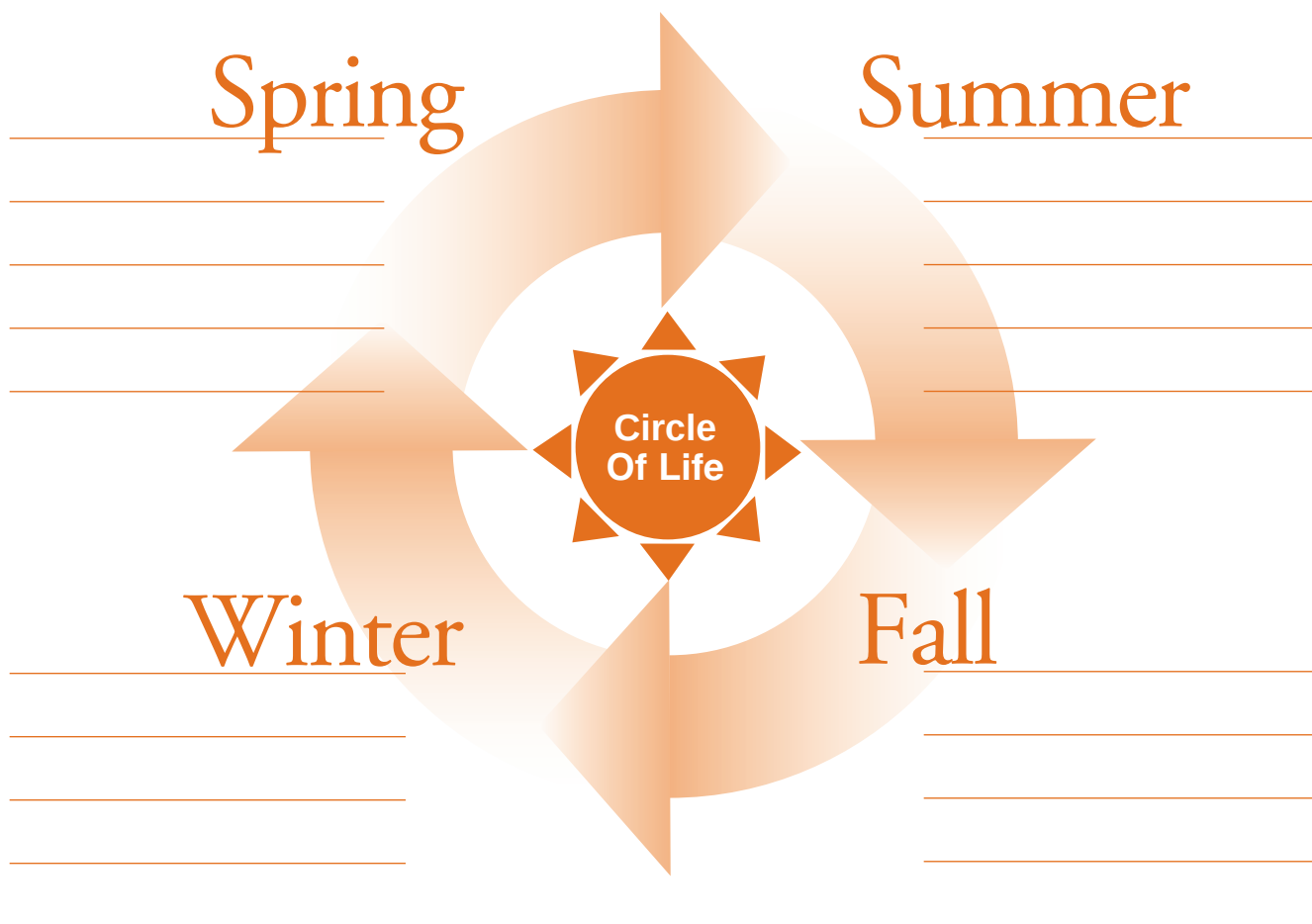
*This block is my story.
My grandmother and I
would work on a quilt,
and she would tell me
stories of our family.
She told stories of her
childhood in the hills of
Kentucky. These stories
were my favorites.
We spent many hours
sewing and creating
the fabric of my life.
The very being of our
family's 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 resources?
- 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 system that helps people exchange items of value. Economies can be local, tribal, regional, national, or international. Our economy is made up of **businesses** that provide goods and services, and **consumers** who spend money on these good and services. As a consumer, you can spend money in a way that benefits the local or tribal economy. When you spend money at a local business, you are making sure that your money goes to a local community member and business owner. That local business owner can then support the local community by providing goods or services that people want to purchase. A local business owner also contributes by employing community members, being a role model for youth, and making purchases at other local businesses. If you choose to spend your money at businesses that are not local, this money often “leaks out” of the local economy and doesn’t support the local community.

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!



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.

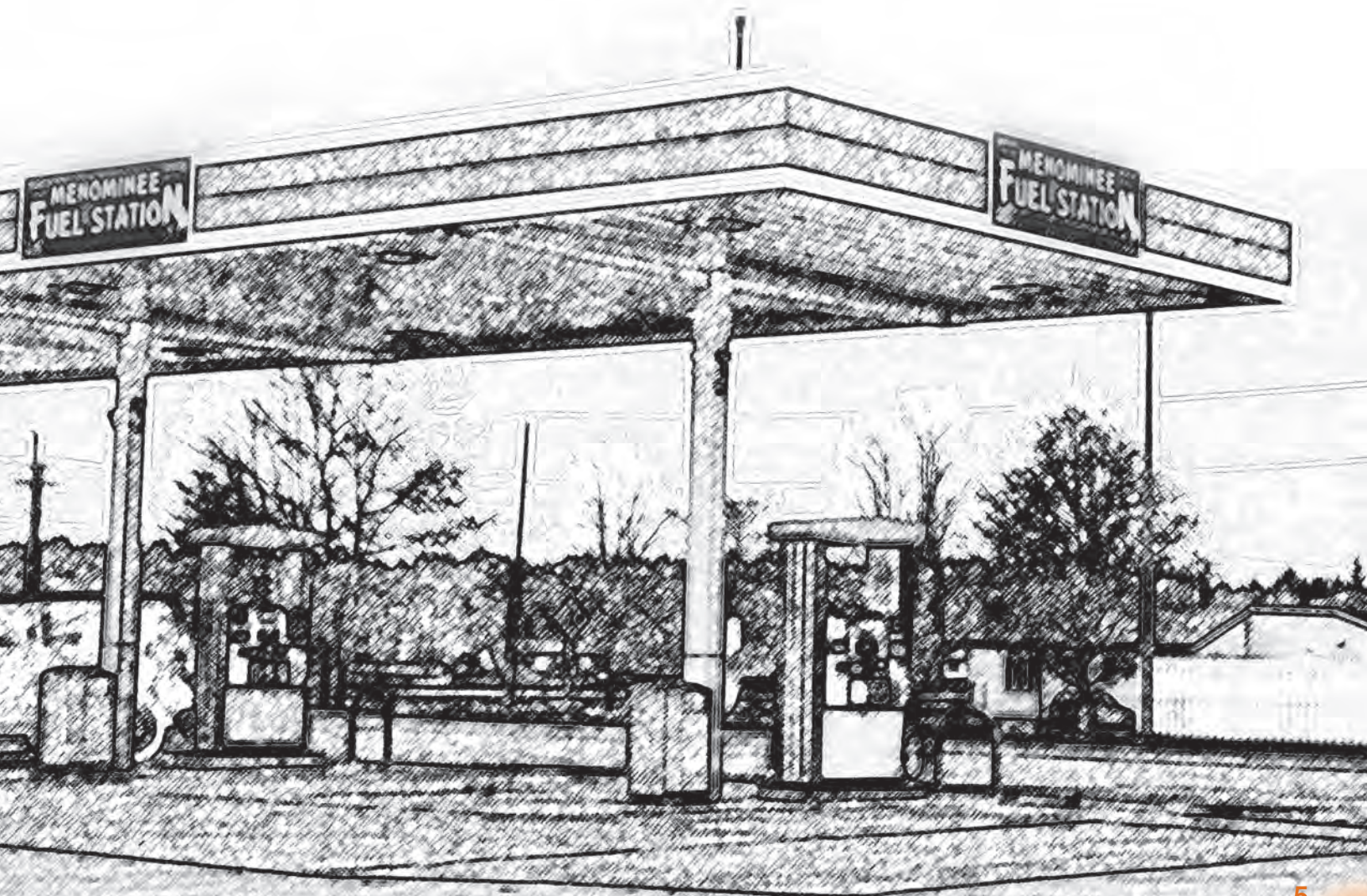


What does this diagram say about our economic independence?

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.



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		
TOTALS		

Total Community Expenses \$_____

Total Non-Community Expenses \$_____

What's the Difference? \$_____

Taking Action

What are the community benefits of strengthening our local economy?

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

Short-Term	Long-Term



Understanding Our Role as Consumers

Consumers play an important role in the economy by purchasing goods and services. Consumers try to make the best decisions they can about how to spend their money. When you are an informed consumer, you try to only buy things you can afford or really need. You try to avoid purchases that could damage your financial well-being or the well-being of people you care about such as your family members. When we fail to make good choices, or fail to act as informed consumers, we run the risk of spending too much, being taken advantage of, or buying things we don't need. When you are not an informed consumer, it can lead to stress, confusion, guilt, and feelings of regret known as "buyer's remorse." Have you ever felt buyer's remorse when you bought something that you later regretted?

What are some challenges you face as a consumer?

The Power of Advertising

As consumers, we sometimes feel pressure to buy things, including things we can't afford or don't need. Advertising is a method of communication by which businesses encourage consumers to buy products and services. Advertising works by delivering a clever message designed to influence our spending decisions. The message usually includes basic information about the product or service as well as a "pitch" that stresses how the product will benefit the consumer. Television commercials, radio jingles, web pop-up ads and billboards can all be effective methods of advertising. Advertising is certainly not a bad thing, but it is important that we don't allow advertisements to control our opinions to the extent that we make poor purchasing decisions.

Can you recall a recent purchase you made that was motivated by an advertisement? If so, what was the item you purchased and what type of advertisement impacted your decision?

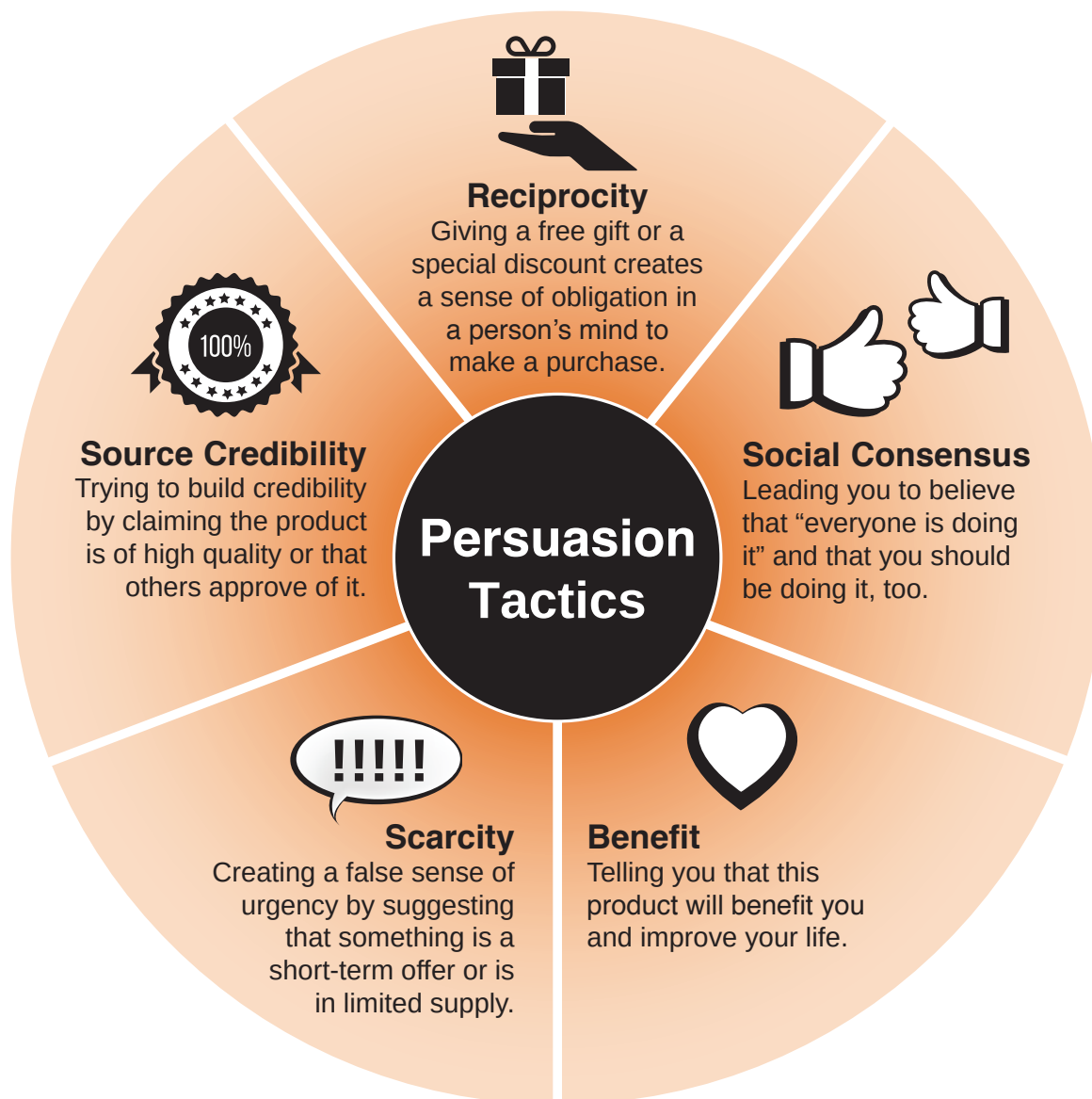


Did you know? On average we are exposed to 3,000 advertisements every day in the United States. That's a lot of pressure on consumers to spend!

Source: "Deadly Persuasion" by Jean Kilbourne

Persuasion Tactics

Advertising is big business and a lot of effort goes into creating well-targeted, attention grabbing messages that will sway consumers. Some advertisements, such as fancy commercials, are aimed at millions of people and can cost thousands of dollars to produce. Others are much less expensive to create and are targeted to a small group of people, like a simple store sign or an ad on Craigslist (an online classified forum). Most advertisements will place a series of “emotional triggers” known as **persuasion tactics** into a message. Persuasion tactics, such as the five listed below, can appeal to a consumer’s emotions and encourage him or her to buy and spend. They can make you feel like you are missing out if you don’t buy something, or that a deal is going away quickly and you need to act fast to get a good price.



Identifying Persuasion Tactics

Take a few minutes to look at the advertisement below. Then answer the questions.

Your Local Fitness Experts – Celebrating our 25th Year of Business in Your Community!

WILDWOOD FITNESS CENTER



Did you know
exercising
every day
can give you
more energy
and help you
lose weight?

Feel Better!
Add years to
your life!

Winter Membership Sale!

For a limited time only, no joining fee!
Get 6 months for the price of 1!

Membership includes full use of fitness equipment, pool, and exercise classes.
Act Now to Redeem This Special Offer! Join the Gym Everyone is Talking about!

1. What is the message contained in this advertisement?

2. What are some examples of persuasion tactics used in this ad?

3. Do you think this is an effective advertisement? Why or why not?

Consumer Tips for Avoiding Advertising Pressure

How you choose to spend your money is entirely up to you, but here are some tips for avoiding unnecessary or costly purchases that can be promoted by various forms of advertising.



LIMIT THE AMOUNT OF TIME you spend watching television or fast forward through commercials when possible. Also, avoid watching television when hungry, lonely, or bored.

ADD YOUR PHONE NUMBER, landline or mobile, to the National Do Not Call Registry. www.donotcall.gov



DISABLE POP UP ADS on your web browser as well as “cookies” that advertisers can use to track your internet activity.



OPT OUT of receiving some types of unsolicited commercial mail and email. www.dmachoice.org



UNSUBSCRIBE from email lists from online retailers.



USE CAUTION when downloading free mobile apps. Many are loaded with ads to offset the free service.

USE CAUTION when offered a free gift with a purchase.



KEEP AN EYE OUT for persuasion tactics and emotional triggers in all forms of advertising including online, television, and print.



Pressure Can Come From Family Too

Pressure to spend money can come from all around us. Sometimes “persuasion tactics” can come from our family members as well. We all want to make sure our kids have the best of everything, and we want to take care of our relatives and extended family. It can be hard to say no when your family members ask for something. Try to discuss your budget with your family so they understand your financial goals.



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.
- Develop a financial record keeping system.

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 magnificent hand-carved structures often documented social status, clan loyalties, debts, 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.



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.

Rank the following values beginning with what is most important to you (#1) working up to what is least important (#6).

Ranking	Values
	Spending time with my family.
	Earning a lot of money.
	Making sure I have nice things.
	Taking care of my health.
	Driving a nice car.
	Providing for my family members.

Which value did you rank highest? _____

Which value did you rank lowest? _____

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

Money in Native Culture

Culture is a set of shared attitudes, values, goals, and practices that characterize an institution, organization, or group. “Money culture” is related to the values, emotions, and feelings we have about money.

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 didn’t know how or where you got the money – my dad just 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.”

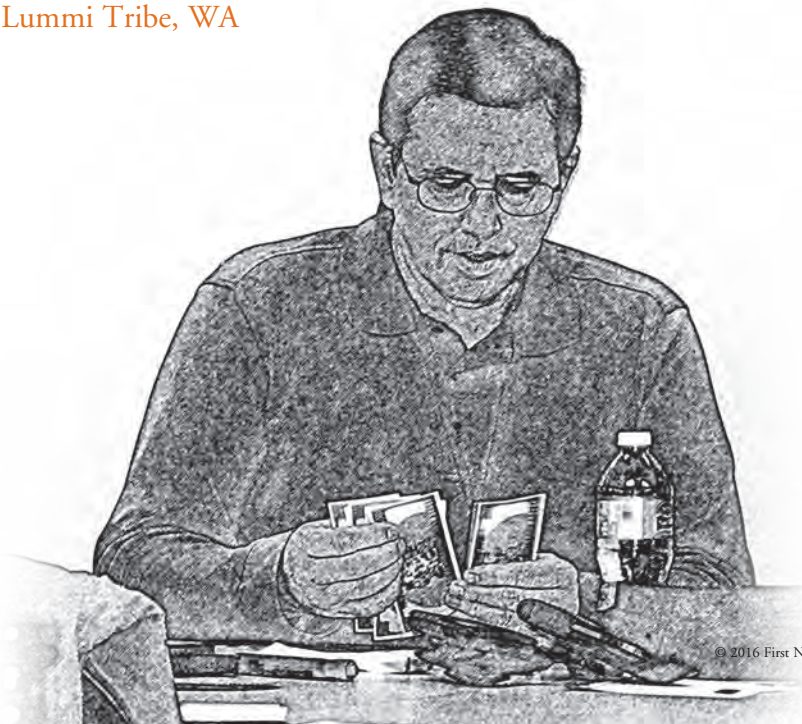
– Shari, Standing Rock Sioux Tribe, ND

“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

“I just got my first smartphone this year. I’m learning I can use it to check the balance in my bank account, deposit checks, pay bills, and track purchases. Wow! Times have sure changed. I hardly need to go inside a bank anymore.”

– Wallace, Lummi Tribe, WA



Exercise: What is Your Money Culture?

1. Does your family discuss money?

2. How do your parents or grandparents handle money?

3. Did you have a financial role model when you were growing up? If so, who was it?

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

5. How do your friends view money? How do you think this may influence you?

Wants vs. Needs

You have had some time to think about your values and your “money culture,” and how they relate to your money management. Now you can start thinking about saving your money. One of the most difficult parts of learning to save your money is learning to distinguish between “**wants**” and “**needs**.” How do you decide what is a “want” and what is a “need”? Usually a “need” is something you need to have to survive, like food, a home, and medical care. A “want” is something you would like to have, but it is not necessary to survive. This includes things like brand-new furniture, the most up-to-date smartphone, or the latest basketball shoes – nice to have, but you would probably be fine without them.

A good way to think about wants and needs is to think about food. If you did not eat any food for a long time, you would get very sick and eventually die. But now think about new furniture. You will survive without brand-new furniture in your home. Once you can decide what you “want” and what you “need” to live your life, you can save a lot of money by not spending it on things that you can live without.



Exercise: Wants vs. Needs

Think for a minute about several things you are planning to spend money on in the next year.

Write them here:

Now separate these into two categories:

Wants	Needs



Creating Savings

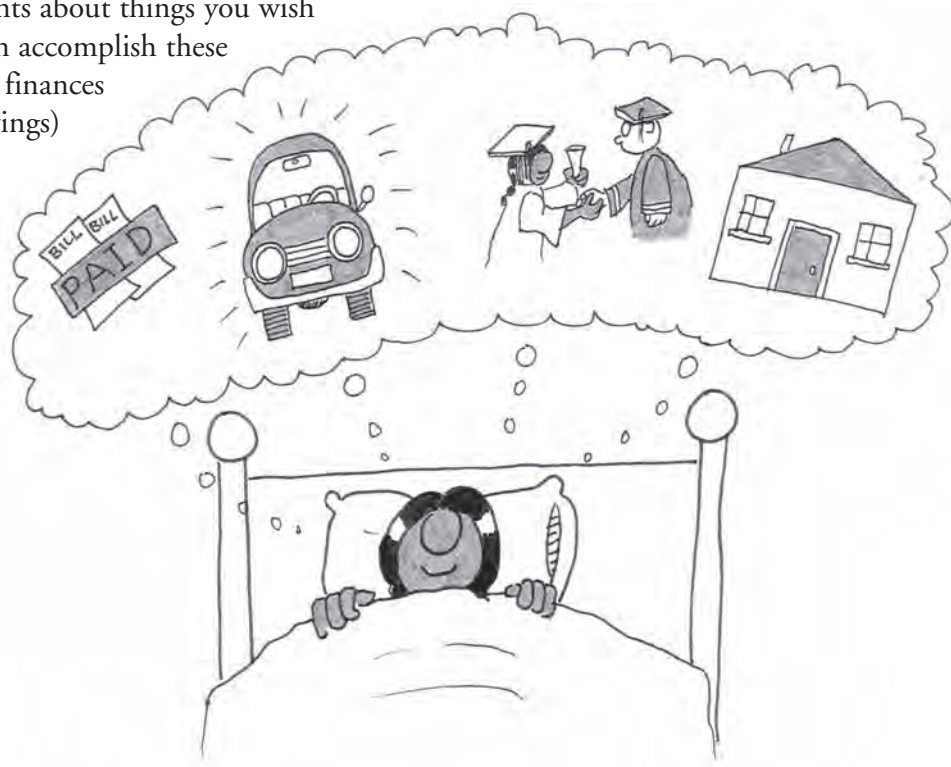
Even though it can be hard, everyone can save a small amount of their money. The trick is to figure out how to reduce your expenses or increase your income. We will be talking about how to do this in the next section, which is an overview of how to create savings. You can build your savings by putting aside small amounts on a regular basis, increasing it over time into a larger and larger amount. 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.

