

Financial Information for Medical Students



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Dear Student,

On behalf of Red to Black, we would like to welcome you to Texas Tech University!

Red to Black provides free and confidential financial counseling and education for TTU students.

This booklet is designed to help you with some of the basics of personal finances. The information is meant to guide you through personal financial decisions while in college.

If you need more information on a particular topic or need financial advice, please call (806)743-2300 or visit the Red to Black website at www.r2b.ttu.edu.

Sincerely,

The Red to Black Staff

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12 Principles Every Young Person Should Know

Source: The JumpStart Coalition
www.jumpstart.org

1. **Map your financial future**—Take time to list your financial goals, along with a realistic plan for achieving them. You can go places you want to go without a roadmap—but seldom on the first try.
2. **Don't expect something for nothing**—Be leery of advertisements, sales people or other sources of financial offers promising anything free. Like non-financial opportunities, if it sounds too good to be true, it probably is.
3. **High returns equal high risks**—Recognize that no one will pay you high interest rates on a sure thing. In most cases, the higher the interest rate offered to you, the investor, the higher the risk of losing some, or all, of the money you invest. Diversification of assets is the best protection against risk.
4. **Know your take-home pay**—Before committing to significant expenditures, estimate how much income is likely to be available for you. Net income, after all mandatory deductions, is more important to estimate than gross income before deductions.
5. **Compare interest rates**—Obtain rate information from multiple financial services firms to get the best value for your money.
6. **Pay yourself first**—Before paying bills and other financial obligations, set aside an affordable amount each month in accounts designated for long-range goals and unexpected emergencies.
7. **Money doubles by the "Rule of 72"**—To determine how long it will take your money to double, divide the interest rate into 72. For example, an account earning 6% interest will double in twelve years (72 divided by 6 equals 12).
8. **Your credit past is your credit future**—Be aware that credit bureaus maintain credit reports, which record borrower's histories of repaying loans. Negative information in credit reports can affect your ability to borrow at a later point.
9. **Start saving young**—Recognize that your total savings are determined both by the interest you earn on those savings and the time period over which you save. The sooner you start saving, the more funds you'll be able to amass over time.
10. **Stay insured**—Purchase insurance to avoid being wiped out by a financial loss, such as an illness or accident. An insurance plan should be part of every personal financial plan.
11. **Budget your money**—Create an annual budget to identify expected income and expenses, including savings. This will serve as a guide to help you live within your income.
12. **Don't borrow what you can't repay**—Be a responsible borrower who repays as promised, showing you are worthy of getting credit in the future. Before you borrow, compare your total Payment obligations with income that you will have available to make these payments.

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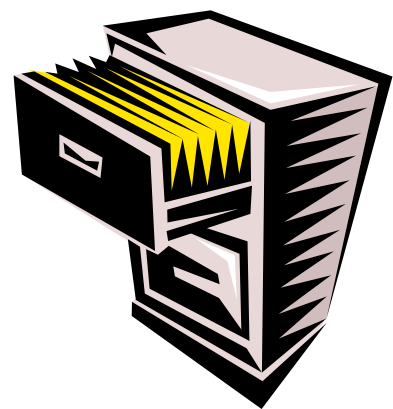
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General Financial Tips

- Keep important information in a safe place, such as a safe deposit box or a fire-proof safe. This should include:
 - A home inventory of everything you own with a value. Then if there is a fire, natural disaster, or someone breaks into your apartment or dorm, you will have a record of what was lost to give to the insurance company.
 - Tax records and returns for at least the last 3 years
 - Insurance policies
 - Titles to vehicles or the deed to a house
 - Social security card and passport
 - Expensive jewelry
- Order and check your credit report once per year to ensure there are no errors. Checking your report and fixing errors before you get ready to apply for a mortgage to buy a house can save you time and money.
- Keeping your files organized makes it easier for you to find information about your earning and spending and to update important financial information.
 - Keep a file for all financial aid and scholarship paperwork
 - Keep a file for each utility company
 - Keep a file for paystubs and work information
 - Keep a file for insurance
 - Keep a file for bank statements and receipts
 - Keep a file for car information such as payment stubs, registration papers etc.
 - Keep a file for student records such as transcripts



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Financial Planners

Experts advise individuals with an annual income of \$50,000 or more to consider supplementing their own knowledge of personal finance with the expertise of a professional financial planner who possesses appropriate certifications. A financial planner should be able to analyze family total needs in such areas as retirement planning, investment options, savings programs, tax-saving strategies, insurance coverage, and education goals. They will then formulate a cohesive plan that allows the client to prioritize goals and rearrange assets and liabilities to fit the client's lifestyle, stage in the life cycle, and financial goals.

