

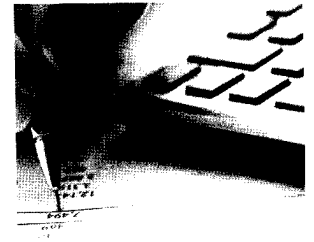
Managing Your Money



EXPENSES

MORTGAGE	\$ 2500.00
INSURANCE	\$ 430.00
FOOD	\$ 600.00
HEALTH PLAN	\$ 375.00
KIDS SCHOOL	\$ 1,230.00
ELECTRICITY	\$ 24.00
WATER SUPPLY	\$ 1.00
TELEPHONE	\$ 7.00





2: *Managing Your Money*

CONTENTS

Introduction	34
Getting Started with Making a Plan for Your Money	35
Why Do You Need a Spending Plan?	36
How Do You Use Money?	36
Planning How to Spend Your Money	39
Family Budget Stories	39
The Steps in Establishing a Spending Plan.....	42
Keeping Track of Your Spending.....	45
Developing a Spending Plan to Meet Your Goals	46
Teamwork: Setting Household Member Goals	46
Meeting Your Goals by Trimming Expenses	47
Making Your Spending Plan	50
Money Management Tips	50
Reviewing the Plan	54
Ways to Make Money Management Easier	54
Controlling Your Day-to-Day Spending	55
The Importance of Saving	56
Types of Savings Accounts	56
Thinking and Saving Like a Homeowner	59
Getting Help	60
Choosing a Counselor.....	60
Summary.....	62
Self-Test	63
Resources	65

Introduction

Managing your personal finances wisely is not only an important part of the homebuying process, it's also a critical step in achieving financial security. Money management is about choices – choosing how to spend and save your money. Buying a home may involve changing your spending habits so you can afford the routine costs of homeownership.

This section will give you tips on how to manage your money so it doesn't manage you. It covers:

- Establishing a realistic spending plan
- Setting goals and creating a spending plan to meet your goals
- Trimming expenses and finding ways to save

If you set realistic goals, a spending plan can bring you one step closer to your dream of homeownership. Without a plan, you may not have enough money to pay your bills when they are due. Bills and debts that go unpaid can harm your ability to borrow money in the future and have a long-term effect on your family's security and well-being. Details about the importance of good credit are provided in the Understanding Credit section.

Getting Started with Making a Plan for Your Money

If you are among the many who have never used a spending plan, you may not have a clear idea of how you spend your money from week to week or month to month. We should all have a plan for how we spend our money. We need to control our money—not have it control us.

Managing your money is like so many difficult chores in life: you would probably rather be doing something else, but it has to be done. And, just as completing everyday chores, like washing your car and cleaning your home, can help you feel good, creating a spending plan can make you feel better. Things are in order. You know how much money is coming in and where your money is going. Managing your money is mainly making a plan for your money.

The process of managing your money helps you know if you are spending money in ways that will help you reach your dreams or if your spending habits are pushing your dreams further away. If buying a house is one of your goals, money management is a must.

Once you are a homeowner, you will have to stick to your new spending habits so you can keep saving the money you will need to pay the routine costs of owning a home. What if your refrigerator breaks? What if a pipe bursts? You may need to use savings to buy an appliance or have repairs made.



WHY DO YOU NEED A SPENDING PLAN?

To Prepare for Large Expenses

By planning ahead, you can prepare for large financial obligations, such as buying a home. To buy a home, you will need money for a down payment, closing costs and moving expenses. Paying your mortgage and keeping your home in good repair cost money, too. A spending plan can help you plan for the upfront costs needed to purchase a home and meet the ongoing costs of homeownership, along with all of your other expenses.

To Encourage Savings

After paying bills, many of us have no money left for savings. A spending plan helps you plan to put money away for savings on a regular basis.

To Prepare for Surprise Expenses

You can't expect the unexpected, but you can be prepared to handle surprise expenses. A spending plan can help you establish a savings plan to meet emergency expenses.

To Identify Wasteful Spending

If you examine your spending habits, you may be surprised at how much you are paying for items you don't need or want. By knowing where your money is going, you can adjust your spending to afford the things that are most important to you.

To Accomplish Goals

Without a plan, it can be difficult to accomplish your financial goals. A spending plan helps you pay yourself first so you can achieve your dreams.

HOW DO YOU USE MONEY?

Successful money management begins with an understanding of your own spending behaviors. You have choices on how you can spend your money. Getting a clear picture of the way you use money can help you make different spending choices and form new money management habits.

Here are some descriptions of how different people use money. As you read about each person's habits, decide which person you are most like. Then, determine what changes you'd need to make to buy your own home.