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.



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.

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

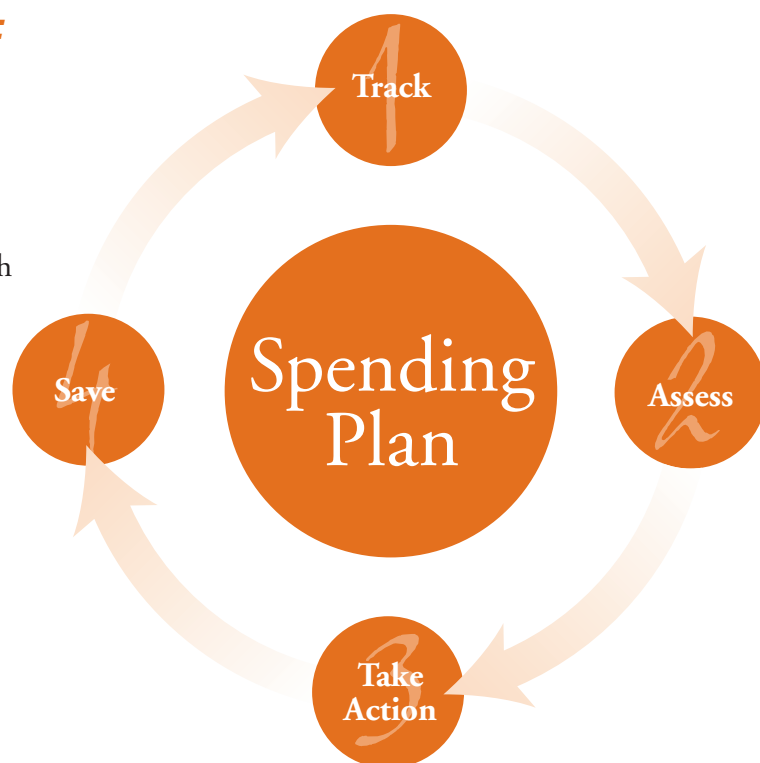
Item	Approximate Cost
<i>Ex: Used car</i>	<i>\$1500 in 1 year</i>

Developing a Spending Plan: The TATS System

How can you reach your savings goals? By using a **spending plan**. A spending plan is a strategy for saving and spending money. A spending plan tracks how much money comes into your household and shows how it needs to be used to meet your **expenses** and **savings** goals.

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. To develop a spending plan, you will be using the TATS system – **T**racking, **A**ssessing, **T**aking Action, and **S**aving.

Before you develop your own spending plan, we are going to do an exercise. We are going to help the Stevens family develop a spending plan. How can we help the Stevens family better manage their money? Let's find out.



Meet the Stevens Family

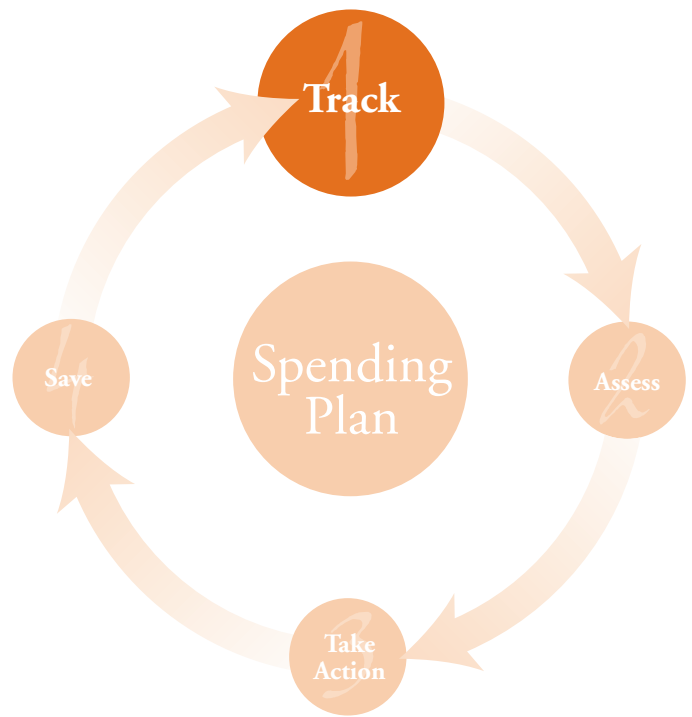
Meet the Stevens family – Pauline and James Stevens and their two kids. The Stevens family needs your help. Both Pauline and James have good jobs, but they are having some problems making ends meet and are running out of money each month. They also would like to do a better job saving up for the holidays so they can buy presents without going into debt. And they hope to buy a home in the next few years. Walk through the following exercises and see if you can help them develop a spending plan using the TATS system.

Developing a spending plan is similar to managing resources in a traditional Native community. Remember, effective resource management successfully supported our communities for generations.



Step 1: Track

The first step is to **track** your **income** and **expenses**. This includes looking at the money that comes into the household, and the money that goes out. Tracking makes you aware of the flow of money in and out of your household. It will help you answer the question: Where does my money go?



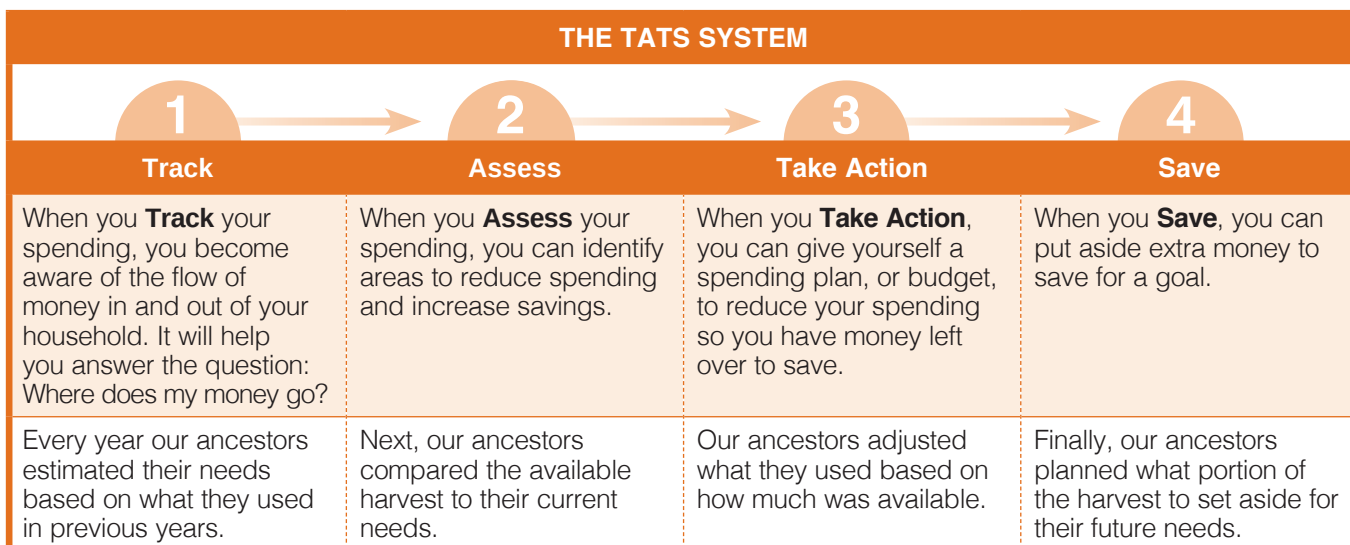
income

- Salary
- Side jobs
- Tax refunds
- Per capita payments
- Child support
- Etc.



- Housing
- Transportation
- Food
- Child Care
- Debt
- Entertainment
- Health
- Etc.

expenses



Income: The Stevens Family

To understand your **income**, you should track how much money comes into your household. This can include income from many sources (job, per capita payment, tax refund, seasonal work).

So let's start by helping the Stevens family track their income. They reported the following sources of income. What is their total monthly income? _____

MONTHLY HOUSEHOLD INCOME (TAKE HOME)		
Source	Amount	Notes
1: Wages (Pauline)	\$1,900.00	Teacher's aide (\$12/hr)
2: Wages (James)	\$1,735.00	Security guard (\$11/hr)
3: Extra Income	\$250.00	James fixes cars on the side
TOTAL INCOME		



Use the Best Tracking Tool for You

There are many ways to track how you spend: 1) online banking; 2) a calendar; 3) mobile app; 4) financial journal; 5) Excel spreadsheet; 6) software programs, etc. Find what works best for you to reach your goals.

Expenses: The Stevens Family

Ok, so now we know how much money, or **income**, is coming into the Stevens' household. Now let's find out how much money goes out, or what the **expenses** are. When you add up all their spending for the month, what are their total monthly expenses? _____

THE STEVENS FAMILY MONTHLY EXPENSES			
Expense		Last Month Amount	Notes
HOUSING			
	Rent/Mortgage	\$575.00	
	Water & Sewer	\$34.00	
	Electric	\$25.00	
	Gas/Propane	\$57.00	
	Repairs/Maintenance	\$25.00	parts to fix toilet
	HOUSING SUBTOTAL	\$716.00	
TRANSPORTATION			
	Auto #1 Loan Payment	\$315.00	
	Auto #1 Insurance	\$95.00	
	Auto #2 Loan Payment	\$270.00	
	Auto #2 Insurance	\$80.00	
	Gasoline	\$290.00	
	Repairs/Maintenance	\$33.00	oil change, auto #1
	TRANSPORTATION SUBTOTAL	\$1,083.00	
FOOD			
	Groceries	\$410.00	
	Eating Out	\$245.00	
	FOOD SUBTOTAL	\$655.00	
DEBT (OTHER THAN AUTO)			
	Student Loan	\$64.00	
	Mastercard	\$35.00	monthly minimum
	Visa	\$35.00	monthly minimum
	DEBT (OTHER THAN AUTO) SUBTOTAL	\$134.00	
COMMUNICATIONS			
	Cell Phone	\$125.00	family plan
	COMMUNICATIONS SUBTOTAL	\$125.00	
ENTERTAINMENT			
	Dish/Cable	\$50.00	
	Movies	\$100.00	
	Other Entertainment	\$170.00	
	ENTERTAINMENT SUBTOTAL	\$320.00	
HEALTH			
	Gym	\$30.00	
	HEALTH SUBTOTAL	\$30.00	
MISCELLANEOUS			
	Charitable	\$20.00	school fundraiser
	Storage Rental	\$25.00	
	New Clothes	\$510.00	
	Gifts	\$75.00	
	Pet	\$50.00	
	Housewares	\$80.00	
	Other	\$0.00	
	MISCELLANEOUS SUBTOTAL	\$760.00	
TOTAL ALL EXPENSES			

Savings: The Stevens Family

In addition to expenses, many families try to **save** some money each month. Right now, the Stevens family is not saving very much each month. James has \$100 automatically put into his savings account when he does a direct deposit of his paycheck. But Pauline doesn't put any money aside for savings. Pauline and James both wish they had more savings. They would like to have some money set aside for holidays and emergencies. They also hope to buy a new home within the next few years.

So let's take a look at their monthly savings. How much do they save each month? _____

MONTHLY SAVINGS		
Source	Amount	Notes
1: Pauline	\$0.00	0% of monthly income
2: James	\$100.00	5% of monthly income
TOTAL SAVINGS		

Money Math

You will be surprised by how much you use basic math to manage your finances. Think about it. Being able to properly add or subtract figures, understand decimals, or use percentages helps you understand whether you receive correct change when paying cash, how much you are paying for a loan over time, or how much of your income you are spending on eating out. We will be putting these Money Math bubbles throughout the lessons to let you show off your money smarts! Try out this example:

1. Martha works full time (40 hours per week) at a local grocery store. If her hourly rate is \$11.50, and she worked 4 weeks last month, how much did she earn last month (before taxes are taken out)?



Emergency Savings Account

It is a good idea to set aside some money each month in an **Emergency Savings Account**. The rule of thumb is that you should save enough money to cover your major expenses for 6 months. That way, if you have a financial emergency, you have some money to help you until you are on your feet again.

What is the Stevens Family's Cash Flow?

The Stevens family is doing a great job tracking their **income**, **expenses**, and **savings**. They tracked their spending for the month, or the money going out of their household, and know what their **expenses** are. They also know how much money is coming into their household, or what their **income** is. And they know how much they are **saving**. But they have one more thing to do. They need to compare the money coming in to their household to the money going out and find out if there is any money left over at the end of the month. This is also called figuring out your **cash flow**.

In order to do this, they follow a simple formula:

$$\text{Monthly Income} - \text{Monthly Spending} - \text{Monthly Savings} = \text{Cash Flow}$$

The Stevens family has done the work of tracking their income, expenses and savings. Let's find out how their cash flow looks. Is it positive or negative? If there is a negative number at the end of the month, they are spending more than they are earning in income – they have more expenses than income. If the number is positive at the end of the month, with more income than expenses, they are doing ok. Let's find out how they are doing. Fill in the final box in this formula:

Monthly Income	—	Monthly Expenses	—	Monthly Savings	=	Cash Flow
\$ 3,885.00	—	3,823.00	—	\$100	=	



How is the Stevens family doing?

Do they have:

- ☐ Positive cash flow?
- ☐ Negative cash flow?

What does this mean for the Stevens family?

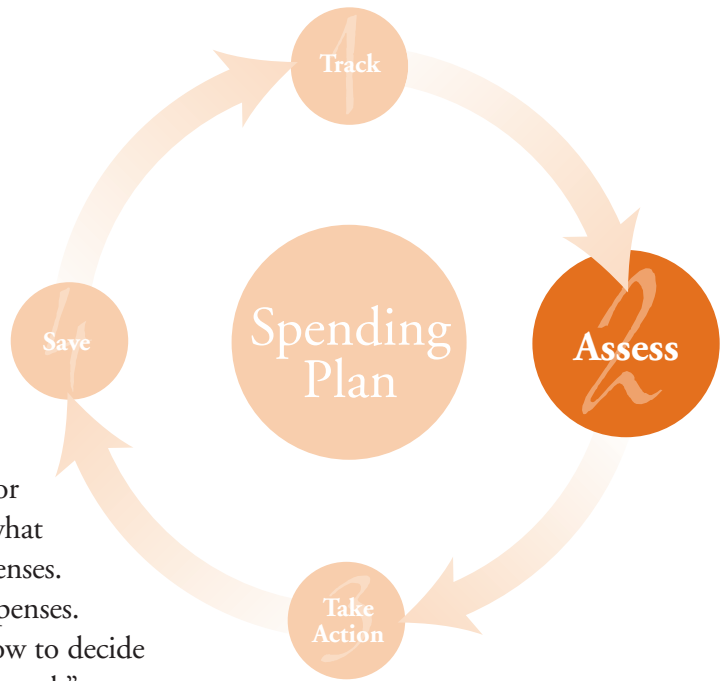


Some people practice by tracking their daily expenses, and adding them up so they know what they spend their money on in a week or a month. Ask your BNC Instructor about the Oweesta Financial Journal if you want to learn more about tracking your expenses.

Step 2: Assess

Assess: The Stevens Family

The Stevens family has done the work of tracking their income, expenses and savings. They recently discovered that they were spending more than they were earning each month. In other words they are running out of money at the end of the month. That means that they may be charging more on their credit cards, or borrowing from friends or relatives. Let's take a minute to think about what the Stevens family can do to reduce their expenses. But first let's learn about **fixed** vs. **flexible** expenses. We will also discuss "**luxury expenses**," or how to decide if you are spending money on a "want" or a "need."



Fixed and Flexible Expenses

Expenses can be put into 2 categories: **Fixed** and **Flexible**. Fixed expenses usually don't change from month to month. Flexible expenses can go up and down – and more importantly, you can choose how much you want to spend on these each month!



Fixed Expenses

Monthly costs that do not change every month. Examples include...

- Rent
- Car payments
- Loan payments
- Insurance premiums



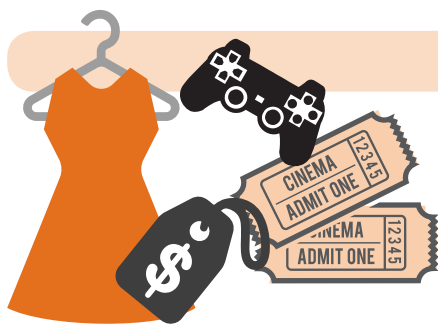
Flexible Expenses

Monthly costs that could change each month. Examples include...

- Groceries
- Utilities
- Gas
- Ceremonial costs

Luxury Expenses – Your “Wants” not your “Needs”

Many people have “**luxury**” expenses each month. **Luxury expenses** include things like eating in fancy restaurants, buying expensive clothes, or purchasing a new high-end smartphone when your old one still works fine. These expenses are “wants” not “needs” and might be a good place to reduce your spending.



Luxury Expenses

Luxury expenses can be both fixed and flexible – But they tend to be your “wants” and not your “needs”. Examples include...

- Designer clothing
- Aftermarket auto accessories
- Going to the movies
- Brand new smartphone when your old one works fine
- Gambling
- Video games

Help the Stevens Family Assess Where They Could Reduce Spending

Take a look at the Stevens family budget again (next page). They have several expenses in each category. Study each expense and check off: it is a flexible or a fixed expense? Is it a luxury expense? Write some notes about whether they could reduce their spending on that item next month.



Money Math

Austin is trying to reduce his flexible expenses by comparison shopping for tooth paste. His favorite brand comes in two sizes, a 6.4 ounce tube selling for \$2.49 and an 8.2 ounce tube for \$2.99. Which tube is the better deal?

MONTHLY EXPENSES							
Expense		Amount	Notes	Fixed or Flexible Expense?		Luxury Expense?	Could they reduce their spending in this area?
				Fixed	Flexible		
HOUSING							
Rent		\$575.00					
Water & Sewer		\$34.00					
Electric		\$25.00					
Gas/Propane		\$57.00					
Repairs/Maintenance		\$25.00	parts to fix toilet				
HOUSING SUBTOTAL		\$716.00					
TRANSPORTATION							
Auto #1 Loan Payment		\$315.00					
Auto #1 Insurance		\$95.00					
Auto #2 Loan Payment		\$270.00					
Auto #2 Insurance		\$80.00					
Gasoline		\$290.00					
Repairs/Maintenance		\$33.00	oil change, auto #1				
TRANSPORTATION SUBTOTAL		\$1,083.00					
FOOD							
Groceries		\$410.00					
Eating Out		\$245.00					
FOOD SUBTOTAL		\$655.00					
DEBT (OTHER THAN AUTO)							
Student Loan		\$64.00					
Mastercard		\$35.00	monthly minimum				
Visa		\$35.00	monthly minimum				
DEBT (OTHER THAN AUTO) SUBTOTAL		\$134.00					
COMMUNICATIONS							
Cell Phone		\$125.00	family plan				
COMMUNICATIONS SUBTOTAL		\$125.00					
ENTERTAINMENT							
Dish/Cable		\$50.00					
Movies		\$100.00					
Other Entertainment		\$170.00					
ENTERTAINMENT SUBTOTAL		\$320.00					
HEALTH							
Gym		\$30.00					
HEALTH SUBTOTAL		\$30.00					
MISCELLANEOUS							
	Charitable	\$20.00	school fundraiser				
	Storage Rental	\$25.00					
	New Clothes	\$510.00					
	Gifts	\$75.00					
	Pet	\$50.00					
	Housewares	\$80.00					
	Other	\$0.00					
MISCELLANEOUS SUBTOTAL		\$760.00					
TOTAL ALL EXPENSES		\$3,823.00					

Money Math

Martha's goal is to make sure her monthly auto expenses (e.g. auto loan payment, insurance, gas, maintenance, etc.) amount to no more than 25% of her monthly income. If her monthly income is \$1,275, how much can she afford to spend on auto expenses?

Exercise: Flexible and Luxury Expenses

What are some flexible or "luxury" expenses that the Stevens family can adjust to reduce their spending? Can you identify some of their expenses that are "wants," not "needs?"



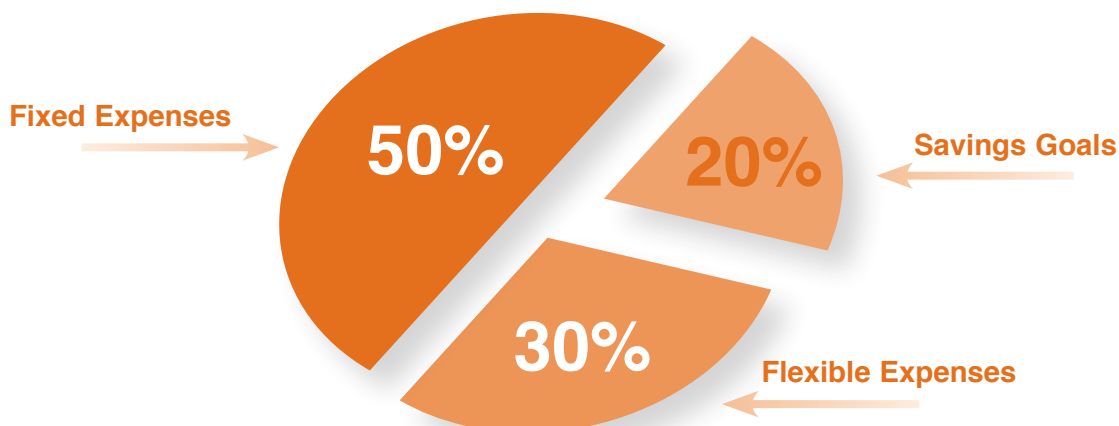
Spend Less, Save More

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 luxury expenses can you reduce or eliminate?

