Hands on Banking®
Money skills you need for life

A public service provided by WELLS FARGO

Adults' Version

Instructor guide

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VERSION 5.1

Welcome to Wells Fargo's *Hands on Banking*® program!

This fun, interactive, and engaging financial education program is designed for both self-paced, individual learning and group use. These Instructor Guides will help you share this valuable program with groups of any size.

In these guides, you'll find everything you need to lead participants through real-life scenarios, group discussions, and activities that will encourage them to apply these lessons to their daily lives.

By sharing the *Hands on Banking* program with others, you'll help them to take control of their finances and build a brighter financial future.

Program Overview

The *Hands on Banking* program covers all the basics of smart money management. The curriculum is designed for four age groups: Adults, Young Adults (ages 15–21), Teens (grades 6–8), and Kids (grades 4 and 5).

The *Hands on Banking* program is an easy and enjoyable way to teach and learn the essentials of financial education: the basics of bank services, the importance of saving, smart money management, using credit responsibly, investing, wealth building, and more. Whether it's opening a checking account, avoiding identity theft, paying for college, buying a home, or starting a small business, the *Hands on Banking* program provides real-world skills and knowledge everyone can use.

Using the Instructor Guides

The Instructor Guides can be used alone or as an adjunct to the online/CD-ROM program; however, we strongly encourage you to review the program online or request a free CD-ROM. Even if participants will not experience the program online, gaining familiarity with the online program will help you present it more effectively. The most up to date content can always be found online at **www.handsonbanking.org**.

Each topic in the *Hands on Banking* program has its own Instructor Guide which follows the organization of the online program and includes much of the same content. The Adults' version of the *Hands on Banking* program includes six topics:

1. Basics of Bank Services.
2. Money Management Tools and Tips.
3. Protect Yourself Financially.
4. Using Credit to Your Advantage.
5. Planning Your Future.
6. Buying a Home.

Each Instructor Guide includes:

- A glossary of all the relevant terms introduced in the topic.
- A lesson introduction which includes:
  - » An overview.
  - » Learning objectives.
  - » Sample discussion questions to start the lesson.
  - » "The Basics"—a list of bullet points outlining the key concepts of the lesson.
- A lesson summary of all the key concepts of the lesson.
- Activities, quizzes, discussion questions, handouts and important tips for key concepts.
- A topic summary that lists all the major concepts of the topic.
- Additional activities designed to extend the concepts presented in the topic to the real world.
- A Library Resource section that includes additional reference materials and handouts.

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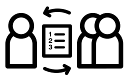
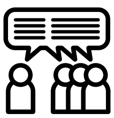
Lesson Concepts and Icons

Each lesson of a topic will present several key concepts. These concepts are introduced to your participants in a variety of ways which are represented in the guides by these icons.



Activity

An activity usually involves some sort of class participation, whether it is a matching game, a fill in the blank exercise, or worksheet completion. Typically after an activity you will have the opportunity to lead a discussion.



Discussion

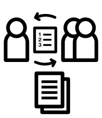
Discussions allow you to introduce key concepts while involving your participants in the conversation and making the information relevant to them. In some places, sample discussion questions are included to help you guide the discussion.

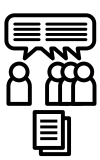
Quiz

Throughout all the topics, there are short quizzes designed to start discussions or quickly test participants' knowledge of certain concepts.

Handout

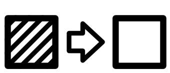
All of the Instructor Guides include handouts that are designed as a resource for your participants to use outside the classroom in their daily lives. For example, one handout includes a list of web links for participants to use as they start, grow and manage their small business.





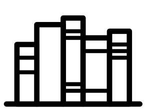
Activity and Discussion Handouts

Sometimes during a lesson, an activity or discussion will also use a handout to teach key concepts. In these cases the Handout icon is placed below the Activity or Discussion icon.



Transition

The Transition icon will let you know when the next concept is related to or follows up on the concept you're presently discussing or covering with your participants.



Library Articles

The online/CD-ROM version of the *Hands on Banking* program includes a vast library with relevant articles, checklists, and worksheets for each topic and lesson.

Relevant library articles are recommended at the end of each lesson. These articles provide additional information to use in teaching key concepts (look for the library icon as seen above). We encourage you to review the full library selection online or on the CD-ROM. Feel free to enrich your sessions with additional articles from the library.

You can photocopy these articles and distribute them to participants to start a discussion, or you may want to give them away as handouts for participants to read on their on time. These library articles expand the topic content.

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Pre-and Post-tests for Adults and Young Adults

When you use the Adults' and/or Young Adults' courses with a group or in a classroom setting, we invite you to use the *Hands on Banking* pre and post test we've developed. They can be accessed in the "Instructional Resources" section of **handsonbanking.org**.

- The Pre-test will help you to determine what topics to emphasis with your group.
- The Post-test will help you assess participants progress.

We'd like to request that you report the anonymous results of these tests to our *Hands on Banking* team. Your input will help us to continue to improve the program.

How to Access the Interactive Program

The *Hands on Banking* program is available free of charge in both English and Spanish.

- On the Web at **www.handsonbanking.org** and **www.elfuturoentusmanos.org**.
- Available for free on CD-ROM—all four age groups are included.
- You may order a CD at **HOBCD@wellsfargo.com**. There is no charge for small quantities of the CD-ROM. Please email for information regarding high-volume requests. Allow two weeks for delivery.

Once again, Thank You!

Thank you for sharing these valuable financial education programs with students and adults in our communities. As an instructor, your training and guidance will provide others with the knowledge and skills they need for a brighter financial future.

We welcome your comments and suggestions for future versions of the *Hands on Banking* curriculum and the Instructor Guides. And, we would very much like to hear your success stories. Please contact us via email at **HOBinfo@wellsfargo.com**.

The *Hands on Banking* program is sponsored and developed by Wells Fargo to serve our communities. The products and services mentioned are those typically offered by financial institutions and do not represent the specific terms and conditions of Wells Fargo's products and services. The site contains no advertising and does not require or collect any personal information.

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Basics of Banking Services

Topic Overview

The Basics of Banking will introduce participants to basic banking concepts, such as types of financial institutions—banks, credit unions, and savings institutions, the different accounts they can open to help save money, use money to pay for day-to-day expenses, or even save for long-term goals. Finally, this topic will teach participants how to use and manage their accounts once they're opened and also the finer details of using an ATM with their new debit or ATM card.

This topic includes five lessons:

1. Financial institutions
2. Savings accounts
3. Checking accounts
4. Using and managing your accounts
5. Automated Teller Machines (ATMs)

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit **www.handsonbanking.org** to access the program. Should you require a CD ROM to access the program you may request a free copy at **HOBCD@wellsfargo.com**.

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Instructor's Guide — Adults
Table of Contents

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Table of Contents

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Glossary

Instructor note:
The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

Account	A banking service allowing a customer's money to be handled and tracked. Common bank accounts are savings and checking accounts.
Automated Teller Machine (ATM)	A specialized computer used by bank customers to manage their money, for example, to get cash, make deposits, or transfer money between accounts.
Available balance	The amount of money in your account that you can use or withdraw. Your available balance may not reflect all transactions that you have made, for example checks you have written that have not yet been paid from your account.
Bad or bounced check	See Non-sufficient funds
Bank	A financial institution that handles money, including keeping it for saving or commercial purposes, and exchanging, investing, and supplying it for loans.
Check	A written order instructing the bank to pay a specific amount of money to a specific person or entity. The check must contain a date, payee (person, company, or organization to be paid), amount, and an authorized signature.
Checking account	A bank account that allows a customer to deposit and withdraw money andwrite checks. Using a checking account can be safer and more convenient than handling cash.
Clear	When the banks pays a check you have written and then subtracts the amount form you account, your check has "cleared" the bank.
Credit Union	A non-profit financial institution that is owned and operated entirely by its members. Credit unions provide financial services for their members, including savings and lending. Large organizations may organize credit unions for their members, and some companies establish credit unions for their employees. To join a credit union, a person must ordinarily belong to a participating organization, such as a college alumni association or labor union. When a person deposits money in a credit union, he or she becomes a member of the union because the deposit is considered partial ownership in the credit union.
Debit card	A card linked to a checking account that can be used to withdraw money and make deposits at an ATM and to make purchases at merchants. When you use a debit card, the money will be deducted from the linked checking account.
Deposit	To put money into your account.
Direct Deposit	A deposit made directly into your account by the payer without the use of a check or deposit slip. Typical direct deposits include Social Security payments and automatic payroll deposits.
Electronic Funds Transfer (EFT)	Allows you to have funds electronically transferred into your account(s) such as deposit of your payroll check, tax refund or social security check.
Endorse	To sign the back of a check, authorizing the check to be exchanged for cash or credit.

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Glossary

Federal Deposit Insurance Corporation (FDIC)	An independent agency of the United States government that protects customers from the loss of their deposits if an FDIC insured financial institution fails. The basic insurance amount is specified per depositor per insured financial institution. Certain retirement accounts, such as Individual Retirement Accounts, are insured up to specified amount per depositor per insured financial institution. Customers can increase the amount of money insured at any one financial institution by owning deposit accounts in different ownership categories (e.g., Individual Accounts, Retirement Accounts, Joint Accounts, Revocable Trust Accounts). Please visit www.fdic.gov for the most current deposit insurance amounts.
Financial institution	Companies such as banks, credit unions, and savings institutions that provide a wide range of money management products and services to consumers. Financial institutions collect funds from the public and place them in financial assets, such as deposits, loans, and bonds.
Global remittance	A form of Electronic Funds Transfer which allows you to send money to families and friends outside of the United States from your accounts.
Interest	The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Line of credit	An arrangement by which a lender extends a specific amount of credit to a borrower for a certain time period. As long as the borrower repays the principal with interest, he or she can continue to borrow against the line of credit during the agreed upon time period. A line of credit can be unsecured or secured. Also called a credit line.
Mobile Banking	Allows an individual to access their financial accounts through a web browser on their mobile device such as cellular phone.
Money order	A document issued by a post office, bank, or convenience store ordering payment of a specific sum of money to an individual or business. There is generally a small charge for purchasing a money order.
National Credit Union Administration (NCUA)	An independent federal agency that charters and supervises federal credit unions and insures savings in federal and most state-chartered credit unions.
Non-sufficient funds (NSF)	The lack of enough money in an account to pay a particular check or payment. Also known as insufficient funds. A check with insufficient funds may be returned unpaid to the person cashing it. This has a negative impact on the check writer's history of handling his or her account, and may prevent opening of future accounts. See also Overdraft.
Overdraft	When there is not enough money in an account to cover a transaction and the bank pays it on your behalf, creating a negative balance in the account that you need to repay.

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Glossary

Overdraft Protection	Offered by many banks, overdraft protection is a service that automatically transfers money from a linked account that you select, such as a savings or credit account, when you don't have enough money in your checking account to pay your transactions.
Personal Identification Number (PIN)	A secret combination of letters or numbers you use to gain access to your account through an electronic device such as an ATM.
Point-of-sale	When you use a debit card to make a purchase from a merchant at a store, by telephone, or through the internet.
Returned item	This is also known as "non-sufficient funds" or a "bounced check." If you spend more money than you have in your checking account, the bank may return the transaction unpaid and charge a fee.
Savings account	A bank account that allows a customer to deposit and withdraw money and earn interest on the balance.
Savings Institution	A financial Institution that accepts deposits from individuals, makes homes mortgage loans, and pay dividends.
Statement	A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of the checks you wrote that your bank has processed during the month. Your statement also lists other deposits, deductions, and fees, such as service charges.
Term	A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Transaction	An agreement between a buyer and seller to exchange an asset for payment. In accounting, a transaction is any event recorded in the written financial records, also called the accounting books.
Transaction register	A register that allows you to keep accurate records of your deposits and withdrawals. Use your check and/or savings register to record every deposit and withdrawal you make.
Withdrawal	To take money out of an account.

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Lesson 1: Financial Institutions

In this lesson, participants will discover the benefits of using a financial institution, opening a checking or savings account and keeping good track of their money.

Learning Objectives

After completing this lesson, participants will be able to:

- Define a financial institution.
- Describe the benefits of using a financial institution.
- Select the best financial institution for their needs.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions or invite them to talk about their good and bad experiences with banks. Here are some examples you could use:

- Why would you use a bank and its services?
- Why would a person choose not to use a bank?
- Why do you think it's safe or not safe to keep your money in a bank?
- List some difficulties someone who doesn't use a bank may face.

The Basics

- There are many types of financial institutions, including banks, credit unions and savings institutions.
- Millions of Americans use banks—a financial institution.
- Banks come in all sizes and are open in all locations, from a branch in a grocery store to a larger bank in a big city downtown.
- Banks offer safe, secure, convenient services so you can save money and build a better financial future.
- Bank employees are happy to help you and make you feel welcome. If you're new to banking, they can explain what accounts and services are available.

Tip!

When you visit a bank or other financial institution, follow these tips and techniques:

1. If you don't know who to talk to, just ask.
2. Don't sign anything you don't understand.
3. Ask questions until you have the answers you need.
4. Ask for written information to take home and review.

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Types of Financial Institutions Activity (Instructor Copy)

Instructor note

Photocopy the activity handout on the following page. Instruct your participants to match each characteristic to a bank, credit union or savings institution.

Instructions:

Have participants read each characteristic in the left column and then decide whether it is a characteristic of a bank, credit union or savings institution. Sometimes, more than one answer is correct.

Types of Financial Institutions

Characteristic	Bank, Credit Union or Savings Institution?
Insured by the National Credit Union Administration (NCUA)	Credit unions
Must have a majority of their assets in housing-related loans	Savings institutions
Governed by federal and state laws and regulations	Banks
Nonprofit financial institution owned by people who have something in common (employees in same industry)	Credit union
Similar to a bank	Savings institution, credit union
Main business is to make home loans	Savings institution
Members only	Credit Union
Created to promote homeownership	Savings institution
Make loans, pay checks, accept deposits, and provide other financial services	Banks, credit unions
Most are insured by the Federal Deposit Insurance Corporation (FDIC)	Banks, savings institutions

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Types of Financial Institutions Activity

Instructions:

Have participants read each characteristic in the left column and then decide whether it is a characteristic of a bank, credit union or savings institution. Sometimes, more than one answer is correct.

Types of Financial Institutions

Characteristic	Bank, Credit Union or Savings Institution?
Insured by the National Credit Union Administration (NCUA)	
Must have a majority of their assets in housing-related loans	
Governed by federal and state laws and regulations	
Nonprofit financial institution owned by people who have something in common (employees in same industry)	
Similar to a bank	
Main business is to make home loans	
Members only	
Created to promote homeownership	
Make loans, pay checks, accept deposits, and provide other financial services	
Most are insured by the Federal Deposit Insurance Corporation (FDIC)	

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Topic 1 — Basics of Banking Services

Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About FDIC Insurance

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Benefits of Using a Financial Institution Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to match the benefits of using a financial institution with the supporting points.

There are many benefits to using financial institutions.

Instructions:

Have participants use the Word Bank to match the benefit of using a financial institution with its supporting points.

Word Bank:

Always open
Convenience
Easy to use
Financial future
Free of charge
Money saver
Safety
Security

Benefits of Financial Institutions

Benefit	Supporting Points
Safety	• It's risky to keep your money in cash. • It could be lost, stolen, or destroyed. • Financial institutions keep your funds safe.
Convenience	• With banks, there's no need to carry cash. • If you need cash, you can easily access your funds virtually anywhere.
Money saver	• No need to use check cashing stores that charge enormous fees. • Using a bank will help you save.
Security	• No need to worry—all U.S. banks have to follow federal and state laws and regulations. • At most banks, funds are insured by the FDIC. • FDIC insures each person's money to at least $250,000.
Financial Future	• You'll have access to financial professionals to help you. • Knowledgeable advice of bankers is a valuable resource to help you build a better financial future.

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Benefits of Using a Financial Institution Activity (Instructor Copy)

There are many benefits to using financial institutions.

Instructions:

Use the words from the Word Bank to match the benefit of using a financial institution with its supporting points.

Word Bank:

Always open	Free of charge
Convenience	Money saver
Easy to use	Safety
Financial future	Security

Benefits of Financial Institutions

Benefit	Supporting Points
	• It's risky to keep your money in cash. • It could be lost, stolen, or destroyed. • Financial institutions keep your funds safe.
	• With banks, there's no need to carry cash. • If you need cash, you can easily access your funds virtually anywhere.
	• No need to use check cashing stores that charge enormous fees. • Using a bank will help you save.
	• No need to worry—all U.S. banks have to follow federal and state laws and regulations. • At most banks, funds are insured by the FDIC. • FDIC insures each person's money to at least $250,000.
	• You'll have access to financial professionals to help you. • Knowledgeable advice of bankers is a valuable resource to help you build a better financial future.

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Topic 1 — Basics of Banking Services

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Financial Institutions lesson:

- There are many types of financial institutions, including banks, credit unions and savings institutions.
- Millions of Americans use banks—a financial institution.
- Banks come in all sizes and are open in all locations, from a branch in a grocery store to a larger bank in a big city downtown.
- Banks offer safe, secure, convenient services so you can save money and build a better financial future.
- Bank employees are happy to help you and make you feel welcome. If you're new to banking, they can explain what accounts and services are available.

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Lesson 2: Savings Accounts

In this lesson participants will learn what a savings account is, the different types of savings accounts, and the benefits of having one. They'll learn how to fill out a savings deposit and withdrawal slip and how to keep track of these transactions.

Learning Objectives

After completing this lesson, participants will be able to:

- Describe what a savings account is.
- Describe the benefits of using a savings account.
- Explain how to select the best kind of savings account for their needs.
- Explain the steps for opening a savings account.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions or invite them to discuss savings accounts. Here are some examples you could use:

- Are you saving money for something you want or need? Describe how you are managing to save money.
- Why would you recommend opening a savings account to someone who doesn't have one yet?
- List some reasons why you might withdraw money from a savings account.
- If you open a savings account, and start making deposits and withdrawals, who is responsible for keeping track of the account?

The Basics

- Savings accounts allow you to deposit, withdraw, and earn interest on your money.
- Use a savings account to put money aside for a future goal or emergency fund.
- Savings accounts earn interest—a small amount of extra money the bank gives you for opening the account.
- Many savings accounts limit how often you can take your money out.
- You can use several accounts to save money (regular savings, money market accounts and Certificates of Deposit (CDs).
- Consider having more than one savings account.

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Types of Savings Accounts Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to fill in the blanks. When they are finished, lead the discussion.

Instructions:

Have participants fill in the blanks.

Regular Savings Account

- Allows **deposits** and **withdrawals**.
- May require a **minimum balance** to keep account open.
- May limit the number of times you can **withdraw** money.
- Money earns **interest** (every other month or quarterly, four times a year).

Money Market Account

- Money earns **interest**.
- May require a higher **minimum balance**.
- Provides checks for **withdrawals** (may be a limit on number of checks that can be written).
- Generally have higher **interest** than regular savings accounts.

Certificate of Deposit (CD)

- Requires that money stay in an account for a **fixed period of time**, called its "term" (from a few months to five or more years).
- Interest earned is generally **higher** than on a regular savings or money market account .
- If money is withdrawn before the end of the term, **penalties** could be applied.

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Types of Savings Accounts Activity

Instructions:

Fill in the blanks.

Regular Savings Account

- Allows ___________________________ and _________________________.
- May require a ____________________________ to keep account open.
- May limit the number of times you can ______________________ money.
- Money earns _____________________ (every other month or quarterly, four times a year).

Money Market Account

- Money earns _____________________________.
- May require a higher ______________________________.
- Provides checks for ________________________ (may be a limit on number of checks that can be written).
- Generally have higher _____________________________ than regular savings accounts.

Certificate of Deposit (CD)

- Requires that money stay in an account for a _________________________, called its "term" (from a few months to five or more years).
- Interest earned is generally _________________________ than on a regular savings or money market account .
- If money is withdrawn before the end of the term, ________________________ could be applied.

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How to Open a Savings Account Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead the class through the steps of opening a savings account.

1. Ask your bank which forms of identification they accept, for example:
    - Driver's license or state ID.
    - Passport.
    - U.S. military ID.
    - Alien Registration card.
    - Matricula Consular card

2. Gather your personal identification.
    - Two forms of current photo identification are usually required.
    - Ask your bank what forms of identification they accept.
    - Ask your bank if they can accept a major credit or gas card as identification.

3. Have your money ready to be deposited.
    - Be prepared by asking your bank in advance if there will be a minimum deposit required.

Share with your participants that banks, credit unions, and other financial institutions may have different requirements for opening accounts. Remind them it is important to check with the financial institution before they go so they have all the required documents they need.

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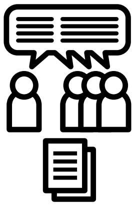

How to Open a Savings Account

1. Ask your bank which forms of identification they accept, for example:
    - Driver's license or state ID.
    - Passport.
    - U.S. military ID.
    - Alien Registration card.
    - Matricula Consular card

2. Gather your personal identification.
    - Two forms of current photo identification are usually required.
    - Ask your bank what forms of identification they accept.
    - Ask your bank if they can accept a major credit or gas card as identification.

3. Have your money ready to be deposited.
    - Be prepared by asking your bank in advance if there will be a minimum deposit required.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Savings Account lesson:

- Savings accounts allow you to deposit, withdraw, and earn interest on your money.
- Use a savings account to put money aside for a future goal or emergency fund.
- Savings accounts earn interest—a small amount of extra money the bank gives you for opening the account.
- Many savings accounts limit how often you can take your money out.
- You can use several accounts to save money (regular savings, money market accounts and Certificates of Deposit (CDs).
- Consider having more than one savings account.

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Lesson 3: Checking Accounts

In this lesson your participants will discover checking accounts—their benefits, how to open an account and use checks and ATM cards.

Learning Objectives

After completing this lesson, participants will be able to:

- Describe what a checking account is.
- List the benefits of opening a checking account.
- Explain the steps for opening a checking account.
- Explain how to make purchases with ATM cards, debit cards and checks.
- Describe how to fill out a check.
- Describe how to endorse a check.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Why would you open a checking account?
- What sorts of things can you write a check for?
- What are some reasons that someone might want to pay by check rather than using cash?
- Suppose someone told you that they were writing a check to pay for something even though they knew they didn't have enough money in their checking account to cover the amount of the check. What would you tell this person?

The Basics

- A checking account is a great tool for managing your money day-to-day.
- A checking account is a type of bank account that allows you to put money in—make a deposit —or take money out—make a withdrawal.
- A checking account allows you to pay for things in other ways than using cash—like writing checks or using a debit card.
- Writing checks and using a debit card are safe and convenient ways to pay for things from your checking account.
- With a checking account, you can get cash whenever you need it.
- Each time you write a check or make a purchase with a debit card, you have a record of how much you spent, and where.
- A checking account also makes it easy to deposit checks that others give you.
- Different institutions offer a variety of checking accounts with different features, benefits and fees.
- Each time you write a check be sure and record it immediately.

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All About Checks Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to answer each question in the space provided. Then lead a discussion about checks.

Instructions:

Have participants answer the questions in the space provided.

About Checks

What is a check?	Checks are paper forms that people use to transfer money from one place to another. A check is a written order that instructs a bank to pay a specific amount of money from a specific checking account to a specific person or entity, for example, a store.
How do you get checks?	Your financial institution will normally provide you with checks when you open a checking account. You can order more checks when you need them, usually for a fee.
Why use checks?	Checks are a safe and convenient way to pay for things. If you have checks, you don't have to carry large amounts of cash around with you. Each time you write a check, you have a record of how much you spent, and where. That can help you pay closer attention to what you're buying, how much you're spending, and avoid spending more than you planned.

Tip!

Why Have a Checking Account?

- Keeps your money safe.
- Easy to make deposits and get cash.
- Convenient way to pay bills and make purchases.
- Helps you track spending.
- Avoid high cost check-cashing stores.

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All About Checks Activity

Instructions:
Answer the questions in the space provided.

About Checks

What is a check?	
How do you get checks?	
Why use checks?	

Tip!

Why Have a Checking Account?

- Keeps your money safe.
- Easy to make deposits and get cash.
- Convenient way to pay bills and make purchases.
- Helps you track spending.
- Avoid high cost check-cashing stores.

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Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic

Recommended Article: How Checks Work

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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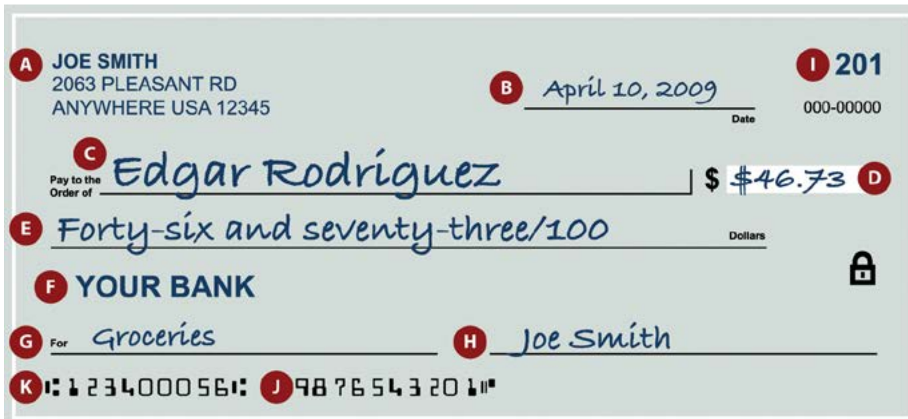
Parts of a Check Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about the parts of a check.



A. Your name and address go here. These are preprinted on the check for your convenience and tell the person or company to whom you're giving the check—known as the payee—that you're the one who wrote it.

B. Write in today's date.

C. This is where you write the name of the person or company who will be receiving the money. If you're making a withdrawal for yourself, write "Cash" here.

D. The amount of the check is written here.

E. The amount in words is written on this line. You start at the left edge of the line and when you're finished, you will draw a line through the remaining empty space as far as the word "Dollars."