Lisa, the SuperSaver

- Will not buy anything without shopping for the best bargain
- Drives across town to do her shopping with double coupons at the market
- Never throws away leftovers
- Keeps her home too chilly in the winter and too warm in the summer
- Wants to save her money because it makes her feel secure
- Spending money makes her feel anxious

***Debra, the Conservative***

- Saves 10 percent of her paycheck every week
- Doesn't enjoy shopping
- Brings her own lunch from home to work most days
- Never buys anything new when the old one is still usable
- Never buys on credit, but saves until she has the money for the purchase
- Wants money so that she can have things in the future

***Kyle, the Carefree***

- Wants nice things and thinks about them until he can get them
- Always has one major debt he is paying off
- Buys whatever he can afford; his spending habits fluctuate with his income
- Always pays bills on time
- Has little or no savings
- Enjoys spending the money he worked hard to earn

***George, the Big Spender***

- Often borrows up to his credit limit; pays interest on most things he owns
- Takes lots of vacations
- Buys clothes in the latest styles
- Loves to treat his friends and leave big tips
- Doesn't mind working to pay for things, but he wants them now!
- Spends money to make himself feel good

***Michelle, the Overspender***

- Has had to put all her debts together and turn in her credit cards
- Owes money to the Internal Revenue Service
- Moves to a more expensive place when she has more money, moves to a less expensive place when she has less money
- Agrees to buy things even if she doesn't have money to pay for them
- Is always hoping to win the lottery
- Spends money to make herself feel important; she pretends she does not have money problems



Do any of these people remind you of yourself? If so, which ones? Are you happy with the way you deal with money? What would you like to change?

Before you decide to buy a house, rate your spending habits to determine whether owning a home is worth the sacrifice. You will most likely have to change some of your spending habits to save money for a house. Take a few minutes to answer the following questions:

- What things would be the easiest to change?
- What would be the hardest?
- Is a house worth giving these things up?
- Are you ready to do this now?
- Are there other things you want to do before you start saving for a house?

Date Posted	Amount(\$)	Resulting Balance(\$)	Checking
1-27	17.72-	83.77	
1-30	100.00 +	183.77	Mid/
1-30	941.97 +	1,125.74	Only
1-30	157.83 +	1,283.57	Cor
1-30	69.30	1,214.27	Co
1-30	29.41	1,184.86	8
1-30	100.00 +	1,284.86	
1-30	100.00 +	1,384.86	
1-30	100.00 +	1,484.86	
1-30	100.00 +	1,584.86	
1-30	100.00 +	1,684.86	
1-30	100.00 +	1,784.86	
1-30	100.00 +	1,884.86	
1-30	100.00 +	1,984.86	
1-30	100.00 +	2,084.86	
1-30	100.00 +	2,184.86	
1-30	100.00 +	2,284.86	
1-30	100.00 +	2,384.86	
1-30	100.00 +	2,484.86	
1-30	100.00 +	2,584.86	
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1-30	100.00 +	9,784.86	
1-30	100.00 +	9,884.86	
1-30	100.00 +	9,984.86	
1-30	100.00 +	10,084.86	

Planning How to Spend Your Money

A spending plan is a plan for how to spend your money. All you need to do is take some time to gather your pay stubs, bills and receipts, and then sit down and write down how much money you make, how you spend it and how you might save and spend more wisely. Ideally, your spending plan should include all your money. Before you can change your spending habits, you'll have to study how your cash is flowing in and out now.

This section will help you figure how much money you have coming in and how much you have going out. You'll track expenses – those that are necessary, those you could trim and those you could cut out completely. You may be surprised by how much you spend without really noticing. You may see places where you could save.

FAMILY BUDGET STORIES

You may find part of your own story in the stories that follow. As you learn the budgeting steps on the next few pages, you can compare your money management skills to the financial planning these people are learning.

The Colvins' Story

Jack Colvin was a manager for a large insurance company when he was laid off. His wife, Alice, is a bookkeeper for a natural food company. Their daughter, Patricia, is 16.

For a year before Jack was laid off, the family had been working toward the goal of buying a home. Jack had money deducted from his paycheck every month and deposited into a savings account. When he was laid off, the Colvins had to reduce the amount they were saving, but they tried hard to put a little away each month.

Jack started to look for work right away, but he wasn't having luck finding a job he wanted, or that paid enough. About the time that Jack's unemployment benefits ran out, Alice's employers gave her a good raise. That gave the Colvins some hope. Alice took a small amount right off the top of every paycheck and put it into the family's savings account. Patricia got a part-time job as a daycare helper and was able to pay for her own expenses.

Despite Jack's job situation, they did not give up on their dream of owning a home.

*Photos and text are simulations.



Rosalie Hill's Story

Rosalie Hill is a management specialist for the county school system. Her gross annual income – that is, the amount she earns before taxes and benefits are taken out – is \$29,000. Divorced, she was married for six years. She is a single parent with two children.

When she married, Rosalie and her husband had no savings and no debt. They never talked about writing a budget because they always had the money to pay their bills and buy the things they wanted.

In the three years before their daughters were born, the Hills enjoyed a vacation every summer, eating in restaurants and shopping. They used credit to buy furniture, a television and a DVD player. With four different credit cards, the Hills bought a stereo system, an electronic keyboard and a personal computer. They bought a new car. They dreamed of buying a house.