Types of financial planners:

- **Commission-only**– live solely on the commissions they receive on the financial products (such as the investments or insurance) they sell to their clients. The financial plan will be free, the payment will come from commissions
- **Fee-only**– earns no commissions and works solely on a fee-for-service basis. Typical charges are \$50 to \$200 per hour or 1% of the client's assets annually. They usually need five or more one-hour appointments to analyze a client's financial situation thoroughly and to present a plan. Fee-only planners do not sell financial products, and can claim to be free of potential conflicts of interest in making recommendations. A true fee-only planner is difficult to find because planners are allowed to offer fee-only services as well as to sell commission products to other customers.
- **Fee-based**– charge an up-front fee for providing services and charge a commission on any securities trades or insurance purchases that they conduct on your behalf.

Possible Professional designations and credentials:

- MBA-master of business administration
- MFP-master of financial planning
- MS-master of science
- CFP-Certified Financial Planner™
- ChFC-Chartered Financial Consultant
- CLU-Chartered Life Underwriter
- AFC-Accredited Financial Counselor
- MFCC-Mutual Fund Chartered Counselor
- RIA-Registered Investment Adviser

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Hiring a Financial Planner

Finding a financial planner in your area

There are several organizations that can help you find a financial planner in your area. You may contact the Financial Planning Association at (800)806-7526 or visit www.fpa.net. The National Association of Personal Financial Advisors will provide names of fee-only planners in your area who are paid for only by the client and do not receive commissions from financial products they recommend.. They can be reached at (888)333-6659 or www.feeonly.org. The American Institute of Certified Public Accountants can be reached at (800)862-4272 or www.aicpa.org and can recommend CPAs in your area who are personal financial specialists.

Questions you should ask potential financial planners:

- Are you a Certified Financial Planner (CFP)TM?
- What do you charge for your services?
- Do you receive commissions, and from whom?
- How long have you been in financial planning?
- How long have you been in this community and do you have client references for your professional reputation?
- Will you provide references from three or more clients you have counseled?
- Will you or an associate evaluate and update the plan you suggest?
- Will you share examples of plan and monitoring reports you have created for other investors?
- What trade organizations do you belong to?
- What is your area of expertise?

Checking the background of a financial planner

The CFP Board of Standards keeps records on planners holding the CFP certification and can be reached at (888)237-6275. The National Association of State Insurance Commissioners can be reached at (816)842-3600 and will direct your call to the appropriate state agency. The National Association of Securities Dealers Regulation oversees securities brokers and can be reached at (800)289-9999. The North American Securities Administrators Association (888)846-2722 and the Securities Exchange Commission (800)732-0330 regulate investment advisors.

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Financial Aid or Financial Planning?

There are several differences between financial aid and financial planning.

FINANCIAL AID

Provides information and counseling on:

- scholarships
- grants
- student loans
- financial aid student budget

FINANCIAL PLANNING

Provides information, workshops, and counseling about the following:

- credit reports and scoring
- credit cards
- money management
- benefits
- personal budgeting
- retirement planning
- investing
- estate planning (wills, trusts etc.)
- saving money

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Determine Your Checking Account Needs

When deciding on a checking account, remember financial institutions offer different types of checking accounts. To determine what you need, think about how you plan to use your checking account. The following questions will help you determine what you need in a checking account.

Convenience:

- How many checks do you think you will write every month?
- Do you want a bank that is close to where you live, school, or work?
- What are the bank's hours of operation?
- Will you use the ATM often?
- Does the bank have ATMs close to school, where you live, or work?
- How often do you plan to visit the bank to use teller services?
- What other bank services are important to you?

Cost:

- How much money will you keep in your account?
- Will you be charged for writing extra checks?
- Are you willing to pay a monthly fee?
- If so, how much?
- Will you be charged to use your bank's ATM?
- Will you be charged for using other banks' ATMs?
- Will you be charged for using teller services?
- Are there ways to avoid paying fees?