F. The name of the bank that holds your account appears here.

G. To remember what you bought, you can write a brief description here.

H. Your signature should be the last thing you complete. It gives the bank permission, or authorization, to release the money to the payee.

I. This is the check number. This reference number will help you keep track of your payments by check. Each time you write a check, you should record the check number, date, payee, and amount in your check register, and calculate your new balance.

J. This is the 10-digit account number that is unique to your account. This tells the bank which account the money comes from.

K. This is the bank routing number. It identifies the bank that issued the check. You need this number to set up direct deposit at work. Direct deposit allows your employer to electronically deposit your paycheck directly into your account, without giving you a paper check.

Tip!

- Write in ink.
- Write clearly.
- Record every check in your register.

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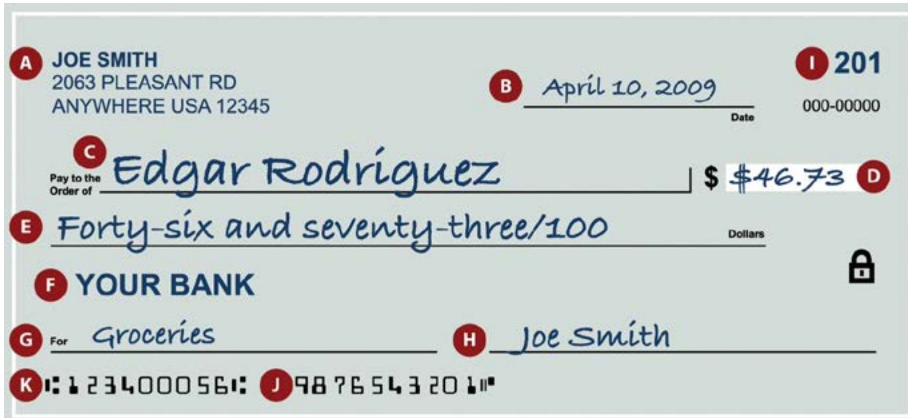
Parts of a Check Activity



A. Your name and address go here. These are preprinted on the check for your convenience and tell the person or company to whom you're giving the check—known as the payee—that you're the one who wrote it.
B. Write in today's date.
C. This is where you write the name of the person or company who will be receiving the money. If you're making a withdrawal for yourself, write "Cash" here.
D. The amount of the check is written here.
E. The amount in words is written on this line. You start at the left edge of the line and when you're finished, you will draw a line through the remaining empty space as far as the word "Dollars."
F. The name of the bank that holds your account appears here.
G. To remember what you bought, you can write a brief description here.
H. Your signature should be the last thing you complete. It gives the bank permission, or authorization, to release the money to the payee.
I. This is the check number. This reference number will help you keep track of your payments by check. Each time you write a check, you should record the check number, date, payee, and amount in your check register, and calculate your new balance.
J. This is the 10-digit account number that is unique to your account. This tells the bank which account the money comes from.
K. This is the bank routing number. It identifies the bank that issued the check. You need this number to set up direct deposit at work. Direct deposit allows your employer to electronically deposit your paycheck directly into your account, without giving you a paper check.

Tip!

- Write in ink.
- Write clearly.
- Record every check in your register.

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Check Writing Practice Activity (Instructor Copy)

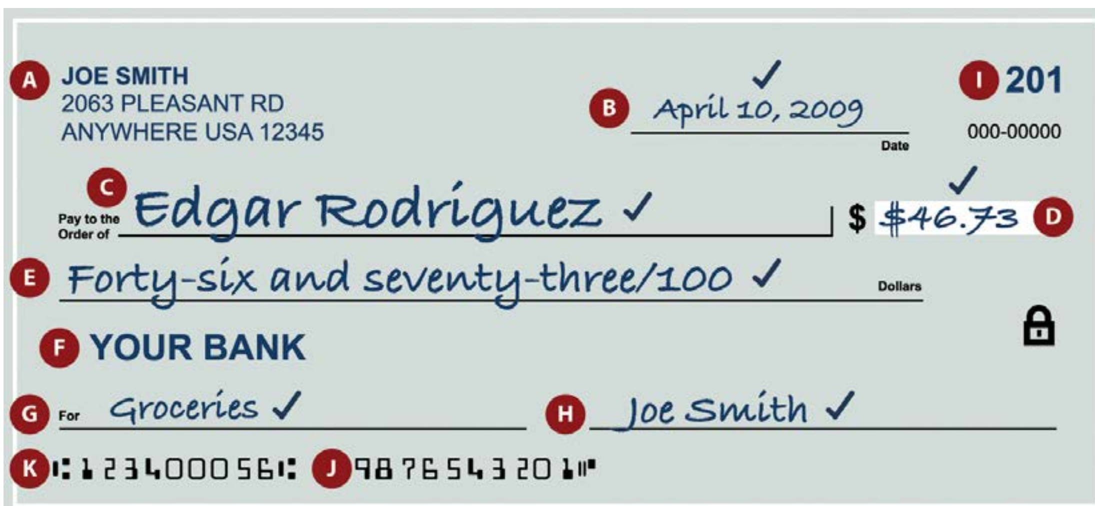
Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill out the sample check using the information provided.

Instructions:

Have participants fill out the sample check below using this information:

Payee: Edgar Rodriguez.
Date: April 10, 2009.
Amount: $46.73.
Memo: Groceries.



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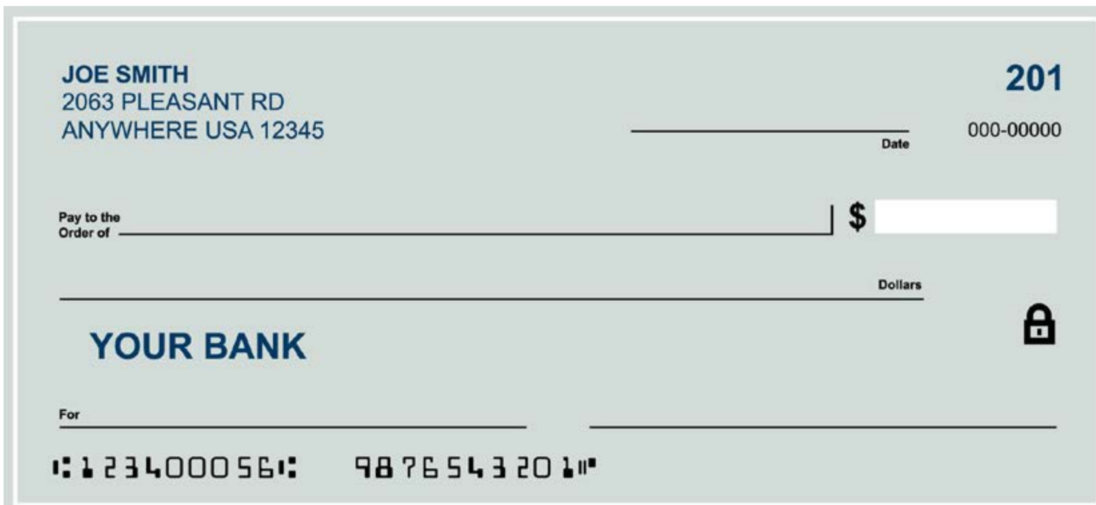
Check Writing Practice Activity

Instructions:

Fill out the sample check below using this information:

Payee: Edgar Rodriguez.
Date: April 10, 2009.
Amount: $46.73.
Memo: Groceries.



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How to Endorse a Check Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about endorsing a check using the key points below, and then instruct participants to endorse the check.

Instructions:

Have participants endorse the check.

- When you deposit a check, you need to let the bank know that you have personally approved the transaction by endorsing the check.
- On the back of the check near the top, you'll write "For deposit only," your signature, and the number of the account to which you want the check deposited.

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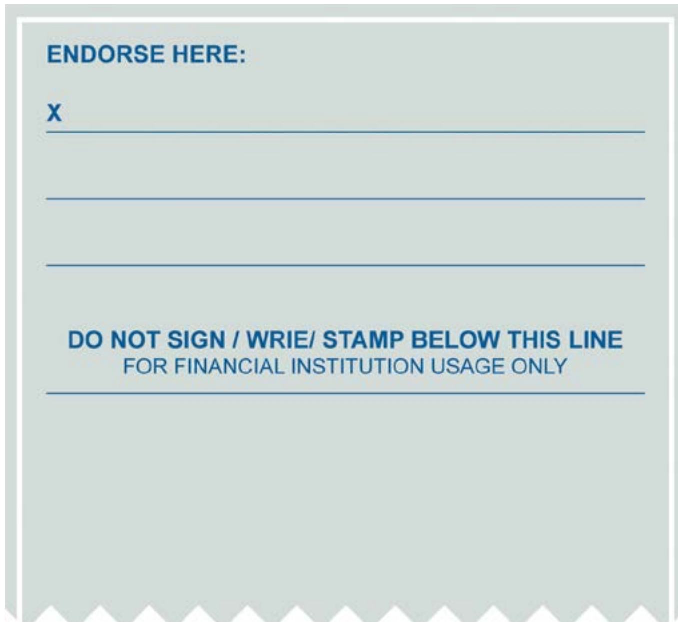
How to Endorse a Check Activity

Instructions:

Endorse this check with your name and the account number #279914.


ENDORSE HERE:

X

DO NOT SIGN / WRIE/ STAMP BELOW THIS LINE
FOR FINANCIAL INSTITUTION USAGE ONLY

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How to Open a Checking Account Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead the class through the steps of opening a checking account.

1. Ask your bank which forms of identification they accept, for example:
    - Driver's license or state ID.
    - Passport.
    - U.S. military ID.
    - Alien Registration card.
    - Matricula Consular card.

2. Gather your personal identification.
    - Two forms of current photo identification are usually required.
    - Ask your bank what forms of identification they accept.
    - Ask your bank if they can accept a major credit or gas card as identification.

3. Have your money ready to be deposited.
    - Be prepared by asking your bank in advance if there will be a minimum deposit required.

Share with your participants that banks, credit unions, and other financial institutions may have different requirements for opening accounts. Remind them it is Important to check with the financial institution before they go so they have all the required documents they need.

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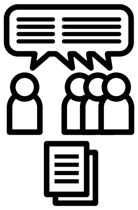

How to Open a Checking Account Activity

1. Ask your bank which forms of identification they accept, for example:
    - Driver's license or state ID.
    - Passport.
    - U.S. military ID.
    - Alien Registration card.
    - Matricula Consular card.

2. Gather your personal identification.
    - Two forms of current photo identification are usually required.
    - Ask your bank what forms of identification they accept.
    - Ask your bank if they can accept a major credit or gas card as identification.

3. Have your money ready to be deposited.
    - Be prepared by asking your bank in advance if there will be a minimum deposit required.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Checking Accounts lesson:

- A checking account is a great tool for managing your money day-to-day.
- A checking account is a type of bank account that allows you to put money in—make a deposit —or take money out—make a withdrawal.
- A checking account allows you to pay for things in other ways than using cash—like writing checks or using a debit card.
- Writing checks and using a debit card are safe and convenient ways to pay for things from your checking account.
- With a checking account, you can get cash whenever you need it.
- Each time you write a check or make a purchase with a debit card, you have a record of how much you spent, and where.
- A checking account also makes it easy to deposit checks that others give you.
- Different institutions offer a variety of checking accounts with different features, benefits and fees.
- Each time you write a check be sure and record it immediately.

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Lesson 4: ATM and Debit Cards

In this lesson, participants will learn about ATM and debit card; how to use them at stores and ATM machines; and the differences between an ATM, debit and credit card.

Learning Objective

After completing this lesson, participants will be able to:

- List things they can do at an ATM machine using their ATM or debit card.
- Understand why using an ATM is safe and convenient.
- Explain the differences between an ATM, debit and credit card.
- Use an ATM machine to withdraw or deposit money.

The Basics:

- An ATM is a specialized computer used by bank customers to manage their money.
- Use an ATM to deposit or withdraw money, print a statement or check your account balances.
- ATMs are safe and convenient ways to manage your money.
- Do not tell anyone your PIN number.
- Stay alert and aware while using an ATM.
- Make a habit of writing your ATM transactions and the purchases you've made with your ATM card or debit card in your register right away so that you don't forget.
- A debit card is not a credit card.

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What is an ATM? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to write down answers to the questions in the spaces provided. Then lead a discussion about ATMs.

Instructions:

Have participants answer the questions in the spaces provided.

About ATMs

Question	Answer
What is an Automated Teller Machine (ATM)?	• A specialized computer used by bank customers to manage their money. • Use an ATM to: » Withdraw money. » Make deposits. » Print a statement (a record of your account activity or transactions). » Check your account balances. » Transfer money between your accounts. » Even purchase stamps. • You can usually access the most services at an ATM that's operated by your own bank.
Why use ATMs?	• They are a safe and convenient way to manage your money. • There are millions of ATMs worldwide. • You can use many ATMs 24/7. • Some allow you to select the language you want to use.
Is there a fee for using an ATM?	• Check with your bank to see if they charge any ATM fees to customers. • Almost all banks do charge a fee to non-customers who use their ATMs. • Even though using ATMs may cost you money, it's much less expensive than using a check cashing service.
How do you use an ATM?	• Insert an ATM or debit card and enter a Personal Identification Number (PIN), a secret password that you create.

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What is an ATM? Activity (Instructor Copy)

Instructions:
Answer the questions in the spaces provided.

About ATMs

Question	Answer
What is an Automated Teller Machine (ATM)?	
Why use ATMs?	
Is there a fee for using an ATM?	
How do you use an ATM?	

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Using ATM and Debit Cards at an ATM Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to follow along on their worksheet and take notes or write questions. Lead a discussion about using ATM and debit cards at an ATM.

Instructions:

Have participants follow along on their worksheet as you lead the discussion. Encourage them to take notes or write any questions they may have.

1. **Request an ATM card/debit card.**
   When you open a checking account, your bank will ask if you'd like to apply for at ATM card or a debit card. If your ATM card is ever lost/stolen, contact your bank immediately.

2. **Create a Personal Identification Number (PIN).**
   To use your card at the ATM, you must enter your PIN, a secret combination of numbers or letters that you create. Your PIN is like a secret password. If someone else has it, they can take money out of your account—so don't share it with anyone! If you do give it out, you may be held responsible for any money you lose. So to keep your money safe, keep your PIN a secret!

3. **Stay alert and aware.**
   Because most ATMs give out cash and many accept deposits, it makes sense to be alert and aware of your surroundings no matter where or when you use an ATM.

4. **Follow onscreen directions.**
   Not all ATMs work exactly the same way, but they're all designed to be easy to use. Just follow the directions on the ATM screen that you're using.

5. **Be aware of fees.**
   Your ATM card will work in machines operated by your own bank. It may also work in ATMs operated by other financial institutions. This flexibility is great, but be careful about fees you may be charged by both your bank and the ATM owner.

6. **Know your available balance.**
   Be sure you have enough money to cover your withdrawals and checks. Remember that whenever you make a withdrawal with your ATM or debit card, the money will be withdrawn from your checking account. When you write a check it may take several days for the funds to be withdrawn from your account or it may be processed that day. Also remember that when you deposit a check, the funds may be available for your use the next business day or longer depending on the bank's funds availability policy.

7. **Record your transactions.**
   Make a habit of writing your ATM transactions and the purchases you've made with your ATM card or debit card in your register right away so that you don't forget. On a monthly basis, compare the amounts on your receipts to those on your bank statement to ensure that they match.

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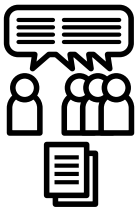

Using ATM and Debit Cards at an ATM Activity

Instructions:

Follow along on their worksheet as you listen to the discussion. Take notes or write any questions you may have.

1. **Request an ATM card/debit card.**

2. **Create a Personal Identification Number (PIN).**

3. **Stay alert and aware.**

4. **Follow onscreen directions.**

5. **Be aware of fees.**

6. **Know your available balance.**

7. **Record your transactions.**

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ATM Cards, Debit Cards and Credit Cards Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct participants to match the card characteristics with each type of bank card.

Instructions:
For each characteristic, have participants decide whether it describes an ATM card, a debit card or a credit card.

Types of Cards

Debit, ATM or Credit Card?	Characteristics
ATM card	PIN-based card
ATM card	May be able to use it to make purchases (by entering your Personal Identification Number
Debit card	Looks just like a regular ATM card, and you can use it at ATMs
Debit card	Can use it wherever Visa® or MasterCard® debit cards are accepted
Debit card	When you use it, money is deducted from your checking account
Credit card	When you use it, you're borrowing money to be repaid later, usually with interest

Tip!

When you use a debit card at a store, you may have the option of selecting "debit" (and entering your PIN) or "credit" and signing your name. Either way money is deducted from your checking account.

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ATM Cards, Debit Cards and Credit Cards Activity

Instructions:

For each characteristic, decide whether it describes an ATM card, a debit card or a credit card. Write ATM card, debit card or credit card in the left column.

Types of Cards

Debit, ATM or Credit Card?	Characteristics
	PIN-based card
	May be able to use it to make purchases (by entering your Personal Identification Number
	Looks just like a regular ATM card, and you can use it at ATMs
	Can use it wherever Visa® or MasterCard® debit cards are accepted
	When you use it, money is deducted from your checking account
	When you use it, you're borrowing money to be repaid later, usually with interest

Tip!

When you use a debit card at a store, you may have the option of selecting "debit" (and entering your PIN) or "credit" and signing your name. Either way money is deducted from your checking account.

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The Parts of a Debit Card Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about the parts of the debit card.

A. Debit Card Number: This 16-digit number is unique to your card. It is different from your checking account number.

B. Expiration Date: Your card can only be used until this date. A new card will be automatically sent to your address prior to the expiration date.

C. Visa® or Mastercard® Logo: This symbol means that you can use this card wherever Visa® or Mastercard® debit cards are accepted, for example, department stores, restaurants, and online.

D. Customer Service Number: Call this toll-free number when you questions about your account.

E. Signature Bar: For your protection against fraud, be sure to sign here as soon as receive your card.

F. Card Verification Value (CVV): This number is unique to your card. When you use your card to make purchases over the phone or Internet, some merchants may require you to supply this number to confirm that you have the card with you.

G. Network Logos: The logos that appear on your card indicate where it can be used:

- You can access the money in your checking account at any ATM that carries the same logos as your card.
- You can make PIN-based purchases at merchants that display the same Point-of-Sale network logos that appear on your card, such as Interlink®. Some merchants also provide a cash back option when making a PIN-based purchase.
- You can make signature-based purchases at merchants that accept Visa or MasterCard debit cards, depending on the logo on your card.

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The Parts of a Debit Card Activity

A. **Debit Card Number:** This 16-digit number is unique to your card. It is different from your checking account number.

B. **Expiration Date:** Your card can only be used until this date. A new card will be automatically sent to your address prior to the expiration date.

C. **Visa® or Mastercard® Logo:** This symbol means that you can use this card wherever Visa® or Mastercard® debit cards are accepted, for example, department stores, restaurants, and online.

D. **Customer Service Number:** Call this toll-free number when you questions about your account.

E. **Signature Bar:** For your protection against fraud, be sure to sign here as soon as receive your card.

F. **Card Verification Value (CVV):** This number is unique to your card. When you use your card to make purchases over the phone or Internet, some merchants may require you to supply this number to confirm that you have the card with you.

G. **Network Logos:** The logos that appear on your card indicate where it can be used:

- You can access the money in your checking account at any ATM that carries the same logos as your card.
- You can make PIN-based purchases at merchants that display the same Point-of-Sale network logos that appear on your card, such as Interlink®. Some merchants also provide a cash back option when making a PIN-based purchase.
- You can make signature-based purchases at merchants that accept Visa or MasterCard debit cards, depending on the logo on your card.

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Practice Your ATM Skills Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to fill in the blanks using the words and phrases from the Word Bank.

Instructions:

Have participants use the Word Bank to fill in the blanks of the process they would follow to withdraw $40.00 from their checking account.

Word bank:

$40.00	Directions
Amount	Language
ATM card	Money
Bank hours	Name
Banking pamphlet	PIN number
Check Balance	Put it in your pocket
Count it	Receipt
Debit card	Withdrawal
Deposit	

1. Insert your ATM or ______ **debit card** ______ in the slot of the front of the machine.
2. Read the ______ **directions** ______ on the screen.
3. Select the ______ **language** ______ you want to use.
4. When asked, enter your ______ **PIN** ______ on the ATM's touch pad.
5. Select ______ **withdrawal** ______ from the list on the screen.
6. Enter ______ **$40.00** ______ using the touch pad.
7. Your money will come out. Take your ______ **money** ______ and ______ **receipt** ______ and count it.

Tip!

- Not all ATMs work the same. Be sure to read the directions onscreen.
- You may be asked to select a language before proceeding.
- When entering your PIN, be aware of those around you. Do not let anyone see your PIN.
- Always get a receipt so you can right down the amount of deposit or withdrawal in your bank account register.

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Practice Your ATM Skills Activity

Instructions:

Use the Word Bank to fill in the blanks of the process you would follow to withdraw $40.00 from your checking account.

Word bank:

$40.00	Directions
Amount	Language
ATM card	Money
Bank hours	Name
Banking pamphlet	PIN number
Check Balance	Put it in your pocket
Count it	Receipt
Debit card	Withdrawal
Deposit	

1. Insert your ATM or ______________________ in the slot of the front of the machine.
2. Read the ______________________ on the screen.
3. Select the ______________________ you want to use.
4. When asked, enter your ______________________ on the ATM's touch pad.
5. Select ______________________ from the list on the screen.
6. Enter ______________________ using the touch pad.
7. Your money will come out. Take your _______________ and _______________ and count it.

Tip!

- Not all ATMs work the same. Be sure to read the directions onscreen.
- You may be asked to select a language before proceeding.
- When entering your PIN, be aware of those around you. Do not let anyone see your PIN.
- Always get a receipt so you can right down the amount of deposit or withdrawal in your bank account register.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the ATM and Debit Card lesson:

- An ATM is a specialized computer used by bank customers to manage their money.
- Use an ATM to deposit or withdraw money, print a statement or check your account balances.
- ATMs are safe and convenient ways to manage your money.
- Do not tell anyone your PIN.
- Stay alert and aware while using an ATM.
- Make a habit of writing your ATM transactions and the purchases you've made with your ATM card or debit card in your register right away so that you don't forget.
- A debit card is **not** a credit card.

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Lesson 5: Using and Managing Your Bank Accounts

In this lesson, participants will learn how their accounts can make managing their money easy and convenient.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain how to deposit, withdraw and transfer funds from their bank accounts.
- Describe how to keep track of transactions to avoid overdrafts.
- Explain how to read and understand their account statements.
- Explain how to make sure their records and the bank's records agree.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What are some ways people can manage the money they have in the bank, without personally going to the bank?
- What are some ways you know of to use the Internet to manage your money?
- Give examples of some of the advantages of Internet banking.
- Name a banking transaction that you could not handle over the Internet.

The Basics

- Once your checking or savings account is open, you'll probably have lots of options for how to put money in, how to make deposits, and for taking money out, or making withdrawals.
- If you have more than one account with the same financial institution, be sure to ask them about convenient ways to transfer funds between your accounts.
- Each time you move your money in or out of your account, it's called making a transaction.
- When funds are moved by computer, rather than by cash or check, it's called an Electronic Funds Transfer, or EFT.
- Online banking is a great option that many financial institutions offer.
- Online banking allows you to handle many banking activities over the Internet, including paying your bills.
- Mobile banking allows you to use a mobile device to check on your accounts. For example, you can send a text message from your cell phone to find out your current account balance.

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Different Ways to Make Account Transactions Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to fill in each blank after each question (there is an answer for each blank space).

Instructions:

Have participants fill in every blank space under the question with an answer.

1. **How can you check recent transactions and available balances?**
   - With online banking.
   - At many ATMs.
   - By phone.
   - At the bank.
   - Mobile banking.

2. **How can you make deposits?**
   - Via electronic direct deposit.
   - At many ATMs.
   - At the bank.
   - By mail.

3. **How can you get cash?**
   - At the ATM.
   - At the bank.
   - At many merchants, when you make a PIN-based purchase with your ATM or debit card.

4. **How can you make purchases?**
   - With a check.
   - With an ATM card.
   - With a debit card.
   - Over the phone with a debit card (depending on the merchant).
   - On the Internet with a debit card (depending on the merchant).

5. **How can you transfer funds?**
   - Using an ATM.
   - Using online banking.
   - At the bank.
   - International (global) remittance.

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Different Ways to Make Account Transactions Activity

Instructions:

Fill in every blank space under the question with an answer.

1. How can you check recent transactions and available balances?

1. ______________________________
2. ______________________________
3. ______________________________

2. How can you make deposits?

1. ______________________________
2. ______________________________
3. ______________________________

3. How can you get cash?

1. ______________________________
2. ______________________________
3. ______________________________

4. How can you make purchases?

1. ______________________________
2. ______________________________
3. ______________________________

5. How can you transfer funds?

1. ______________________________
2. ______________________________
3. ______________________________

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Automatic and Direct Deposits (Instructor Copy)

Instructor note:
Lead a discussion about automatic and direct deposits and global transfers using these key points.

Automatic Deposits

- At many banks you can set up automatic deposits from your checking to your savings account.
- It can be easier to save more, and more quickly, when it's automatic.
- You may also have the option of automatic payments. This can help ensure that your regular monthly bills are always paid on time.

International Remittance

- International remittance, also called global remittance, is a type of Electronic Funds Transfer.
- Let's say you have family members who live outside of the United States. This service allows you to quickly and easily transfer funds to them from your account.
- Ask your bank if they offer this service.

Direct Deposit

- One example of an Electronic Funds Transfer is direct deposit.
- That's when money, such as a paycheck or Social Security check, is electronically trnsferred directly into your account.
- This way you receive the funds even faster and more safely than with a paper check.
- You'll receive proof of deposit from your bank for all direct deposits.
- By setting up direct deposit, you'll have timely access to your paycheck or other income on payday.
- Most employers and government agencies offer direct deposit.