When Rosalie first found out she was pregnant, the Hills' total debt was nearly \$13,000. Rent on their two-bedroom apartment was \$700 per month. Their car payments were \$400 per month, plus minimum monthly credit card payments of \$400. After the twins were born, medical expenses not covered by insurance were \$1,600. When Rosalie's maternity leave ended, day care cost \$250 per week.



After paying their monthly bills, the Hills had \$500 cash per month to cover food, transportation, phone bills, clothing, entertainment and anything else. They fell more and more behind. The constant stress soon led them into divorce court.

The Hills' credit problems got worse. They both began getting letters and phone calls from credit card companies and then collection agencies. Finally, the business manager for the children's doctor told Rosalie Hill about a nonprofit consumer credit agency. She called to ask the agency for help.

*Photos and text are simulations.

The Carrascos' Story

Maria and Manolo Carrasco have rented the same three-bedroom apartment for the past 12 years, raising four of their children there. Their daughter, Ana, who is 20 years old, still lives with her parents. They are also raising a foster son.

For the last three years, Ana and her mother have worked steadily cleaning houses for American Cleaning, a home-based business run by Blanca, a neighbor. Maria had worked steadily for Blanca for five years before Ana joined the business. Blanca always pays Maria and Ana in cash at the end of each workday.

Manolo is a day laborer who mostly works laying sidewalks. For the past seven years, he has worked steadily, except in bad weather. Manolo would like to learn bricklaying, but first he is working to improve his English language skills so he can apply for a crew supervisor job.

Maria and Manolo recently became American citizens. In their citizenship classes, they spoke with another Guatemalan couple about dreams of buying their own home. The couple told the Carrascos to have Ana find out how to buy a home in America.

Ana learned that her parents would need a down payment to buy a home. In their neighborhood, houses were selling for \$75,000 to \$95,000. They would need at least 5 percent or about \$4,000.

The Carrascos were disappointed when Ana told them how much money they would need to buy a home. They felt homeownership was out of their reach. But they decided to open a savings account. They started talking together about ways to put money aside out of their monthly income.

*Photos and text are simulations.



In all three of the above budget stories, there is an obvious need for a workable spending plan that will help them get back on track.

THE STEPS IN ESTABLISHING A SPENDING PLAN

Step 1: Determine your monthly net income.

The first step is to determine your monthly net income. Your net income is how much money you bring in each month after taxes and other payroll deductions have been taken out. Include all the money you receive each month, such as pay from your job and your spouse's job, child support, retirement benefits, government assistance, etc. Collect any papers that show how much money you bring in from your regular job, occasional work and any other sources, like alimony or disability payments, and complete the "Monthly Income Worksheet" at home, with help from your household members, to calculate your total take-home pay.

Step 2: Calculate your monthly expenses.

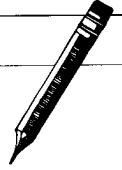
Next, calculate your monthly expenses. Your expenses are the things you spend money on. Try to include all the money you pay out for rent, utilities, car payments, credit cards, insurance, food, clothing, movies, sporting events, church and charity donations, etc. At home, gather any materials that show the bills you pay every month. These include rent, utilities, phone, car payments, credit cards and loans for which you either get bills or pay a fixed amount monthly. You may not have receipts for other regular expenses, like food, clothes, doctors, lessons or school or work lunches. Do you know how much you spend on these things? Some things you can guess pretty closely. You probably buy groceries every week and know how much they cost. Other expenses you will have to estimate. Complete the "Monthly Expenses Worksheet" with your household members to figure your total monthly expenses. Writing down your expenses on paper helps show you where you spend your money every month.

Step 3: Subtract your monthly expenses from your income.

The final step is to subtract your regular expenses from your income and decide what you will do with the money that is left over. The money left over at the end of the month is called discretionary income. You can spend it or save it. Once you know your income and expenses, you can complete the "Discretionary Income Worksheet" to see how much money you have left over to save or spend.

How much of the discretionary money can you save? How will you spend the rest? If you are like most people, on paper it looks like you should have money left over to spend on entertainment, dining out, gifts, vacations and other nonessentials or to save for goals. Where does the money go?

If your expenses are greater than your income, you have a deficit. You and your family will have to decide what expenses to cut from the spending plan or how to earn more income. In either case, this is a serious situation. Households that manage with a deficit for more than one or two months generally start relying on credit cards to pay bills and end up further and further in debt. If you think you are in this situation, you will need the information on solving your credit problems in the Understanding Credit section.