50-30-20 Rule

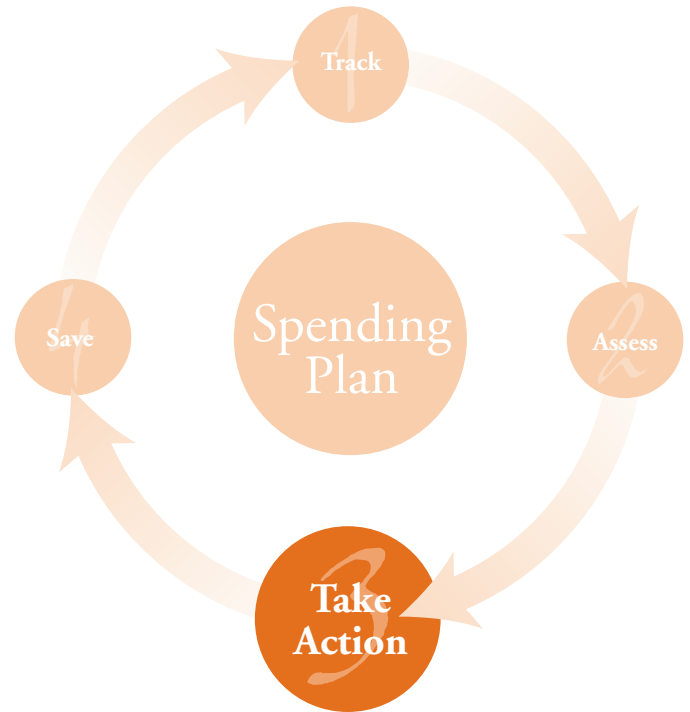
Here's a quick tip to help manage your spending by setting limits on what percentage of monthly income you will earmark for fixed expenses, flexible expenses, and savings. Please note: Luxury expenses can be either fixed expenses or flexible expenses. Also, savings can include emergency funds, retirement accounts, and any other types of "rainy day" funds. If possible, try to follow the 50-30-20 rule.



Step 3: Take Action

Take Action: The Stevens Family

Taking Action is the third step in the spending plan process. Let's look at the Stevens family expenses again. Unfortunately, they overspent by \$38 during the month. Let's help them come up with a **spending plan** for next month. You can help them by making suggestions on how much they should spend in each category next month. You have already identified some areas where they could reduce their spending. They could reduce their spending on luxury items and on some flexible expenses like groceries or entertainment. If they follow a new spending plan, or budget, they will be able to reduce how much they spend each month.



I want the TV...
but I need a
new stove!

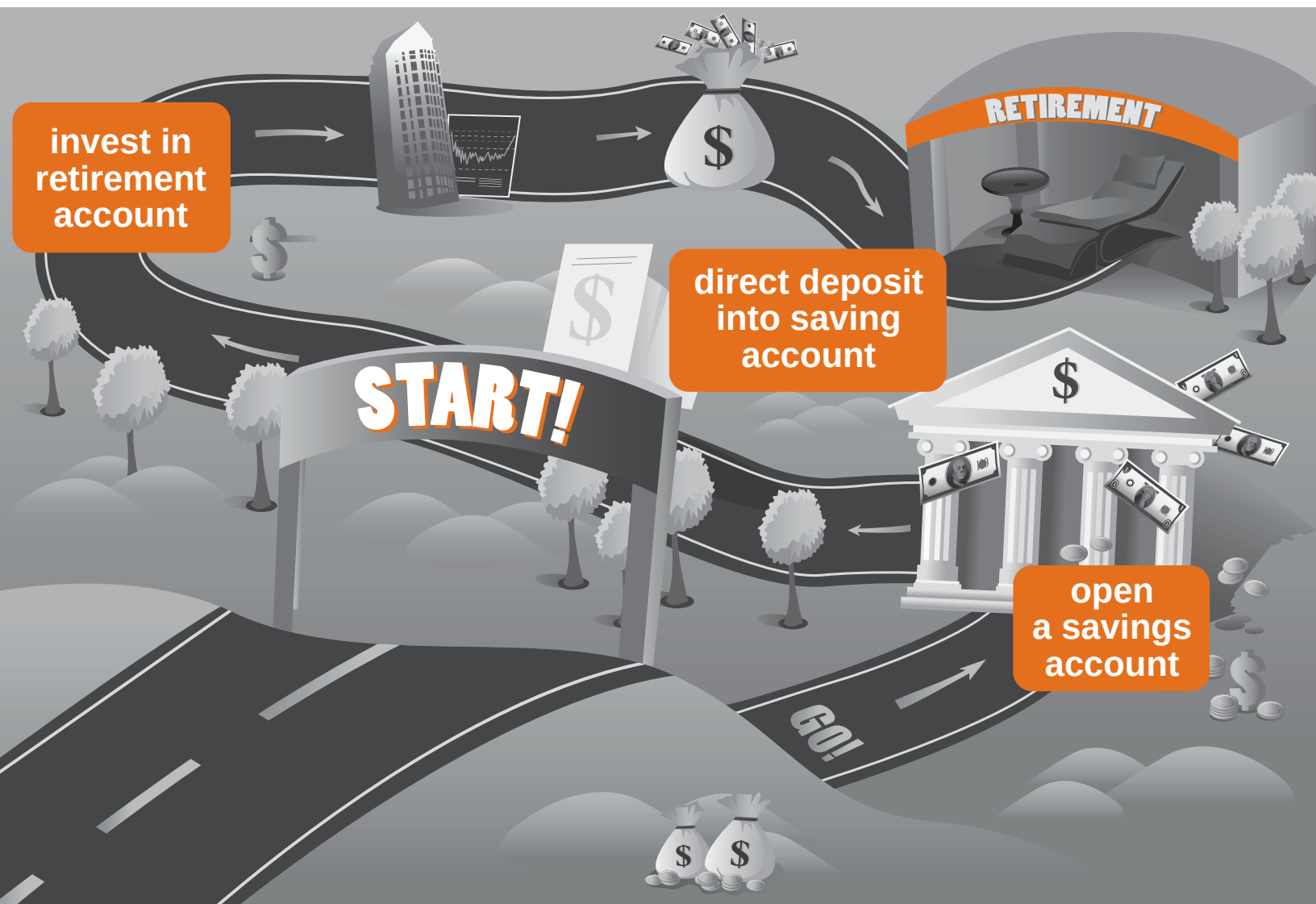
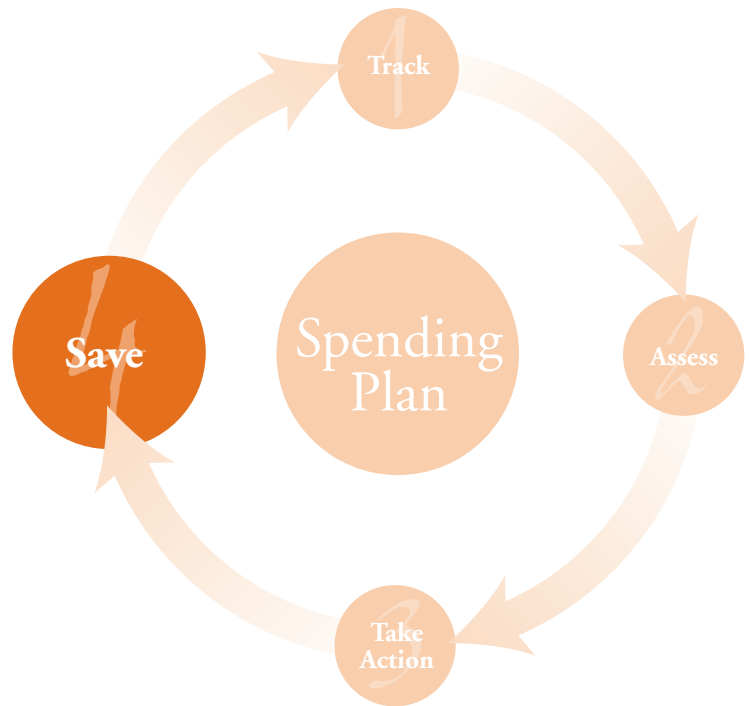
MONTHLY EXPENSES

Expense	SPENDING PLAN: How much do you suggest they spend next month?	Last Month Amount	Notes
HOUSING			
Rent/Mortgage		\$575.00	
Water & Sewer		\$34.00	
Electric		\$25.00	
Gas/Propane		\$57.00	
Repairs/Maintenance		\$25.00	<i>parts to fix toilet</i>
HOUSING SUBTOTAL		\$716.00	
TRANSPORTATION			
Auto #1 Loan Payment		\$315.00	
Auto #1 Insurance		\$95.00	
Auto #2 Loan Payment		\$270.00	
Auto #2 Insurance		\$80.00	
Gasoline		\$290.00	
Repairs/Maintenance		\$33.00	<i>oil change, auto #1</i>
TRANSPORTATION SUBTOTAL		\$1,083.00	
FOOD			
Groceries		\$410.00	
Eating Out		\$245.00	
FOOD SUBTOTAL		\$655.00	
DEBT (OTHER THAN AUTO)			
Student Loan		\$64.00	
Mastercard		\$35.00	<i>monthly minimum</i>
Visa		\$35.00	<i>monthly minimum</i>
DEBT (OTHER THAN AUTO) SUBTOTAL		\$134.00	
COMMUNICATIONS			
Cell Phone		\$125.00	<i>family plan</i>
COMMUNICATIONS SUBTOTAL		\$125.00	
ENTERTAINMENT			
Dish/Cable		\$50.00	
Movies		\$100.00	
Other Entertainment		\$170.00	
ENTERTAINMENT SUBTOTAL		\$320.00	
HEALTH			
Gym		\$30.00	
HEALTH SUBTOTAL		\$30.00	
MISCELLANEOUS			
Emergency Savings Account		\$10.00	
Charitable		\$10.00	<i>school fundraiser</i>
Storage Rental		\$25.00	
New Clothes		\$510.00	
Gifts		\$75.00	
Pet		\$50.00	
Housewares		\$80.00	
Other		\$0.00	
MISCELLANEOUS SUBTOTAL		\$760.00	
TOTAL ALL EXPENSES		\$3,823.00	

Step 4: Save

Save: The Stevens Family

So now that you have figured out where the Stevens family can reduce their expenses each month, let's help them figure out how they can do a better job **saving** money. Money set aside as savings is a very important part of your spending plan. Money that is saved can be put towards your savings goals. There are a lot of different ways to save your money: by opening a savings account, having direct deposit into a savings account from your paycheck, or investing in a retirement account.



Exercise: Help the Stevens Family Start Saving

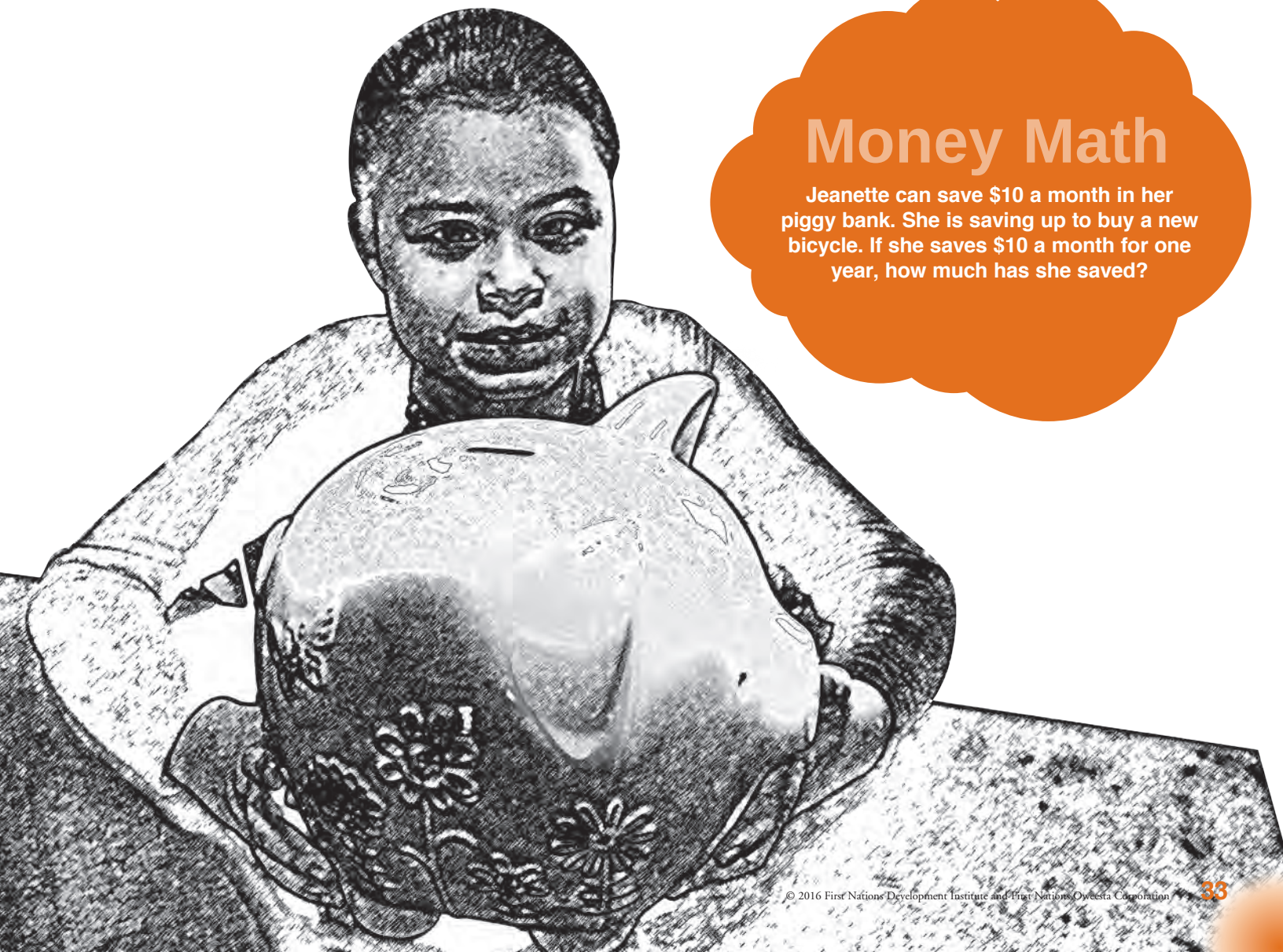
What savings goals did the Stevens family identify on page 20?

How much more do you think the Stevens family could save each month?

Where would you recommend they put money that is saved?

Money Math

Jeanette can save \$10 a month in her piggy bank. She is saving up to buy a new bicycle. If she saves \$10 a month for one year, how much has she saved?





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!

Developing Your Spending Plan

Now that you have helped the Stevens family develop their spending plan, do you think you could develop your own plan? Take a moment to think about how you would develop a spending plan using the TATS system:

1	2	3	4
Track	Assess	Take Action	Save
Track how much money comes into your house, and how much goes out. Figure out whether you are earning more than you spend, or spending more than you earn!	Assess your spending and find a way to reduce your expenses. Reduce your spending on your "wants," not your "needs." Reduce your spending on variable expenses and luxury expenses if possible.	Take action by making a spending plan, or budget, based on reducing your expenses in some area. Put that plan into action!	If you are successful in putting your plan into action, you will have extra money to save toward your goals! Put the savings in a safe saving vehicle.

What will you do?

?

“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



Talk to Your Family About Your 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.

Get Organized

One key to a successful spending plan is to develop strong organization and recordkeeping habits. These are skills that many people who struggle with money unfortunately have not mastered. Whether it's hanging on to receipts, account statements, legal papers, and other important documents, or keeping notes from important phone conversations with people like bill collectors and salespeople, maintaining a financial recordkeeping system is critical. For some people an old school filing cabinet with folders for papers might work best. For others an electronic filing system with scanned images or pictures of documents might work better. Whichever system best suits your needs, you owe it to yourself to get organized!

One Native American credit counselor estimates that 90% of his clients who struggle financially also struggle with organization and record keeping.

How Do I Set Up a Financial Record Keeping System?





Here are a few tips to help you create your own financial record keeping system:

- Create folders (either paper or electronic) for every separate financial account you have (e.g. credit card, utility, cell phone, auto loan, bank account, insurance, retirement, etc.)
- Every time you receive a new statement for any account, via email or mail, add it to the appropriate folder in the order of when it was received. Also make note of when payments are made with a date, amount, and check number or confirmation number.
- Carry a small envelope in your purse or wallet to save debit and credit card receipts while shopping.
- Later add these receipts to the appropriate folder in your record keeping system.
- Make it a point to review every statement or letter you receive regarding your financial accounts. This step is easy to forget but it will keep you well informed and up to date with any changes or issues that might arise. It will also ensure that your attention does not stray from important financial matters for extended periods of time.
- Safeguard your records as needed (e.g. locked file cabinet, safe deposit box, home safe, password protected electronic files, etc.)

Tips for Managing Spending

It might sound easy, but it can be really hard to change your spending habits and reduce your expenses. Tracking your spending is the first step – It can be a surprise what you spend money on! Once you have decided to use a spending plan and reduce your expenses, you may want to follow a few of these tips for reducing your spending:

Don't pay so much for stuff:

- Why buy something new if you can buy it used? Check out thrift stores and yard sales for clothes and furniture.
- Go to the library for books and movie rentals.
- You'll save money buying a good used car rather than a new car.
- Check online for used items.

Try to control your spending:

- Make a shopping list before you go to the grocery store and buy only the items on your list.
- Carry an ice chest in your car for your children's snacks during long trips or sport activities.
- Don't carry your credit cards with you. Make yourself wait a day before making a purchase with a credit card.
- Freeze your credit cards in a container of water. This will definitely give you time to think before you make a purchase!

I am looking
for a bargain!



Avoid “Paying” to pay:

- Avoid payday loans, 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!

Get help:

- Check to see if you are eligible for the Earned Income Tax Credit when you pay your taxes.
- Find out if there are down-payment assistance programs to help you buy a home.
- Find out if there is a savings-match program or Individual Development Account (IDA) to help you save.
- Use a VITA (Volunteer Income Tax Assistance) site to prepare your taxes for free if there is one in your area.

Exercise

Brainstorm some ways to manage your spending:

Money Math

Ruth and Cody need a coffee table for their living room. They checked out a store in Rapid City and found one for \$130, but they didn't want to pay that much. Cody's grandfather suggested that they visit some yard sales that weekend to see if they could find one at a better price. The first house they went to had a decent coffee table for \$25. How much money did Ruth and Cody save by going to a yard sale?





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 and technology to manage your account.
- Protecting yourself against identity theft.

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?



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?

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

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

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

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

6. What doesn't work well for you?

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?

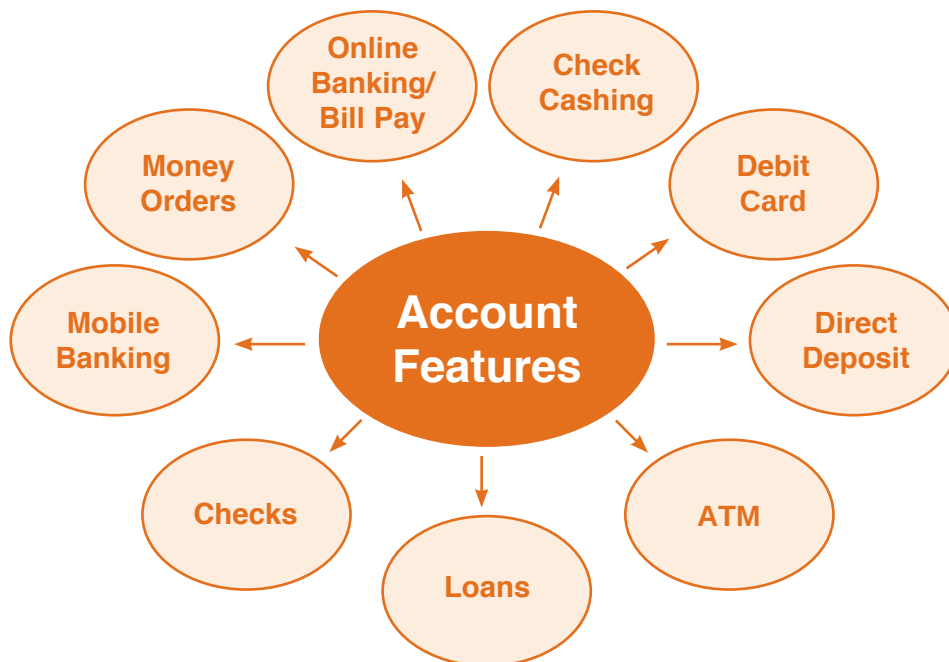


Bank Account Features

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:

Common features of an account include the following:

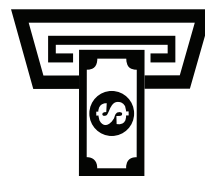


CHECKS



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 60.

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 61.

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 62.

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 smartphone 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 5.

CHECK CASHING



If you don’t have a bank account, cashing a check can cost a lot of money. Businesses such as check cashing stores, grocery stores, and casinos will almost always charge a fee for this service, usually a percentage of the check’s total. However, most banks will cash checks for free if you have an account there.

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. Interest is a powerful tool because it's money you don't have to work for. Instead the money in your account does the work for you!

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 table 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
TOTAL	\$504.98	\$815.98	\$1,133.04

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



Changing Interests Rates

The interest rates that banks pay on deposits can change periodically. Sometimes bank accounts might earn quite a bit more or less interest than other times. The overall economy has a lot to do with how interest rates are determined, and through much of the current decade interest rates on many types of bank accounts have been under 1%. But regardless of how low interest rates might be, don't let them discourage you from saving money.

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?			
Does the institution offer online and mobile banking?			
Will the money in my account be insured if this institution goes out of business?			
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.