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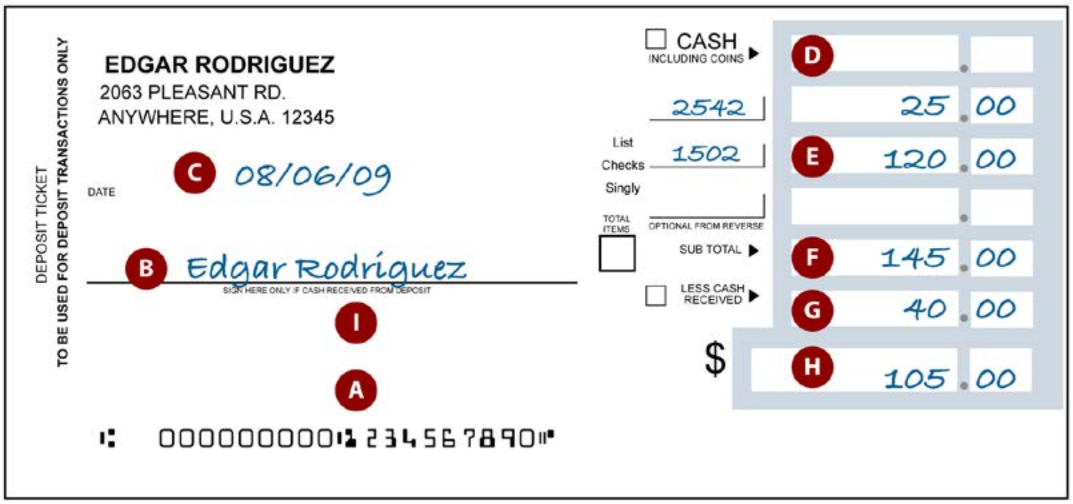
How to Fill in a Deposit Slip Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about the parts of a deposit slip.

When you make a deposit by mail or at the bank (and at some ATMs) you'll be asked to fill in a deposit slip.



A. Account Number: This number ensures that the money is deposited in the correct account. If you do not have your account number with you, your bank can provide the information to you.

B. Your information: Your name is pre-printed or written in.

C. Date: You will write today's date here.

D. Cash: If depositing cash, you would write the amount here.

E. Checks: If you are depositing checks or money orders, you would list each one separately here and continue on the back if more space were needed.

F. Subtotal: You will add the cash and check amounts and write the total amount being deposited here.

G. Less Cash Received: If you are at the bank, you would use this space to write the amount of cash you would like to get back from the checks you are depositing.

H. Total: You will subtract the amount, if any, on the line "Less Cash Received" from the Subtotal, and write the total amount being deposited here.

I. Signature: The teller will ask you to sign the deposit slip and provide identification to confirm that you are the account holder, if you are withdrawing cash from your deposit.

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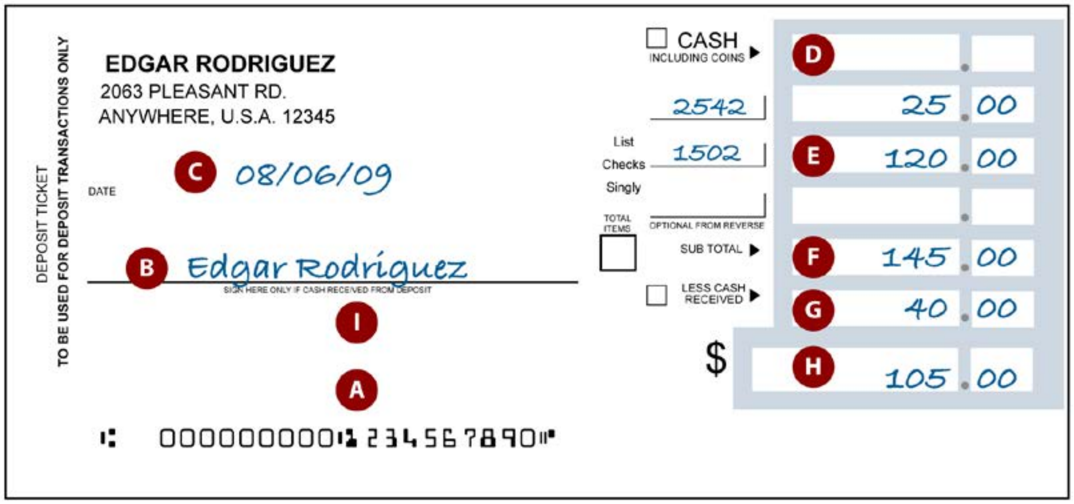
How to Fill in a Deposit Slip Activity

When you make a deposit by mail or at the bank (and at some ATMs) you'll be asked to fill in a deposit slip.



A. Account Number: This number ensures that the money is deposited in the correct account. If you do not have your account number with you, your bank can provide the information to you.

B. Your information: Your name is pre-printed or written in.

C. Date: You will write today's date here.

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Deposit Slip Practice Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill out the deposit slip using the information provided.

Instructions:

Have participants use this information to fill in the deposit slip.

Date:

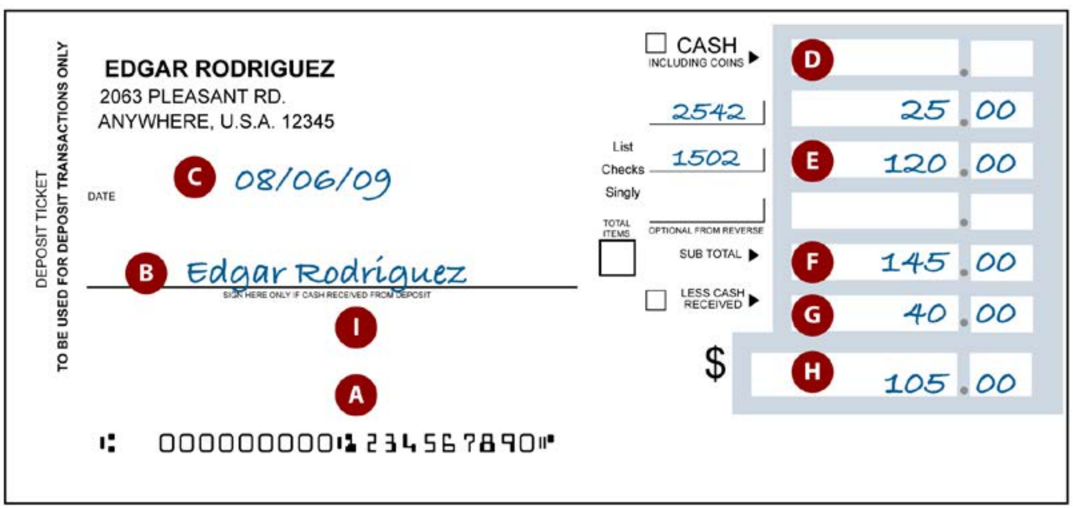
- 08/06/09.

Checks to deposit:

- #2542 for $25.00.
- #1502 for $120.00.

Cash back:

- $40.00.



Remind your participants that withdrawing and depositing money are just one part of managing their accounts. Now they'll learn the four basic skills to help them keep track of their transactions.

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Deposit Slip Practice Activity

Instructions:

Use this information to fill in the deposit slip.

Date:

- 08/06/09.

Checks to deposit:

- #2542 for $25.00.
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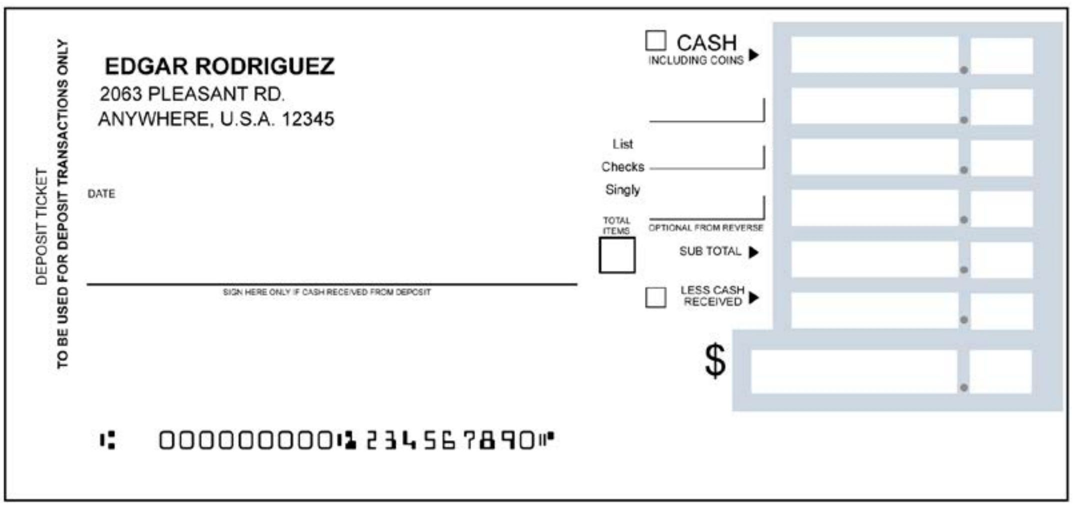
Cash back:

- $40.00.


DEPOSIT TICKET
TO BE USED FOR DEPOSIT TRANSACTIONS ONLY
EDGAR RODRIGUEZ
2063 PLEASANT RD.
ANYWHERE, U.S.A. 12345
DATE
SIGN HERE ONLY IF CASH RECEIVED FROM DEPOSIT
CASH INCLUDING COINS
List Checks Singly
TOTAL ITEMS
OPTIONAL FROM REVERSE
SUB TOTAL
LESS CASH RECEIVED
$
⑆ 000000000⑆ 234567890⑈

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Keeping Track of Your Transactions Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill in the blanks as you lead the discussion.

To be a good money manager, you need to keep accurate records. It's up to you to keep track every time you put money in and take money out of your accounts. It's your money, so it's important to keep track.

There are four essential skills you need.

Instructions:

Direct participants to fill in the blanks as they listen to the discussion,

1. **Save your transaction receipts.**
    - Every time you make a **transaction** at the bank or ATM, you'll receive a receipt.
    - Be sure to **save** your receipts.
2. **Record every transaction in your register.**
    - It's a small **notepad** you'll receive when you open your account.
    - Add your deposits, subtract your withdrawals, and keep track of your **current balance** (the **exact amount** you have in your account right now).
3. **Avoid spending more than you have.**
    - Keeping track will help you avoid **spending more** than you have in your account.
    - It's called an **overdraft**.
4. **Review your statement every month.**
    - At the end of the month, the bank will send you a **statement**.
    - Your statement lists your balance at the beginning and end of the statement month, and all of the **transactions** that the bank has processed during the statement month.
    - Review your statement along with your **register** and your **receipts** to make sure that your records and the bank's records **agree**.

Tip!

> If your bank offers online banking, you won't have to wait for your statement to review your account activity. Online banking gives you access to review your accounts any time.

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Keeping Track of Your Transactions Activity

To be a good money manager, you need to keep accurate records. It's up to you to keep track every time you put money in and take money out of your accounts. It's your money, so it's important to keep track.

There are four essential skills you need.

Instructions:

As you listen to the discussion, fill in the blanks.

1. **Save your transaction receipts.**
   - Every time you make a ____________________ at the bank or ATM, you'll receive a receipt.
   - Be sure to ____________________ your receipts.
2. **Record every transaction in your register.**
   - It's a small ____________________ you'll receive when you open your account.
   - Add your deposits, subtract your withdrawals, and keep track of your ________________________ (the **exact amount** you have in your account right now).
3. **Avoid spending more than you have.**
   - Keeping track will help you avoid _________________________ than you have in your account.
   - It's called an ____________________.
4. **Review your statement every month.**
   - At the end of the month, the bank will send you a ____________________.
   - Your statement lists your balance at the beginning and end of the statement month, and all of the ____________________ that the bank has processed during the statement month.
   - Review your statement along with your ____________________ and your ____________________ to make sure that your records and the bank's records ____________________ .

Tip!

> If your bank offers online banking, you won't have to wait for your statement to review your account activity. Online banking gives you access to review your accounts any time.

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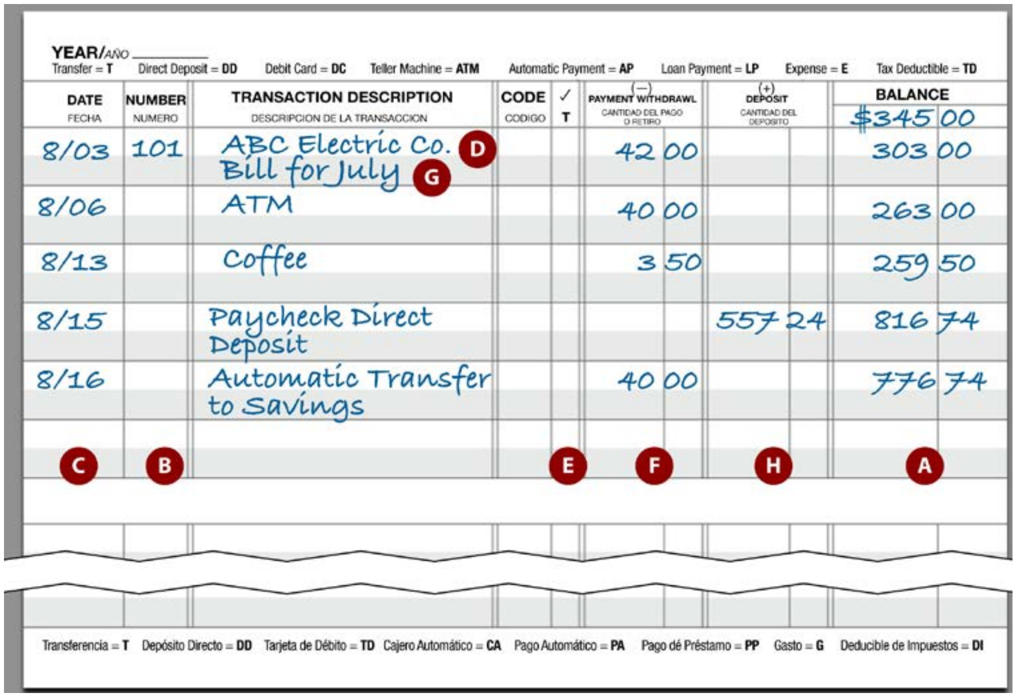
How to Use Your Transaction Register Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Then, lead a discussion about the parts of the transaction register.

Here is a sample transaction register.



YEAR/AÑO ________

Transfer = T Direct Deposit = DD Debit Card = DC Teller Machine = ATM Automatic Payment = AP Loan Payment = LP Expense = E Tax Deductible = TD

DATE FECHA	NUMBER NUMERO	TRANSACTION DESCRIPTION DESCRIPCION DE LA TRANSACCION	CODE CODIGO	✓ T	(−) PAYMENT WITHDRAWL CANTIDAD DEL PAGO O RETIRO	(+) DEPOSIT CANTIDAD DEL DEPOSITO	BALANCE
							$345 00
8/03	101	ABC Electric Co. (D) Bill for July (G)			42 00		303 00
8/06		ATM			40 00		263 00
8/13		Coffee			3 50		259 50
8/15		Paycheck Direct Deposit				557 24	816 74
8/16		Automatic Transfer to Savings			40 00		776 74
C	B			E	F	H	A

Transferencia = T Depósito Directo = DD Tarjeta de Débito = TD Cajero Automático = CA Pago Automático = PA Pago dé Préstamo = PP Gasto = G Deducible de Impuestos = DI

A. This column is used to calculate the current balance in the account by adding each deposit and subtracting each withdrawal.
B. This is the number of the check.
C. This column is used to record the date the check was written or the transaction was.
D. This is the name of the payee, that is the person or company who was paid.
E. Once a month, you'll use this column to check off each transaction that appears on your monthly account statement. This will help you to ensure that your records and the bank's records match.
F. This is the amount of the check or transaction
G. Use this line to briefly describe the transaction. This can be a helpful reminder of what you purchased or why you received funds.
H. This is the amount of your deposit.

Tip!

Don't forget to record all of your transactions, not just checks. Be sure to include:

- Deposits
- ATM withdrawals
- Debit card purchases
- Electronic funds transfers
- Interest payments
- Bank fees

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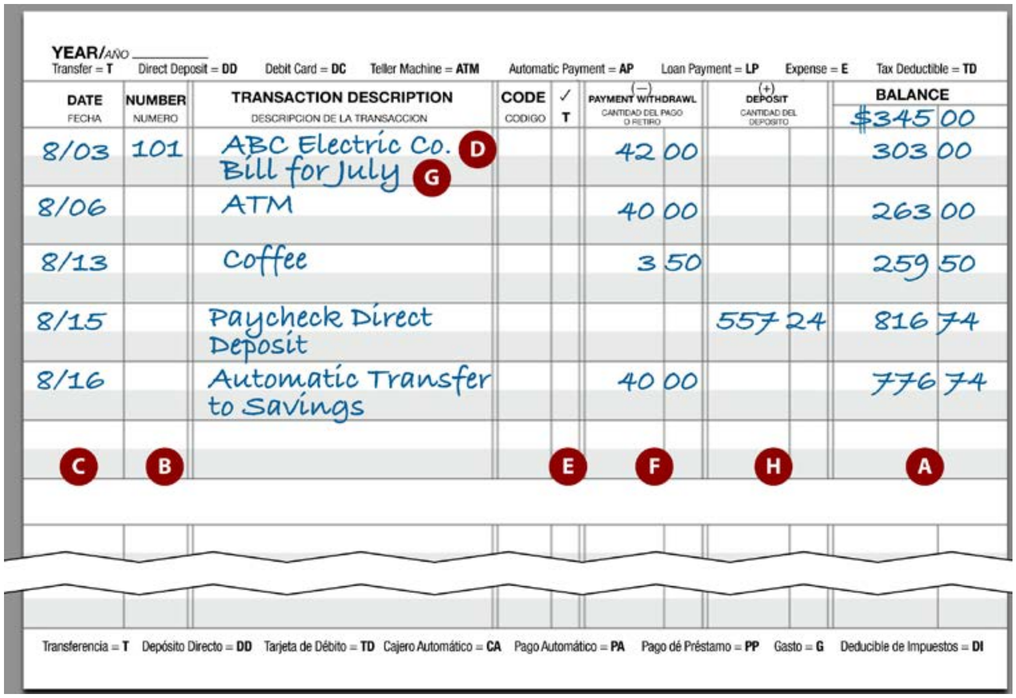
How to Use Your Transaction Register Activity

Here is a sample transaction register.


YEAR/AÑO ________
Transfer = T   Direct Deposit = DD   Debit Card = DC   Teller Machine = ATM   Automatic Payment = AP   Loan Payment = LP   Expense = E   Tax Deductible = TD

DATE FECHA	NUMBER NUMERO	TRANSACTION DESCRIPTION DESCRIPCION DE LA TRANSACCION	CODE CODIGO	✓ T	(−) PAYMENT WITHDRAWL CANTIDAD DEL PAGO O RETIRO	(+) DEPOSIT CANTIDAD DEL DEPOSITO	BALANCE
							$345 00
8/03	101	ABC Electric Co. D Bill for July G			42 00		303 00
8/06		ATM			40 00		263 00
8/13		Coffee			3 50		259 50
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8/16		Automatic Transfer to Savings			40 00		776 74
C	B			E	F	H	A

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A. This column is used to calculate the current balance in the account by adding each deposit and subtracting each withdrawal.
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- ATM withdrawals
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- Electronic funds transfers
- Interest payments
- Bank fees

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Transaction Register Practice Activity (Instructor Copy)

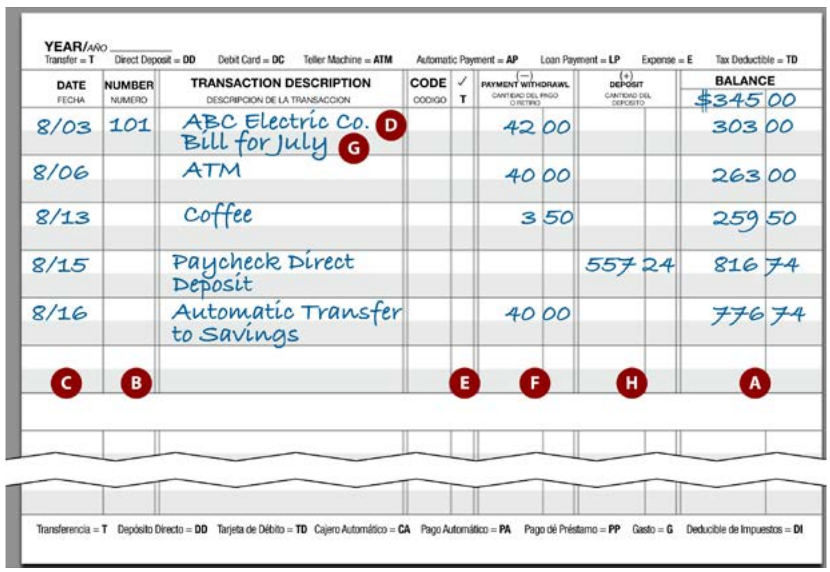
Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill out the transaction register using the provided information. Then, lead a discussion using the key points below.

Instructions:

Have participants fill in this sample transaction register using this information:

- Starting balance: $345.00.
- On August 3, you wrote check #101 for $42.00 to ABC Electric Company.
- On August 6, you made a withdrawal of $40.00 at the ATM.
- On August 13, you spent $3.50 on coffee.
- On August 15, your paycheck of $557.24 was direct deposited.
- On August 16, $40.00 was automatically transferred to your savings account.


YEAR/AÑO ______
Transfer = T Direct Deposit = DD Debit Card = DC Teller Machine = ATM Automatic Payment = AP Loan Payment = LP Expense = E Tax Deductible = TD

DATE FECHA	NUMBER NUMERO	TRANSACTION DESCRIPTION DESCRIPCION DE LA TRANSACCION	CODE CODIGO	✓ T	(−) PAYMENT WITHDRAWL CANTIDAD DEL PAGO O RETIRO	(+) DEPOSIT CANTIDAD DEL DEPOSITO	BALANCE
							$345 00
8/03	101	ABC Electric Co. D Bill for July G			42 00		303 00
8/06		ATM			40 00		263 00
8/13		Coffee			3 50		259 50
8/15		Paycheck Direct Deposit				557 24	816 74
8/16		Automatic Transfer to Savings			40 00		776 74
C	B		E		F	H	A

Transferencia = T Depósito Directo = DD Tarjeta de Débito = TD Cajero Automático = CA Pago Automático = PA Pago de Préstamo = PP Gasto = G Deducible de Impuestos = DI

Key Points:

- To record a check you've written, fill in the check number and date. Fill in the payee and, on the line below, what the payment is for, like rent or clothing. Then subtract the amount of the check from your current balance.
- Now enter a check deposit. Fill in the date and the amount of the deposit, the name of the person or business that wrote the check, and, on the line below, what it was for. Then add the check amount to your balance.
- To record a direct deposit of a paycheck, just enter the date of the direct deposit, and the amount, and add it to your balance.
- When you record a withdrawal made at an ATM, record the date and the amount of the withdrawal. Be sure to double-check the date and amount on the receipt you saved.
- To record a debit card withdrawal, follow the same steps as you would for an ATM withdrawal. Make a habit of writing your debit card purchases in your register right away so you don't forget.

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Transaction Register Practice Activity

Instructions:

Fill in this sample transaction register using this information:

- Starting balance: $345.00.
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- On August 6, you made a withdrawal of $40.00 at the ATM.
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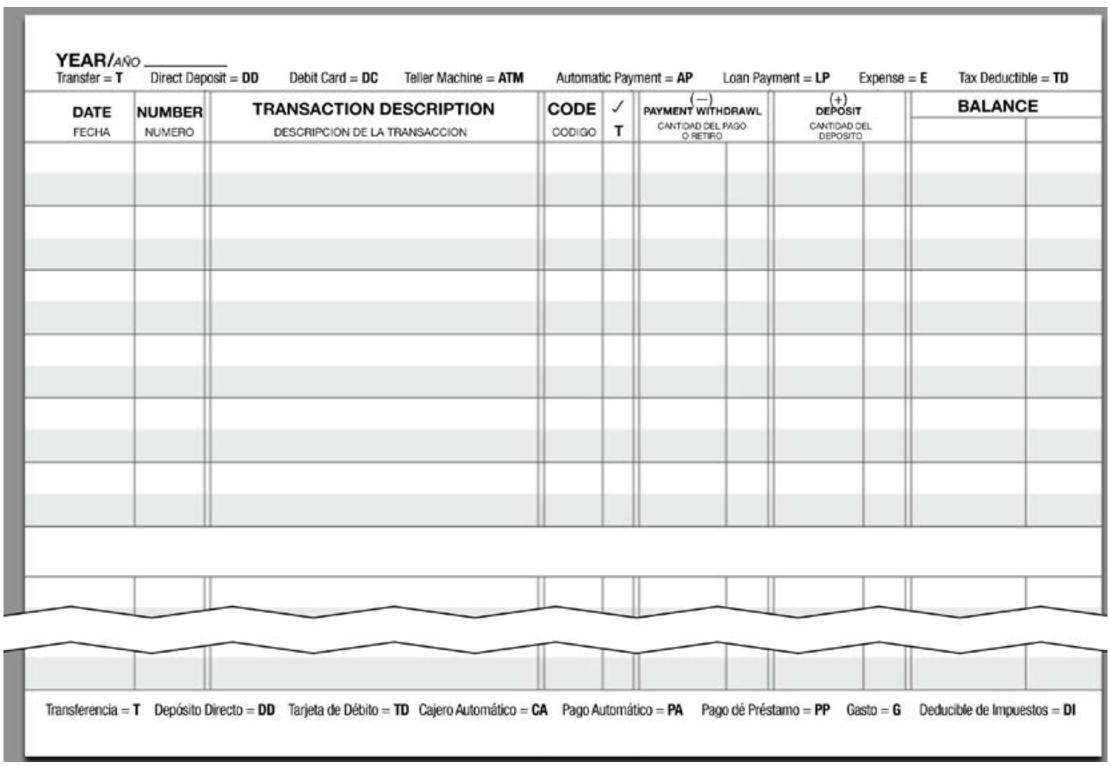

YEAR/AÑO ________

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Avoid Overdrafts! Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to list as many answers/examples for each question as possible. Then lead a discussion using the key points below.