Monthly Income Worksheet

Figure Your Monthly Income

Your weekly pay \$ _____ X 52 ÷ 12 \$ _____
 (take-home pay) (monthly income)

or

Your twice-a-month pay \$ _____ X 2 \$ _____
 (take-home pay) (monthly income)

Your Monthly Take-home Pay

\$ _____

Figure Other Household Members' Monthly Income

Weekly pay \$ _____ X 52 ÷ 12 \$ _____
 (take-home pay) (monthly income)

or

Twice-a-month pay \$ _____ X 2 \$ _____
 (take-home pay) (monthly income)

Other Household Members' Take-home Pay

\$ _____

Other Monthly Income

Second job \$ _____

Regular overtime \$ _____

Public assistance \$ _____

Child support \$ _____

Pension \$ _____

Social Security \$ _____

Other \$ _____

Total Other Monthly Income \$ _____

Total Net Monthly Income \$ _____



Monthly Expenses Worksheet

Housing

Rent or mortgage	\$ _____
Heating (<i>gas or oil</i>)	\$ _____
Electricity	\$ _____
Water or sewage	\$ _____
Telephones (<i>landlines and cell phones</i>)	\$ _____
Renters or homeowners insurance (<i>if not included in mortgage</i>)	\$ _____
Trash service	\$ _____
Home maintenance and furnishings	\$ _____
Cleaning supplies	\$ _____
Lawn service	\$ _____

Transportation

Gas	\$ _____
Car payment	\$ _____
Car insurance	\$ _____
Car inspection	\$ _____
Car repairs and maintenance	\$ _____
License plates and registration fees	\$ _____
Public transportation or taxi	\$ _____
Parking and tolls	\$ _____

Food

Groceries	\$ _____
School lunches	\$ _____
Work-related (<i>lunches and snacks</i>)	\$ _____

Insurance

Health (<i>medical and dental, if not payroll-deducted</i>)	\$ _____
Life	\$ _____
Disability	\$ _____

Medical

Doctor	\$ _____
Dentist	\$ _____
Prescriptions	\$ _____

Childcare

Childcare or babysitters	\$ _____
Child support or alimony	\$ _____

Clothing

Clothing	\$ _____
Laundry and dry cleaning	\$ _____

Donations

Religious or charity	\$ _____
----------------------	----------

Education

Tuition	\$ _____
Books, papers and supplies	\$ _____
Newspapers and magazines	\$ _____
Lessons (<i>sports, dance, music</i>)	\$ _____

Gifts

Birthdays	\$ _____
Major holidays	\$ _____

Personal

Barber or beauty shop	\$ _____
Toiletries	\$ _____
Children's allowances	\$ _____
Tobacco products	\$ _____
Beer, wine or liquor	\$ _____

Entertainment

Movies, sporting events, concerts, etc.	\$ _____
Video rentals	\$ _____
Internet service	\$ _____
Cable/satellite TV	\$ _____
Restaurants and take-out meals	\$ _____
Gambling and lottery tickets	\$ _____
Fitness or social clubs	\$ _____
Vacations/trips	\$ _____
Hobbies or crafts	\$ _____

Miscellaneous

Checking account and money order fees	\$ _____
Pet care and supplies	\$ _____
Postage	\$ _____
Pictures and photo processing	\$ _____
"Mad" money	\$ _____

Debts

Student loan	\$ _____
Credit card (<i>monthly minimum</i>)	\$ _____
Credit card (<i>monthly minimum</i>)	\$ _____
Credit card (<i>monthly minimum</i>)	\$ _____
Medical bills	\$ _____
Personal loan	\$ _____

Other

Other	\$ _____
Other	\$ _____
Other	\$ _____

Total Regular Monthly Expenses \$ _____

Monthly Discretionary Income Worksheet



Figure Your Discretionary Income	Extra Money Each Month
Total Monthly Income	\$ _____
Minus total regular monthly expenses	\$ _____
Discretionary income <i>(Balance available to spend or save)</i>	\$ _____

KEEPING TRACK OF YOUR SPENDING

The best way to find out where your money really goes is to begin keeping track of everything you and members of your household spend money on – from picking up the dry cleaning to getting shaving cream and greeting cards at the drug store to stopping for fast food to filling up at the gas station. Find a simple method of tracking that works for you, whether it be saving all receipts from purchases or giving each person a small notebook to write down expenditures.

The first step in taking command of your finances is to figure out where all the money is going. Only then can you redirect it for your benefit.

Look at your expenses weekly, and you may be surprised where the money goes. When you begin to develop a spending plan that includes saving for your goals, you can use your records to help you find places to cut your spending.

Fixed Expenses

Some living expenses usually stay the same each month, such as rent, utilities, car payments, insurance payments and child support. These are fixed expenses. Are there any fixed expenses you can reduce or eliminate? Can you remove features, like call waiting from your phone? Can you carpool with a coworker to save on gas? If you have a high interest rate on your car loan, can you get a better rate at the credit union and reduce your monthly car payment?

Periodic Fixed Expenses

Expenses for goods and services, like car insurance and water and sewage, while fixed, may be paid only periodically – for example, once, twice or four times per year. These are periodic fixed expenses. Are there periodic fixed expenses you can reduce or eliminate? Can you shop around for a better quote on your car insurance?

Flexible Expenses

Many expenses change from month to month, like amounts spent on groceries, entertainment and personal items. These are flexible, or variable, expenses. Are there flexible expenses you can reduce or eliminate? Can you do without cable TV or reduce the number of channels you pay for? A lot of the money that many people earn that is not required for fixed expenses is spent on entertainment and eating out. This extra, or discretionary, spending is often the best place to cut expenses and save money to reach your goals. Consider the example of Ralph.