Opening an Account

Here are some steps to follow when you open an account:

- A. *Before* opening your account, go over any questions you have either in person with a representative at the financial institution or by calling and speaking with a representative over the phone. You can also research bank account features online.
- B. Decide what type of account you will open (e.g. checking, savings, or both).
- C. Decide how you will open and fund your new account. Many financial institutions now offer the convenience of opening accounts online or over the phone; however, if you feel more comfortable opening your account in person that's great too!
- D. Gather the necessary documents or information you will need to open your account (e.g. driver's license, tribal or other government issued photo ID, utility bill to verify address, social security number, etc.).
- E. Decide who you will list as the beneficiary and/or POD (Payable on Death) on your account. Hint: A trustworthy and responsible family member or friend is preferable!
- F. Complete all necessary application and account agreement forms either in person or online. Then save copies of all documents, either as hard copies or electronically, and create a filing system for accurate recordkeeping of these materials and future ones (e.g. periodic statements, updated account disclosures, etc.).
- G. You will receive your account number. Safeguard this number along with other critical account information (e.g. account username, password, and personal identification number or PIN).
- H. Order checks, debit card, and/or ATM card if not already provided.
- I. Make your first deposit into your account. Cash will work if you open your account in person, but if you open your account online you'll need either a debit card, credit card, or possibly a check from an existing account. A pre-paid debit card might work too.
- J. Sign up for online banking, download your financial institution's mobile banking app, activate your debit and/or ATM card, review your account policy materials, and complete any other unfinished tasks you feel comfortable with in order to enjoy the many features and tools of your new bank account!



You're Never Too Young

Research suggests that children who have a bank account do better in school (especially in math), are more likely to go to college, and are more likely to be financially savvy as adults than those who do not have bank accounts. Therefore a parent or guardian should consider opening a child's first savings account by no later than his or her fifth birthday.



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.

Eligibility for Opening an Account

Before they allow you to open a bank account, most banks look at your banking history. They make sure that you don't have a history of bounced checks or overdrafts. Most banks use an electronic report called ChexSystems to determine your eligibility to open an account.

An individual may be denied the chance to open a bank account for several reasons. This can include having a previous overdrawn account closed by a financial institution or having outstanding debts owed to a financial institution.

If you are denied permission to open an account at a bank, you can discuss the reasons with the financial institution and request a ChexSystems consumer report. If an account is denied within the past 60 days, the report will be provided free of charge. However, you are also entitled to a free copy of your consumer report, at your request, once every twelve months.

A ChexSystems consumer report can be ordered by:

Web

www.consumerdebit.com

Phone

1-800-428-9623

Mail

Print and complete an order form available at www.consumerdebit.com. Then mail to:

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



More about ChexSystems

Approximately 80% of all banks and credit unions in the United States use ChexSystems to verify new accounts. Similar to a credit bureau, ChexSystems is a consumer reporting agency that is governed by the federal Fair Credit Reporting Act (FCRA) and other laws. However, unlike a credit report, a ChexSystems consumer report does not include detailed information on credit accounts such as payment histories, loan amounts, and credit card balances. More information on credit reports is coming up in Session 4!

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 your account and getting Non-Sufficient Fund (NSF) notices in the mail, by email, or by text. 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.

Understanding Overdraft Protection

Many financial institutions offer overdraft protection as a back-up in the event you overdraw your checking account. These services are helpful as they can ensure that a transaction is completed even if you don't have enough funds in your account to cover it. Moreover, overdraft protection can prevent a bounced check or other delinquent debit from winding up on a ChexSystems consumer report. However, there are also fees associated with overdraft protection, when used, that can differ depending on the type of transaction that caused the overdraft and the source of funds used to cover it. Therefore make it a point to become very familiar with your financial institution's overdraft protection policies to avoid any unnecessary surprises.



Using a Check Register

A check register is a tool for keeping track of the daily balance in your checking account. Handwritten check registers are not as common as they once were due to the popularity of online and mobile banking, personal accounting software, and various budgeting apps that can reduce the hands-on tasks necessary to properly manage an account. However, knowing how to use a check register is still a handy skill regardless of whether you choose to manage your checking account by hand or electronically. Moreover, whichever method you choose, it is VERY important that you keep track of how much money is in your account. You NEVER want to make a purchase for more money than you have in your account.

Use a check register to record ALL account transactions, such as debit card purchases, check payments, deposits, fees, and ATM withdrawals. Your check register could be a paper document or an electronic system on your phone or computer. It is your responsibility to keep track of all payments you make. This way you will know how much money 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. When you check your balance, it may show that there is money in your account when in fact you have several outstanding checks that have not been processed yet.

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
	6/5	Walmart (debit card)	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?

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

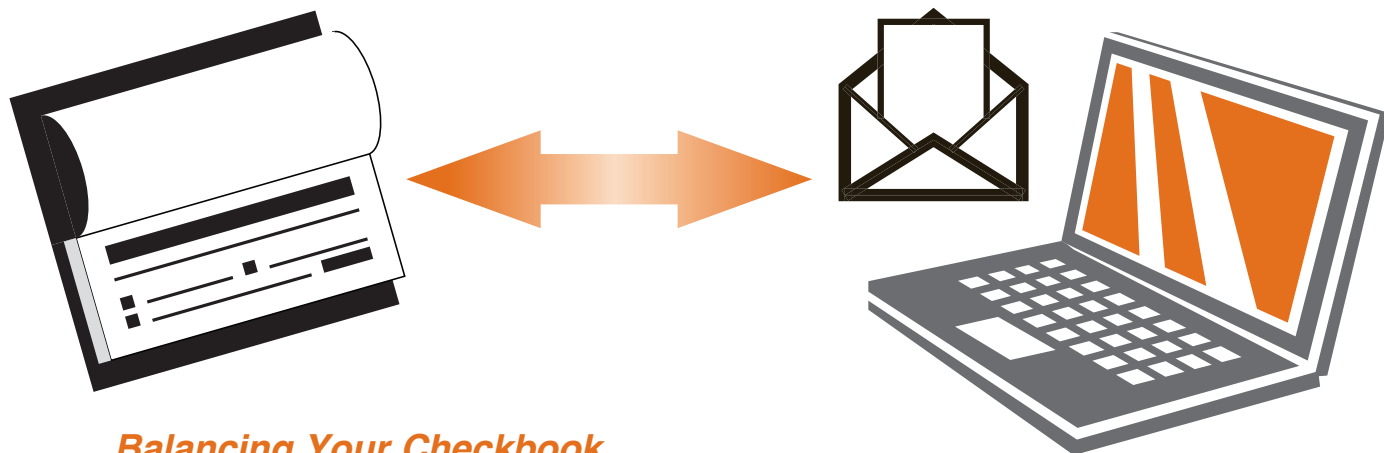
3. What transactions did Lucy complete on 6/15? For how much?

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

5. Record the following transactions on the check register on page 52. Then calculate the new account balance.

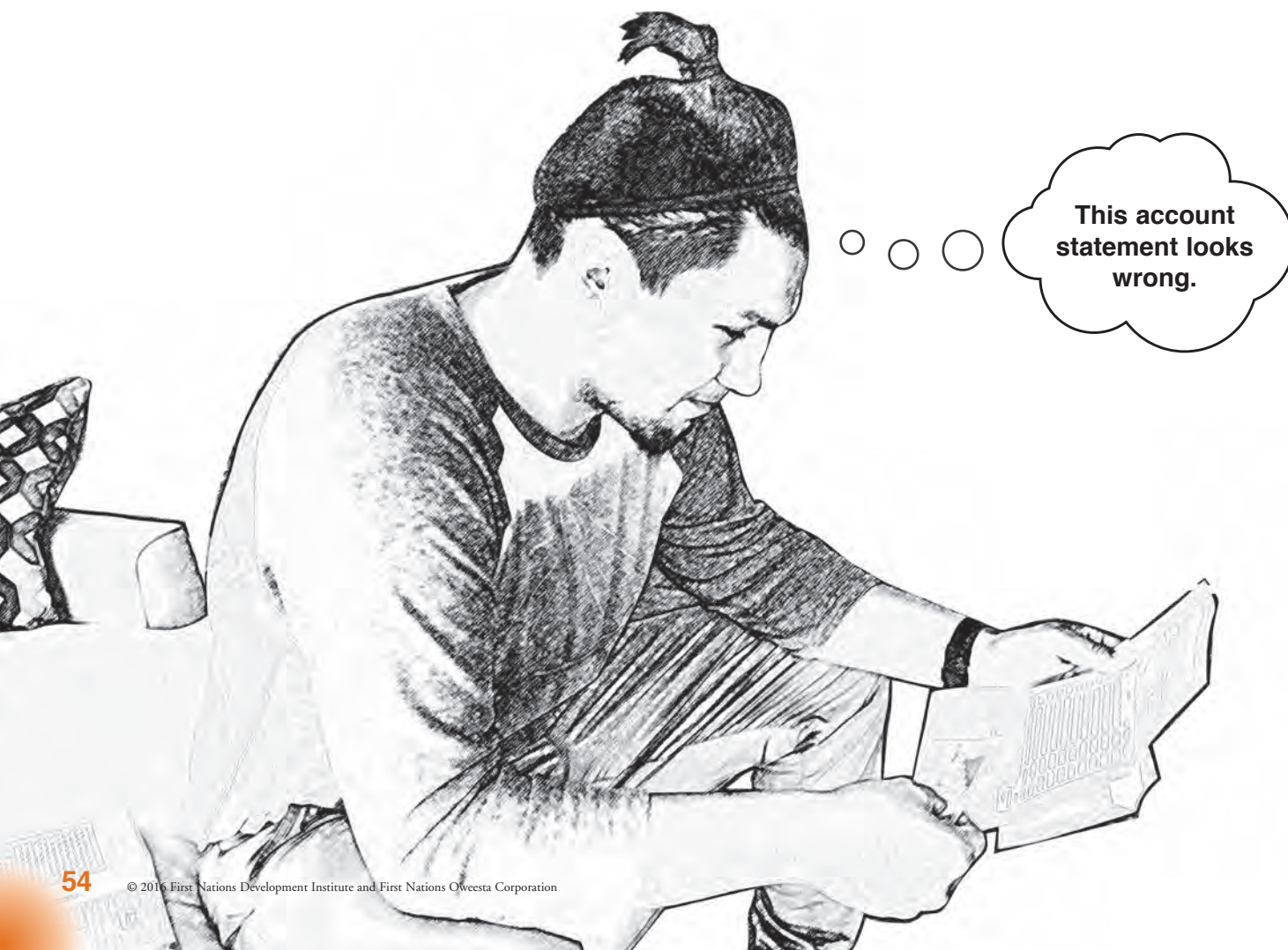
- On June 16th Lucy used online bill pay to pay Elk River Electric Company \$32.75.
- On June 17th Lucy made an ATM withdrawal for \$20.00 from a machine not at her bank. There was also a service fee of \$1.50.
- On June 28th Lucy wrote check #304 to ABC Credit Company for \$60.00.
- On June 30th Lucy deposited her \$400.00 paycheck.
- On July 1st Lucy began writing check #305 but made a mistake and voided the check.
- On July 1st Lucy used her debit card to make a purchase at 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?



Balancing Your Checkbook

Balancing, or “reconciling” your checkbook requires comparing your check register with your account statement to make sure that all transactions have been properly recorded and processed by the bank. This is an important task so that you do not overdraw your account. It also helps you verify that various purchases and payments are debited for the correct amount. In today’s fast-paced financial world it’s very easy for a merchant to overcharge a person, either by mistake or intentionally, so it is a good idea to always check your bank statement. Carefully check your bank statements each month (either online or when you receive them in the mail) and check the statement against what you have recorded in your check register. After all financial transactions have been recorded in both your check register and your account statement, the balances should be the same.



How to Balance Your Checkbook

Use the following steps to balance (or reconcile) your check register with your account statement:

- Step 1:** Place a (✓) check mark next to items that match in your check register and your account statement (ONE ITEM AT A TIME).
- Step 2:** Circle the date, description, and amount for items listed in your account statement but NOT in your check register (e.g. ATM fees, monthly account fees, automatic bill payments, etc.).
- Step 3:** Then insert the circled items one item at a time into your check register and adjust the balance. (Hint: Don't worry if dates for the inserted items are not in chronological order with dates for existing items in your register).
- Step 4:** Now review your check register for debits (-) or credits (+) not listed in your account statement and note those items. Then revise your account statement balance.

When finished, don't forget to file your account statement along with deposit slips and receipts for safekeeping.

Steps to Balancing Your Checkbook provided courtesy of Arnold Blum, Financial Literacy Instructor, Gallup Central High School (Gallup, New Mexico).



Exercise: Balancing Rebecca's Checkbook

Rebecca is a member of the Fond du Lac Band 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. Rebecca prefers to balance her checking account using a handwritten register along with an account statement that she views online.

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

Check Register

Date	Check # or Code	Description	Payment/ Debit (-)	✓	Deposit/ Credit (+)	Balance
1/1		Opening Deposit			500.00	500.00
1/3	DC	Super One Foods-groceries	75.00			425
1/3	DC	Redbox	1.05			423.95
1/4	101	Sam Raven-birthday money	35.00			388.95
1/7	AD	Paycheck-direct deposit			450.00	838.95
1/12	DC	Hong Kong Restaurant-dinner	48.00			790.95
1/20	102	VOID-writing error				
1/25		Deposit-craft sales			150.00	940.95
1/26	ATM	Cash withdrawal	40.00			900.95
1/30	103	Woodgate Apartments-rent	650.00			250.95
2/1		Deposit-craft sales			50.00	300.95
2/2	BP	Electric bill	30.00			270.95



Account Statement

Rebecca Raven Happiness Lane Cloquet, MN 55720 Statement Period 1/1/16 to 1/31/16		ABC Bank Zhooniyaa Lane Cloquet, MN 55720 1-800-000-0000		
Beginning Balance:	\$0.00	Total Withdrawals:	\$256.60	
Total Deposits:	\$1,150.00	Ending Balance:	\$843.40	
Date	Description	Debits	Credits	Balance
1/1/16	BALANCE LAST STATEMENT			0.00
1/1/16	DEPOSIT		500.00	500.00
1/3/16	POINT OF SALE (POS) SUPER ONE	75.00		425.00
1/3/16	POINT OF SALE (POS) REDBOX	1.05		423.95
1/5/16	CHECK # 101	35.00		388.95
1/5/16	PURCHASE AUTHORIZED REDBOX	1.05		387.90
1/7/16	AUTO DEPOSIT		450.00	837.90
1/11/16	AUTOPAY INSURANCE	50.00		787.90
1/13/16	POINT OF SALE (POS) HONG KONG	48.00		739.90
1/25/16	DEPOSIT		150.00	889.90
1/26/16	ATM WITHDRAWAL	40.00		849.90
1/26/16	NON-BANK ATM FEE	1.50		848.40
1/31/16	MONTHLY ACCOUNT FEE	5.00		843.40
1/31/16	ENDING BALANCE THIS STATEMENT			843.40

Step 1: Place a (✓) check mark next to items that match in your check register and your account statement (ONE ITEM AT A TIME).

TIP: Place check register and account statement side by side along with any deposit slips, debit card receipts, and ATM receipts.

Step 2: Circle the date, description, and amount for items listed in your account statement but NOT in your check register (e.g. ATM fees, monthly account fees, automatic bill payments, etc.).

TIP: Determine if all figures are accurate. Check receipts if necessary.

Step 3: Then insert the circled items one item at a time into your check register and adjust the balance. (Hint: Don't worry if dates for the inserted items are not in chronological order with dates for existing items in your register).

TIP: Make sure to include dates and descriptions for all new items inserted in the check register (items do not need to be in chronological order).

Step 4: Now review your check register for debits (-) or credits (+) not listed in your account statement and note those items. Then revise your account statement balance.

Outstanding Credits		Outstanding Debits	
<i>Date</i>	<i>Amount</i>	<i>Check # or Code</i>	<i>Amount</i>
Total Outstanding Credits (+)		Total Outstanding Debits (-)	

Now, calculate the new account statement balance.

Account Statement Ending Balance	
Total Outstanding Credits (+)	
Total Outstanding Debits (-)	
Revised Account Statement Balance	

Both balances in the account statement and the check register should now match. If figures do not match, go back and check your calculations.

Money Math

Ben is trying to track the expenses in his checking account. He signed up for a gym last year that takes \$30 directly out of his checking account each month. There is also an annual fee for membership of \$49.99. How much does a year of gym membership cost?

Rebecca's account statement lists a second Redbox charge for \$1.05 on January 5th.

1. Why do you think this transaction was missing from Rebecca's check register?

2. What can Rebecca do if she thinks this charge from Redbox or any other charges listed on her account statement are incorrect?

3. What would be a good way for Rebecca to file and store her account statements, debit card and ATM receipts, deposit slips, and any other important account materials?



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?



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 can withdraw money straight from your checking account, therefore it can function like a check – but with less writing! Each time you use your debit card, you should immediately enter the transaction into your check register.

When paying with a debit card, do you ever get asked how you want to run your purchase – as “debit” or “credit”? It may seem like an odd question. It’s simply a choice of which “point of sale” network, “debit” or “credit”, you want your purchase to go through. In most cases when you use the “debit” option the money is *immediately* withdrawn from your account. If you use the “credit” option it might take a day or two for the withdrawal.

On another note, it is good to know how the amount *authorized* on your card can be different from the amount ultimately taken out of your account. For example, if you use your debit card to buy gas, your card will usually preauthorize an amount, usually between \$1 and \$50. What that means is the amount will be removed from your available funds for a period of time. The actual amount that you spend on gas will be taken out when the gas station closes and reconciles their records, usually daily. But for a period of time you may have a hold on the authorized amount in your checking account. 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 that it expects you to pay for the car rental or hotel room. This could cause you to not have access to that money for a period of time. Your financial institution would have to agree to release those funds before they can be used. These businesses will usually tell you if they plan to place an authorization hold on your account.

Account Management Fees

In addition to the overdraft fees and non-bank ATM fees previously mentioned, both checking and savings accounts often charge additional fees for certain services. Fees could be charged for any of the following: access to online Bill Pay, money orders and cashier’s checks, wire transfers, and stop payment orders. Moreover, most checking and savings accounts will also have a monthly service fee for the privilege of owning the account. Sometimes, a monthly service fee can be reduced or eliminated if you maintain a specified minimum account balance, link additional accounts such as a credit card or home loan, or choose to receive only online account statements as opposed to paper. As stated earlier, it’s very important to read your account disclosure materials closely to find out what kind of fees your bank may charge.



Precautions for Debit Cards

Debit 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 debit 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 and Mobile 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. Mobile banking goes one step further by using wireless technology along with an app downloaded to either a smartphone or tablet. Mobile banking allows you to check your account balance, deposit checks, transfer funds, pay bills, and a host of other activities anytime and anywhere you have a suitable wireless connection.



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 online 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!



Tips For Using Mobile Banking

With mobile banking, checking your balance can be as simple as opening an app on your smartphone. Depositing your money can be as easy as snapping a picture of your check and sending it to your bank. But there's a price to pay for the convenience of depositing checks with a simple click of a smartphone camera while relaxing at a powwow. That price is the increased risk that your private data and access to your accounts could fall into the wrong hands.

Here are some tips to help you make the most of mobile banking while reducing some of the risks associated with technology and money.

1. Wireless Networks Are Hacker-Friendly

Unlike websites, mobile apps don't always properly encrypt information, which means it's not wise to access your bank account via mobile app when you're on a public or otherwise unsecured Wi-Fi network. If you plan to use a mobile app to complete a financial transaction, use a secure wireless network or your phone's data network. This will help reduce the risk of your private information being intercepted by a hacker or some other third party.

2. Poor Reception Means Poor Security

Even if you're diligent in accessing your mobile banking app on your phone's data network rather than a wireless network, the security of your financial information could still be at risk if your 4G or 3G data drops into a lower service range. Poor reception increases the chance that data contained in your banking transaction can misfire and be intercepted by an unauthorized third party.

3. Safeguard Your Phone

Studies reveal that nearly 40 percent of smartphone users don't password-protect their devices. That means that if these people were to lose their phone, anyone could pick it up, log into their banking app, and access their money. Even if you do password protect your phone, you could still be putting yourself at risk by auto-saving your password. For optimal security, select "no" when any of your apps ask to remember your username and password. You can further help protect yourself from fraudsters who gain access to your phone by installing a remote-wiping application that allows you to erase your phone's data even when the device isn't physically in your possession.

4. You May Have to Wait to Access Newly Deposited Funds

Although you can deposit checks into your account instantly via a mobile banking app, there may be a longer lag than normal until you can access those funds. This is because banks will often protect themselves against fraud by increasing the amount of time they take to deposit the funds so they can confirm that the checks are not fraudulent.

5. Fraudulent Apps May Deceive You

Mobile apps can cost you — even the free ones. Fraudulent apps posing as your official financial institution are lurking throughout your favorite app store, and if you unknowingly start using one, the app creators can access — and abuse — your private information. Download your app directly from your bank's website to avoid this scam. And if you use Android, set your security settings to abort installations from sources other than Google Play.

Mobile Banking Tips provided courtesy of Brittany Lyte and www.wisebread.com.

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

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

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.

Mobile Payments

Mobile payment apps are another exciting technological innovation that only a few years ago would have seemed unbelievable. These apps allow users to send and receive payments quickly and easily. For example, it used to be that in order to accept credit and debit card payments a merchant or vendor needed a costly Point of Sale (POS) terminal like what you see in stores and restaurants. However, now an artist, tradeshow vender, or other self-employed person can accept card payments by downloading a mobile payment app to a smartphone. A plug-in device allows him or her to scan the customer's credit or debit card and payment is processed. Other mobile payment apps enable peer-to-peer money transfers as an alternative to the old Western Union style wire transfers, and there are even apps that allow a person to use a smartphone to make purchases without ever presenting an actual credit card, debit card, or cash. Bear in mind there are fees involved with many of these mobile payment apps. Moreover consumer protection laws designed to safeguard traditional financial products and services might not apply when using a mobile payment app. So the lesson here is to be an informed and responsible consumer when using new financial tools as well as older ones.



