

# Defeat Debt

Credit Advisors Foundation

Volume 48, Issue 8

## Under construction: Building your financial house

Anyone can build a financial house. The problems begin when you try to live in it. Especially, when the process of building has been on auto-drive and not given the attention it deserves.

To begin, one would need to check the lay of the land in which the house would be built. Is it firm solid ground? Or, is it sand that will shift and cause stress to the structure?

Determining the lay of the land or grounding yourself in accurate financial information is central to building a solid, secure financial house.

Understanding basic financial terminology, recognizing the pros and cons for you and your situation in the numerous financial offerings available today, can only help you to insure that you are building on firm, solid ground.



*You can build a strong secure financial house.*

Next, it's time to design the plans for the building of your house. The goals you set, both long term and short term will be the strategies that guide the building of your financial future. If you do not know what you want to accomplish you will never know when the building is complete. Plans for your house must be specific, measurable, achievable, realistic and timely. Now is the time to be as detail oriented as possible, anticipating current and future needs effectively, such as college or retirement. The foundation of your financial house is equally important – a budget. The budgets you create for meeting the needs of everyday living, and achieving short term goals, and long term goals must be well constructed. Creating a budget for you and your family will not do anyone any good if everyone – all the major players affected by the budget – are not on the same page and in balance. For example, does your spouse have different goals or attitudes about money that need to be considered? Negotiate where necessary to gain consensus with the other workers who are assisting you in building the financial house.

Setting and building the walls

of your financial house is the time to distinguish what financial activities will be required by your plans and budget. Will the plans you have developed require an investigation of the different types of credit offerings available? Would bank loans or credit cards make more sense for assisting you to meet your goals? Or when choosing a credit card, would a fixed rate or variable rate of interest be more appropriate for your situation? Are there reward programs attached that could speed your ability to accomplish your objectives? Consider when credit will be required for what you want to accomplish – some of those walls may be load bearing – in other words, does the stability of your house depend on some of the credit and debt choices you make? Remember, too little credit can limit your options, while too much credit usage will create a maze of confusion in your financial house. Using credit wisely will create sturdy walls to support your financial efforts.

Of course, consideration must also be given to the roof of your financial house. How will you keep your home warm (or cool) and dry? How will you keep it protected from the rain and winds of storms like health or

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## Under construction

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medical issues, loss of a job, divorce or death of one of the other builders in your house? In other words, what type of savings programs and insurance will improve the likelihood of security for you and yours? What method of saving is needed to achieve your goals and complete your plans? There are of course, many different options available from a bank savings account to investing in the stock market, mutual funds, certificates of deposit, or an employer matched 401(k), each with positive and negative features to be considered.

Once you've completed building your house, new concerns may arise. How will you maintain it? How do you stay up to date on the most recent financial practices and offerings available that can be used as tools in the continued upkeep of your financial house? Consciously pursuing continuing financial education will assist you in staying in the know.

Of course, it's always important to remember your financial house will not

be built overnight. But really, anything of any real value rarely is. Undoubtedly, you will face construction delays, budget over-runs, and so on. Life has a way of throwing complications into the mix, like not receiving an anticipated bonus, pay increase or promotion, or being surprised by lay offs, or accidents, all of which can short circuit your immediate plans and possibly postpone your long term endeavors. At moments like that, referring back on your design plans, making adjustments as needed and refocusing forward will help to get you through.

As any respectable carpenter will tell you, not every problem is a nail; you need the right tool for the right job, so let's review:

- The land – learning as much as you can about personal financial matters will pay back big when you are looking for solid grounding on which to build your financial future
- The plans or blueprints – without goals you will have no idea where to



*Will the financial house you've built weather the storms of life?*

start building the structure of your financial future or when that future has arrived.

- The foundation – well thought out and effective budgets are the very foundation that your financial situation will be built on. Lack of a strong foundation allows for rickety, and unstable construction prone to collapse in a house and your finances.

- The walls – Credit and debt can be useful to help define the structure or layout of your house. Too much credit or too many walls can become confining over the long term.

- The roof – saving for immediate needs and the future will provide you and yours with safe shelter inside your financial house. So finally, what's the point? The same message you hear in Defeat Debt month after month. Take the time to learn as much as you can about finances, credit and debt, setting long term and short term goals and build yourself a useful budget so your financial house will continue to stand the test of time.

## Credit Score Quiz

What's your credit score quiz score?

1. Does paying your bills on time increase your credit score?
2. If you received an increase in income would that fact alone raise your credit score?
3. Does reducing the limits on your credit cards increase your credit score?
4. What credit score do you think you need in order to obtain the best mortgage rate?

These are some of the questions asked in a recent telephone survey of just



*Paying bills on time can increase your credit score*

over 1000 of your fellow consumers by GMAC Mortgage. Unfortunately, the survey results revealed that as many as half of those surveyed do not completely understand what

exactly goes into the creation of a credit score. In fact, even some of the news articles discussing the survey were not any better about agreeing on basic credit score information. One thing they did agree on, most everyone could and probably should increase their knowledge about credit scores. The FICO score, created by Fair Isaac, is used by the big three credit reporting agencies and runs between 300 and 850. The higher the score, the lower the calculated risk to the lender and the more likely you will repay the debt. What are the correct answers to the survey questions?