Ralph's Story

Ralph worked construction in Detroit. Every day, he stopped on his way to work and bought a doughnut and coffee for \$1.59. Ralph really wanted to fly home for his father's 70th birthday party, which was 10 months away, but the ticket

to Baltimore would cost \$260. After paying the bills each month, Ralph never seemed to have anything left over. He didn't know where he would find money for the trip. Then Ralph realized that if he skipped the doughnut and coffee every morning he could save nearly \$350 in the 10 months. Happy Birthday, Dad!

*Photos and text are simulations.



Indebtedness Expenses

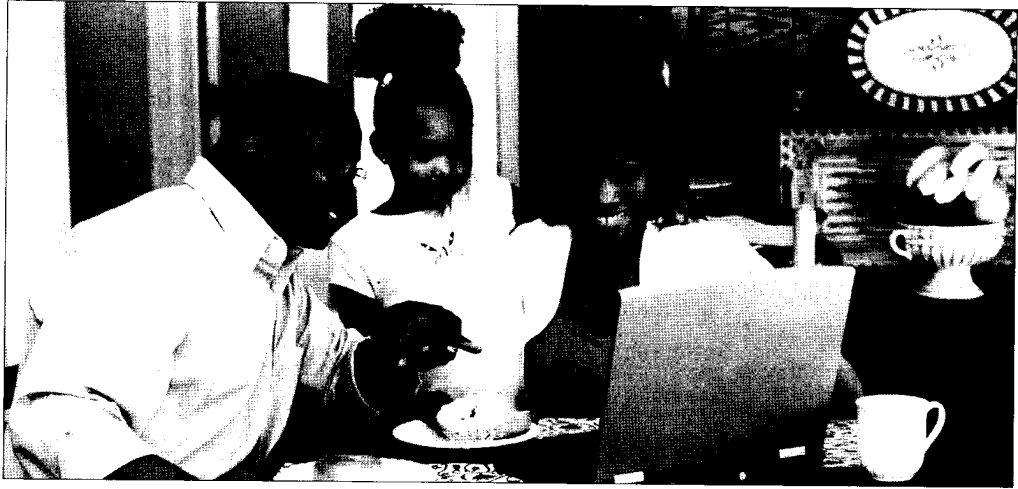
A debt is an obligation to pay someone money for goods and services bought on credit. Credit allows you to buy the things you want and need now and pay for them later. Credit may be extended through credit cards, personal loans, car loans and home mortgages.

Indebtedness expenses are the minimum monthly payments due to your creditors, although it is a good practice to pay more than the minimum amount due to pay off your debt sooner and save money on interest charges. Usually you receive bills for these expenses or pay a fixed amount monthly. Are there debts you can eliminate by paying them off in full? Could you refinance any of your debts at a lower interest rate to reduce your monthly payment? Would credit card consolidation lower your monthly payments and help you pay off your debts sooner? You'll learn more about digging out of debt in the Understanding Credit section.

Take a close look at the spending you have recorded. Are you buying things you don't need or want? What items cost too much? Are you paying more for some things than you would if you compared prices at different stores? Search for ways to save on groceries, utilities, phone calls and spending for nonessentials (things you do not need).

Have a household brainstorming session. Talk about ways you can help each other cut expenses. Here are some suggestions:

- **Clip coupons together.** Save receipts and figure out how much you saved using the coupons. Exchange coupons with friends.
- **Use a list to do grocery shopping,** so you buy only what you need. Add to the weekly grocery list by posting it in a convenient place and adding items as the week goes by.
- **Make cost comparisons fun.** Shop with family members and compare prices for an item in different stores. Or discuss an item's different prices at a family budget meeting.
- **For big purchases, get at least three different prices.**
- **Decide household members' allowances** by talking with them about what they really need and what their goals are. Help each other manage allowances.
- **Eat at home** as often as possible, and take your lunches to work. Share the task of making meals, or make them together. Eating out can be very expensive.
- **Look in resale shops** for quality used clothing, furniture, sporting equipment and toys.
- **Trade services with friends** rather than paying for them. For example, trade babysitting to reduce the cost of a night out, trade tutoring in math for lawn mowing, or plumbing for tax preparation.
- **Find fun free activities** and places in your area, such as concerts, parks and museums.



REVIEWING THE PLAN

The Monthly Spending Plan has a column for each amount you plan to spend and the amount you actually do spend each month. This is so you can review the plan at your monthly household meeting to see how you are doing. After three or four months of having meetings and writing down spending, ask household members:

- Is our spending plan working?
- Are all household members able to follow the spending plan?
- Which costs seem to be always over the planned amount?
- Are we getting closer to reaching our goals?

Remember, this is your family's spending plan. If it is not working, you can change it!

WAYS TO MAKE MONEY MANAGEMENT EASIER

- Decide who pays bills and when they will pay them.
- Know when bills are due. Time your fixed payments, your rent or mortgage and your car loan payment to match your paycheck schedule.
- Ask if your utility companies offer "level billing payments" or an "average payment plan." This divides your bills into 12 equal payments. It helps with managing your money because you know how much the payments will be even when you're using a lot of heat or air conditioning.
- Open a checking account for paying your bills. This also gives you another way to see what you spend.
- Open a savings account for emergencies, not just to make your future goals. If something goes wrong, you'll have money to fix it and pay your regular bills. Savings can help you avoid major problems that can wind up costing you more in the long run.