Identify Theft and Fraud

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 include:

- Someone stealing your social security number to file taxes.
- Someone using your name and social security number to apply for a credit card without your permission.
- Someone using your name and social security number to open a bank account without your permission.
- Someone using your social security card or medical card to access medical care.

How can a person get your information?

- Someone could steal your social security number.
- Your credit card information may have been stolen from an online database as part of a hacker attack.

How can you protect your information?

- Don't give your social security number to anyone, especially not a stranger who calls you on the phone.
- Shred all financial documents, like bank statements and credit card statements, that have any sensitive information on them.
- Keep your passwords, PIN numbers, and other account information private.
- Be careful when purchasing things online. Don't enter your social security number or credit card number unless you are confident the site has good security and will protect your data.
- Never give personal or financial information to strangers.
- Shred old credit cards.
- Don't lend your checkbook or ATM card to anyone.

Criminals can rob unsuspecting victims without them even knowing it, and can 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. So try to take precautions now to avoid being a victim of identity theft.



Steps to Take if You become a Victim of Identity Theft

The Federal Trade Commission has a website that provides a step-by-step overview of how to deal with identity theft. Visit <https://www.identitytheft.gov/> for more information.

The Federal Trade Commission recommends that you take the following actions immediately:

1. Call the companies where you know fraud occurred. Ask them to freeze or close your accounts so they cannot be used to make any more purchases.
2. Place a fraud alert on your credit reports and review your credit reports. (Placing a fraud alert on your credit report can help stop 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.)
3. File a complaint with the Federal Trade Commission. You can file a complaint at <https://www.identitytheft.gov/> or call 1-877-438-4338.
4. File a report with your local police or the police in the community where the identity theft took place.





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). Protect your passwords, shred your bank and credit card statements, and take precautions to protect your social security number!

Forgery

Forgery is a type of identity theft whereby 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.



Exercise: What To Do About 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?

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?

3. While opening her mail Donna notices a credit card statement for an 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?

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. 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?

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



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 dispute your credit report.
- Steps you can take to build, maintain, and rebuild your credit history.
- How to understand your FICO score.
- How to understand collection laws and your rights as a borrower.

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?

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



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.

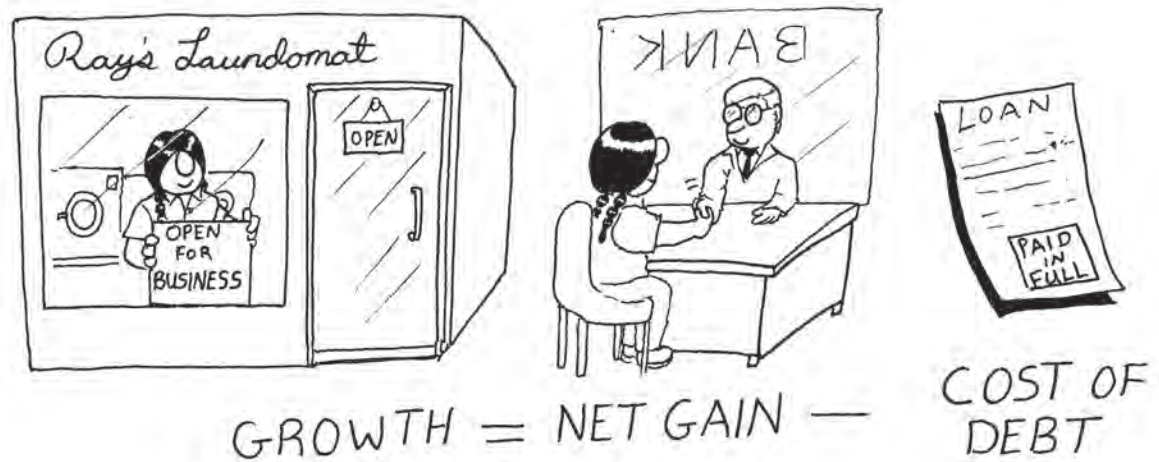
Rita Corbiere
(Ojibwe)

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.

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



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

There are some advantages and disadvantages of using credit.



Some advantages of using credit:

- **Afford it now:** Credit helps you pay for large purchases over time that you might not otherwise be able to afford right away (like car or a house).
- **Convenient:** Using credit is convenient – you don't have to carry cash with you all the time.
- **Credit Score:** Using credit helps you build your credit score – you build a record of paying back a loan that shows you can be trusted with larger loans and other forms of credit (more about this later).
- **Required:** Some companies, like car rental companies, require that you have a credit card.
- **Points:** Some credit card companies will reward you for using credit cards by giving you “points” you can redeem or cash back.



Some disadvantages of using credit:

- **Expensive:** Credit can be expensive if you are paying really high interest rates. You might be paying a lot of money to borrow money today and pay it back over time.
- **Impulse Buying:** Some types of credit, like credit cards, can lead to impulse buying. You might see something and “charge it” without thinking about whether you can really afford it.
- **Oops!:** Sometimes you will buy things you can't afford.
- **Bad credit:** If you fail to pay back your loan in a timely fashion, or miss payments, this can negatively affect your credit score and your ability to use credit in the future (more on this later!)

Advantages of using credit

List some reasons you might use credit.

Disadvantages of using credit

List some reasons you might not want to use credit.

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 “*want*” or a “*need*.” Usually a “*need*” is something you need to have to survive, like food, a home, and medical care. A “*want*” is something you would like to have, but it is not necessary to survive. An example might be a new car, a new iPad, or a new smartphone. Using credit to buy something usually adds to the cost of the item because you are paying interest. Therefore, it is best to use credit for “*needs*” rather than “*wants*.” Satisfy your “*wants*” with cash you have saved over time.

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



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!

		Would you use credit for this purchase?			Reason
Item/Situation	Need/Want	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 or Other Type of Cultural Event					

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

Revolving 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.



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.



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.





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? _____

Money Math

Jody wants to buy a car that costs \$10,000. Her mom said she will help her with a down-payment for the car and gives her \$3,000. If Jody provides a \$3,000 down-payment for the car, how much will she have to borrow to purchase the car (not including loan fees)?

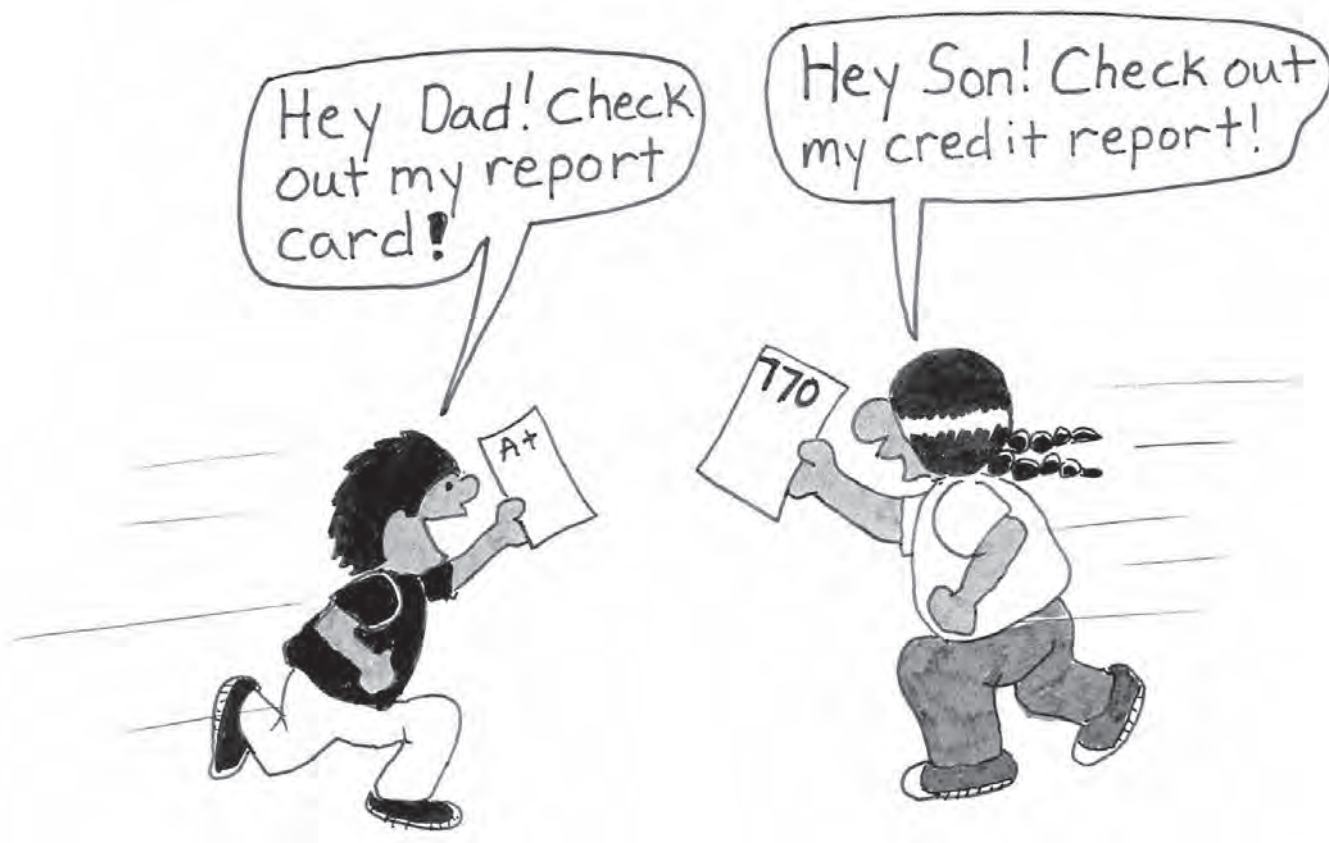
Your Credit Report

- 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.

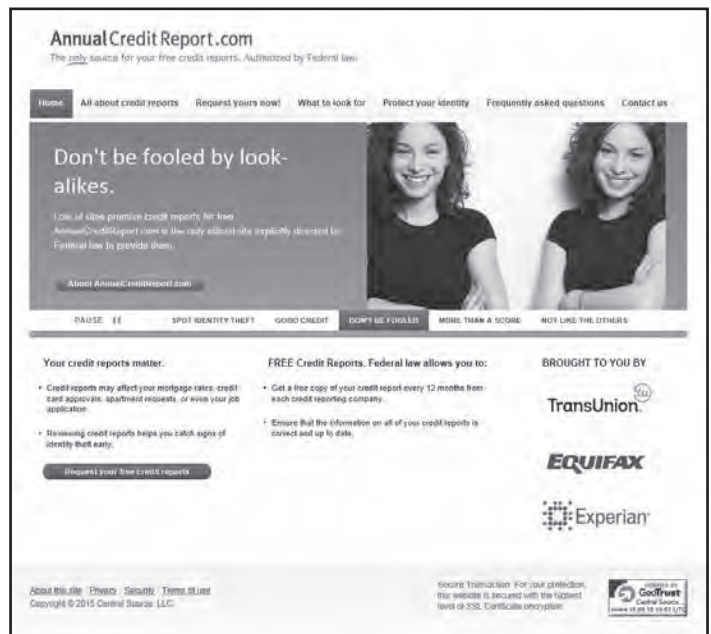
Think of your credit report like a report card that shows how well you manage your finances.



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: TransUnion, Equifax, and Experian. There are a number of websites that offer free credit reports; however, only **www.annualcreditreport.com** is authorized by the Federal Trade Commission under the Fair Credit Reporting Act (FCRA) to provide free credit reports to consumers. Beware of other websites advertising free credit reports that may have hidden fees, such as a free trial period that automatically converts to monthly billing unless the membership is canceled before the trial ends. You can go online at **www.annualcreditreport.com** to download a free report or call **1-877-322-8228** to request a copy by mail.

When you visit **www.annualcreditreport.com** you will first need to complete an online application form. Then select and download each bureau's report separately by answering a series of multiple choice questions to confirm your identity (e.g. your credit file indicates you may have a retail card. Who is the credit provider for this account? Or, what is the total monthly payment of your auto loan/lease?). Once downloaded immediately print or save a copy of the report as it might only be available for viewing during this session or for thirty days thereafter. Furthermore, each bureau's report contains a specific report, file, or confirmation number. Make note of this number because you will need it if you later choose to dispute any information listed in the report.



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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 16, 2016
Page 1

Sample Credit Report

Consumer Information

	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
Name:	Michael T. Iron	Michael Todd Iron	Michael Iron
Current Address:	Box 10, Basom, NY	Box 10, Basom, NY	#3 Sage Ln., Basom, NY
Previous Address:	123 Mill St., Buffalo, NY	123 Mill St., Buffalo, NY	123 Mill St., Buffalo, NY
Current Employer:	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 5/21/12 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>
Real Estate Accounts			
Count	1	1	1
Balance (\$)	134100	134100	134100
Payment	757	757	757
Current	1	1	1
Delinquent	0	0	0
Derogatory	0	0	0
Unknown	0	0	0
Revolving Accounts			
Count	3	2	2

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**

	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
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:	06/01/2012	06/2012	06/2012
Date Reported:	01/01/2016	01/2016	01/2016
Balance and Limit:	Balance of \$134000	Balance of \$134000	\$134,100
Payment and Terms:	\$757 for 360 months	\$757 for 360 months	Payment \$757
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

	<u>Experian</u>	<u>TransUnion</u>	<u>Equifax</u>
Type:	Chapter 7 Bankruptcy	Chapter 7 Bankruptcy	Chapter 7 Bankruptcy
Status:	Filed	Filed	Filed
Date File/Reported	08/2008	08/2008	08/2008
How Filed:	Individual Acct	Individual Acct	Individual Acct
Reference #:	10-11-15	10-11-15	10-11-15
Closing Date:	12/15/2008	12/2008	12/15/2008
Court:	County Court	County Court	County Court
Liability:	\$50000	\$50000	\$50000
Exempt Amount:	\$1000	\$1000	\$1000

Asset Amount: \$15000 \$15000 \$15000

Inquiry Information

Creditor Name	Date of Inquiry	Inquiry Type	Credit Bureau
Bank	01/02/2016	Solicited	TransUnion
Credit Card Company	12/13/2015	Unsolicited	Equifax
Credit Card Company	12/05/2015	Unsolicited	Equifax
Insurance Company	10/08/2015	Unsolicited	Experian
Mortgage Lender	09/22/2015	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?

3. What is the date of this report?

4. Who is his employer?

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

6. List three examples.

7. What is his monthly mortgage payment?

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

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?

Disputing Information on Your Credit Report

Sometimes there are errors on credit reports such as identity errors, incorrect account details, or fraudulent accounts. When you receive your credit report, read it carefully to confirm the information listed is correct. Directions for how to dispute or correct misinformation either by mail, telephone, or online will be provided with the report. Remember to have your report number handy when making your dispute.

If you choose to contest your credit report, the law entitles you to a response within 30 days. When the credit bureau receives your dispute, 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 there 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. Here's an example:

"On July 5, 2015, I was involved in an automobile accident while traveling away from home. I was transported to the nearest hospital by ambulance and medical bills were sent to Indian Health Service Contract Health. However, because the other party was presumed to be at fault thus responsible for paying my medical bills, Contract Health did not pay the hospital. Later the hospital sent my account to collections due to a lengthy delay with the insurance claims process. After extended deliberation I was finally able to settle my claim and the insurance company paid the hospital on November 10th, 2015. Unfortunately, the hospital's collection agency refused to reflect the circumstances that resulted in the delinquency on my credit report."



Mistakes Happen More Often Than You Think

Did you know that according to a 2013 Federal Trade Commission (FTC) study one in four consumer credit reports contain errors?





Common Credit Report Errors

Here are some common errors to look out 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.



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, many 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 altogether.

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) at annualcreditreport.com 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

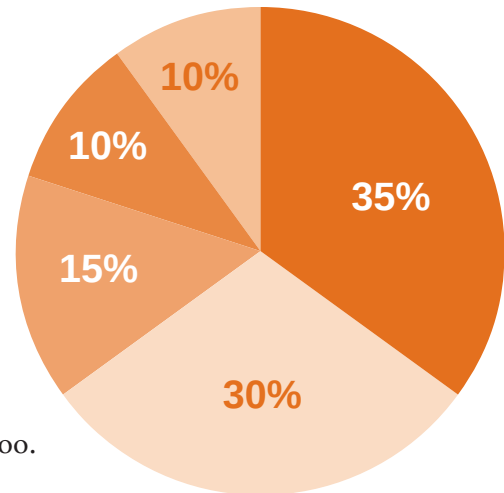
How long you've been borrowing is important.

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 might 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 significant 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 can count 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.



Improvements Coming to FICO

An important thing to remember is that credit reports and FICO scores are not always perfect indicators of creditworthiness and personal character. As a result of pressure from major lending institutions and regulators, FICO announced in 2015 new measures that will score certain types of delinquencies, especially medical debts, less severely than in years past. Good news to some borrowers who may have damaged credit reports due to factors beyond their control. Check with your Building Native Communities instructor for more details on the latest FICO score policies!



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.

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?

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?

Understanding Collections

One of the worst things that can wind up on your credit report is a collection account. Collections usually occur when an unpaid bill such as a credit card, utility account, or medical bill remains outstanding for longer than three to six months. At this point the debt will either be transferred to a special collections department or sold to a third party collection agency who will then attempt, often very aggressively, to collect payment. Collections are bad news not only because they look horrible on your credit report but also because of the stress and anxiety of dealing with bill collectors who have notoriously hard-nosed reputations.

The Fair Debt Collection Practices Act (FDCPA) has clear rules for debt collectors who work for collection agencies. Illegal debt collection practices and activities can include:

- Harassing you repeatedly by telephone or other means.
- Calling you before 8 a.m. or after 9 p.m.
- Calling you without identifying themselves as bill collectors.
- Contacting you at work if your employer prohibits it.
- Using obscene or profane language.
- Threatening you either verbally or physically.
- Claiming that you'll be imprisoned or your property will be seized.
- Adding unauthorized interest or fees to existing debt.

If you feel you are being victimized by illegal debt collection practices there are a number of steps you can take. Start by submitting a complaint to the U.S. Consumer Financial Protection Bureau (CFPB) either by phone at 855-411-2372 or online at www.consumerfinance.gov. It's also a good idea to contact your state attorney general's office. Moreover, remember to keep detailed records of any conversations or correspondence with bill collectors to document illegal behavior.

Money Math

Gabe's landlord charges him a \$30 late fee if he pays his rent after the due date. His cable company charges a \$15 late fee. During the course of one year Gabe is late paying rent five times and late paying cable four times. How much did he pay in total late fees that year?

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?

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

Sometimes there are 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 would you do if you found you couldn't pay a bill?

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?

Tip #4 Stay Clear of Consumer Finance Companies.

More commonly known as “payday lenders”, consumer finance companies are considered lenders of last resort by the credit bureaus. This means payday loans, even when paid off on time, generally don’t look good on a credit report.

What actions can you take to avoid consumer finance companies for your borrowing needs?

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?

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?

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?

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?

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?

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?





Session 5:

Using Credit

Objectives

In today's session, we will discuss:

- The lending process.
- The "Five Cs of Credit."
- Planning a strong loan application.
- Completing a loan application.
- Understanding loan rates, terms and fees.

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 amongst 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?



"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)



Credit Concepts

- Credit is the act of borrowing money with the intent to repay it.
- It costs money to borrow money (fees and interest).
- Used responsibly, credit 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.

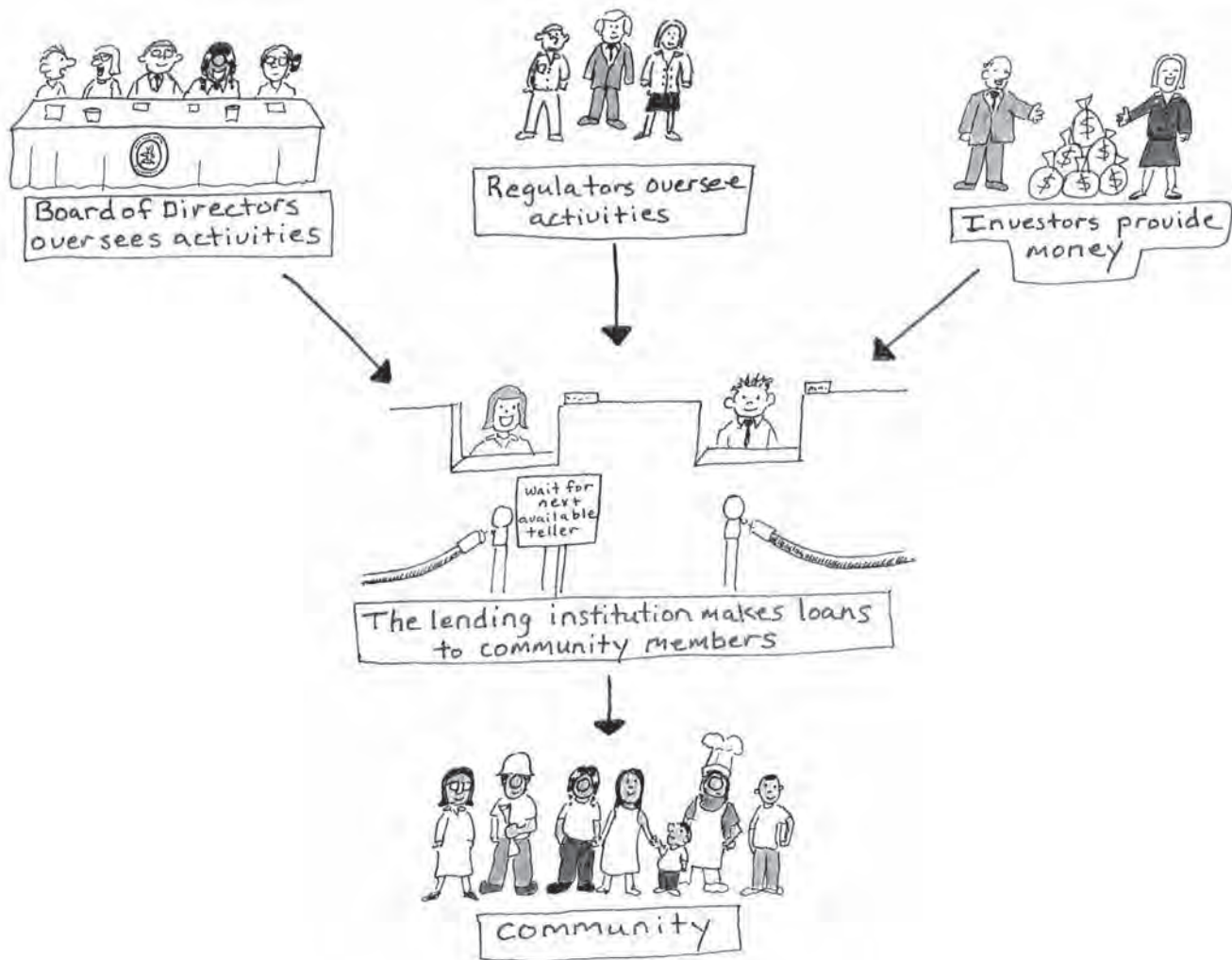
One afternoon in the community library, a story in the tribal newspaper catches Karla's attention. It is about a Warm Springs woman who took out a small loan to start her own restaurant. The restaurant specialized in Native foods such as frybread, huckleberry jam, salmon, and baked camas root. The restaurant 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?