Instructions:

Have participants answer the questions and provide as many answers or examples as they can.

What is an overdraft?

- Overdrafts occur when you write a check/withdraw more money than you have in your account.
- When you try to spend money you don't even have, that's a serious issue.
- If you make several overdrafts the bank may close your account.

Available balance

- It is always important to know your available balance before you access your money.
- The available balance is the amount of money that the bank will make available to you for withdrawal or use to authorize your next purchase or payment.
- Your available balance reflects the authorized withdrawals that are known to your bank. You should adjust for any checks you have written that have not been paid from your account.
- In addition, some pending debit card transactions may not be your final purchase amount (such as when you add a tip to a restaurant bill)—so you need to adjust for this amount. As a result, the bank may say "yes" to one of your transactions and then when all of your transactions are paid from your account, you may have overspent on your account.
- Your transaction register will always be the most complete record of the amount that is available for your next withdrawal or purchase.

Going beyond my available balance

When you spend more than you have in your checking account, there are several possible outcomes. Your bank may:

- Decline your next ATM or debit card transaction when you are attempting to withdraw money or pay for a purchase and you do not have enough money in your account. There is no bank fee associated with a declined ATM or debit card transaction.
- Transfer money from a savings or credit account that you link to your checking account for overdraft protection. A transfer fee may apply. You should check with your bank about applicable fees.
- Pay your transactions into overdraft. You will need to repay the bank and an overdraft fee may apply.
- Return your transaction unpaid due to insufficient funds. Your bank may charge you a returned transaction fee. If this returned transaction is for payment of a bill (e.g., credit card, car payment or insurance premium) you may be assessed other late bill payment fees and you could adversely impact your credit payment history.

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Avoid Overdrafts! Activity (Instructor Copy) (continued)

- The bank may pay your transaction into overdraft as a service to you; but this is a discretionary service (the bank does not promise to commit to pay your transaction). An overdraft fee may be charged on each transaction paid into overdraft—so, this is not the best way to manage your account!

The best option is to keep track of your transactions to avoid overspending. Another good choice is to ask if your bank offers overdraft protection. When you link another account (such as a savings or credit account) to your checking account, the bank will transfer money to your checking account when it is needed. Usually this is a single transfer fee that may cover multiple transactions (not like overdraft or returned transaction fees that may be charged on each transaction). Remember that this service can help prevent overdrafts or returned transactions only have money or available credit in the linked account.

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Avoid Overdrafts! Activity

Instructions:
Answer the questions and provide as many answers or examples as you can.

What is an overdraft?

What is an available balance?

What happens if I go beyond my available balance?

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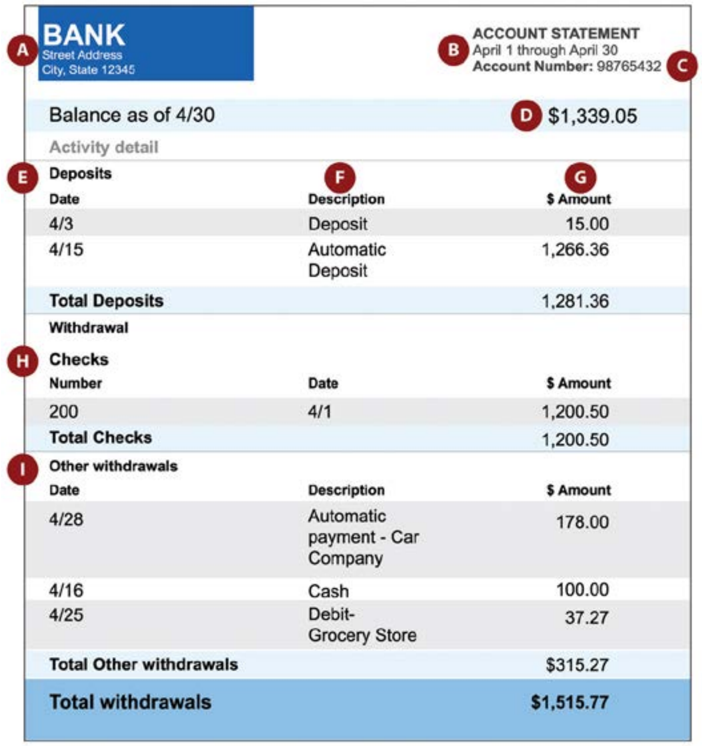
How to Read Your Statement Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about bank statements.



A BANK
Street Address
City, State 12345

B ACCOUNT STATEMENT
April 1 through April 30
Account Number: 98765432 C

Balance as of 4/30		D $1,339.05
Activity detail		
E Deposits	F	G
Date	Description	$ Amount
4/3	Deposit	15.00
4/15	Automatic Deposit	1,266.36
Total Deposits		1,281.36
Withdrawal		
H **Checks**		
Number	Date	$ Amount
200	4/1	1,200.50
Total Checks		1,200.50
I **Other withdrawals**		
Date	Description	$ Amount
4/28	Automatic payment - Car Company	178.00
4/16	Cash	100.00
4/25	Debit- Grocery Store	37.27
Total Other withdrawals		$315.27
Total withdrawals		**$1,515.77**

A. This is the name and address of the financial institution.
B. This is the period of time covered by this statement.
C. This number identifies the account covered by this statement.
D. This is the account balance according to the bank on the closing date of this statement.
E. This section lists the deposits made during the statement period.
F. This column describes how each deposit was made.
G. This column lists the amount of each deposit and the total of all deposits.
H. This section lists any checks that were written during the period, including each check number, date, and amount.
I. This section lists other withdrawals such as debit card purchases and other electronic payments.

Tip!

Remember: Your statement may not include all your transactions during the month. Some transactions may have been processed, or cleared, after the statement period closed. Missing transactions should appear on your next statement.

If you use online banking, you can quickly find out whether a check or deposit has cleared.

Remind your participants that each month they'll need to compare their records to the bank's records to make sure they match.

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How to Read Your Statement Activity

BANK (A)
Street Address
City, State 12345

ACCOUNT STATEMENT
(B) April 1 through April 30
Account Number: 98765432 (C)

Balance as of 4/30		(D) $1,339.05
Activity detail		
(E) **Deposits**	(F)	(G)
Date	**Description**	**$ Amount**
4/3	Deposit	15.00
4/15	Automatic Deposit	1,266.36
Total Deposits		1,281.36
Withdrawal		
(H) **Checks**		
Number	**Date**	**$ Amount**
200	4/1	1,200.50
Total Checks		1,200.50
(I) **Other withdrawals**		
Date	**Description**	**$ Amount**
4/28	Automatic payment - Car Company	178.00
4/16	Cash	100.00
4/25	Debit- Grocery Store	37.27
Total Other withdrawals		$315.27
Total withdrawals		**$1,515.77**

A. This is the name and address of the financial institution.
B. This is the period of time covered by this statement.
C. This number identifies the account covered by this statement.
D. This is the account balance according to the bank on the closing date of this statement.
E. This section lists the deposits made during the statement period.
F. This column describes how each deposit was made.
G. This column lists the amount of each deposit and the total of all deposits.
H. This section lists any checks that were written during the period, including each check number, date, and amount.
I. This section lists other withdrawals such as debit card purchases and other electronic payments.

Tip!

Remember: Your statement may not include all your transactions during the month. Some transactions may have been processed, or cleared, after the statement period closed. Missing transactions should appear on your next statement.

If you use online banking, you can quickly find out whether a check or deposit has cleared.

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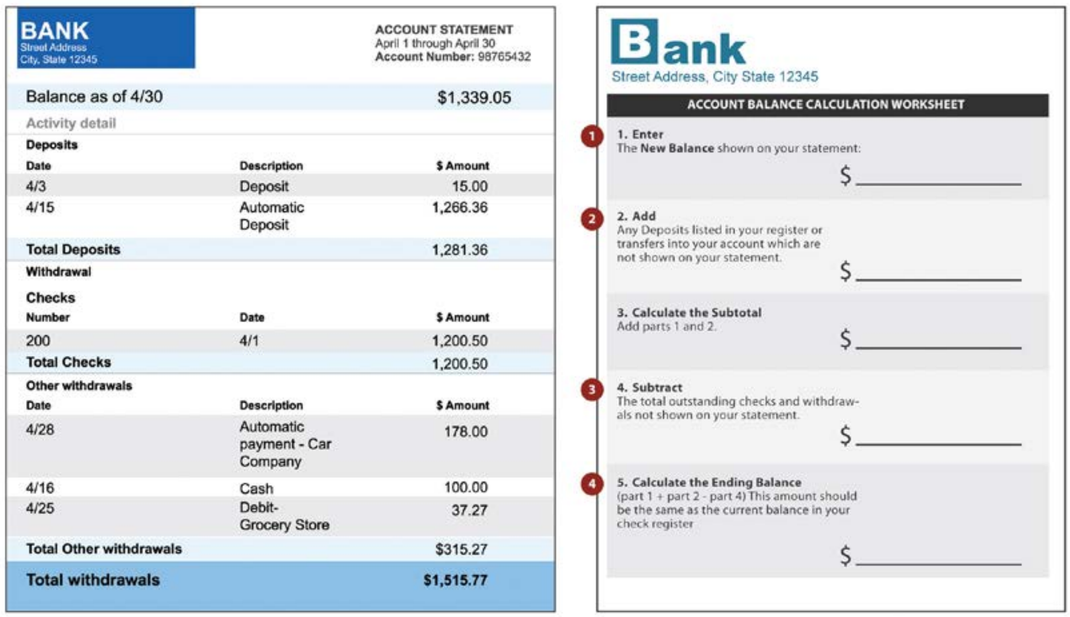
How to Reconcile Your Account Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about bank statements using the step-by-step process and diagram listed below.

Instructions:

On the back of the statement, participants will find a worksheet similar to the sample show here. Have them follow these step-by-step instructions to reconcile their account.


BANK
Street Address
City, State 12345

ACCOUNT STATEMENT
April 1 through April 30
Account Number: 98765432

Balance as of 4/30		$1,339.05
Activity detail		
Deposits		
Date	**Description**	**$ Amount**
4/3	Deposit	15.00
4/15	Automatic Deposit	1,266.36
Total Deposits		1,281.36
Withdrawal		
Checks		
Number	**Date**	**$ Amount**
200	4/1	1,200.50
Total Checks		1,200.50
Other withdrawals		
Date	**Description**	**$ Amount**
4/28	Automatic payment - Car Company	178.00
4/16	Cash	100.00
4/25	Debit- Grocery Store	37.27
Total Other withdrawals		$315.27
Total withdrawals		**$1,515.77**

Bank
Street Address, City State 12345

ACCOUNT BALANCE CALCULATION WORKSHEET

1 — 1. Enter
The **New Balance** shown on your statement:
$ ____________

2 — 2. Add
Any Deposits listed in your register or transfers into your account which are not shown on your statement.
$ ____________

3. Calculate the Subtotal
Add parts 1 and 2.
$ ____________

3 — 4. Subtract
The total outstanding checks and withdrawals not shown on your statement.
$ ____________

4 — 5. Calculate the Ending Balance
(part 1 + part 2 - part 4) This amount should be the same as the current balance in your check register
$ ____________

1. First, you enter the balance that's shown on your statement for the last day of the statement period.
2. Second, you list all of the deposits that are in your check register but that do not appear on the bank statement.
3. Third, you list all of the withdrawals—checks, ATM, debit card, and other withdrawals—that do not appear on the bank statement.
4. After you've followed the instructions on the worksheet for adding and subtracting, the final amount on the worksheet should be the same as the current balance shown in your check register.

If your check register and worksheet don't balance, or if you have other questions about your statement, most banks have a toll-free telephone number for customer service to help you.

Tip!

Remember: Your statement may not include all your transactions during the month. Some transactions may have been processed, or cleared, after the statement period closed. Missing transactions should appear on your next statement.

If you use online banking, you can quickly find out whether a check or deposit has cleared.

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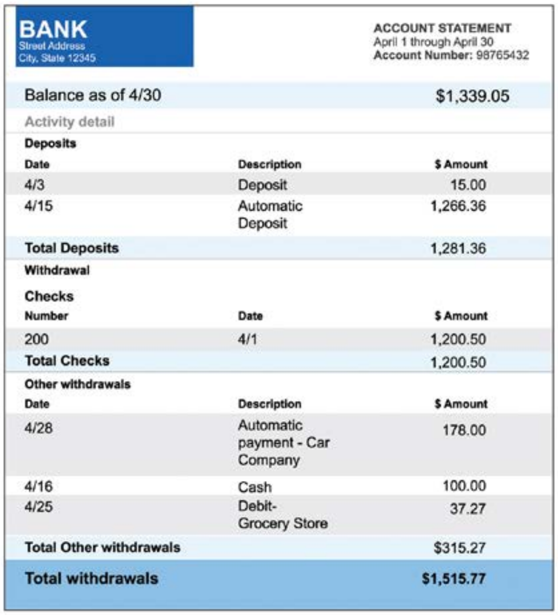
How to Reconcile Your Account Activity

Instructions:

On the back of the statement, participants will find a worksheet similar to the sample show here. Have them follow these step-by-step instructions to reconcile their account.



BANK
Street Address
City, State 12345

ACCOUNT STATEMENT
April 1 through April 30
Account Number: 98765432

Balance as of 4/30 — $1,339.05

Activity detail

Deposits

Date	Description	$ Amount
4/3	Deposit	15.00
4/15	Automatic Deposit	1,266.36
Total Deposits		1,281.36

Withdrawal

Checks

Number	Date	$ Amount
200	4/1	1,200.50
Total Checks		1,200.50

Other withdrawals

Date	Description	$ Amount
4/28	Automatic payment - Car Company	178.00
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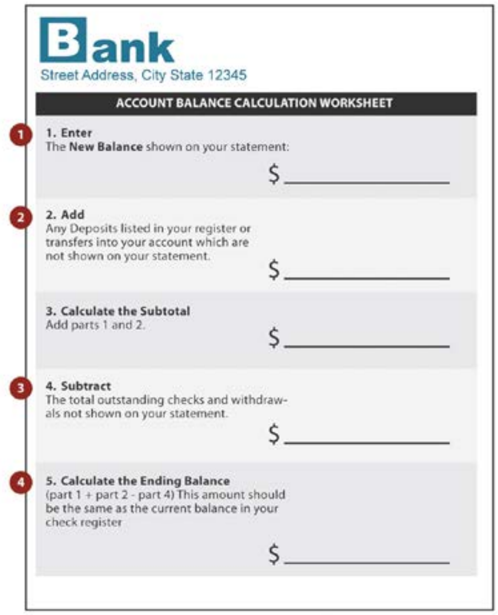
4/25	Debit-Grocery Store	37.27
Total Other withdrawals		$315.27
Total withdrawals		**$1,515.77**



Bank
Street Address, City State 12345

ACCOUNT BALANCE CALCULATION WORKSHEET

1 — **1. Enter** The **New Balance** shown on your statement: $ ________

2 — **2. Add** Any Deposits listed in your register or transfers into your account which are not shown on your statement. $ ________

3. Calculate the Subtotal Add parts 1 and 2. $ ________

3 — **4. Subtract** The total outstanding checks and withdrawals not shown on your statement. $ ________

4 — **5. Calculate the Ending Balance** (part 1 + part 2 - part 4) This amount should be the same as the current balance in your check register $ ________

1. First, you enter the balance that's shown on your statement for the last day of the statement period.
2. Second, you list all of the deposits that are in your check register but that do not appear on the bank statement.
3. Third, you list all of the withdrawals—checks, ATM, debit card, and other withdrawals—that do not appear on the bank statement.
4. After you've followed the instructions on the worksheet for adding and subtracting, the final amount on the worksheet should be the same as the current balance shown in your check register.

If your check register and worksheet don't balance, or if you have other questions about your statement, most banks have a toll-free telephone number for customer service to help you.

Tip!

Remember: Your statement may not include all your transactions during the month. Some transactions may have been processed, or cleared, after the statement period closed. Missing transactions should appear on your next statement.

If you use online banking, you can quickly find out whether a check or deposit has cleared.

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Topic 1 — Basics of Banking Services

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Using and Managing Your Accounts lesson:

- Once your checking or savings account is open, you'll probably have lots of options for how to put money in, how to make deposits, and for taking money out, or making withdrawals.
- If you have more than one account with the same financial institution, be sure to ask them about convenient ways to transfer funds between your accounts.
- Each time you move your money in or out of your account, it's called making a transaction.
- When funds are moved by computer, rather than by cash or check, it's called an Electronic Funds Transfer, or EFT.
- Online banking is a great option that many financial institutions offer.
- Online banking allows you to handle many banking activities over the Internet, including paying your bills.
- Mobile banking allows you to use a mobile device to check on your accounts. For example you can send a text message from your cell phone to find out your current account balance.

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Topic 1 — Basics of Banking Services

Topic Summary

Instructor note:
Summarize this topic by reviewing these key points with your participants.

Key points from the Basics of Banking Topic:

1. Financial institutions offer safe, secure, convenient services to save money and build better financial future.
2. Savings account are a safe place to put money for future goals and unexpected expenses.
3. Checking accounts are ideal for paying bills and daily purchasing.
4. Ask your bank what services they offer and how to use them.
5. Take advantage of helpful tools: ATMs, online banking, direct deposit, and more.
6. Keep accurate records.
7. Avoid overdrafts!
8. Reconcile your statements monthly.

Additional Activities

These activities are designed to extend the new concepts presented in the Basics of Bank Services Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Visit some local financial institutions, such as banks and credit unions. Pick up pamphlets and brochures and compare and contrast services, interest rates and fees.
2. Talk to a financial professional at a bank of financial institution about services they offer.
3. Research online savings accounts. How do they differ from accounts offered by brick-and-mortar banks or credit unions.
4. Visit your local bank or credit union and find out the current rates on CDs or money market accounts. If possible, ask a financial professional at the bank to show you how these rates have gone up or down in the past.
5. If you're ready, visit your local bank or credit union and open a checking or savings account. Share your experience with the class.

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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About FDIC Insurance

The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in financial institutions; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a financial institution fails.

The FDIC insures deposits in most financial institutions in the United States. The FDIC protects depositors against the loss of their deposits if a FDIC-insured financial institution fails. FDIC insurance is backed by the full faith and credit of the United States government.

The FDIC is an independent agency of the U.S. government and was created in 1933. Since its inception, the FDIC has responded to thousands of financial institution failures. No depositor has lost a single cent of insured funds as a result of a financial institution failure.

Basic FDIC insurance is $250,000 per depositor per insured financial institution. It is possible to have more than $250,000 insured by the FDIC on deposit at any one financial institution. The FDIC separately insures deposits held in different categories of legal ownership including: Individual Accounts, Joint Accounts, Revocable Trust Accounts (including Payable-on-Death [POD] accounts), and certain Retirement Accounts (such as IRAs).

The FDIC's Electronic Deposit Insurance Estimator can help you determine if you have adequate deposit insurance for your accounts.

The FDIC insures deposits only. It does not insure securities, mutual funds, U. S Treasury bills, bonds, notes or similar types of investments purchased through an insured financial institution.

To protect insured deposits, the FDIC responds immediately when an insured financial institution fails. Financial institutions generally are closed by their chartering authority—the state regulator, the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation or the Office of Thrift Supervision. The FDIC has several options for resolving institution failures, but the one most used is to sell deposits and loans of the failed institution to another institution. Customers of the failed institution automatically become customers of the assuming institution. Most of the time, the transition is seamless from the customer's point of view.

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About FDIC Insurance (continued)

Here is a summary of what funds are—and are not—FDIC-Insured:

FDIC-Insured

- Checking Accounts (including money market deposit accounts).
- Savings Accounts (including passbook accounts).
- NOW Accounts.
- Time Deposit Accounts (Certificate of Deposits).
- Certain Retirement Accounts (including IRAs).

Not FDIC-Insured.

- Investments in mutual funds (stock, bond or money market mutual funds).
- Annuities (underwritten by insurance companies).
- Stocks, bonds, Treasury securities or other investment products, whether purchased through a bank or a broker/dealer.
- Contents of safe deposit boxes.
- Losses from robberies and other thefts.

For further information, visit the FDIC Web site at **www.fdic.gov**.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Topic 2 — Money Management Tools

Money Management Tools

Topic Overview

The Money Management Tools topic will teach participants how to make the most of their money by saving more, creating a spending plan, and being a better shopper. It also includes special sections on kids and money and buying a car.

This topic includes six lessons:

1. Be a better saver
2. Control your finances with a Spending Plan
3. Be a smart shopper
4. Smart car buying
5. Kids & money
6. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit **www.handsonbanking.org** to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCD@wellsfargo.com.

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Instructor's Guide — Adults
Table of Contents

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Topic 2 — Money Management Tools

Instructor's Guide — Adults
Table of Contents

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Topic 2 — Money Management Tools

Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

529 Plan	A program set up to allow an adult to either prepay, or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution.
Annual Percentage Yield (APY)	The rate of return on an investment, such as a deposit in an interest-bearing savings account, for a one year period.
Appreciation	The amount of value an item such as a car, home or stock, gains over time from the original purchase price.
Compound interest	When a financial institution pays you interest not only on your initial principal (the amount you originally deposited) but also on the interest your deposit has earned over time.
Co-sign	A second person who signs your credit or loan application. Just like the borrower, the co-signer on a loan is equally responsible for repaying the debt. Also called a co-borrower.
Credit rating	An evaluation of an individual's or business's financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.
Depreciation	A loss of value in real property brought about by age, physical deterioration, functional or economic obsolescence.
Discretionary expenses	The purchase of goods or services which are not essential to the buyer, or are more expensive than necessary. Examples include entertainment and restaurant meals.
Earning power	The amount of money a person is able to make from his or her work.
Education Savings Account	An investment account designed to assist with paying for education-related expenses. Contributions grow tax-deferred and distributions are not taxed if used for qualified expenses. Withdrawals for non-qualified educational expenses are subject to income tax and a 10% IRS penalty. Distributions may be taxable.
FAFSA	The application a student and his or her family completes in order to apply for federal student loans.
Financial aid	Financial assistance, such as a loan, grant or works study program, a student receives to enroll in an accredited educational institution.
Fixed expenses	For an individual, a fixed cost is an expense that stays the same each month, such as rent or a car payment. For a business, a fixed cost is an expense that does not vary depending on production or sales levels, such as an equipment lease or property tax.
Flexible expenses	An expense that you can control or adjust, for example, how much you spend on groceries, clothes, or long distance phone calls.

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Glossary

Income	For an individual, income means the amount of money received during a period of time, including money received in exchange for labor or services, from the sale of goods or property, or as profit from financial investments. For a business, income is revenues (all the money brought in) minus cost of sales, operating expenses, and taxes, over a given period of time.
Interest	The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Interest rate	The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).
Lease	A contract by which one party (lessor) gives to another (lessee) the use and permission of an item, such as an automobile or apartment for a specified time and fixed payments.
Loan	An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.
Net income	For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.
Pre-approval loan	A written commitment from a lender, subject to a property appraisal or other stated conditions, that confirms the price of home a potential borrower can afford.
Repossess	When a lender or seller takes back property or collateral from the borrower or buyer, usually because the buyer has failed to make required debt payments on time, or has failed to meet other conditions of the loan agreement.
Rule of 72	A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.
Simple interest	Interest that is calculated only on the principal sum, that is, the amount of money that was originally deposited. (By contrast, compound interest is when a financial institution pays you interest not only on your initial principal but also on the interest your deposit has earned over time.)
Spending plan	Also known as a budget, a method of tracking your monthly income and expenses.
Take-home pay	For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.
Term	A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.

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Lesson 1: Be a Better Saver

In this lesson your participants will learn why saving money is critical to their financial future and provide money-saving tips they can use, starting today!

Learning Objectives

After completing this lesson, participants will be able to:

- State why saving money is critical to their financial future.
- Use money-saving tips.
- Explain the power of compound interest.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions or invite them to talk about saving money. Here are some examples you could use:

- Why is it important to save money?
- Are there some short-term or long term items you are saving for or want to save for?
- Why is interest an important consideration when talking about savings?
- What is compound interest?

The Basics

- Savings is the first step of good money management.
- Set aside money in savings every time you get paid or receive extra money from tax returns, bonuses or gifts.
- The amount of interest you earn depends on the interest rate, how long you keep the money in the account, and how the financial institution pays interest
- Compounding is a powerful way to make your money grow faster.
- The higher the APY, the more interest you receive.
- Savings is an investment in yourself and your future.

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The Power of Compound Interest Activity (Instructor Copy)

Instructor note:

Compound interest may seem like a complicated topic for your participants, but if you break it down into manageable pieces, it's pretty easy to understand.

Photocopy the activity handout on the following page. Instruct your participants to list the three things that impact the amount of interest they can earn if their money is in an interest-earning account and why.

Instructions:

Have your participants list the three things that impact the amount of interest their money will earn in an interest-earning account and why.

If you start saving your money in an interest-earning account, like a savings account at a bank, the amount of interest you'll earn depends on three factors.

What are these three factors and how do they impact the amount of interest your money will earn?

1. **Interest rate**—the higher the interest rate, the more your money grows.
2. **Time**—how long you keep the money in the account will affect how your money grows. The more time your money has to grow, the better!
3. **Interest payments**—how your bank pays you interest is very important. Almost all banks compound interest. When you're out shopping for a savings account, here's a quick way to determine which account will pay you the most. Just compare the annual percentage yield, or APY, of the accounts. The higher the APY percentage, the more interest you'll receive.