- Consider consolidating credit card accounts. If you have several credit card accounts open and you owe something on each, ask if you can consolidate them by paying off the amounts due with a cash advance from the card with the lowest interest rate. Many companies offer even lower rates if you transfer the balance from another account. After the transfer, be sure to cancel the other accounts slowly over several months so you are not tempted to run up new debts. Make a goal for paying off the consolidated balance. Figure out how much you need to pay each month to meet your goal.
- Consider selling a car. If you have a newer car with a high car payment, ask yourself how important the car is in relation to other goals. It may make sense to sell the car, buy an economy model and bank the difference.
- Check the interest you are paying on any other loans you have. Then see if your local bank or credit union will refinance those loans at a lower rate.
- Stick to the plan. Once you and your family have agreed on a spending plan, you owe it to each other to stick with it.

CONTROLLING YOUR DAY-TO-DAY SPENDING

Here are some ways for making the most of your income and controlling your day-to-day spending:

- Carry written reminders of your goals with you. When you are about to buy something, read your goals. Then decide whether that purchase will help you get closer to your dreams or goals.
- Carry as little cash as possible, and don't shop just for something to do. Avoid frequent trips to the automatic teller machine (ATM) for pocket change, as it adds up quickly.
- Use direct deposit if your employer offers it. Your paycheck will automatically be deposited in your bank account.
- Put items on layaway. This helps stop you from buying on impulse, without thinking. Also, layaway plans usually do not have finance charges, as credit cards do.
- Buy only what you need. Do not buy items just because they are "on sale" or just because you have a coupon.
- Most important of all, try to pay with cash, a check or a debit card instead of a credit card. Using a credit card adds a finance charge to the cost of your purchase if you do not pay off the entire bill. Debit cards, unlike credit cards, withdraw money directly from your checking account. Because it is your own money, there is no interest. But, debit cards do immediately deduct funds from your checking account. You should note in your checkbook each time you use your debit card, write a check or withdraw money from an ATM. Then you won't accidentally overdraw your account.

The Importance of Saving

Unless you win the lottery, you are not likely to reach your goals unless you save. Keeping your savings in the piggy bank is fine for small amounts of money, but your savings will grow faster if you put your money in a savings account at a bank or credit union. They will pay you for letting them hold your money. The payment you receive is called interest, and it adds up. For example: If you save only \$2 every day, and put it in a savings account at two percent interest, at the end of two years you will have saved \$1,504.09.

Try to find ways to save 10 percent of your income. Many employers offer direct deposit, so that the amount you want to save each month is deducted from your paycheck and sent straight to your savings account. You can still take it out of savings at any time, but you don't have to remember to make the savings deposit. Ask your employer about this service.

TYPES OF SAVINGS ACCOUNTS

Regular Savings Account

This is your basic savings account. Many banks and credit unions do not charge a fee for regular savings accounts. The minimum deposit requirement is low, from \$5 to \$200. Your money earns a relatively low interest rate, but you can put money in and take money out of your account whenever you want to. Basic savings accounts are also called demand deposit and passbook accounts.

Club Account

A club account is a type of savings account you "join" to save money for a special reason, such as holidays or vacations. Club accounts usually require you to make regular deposits. For example, some banks offer a Christmas Club. You agree to deposit a set amount each month, maybe \$50, and by December you will have \$600 plus interest to spend on Christmas gifts.

Certificate of Deposit (CD)

This account earns a higher interest rate than a regular savings account, but you have to make a larger minimum deposit, generally between \$1,000 and \$5,000. You also have to keep your money in the CD for a certain period of time. The longer you promise to keep your money in a CD, the higher the interest rate. If you take your money out before the end of the term, you may have to pay a penalty.

Money Market Account

This account earns a higher interest rate than a regular savings account, but you have to make a larger minimum deposit, averaging between \$500 and \$2,500. This account also limits the number of times you can take out money each month.

Matched Savings Account

This is a special type of savings account. You keep your money in a bank, and the amount of money you put in your account is matched by a set amount. This amount is much higher than the interest rate on a regular savings account. For example, some banks will give you \$3 for every \$1 you save. You can only use the accounts for certain things, such as buying a home. Examples of matched savings accounts include Individual Development Account (IDA) programs and Family Savings Account (FSA) programs.

Program requirements vary, so you'll need to see if you qualify to open an account in your area. Visit www.idanetwork.org for more information on IDA programs.

If you are saving for a long-term goal, like the down payment for a house, you may want to put your money in a CD or a money market account to earn a higher interest rate. You can put all of your savings into one account, or if you are saving for different things, you can open more than one account and keep the money separate. For example, you may have one savings account for household repairs and emergencies and one where you save for your goals.

Getting in the habit of saving is more important than how much you save. If the amount you planned is too high, change it, but keep on saving.