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.

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 either in writing or online. The sample loan application on the next page is a good example of the information lenders will use to evaluate your application using “The Five Cs of Credit.” In addition to the application, lenders 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, investment statements, utility bills, and other types of service account statements.



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.



The following is an example of a loan application.

Consumer Loan Application

ABC Bank

Purpose: ☐ Auto Loan Make _____ Model _____ Year _____ Amount Requested: \$ _____
☐ Boat Loan Insurance Co. _____
☐ Other _____ Term Requested: ☐ 1 yr. ☐ 2 yrs. ☐ 3 yrs. ☐ 4 yrs. ☐ 5 yrs. Other: _____

APPLICANT INFORMATION

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 ☐ OWN ☐ RENT		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	

JOINT APPLICANT INFORMATION

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	

CREDIT REFERENCES

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

CREDIT INSURANCE INFORMATION

- ☐ I (we) would like Credit Life Insurance
☐ 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

7105-0199

The “5 Cs of Credit”: 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 Cs 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 might consider a non-traditional or alternative credit history as a substitute.

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.



We discussed how to build a nontraditional credit history in Session 4 on page 93 in part of the exercise, “Tips for Creating, Maintaining, and Reestablishing Your Credit History.” Moreover, in 2015 FICO began piloting a new alternative data credit score that uses non-traditional factors to score previously unscorable consumers such as people who decline credit by choice or those who have experienced a negative credit event.

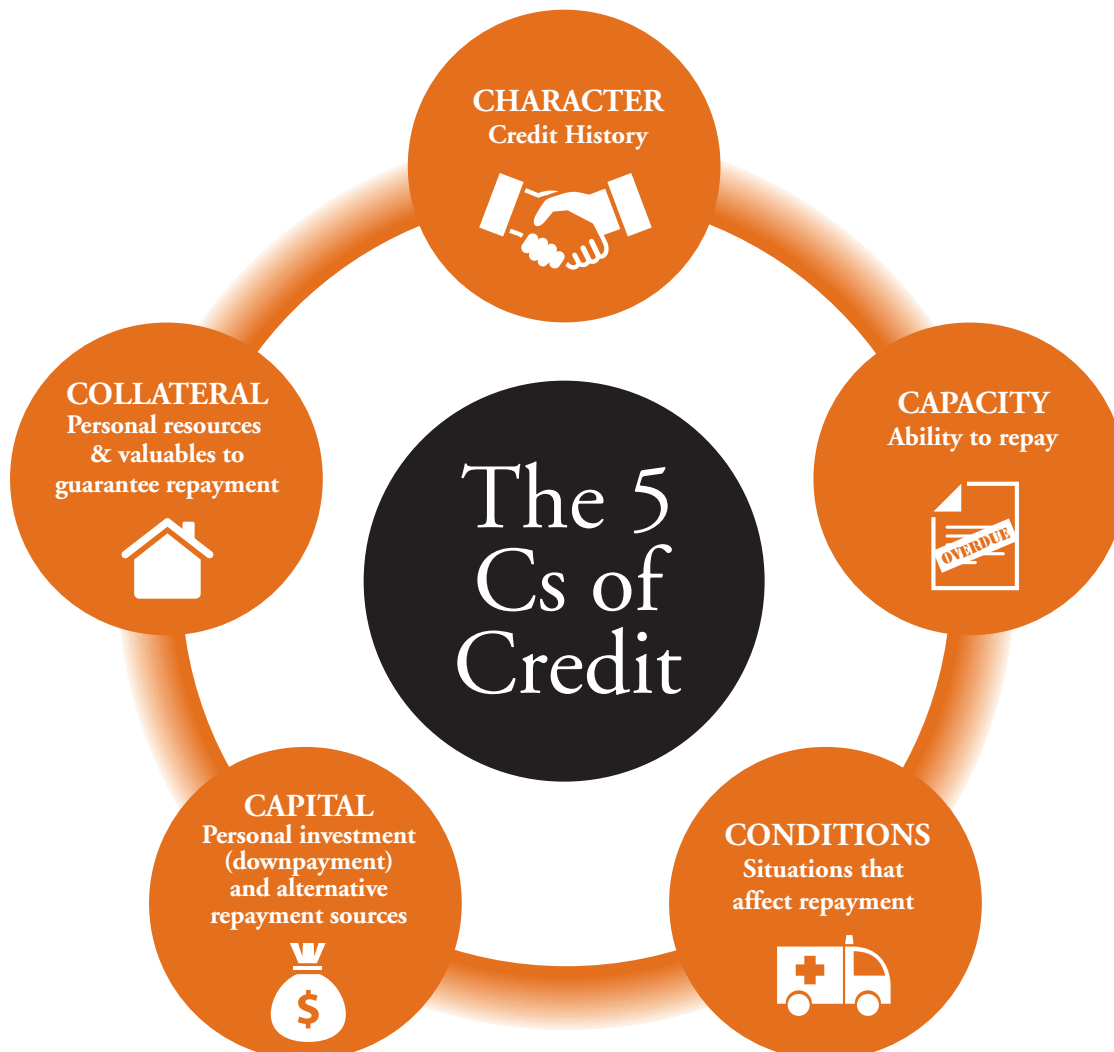
Capacity

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 wages from a job, self-employment income, per capita distributions, social security, some forms of government assistance, and alimony. Expenses primarily include current loan payments, credit card payments, child support payments, and certain other payments that report to the credit bureaus.

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**.

Formula for Debt-to-Income Ratio

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



Example: Debt-to-Income Ratio

Here is an example of how to calculate a debt-to-income ratio (DTI). Keith earns \$1,700 a month. He lives on tribal land and has a home loan on which he pays \$400 a month. His car payment is \$225 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* = \$400 + \$225 + \$200 + \$35 + \$35 = \$895
2. *Total Monthly Income* = \$1,700
3. *DTI Ratio* = \$895/\$1,700 = 53%

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 down some of his existing debt or increase his income before a lender is willing to extend him more credit.



Note: Different types of loans often factor different types of expenses into the Debt-to-Income Ratio (e.g. a rent payment generally will not factor into the DTI Ratio for a home loan; however, a mortgage payment will).

Exercise: Debt-to-Income Ratio

Debt-to-Income Ratio Exercise

Kelly earns \$1,500 a month. She pays \$350 a month on her home loan. 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 = \$ / \$ = _____ %
debt *income*

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%.

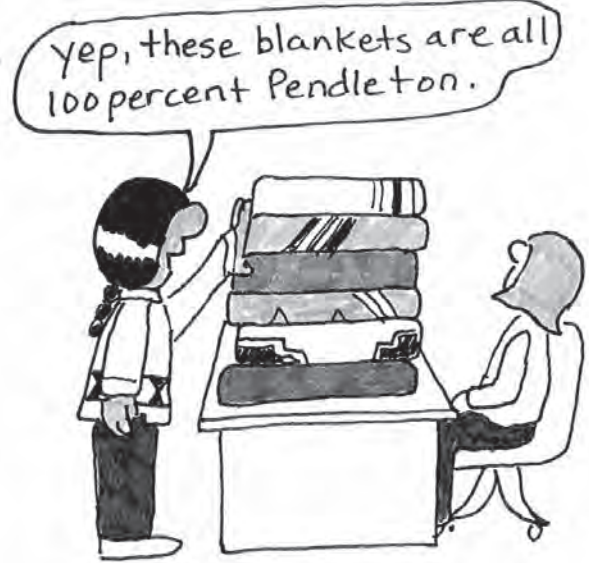


Money Math

Let's try this Debt-to-Income ratio calculation again. Sherry earns \$2,000 a month. She pays \$300 a month on her home loan. She has no credit card debt, but has a \$200 a month car payment. She also has a student loan payment of \$250 per month. What is her debt-to-income ratio (DTI)?

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 items they can accept. Talk with your lenders to come to a mutual understanding.

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 Cs of Credit to assess the following applicants.

1. Wanda Bell is a 28-year old single mother. She has worked for three years as a fitness instructor at the tribal wellness center and makes \$26,000 a year. She also owns a small beadwork and crafts business from which she makes an annual profit of \$5,000. For the past two years she has reported her profits as self-employment income for tax purposes. She has managed to save \$3,500 which she keeps in a savings account at her local bank. She currently rents an apartment and has a car loan with a \$325 monthly payment. She also has several student loans with combined monthly payments of \$400. Lastly, she has one credit card that she opened in college eight years ago. The card currently has a balance of \$2,500 on which she makes minimum monthly payments of \$25. She has had no late payments on any of her accounts in over three years.

Wanda would like to borrow \$100,000 to purchase a new home. She will use the money in her savings account as a down-payment.



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

Using the Five Cs of Credit, what observations can you make about Wanda's ability to repay a loan?

Character:

Capacity:

Capital:

Collateral:

Conditions:

What questions would you like to ask Wanda?

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 \$24,000 a year as an assistant manager at a local restaurant. He has been at this job for one year. He has no savings. He pays his ex-wife \$400 for child support each month. He pays \$500 for rent each month. He owes \$3,000 on a credit card and pays the minimum \$30 payment each month. His credit report reveals that during the past year he has been 45 days late paying his credit card one time. It also lists two collection accounts, a \$150 charge off* for cable service he had two years ago and a \$600 charge off for dental work he received at a private clinic last year.

Rocky would like to borrow \$10,000 to purchase a food truck so he can start his own business. There are no food trucks on Rocky's reservation and he makes great tasting hamburgers. He plans to keep his current job and use the food truck to earn additional income.

Using the Five Cs of Credit, what observations can you make about Rocky's ability to repay a loan?

Character:

Capacity:

Capital:

Collateral:

Conditions:

What questions would you like to ask Rocky?

Given what you know, would you recommend a loan to Rocky? _____



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

*A charge off means a creditor has written a debt off as uncollectible and has ceased trying to get payment. Charge offs usually remain on a credit report for a period of seven years from the date they are charged off.

3. Sandy Nighthorse is a 33-year-old single mother of two children. She has held three different jobs in the past year because her twelve year old car continues to break down, leaving her with no transportation. She spends \$600 fixing the car each time it breaks down. Currently, she is working part time at a nursing home making \$9.50 an hour. She lives in tribal housing and pays \$100 each month for her home. Sandy has no long term debt but she does spend about \$200 a month to maintain a home for her family. She also receives \$200 each month in Supplemental Nutrition Assistance Program (SNAP) benefits. Her monthly income, not including benefits, is around \$950. In the past six months she has overdrawn her checking account twice buying groceries. She has also taken out six payday loans within the past year. The loans are paid in full although she has had two late payments.

Sandy would like to borrow \$5,000 to purchase a newer car. She feels a more reliable car will help stabilize her employment and get her finances under control.

Using the Five Cs 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:

Capacity:

Capital:

Collateral:

Conditions:

What questions would you like to ask Sandy?

Given what you know, would you recommend a loan to Sandy? _____

4. Sharon and Ron Colman recently retired and relocated from Seattle to Sharon's reservation. They owned a home in the city and always paid their bills on time. They also raised five children, one of whom now lives in their old home. Two years ago, their youngest son asked them to co-sign a loan so he could purchase his first car. Sharon and Ron agreed. They were unaware of any problems until they received a notice from the loan company indicating that their son had fallen two months behind on the car payments. Their son assured them he would get caught up; however, the car was ultimately repossessed. Sharon and Ron were not familiar with the co-signing process and do not realize that a repossession and late payments now show up on their credit report.

Sharon and Ron would like to borrow \$8,000 to make some improvements to the tribal home they recently inherited from Sharon's mother. Their total monthly debt payments are \$200 and they pay about \$400 in monthly living expenses. Their monthly income is \$2,200.

Using the Five Cs of Credit, what observations can you make about Sharon and Ron'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 Sharon and Ron?

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, NM. His tuition, lodging, meals and related fees amount to \$600 per semester. He receives financial aid from both a federal Pell Grant, that covers the educational expenses listed above, and a tribal scholarship that provides a \$250 monthly stipend. He supplements this with ten hours of part-time work study each week at \$8.00 an hour. He has never had a loan, credit card, or applied for any type of credit. He recently received \$9,000 from the sale of land interests he holds on the reservation. In addition to the proceeds from the sale he has an additional \$1,500 he saved while working as a seasonal firefighter last summer. He currently spends most of his disposable income on video games, clothes, and eating out with his girlfriend.

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 purchase a brand new pick-up truck for \$35,000 and plans to use his settlement money as down-payment.

Using the Five Cs 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:

Conditions:

What questions would you like to ask Anderson?

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 Cs of Credit, list some actions that will help you develop a strong loan application.

Character:

Capacity:

Capital:

Collateral:

Conditions:



Character:
credit history



Capacity:
repayment sources,
debt-to-income ratio



Capital:
personal investment,
alternative
repayment sources



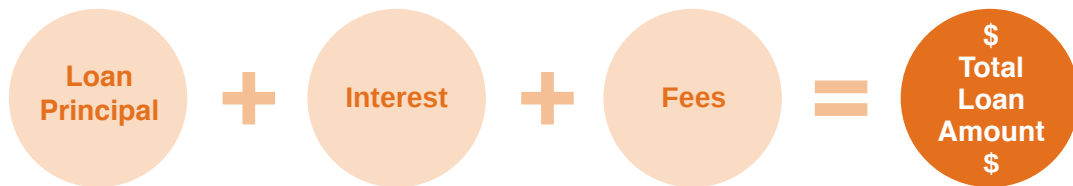
Collateral:
personal valuables
to guarantee
repayment



Conditions:
situations that
affect repayment

How Much Does a Loan Cost?: Adding it All Up

When you borrow money, the lender will usually charge you for using their money. The lender will usually charge you **interest**, which is often expressed as a percent of the total loan amount (this is often called the **interest rate**). The lender may also charge you a range of **fees** to cover their expenses related to drawing up legal paperwork for the loan (among other things). The original loan amount, without adding in the cost of interest and fees, is called the **loan principal**. In order to understand the true cost of your loan, you should add the **interest** and **fees** to the **loan principal** to help you understand how much money, total, you will be paying back. It costs money to borrow money!



Watch Out for Fees!

Lenders often charge fees when you take out a loan. These fees can be for a range of things, including legal research, filing costs, and paperwork costs. But keep an eye on those fees! They can really add up and sometimes an unethical lender can charge too many fees and really increase the total cost of your loan. Take an experienced friend or family member with you when you take out your first loan so you have someone with you who can help you negotiate to get the best deal.



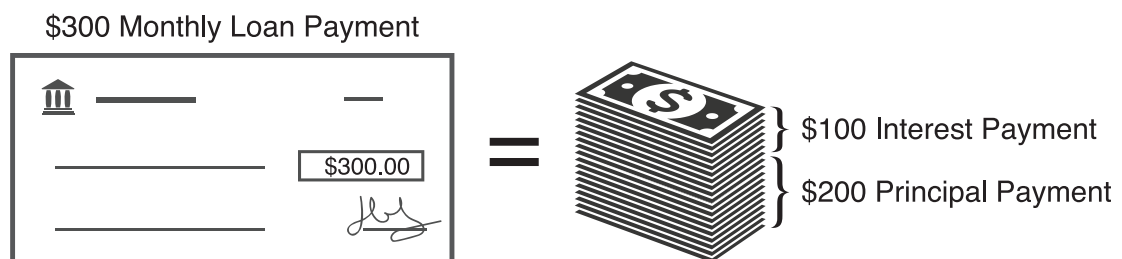
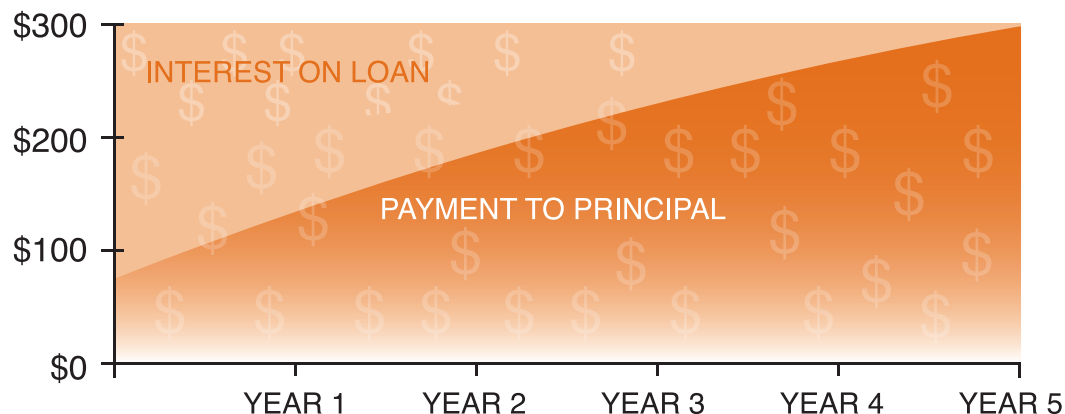
Understanding the Cost of Interest

When you take out a loan, the lender will usually ask you to pay back the loan over a period of time. You will usually make monthly payments to pay for both the interest and the loan principal. Each loan payment includes repayment of some of the borrowed amount (principal) and some of the cost of borrowing the money (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 the principal.

The Cost of Credit Over Time



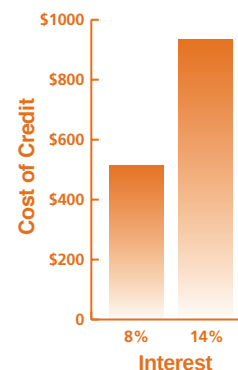
Loan Term

When you borrow money, most loans specify the period of time you have to pay back your loan. This is referred to as the **loan term**. The length of time you borrow money for can affect the cost of your loan. This is discussed in detail on the next page.

There are several factors that affect the cost of credit and the monthly payment on a loan. These include **interest rates**, **loan 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.

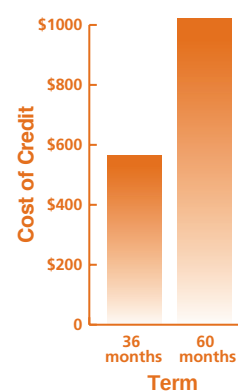
The higher the interest rate, the greater the cost of the credit.

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
Cost of credit	\$515.46	\$935.01



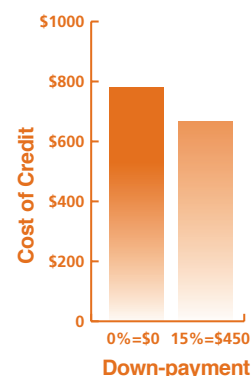
The longer the term of the loan, the lower the monthly payment but the greater the cost of the credit.

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
Cost of credit	\$587.15	\$1,004.00



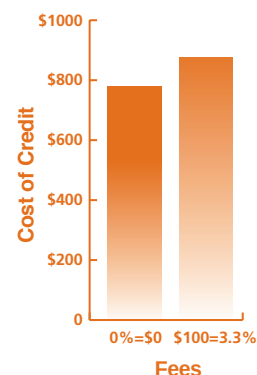
The higher the down-payment, the lower the loan amount and the cost of the credit.

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
Cost of credit	\$792.07	\$673.26



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
Cost of credit	\$792.07	\$892.07



Exercise: Interest Rates, Loan Terms, and Fees

Answer the following questions.

1. 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? \$_____
2. Lenora wants to buy a \$5,000 car. She has saved \$500 toward this purchase. The interest rate for her loan is 8%.
 - a. How much will she need to borrow to purchase the car? \$_____
 - b. Will Lenora's cost for credit go down if she uses her \$500 as a down-payment? _____
3. 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? _____%

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, and 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?



It costs money to borrow money!

Credit Denials

Loan 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.)

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?



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 pay back the loan. 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:

Being a Smart Consumer

Objectives

In today's session, we will discuss:

- Different types of financial institutions.
- Tips for being a savvy consumer.
- The importance of insurance.
- Financial goals in your life.

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.

With whom did your community trade? What was the economic system before European contact?

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.