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The Power of Compound Interest Activity

If you start saving your money in an interest-earning account, like a savings account at a bank, the amount of interest you'll earn depends on three factors.

Instructions:

List the three things that impact the amount of interest your money will earn in an interest-earning account and why.

1. Factor 1: ______________________________

   Why/how? ______________________________

   ____

   ____

   ____

2. Factor 2: ______________________________

   Why/how? ______________________________

   ____

   ____

   ____

3. Factor 3: ______________________________

   Why/how? ______________________________

   ____

   ____

   ____

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Compound Interest in Detail

Instructor note:

Lead a discussion about compound interest. Use the table below to discuss other topics.

Compounding interest means a financial institution pays interest on the amount of money you originally deposited as well as the interest your deposit has earned over time.

Depending on the account, the interest may be compounded daily, monthly, or quarterly. Each time, you're paid interest on the new, total amount you have in your account. So the more frequently your money is compounded, the more interest you'll earn.

Simple interest	Your money only earns interest on the principal—the amount of money you originally deposited.
Compound interest	The financial institution will pay you interest on your original deposit and on the interest your deposit earns over time. Your money grows more—and a lot faster!
Annual Percentage Yield (APY)	The rate of return on an investment, such as a deposit in an interest-bearing savings account, for a one year period. When you're out shopping for a savings account, here's a quick way to determine which account will pay you the most. Just compare the annual percentage yield, or APY, of the accounts. The higher the APY percentage, the more interest you'll receive.
Is the interest I earn taxable?	Yes. The interest you earn in your bank accounts is considered income, so it is taxable. The bank will send you a form at the end of the year that shows the total amount of interest you earned.

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Compare the Results Activity (Instructor Copy)

Instructor note:

It's easy to see the benefits of compound interest when the results are compared side-by-side. Use this comparison to reinforce the benefits of compound interest.

Photocopy the activity handout on the following page. First, introduce the story of the Shoebox Saver (puts money in a shoebox, under a mattress, etc.) and the Super Saver (puts money in interest-earning accounts).

Then, tell participants that both people put away five dollars per day per year. The Super Saver earned 5% interest, compounded daily.

Ask participants how much more money they think the Super Saver has made after 30 years as compared to the Shoebox Saver.

After you receive guesses from the participants, pass out the handout with the savings chart.

Interest vs. No Interest

Shoebox Saver	Super Saver
Year 1 $1,825	**Year 1** $1,871 $46 more
Year 5 $9,125	**Year 5** $10,366 $1,241 more
Year 10 $18,250	**Year 10** $23,677 $5,427 more
Year 30 $54,750	**Year 30** $127,077 $72,327 more!

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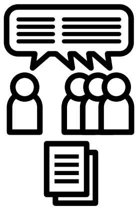

Compare the Results Activity

Interest vs. No Interest

Shoebox Saver	Super Saver
Year 1 $1,825	**Year 1** $1,871 $46 more
Year 5 $9,125	**Year 5** $10,366 $1,241 more
Year 10 $18,250	**Year 10** $23,677 $5,427 more
Year 30 $54,750	**Year 30** $127,077 $72,327 more!

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Use the Formula Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Introduce the formula for calculating compound interest. Explain each variable in the equation. Explain to them when they use this formula, they should take the amount in the parentheses and take it to the "nth" power and then multiply by P. Instruct your participants to use the formula to complete the example.

The formula for calculating compound interest is:

$$\mathbf{M = P(\ 1 + i\ )n}$$

- Where M is the final amount including the principal.
- P is the principal amount.
- i is the rate of interest per year.
- n is the number of years invested.

Instructions:

Have your participants use this formula to determine the final amount of money they'll have if they invest:

- $1000.00
- For three years
- With a 5% compound interest rate

$$\mathbf{M = 1000\ (1 + 5\%)3}$$

Answer Key:

Step 1: Change 5% to .05
Equation now reads: M=1000 (1+ .05)3

Step 2: Add 1 and .05
Equation now reads: M= 1000 (1.053)

Step 3: Cube 1.05 (1.05 x 1.05 x 1.05)
Equation now reads: M=1000 (1.15762)

Step 4: Multiply 1000 by 1.15762

Final Answer: $1157.62

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Use the Formula Activity (Instructor Copy)

The formula for calculating compound interest is:

$$M = P(1 + i)n$$

- Where M is the final amount including the principal.
- P is the principal amount.
- i is the rate of interest per year.
- n is the number of years invested.

Instructions:

Use this formula to determine the final amount of moneyyou'll have if they invest:

- $1000.00
- For three years
- With a 5% compound interest rate

Final Answer:

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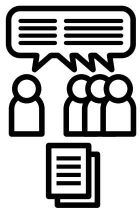

How to Build Up Your Savings (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Then lead a discussion based on the key points below.

Do you have enough money saved for future goals, emergencies, and to retire someday? Learn to be a better saver by following these tips.

Building Savings

Consider "needs" vs. "wants"	• Determine whether you're buying products or services you really need. • Give some thought to items on which you could spend less.
Make savings automatic	• Put a portion of every paycheck you receive into your savings account by using direct deposit or automatic transfer. • You'll be much less likely to spend the money that way.
Pay yourself first!	• Set aside money for savings at the beginning of each month, rather than waiting to see what's left at the end. • Decide on a percentage of your monthly income (for example, 5–10%) to direct deposit or transfer into your savings account.
Put "extra" money into savings	• If you receive any extra money, put it into savings. This extra money could be from: • Tax refund • A raise or bonus • A gift • If you have paid off a loan, keep making the monthly payments —to yourself, in your own savings account!
Pay your bills on time	• When you pay your bills on time, you avoid: • Late fees • Extra finance charges • Disconnection of (and re-connection fees for) phone, electricity, or other services • The cost of eviction • Repossession of cars or other items • Bill collectors
Avoid check-cashing stores	• At $10 or more for each check you cash, this can add up to several hundred dollars per year. • Consider opening a checking account at a bank instead.
Save for retirement	• If you work for a company that has a retirement savings plan, participate! • If you're self-employed, set up a retirement savings account of your own.

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How to Build Up Your Savings

Do you have enough money saved for future goals, emergencies, and to retire someday? Learn to be a better saver by following these tips.

Building Savings

Consider "needs" vs. "wants"	• Determine whether you're buying products or services you really need. • Give some thought to items on which you could spend less.
Make savings automatic	• Put a portion of every paycheck you receive into your savings account by using direct deposit or automatic transfer. • You'll be much less likely to spend the money that way.
Pay yourself first!	• Set aside money for savings at the beginning of each month, rather than waiting to see what's left at the end. • Decide on a percentage of your monthly income (for example, 5–10%) to direct deposit or transfer into your savings account.
Put "extra" money into savings	• If you receive any extra money, put it into savings. This extra money could be from: • Tax refund • A raise or bonus • A gift • If you have paid off a loan, keep making the monthly payments —to yourself, in your own savings account!
Pay your bills on time	• When you pay your bills on time, you avoid: • Late fees • Extra finance charges • Disconnection of (and re-connection fees for) phone, electricity, or other services • The cost of eviction • Repossession of cars or other items • Bill collectors
Avoid check-cashing stores	• At $10 or more for each check you cash, this can add up to several hundred dollars per year. • Consider opening a checking account at a bank instead.
Save for retirement	• If you work for a company that has a retirement savings plan, participate! • If you're self-employed, set up a retirement savings account of your own.

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The Rule of 72 Activity (Instructor Copy)

Instructor note:

The Rule of 72 is an effective way to get your participants interested in investing. It makes it easy to see how many years it will take to double the money made in an investment.

Photocopy the activity handout on the following page. Explain the formula to the participants and say it out loud so they understand the division: "72 divided by the interest rate will show you how many years it will take to double your investment." Instruct them to complete the three scenarios on the sheet.

Instructions:

Have your participants complete the scenarios on the page using this formula:

72 ÷ interest rate = years it will take to double your investment

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Scenario 1:

You have an investment that's earning 8% per year. How many years will it take to double your investment?

Answer: 9 years

Scenario 2:

You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: 7.2%

Scenario 3:

Your investment earns 6%. How many years will it take to double that investment?

Answer: 12 years

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The Rule of 72 Activity

Instructions:
Complete the scenarios on the page using this formula:

72 ÷ interest rate = years it will take to double your investment

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Scenario 1:
You have an investment that's earning 8% per year. How many years will it take to double your investment?

Answer: ______________________________

Scenario 2:
You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: ______________________________

Scenario 3:
Your investment earns 6%. How many years will it take to double that investment?

Answer: ______________________________

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Be a Better Saver lesson:

- Savings is the first step of good money management.
- Set aside money in savings every time you get paid or receive extra money from tax returns, bonuses or gifts.
- The amount of interest you earn depends on the interest rate, how long you keep the money in the account, and how the financial institution pays interest.
- Compounding is a powerful way to make your money grow faster.
- The higher the APY, the more interest you receive.
- Savings is an investment in yourself and your future.

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Lesson 2: Control Your Finances With a Spending Plan

This lesson—Control Your Finances with a Spending Plan—will help participants understand what a Spending Plan is, how to use it to save more, pay bills on time and make the most of the money they have right now.

Learning Objectives
After completing this lesson, participants will be able to:

- State the benefits of a Spending Plan.
- Define the key concepts of a Spending Plan.
- Create their own Spending Plan.
- Determine what things to pay for first on a monthly basis.

Start the Discussion
To start a discussion with your participants, ask some open-ended questions or invite them to talk about saving money. Here are some examples you could use:

- Why do you think you should have a written plan for how you will spend your money?
- Do you have any positive or negative feelings when you hear the words "Spending Plan" or "budget." Why?
- What things do you seem never to have enough money to purchase? How do you think a Spending Plan could help you with that?
- What are some of the ways you save money when you go shopping?

The Basics

- A spending plan can help you make the most of your money and reach your financial goals. It is your personal strategy.
- A spending plan is easy to create—on a piece of paper, write down the money you have coming in and what you spend in an average month. Putting it down on paper helps you see where you can improve and make better money decisions.
- As you begin to create your spending plan, you will write down how much money that comes in during an average month and then decide how to spend it.
- A spending plan can help you live within your means.
- The right spending plan can help you set aside enough to pay your bills, have some savings for emergencies, and some money left over in your pocket every month.

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Key Concepts of a Spending Plan Activity (Instructor Copy)

Instructor note:

Photocopy the activity handouts on the following pages. Divide the class into groups. Instruct them to answer the questions in the space provided. Then, hand out the completed worksheet and lead these key points.

Instructions:

Have your participants answer the questions in the space provided.

Things to Consider when Building a Spending Plan Answers

What is the difference between income and take home pay?	• There is a difference between your income (the total amount you earn) and your take-home pay (net income). • Net income = the amount of money earned after taxes, insurance, or other costs have been subtracted. • Base your spending plan on your take-home pay.
Why and how should you track your spending?	• To get a clear picture of your spending right now, keep a spending diary for a month or two. • Save your receipts and write down the items and amounts for everything you spend.
What are the three types of expenses? List an example for each.	There are three types of expenses: 1. Fixed expenses: » Regular amounts that generally don't change much. » Monthly expenses like rent or car payments. » Bills you receive less often, like car registration or insurance. 2. Flexible expenses: » Occur on a regular basis and are also for necessities. » You have more control over how much you spend. » For example, you can control how much you spend on groceries or how many long distance phone calls you make in a month. 3. Discretionary expenses: » Money you choose to spend, but don't necessarily have to spend. » Could include clothes, movies, and dining out. » Savings is a discretionary expense—it's up to you to decide how much of your money you're going to set aside for your future.
What should you do if find there's not enough income to cover expenses?	• After writing your spending plan, you may find that there's not enough money to go around. • Since your fixed expenses may be difficult to change, look for ways to decrease your flexible and discretionary expenses—and/or, increase your income.
What are trade-offs?	• Most people can't afford everything they want to buy, so they have to make tradeoffs. • Making tradeoffs may mean giving up things or buying something less expensive, so you can afford things that are valuable to you. • Tradeoffs may also relate to how you spend your time. To make more money at your job, you may have to work more hours.

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Key Concepts of a Spending Plan Activity

Instructions:

Answer the questions in the space provided.

Things to Consider when Building a Spending Plan Answers

What is the difference between income and take home pay?	
Why and how should you track your spending?	
What are the three types of expenses? List an example for each.	
What should you do if find there's not enough income to cover expenses?	.
What are trade-offs?	

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Key Concepts of a Spending Plan Activity

Things to Consider when Building a Spending Plan Answers

What is the difference between income and take home pay?	• There is a difference between your income (the total amount you earn) and your take-home pay (net income). • Net income = the amount of money earned after taxes, insurance, or other costs have been subtracted. • Base your spending plan on your take-home pay.
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What are trade-offs?	• Most people can't afford everything they want to buy, so they have to make tradeoffs. • Making tradeoffs may mean giving up things or buying something less expensive, so you can afford things that are valuable to you. • Tradeoffs may also relate to how you spend your time. To make more money at your job, you may have to work more hours.

Tip!

- Create a spending plan you can live with—be realistic and flexible.
- Review your plan every month.
- Adjust it as your income and expenses change.
- Avoid high cost check-cashing stores.

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Spending Plan Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill in the blank boxes with the correct category.

Instructions:

This is a sample spending plan. Have your participants write the correct category name in each blank field on the spending plan.

Categories:

Salary from Job 1	Clothing
Car insurance	Groceries
Utilities	Rent

Spending Plan Worksheet

MONTHLY INCOME	Estimate/Goal	Actual Earned
Salary from Job 1	$	$
Salary/Wages from Job 2	$	$
Other Income	$	$
Total Monthly Income	$	$
MONTHLY EXPENSES	**Estimate/Goal**	**Actual Spent**
Fixed Expenses		
Rent	$	$
Car loan payments	$	$
Car insurance	$	$
Other debt payments (credit cards/loans)	$	$
Other:	$	$
Flexible Expenses		
Groceries	$	$
Gas	$	$
Telephone (cell phones too)	$	$
Utilities	$	$
Household items	$	$
Other:	$	$
Discretionary Expenses		
Clothing	$	$
Dining out	$	$
Entertainment	$	$
Gifts	$	$
Savings	$	$
Other:	$	$
Total Monthly Expenses	$	$

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Spending Plan Activity

Instructions:

This is a sample spending plan. Write the correct category name in each blank field on the spending plan.

Categories:

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Spending Plan Worksheet

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MONTHLY EXPENSES	**Estimate/Goal**	**Actual Spent**
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Rent	$	$
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Car insurance	$	$
Other debt payments (credit cards/loans)	$	$
Other:	$	$
Flexible Expenses		
Groceries	$	$
Gas	$	$
Telephone (cell phones too)	$	$
Utilities	$	$
Household items	$	$
Other:	$	$
Discretionary Expenses		
Clothing	$	$
Dining out	$	$
Entertainment	$	$
Gifts	$	$
Savings	$	$
Other:	$	$
Total Monthly Expenses	$	$

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What Should I Pay First? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to determine the order of paying their expenses or saving money. When they're finished, lead a Discussion using the key points in the table below.

It's important to make your monthly income last as long as possible, so you'll need to pay things in a specific order. Remember, paying bills late can seriously damage your future ability to borrow. If you begin to earn more, increase the amount you save as much as you can.

Instructions:

Have participants determine the order they should pay expenses or save their monthly income.

Payment Priority Rankings

Payment Order	Expenses / Savings
1	**Pay your monthly bills.** Always pay your monthly bills first! There are many potential penalties if you pay late, such as late fees, losing possession of things you've bought on credit, even being evicted from an apartment!
2	**Set aside the money you'll need for your weekly and day-to-day expenses.** Planning for these expenses, like groceries, bus fare, gasoline, can help you track where your money is being spent.
3	**Put money into savings.** Try to build two months of take-home pay for an unexpected financial emergency.
4	**Set aside money for larger expenses you know are coming.** Set aside money for larger expenses you know are coming, such as car repairs or appliances. This emergency fund is a great cushion to have when a large expense pops up.
5	**Set aside money for your major future goals.** These goals could include a house, a car, college for your kids, or even world travel. When you use a spending plan, you can dream big, because anything is possible!

Tip!

Paying bills late can seriously damage your future ability to borrow. If you begin to earn more, increase the amount you save as much as you can.

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What Should I Pay First? Activity (Instructor Copy)

It's important to make your monthly income last as long as possible, so you'll need to pay things in a specific order. Remember, paying bills late can seriously damage your future ability to borrow. If you begin to earn more, increase the amount you save as much as you can.

Instructions:

Determine the order they should pay expenses or save their monthly income.

Payment Priority Rankings

Payment Order	Expenses / Savings
	Put money into savings.
	Set aside money for larger expenses you know are coming.
	Pay your monthly bills.
	Set aside money for your major future goals.
	Set aside the money you'll need for your weekly and day-to-day expenses.

Tip!

Paying bills late can seriously damage your future ability to borrow. If you begin to earn more, increase the amount you save as much as you can.

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Topic 2 — Money Management Tools

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Budget Tips

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 2 — Money Management Tools

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Control Your Finances With a Spending Plan lesson:

- A spending plan can help you make the most of your money and reach your financial goals. It is your personal strategy.
- A spending plan is easy to create—on a piece of paper, write down the money you have coming in and what you spend in an average month. Putting it down on paper helps you see where you can improve and make better money decisions.
- As you begin to create your spending plan, you will write down how much money that comes in during an average month and then decide how to spend it.
- A spending plan can help you live within your means.
- The right spending plan can help you set aside enough to pay your bills, have some savings for emergencies, and some money left over in your pocket every month.

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Lesson 3: Be a Smart Shopper

In this lesson, participants will learn a step-by-step guide for making major purchases the smart way. They will also learn helpful tips for saving money day-to-day.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain the step-by-step guide for how to make smart choices for major purchases.
- Explain helpful tips for saving money day to day.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Describe the process you use when you begin thinking about making a big purchase.
- Describe a shopping incident when you bought something on an impulse and it worked out well or worked out poorly.
- What types of situations make you want to shop more or shop less?

The Basics

- Consider your needs and your budget before you buy a major item.
- Research thoroughly and comparison shop before making a purchase.
- Find the best overall value for your item and always follow up if there is a problem.
- Resist impulse buying and follow our tips and techniques for spending less and saving more.

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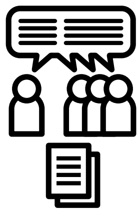

Making Major Purchases Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Open the floor to discussion about making big purchases—whether it's a flat-screen TV, an all-terrain vehicle, or even a leather sofa. Ask your participants if they ever had buyer's remorse after making a big purchase and why. Ask them to share their experiences with making these types of purchase, and ask how they went about it—from beginning to end. Then, introduce this step-by-step guide.

Things to Consider When Making Major Purchases

Step	Considerations
1. Consider your needs	• Ask "Do I really need this, or do I just want it?" • Ask: "Am I trying to fill a need with a purchase?"
2. Determine your budget	• Decide how much you can spend on this purchase and still cover your other expenses.
3. Research before you buy	• Do some research to determine when, how, and where to buy the item to get the best deal. • **Research any product claims.** Try to separate fact from fantasy in advertising. Check product ratings and reviews in magazines and online. • **Inspect products and try before you buy.** Ask a salesperson for a demonstration. • **Ask for advice** from friends and family who are familiar with the product you're considering. • **Inspect the product carefully before you buy it.** Check for quality and durability. When in doubt, stick to reliable brand names. • **Check warranties carefully.** Make sure you understand what's covered and for how long.
4. Comparison shop	• Shop around and use the Internet. Web research can save time, effort, and transportation costs. • Compare ads in the newspaper, shop by telephone, and look at catalogues, too. • Call 3 stores to compare prices, models, and store return policies. • Be sure to confirm the price. Ask about extra charges, like delivery. • Find out about the store's return policy.
5. Find the best overall value	• The goal is value, not just the lowest price. • Look for the features and quality you want, good customer service, a fair price, and a flexible return policy. • Watch for sales, coupons, and rebate offers to get the best price. Depending on the item and the store, you may be able to negotiate the price.
6. Follow-up if there's a problem	• Save your receipts and return unsatisfactory products to the store. • Speak to the store manager if there's a problem before or after you buy.

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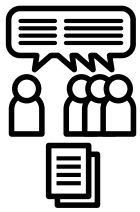

Making Major Purchases Activity

Things to Consider When Making Major Purchases

Step	Considerations
1. Consider your needs	• Ask "Do I really need this, or do I just want it?" • Ask: "Am I trying to fill a need with a purchase?"
2. Determine your budget	• Decide how much you can spend on this purchase and still cover your other expenses.
3. Research before you buy	• Do some research to determine when, how, and where to buy the item to get the best deal. • **Research any product claims.** Try to separate fact from fantasy in advertising. Check product ratings and reviews in magazines and online. • **Inspect products and try before you buy.** Ask a salesperson for a demonstration. • **Ask for advice** from friends and family who are familiar with the product you're considering. • **Inspect the product carefully before you buy it.** Check for quality and durability. When in doubt, stick to reliable brand names. • **Check warranties carefully.** Make sure you understand what's covered and for how long.
4. Comparison shop	• Shop around and use the Internet. Web research can save time, effort, and transportation costs. • Compare ads in the newspaper, shop by telephone, and look at catalogues, too. • Call 3 stores to compare prices, models, and store return policies. • Be sure to confirm the price. Ask about extra charges, like delivery. • Find out about the store's return policy.
5. Find the best overall value	• The goal is value, not just the lowest price. • Look for the features and quality you want, good customer service, a fair price, and a flexible return policy. • Watch for sales, coupons, and rebate offers to get the best price. Depending on the item and the store, you may be able to negotiate the price.
6. Follow-up if there's a problem	• Save your receipts and return unsatisfactory products to the store. • Speak to the store manager if there's a problem before or after you buy.

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Shopping Tips To Help You Save Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups and have them brainstorm tips to use in the situations listed in the left column of the table. When they're finished, focus on these key points.

Instructions:

Have your participants list several tips for each shopping situation.

Shopping Tips

At the store	• Resist impulse buying! • Ask yourself: Do I really need it?, Do I need it today?, What if don't buy it now?, Can I do this at a lower cost? • Limit the cash you carry and shop with your spending plan in mind • Avoid ATM fees by using your bank's ATMs. • Watch for sales and wait for the right price. • Look for coupons and rebates and shop for value!
Food shopping	• Save money by eating at home. • Make a shopping list and watch for sales and coupons. • Buy large quantities or in bulk for products you use frequently. • Don't go shop when hungry.
Credit card tips	• Use your credit card to purchase larger, lasting items. • Limit the number of credit cards you have. • Don't use a credit card if you can't afford the price. Avoid having a monthly credit card balance greater than 10% of your net income.
Cell phone tips	• Shop for a package deal. • Watch out for high text messaging and web access charges. • Read the contract before you sign and ask questions; make sure you understand all features & fees. • Keep track of your usage and pay your bill on time and in full.
Take advantage of discounts	• You may be eligible for discounts if you have a valid student, military, or insurance ID, or other organization memberships. • Research the benefits and ask stores what cards they honor for discounts. Some grocery and drug stores offer savings cards for customers. • Some stores and businesses offer their employees a special discount on merchandise. Consider working a seasonal job.
Skip the rest, save for best	• Consider skipping a few low-cost purchases you could do without to save for one item you really value. • Bypass small luxuries (like fancy coffees and movie rentals) for a few months.
Find a creative way	• How can you obtain something you want at a lower cost or even for free? For example, you might be able to see a play by volunteering to usher. • Or you might get some friends together in order to qualify for a volume or group discount. • Share a magazine subscription with a friend rather than buying single issues off the rack.

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Shopping Tips To Help You Save Activity (Instructor Copy)

Instructions:
Have your participants list several tips for each shopping situation.

Shopping Tips

At the store	
Food shopping	
Credit card tips	
Cell phone tips	
Take advantage of discounts	
Skip the rest, save for best	
Find a creative way	

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Be a Smart Shopper lesson:

- Consider your needs and your budget before you buy a major item.
- Research thoroughly and comparison shop before making a purchase.
- Find the best overall value for your item and always follow up if there is a problem.
- Resist impulse buying and follow our tips and techniques for spending less and saving more.

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Lesson 4: Smart Car Shopping

This lesson will help your participants consider their options and the potential impact on their budget. It also offers valuable advice on all aspects of the car-buying process and making car ownership affordable.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain how to consider options when buying a car.
- Explain the potential impact of buying a car on their budget.
- Explain tips and techniques to use during the car buying process.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions or invite them to talk about their good and bad experiences with banks. Here are some examples you could use:

- What is important to consider when you shop for a new car?
- How do you prepare your budget/spending plan when you are thinking about buying a car?
- What are some options to owing a car? Is there a positive impact on your financial situation?
- Why does car shopping seem intimidating to some people?
- What are other costs you will need to factor into your monthly budget/spending plan when you are buying a car?

The Basics

- If you're thinking of buying a car, it pays to do your research.
- Millions of people can get by just fine without a car.
- You can save money and the environment by not having a car.
- If you do need a car, there's a lot to consider: whether you'll need a loan to buy it, whether you can afford all of the car-related expenses, and how to go about finding and buying the right car to meet your needs.

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Living without a Car: The Pros and Cons (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to list some benefits of owning a car and not owning a car. Then lead a discussion based on these key points.

Before you buy a car, consider the benefits and drawbacks of living without one. If you decide to get a car, be realistic. It's a major expense and responsibility, so research and think it through.

Instructions:

Have your participants list several benefits of owning a car and several benefits of not owning a car.

Pros and Cons of Living without a Car

Benefits of NOT owning a car	Benefits OF owning a car
Major savings • Owning a car is a major expense. • You can save a lot of money if you can manage living without one. • No need to save for a down payment, no monthly or emergency expenses such as such as insurance, gas, maintenance, and repairs. **Multiple options** • There are many cheap ways to get around, such as: » Public transportation » Moped or scooter » Bicycling » Riding in a carpool **A healthy choice** • If you can walk or ride your bike, you'll save money and get some free exercise. • Having one less car on the road cuts back on traffic and air pollution. **Rent when you need to** • Even if you don't own a car, you can rent a car now and then when you need one.	**Reduced convenience** • Without a car of your own, you may not always be able to travel exactly where, when, and how quickly you want to. **Missing the "fun"** • Millions of Americans are in love with their cars. • Having a car of your own can be fun.