TIPS FOR SAVERS

- Pay yourself first before spending any of your paycheck. Put whatever you can in your savings account, even if it seems like a small amount.
- Open a savings account at a bank that is not very close to your home or work, so you can't withdraw your money easily.
- Keep your change at the end of each day. Put it in a special savings container or your piggybank. Every couple of months, count your change and take it to the bank.
- Bank your surprises. If you receive money unexpectedly, such as a gift or a tax refund, deposit it in your savings account.



The Carrascos

Ana, Maria and Manolo sat around the kitchen table on a Sunday evening for their second family meeting. At their first meeting, they had written down their long-term goal, to save money to buy a house. They made a list of possible ways to trim expenses.

Next, they figured their monthly income. They estimated what they expected to earn that year.

Then, for the next two weeks, each carried a pocket notebook. Ana and Maria reminded each other to write down the cost of any item they bought. Their record seemed pretty complete. Since Manolo was on his own and working outside in a group, writing down what he spent was more difficult for him.



At their next meeting, Ana drew up a budgeting form with these categories: rent, food, transportation, phone, medical, clothing and entertainment. Using bill stubs – Manolo’s paycheck stubs, receipts and other records they saved throughout the month, they filled in the weekly and monthly costs.

Then, they added up how much they had spent in two weeks. With this information, they tried to find ways to save. That was the hard part – they were already saving money in every way they could think of.

Ana said she’d been meaning to borrow her sister’s sewing machine. Perhaps she could make clothes instead of buying them; she really did enjoy sewing. Maybe she could take in some alteration work.

Without saying so, Maria and Ana had been hoping Manolo would offer to cut some of the expense of going out on Friday nights with his friends. Then Manolo said he’d been planning to call a bricklayer who was looking for a part-time helper on Saturdays. He added, that would mean Friday nights at home.

The Carrascos thought that, with these changes, they could save about \$165 a month. In two years, they estimated, they would have enough for a down payment. That week, Ana and Maria opened a checking account at the bank where they had their savings account. A checking account, Ana said, might help them keep track of their money more closely than if they carried cash.

*Photos and text are simulations.

THINKING AND SAVING LIKE A HOMEOWNER

If homeownership is one of your goals, your spending plan should include savings and other costs of buying a home. Some of the costs you might not have considered are loan fees, appraisals, moving costs and insurance. All of these are explained in detail in the Shopping for a Home section.

Now, imagine yourself already in your own house. Besides the excitement of being a homeowner, you may be surprised at the number of new monthly expenses you'll have. Even if your monthly mortgage payment is no more than you are currently paying in rent, you are likely to have higher utility bills, more insurance, property taxes and all of the costs of upkeep and repair.

Think like a homeowner. Set aside a part of your income each month so that you will be ready for these bills when they occur. For yearly upkeep and repairs, some housing specialists say you should budget one percent of a home's purchase price. For example, if your house cost is \$100,000, you might need \$1,000 every year to keep it in good shape. The amount of money you'll need to keep up your property is probably more than you think.

Plus, you will probably want or need things that are provided in a rented house or apartment, like a refrigerator, washer and dryer or furniture. Do not be in a hurry to make purchases. Make a plan to save for each of these purchases. If you buy them on credit, the monthly bills could make it difficult for you to make your new mortgage payment.

Getting Help

If, after trimming your expenses and controlling your day-to-day spending, your income is not enough to cover your expenses, you should meet with a housing or financial counselor from a reputable nonprofit organization to work on ways you can change that.

CHOOSING A COUNSELOR

It's important to choose your housing or financial counselor carefully. Research the counselor's agency to make sure its services are reputable, even if the agency is a nonprofit. Also, find out about the counselor's skills and credentials. When it comes to your finances, you need the help of a well-trained and knowledgeable counselor.

The following are good referral services for reputable housing and financial counseling agencies:

- *NeighborWorks® America* maintains a list of NeighborWorks® organization members that provide housing counseling and other homeownership services. To find an organization near you, call (202) 220-2300 or visit www.nw.org.
- *National Foundation for Credit Counseling* maintains a listing of financial counseling agency affiliates. To find an agency near you, call (800) 388-CCCS or visit www.nfcc.org.
- *The U.S. Department of Housing and Urban Development* maintains a list of HUD-approved housing counseling agencies that can give you advice on buying a home, renting, defaults, foreclosures, credit issues and reverse mortgages. To find an agency near you, call (800) 569-4287 or visit www.hud.gov.

Rosalie Hill Gets Help

Rosalie Hill made an appointment at the credit counseling agency she had called. The counselor there sent her a questionnaire. Rosalie wrote out answers to the questions during her lunchtime at work. She hired a babysitter for the evening of the appointment.

Rosalie went to see the credit counselor. She learned that many, many people have credit problems and that there are ways she could save money and get out of debt. The counselor told her that the first step was figuring out how much she made, how much she owed and where she might save. He suggested that Rosalie keep a record of spending every day. That way, she could look for expenses she could trim. Driving home after the appointment, she felt full of hope. She was confident that she could learn to manage her money. She realized that, as a start, she could take lunch from home instead of buying lunch or snacks at work.