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Choosing a Checking Account

When looking for a checking account, take this checklist with you. Below are the types of checking account and some questions that will help you choose the checking account that is right for you. Compare your needs with what each account has to offer. Remember you will generally need three things when you open your checking account: 1) picture identification, 2) Social Security Number, 3) money to put in the account.

	Bank _____	Bank _____	Bank _____
Low-cost checking -Monthly fee? -Number of free checks per month?			
ATM-checking -Paycheck direct deposit? -Monthly fee? -Fee for teller services? -Unlimited check writing?			
Regular checking -Minimum balance or monthly fee? -Unlimited check writing?			
Interest checking accounts -Minimum balance or monthly fee? -Amount of interest? -Transaction restrictions?			
What, if any, fees will be charged?			
Is it close to school, where you live or work?			
Does that bank offer other services that are important to you?			
Notes:			

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Using Your Check Register

Record each time you put money into your account, write a check, or take money out of your account.

1	2	3	4	5	6	7
Check Number	Date	Description of Transaction	Payment/Debit (-)	Fee	Deposit/Credit (+)	Balance
	8/25/02	Open Account-Deposit			2000.00	2000.00
	9/1/02	Maintenance Fee		5.00		1995.00
001	9/10/02	Target-Room Furnishings	200.00			1795.00
	9/18/02	ATM Withdrawal	20.00			1775.00
	9/25/02	Citibank Credit Card Purchase	50.00			1725.00

- 1. Check Number:** If you are writing a check, record the check number in this column. Otherwise, leave it blank.
- 2. Date:** Record the date you wrote a check, made a deposit, took money out (made a withdrawal), or were charged a service fee.
- 3. Description of Transaction:** Record items such as who you wrote the check to, reason for the deposit, or the location of the withdrawal (such as ATM or debit card).
- 4. Payment/Debit (-):** Record the dollar amount of checks written, ATM withdrawals, or debit card transactions.
- 5. Fee:** Record any fees charged, such as a monthly maintenance fee or an ATM fee.
- 6. Deposit/Credit (+):** Record any deposits or credits made to your account.
- 7. \$ Balance:** Add any deposits or credits and subtract any fees, payments or other debits to your account.

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Reconciling Your Checking Account

When you get your monthly statement, there will usually be a difference between the statement balance and your check register balance. Reconciling your account just means to find those differences. Here is a chart to help you reconcile your account statement. A chart like this is often found on the back of checking account statements. If you have any questions, contact your bank for help.

Withdrawals Outstanding-Not Charged to Account		Bank balance shown on this statement	\$
Check Number	Check Amount		
		Subtract withdrawals outstanding	\$
		Total	\$
		Add deposits outstanding	\$
			\$
			\$
		Balance	\$
		* This balance should agree with the balance in your check register	
Total	\$		

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Why Budget?

Have you ever taken \$20 out of the ATM and, at the end of the day, not known where it all went? It is critical you understand where your money goes. Knowing what your income and expenses are every month will help you take control of your financial situation.

Taking control of your financial situation helps reduce the anxiety of not knowing whether you have the money to pay your bills when they are due. It is important to have a sense of control over money, rather than letting money have control over you. Budgeting will help you build assets. Building assets improves the quality of life for you and your family.

A good place to start taking control of your financial situation is to develop a savings and spending plan. This is called a budget. A budget is a step-by-step plan for meeting expenses in a given period of time.

Tips to Decrease Spending:

- Carry only small amounts of cash in your wallet so you won't spend it.
- Use direct deposit. You will be less likely to spend money if it goes straight into your account.
- Control your use of credit cards.
- Don't go shopping just for fun.
- Take your written savings goals with you as a reminder.
- Buy only what you need-don't buy things just because they are on sale.
- Use coupons to save money.
- Use a grocery-shopping list to prevent impulse buying.
- Take your lunch instead of eating out.
- Shop around to get the best deal for big-ticket items like cars and appliances.
- Pay your bills on time to avoid late fees, extra finance charges, utilities being turned off, eviction, repossessions, and the costs of a bad credit rating.