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Living without a Car: The Pros and Cons

Before you buy a car, consider the benefits and drawbacks of living without one. If you decide to get a car, be realistic. It's a major expense and responsibility, so research and think it through.

Instructions:

List several benefits of owning a car and several benefits of not owning a car.

Pros and Cons of Living without a Car

To own a car?	To not own a car?

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What Can You Afford? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to follow along as you lead a discussion about all the costs and options when it comes to buying a car.

Before you buy a car, consider all the costs to determine what you can afford.

Things to Consider Before Buying a Car

Your needs	• Based on your situation, what type of vehicle will fill your transportation needs now and in the next few years? • Are safety and fuel economy important to you? • Options such as a sunroof, sound system or leather seats are great, but they can increase the car's price.
Consider value	• Reference guides such as Kelly Blue Book and Edmunds can help you determine the value of a vehicle. • Optional features may add substantially to the purchase price but not increase its value when it's time to sell. • Visit Web sites such as autotrader.com or vehix.com to compare models. • Talk with a loan officer to get more information about car values.
New vs. used	• Almost all cars depreciate (go down in value) over time. • The value of a new car can drop thousands of dollars the day you drive it home. • Your initial cost for a used car will be less—but checking its mechanical condition will be especially important.
Buy vs. lease	• Buying a car means paying for it with cash and/or a loan. After you finish making the payments, you own the vehicle and can sell or trade it. • With leasing, you sign a contract and make monthly payments to have use of the car for a specific length of time and number of miles. After making all your lease payments, you return the car to the dealer. You own nothing and may even owe the dealer more money for any excess mileage or damage. However, monthly lease payments are often lower than loan payments.
Down payment	• You may need some cash up front to acquire the car—the down payment. • A larger down payment will decrease your monthly payment, and the amount of interest you pay.
Loan term	• With a car loan, you'll have a monthly payment to the lender. • The longer the term of your loan—that is, the longer you have to pay the money back—the lower your monthly payment but the higher your monthly interest payments! That means you'll end up paying more for the car than you would with a shorter term loan. • Make sure you know what your total costs will be and decide if the vehicle seems worth it to you at that price.
Your monthly budget	• After you pay all of your other bills, how much money do you have available to pay the ongoing expenses of car ownership (fuel, insurance, maintenance, registration, parking, and more). • Over the years that you own the car, there may be times when your income drops or you're unemployed. • Try to keep your car expenses within a range you can consistently afford through the ups and downs.

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What Can You Afford? Activity

Before you buy a car, consider all the costs to determine what you can afford.

Things to Consider Before Buying a Car

Your needs	• Based on your situation, what type of vehicle will fill your transportation needs now and in the next few years? • Are safety and fuel economy important to you? • Options such as a sunroof, sound system or leather seats are great, but they can increase the car's price.
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New vs. used	• Almost all cars depreciate (go down in value) over time. • The value of a new car can drop thousands of dollars the day you drive it home. • Your initial cost for a used car will be less—but checking its mechanical condition will be especially important.
Buy vs. lease	• Buying a car means paying for it with cash and/or a loan. After you finish making the payments, you own the vehicle and can sell or trade it. • With leasing, you sign a contract and make monthly payments to have use of the car for a specific length of time and number of miles. After making all your lease payments, you return the car to the dealer. You own nothing and may even owe the dealer more money for any excess mileage or damage. However, monthly lease payments are often lower than loan payments.
Down payment	• You may need some cash up front to acquire the car—the down payment. • A larger down payment will decrease your monthly payment, and the amount of interest you pay.
Loan term	• With a car loan, you'll have a monthly payment to the lender. • The longer the term of your loan—that is, the longer you have to pay the money back—the lower your monthly payment but the higher your monthly interest payments! That means you'll end up paying more for the car than you would with a shorter term loan. • Make sure you know what your total costs will be and decide if the vehicle seems worth it to you at that price.
Your monthly budget	• After you pay all of your other bills, how much money do you have available to pay the ongoing expenses of car ownership (fuel, insurance, maintenance, registration, parking, and more). • Over the years that you own the car, there may be times when your income drops or you're unemployed. • Try to keep your car expenses within a range you can consistently afford through the ups and downs.

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Leasing: Benefits & Drawbacks Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to determine the benefits and drawbacks of leasing a car. When they're finished, lead a discussion using the key points below.

Instructions:

Have your participants determine whether leasing is a good option. Have them write "benefit" or "drawback" next to each phrase.

Benefits and Drawbacks of Leasing a Car

By Leasing a Car You May Experience:	Benefit or Drawback?
Excessive mileage charges *Your lease agreement will specify how many miles are included. At the end of the lease, you may be charged 15 to 20 cents or more for each mile above this limit. You can usually pay for extra miles ahead of time at a lower rate.*	**Drawback**
Fees for damage *If you lease, it pays to maintain your vehicle in top condition. You may have to pay the dealer extra for even minor damage.*	**Drawback**
A new car *Consider leasing if you enjoy having a new car with the latest features every few years—even though you won't actually own it.*	**Benefit**
Easy transition *You'll avoid any trade-in or selling hassles when it's time for another car.*	**Benefit**
Fee for early termination *By signing a lease, you are making a commitment to pay for a certain period of months. Dealers typically charge a high fee if you end the lease early.*	**Drawback**
Lower monthly payments *Monthly lease payments are often lower than loan payments because you're only paying for the depreciation of the car during your lease—not for the car's full value..*	**Benefit**

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Leasing: Benefits & Drawbacks Activity

Instructions:

Determine whether leasing is a good option for you. Read the phrases and decide whether it is a drawback or benefit of leasing a car. Write "benefit" or "drawback" next to each phrase.

Benefits and Drawbacks of Leasing a Car

By Leasing a Car You May Experience:	Benefit or Drawback?
Excessive mileage charges	
Fees for damage	
A new car	
Easy transition	
Fee for early termination	
Lower monthly payments	

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Depreciation Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to fill in the blanks as you lead a discussion about depreciation.

Instructions:
Have your participants fill in the blanks as they listen to the discussion.

Planning to buy a car sometime soon? Before you do, there's a critical concept you need to understand—depreciation.

1. Depreciation is when the ______**value**______ of a car goes down due to ______**wear and tear**______ over time.

2. Almost all cars ______**depreciate**______.

3. The value of a new car can drop hundreds or even thousands of dollars the day you ______**drive it off the car dealer's lot**______.

4. Whether it's new or used, a car will start decreasing in value because the ______**condition**______ of the car is going to ______**deteriorate**______ as you drive it over time.

5. How much your car will depreciate depends on many factors—the make, model, year, ______**where you live**______ and ______**how much you drive**______.

6. A car is not an ______**investment**______! It will probably not grow in value over time.

7. A car is an ______**expense**______ that carries a lot of additional expenses—fuel, maintenance, repairs, insurance, taxes, fees and depreciation.

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Depreciation Activity

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill in the blanks as you lead a discussion about depreciation.

Instructions:

Have your participants fill in the blanks as they listen to the discussion.

Planning to buy a car sometime soon? Before you do, there's a critical concept you need to understand—depreciation.

1. Depreciation is when the ______________________________ of a car goes down due to ______________________________ over time.

2. Almost all cars ______________________________.

3. The value of a new car can drop hundreds or even thousands of dollars the day you ______________________________.

4. Whether it's new or used, a car will start decreasing in value because the __________________ the car is going to ______________________________ as you drive it over time.

5. How much your car will depreciate depends on many factors—the make, model, year, ______________________________ and ______________________________.

6. A car is not an __________________________! It will probably not grow in value over time.

7. A car is an ______________________________ that carries a lot of additional expenses—fuel, maintenance, repairs, insurance, taxes, fees and depreciation.

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New vs. Used Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to write each feature under New Cars or Used Cars. Then instruct them to decide whether or not each feature is a benefit or disadvantage.

Instructions:

Have your participants read the list of new and used car features. Have them write each feature under the New Cars or Used Cars column. Then, have them decide whether or not that feature is positive or a negative.

Features:

Fewer feature choices
Higher insurance, tax & fees
Higher loan interest rate?
Higher maintenance
Higher price
Instant depreciation
Latest features & options
Declining depreciation
Limited or no warranty
Lower price
Top condition
Warranty

New Cars vs. Used Cars

New Cars		Used Cars	
Features	**Plus or minus?**	**Features**	**Plus or minus?**
Example: new car smell	+		
Higher price The purchase price of a new car is higher than a used car.	-	**Lower price** Used cars cost les s& can be a better value. Buying from a private seller might get you a better price, but the seller may not allow you to return it.	+
Instant depreciation A new car depreciates by 15% or more the minute you buy it.	-	**Declining depreciation** Used cars continue to depreciate, but cars typically depreciate the mist during the first 3 years.	+
Higher insurance/taxes/fees These are generally higher than for a used car.	-	**Higher loan interest rate** A loan for a used car may carry a higher interest rate. Cars more than 7 yrs. old might not qualify for loans.	-
Warranty New cars come with a warranty of up to 10 years or 100,000 miles.	+	**Limited or no warranty** If you purchase from a private seller, your car may not carry a warranty. A dealer may or may not offer you a warranty on a used car.	-
Latest features and options You'll have flexibility to order a new car with the features and options you want.	+	**Fewer feature choices** You can't "order" a used car with specific features but you may get more features for the money.	+/-
Top condition A new car should have no previous wear, mechanical problems or body damage.	+	**Higher maintenance** Before buying, review maintenance documentation and check the car during the day. Test drive & consult a service to see if it has been damaged. Hire a mechanic for inspection.	-

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New vs. Used Activity

Instructions:

Read the list of new and used car features. Write each feature under the New Cars or Used Cars column. Then decide whether or not that feature is positive or a negative.

Features:

Fewer feature choices
Higher insurance, tax & fees
Higher loan interest rate?
Higher maintenance
Higher price
Instant depreciation
Latest features & options
Declining depreciation
Limited or no warranty
Lower price
Top condition
Warranty

New Cars vs. Used Cars

New Cars		Used Cars	
Features	**Plus or minus?**	**Features**	**Plus or minus?**
Example: new car smell	+		

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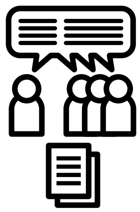

Smart Car Shopping Tips (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following two pages. Lead a discussion about these tips and techniques.

There are ways to make car-buying easier on you and your wallet. Before you buy or lease a new or used car, read through these tips and techniques.

Smart Car Shopping Tips

Tips	More Information
Shop for your car loan	• Shop for your loan before you shop for your car. • Research a number of financing sources including banks. Some car dealers also offer financing. Compare the interest rates they offer. Find out what your monthly payment would be for different loan amounts. • Consider asking for pre-approval of your loan. If you're pre-approved, it means you can shop for a car in your price range with the confidence that you'll get the loan you need. • The lowest interest rate may not be your best deal.
Advance research	• Consider the kind of vehicle that will meet your transportation needs. Be sure to consider safety records, gas mileage, maintenance, and insurance costs. • Use the Web, consumer and auto magazines, and other publications to research the possibilities. Look at ratings and evaluations by automotive professionals and road tests, especially those performed over thousands of miles to evaluate a car's gas mileage, durability, and maintenance issues. • Research safety records. • Narrow your choices to a few specific cars. • Check with your insurance agent to compare the cost of insuring each car. • Based on your research, compare the total costs of each car you're considering. Does the amount fit your budget?
Where to shop	• Buying cars over the Web is quite popular and there are lots of helpful Web sites. • Visit local dealerships if you can. You'll see the cars first-hand, take test drives, ask questions, and evaluate their parts and service departments. • Your local dealership may not offer you the best price. Dealers located far from major cities pay lower overhead costs and can afford to offer larger discounts. • Some dealers have adopted a "one-price" policy on new cars. Every car is offered at a fixed price with no negotiating between the dealership and the customer. The transaction may be faster and easier, but you could pay a higher price than what you might have gotten through negotiation.
Make your choice	• As you comparison shop, be flexible about make, model, year and color. • Narrow your choice. Decide on specifics such as the color and options you want. Remember to take resale value into account. If it comes time to sell the car, you will want a color and options that appeal to prospective buyers. • Research the dealer invoice for the car you're interested in. This will give you a rough idea of how much of a discount a dealer can provide. • Be careful about extra options the dealer may offer you, such as undercoating, fabric protection, and paint sealant. These are often unnecessary add-ons that are significantly overpriced. • If you're buying a used car, point out any flaws or problems with the car to the seller. Before you agree to buy it, be sure to have it inspected by a certified mechanic.

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Smart Car Shopping Tips Instructor Copy (continued)

Tips	More Information
Plan your buying strategy	• Consider shopping during traditionally slow sales periods, such as late December and late summer/early fall. • Be a patient and persistent shopper. Avoid being more anxious to buy than the seller is to sell. • Decide on your top price, a number you feel is fair for the vehicle, with monthly payments you can afford. • Start negotiations by focusing on the price of the car—not on payments, insurance, a trade-in, or extras. • Try not to be the first one to mention a specific price. Ideally begin your negotiation at least 20% below what you're willing to pay. Remember that the dealer needs to make a profit and is likely to make a high counteroffer. • Know your "cash on hand." If you have can write a substantial check on the spot it may get the seller's attention and strengthen your ability to negotiate the price.
Tips for negotiating	• Be prepared to spend at least a few hours negotiating. • Maintain your composure. Don't argue. Be firm, but polite. This attitude will convey that you cannot be intimidated, rushed, pushed, or panicked into a decision. • Don't let the seller know exactly what you're thinking. If you're too enthusiastic about a specific car, you're less likely to get the best price. Don't divulge the top amount you're willing to pay or the monthly payment you can afford. • If the seller pressures you, simply smile and say something such as: "You have my offer. I appreciate your time and effort, but this is my budget limit." • Beware of dealers who bring another salesperson or manager into the negotiation to wear you down. Reach a deal with the original salesperson or walk out. • Be ready to walk away—slowly. Chances are the seller will make one last attempt to find a price you can agree on. • Leave on good terms. Even if you don't buy today, you might be back again later.
Before you sign	• Review the contract carefully. Make sure it reflects everything that was agreed on. • Beware of any unnecessary or overpriced extras the dealer may attempt to tack on. Don't let your guard down until you leave the dealership. • Don't pay for "dealer prep"! It's already been paid for by the manufacturer. • Think carefully before you agree to an extended warranty. Some dealers may imply that banks require extra warranty protection for longer financing terms, but that may not be the case. You may not need one, or may be able to get a better deal later. • Be prepared to cancel the deal. If something doesn't feel right, or you have a "gut feeling" that your purchase will be a mistake: walk away! Remember, you can always find another car. • Never sign a contract with any blank spaces. • Get a copy of the contract immediately.

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Smart Car Shopping Tips

There are ways to make car-buying easier on you and your wallet. Before you buy or lease a new or used car, read through these tips and techniques.

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Advance research	• Consider the kind of vehicle that will meet your transportation needs. Be sure to consider safety records, gas mileage, maintenance, and insurance costs. • Use the Web, consumer and auto magazines, and other publications to research the possibilities. Look at ratings and evaluations by automotive professionals and road tests, especially those performed over thousands of miles to evaluate a car's gas mileage, durability, and maintenance issues. • Research safety records. • Narrow your choices to a few specific cars. • Check with your insurance agent to compare the cost of insuring each car. • Based on your research, compare the total costs of each car you're considering. Does the amount fit your budget?
Where to shop	• Buying cars over the Web is quite popular and there are lots of helpful Web sites. • Visit local dealerships if you can. You'll see the cars first-hand, take test drives, ask questions, and evaluate their parts and service departments. • Your local dealership may not offer you the best price. Dealers located far from major cities pay lower overhead costs and can afford to offer larger discounts. • Some dealers have adopted a "one-price" policy on new cars. Every car is offered at a fixed price with no negotiating between the dealership and the customer. The transaction may be faster and easier, but you could pay a higher price than what you might have gotten through negotiation.
Make your choice	• As you comparison shop, be flexible about make, model, year and color. • Narrow your choice. Decide on specifics such as the color and options you want. Remember to take resale value into account. If it comes time to sell the car, you will want a color and options that appeal to prospective buyers. • Research the dealer invoice for the car you're interested in. This will give you a rough idea of how much of a discount a dealer can provide. • Be careful about extra options the dealer may offer you, such as undercoating, fabric protection, and paint sealant. These are often unnecessary add-ons that are significantly overpriced. • If you're buying a used car, point out any flaws or problems with the car to the seller. Before you agree to buy it, be sure to have it inspected by a certified mechanic.

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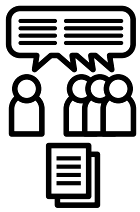

Smart Car Shopping Tips (continued)

Tips	More Information
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Before you sign	• Review the contract carefully. Make sure it reflects everything that was agreed on. • Beware of any unnecessary or overpriced extras the dealer may attempt to tack on. Don't let your guard down until you leave the dealership. • Don't pay for "dealer prep"! It's already been paid for by the manufacturer. • Think carefully before you agree to an extended warranty. Some dealers may imply that banks require extra warranty protection for longer financing terms, but that may not be the case. You may not need one, or may be able to get a better deal later. • Be prepared to cancel the deal. If something doesn't feel right, or you have a "gut feeling" that your purchase will be a mistake: walk away! Remember, you can always find another car. • Never sign a contract with any blank spaces. • Get a copy of the contract immediately.

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Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Smart Car Shopping

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Car Insurance Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to answer the questions provided and if necessary, list some of their own questions. Then discuss these key points.

Instructions:

Have your participants answer these questions and list some of their own.

Discussion questions:

- Why is car insurance critical to your financial protection?
- List an example of how car insurance can help you if you're in an accident.
- Why should you meet with an insurance professional to discuss car insurance?
- How much coverage is enough?
- How does car value figure into car insurance?
- How should you shop for car insurance?

Key points:

- Car insurance is a resource that is absolutely critical to your financial protection.
- Like all other kinds of insurance, the value of car insurance is to protect you from major expenses that you couldn't afford otherwise.
- For example, auto insurance can help you repair a car that's damaged in an accident, or pay hospital bills.
- Keep in mind that auto insurance can include many different types of insurance on one policy.
- Ask an insurance professional to find out what kinds of coverage you need. You'll find that some types of insurance are required to register a car in your state, while others are optional.
- How much coverage is enough? In terms of your vehicle itself, the amount of coverage you need depends on how much you could afford to spend to repair or replace it.
- The higher the value of your car, the more coverage you should consider.
- For other forms of insurance, you should have enough to protect your assets in case you get sued.
- Again, it definitely makes sense to consult with insurance professionals, consider their advice, and then comparison shop before you buy.

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Car Insurance Activity

Instructions:

Answer these questions and list any questions you may have for the instructor.

Why is car insurance critical to your financial protection?

List an example of how car insurance can help you if you're in an accident.

Why should you meet with an insurance professional to discuss car insurance?

How much coverage is enough?

How does car value figure into car insurance?

How should you shop for car insurance?

Your questions:

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Basic Insurance Terminology Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to match the vocabulary term with its correct definition

Instructions:

Have your participants match the correct insurance vocabulary term with its definition.

Basic Insurance Terminology

Term	Definition
Benefits	Items covered by your insurance.
Insurance policy	Document that spells out exactly what is covered and what is not in the insurance you purchased.
Premium	The amount you pay for the insurance.
Claim	Filed when you have costs and submit the bills to your insurance company.
Deductible	Amount of the claim that you must pay before the insurance will cover the rest.
Co-pay	Amount you pay toward each medical bill.

Tip!

Your credit score could impact how much insurance companies charge you in premiums.

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Basic Insurance Terminology Activity

Instructions:

Match the correct insurance vocabulary term with its definition.

Word Bank:

Benefits
Claim
Claims adjustor
Co-pay
Deductible
Home insurance
Insurance Fee
Insurance policy
Liabilit y
Premium

Basic Insurance Terminology

Term	Definition
	Items covered by your insurance.
	Document that spells out exactly what is covered and what is not in the insurance you purchased.
	The amount you pay for the insurance.
	Filed when you have costs and submit the bills to your insurance company.
	Amount of the claim that you must pay before the insurance will cover the rest.
	Amount you pay toward each medical bill.

Tip!

Your credit score could impact how much insurance companies charge you in premiums.

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Car Insurance Matching Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to match the type of car insurance, payments or coverage to its correct definition.

Instructions:

Have your participants draw a line from the car insurance phrase to the correct definition.

Insures you against damage to your vehicle caused in an accident.	Collision coverage
Protects you against other forms of damage to your car, such as fire, theft, flood, and vandalism.	Liability insurance
Pays for injuries and property damage you cause to other people's property with your car if you're at fault.	Medical payments
Covers medical care for you and your passengers who are injured in an accident in your car.	Optional insurance
Covers medical and other expenses (such as loss of income) in the event of an accident in your car.	Personal injury protection
Pays you if you're injured by a driver who doesn't have enough insurance, or if you're injured in a hit-and-run accident.	Uninsured/underinsured motorist coverage
May cover additional expenses such as towing, rental car benefits while your car is being repaired, or roadside service.	Comprehensive insurance

Tip!

Typically, the higher the deductible amount, the less expensive the insurance premium. So a good strategy is to get a policy with the highest deductible that you'd be able to comfortably afford if you had to. This will minimize the cost of your policy.

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Car Insurance Matching Activity

Instructions:

Draw a line from the car insurance phrase to the correct definition.

Insures you against damage to your vehicle caused in an accident.	Collision coverage
Protects you against other forms of damage to your car, such as fire, theft, flood, and vandalism.	Liability insurance
Pays for injuries and property damage you cause to other people's property with your car if you're at fault.	Medical payments
Covers medical care for you and your passengers who are injured in an accident in your car.	Optional insurance
Covers medical and other expenses (such as loss of income) in the event of an accident in your car.	Personal injury protection
Pays you if you're injured by a driver who doesn't have enough insurance, or if you're injured in a hit-and-run accident.	Uninsured/underinsured motorist coverage
May cover additional expenses such as towing, rental car benefits while your car is being repaired, or roadside service.	Comprehensive insurance

Tip!

Typically, the higher the deductible amount, the less expensive the insurance premium. So a good strategy is to get a policy with the highest deductible that you'd be able to comfortably afford if you had to. This will minimize the cost of your policy.

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Scenario Activity: What's the Best Choice? (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Carla's story. Based on her situation, have them choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Carla's situation.

Carla's Story

Carla has her own landscaping business and plans to get a pick-up truck. She's been considering a brand new one, but the same dealer has a used one in good condition with low miles. She has enough cash to buy the used one, although that might mean paying some of her bills late for a few months and a delay in buying new plants. Three years from now, she'd like to give the truck to her daughter, who will be turning 16. What should Carla do?

1. **Buy the used truck for cash and save the fees and interest expense of a loan.**
   Consequences: Even though Carla owns the truck and isn't paying loan interest, she may not have any money left at all! She may not be able to buy plants and paying her bills late could hurt her business and her credit rating.

   Feedback: If Carla had plenty of cash to spare, she could own the truck right away, and she'd save on loan fees and interest. But if this purchase requires so much cash that she can't pay her other bills, then a cash purchase really isn't an affordable option.

2. **Make a down payment for the used truck and get a loan for the rest.**
   Consequences: Carla should feel good about her decision. She saved money by buying used and the down payment she made allowed her to get a loan with payments she can afford. When she makes her last loan payment three years from now, she'll own the truck and can give it to her daughter.

   Feedback: Both new and used cars can have high price tags, so most people get loans. It's a good strategy for Carla. But remember: she'll have to pay interest and fees for the loan, and she won't own the truck until she makes her final loan payment.

3. **Lease the new truck.**
   Consequences: Even though the down payment was small and maintenance costs are included in the lease agreement, Carla may end up paying extra because of the number of miles she drives. When the lease is up, she won't own the truck and will have to buy it from the dealer so she can then give it to her daughter.

   Feedback: Leasing may enable Carla to drive a brand new truck for not much money upfront, but when all factors are considered, leasing is frequently more expensive than making loan payments and buying a vehicle. Monthly lease payments may be lower or higher than a loan, so it's important to comparison shop.

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Scenario Activity: What's the Best Choice?

Instructions:
Read Carla's story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Carla's situation.

Carla's Story
Carla has her own landscaping business and plans to get a pick-up truck. She's been considering a brand new one, but the same dealer has a used one in good condition with low miles. She has enough cash to buy the used one, although that might mean paying some of her bills late for a few months and a delay in buying new plants. Three years from now, she'd like to give the truck to her daughter, who will be turning 16. What should Carla do?

1. **Buy the used truck for cash and save the fees and interest expense of a loan.**
   Should Carla choose this option? Why or why not?

2. **Make a down payment for the used truck and get a loan for the rest.**
   Should Carla choose this option? Why or why not?

3. **Lease the new truck.**
   Should Carla choose this option? Why or why not?

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Smart Car Buying lesson:

- If you're thinking of buying a car, it pays to do your research.
- Millions of people can get by just fine without a car.
- You can save money and the environment by not having a car.
- If you do need a car, there's a lot to consider: whether you'll need a loan to buy it, whether you can afford all of the car-related expenses, and how to go about finding and buying the right car to meet your needs.

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Lesson 5: Kids and Money

This lesson provides great tips for talking to kids about money and starting them on the road to financial self-sufficiency. It offers easy to understand advice about savings plans, financial aid and other resources to help participants afford the costs of higher education.

Learning Objectives

After completing this lesson, participants will be able to:

- Effectively talk to their children about money and finances.
- Teach their children how to save.
- Define options for how they can save to afford higher education for their children.
- Compare and contrast college savings programs.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- How often do you talk to your children about money?
- What sorts of questions do they ask you?
- How much did your parents talk to you about money?
- Where did you learn about financial topics?
- How important is it to you that your child goes to college? How do you anticipate paying for this?