At the counselor's suggestion, Rosalie set a time to complete income and expense forms. As she wrote in how much she owed, she became more frustrated. Comparing income with expenses made her feel that her situation was hopeless. Rosalie could not believe she would ever be able to pay back the money she owed. She almost did not keep her next appointment with the credit counselor. Later on, Rosalie was very glad she did.



*Photos and text are simulations.



Summary

Every one of us, from millionaires to day laborers, lives under the same law of economics: If you keep spending more than you earn, eventually you will go broke. Learning to live within your income and make the most of your earnings to help you reach your goals, especially the goal of homeownership, has been the topic of this section.

Managing your monthly income so that you can pay your bills and save toward your goals is an important part of learning to live within your income. This section showed you how to figure out where your money goes now and how the whole family can prepare a realistic spending plan. Other suggestions in this section included ways to reduce your spending and tips for saving.

Specifically, you learned:

- The importance of establishing a realistic spending plan
- The steps involved in developing a spending plan
- How to set financial goals and make a spending plan to meet them
- Ways to trim expenses and make money management easier
- Strategies to increase your savings

Remember, people don't plan to fail, but they often fail to plan. Making a plan for how you spend and save your money can help you reach your goal of homeownership and sustain the joy of being a homeowner for years to come.

Managing your money wisely is an important step in the homebuying process, and an important step on your long-term path to financial security.



Self-Test

Try to answer all of the questions. If you are not sure, look back at the workbook for the answer. Then check your own answers.

QUESTIONS AND ANSWERS

1. What are three reasons for having a spending plan?

1) _____

2) _____

3) _____

2. What are the three steps in establishing a spending plan?

1) _____

2) _____

3) _____

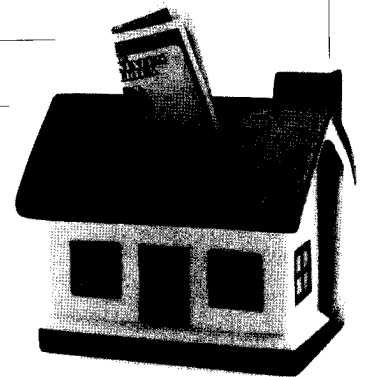
3. What is a short-term goal?

4. What types of expenses are easiest to cut?

5. What are two tips to trim expenses or increase savings?

1) _____

2) _____





TRUE OR FALSE

Circle the correct answer. If the answers are false, make them true by adding a word or phrase.

- | | | |
|---|------|-------|
| 1. When writing your spending plan, you should plan according to what your income is now. | True | False |
| 2. In saving for long-term goals, you should pay yourself last. | True | False |
| 3. Only one person in the family needs to believe that the spending plan is reasonable for the family to succeed at money management. | True | False |
| 4. It is generally a good idea to include some spending money for each family member. | True | False |
| 5. If the spending plan is not working, it's OK to change it. | True | False |
| 6. CD and money market accounts usually earn lower interest rates than regular savings accounts. | True | False |

MATCHING

Column A lists terms associated with money management. Column B contains a list of definitions. On the line to the right of each term in Column A, put the letter of the item in Column B that best describes that term.

Column A

- 1. Net income _____
- 2. Discretionary income _____
- 3. Need _____
- 4. Want _____
- 5. Fixed expense _____
- 6. Flexible expense _____

Column B

- a. An expense that changes from month to month
- b. The balance left at the end of the month after you subtract your regular expenses from your income that is available to spend or save
- c. A living expense that usually stays the same each month
- d. An item that you must have for basic survival
- e. The amount of pay you take home after taxes and other payroll deductions
- f. A thing you desire but can live without

Resources

1001 Ways to Cut Expenses by Jonathan Pond, Random House, Inc.

50 Simple Things You Can Do To Improve Your Personal Finances by Ilyce Glink, Crown Pub.

100 Questions Every First-Time Home Buyer Should Ask by Ilyce Glink, Crown Publishing

CreditSmart by Freddie Mac

Get a Financial Life: Personal Finance in Your Twenties and Thirties by Beth Kobliner, Fireside

The Millionaire Next Door by Thomas Stanley and William Danko, Longstreet Press, Inc.

Money Smart by the Federal Deposit Insurance Corporation

Nine Steps to Financial Freedom by Suze Orman, Crown Publications

Personal Finance for Dummies by Eric Tyson, IDG Books Worldwide

Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money – That the Poor and Middle Class Do Not by Robert Kiyosaki and Sharon Lechter, Warner Books

Rich Dad, Poor Dad for Teens: The Secrets About Money – That You Don't Learn in School

Suze Orman's Financial Guidebook: Put the 9 Steps to Work by Suze Orman, Three Rivers

Women and Money: Owning the Power to Control Your Money by Suze Orman

The Wealthy Barber, Updated 3rd Edition by David Chilton, Prima Communications, Inc.

Grow Your Money! Easy Tips to Plan, Save, and Invest by Jonathon Pond, Harper/Collins