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Sample Personal Budget

Monthly Budget Categories and Percentages- Single	First Year	Second	Third	3rd Year	Fourth	4th Year
	9 months	Year-10 months	Year-12 months	Monthly	Year-11 months	Monthly
Tuition, Fees, Books, and Supplies	\$ 9,429.00	\$ 9,340.00	\$ 9,447.00	\$ 9,447.00	\$ 9,023.00	\$ 9,023.00
Required Computer	\$ 2,500.00	\$ -	\$ -	\$ -	\$ -	\$ -
Medical Exam for Matriculation	\$ -	\$ 385.00	\$ 385.00	\$ 385.00	\$ -	\$ -
Housing (Rent) most leases are 6 or 12 months	\$ 3,871.98	\$ 4,397.12	\$ 4,397.12	\$ 438.05	\$ 4,732.80	\$ 430.25
Utilities (Gas, Electric, Water, Sewer, Cable, Phone, Internet)	\$ 1,382.85	\$ 1,648.92	\$ 1,855.26	\$ 154.61	\$ 1,774.80	\$ 161.35
Food (Food bought at grocery store)	\$ 1,382.85	\$ 1,648.92	\$ 1,855.26	\$ 154.61	\$ 1,774.80	\$ 161.35
Insurance (Car and Renter's)	\$ 1,106.28	\$ 1,374.10	\$ 1,546.05	\$ 128.84	\$ 1,479.00	\$ 134.45
Car Payments	\$ 3,318.84	\$ 3,572.66	\$ 3,572.66	\$ 360.75	\$ 4,141.20	\$ 376.47
Personal Debt (Credit Cards or Unsubsidized Loans)	\$ 829.71	\$ 1,099.28	\$ 1,236.84	\$ 103.07	\$ 1,183.20	\$ 107.56
Transportation (Gas, Oil)	\$ 829.71	\$ 1,099.28	\$ 1,236.84	\$ 103.07	\$ 1,183.20	\$ 107.56
Entertainment (Eating Out, Vending Machines, Movies, Parties)	\$ 829.71	\$ 824.46	\$ 927.63	\$ 77.30	\$ 1,183.20	\$ 107.56
Savings (Trips, Weddings, Emergencies)	\$ 829.71	\$ 824.46	\$ 1,236.84	\$ 103.07	\$ 1,183.20	\$ 107.56
Clothing	\$ 553.14	\$ 549.64	\$ 618.42	\$ 51.54	\$ 591.60	\$ 53.78
Miscellaneous (Stamps, Computer Supplies, Cleaners, Gifts)	\$ 553.14	\$ 549.64	\$ 618.42	\$ 51.54	\$ 887.40	\$ 80.67
Personal Care (Toiletries, Haircuts, Makeup etc.)	\$ 276.57	\$ 274.82	\$ 309.21	\$ 25.77	\$ 295.80	\$ 26.89
Totals	\$ 27,657.00	\$ 27,482.00	\$ 30,921.00	\$ 1,752.19	\$ 29,580.00	\$ 1,855.47

These figures are meant to be used as a guide for your personal budget. Not all expenses are eligible for your financial aid budget. Please check with financial aid for more information. The budget also does not include "luxuries" such as pets, cell phones, gym memberships, tanning, nail salons etc. If you spend less in one category than is indicated, simply apply the extra money to another category of your choice. We recommend that you put any extra money in savings for the months you won't be receiving financial aid, any expenses not covered by financial aid, and any unexpected expenses.

Make copies of the spending diary on page 18 and use it to track your expenses for one month. Then fill out the blank monthly spending plan at the end of this booklet to figure out how much money you will have and determine your own budget based on your spending habits.

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Daily Spending Diary

When trying to set up a budget, sometimes tracking your expenses for one month in a Spending Diary can help you determine how much to budget. Write down every purchase in the exact amount and at the end of the month total the amounts for each category (see Monthly Spending Plan at the end of this booklet). Then you can decide where you may need to spend less money or where you need more money to spend.

Day	What did I spend my money on today?
Sunday	
Monday	
Tuesday	
Wednesday	
Thursday	
Friday	
Saturday	

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Budgeting Tools

Here are a few other types of budgeting tools you can use at home. You should use the one you are most comfortable with.