The Basics

- It's good for kids to hear their parents' perspectives on money.
- Most young people lack a basic understanding of personal finance. The majority of high school seniors graduate without knowing the basics of money management.
- As a parent, you have the opportunity to educate your kids about smart money management.
- Teaching your kids to develop a healthy relationship with money can have a positive, lifelong impact—and improve your own financial knowledge, skills, and attitudes along the way.
- By gradually transferring more financial responsibility to them, they'll gain experience in planning, making choices, and learning to live independently.
- You have options how you can begin to plan and save for your child's college education.

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Tips for Your Talks (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Ask participants to brainstorm some tip to talk to children about money. Then lead a discussion using these key points.

Here are teaching tips you can use to help children learn about money.

Make it a (daily) conversation	• Engage your kids in age-appropriate conversations about money. • Share money management strategies, such as saving for a family vacation. • They'll also benefit from hearing about past money mistakes and what you learned from them. • Let your kids know they can always turn to you for financial advice.
Start young	• As soon as your children can count, you can introduce them to money. • When they're old enough to shop with you, introduce them to ideas of spending, saving, and how money is used to store, measure, and exchange value.
Discuss the fundamentals	• Once kids understand the idea of money, introduce them to basic concepts. The *Hands on Banking* program offers money management education for students from 4th grade through college age students. • Encourage your kids to set goals and save for them, make money grow with interest, recognize needs vs. wants, tradeoffs, be a smart shopper and keep good records.
Let kids make decisions	• Give kids an allowance so they can make their own decisions and their own mistakes—and live with the consequences. • Consider an allowance in an amount sufficient to cover essentials and discretionary items. • This approach will help the child recognize the difference between needs and wants and set spending priorities. • Help your child create a personal budget and map out a spending plan. Encourage them to routinely save part of the allowance they receive.
About jobs and pay	• Part-time jobs are a good way to learn more about earning money and how to manage it. Be sure that school is the top priority.
Start slowly with credit cards	• Credit cards can provide financial flexibility and convenience, but many young adults get in trouble with credit card debt. • One option to consider is getting a low-limit credit card for your teens while still in high school. • You can teach them how to manage a credit card account, including how to save receipts, check their monthly statements, and charge only what they can afford to pay off completely each month. • By learning to be responsible with credit early, your children may be less likely to have debt problems in the future.
Teach a commitment to charity	• Encourage your kids to make a habit of giving to charitable causes. Ask them to consider what causes they care about personally and how they would like to make a difference in the world around them. • Save solicitations you receive in the mail and ask your kids to help decide where your family should make donations. • Also, encourage your kids to volunteer and consider volunteering with them. Volunteering can be a powerful experience for both parents and kids in terms of recognizing community needs and the benefits of giving back.

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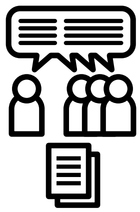

Tips for Your Talks

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Teach Children To Save

Instructor note:

Divide the class into groups. Have them develop an outline or framework for a conversation they could have with kids about saving money. Ask them to come up with topics or discussion points they should cover while talking with kids about money. Then discuss these key points.

Key points:

- Saving money is a critical first step to financial independence and building wealth.
- Be sure to talk to your kids about the importance of saving and help them get started.
- Introduce them to your financial institution and the services it provides to you.
- Help your children to open savings and checking accounts of their own and guide them in using the accounts responsibly.
- Many financial institutions offer special accounts for young savers. Ask where you bank.

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Affording Higher Education

Instructor note:

Lead a class discussion about affording higher education. Consider asking discussion questions such as "With today's cost of higher education, what can you do now to prepare for those costs?", or "Do you believe financial aid will cover all the costs of higher education." Then, hit on these key points.

Key points:

- There are lots of benefits for students who pursue education beyond high school.
- From a purely financial point of view, the level of education a person achieves can make a huge difference in their future earning power.
- On average, a college graduate earns over $1 million more in their lifetime than a high school graduate, and that gap is growing.
- But whatever your child's goals may be—whether it's a four-year college, junior college, technical training or trade school—education after high school usually has a high price tag.
- The amount of money you'll need will depend on a variety of factors: the school you choose, whether it's public or private, whether it's a 2-year or 4-year program, and whether your child is going to be living at home or at school.
- The costs can vary significantly. But it makes sense to start saving as much as you can as soon as you can.

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Compare Savings Programs (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about the different types of savings programs designed for adults to set savings aside for their children or grandchildren.

The U.S. government has created two special programs for adults to set aside savings for their children or grandchildren's education—an Education Savings Account and a 529 Plan (there are two types of 529 plans)

- Both Education Savings Accounts and State-sponsored College Savings Plans are different than regular savings accounts because the account holder is actually placing money into investments that they select.
- Instead of earning interest on their deposits, they make a profit if their investments go up in value.

Education Savings Options

Education Savings Account	529 Plans	
	State-sponsored college savings plan	Pre-paid tuition plan
• Save $2,000 per year until age 18. • Use the money for student's qualified educational expenses at almost any accredited school until student turns 30. • Expenses can include purchase of education-related computer technology and Internet access. • Savings are placed in investments, such as stocks and bonds. • Account holder generally does not pay income tax on money they earn.	• For postsecondary education. • Large dollar amounts can be contributed. • Features may vary from state to state. • Offers in-state tax benefits on some plans. • Savings are placed in investments, such as mutual funds, selected by the state. • May involve fees and risk.	• Pay tomorrow's tuition at today's rates. • May be offered by states for its public colleges and universities, or by private colleges and universities.

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Compare Savings Programs

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Education Savings Options

Education Savings Account	529 Plans	
	State-sponsored college savings plan	Pre-paid tuition plan
• Save $2,000 per year until age 18. • Use the money for student's qualified educational expenses at almost any accredited school until student turns 30. • Expenses can include purchase of education-related computer technology and Internet access. • Savings are placed in investments, such as stocks and bonds. • Account holder generally does not pay income tax on money they earn.	• For postsecondary education. • Large dollar amounts can be contributed. • Features may vary from state to state. • Offers in-state tax benefits on some plans. • Savings are placed in investments, such as mutual funds, selected by the state. • May involve fees and risk.	• Pay tomorrow's tuition at today's rates. • May be offered by states for its public colleges and universities, or by private colleges and universities.

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Financial Aid 101

Instructor note:

Lead a discussion about the basics of financial aid. Direct your participants to the School & $ section of the Hands on Banking course for Young Adults for additional information. It includes more information about financial aid, including how to complete a free application for federal student aid, or FAFSA.

Financial aid is the combination of:

- Money you receive.
- Money you earn.
- Money you borrow.
- Money you save.

Financial aid makes it possible to pay the cost of higher education, whether that's at a college, community college, trade school, or technical school.

There are several kinds of financial aid, but let's divide it up into three main categories:

- **Money that's given to you that you don't have to pay back**, like grants and scholarships.
- **Money that a student earns by working** part-time, usually on campus. This is called the Federal Work-Study program.
- **Money you borrow**. These are loans that you do have to pay back. Student loans are available from three main sources: the U.S. federal government, state governments, and financial institutions, like banks. Some families also use home equity loans to help pay for education expenses.

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Scenario Activity: Co-signing Your Kids Accounts and Loans (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Greg's story. Based on his situation, have them select the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Greg's situation.

Troy is freshman in college. He hopes to get a job next summer. He'd like to buy a car but doesn't have enough savings to buy one or enough credit in his own name to get a loan. So he's asking his dad, Greg, to co-sign the loan, but promises that he'll make all the payments. Greg has good credit, but he's just launched his own business and cash is scarce. What should Greg do?

1. **Co-sign the loan. This is a good use of his strong credit rating.**
   Consequences: Greg thought that helping Troy out was a good idea, but a year later he doesn't think so. Being a co-signer meant that he was equally responsible for the loan. Troy didn't have the income to hold up his end of the deal, so he had to pay or he'd lose the car. That put extra financial pressure on me, my credit, and my new business."

   Feedback: Not the best choice. When Greg co-signed he became equally responsible for the loan. There are real risks to co-signing a loan.

2. **Co-sign, but get a cash advance for a large down payment to reduce the monthly loan payments.**
   Consequences: Greg thought this was a quick solution to help Troy but what a mistake! The interest rate on the cash advance was gigantic. Then, when Troy was unable to make the payments anyway, he was equally responsible as the co-signer. The bank ended up repossessing the car.

   Feedback: This choice could have the most negative consequences. Greg compounded his problems by taking a high interest cash advance on top of an additional loan. The interest rates on cash advances are usually pretty high, and if Troy can't make payments, Greg is still responsible.

3. **Don't co-sign. Suggest to Troy that he wait or consider alternatives.**
   Consequences: This was the best choice. They sat down to talk it over. Greg explained that before you take on debt, you have to consider earning power. Troy just isn't earning enough to take on loan payments. And Greg wasn't in a position to take equal responsibility as the co-signer Troy can get by with a scooter for now.

   Feedback: This is the best choice. Greg was smart to educate Troy about the connection between earning power and debt, and to consider his own financial situation before taking out a loan. As a full-time student, he just isn't earning enough to take on loan payments.

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Scenario Activity: Co-signing Your Kids Accounts and Loans

Instructions:

Read Greg's story. Based on his situation, select the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Greg's situation.

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1. **Co-sign the loan. This is a good use of his strong credit rating.**
   Should he choose this option? Why or why not?

2. **Co-sign, but get a cash advance for a large down payment to reduce the monthly loan payments.**
   Should he choose this option? Why or why not?

3. **Don't co-sign. Suggest to Troy that he wait or consider alternatives.**
   Should he choose this option? Why or why not?

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Kids and Money lesson:

- It's good for kids to hear their parents' perspectives on money.
- Most young people lack a basic understanding of personal finance. The majority of high school seniors graduate without knowing the basics of money management.
- As a parent, you have the opportunity to educate your kids about smart money management.
- Teaching your kids to develop a healthy relationship with money can have a positive, lifelong impact—and improve your own financial knowledge, skills, and attitudes along the way.
- By gradually transferring more financial responsibility to them, they'll gain experience in planning, making choices, and learning to live independently.
- You have options how you can begin to plan and save for your child's college education.

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Topic Summary

Instructor note:
Summarize this topic by reviewing these key points with your participants.

Key points from the Money Management Tools topic:

- **Saving money is your key to financial independence** and building wealth. Make saving a regular habit.
- **Make your savings grow by earning compound interest**—at the highest interest rate you can find.
- **A spending plan is a simple one-page form you can create to help make the most of your money**, live a lifestyle you can afford, and reach your financial goals.
- **Be a smart shopper**. Whether it's a major purchase or an everyday buy, make the most of the money you spend.
- **If you're getting a car, consider the best way to go about it**. And don't forget all of the extra expenses that come with it.
- **Talk to your kids about personal finance**. Teach them to develop a healthy relationship with money, and you'll improve your own financial knowledge, skills, and attitudes along the way.
- **Plan for your child's future education**. Explore options to set-up early saving program and options for financial aid.

Additional Activities

These activities are designed to extend the new concepts presented in the Money Management Tools. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Research savings vehicles (like CDs, etc.) and compute the compound interest for a certain amount of money and interest rate.
2. Create your own spending plan. Share it with your children. Write down their questions and share with the class. Encourage them to open their own savings account.
3. List the next major purchases you are considering and make a plan how you will save and include in your monthly budget/spending plan.
4. Talk with your financial institution about education savings plan options.
5. Meet with your child's high school counselor to discuss financial aid options?

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Budget Tips

To make your monthly income last, consider using it in the following sequence:

1. Pay your monthly bills. There are many potential penalties if you pay late, such as late fees, losing possession of things you've bought on credit, even being evicted from an apartment!
2. Set aside the money you'll need for your weekly and day-to-day expenses, like groceries and bus fare.
3. Put money into savings. Try to build two months of take-home pay for an unexpected financial emergency.
4. Set aside money for larger expenses you know are coming, such as car repairs or appliances.
5. Set aside money for your major future goals whether it's a home, college for your children, a new car, or travel.

- If possible, try to stretch your bills out evenly over the month, so that you pay about the same amount each week. For regular monthly bills, you may be able to request a change of a bill's due date to spread out your bills more evenly. Try to avoid having one week when all of your cash-on-hand is needed for bills.

- For large expenses that are not monthly (for example, insurance bills, car repairs, holiday gifts, etc.) place an amount of money aside each week or pay period so that you have money to pay the bills when they are due.

- Here are some guidelines to consider for how much of your take-home monthly income you might budget for various expenses:
    - Housing (rent or mortgage) 20 to 35%
    - Utilities (gas, electric, water, trash, telephone) 4 to 7 %
    - Food (at home and away) 15 to 30%
    - Family necessities (laundry, toiletries, hair care) 2 to 4%
    - Medical (insurance, prescriptions, bills) 2 to 8%
    - Clothing 3 to 10%
    - Transportation (car payment, gas, insurance, repairs, or bus fare) 6 to 30%
    - Entertainment 2 to 6%
    - Savings 10 to 15%

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Budget tips (continued)

- Try to limit your installment debts (car loans, credit card bills, other loans) to 10–20% of your monthly budget.
- To decide whether a purchase is necessary, ask yourself these questions:
  - Do I really need it?
  - Do I really need it today? What would happen if I don't buy it now?
  - Can I meet this need less expensively?
- Always review your bank and credit card statements. It will remind you where your money is going.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Smart Car Shopping

For many consumers, a new car is second only to a home as their most expensive purchase. It pays to get the most value possible for the money you spend. Review these tips before you begin the process of buying a car or other vehicle:

Shop for your car loan

- Consider how much you're willing to spend. Will you pay cash for the vehicle, or make a down payment and finance the rest? If you plan to finance the purchase, shop for your loan before you shop for your car.
- Research a number of financing sources including banks, credit unions, and online lenders. Some car dealers also offer financing. Compare the Annual Percentage Rates (APR), interest rates, terms, and fees of the loans they offer. Find out what your monthly payment would be for different loan amounts and the total cost of each loan.
- Consider asking for pre-approval of your loan. If you're pre-approved, it means you can shop for a car in your price range with the confidence that you'll get the loan you need.
- Know your credit history and credit score before you negotiate an auto loan. At the Web site www.annualcreditreport.com, you can receive one free copy of your credit report once a year from each of the three largest credit bureaus in the United States. You can also purchase a credit score through this Web site.

Do some advance research

- By doing some advance research, you'll be less likely make an impulsive or expensive purchase decision and more likely to be a satisfied buyer.
- Consider the kind of vehicle that will meet your transportation needs. Will the car you want now be the car you'll still want in a couple of years?
- Use the Web, consumer and auto magazines, and other publications to research the possibilities. Look at ratings and evaluations by automotive professionals and road tests, especially those performed over thousands of miles to evaluate a car's gas mileage, durability, and maintenance issues. Research safety records.
- Before heading out to the dealerships, go online to sites like Kelly Bluebook (kbb.com) and NADA (nada.com) to learn more about the car(s) you're interested in and what they cost.
- Remember, almost all cars depreciate (go down in value) due to wear and tear over time. The value of a new car can drop hundreds or even thousands of dollars the day you drive it off the car dealer's lot. You may be able to save a substantial amount by finding a used car in good mechanical condition.
- Narrow your choices to a few specific cars. Compare models and prices in ads and dealer showrooms. Consider contacting car-buying services and broker-buying services to make comparisons.

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Do some advance research (continued)

- Check with your insurance agent to compare the cost of insuring each car. Remember that insurance will be part of your cost of ownership.
- Based on your research, compare the total costs of each car you're considering. Does the amount fit your budget?

Choose where, when, and how to shop

- Nowadays, an increasing number of people are buying cars over the Web. Even if you consider this option, it makes sense to visit local dealerships if you can. This will give you the opportunity to see the cars first-hand, take test drives, and ask questions. It will also give you the opportunity to evaluate the service quality of dealerships you may use for parts and service.
- Some dealers have adopted a "one-price" policy on new cars, meaning that every car is offered at a fixed price with no negotiating between the dealership and the customer. While this system may make your transaction faster and easier, keep in mind that the price you pay might be higher than what you might pay by negotiating.
- You may be able to get the best price on a car in the last two weeks of December, because business is often slow at the end of the year.
- From July through October, some dealers may offer good deals on current year cars because they're eager to make space for next year's models.
- Go car shopping with an objective friend who can point out possible concerns and stop you from making a hasty decision.

Make your choice

- As you shop, retain some flexibility about make, model, year and color. As you comparison shop, you may find a car you like better and/or a better deal.
- Narrow your choice. Decide on specifics such as the color and options you want. Remember to take resale value into account. If it comes time to sell the car, you will want a color and options that appeal to prospective buyers.
- If the dealer doesn't have the car you want, consider ordering a new car. Although you'll have to wait for delivery, you could avoid paying more for options you don't want.
- Cars that need to be ordered should not cost more than the cars on the lot. On the other hand, a dealer may be willing to make a deal for a car on their lot if they're eager to sell current inventory.
- Be careful about extra options the dealer may offer you, such as undercoating, fabric protection, and paint sealant. These are often unnecessary add-ons that are significantly overpriced.
- If you're buying a used car, point out any flaws or problems with the car to the seller. Before you agree to buy it, be sure to have it inspected by a certified mechanic.
- Don't feel pressured to make a decision. Take your time and evaluate your options.

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Plan your buying strategy

- Consider whether you want to buy the car or lease it. Buying it means paying for it with cash and/or a loan. After you finish making the payments, you own the vehicle and can sell or trade it. With leasing, you sign a contract and make monthly payments to have use of the car for a specific length of time. After making all your lease payments, you return the car to the dealer. You own nothing and may even owe the dealer more money for any excess mileage or damage. However, monthly lease payments are often lower than loan payments.
- Don't leave your drivers license or social security number with a dealer. Dealers cannot run a credit check or an application for credit without your permission.
- Be prepared to cancel the deal. If something doesn't feel right, or you have a "gut feeling" that your purchase will be a mistake: walk away! Remember, you can always find another car.

Tips for negotiating

- Negotiating can be challenging. To minimize the potential stress, make up your mind to be pleasant, friendly and non-combative throughout the process. This attitude will show the seller that you're a person who cannot be intimidated, rushed, pushed, or panicked into a decision.
- Be patient and persistent. The key to finding a good deal is being in the right place at the right time. If you're more anxious to buy than the seller is to sell, you'll reduce your chances of getting the best price you can.
- Plan to negotiate on price. Some dealers may be willing to bargain on their profit margin, which is often between 10 and 20 percent.
- Decide on your top price, a number you feel is fair for the vehicle, with monthly payments you can afford. Keep in mind that the dealer needs to make some profit. Then begin your negotiation at least 20% below what you're willing to pay. Remember, the dealer is likely to make a high counteroffer.
- Know your amount of "cash on hand." If you have the resources to write a check for a significant amount on the spot it will probably get the seller's attention and may strengthen your ability to negotiate the price.
- To increase your control of the negotiation, don't let the seller know exactly what you're thinking. Don't divulge the top amount you're willing to pay or the monthly payment you can afford. These are none of the seller's business.
- If the seller pressures you, simply smile politely and say something such as: "You have my offer. I appreciate your time and effort, but this is my budget limit."
- Beware of dealers who may bring another salesperson or manager into the negotiation in an effort to wear you down. Reach a deal with the original salesperson or walk out.
- Always be ready to walk away—but walk slowly. Chances are the seller will make one last attempt to find a price you can agree on.
- Leave on good terms. Even if you don't buy today, you might be back again later.

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Trading in your old car

The Federal Trade Commission (FTC) recommends that you discuss the possibility of a trade-in only *after* you've negotiated the best possible price for your new car and researched the value of your old car—online, in reference books, or magazines. Having this information may help you get a better price from the dealer. Selling your old car yourself may take more time, but generally you'll get more money for it than trading-in.

Carefully consider add-ons

- If your dealer or lender asks you to buy credit insurance (to pay off your loan if you should die or become disabled), consider whether it's worth the cost. Check to see if you have an existing policy that offers this benefit. Credit insurance is not required by federal law. Check with your state Insurance Commissioner or consumer protection agency to find out about possible credit insurance requirements in your state.
- If you're offered a service contract by the dealer, manufacturer, or an independent company, review it carefully, and consider these questions:
    - What does the service contract cover compared to what's already covered by the manufacturer's warranty?
    - What repairs are covered? Is routine maintenance covered?
    - Who pays for parts and labor?
    - Who is authorized to make repairs?
    - What's the length of the contract?
    - What are the cancellation and refund policies?
- An extended warranty is a way to protect yourself from costly repairs that may be required after the manufacturer's warranty expires. Typically, neither manufacturer warranties nor extended warranties cover everything. Normal wear and tear (such as brake pads and batteries) and vehicle interior items (such as fabric and lights) are usually not covered. However, if you plan to keep the vehicle a long time, an extended warranty might be worth the cost. It can give you greater peace of mind and might also increase your vehicle's resale value. Before you buy, be sure you know exactly what's covered.
- If you purchase an extended warranty from the dealer when you buy your car, you may be able to add the cost of the warranty into your vehicle financing rather than paying for it in cash. If you don't purchase an extended warranty when you purchase the car, you may be able to purchase one later. However the closer you get to the expiration date of your manufacturer's warranty, the more the extended warranty is likely to cost.

Before you sign

- Review the contract carefully. Make sure it reflects everything that was agreed on.
- Beware of any unnecessary or overpriced extras the dealer may attempt to tack on.
- Don't pay for "dealer prep!" It's already been paid for by the manufacturer.
- Examine extended warranties carefully. You may not need one, or may be able to get a better deal later.
- Never sign a contract with any blank spaces.
- Immediately get a copy of the contract that both you and the dealer have signed.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Protect Yourself Financially

Topic Overview

The Protect Yourself Financially topic will introduce money safety and security and teach participants how to avoid losing their hard-earned cash to scams, fraud, and identity theft. Participants will learn how to choose a responsible lender.

This topic includes five lessons:

1. Money safety & security tips
2. Test your judgment
3. Financial service providers can help
4. Resources for further information and assistance
5. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at **HOBCD@wellsfargo.com**.

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Topic 3 — Protect Yourself Financially

Instructor's Guide — Adults
Table of Contents

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Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

Balloon payment Is a large, lump sum payment that is due at the end of the term of a loan.

Credit insurance When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. This credit policy protects the loan on the chance that you can't make your payments. Credit insurance usually is optional, which means you don't have to purchase it from the lender.

Elder financial abuse The perpetration of a financial crime against elder citizens and dependent adults, who may be especially vulnerable due to physical or mental incapacity such as improper use of power of attorney, accounts or wills.

Equity The value of your investment above the total of your lien (debt).

Foreclose The legal process by which an owner's rights to a property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.

Fraud Intentional use of deceit, a trick or some dishonest means to deprive another of his or her money, property or legal rights.

Identity theft A criminal activity involving stealing personal information from others and forging their signatures in order to apply for credit in their names.

Log off To stop a computer that is connected to a computer system or program.

Phishing Is usually a two-part scam involving email and spoof websites. Fraudsters, also known as phishers, send email to a wide audience that appears to come from a reputable company requesting personal information accounts numbers. This is known as a phish email.

Point-of-sale A merchant transaction (purchase or return) made through a store, telephone, or internet using an ATM Card or Check Card for PIN or signature-based purchases.

Predatory lending When lenders conduct business in ways that is illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making payments as agreed.

Principal The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.

Secure browser Websites or web programs that use encryption to protect customer data such as your name, addresses or account information.

Skimmer Your debt card or credit card information is used illegally by an individual such as a store employee after you have made a purchase with your card.

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Lesson 1: Money Safety and Security Tips

In this lesson, participants will learn the basics of money safety and security. They will learn how to avoid losing their hard-earned cash to scams, fraud and identity theft.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain the basics of money safety and security
- Practice tips and techniques to avoid losing money to scams, fraud and identity theft

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What sorts of scams or frauds have you recently heard about? Have you ever been a target of one?
- How do you currently protect yourself again fraud, scams and identity theft?
- What would you do if you thought your identity had been stolen?

The Basics

- There are too many ways that dishonest people or a few businesses may try to take your hard-earned money away.
- There's a lot to learn about how to protect yourself financially—whether you're on the phone, on the Web, at the store, or wherever your day may take you.

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Security at Home and Online Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to decide whether or not each tip is a good idea. After your participants complete the activity, walk through each tip and lead your discussion. Ask the participants if they came up with any other tips and techniques.

Instructions:

Have participants read the list of tips (in the left column) for keeping their finances safe at home and online. Have them decide whether or not it is a good idea. Write "Yes" or "No" in the right column.

Home and Online Security

Tips for Keeping Your Finances Safe	Good idea?
Be wary of strangers you allow in. Keep sensitive data, credit cards, and checkbooks out of sight.	Yes
Keep credit offers you receive in the mail for one year—or until they expire.	NO
Safely store copies of your driver's license, credit cards, car registration, I.D. cards, etc.	Yes
Shred old and unnecessary financial documents, statements, and unwanted credit offers.	Yes
After you pay your taxes each year, be sure to shred all of your cancelled checks.	NO
Don't send personal information such as account numbers, credit card numbers, or PINs via email.	Yes
Select one credit card with a low credit limit to use for all your online purchases.	Yes
Immediately after you make a Web transaction, completely close your browser.	Yes
Each time you make an online purchase, use a different credit card to limit your risk.	NO
Store your new and cancelled checks securely.	Yes
Turn off your computer when you're not using it—don't leave it in "sleep" mode.	Yes
Never download files or click on hyperlinks in emails from people or companies you don't know.	Yes
Install a firewall, virus protection, and spyware on your computer and update them regularly.	Yes
Keep copies of your Social Security card, passport, and driver's license next to your phone.	NO

Tip!

To maximize Web transaction safety, use a recent version of your Web browser. Web addresses starting with "https" and Web pages with a padlock symbol in the lower right corner are safest.