1. Yes. Paying your bills on time is a good way to increase your credit score. Credit scores are about risk – how much risk is there to the lender that you will repay the debt. The history of how you have repaid debt in the past indicates the likelihood you will continue to repay your debt in the future.
2. No. Credit scores are based on

*As many as half of those surveyed do not completely understand their credit score*

information found on your credit report and pay increases are not recorded there. (However, a pay increase may improve your ability to repay your debt which will improve your credit score. See question #1.)

3. No. Reducing the limits on your credit cards would in all likelihood do just the opposite. Calculation of credit scores takes into consideration how much of the credit you have available (limits) that you are actually using (balances). (In other words, pay attention to the balances. Keep them below 40 percent of the limit to maintain a positive score.)

4. This is where people really disagree. You can get a reasonable rate with a credit score in the mid 600's, however, for the best rates lenders are looking at those scores between 720

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## WORD SEARCH

Read the articles in Defeat Debt, the words are there, it's a good bet, so take a look, see if you find, the hidden words and test your mind.

The following words are hidden in the August 2005 Word Search puzzle at left.

ACCOUNT HOUSE

BILL INCOME

BUDGET LAND

BUILDING LEARN

CHANGE RISK

CREDIT SAVING

DEFAULT TELEPHONE

ECONOMY VALUE

GOAL WALL

T	E	L	E	P	H	O	N	E	K
S	E	P	T	I	D	E	R	C	J
B	U	D	G	E	T	L	A	O	G
U	L	A	N	D	Z	Q	L	N	A
I	A	B	I	L	L	E	E	O	C
L	V	M	R	I	S	K	A	M	C
D	E	F	A	U	L	T	R	Y	O
I	N	C	O	M	E	L	N	N	U
N	C	H	A	N	G	E	A	A	N
G	N	I	V	A	S	T	R	W	T

## Credit Score Quiz

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and 850, according to the FICO loan savings calculator.

How did you do? Here are a few more questions with which to quiz yourself about credit scores:

Will closing a credit account increase your credit score? (No. In fact, it could easily do just the opposite as the length of your credit history is also used to calculate your score.) Are there types of credit that are considered riskier on your credit report? (Yes. Credit cards are considered the riskiest type of debt due to the unsecured status.) Does participating in credit counseling affect your credit score? (No. Fair Isaac says that references to credit counseling are not considered in calculating risk to lenders as there is no statistical information to indicate that those who participate in credit counseling default on their debts more frequently than anyone else. Of course, a lender may have questions about credit counseling participation depending on the type of credit you are attempting to obtain, as most creditors ask that you not increase your debt load during that time.)

Sponsored by:



**Workshop Location:**  
1850 South 72<sup>nd</sup> St.  
Omaha, NE



**FREE!**

**FREE!**

## Budgeting Workshop

Friday, August 12, 2005

11:00am & 1:00pm central

Please RSVP by August 10th

402-501-8182 or

[emily@creditadvisors.org](mailto:emily@creditadvisors.org)

Out of area? Toll Free Conference

Call: 1-866-285-7780

enter code 4425358

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Get out of debt with no regret



## The Kitchen on a Dime

If you are tired of the same old baked potatoes when grilling this summer, check out this month's The Kitchen on a Dime recipe for something a little different.

### Smoky Cheddar Potatoes

#### Ingredients:

- 6 medium potatoes; cut into 1-inch chunks
- ½ teaspoon salt
- 2 tablespoons margarine or butter
- 1 cup shredded Cheddar cheese (4 ounces)
- 2 tablespoons bacon bits
- 2 medium green onions, sliced (2 tablespoons)

#### To make:

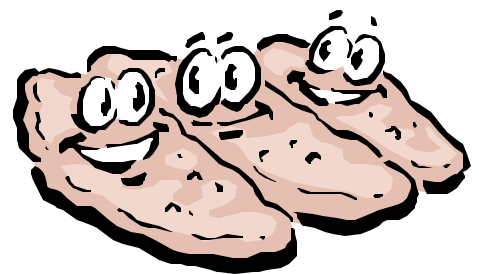
Heat coals or gas grill. Place potatoes on 30x18-inch piece of heavy-duty aluminum foil. (If you do not have heavy-duty aluminum foil, wrap potatoes in two layers of regular-strength foil.)

Sprinkle potatoes with salt; dot with margarine. Sprinkle with cheese and bacon bits.

Wrap foil securely around potatoes. Pierce top of foil once or twice with fork to vent steam.

Cover and grill foil packet, seam side up, 4 to 6 inches from medium heat for 45 to 60 minutes or until potatoes are tender. Sprinkle with onions.

Notes: This recipe makes 6 servings at



*Made on the grill this recipe gives a different twist to the usual baked potato.*

less than 50 cents a serving.

Also, using Yukon Gold potatoes in this recipe will give the dish a pretty golden color and a rich, buttery taste.