Expense Envelope System

- This tool is useful if you pay your bills with cash each month.
- Make an envelope for each expense category (rent, utilities, food, etc.)
- Label the envelope with the purpose, amount, and date due.
- When you receive income, divide it into amounts to cover the expenses listed on the envelopes.
- Pay bills right away, so you won't be tempted to spend the money for something else.
- You can modify this system to use only with helping you keep track of spending in a particular category, like entertainment.

Budget Box System

- The budget box is a small box with dividers for each day of the month, like a filing system.
- When you receive a bill, check the due date and place it behind the card that represents the due date.
- As you receive income, pay all the bills that are due.

Computer System

If you have access to personal computers, you can create your own spreadsheet. You may also want to purchase a personal finance program, such as Microsoft Money. They are available for less than \$75. Using a computer to manage your finances is relatively easy. Once you set up the system, updating information is quick and easy. It is important to enter transactions frequently to truly understand your financial position. Texas Tech has added Microsoft Money to its site licensed software. It is available at HighTech computer store with a \$15 rebate. Red to Black™- periodically provides shortcourse training seminars, offered through the Texas Tech library at no cost.

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When You Apply for Credit

When you apply for credit, the lender will review three main factors to decide whether you are a good credit risk and if you will be able to pay back what you borrow. The factors are often called the Three Cs.

Capacity

Capacity is your present and future ability to meet your payments.

Capital

Capital is your savings and other assets, which can be used as collateral for loans.

Character

Character means how you have paid your bills or debts in the past.

Banks use credit reports to obtain character information. You can request a copy of your credit report by contacting any of these credit reporting agencies:

Equifax, Inc.
PO Box 105873
Atlanta, GA 30348-5496
1-800-685-1111
www.equifax.com

Experian
PO Box 2002
Allen, TX 75013
1-888-397-3742
www.experian.com

TransUnion
PO Box 1000
Chester, PA 19022
1-800-916-8800
www.transunion.com

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Checklist for Credit Decisions

Here are some questions you might be asked when applying for credit:

- How long have you been in your job?
- How much money do you make each month?
- What are your monthly expenses?
- How much money do you have in checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., car)?
- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever been denied credit?
- Have you ever filed for bankruptcy?
- Have you had any outstanding judgments, property repossessed or foreclosed upon?
- Have you ever made late payments?

Here are some tips when shopping for a credit card:

- Decide how you will use the credit card and what you will purchase with it.
- Start small. Don't charge too much on your credit card until you get comfortable with the monthly bill.
- Shop around for the plan that best fits your needs. Make sure you understand the terms of the plan before you accept the card. Read the fine print.
- Beware of introductory rates. You might start out with a credit card that has no annual fee for the first year, but you will be charged a fee in the second year. You might start out with a low interest rate and then find the interest rate is much higher after a few months.
- Beware of credit card issuers who require application fees. Most credit card issuers don't charge fees to open accounts.
- Make sure you understand the implications of fixed and variable rates.

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Credit Tips

Ask yourself these questions before obtaining credit:

- Do I need this?
- Do I need it now?
- Can I wait until I have cash to pay for it?
- Can I get credit?
- How much more will I pay if I buy on credit?
- Can I afford the monthly payments?
- What is the total cost of credit?
- Are there any fees?
- What is the annual percentage rate?

Once you get credit:

- If possible, pay off your entire bill each month. If you can't, try to pay more than the minimum balance due. This will reduce finance charges and total interest paid.
- Pay on time to avoid late fees and to protect your credit. If you cannot pay on time, call your creditor immediately to explain the situation. They may waive late fees or be willing to make different payment arrangements.
- Always check your monthly statement to verify transactions. Call your creditor right away if you suspect errors in your statement.
- Ignore offers creditors may send you to "reduce" or "skip" payments. You will still be charged finance charges during this period.
- Think about the cost difference if you purchase your item with cash versus if you purchase your item with credit:

Remember, if you purchase a \$500 stereo with a credit card with a 20% APR, it will cost \$1,084 and take 9 years to pay off if you only pay the \$10 minimum monthly payments.

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Cost of Making Minimum Payments

These charts assume you are not making additional purchases and you are making your payments on time.