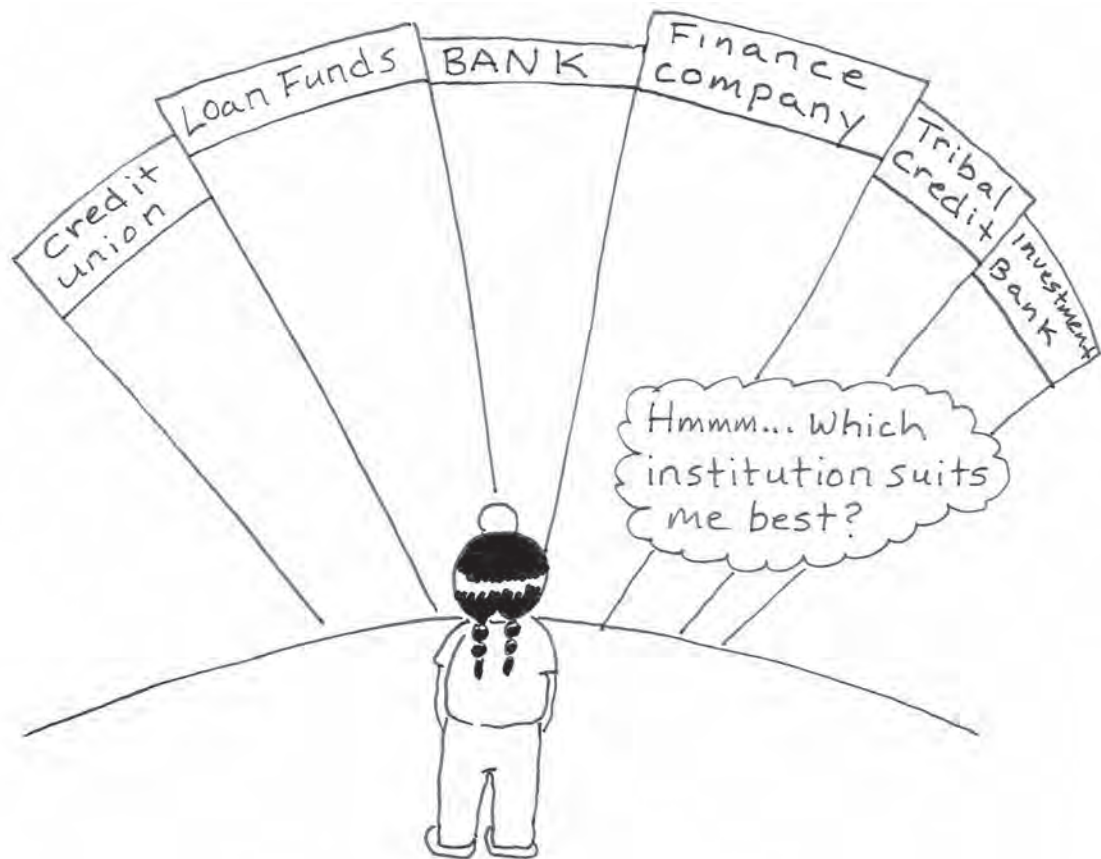
The trees are on Eagle feathers. The first one is standing, like years ago when the Haudenosaunee Confederacy was established and peace was brought to the people.

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.



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
Banks/Savings*	For-profit institutions; the largest source of deposits and credit in the economy. Banks are operated to generate a profit for the shareholders.		
Credit Unions**	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.		
Finance Companies	For-profit businesses that cash checks and/or provide loans, usually with higher interest rates and fees.		
CDFI Loan Funds	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.		
Tribal Credit	Organization that provides credit services to Tribal employees and/or community members with lower rates and flexible terms.		
Investment Banks	Specializes in buying and selling corporate securities (stocks, bonds, etc.).		

* Currently, the Federal Deposit Insurance Corporation (FDIC) insures deposits at federal government-regulated financial institutions for up to \$250,000 per depositor, per account.

** The National Credit Union Share Insurance Fund (NCUSIF) insures member savings at federal government-regulated credit unions for up to \$250,000 per share owner, per insured credit union.



Not All Lenders Are the Same: Predatory Lending

If you are taking out a loan, you have many options to choose from. As described earlier, there are several types of financial institutions that give loans. The trick is to find the right one to suit your needs, and steer clear of financial institutions that may try to take advantage of you.

While many lenders conduct honest business, some do not! Excessively high interest rates, unnecessary fees, and hidden charges are a few of the things to watch out for. There are certain types of lenders that are referred to as “predatory lenders” because they take advantage of people. Predatory lenders share many traits. Here’s how to recognize a predatory lender:

- They offer loans without taking into account a borrower’s ability to repay the loan.
- They charge unusually high interest rates for a loan.
- They give loans with excessive or hidden fees.
- They tack on unnecessary costs, such as prepaid single-premium life insurance.
- They target their services at 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 that far exceeds the value of the loan.

Predatory lenders take many forms, but can often be found at payday lending stores, storefront finance companies, and title loan companies. Think twice about taking a loan from one of these businesses – make sure you understand the interest rate, fees, and loan terms before taking out a loan.



Smoky-Joe's
Car Emporium

WE FINANCE
EVERYONE!!!

Money Math: Car Buyer's Edition

"Games Car Dealerships Play"

Let's say you need a new car. You go to the **Smoky-Joe's Car Emporium** because he has some awesome commercials on TV and a catchy jingle that you can't get out of your head. A salesman named Chuckie swoops in on you the second you step out of your old car. You tell Chuckie you are looking for a fair price on a good used car. Chuckie assures you, "EVERY car on the lot fits that description!"

You take a look around and after listening to Chuckie ramble on and on, you negotiate what you think is a fair price for a gently used Honda Civic. The car will cost \$15,000. Chuckie mentions, "We have the best financing in town, regardless of your credit. We don't even have to check your credit if you agree to pay by the week." You tell Chuckie that you monitor your credit regularly and you have heard that those "buy-here, pay-here" offers are a scam...Chuckie looks you up and down for a minute, then directs you to their finance company for a loan.

The loan officer asks you how much you can afford to pay each month for your Honda Civic and says he will "crunch the numbers" to give you a smokin' hot Smokey Joe's deal. You let him know that this isn't your first time at the rodeo... and you want to talk **interest rates**, **terms** and **fees**. You also tell the loan officer, "If I see any garbage fees, I am walking away right now!" Sensing that you are an educated buyer, you are offered a loan at 3% interest, with no extra fees, which seems good to you.

Your loan officer tries to encourage you to take a lower monthly payment of \$500 a month. You have heard that if you make a higher monthly payment, you might save some money in interest. You ask him to run the numbers with a monthly payment of \$650. He says you must be crazy to want to pay **MORE** for your monthly payment, but he runs the numbers and shows you the two tables below.

Based on what you see in these two tables, and in the graph, would you chose a higher monthly payment, or a lower one? Why or why not? _____

Higher Monthly Payment – First 6 Months of Loan Payments					
Month	Monthly Payment	Loan Balance	Interest Charge @ 3%	Total Owed on Loan	Percent of monthly payment that is interest
1	\$650	\$14,350	\$431	\$14,781	66%
2	\$650	\$14,131	\$424	\$14,554	65%
3	\$650	\$13,904	\$417	\$14,322	64%
4	\$650	\$13,672	\$410	\$14,082	63%
5	\$650	\$13,432	\$403	\$13,835	62%
6	\$650	\$13,185	\$396	\$13,580	61%
Total Payments	\$3,900	Total Interest Charged	\$2,480		

Lower Monthly Payment – First 6 Months of Loan Payments					
Month	Monthly Payment	Loan Balance	Interest Charge @ 3%	Total Owed on Loan	Percent of monthly payment that is interest
1	\$500	\$14,500	\$435	\$14,935	87%
2	\$500	\$14,435	\$433	\$14,868	87%
3	\$500	\$14,368	\$431	\$14,799	86%
4	\$500	\$14,299	\$429	\$14,728	86%
5	\$500	\$14,228	\$427	\$14,655	85%
6	\$500	\$14,155	\$425	\$14,580	85%
Total Payments	\$3,000	Total Interest Charged	\$2,580		

Discussion:

1. What are the pros and cons of a "buy-here, pay-here" dealership? Do you think they could be predatory lenders?
2. Do you think it's beneficial to check your credit score before heading to the dealer? Why or why not?
3. Why do you think the loan officer would encourage you to take a lower monthly payment?
4. What are some examples of "garbage fees" that car dealers might try to charge you?

Glenda's Payday Loan Saga

Payday loans are short-term loans for small dollar amounts, often \$500 or less. Interest is usually based on a percentage or fixed fee, such as \$15 for every \$100 borrowed. In theory, if a person pays the loan off in full on the scheduled due date, the fees are high but manageable. The problem is that after two weeks, the typical payday loan customer can't meet their payment and this is when things can get ugly.

Let's look at this example: Glenda takes out two payday loans during the holiday season and struggles to pay them off. Each loan charges a \$15 fee for every \$100 borrowed (15%) with the full amount due on Glenda's next bi-weekly pay day.

Date: 11/7/15

Glenda takes out a loan.

Loan #1: \$300

Date: 11/20/15

On pay day, Glenda pays \$50 towards the loan, instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$45

Amount Due: \$345

Payment: \$50

Balance: \$295

Fees & Interest:

Running Total

\$45

Date: 12/4/15

On pay day, Glenda pays \$100 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$44.25

Amount Due: \$339.25

Payment: \$100

Balance: \$239.25

\$89.25

Date: 12/18/15

On pay day Glenda not only fails to make a payment but must also take out a second loan to purchase holiday gifts. So she renews one loan (which carries fees) and takes out a new loan.

Fee: \$35.89

Loan #2: \$200

Amount Due: \$475.15

Payment: \$0

Balance: \$475.15

\$125.14

Date: 1/1/16

On pay day Glenda pays \$75 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$71.27

Amount Due: \$546.41

Payment: \$75

Balance: \$471.41

\$196.41

Date: 1/15/16

On pay day Glenda pays \$100 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$70.71

Amount Due: \$542.12

Payment: \$100

Balance: \$442.12

\$267.12

Date: 1/29/16

On pay day Glenda pays \$125 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$66.32

Amount Due: \$508.44

Payment: \$125

Balance: \$383.44

\$333.44

Date: 2/12/16

On pay day Glenda pays \$125 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$57.52

Amount Due: \$440.95

Payment: \$125

Balance: \$315.95

\$390.96

Date: 2/26/16

On pay day Glenda pays \$125 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$47.39

Amount Due: \$363.35

Payment: \$125

Balance: \$238.35

\$438.35

Date: 3/11/16

On pay day Glenda pays \$125 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$35.75

Amount Due: \$274.10

Payment: \$125

Balance: \$149.10

\$474.10

Date: 3/25/16

On pay day Glenda pays \$125 instead of the full amount due. Interest and fees continue to accrue on her outstanding balance.

Fee: \$22.36

Amount Due: \$171.46

Payment: \$125

Balance: \$46.46

\$496.46

Date: 4/8/16

On pay day Glenda pays \$53.43, the full amount due on her loans.

Fee: \$6.97

Amount Due: \$53.43

Payment: \$53.43

Balance: \$0

\$503.43

Glenda took out two payday loans for a total of amount borrowed of \$500. But by making only partial payments every two weeks, she extended her loans to five months and paid a total of \$503.43 in fees in addition to the \$500 she borrowed. Ultimately Glenda paid back \$1,003.43, and paid more in fees than her original principal. Ouch!

A great way to compare loans is to look at the Annual Percentage Rate (APR), or the amount of interest charged during the course of one year. Here's a chart with common APRs for different types of loans and lines of credit. Remember, various factors such as credit history, loan amount, term, and type of purchase all influence the APR a borrower will pay.

Type of Loan or Credit	Typical Annual Percentage Rate (APR)
Home loan	3% to 8%
Student loan	4% to 7%
Auto loan	4% to 14%
Consumer loan from bank, credit union, or CDFI	14% to 18%
Credit card	14% to 25%
Pay Day loan	See next page

Glenda's Payday Loan Saga (cont.)

Fill in the spaces to calculate the APR on Glenda's pay day loans that charge 15% interest every two weeks.

1. Number of weeks in a year: _____
2. Number of two-week cycles in a year (Line 1 $\div$ 2): _____
3. APR (Line 2 $\times$ 15%): _____
4. Insert Line 3 into the box on page 125.

Is the APR for Glenda's pay day loans reasonable when compared to similar types of loans? You be the judge!

Note: The above sample payday loan scenario is for educational purposes only. Actual payday loans of similar amounts and repayments might result in significantly different outcomes.

How To Be a Savvy Consumer

As consumers we are often tempted to buy goods and services. Over time these purchases can add up, especially for big ticket items like vehicles, appliances, TVs, and pricey electronics. The ability to make smart purchases is a vital skill in today's economy. You can make smart purchases if you are a savvy consumer. Here are four things to keep in mind when considering a large purchase.

Research

Whether you're in the market for a new truck or a new refrigerator, take the time to do your research and study up on all of your options. The internet has many consumer websites filled with great information to help you make a smart purchase. For example, if you're planning to go car shopping, information such as vehicle reliability, price, fuel economy, resale value, and safety features are just a few items you'll want to know ahead of time.

Affordability

It is important to figure out if you can afford the purchase. Review your budget to calculate how much you can afford to spend on an item. Make sure you understand all the hidden fees or additional costs that may be associated with your purchase. For example, if you are buying a car, make sure to include any additional costs you might incur such as car insurance, gas, and maintenance. It can add up fast!

Payment Options

When you are planning to make a larger purchase, you need to decide how you will pay for it. Cash or credit is a major decision when making a big purchase. It is fine to use credit – if you have budgeted for it! And while credit might be cheaper in the beginning, it usually costs more over the long haul. Then again, sometimes credit is the only option, so review the information about loans, rates, and terms covered in Session 5 so you choose an affordable loan and a lender that meets your

needs. When financing also check your credit report (Session 4) well in advance, so there are no surprises when you actually apply for credit.

Negotiating

Negotiation is the process by which two or more parties come to an agreement. Almost any time you purchase something through a salesperson, the deal will be finalized by a negotiation process. Negotiation might also be the most important part of a purchase because the steps listed above won't matter much if a smooth talking salesperson gets you to stray from your game plan. Remember, a skilled salesperson can have the ability to persuade a person to pay more than he can afford, bury him in a bad loan, or sell him a product he doesn't really need. See below for a few tips to help you handle your next negotiation so you get a deal that works well for you--not the other way around!



Commission

Many salespeople work for commission. A sales commission is a fee paid to a salesperson for selling a certain amount of goods or services. Commissions are common in the sales industry and sometimes lead to aggressive or pushy sales tactics. A salesperson may push you to make a decision that benefits him, and doesn't benefit you, so he can "make his commission."



Handy Tips for Your Next Negotiation



DO YOUR HOMEWORK: *Identify exactly what you want to purchase beforehand, not at the store or car dealership.*

PLAN AHEAD: Think about *what kind of sales terms* you will agree to. Are you willing to take out a loan? If so, for how much? Have this all in mind (or written down!) before you go shopping – and don't let a salesperson talk you out of it!



LESS IS MORE: *Don't answer* any questions you aren't comfortable with or don't have an answer for. Salespeople are trained to bombard you with questions to keep you under pressure.



NO DISTRACTIONS: *Try to leave the kids at home* with a relative or sitter so you can devote your full attention to business at hand.



EAT FIRST: Negotiations can last a long time so *make sure you are well rested and eat lunch or dinner* before you arrive.



TAG TEAM: *Bring along a trusted and assertive friend* who can help you analyze the sale, ask questions on your behalf, and intervene if necessary. Sometimes it's easier for a third party to see what's going on.

STAND YOUR GROUND: Salespeople are not your friends. Their job is to sell you something. Try to be firm and *advocate for yourself* if you don't like the direction things are headed.



LEAVE YOUR EMOTIONS AT HOME: Often people become emotionally attached to a product (like a cell phone) and *salespeople are trained to exploit your emotions* in order to close a deal. Try to resist sales pitches like: "It is the perfect cell phone for you!"

USE YOUR FEET: If you don't like what you're hearing, don't hesitate to *get up and leave*. And don't feel obligated to leave your contact info. Just ask the salesperson for a card and tell them you'll be in touch with any questions.



Feel Like You Need to File a Complaint?

Sometimes you have a bad experience as a consumer. Feel like you've gotten ripped off or treated unfairly by a store or business? First, give the business an honest chance to fix the situation. If that doesn't work, you have two other options. One is to file a complaint with your State's Office of the Attorney General. A second option is to file a complaint with the Consumer Financial Protection Bureau (CFPB), a federal agency designed to assist consumers on a wide range of issues. You can reach the CFPB on the web at www.consumerfinance.gov or by phone at 855-411-2372.

Exercise: Wallace Goes Truck Shopping

One November afternoon after picking up his wife at the airport in Bismarck, Wallace dropped by a local car dealership to check out the new model year trucks that were just beginning to roll in. Wallace had no intention of purchasing a new vehicle that day. But after a test drive he agreed to sit down with the salesman and "go over some numbers." One of the first questions the salesman asked Wallace was "How's your credit?" Wallace agreed to let the salesman pull his credit report...and things escalated from there! Two hours later, Wallace and his wife drove off the lot in a brand new \$43,000 truck. He had traded in his older truck, which ran well and was nearly paid off, for a \$7,000 down-payment. He also agreed to a loan from the dealer with a high interest rate. He had signed up for a six-year loan that resulted in a monthly payment that was \$50 more than his old loan. In addition, his insurance payments for the newer vehicle increased by \$80 each month. Unfortunately, four months later Wallace fell behind on his payments when his hours were cut at work due to a slowdown.

1. Do you think Wallace made a smart decision by buying a new truck in the manner described above?

2. What advice would you have given Wallace if you had been tagging along that afternoon?



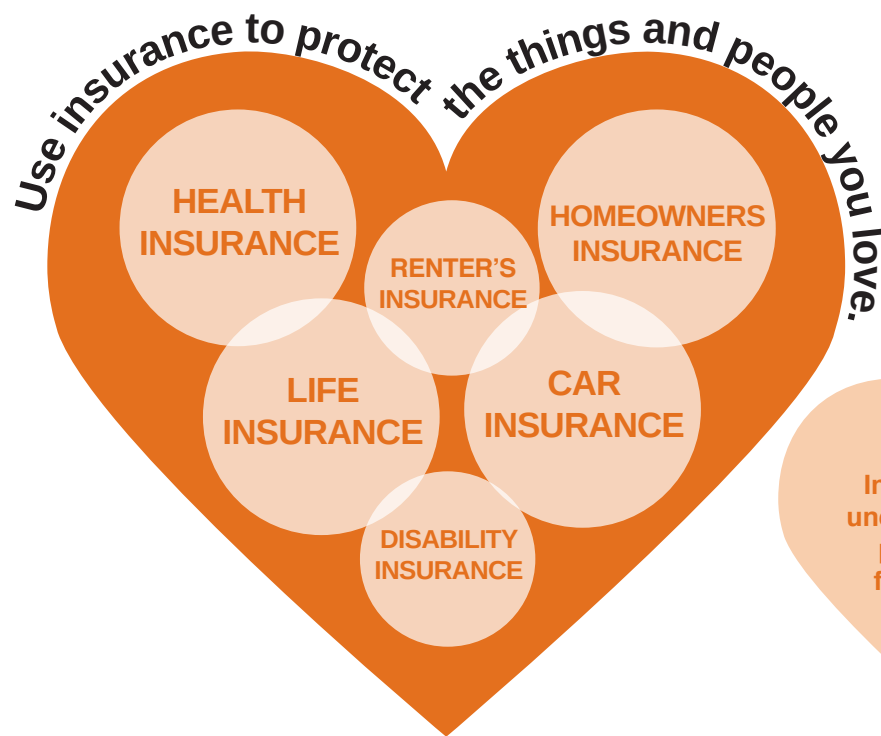
Insurance

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?

What are my insurance 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?



Insurance can best be understood as a back up plan to protect your family or community if something goes wrong.

Types of Insurance

Insurance can be purchased for almost anything. Here is a brief overview of some types of insurance:

Insurance Type	Explanation
Health Insurance	Health insurance can help pay for medical bills for things like primary care, visits to specialists, preventative screenings, surgeries, prescription medications, and other health related costs. 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 www.ihs.gov. If you are an enrolled tribal member, you may be eligible to receive services at your local tribal health clinic. You will need to inquire by contacting your tribe's health department or by checking with a local tribal health clinic where you currently live. Some communities also have private, nonprofit urban health clinics specifically intended for off-reservation Native people to seek care. If your employer offers health insurance, consider using it, because by using it you make more resources available for other people who need IHS assistance. The same holds true if you are self-employed and purchase an individual insurance plan. Moreover, if your community does not offer adequate services or does not cover everyone in your family, you should consider purchasing health insurance.
Automobile Insurance	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: • Bodily injury liability covers injuries suffered by others hurt in an accident while you are driving. • Property damage liability covers damage done by your car to the property of others. • Collision coverage pays for damage done to your car in an accident. You will want enough coverage to fully replace your car. • Comprehensive coverage pays for damage done to your car in an event other than an accident, such as theft or fire. • 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.
Homeowner's Insurance	Homeowner's insurance protects your housing investment. To receive a traditional mortgage, you will likely need the following: • 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. • 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.
Renter's Insurance	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. 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.
Disability Insurance	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.
Life Insurance	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 are term insurance and cash value insurance. 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. 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. 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 download this publication.

Life Insurance

Life insurance is an important form of insurance. Loss can be difficult to talk about, especially in Native communities. But it is important to think about what might happen to loved ones if a parent or spouse passes away unexpectedly. These loved ones might be left without the financial resources to take care of their needs. Owning a good life insurance policy can be just as important as auto insurance, a checking account, and an emergency savings fund. But, unfortunately, many families don't buy life insurance. This places them at a huge risk. To help you understand this complicated topic, we have put together a list of things to think about when considering a life insurance policy:

Do I Need It?

Whether you need life insurance or not depends on where you are in your life. It also depends on whether anyone is relying on you for your salary or your help around the house. Purchasing life insurance is necessary if you are married, have kids, or are caring for a family member. Your family probably depends on you for your paycheck or the help you provide at home. For example, think about the costs of raising a child, paying for rent or a mortgage, or caring for family members. If you own life insurance, some of these expenses would be taken care of in the event of a provider's passing, and usually a cash payment would be paid to your family members or beneficiaries. You have different needs if you are a young person just starting out with no family. It might make sense to wait to purchase life insurance later when you get married or have kids.

How Much?

How much life insurance do you need? A good rule of thumb is to purchase a policy that provides a coverage of between seven and ten times your annual income. So if you make \$25,000 a year, a \$250,000 policy might be adequate. But the coverage amount will be different for different people. Consider factors such as how many children you have and their ages, how much you owe on your home or pay in rent, and whether you have other family members or parents depending on you. This will help you identify how much coverage to get.

A **life insurance policy** is a contract with an insurance company. You will probably pay monthly **premium payments** for your policy. As long as you are paying your monthly payments, the life insurance company agrees to pay out a certain amount, also known as a **death benefit**, in the event of someone passing away unexpectedly. The insurance company will usually provide a lump-sum payment to the designated **beneficiaries** upon the insured's death. A **beneficiary** is whomever you have selected to receive payment upon your passing, and it is usually a member of your family.

The dollar amount of the policy (the amount paid to beneficiaries upon the passing of a loved one) is sometimes referred to as **coverage**. A \$100,000 policy has more **coverage** than a \$50,000 policy.

When to Buy?

Life insurance policies are quite inexpensive for young healthy people but costs increase as a person ages or suffers a health setback. In fact, some health issues can actually make a person uninsurable so it's usually a good idea to purchase a life insurance policy sooner in life rather than later. If you're older you'll definitely pay more for a new life insurance policy but don't let cost discourage you. You can always select less coverage to save on costs.

Who in My Family Should Have Life Insurance?

Any of your adult family members who are working or contributing to your household in a significant way should probably have life insurance. A good rule of thumb is to think, "How would I manage if this person were gone?" Family members can each have an individual policy, or can purchase a joint policy. When choosing how much coverage to get, keep in mind the considerations listed above. Think about how many children or others you have depending on you, and how much you need to pay for your home. In general, coverage amounts should be based on expected future income. But keep in mind, even an adult who doesn't work should have life insurance because a parent contributes a lot more to a family's stability, security, and happiness than just a paycheck.

How Many Years?

The term length of your life insurance policy will depend on a number of factors such as your age, the ages of your children, the age of your spouse, and the number of years you have until retirement. If you are just starting out with a new job and a new baby, you may wish to buy a life insurance policy with a 30 year term. If you are nearing the end of your career and your children are grown, you may wish to choose a 10 year term. Some people choose to continue to have a life insurance policy after they retire so that they can provide support to adult children and grandchildren if needed. Others only have life insurance until their children reach the age of eighteen or finish school.

Your life insurance policy will stay in effect for a specific length of time known as the **term**. That means the life insurance policy will pay a cash benefit if the insured person dies within the **term**, or coverage period, as long as you have been making your monthly premium payments. You can buy life insurance policies for different **term lengths**. Most people will select a term length of either ten, twenty, or thirty years depending on their needs. You can choose to renew your policy each year until your term is up. Then you may need to negotiate a new term with a new premium payment or monthly rate.



What is the Difference Between Term and Cash Value Life Insurance?

There are two basic types of life insurance: **term** insurance and **cash value** insurance.

Term life insurance generally covers you for a term of one or more years. For example, 10-year level term insurance offers 10 years of life insurance coverage at a level price. It pays a death benefit if you pass away during that term. You can renew most term life insurance policies for one or more terms. However, each time you renew the policy for a new term, you may pay a higher premium. Term life insurance generally does not build up cash value.

Cash Value life insurance usually has a savings component. Cash value life insurance includes three main types of insurance: **whole life**, **universal life** and **variable life** insurance. Cash value life insurance is a type of life insurance policy that pays out upon the policyholder's death, and also accumulates value during the policyholder's lifetime. The policyholder can use the cash value as a tax-sheltered investment (the interest and earnings on the policy are not taxable), as a fund from which to borrow and as a means to pay policy premiums later in life. In addition, they can pass it on to their family members. The premiums charged for cash value life insurance are higher at the beginning than they would be for the same amount of term insurance. In order to build up cash value in your life insurance program, you have to pay higher premiums for the insurance.

A **term life insurance** policy usually makes more sense than a **cash value life insurance** policy. There are many reasons for this, including the fact that cash value life insurance policies usually have hidden fees and complicated rules. For most people it is smarter to keep savings and investments separate from insurance policies. Check with an expert and shop around before making a decision.

What Should I Do?

If you decide you want life insurance, you'll definitely want to shop around for life insurance companies and compare policies and rates. You should also find out if you are offered life insurance through your job, and if so, how much coverage you have. If you decide to purchase life insurance through a private company, make sure to ask a lot of questions about the type of coverage you will receive. Once you select a company to buy life insurance from, they will probably ask you to complete a lengthy interview regarding not only your medical history but sometimes also the health status of your relatives. You might also need to submit to either a medical exam or series of bloodwork and lab tests. Provided you have no pressing health problems, the company will issue a policy and tell you the premium amount which can be paid monthly or annually.

Sometimes you will be offered life insurance through your employer as part of your benefits package. This type of life insurance often provides you with life insurance for as long as you work for the company (and the monthly payments are paid by your employer). You may have an option to increase your coverage amount if you pay a bit extra each month.



Exercise: Rachel's Life Insurance

Rachel, a single parent, is in her mid-twenties and is raising two children ages 3 and 5. She earns \$25,000 a year working for the local foodbank and recently borrowed \$50,000 to purchase a mobile home. Rachel's parents are both disabled but they live with her and help out with childcare. The children's father is not involved and Rachel has minimal savings.

1. Does Rachel have a need for life insurance?

2. If so, what is an acceptable amount of coverage and how long should she have life insurance?

3. Do you think her coverage might need to be adjusted in the future? If so, what types of events could require an increase or decrease in coverage?

4. Would Rachel be wise to hold off purchasing life insurance until her children are older or she gets a raise and is better able to manage the monthly premiums? Why or why not?

5. What are the risks if Rachel doesn't purchase life insurance?

Native Americans and the Affordable Care Act

Beginning in 2014 the Affordable Care Act requires all Americans to obtain health insurance or claim an exemption. Native Americans and individuals eligible for IHS services can qualify for an exemption based on the federal responsibility of IHS. However, many Native people might be covered under an employer's plan or choose to purchase their own insurance, either privately or through a health insurance exchange commonly known as the Marketplace. Certain low income individuals and families can also qualify for reduced payments when purchasing insurance through the Marketplace. Whichever option you choose, it's important to remember that each year you will need to either claim an exemption for you and your dependents or obtain "minimum essential coverage" as defined by the government. Failure to do so will result in a tax penalty known as a shared responsibility payment. For more information on your benefits, rights, and responsibilities under the Affordable Care Act visit the Indian Health Service website at www.ihs.gov or the national health insurance exchange website at www.healthcare.gov. For more individualized assistance you can also contact a Patient Benefits Coordinator available at your local IHS facility or service unit.

"Out-of-Pocket" Insurance Expenses

Some insurance plans, such as health insurance plans, have co-pays. Others, like car insurance, have deductibles. When choosing your insurance plan, you should keep these things in mind:

- A **co-pay** is a flat amount you might pay upfront, for example at a doctor visit. Most health care plans require some amount of a co-pay when you visit a doctor, and then the insurance plan will pay the remainder of the costs. A co-pay is known as an "out-of-pocket" expense because you pay it in addition to the benefits offered through your health care plan. Co-pays usually range from \$25 to \$50 depending on the type of visit.
- **Co-Insurance** is an out-of-pocket expense similar to a co-pay. However instead of a flat fee, co-insurance is based on a percentage of the total cost of service.
- A **deductible** is an out-of-pocket expense you must pay before an insurance plan takes over paying the rest of the costs. A typical auto insurance policy or renters/homeowners policy may carry a \$500 to \$750 deductible. That means, for example, if you are in a car accident, you may be responsible for \$500 of the repair expenses and the insurance company will pay the rest.

Consider this example:

Anderson was recently working on his ranch when a cow slammed into his brand new truck. The body shop repair bill was \$2,500. He carries a \$500 deductible on his car insurance policy. Therefore, his insurance company paid \$2,000 of the bill, but Anderson had to pay \$500 out of pocket. Ouch!

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

Consider these examples...

The Sampsons

The Sampsons owned an older home for which the mortgage was completely paid off. One month, they experienced some financial hardships and made some major household budget cuts, including letting their homeowner's insurance lapse. Three months later, their home caught on fire and burned 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 them 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.



Choosing Insurance Products

Here are some things to keep in mind when choosing insurance products:

Research:

- Don't forget to shop around! Research different insurance policies, agents, and companies either in person, online, or over the phone.
- Ask your friends and relatives to share their experiences with different insurance companies. They may have some stories regarding the quality of coverage and the customer service they received from their insurance companies, and may have a recommendation for you.

Check:

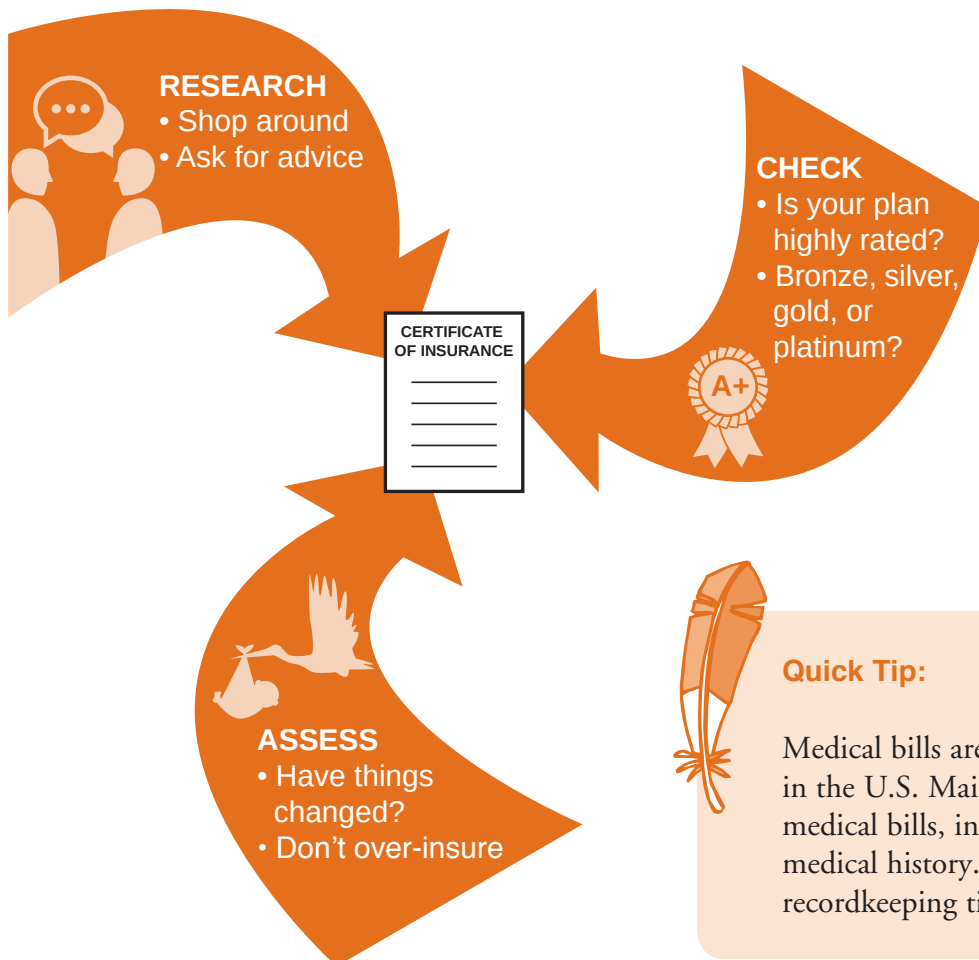
- With all types of insurance, make sure your insurance company is highly rated amongst its peers. You may wish to check using this website: www.consumerreports.org.
- When purchasing health insurance, remember that plans are designated as either bronze, silver, gold, or platinum. A good rule of thumb is that higher level plans such as gold and platinum will charge higher premiums but less out-of-pocket expenses. Lower level plans, bronze and silver, will charge lower premiums but higher out-of-pocket expenses. So the key takeaway is that your current health and anticipated yearly medical bills are important to consider when choosing an annual health insurance plan.

Assess:

- Insurance needs change periodically. A change in income, marital status, birth of a child, and retirement are all good times to reassess your insurance needs.
- Don't over insure. Estimate your needs and select the coverage that meets your needs and your budget.

Don't Wait!

Many people hold off on insurance due to cost, time constraints, or confusion over terms and policies. Don't wait to look into this important issue when addressing your family's financial needs. Sometimes you have to pay a small amount now to make sure that you are protected against a big loss later!



Quick Tip:

Medical bills are the leading cause of bankruptcy in the U.S. Maintain accurate records of all your medical bills, insurance information, and your medical history. Review the organization and recordkeeping tips from Session 2!

Your Circle of Life

You've now had the chance to learn about a range of topics related to your financial well-being. You've also discovered that finance overlaps with other aspects of your life such as health, family, and education. And we also know that as Native people, we can draw from our tribal histories and culture to promote healthy financial lifestyles for ourselves, our families, and our communities.

Hopefully the *Building Native Communities: Financial Skills for Families* workbook is useful for both your current and future financial needs. The challenge now is to apply this knowledge to create a personal strategy for achieving financial security. Reflecting on the **Circle of Life** exercise from Session One, let's think about some financial milestones you might want to strive for at different phases of your life. Use this exercise to think about your personal goals, and to give yourself a road map to the future.

The following checklist can help put you on the right path and address common questions such as:

- When should I apply for my first credit card?
- At what age should I begin planning for my retirement?
- At what age should I be debt free?

As with all other lessons and topics featured in this book, the following objectives are only guidelines. They may or may not apply to all individuals or families. In fact, the authors of the *Building Native Communities: Financial Skills for Families* workbook strongly encourage you to define financial well-being for yourself because no two individuals or families will share the same needs and goals. With that said, consider using this checklist to assist you in tracking and measuring your financial progress and the progress of those you care about. We wish you the best of luck in your financial journey!



Circle of Life: Financial Checklist

Spring: Child/Teen (Child to 18)

Most young people don't have major financial responsibilities. At this stage, the focus is on developing good financial habits. You want to learn about money and learn to save. You also want to develop good organizational skills. There are ways you can assist children with this--parents can open a savings account for a child and encourage money-related activities. Parents can help kids start using a piggy bank, or save toward a goal. And parents can help kids by talking about money and how to save and manage money.

Here are a few things you can do to help kids learn financial skills:

Help kids learn about money:

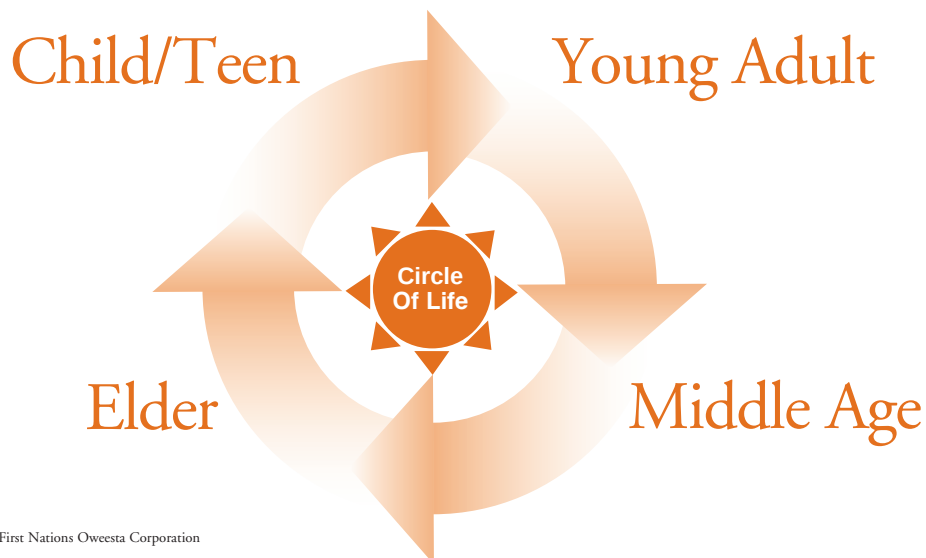
- ☐ Give an allowance.
- ☐ For teens, help them gain work experience by getting a part-time job.
- ☐ Open a savings account for a child, and help them start saving money in it.

Help kids learn how to manage their money:

- ☐ Help a child set and achieve a savings goal.
- ☐ Help teens develop a simple budget or spending plan.
- ☐ Help a teen create a personal filing system (that includes things like their bank account information, their birth certificate, school transcripts, and other important documents)
- ☐ If teens are working, or receiving a minor's trust payment, they may need to file an annual tax return. You can help them learn this process.



Can you think of other strategies to help kids learn about money?



Summer: Young Adult (19 to 30)

The young adult years are critical years because a person's long-term financial well-being is often determined by actions and decisions made during his or her twenties. This is also a time when many young people become saddled with debt, which can be a burden they carry throughout their lives. But other young adults have already started saving for retirement. Many young adults are employed, are paying rent, and have taken out their first loan. As a young adult, think about the following milestones that help you lay a solid foundation for financial well-being in the future.

Young adulthood is a time when many young people become saddled with debt, which can be a burden they carry throughout their lives.

Consider taking the following steps:

Develop your earning potential:

- ☐ Develop work and career skills by going to college, learning a valuable trade, or starting a business.
- ☐ Find a career that you enjoy.

Manage your finances:

- ☐ Open a checking account, if you don't have one already.
- ☐ Create and start using a budget/spending plan.
- ☐ Start using your organization and recordkeeping skills to develop a personal filing system (create a file folder for your account statements, insurance policies, leases, receipts, etc.)
- ☐ File your annual tax returns.

Use credit wisely:

- ☐ Obtain your first credit card (but only if you can pay the balance in full each month and never charge more than 30% of your credit limit).
- ☐ Begin reviewing your credit report annually.
- ☐ Borrow cautiously (for example, be careful with auto loans, student loans, credit cards, etc.).



Lay a secure foundation for your future:

- ☐ Consider purchasing a home.
- ☐ Review your risks and purchase insurance (including vehicle, renter's, or other insurance).
- ☐ Begin saving for retirement.
- ☐ Create an emergency savings fund to cover three months of expenses (this will be useful if you lose your job or have an unplanned expense).



Can you think of other goals that you want to accomplish as a young adult?

Fall: Middle Age (31 to 60)

When a person is in middle age, they often have a lot of obligations and responsibilities. Usually people have children they need to care for, and they may have purchased a home. These obligations means that a person often shoulders the bulk of his or her lifetime financial responsibilities during this period. It's also a time when a person will experience his or her peak earning years, so managing debt while saving for retirement is critical.

Here are some goals and habits to keep in mind during middle age:

Continue to practice good financial habits:

- ☐ Maintain your budget/spending plan.
- ☐ Maintain your personal files and records.
- ☐ Review your credit report annually.
- ☐ File your annual tax returns.
- ☐ Establish or maintain your career or a good paying job.



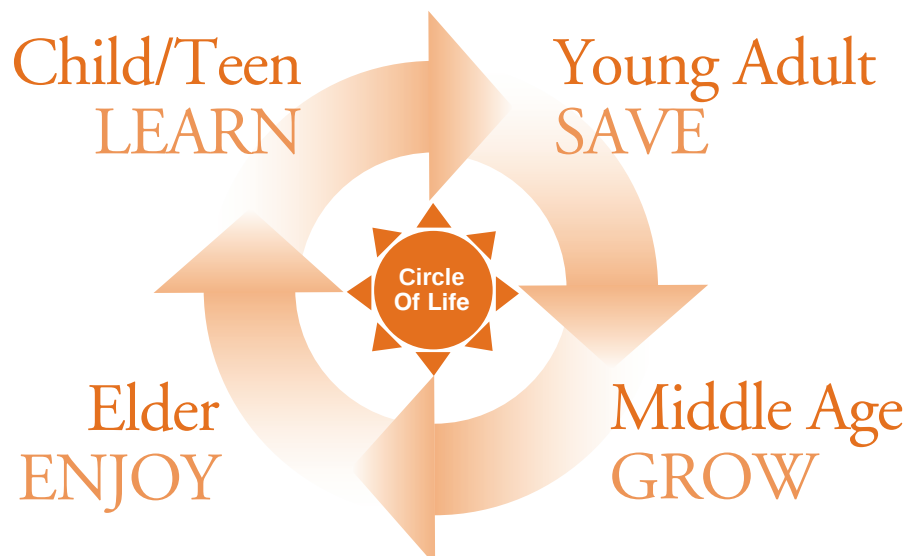
If you have the resources, take some important financial steps:

- ☐ Consider purchasing a home, or work towards paying off your mortgage on your existing home.
- ☐ Pay off existing debts when you can (for example, pay down your student loans, credit cards, auto loans, etc.).
- ☐ Continue to borrow cautiously.



Continue to lay a secure foundation for your future:

- ☐ Maintain an emergency savings fund to cover at least three months of expenses.
- ☐ Create or continue building your retirement savings (aim for five times your annual income by age 55).
- ☐ Create or consider other types of investments or cash flow sources (for example, non-retirement investment accounts, investment or rental property, small business investment, etc.).



Take care of the ones you love:

- ☐ Save for your children's education and other needs.
- ☐ Review your insurance needs (for example, review your auto, health, homeowner's, and life insurance policies).
- ☐ Write a will and address other estate planning needs.
- ☐ Consider charitable donations to worthy causes.

Can you think of other goals that you want to accomplish in middle age?

Winter: Elder (61 and Over)

The elder years can be a wonderful time to enjoy the fruits of a well-guided financial life. Hopefully, you will have laid a solid financial foundation for your golden years. Some people retire early and enjoy an active lifestyle that includes time with friends and family, travel, and volunteering. Others continue to work at an existing career or start a new one. But all of this is easier for a person with a solid financial foundation on which to build.

Even as you age, there are financial habits that will keep you secure and help you continue to provide for your family. Consider these steps as you enter your golden years:

Continue to practice good financial habits:

- ☐ Maintain your budget/spending plan.
- ☐ Review your credit report annually.
- ☐ Maintain an emergency savings fund to cover three months of expenses.
- ☐ File your annual tax returns.
- ☐ Continue to pay off existing debts, including your home mortgage.
- ☐ Continue building retirement savings as needed (aim for eight times your annual income at retirement age).

**Start using your retirement savings:**

- ☐ If retired, begin drawing down retirement savings as needed.
- ☐ Review your Social Security benefits (including your Medicare, Retirement, Survivor's, and Disability benefits).

Take care of the ones you love:

- ☐ Establish a savings account or nest egg for children or grandchildren.
- ☐ Review and update your will and address other estate planning needs.
- ☐ Consider charitable donations to worthy causes.

Plan for the future:

- ☐ Consider selling, liquidating, or gifting long-term investments (stocks, bonds, mutual funds, rental property, small business, etc.).
- ☐ Review your insurance needs and adjust your insurance as necessary.



Can you think of other goals you might have in your golden years?





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.



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