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

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	How Much You Really Pay for the Item
\$2,500	18%	Minimum Payment	404	34	\$8,781
\$2,500	18%	Minimum Payment plus \$50	94	8	\$4,698
\$2,500	18%	Minimum Payment plus \$100	32	3	\$3,163

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Tips to Build Your Credit History

- Apply for a small loan at the bank, thrift, or credit union where you have checking and savings accounts.
- Apply for credit with a local store, such as a department store. They typically have a lower credit limit and a higher annual percentage rate (APR), but are generally more willing to lend you money. There is usually no fee for department store cards.
- Make a large downpayment on a purchase and negotiate credit payments for the balance. If you do not have a credit history but have a large downpayment, there is less risk you will not make the payments. For example, if you are buying a used car for \$5,000 and have enough cash, you might consider making a down payment of \$1,000-\$3,000. Although the loan will be very small, it can prove you make your payments on time.
- You might ask a friend or relative, with an established credit history, to be a co-signer for you. A co-signer promises to repay the loan if you don't. The lender should report the payment information for both of you and the co-signer to the credit reporting agencies.
- Pay your bills on time. This will help establish a good credit history, so you can get credit in the future.
- You might ask the lender to review your history of making rent and utility payments to demonstrate your ability to pay.

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Identity Theft

How to minimize the risk of identity theft

Identity theft is when someone takes your personal information without your knowledge to commit fraud or theft. The following points are recommendations from the Federal Trade Commission (FTC) to minimize the risk of identity theft.

- Before you reveal any personal information, find out how it will be used and whether it will be shared with others.
- Pay attention to your statements. If your bills don't arrive on time, contact your creditor. A missing credit card bill might mean the identity thief has changed your billing address and is using your account.
- Guard your mail from thieves. Pick up your mail from your mailbox as soon as possible. Place outgoing mail in post office collection boxes.
- Do not give out personal information over the phone or through the mail unless you have initiated the contact and know with whom you are dealing. Thieves may pose as bankers, government officials, or others to get you to reveal your Social Security or bank account numbers.
- Keep items with personal information safe. When you throw away receipts, credit card applications, and old checks or statements, shred them.
- When you make up your Personal Identification Number (PIN) for your ATM, credit, or debit card, don't use something a thief might guess, such as birth date, Social Security number, or phone number
- Order a copy of your credit report every year. Catch mistakes and fraud before they ruin your personal finances.

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What to Do if You Lose Your Purse or Wallet

Psst... Want to know a secret? A lost or stolen wallet or purse is a gold mine of information for a new kind of crook-the identity thief.

Identity thieves can use information found in your wallet or purse-from credit cards, checks, your Social Security card, even health insurance cards-to establish new accounts in your name. That could create an identity crisis that can take months to detect, and even longer to unravel.

If your wallet or purse is lost or stolen, the Federal Trade Commission suggests that you:

- File a report with the police immediately. Get a copy in case your bank, Credit Card Company or insurance company needs proof of the crime.
- Cancel each credit and charge card. Get new cards with new account numbers.
- Call the fraud departments of the major credit reporting agencies:
 - **Equifax** (800) 525-6285 www.equifax.com
 - **Experian** (888) 397-3742 www.experian.com
 - **Trans Union** (800) 680-7289 www.transunion.com
- Ask them to put a **“fraud alert”** on your account and add a “victim’s statement” to your file requesting that creditors contact you before opening new accounts in your name.
- Ask the credit bureaus for copies of your credit reports. Review your reports carefully to make sure no additional fraudulent accounts have been opened in your name or unauthorized changes made to your existing accounts. In a few months, order new copies of your reports to verify your corrections and changes, and to make sure no new fraudulent activity has occurred.
- Report the loss to your bank if your wallet or purse contained bank account information, including account numbers, ATM cards or checks. Cancel checking and savings accounts and open new ones. Stop payments on outstanding checks.
- Get a new ATM card, account number and Personal Identification Number (PIN) or password.
- Contact the **Social Security Administration (fraud line):** (800) 269-0271
- Report your missing driver’s license to the department of motor vehicles. If your state uses your Social Security number as your driver’s license number, ask to substitute another number.
- Change the locks on your home and car if your keys were taken. Don’t give an identity thief access to even more personal property and information.

HELPFUL WEBSITES

www.R2B.ttu.edu

<http://www.ftc.gov/bcp/online/pubs/alerts/getpurse.htm>

<http://www.consumer.gov/idtheft/info.htm>

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