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Topic 3 — Protect Yourself Financially

Security at Home and Online Activity

Instructions:

Read the list of tips (in the left column) for keeping your finances safe at home and online. Decide whether or not it is a good idea. Write "Yes" or "No" in the right column.

Home and Online Security

Tips for Keeping Your Finances Safe	Good idea?
Be wary of strangers you allow in. Keep sensitive data, credit cards, and checkbooks out of sight.	
Keep credit offers you receive in the mail for one year—or until they expire.	
Safely store copies of your driver's license, credit cards, car registration, I.D. cards, etc.	
Shred old and unnecessary financial documents, statements, and unwanted credit offers.	
After you pay your taxes each year, be sure to shred all of your cancelled checks.	
Don't send personal information such as account numbers, credit card numbers, or PINs via email.	
Select one credit card with a low credit limit to use for all your online purchases.	
Immediately after you make a Web transaction, completely close your browser.	
Each time you make an online purchase, use a different credit card to limit your risk.	
Store your new and cancelled checks securely.	
Turn off your computer when you're not using it—don't leave it in "sleep" mode.	
Never download files or click on hyperlinks in emails from people or companies you don't know.	
Install a firewall, virus protection, and spyware on your computer and update them regularly.	
Keep copies of your Social Security card, passport, and driver's license next to your phone.	

Got some more tips of your own? Write them down here:

Tip!

To maximize Web transaction safety, use a recent version of your Web browser. Web addresses starting with "https" and Web pages with a padlock symbol in the lower right corner are safest.

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ATM, Debit & Credit Card Security Tips Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Then, divide your class into small groups. For each section of the activity handout, ask the groups to brainstorm different safety and security techniques for using an ATM and their credit, debit and ATM cards. When they're finished, discuss all the tips and techniques listed below.

Instructions:

Have participants fill in tips and techniques they can use to keep safe while using the ATM, and their credit, debit and ATM cards.

ATM, Debit & Credit Card Security Tips

At the ATM	• Example: Be alert and aware of your surroundings. • Avoid using an ATM in out-of-the-way or deserted areas. Use ATMs located inside banks or supermarkets in well-lit public areas. • If someone has tampered with the ATM, don't use it. (A criminal may have attached a "skimmer" to steal your financial information.) If a suspicious person offers help with an ATM, refuse and leave. • Put your money and ATM card away before you leave the ATM. Always avoid showing your cash. Always verify that the amount you withdrew or deposited matches the amount printed on your receipt. Shred or destroy your ATM receipts before you throw them away.
Deal with loss and theft	• Report lost or stolen credit cards immediately to the issuing card company and report a lost debit card to your bank. • To respond quickly if your cards or ID are lost/stolen, make a chart that lists the credit card name, the financial institution, the account number, and the 24-hour customer service number. Be sure to store the list in a safe place. Never carry it with you.
Care for your card	• Sign your card on the signature panel as soon as you receive it. • Keep cards away from magnets (they can erase information on the cards' magnetic strip)
Treat cards like cash	• Protect cards as if they were cash—never let them out of your possession or control. • Don't leave your credit cards in your car's glove compartment. • Don't lend your cards to anyone, even family or friends. You are responsible for their use. • Always be sure to take your ATM card out of the ATM.
PIN safety	• Never write down your PIN, especially on the back of your card. • Memorize it. Don't write it down and carry it with you in case your wallet is ever stolen. • Never tell anyone your PIN. No one from a financial institution, the police, or a merchant should ask for your PIN. You are the only person who needs to know it. • When selecting a PIN, avoid picking a number that is easy for others to guess—for example, your name, telephone number, date of birth, or any combination of these. • When entering your PIN at the ATM or when making a point-of-sale purchase, cover the number pad so no one near you can see your PIN. Change your PIN from time to time.
When shopping	• When shopping, be sure that you get your card back after every purchase. • Ensure sales vouchers are for the correct purchase amount before you sign • Keep copies of your sales vouchers and receipts in a secure place. • Don't volunteer any personal information when you use your credit card • Don't put your driver's license number on your checks. • Review your statements regularly to ensure there are no suspicious charges. • Contact your bank immediately if you see a charge you don't recognize.

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ATM, Debit & Credit Card Security Tips Activity

Instructions:

Fill in tips and techniques you can use to keep safe while using the ATM, and your credit, debit and ATM cards.

ATM, Debit & Credit Card Security Tips

At the ATM	*Example:* Be alert and aware of your surroundings.
Deal with loss and theft	
Care for your card	
Treat cards like cash	
PIN safety	
When shopping	

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Mail Security Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to decide which statements are true, and which are false. After your participants complete the activity, walk through each tip and discuss why it is a good idea or not. Then, open the floor to discuss other tips and techniques your participants may have come up with.

Instructions:

Have participants read through the list of recommended tips concerning mail security. Then instruct them to put a checkmark next to the statements that are true.

Mail Security

Mail Security Guidelines	Yes, That's Right!
Notify the post office immediately if you change your address.	✓
Get a mailbox that you must unlock with a key to remove your mail.	✓
If you move, wait 90 days before informing the post office.	
Don't leave your mail for long periods of time in visible, unguarded areas (e.g., apartment lobbies).	✓
Reduce your risk of mail fraud by signing up for electronic statements or bills.	✓
When you pay bills by mail, put them in your own mailbox for the mail carrier to pick up.	
Review your statements both in paper and online to detect suspicious activity and fraud.	✓
If you're out of town, put a hold on your mail delivery or have a person you trust pick it up.	✓
If you stop receiving mail, wait at least 7 days before contacting the post office.	
Don't put outgoing mail in your residential mailbox. It could be stolen.	✓
Put outgoing mail in a secure USPS mail box or hand it directly to a uniformed USPS mail carrier.	✓
Use an electronic bill pay service to help keep your information safe.	✓
If you're going away, ask the post office to send your mail to your temporary address (e.g., hotel).	
If a company's regular bills or statements stop reaching you, contact that company immediately.	✓
If you stop receiving mail, call the post office immediately.	✓

Tip!

If you use the red flags found on some mailboxes to alert your mail carrier of outgoing mail, you are also alerting potential thieves that outgoing mail is in the box!

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Topic 3 — Protect Yourself Financially

Mail Security Activity

Instructions:

Read through the list of recommended tips concerning mail security. Put a checkmark next to the statements that are true.

Mail Security

Mail Security Guidelines	Yes, That's Right!
Notify the post office immediately if you change your address.	
Get a mailbox that you must unlock with a key to remove your mail.	
If you move, wait 90 days before informing the post office.	
Don't leave your mail for long periods of time in visible, unguarded areas (e.g., apartment lobbies).	
Reduce your risk of mail fraud by signing up for electronic statements or bills.	
When you pay bills by mail, put them in your own mailbox for the mail carrier to pick up.	
Review your statements both in paper and online to detect suspicious activity and fraud.	
If you're out of town, put a hold on your mail delivery or have a person you trust pick it up.	
If you stop receiving mail, wait at least 7 days before contacting the post office.	
Don't put outgoing mail in your residential mailbox. It could be stolen.	
Put outgoing mail in a secure USPS mail box or hand it directly to a uniformed USPS mail carrier.	
Use an electronic bill pay service to help keep your information safe.	
If you're going away, ask the post office to send your mail to your temporary address (e.g., hotel).	
If a company's regular bills or statements stop reaching you, contact that company immediately.	
If you stop receiving mail, call the post office immediately.	

Write down any other tips you may have concerning mail security and safety.

Tip!

If you use the red flags found on some mailboxes to alert your mail carrier of outgoing mail, you are also alerting potential thieves that outgoing mail is in the box!

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Introduction to Fraud

Instructor Note:

Ask your participants some questions about fraud. For example:

- *What is fraud?*
- *How can someone become a victim of fraud?*
- *What can fraud do to your financial situation?*

Key points:

- You also need to understand fraud—the many ways in which dishonest people may try to take your money.
- If criminals get their hands on your credit, debit, or ATM cards, or your personal financial information such as account numbers, passwords, or Social Security number, they can drain your bank accounts or make charges to your credit cards.
- They might also commit a crime called identity theft by taking out loans and obtaining credits cards and even driver's licenses in your name.
- Millions of people have been identity theft victims in the United States.
- Identity theft can seriously damage your credit and financial reputation, and it could take years to restore your good credit and name. Don't let it happen to you!

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Instructor note:
Lead a discussion about fraud. Ask your participants if they know any examples of fraud, and then use these two common schemes to frame your discussion.

Two Common Fraud Examples

Here are two common examples of this growing problem—fraudulent payments and phony lenders.

Common Fraud Examples

Fraudulent payments	There are many variations on the fraudulent payment scam, but there's a typical pattern • Someone gives you money (via an electronic payment, check or money order) and then asks you to send cash in return. • When it eventually becomes clear that the person's story's fake and their payment fraudulent, you are responsible for the money you sent them. Examples of this scam include: **Work-at-home:** A company promises you easy money working at home. Then they ask you to help them by accepting a payment and then sending them money (minus your pay) via an electronic payment or money order. **Overpayments:** You advertised an item for sale and the buyer "accidentally" sends you more than the price. The buyer then asks you to deposit their payment and send them the extra amount. **Sweethearts:** A special someone you've met online promises to come to the U.S. to be with you. They ask you to send them money directly or to deposit their check or money order and send them the cash to cover their travel expenses.
Phony lender	You receive a notice that the lender who collects your mortgage payment has sold or transferred your service to another lender. But the notice is a fake, and you start sending your mortgage payments to a phony lender! Remember: Under federal law, a loan servicer must notify you at least 15 days before any such transfer. Their "goodbye letter" must include all of the contact information and start date for the new servicer. Contact your original lender to confirm that the transfer of service is legitimate. Other variations on this scam include being charged phony taxes or fees.

Older people can be at increased risk of being taken advantage of by family, friends, or strangers.

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Topic 3 — Protect Yourself Financially

Instructor note:
At this point in the class, consider using this library article as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Protect Your Money and Identity

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 3 — Protect Yourself Financially

Suggestions for Seniors Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask your participants to think about why older people are at an increased risk of being taken advantage of by family, friends and strangers. Then, tell participants to fill in the blank sections. When they are finished, discuss their answers.

Instructions:
Have your participants read these questions and list their answers for each question in the space provided.

Why do you think older people are at increased risk of being taken advantage of financially by family, friends, or strangers?

- Isolation and loneliness
- Recent losses of loved ones
- Physical or mental disabilities
- Lack of familiarity with financial matters and modern technology
- Having family members who are unemployed and/or have financial, substance abuse, or gambling problems

Can you name some examples of elder financial abuse?

- Stealing an older person's money or property
- Forging an older person's signature on financial documents such as checks
- Tricking, forcing or scaring an older person into signing a legal contract, such as a deed, will, or power of attorney
- Using the older person's credit card, property, or possessions without permission
- One individual promising to another lifelong care in exchange for money or property and not following through on the promise

How can seniors avoid elder financial abuse?

- Recognize the warning signs
- Know the profile of perpetrators
- Take steps to reduce risk

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Topic 3 — Protect Yourself Financially

Suggestions for Seniors Activity

Instructions:

Read the questions below. List your answers for each question in the space provided.

Why do you think older people are at increased risk of being taken advantage of financially by family, friends, or strangers?

Can you name some examples of elder financial abuse?

How can seniors avoid elder financial abuse?

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Topic 3 — Protect Yourself Financially

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Suggestions for Seniors

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Your Best Defense: Monitor Financial Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout following this section. Cut the page into six strips—each one will include a way to monitor financial activity. Divide the class into six groups (if you do not have enough students for six groups, assign two or more warning signs to a group). Hand a strip to each group. Ask them to fill in why and how they can use these tips to monitor their financial activity. After they are finished, ask each group to share their definitions. Use the chart below to provide feedback.

Monitoring Financial Activity

How to Monitor Your Financial Activity	Tips and Techniques
Check your statements	• Review your account statements as soon as you receive them. • By using online banking services, you can review your transactions quickly and frequently. • Notify your financial institution immediately if you notice errors or unauthorized activity. • If your account statement is late in arriving, call your financial institution to find out why. • Always keep your credit card purchase receipts (including online purchases) and check your credit card statements to make sure the purchase amounts are correct. • You can review your transactions more quickly and frequently by going online. • Immediately dispute any charges you did not make by notifying your credit card provider.
Put disputes in writing	• When you become aware of a disputed item, call your financial institution. • Always put disputes regarding your credit card statements in writing; otherwise, you may be held legally responsible for the entire amount of the disputed item. • Financial institutions have specific instructions for notifying them of an unauthorized transaction. • Ask your credit card issuer about their dispute notification requirements.
Consider online banking	• Consider signing up for online banking. • This will allow you to monitor your account activity at any time. • Never tell anyone your online banking password and change it periodically. • Don't use your Social Security number as your online banking username or password.

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Monitoring Financial Activity (continued)

How to Monitor Your Financial Activity	Tips and Techniques
Check your credit report	• Check your credit report for accuracy at least twice a year. If a report lists unfamiliar accounts with large credit lines, you may be a victim of identity theft. • Also review the "Inquiries" section of your reports. Credit reports also tell you who has reviewed your credit history. If a car dealer in another part of the country has pulled your credit report, for example, you may be the victim of identity theft. • When you obtain your credit report, be sure to keep it in a secure place. It contains a lot of your sensitive financial information.
If your info's stolen…	• If your confidential financial information has been stolen: • Contact your financial institution and credit card issuers immediately and alert them to the situation. • Contact one of the three major credit bureaus and discuss whether you need to place a fraud alert on you file. This will help prevent thieves from opening a new account in you name. • Here is the contact information for each bureau's fraud division: Equifax 800-525-6285 Experian 888-397-3742 TransUnion 800-680-7289 Report all suspicious or fraudulent activity to the Federal Trade Commission at **www.consumer.gov/idtheft** or by calling 1-877-IDTHEFT.
Contact the FTC	• The Federal Trade Commission (FTC) works to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. • The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad. • To file a complaint or to get free information on consumer issues, visit **www.ftc.gov** or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261.

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Your Best Defense: Monitor Financial Activity (Instructor Copy)

Check your statements
Put disputes in writing
Consider online banking
Check your credit report
If your info's stolen…
Contact the FTC

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Topic 3 — Protect Yourself Financially

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Protect Your Money and Identity

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 3 — Protect Yourself Financially

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Money Safety and Security lesson:

- There are too many ways that dishonest people or a few businesses may try to take your hard-earned money away.
- There's a lot to learn about how to protect yourself financially—whether you're on the phone, on the Web, at the store, or wherever your day may take you.

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Lesson 2: Test Your Judgment

This lesson gives participants the opportunity to test their judgment when it comes to protecting themselves financially. Participants will examine two real-world scenarios and use what they've learned so far to successfully complete the activities.

Learning Objectives

After completing this lesson, participants will be able to:

- Apply judgments in real world situations when it comes to their own finances.
- Fully understand the importance of taking time to make a sound financial decision.

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Scenario Activity—On the Telephone (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Sam's story. Based on his situation, choose the best possible option. Then, for each option, direct them to write a few sentences about why the option was right or wrong for Sam's situation.

Sam's Story

Sam receives a phone call from his local electric company. The customer service representative explains a special, time-limited offer on a new kind of light bulb that will cut Sam's electric bill up to 80%. In order to guarantee his order, all he needs to provide is his customer account number, address, and a credit card number. She explains that due to the popularity of this offer, he must respond during this call or he'll miss out.

1. **Sign up for the offer! It would be a serious mistake to pass up major savings on a monthly bill.**
   Consequences: Sam made a big mistake! How would he know she was even from the electric company? Now, she has his account number and credit card number and it may have all been a scam!

   Feedback: If an offer sounds "too good to be true," it probably is. The pressure from the salesperson is one more warning sign to watch out for. If the business/offer is legitimate, you'll always be given an opportunity to think it over and call back.

2. **Use his credit card to buy the light bulbs, but don't provide his customer account number.**
   Consequences: Sam should have thought twice, because now he's worried that she was not from the electric company. His credit card number could be stolen. He should have double-checked with the company and asked for a name and number to call back.

   Feedback: Again, if it's too good to be true, it usually is. Remember, if the deal is legitimate, there's no reason for the salesperson to apply pressure. Sam should be able to think about it and call back. Now he's at risk.

3. **Call the electric company directly using the phone number you know is correct.**
   Consequences: Same called the electric company by using a number on an earlier statement. He found out they don't even sell light bulbs! If someone's pressuring him to buy, he takes it as a warning. If they can't answer all of his questions first, forget it.

   Feedback: This is the best choice. Whenever you're contacted by a telephone salesperson (or "telemarketer"), ask questions. The fewer they can answer, the more likely that it's a scam. If it's a company you know, call them yourself, or check trustworthy sources for information about the company or organization. If someone contacts you to "award a prize" or "verify a statement," don't give them information or money. Instead, alert the US Postal Inspection Service.

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Scenario Activity—On the Telephone

Instructions:

Read Sam's story. Based on his situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Sam's situation.

Sam's Story

Sam receives a phone call from his local electric company. The customer service representative explains a special, time-limited offer on a new kind of light bulb that will cut Sam's electric bill up to 80%. In order to guarantee his order, all he needs to provide is his customer account number, address, and a credit card number. She explains that due to the popularity of this offer, he must respond during this call or he'll miss out.

What should Sam do?

1. **Sign up for the offer! It would be a serious mistake to pass up major savings on a monthly bill**
   Should he choose this option? Why or why not?

2. **Use his credit card to buy the light bulbs, but don't provide his customer account number.**
   Should he choose this option? Why or why not?

3. **Call the electric company directly using the phone number you know is correct.**
   Should he choose this option? Why or why not?

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Scenario Activity—An Urgent Email (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Jeena's story. Based on her situation, select the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Jeena's situation.

Jeena's Story

Jeena receives an email that states her immediate attention is required due to a serious problem with one of her credit card accounts. The message says if she doesn't act quickly, her account may be closed and her credit record damaged. The email asks her to contact the company immediately about her account by clicking on a link to their Web site. What should Jeena do?

1. Click on the Web link and respond to the questions.
   Consequences: Jeena clicked the link and entered all her information, but then called the real company found out the email was a "phishing" scam, which means She gave her financial information to fraudsters! What a mess!"

   Feedback: You're likely to become a victim of fraud if you provide information to someone who requests it…without double checking that the company is legitimate. If you're not sure whether you're actually communicating with a company that you know and trust, don't respond. This could be a "phishing" scam. Contact the company yourself before you respond to an email that says "Immediate attention required" or "Please contact us immediately."

2. **Don't click the link. Call the credit card company directly at the number printed on your card.**
   Consequences: Jeena played it safe because she knew one of the ways criminals commit fraud is by directing people to phony Web sites that look real. So unless she initiates the communication, she won't respond. Instead, she calls the company herself to make sure it's the real phone number for a real company.

   Feedback: You're right! Not responding to the email is smart. If you provide the requested information, you're likely to find yourself the victim of fraud. In this case, contact the legitimate company directly – using contact information you know is genuine.

3. **Click on the link. Make sure the site looks legitimate. If so, provide the information requested.**
   Consequences: Jeena definitely made a mistake. The site looked legitimate, but after she entered her information, she had a bad feeling about it. She called her credit card company and found out the Web site was phony and that email was an example of "phishing." Now it looks like her identity and some money may have been stolen. It's going to take her tons of time to resolve this mess!

   Feedback: If you provide information to someone who requests it without double checking that the company is legitimate, you're likely to find you're the victim of fraud. If you're not sure whether you're actually communicating with a company that you know and trust, don't respond. Jeena's money and identity could now be in the hands of fraudsters.

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Scenario Activity—An Urgent Email

Instructions:

Read Jeena's story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Jeena's situation.

Jeena's Story

Jeena receives an email that states her immediate attention is required due to a serious problem with one of her credit card accounts. The message says if she doesn't act quickly, her account may be closed and her credit record damaged. The email asks her to contact the company immediately about her account by clicking on a link to their Web site

What should Jeena do?

1. **Click on the Web link and respond to the questions.**
   Should she choose this option? Why or why not?

2. **Don't click the link. Call the credit card company directly at the number printed on your card.**
   Should she choose this option? Why or why not?

3. **Click on the link. Make sure the site looks legitimate. If so, provide the information requested.**
   Should she choose this option? Why or why not?

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Lesson 3: Financial Service Providers Can Help

This lesson will teach participants how financial service providers can help them. They will discover how bank policies can help protect them from fraud and secure their information. They will also learn how to identify a responsible lender and recognize the warning signs of predatory lending.

Learning Objectives

After completing this lesson, participants will be able to:

- Identify bank policies that are in place to protect them financially
- Identify a responsible business lender
- Recognize the warning signs of predatory lenders

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Describe some safety measures that your bank or financial institution uses to protect you from fraudulent activity.
- Who bears the most responsibility when a fraud occurs? You, the credit card company, the phone company, the government, your ISP?
- Who can you talk to at your bank about protecting yourself from fraud?

The Basics

- When it comes to protecting yourself financially, remember that your financial services providers—such as your bank and other lenders—play a valuable role.

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Bank Policies and Procedures

Instructor note:

Lead a discussion about bank policies and procedures that help protect people from fraud. Use the talking points and tip below to help frame your discussion.

Financial institutions have policies to help protect you from fraud.

Bank Policies to Help Prevent Fraud

ID Cards	When you make a transaction at the teller window, the teller will typically ask you to provide two forms of identification.
Teller	The teller may ask you specific questions about yourself to confirm your identity.
ATM/Debit card reader	You may be asked to swipe your ATM or debit card and enter your PIN while you're standing at the teller window.
Check to deposit	When you make a deposit, you may have to wait a period of time before you can withdraw the money. Check with your bank to confirm their policies and procedures.

Tip!

If you plan to move, give your bank your new address. They'll send you a notice at your "old" address to confirm you really made this request—not a criminal trying to steal your mail and identity.

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Instructor note:
At this point in the class, consider using this library article as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: How Checks Work

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 3 — Protect Yourself Financially

Instructor note:
Lead a group discussion about predatory lending. Use the questions and answers below to frame the discussion.

Key point:
It's important to remember that signing a loan agreement is a serious financial responsibility. You'll have to live up to the terms that you agree to. That's why it's critical that you avoid predatory lenders and understand exactly what you're signing. Ask a reputable consumer agency not associated with the lender to help you review the loan agreement before you sign.

What is predatory lending? Do you believe it exists?

- Predatory lending is when a lender will deceptively try to convince you to agree to unfair or abusive loan terms…or violate those terms in some way that will make it difficult for you to defend yourself
- Anyone can be a target.
- Know the warning signs to look for can help you to avoid being a victim.

What does it mean to choose a lender the smart way?

- Always be careful when selecting a lender because there are a few you should watch out for.

What can a responsible lender do for your?

- A responsible lender can help you gain financial flexibility and achieve your goals.

How do you find a responsible lender?

- Look for an established company with a good reputation.
- Ask a money-savvy friend, family member, or work associate for a referral.
- Or, ask your local banker or employer.

What are the good signs of a responsible lender?

- Good lenders will put everything in writing, give you time to shop and compare costs and rates before you sign a loan agreement.
- Good lenders typically work for an established company with a good reputation.

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Predatory Lending Warning Signs Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Cut the page into nine strips—each one will include a warning sign. Divide the class into nine groups (if you do not have enough students for nine groups, assign two or more warning signs to a group). Hand out a warning sign to each group. Ask them to define or explain each warning sign as well as tips to avoid these predatory lending practices. After they are finished, ask each group to share their definitions. Use the chart below to help participants explain each warning sign.

Predatory Lending Warning Signs

Encouragement to include false information	• If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.
Incomplete loan documents	• Never sign a loan document with missing information. • Don't work with a lender who asks you to sign a document that is not completely or accurately filled in.
"Bait and switch" sales tactics	• When a lender makes promises in order to make the sale, then backs out on the promises after the sale. • Carefully read and understand the agreement before you sign. • Question anything in the document that is not consistent with what you were told. • Don't sign the agreement if it is unclear, incomplete, or not as promised.
Equity stripping or skimming (foreclosure rescue)	• Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property. • Example: they might bury a document in a stack of loan papers that signs over home ownership to the loan company, or even forge homeowners' signatures.
Loan flipping	• Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. • This will cost you money and postpones the loan principal from being reduced.
Bi-weekly loan payments	• Some predatory lenders may charge you up to $1,000 for the "privilege" of paying your loan biweekly. • Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.
Required (or requested) deed signing	• If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.

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Predatory Lending Warning Signs Activity (Instructor Copy) (continued)

Predatory Lending Warning Signs

Advertisements promising "No Credit? No Problem!"	• These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. • To receive the approved loan, they are told to pay money up-front for fees or services. Instead they lose their money—and in some cases, their homes.
Promises to refinance the loan to a better rate in the future	• No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now.

Encouragement to include false information
Incomplete loan documents
"Bait and switch" sales tactics
Equity stripping or skimming (foreclosure rescue)
Loan flipping
Bi-weekly loan payments
Required (or requested) deed signing
Advertisements promising "No Credit? No Problem!"
Promises to refinance the loan to a better rate in the future

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing this key point with your participants.

Key point from the Financial Services Providers Can Help lesson:

- When it comes to protecting yourself financially, remember that your financial services providers—such as your bank and other lenders—play a valuable role.

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Lesson 4: Resources for Further Information And Assistance

Instructor note:

Photocopy the informational handout on the next page for your participants. This list is a great resource for them to have in their home or office.

Federal Trade Commission
Agency dedicated to preventing consumer fraud.
www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357)

Fakechecks.org
Web site sponsored by the American Bankers Association and the U.S. Postal Service.
www.fakechecks.org

ScamBusters.org
Web site dedicated to protecting consumers from scams.
www.scambusters.org

United States Department of Justice
Government site with a focus on the Internet and telemarketing.
www.usdoj.gov/criminal/fraud/internet

FDIC—Don't Be an Online Victim
Tips from the governmental agency that regulates U.S. banking.
www.fdic.gov/consumers/consumer/guard

National Consumer's League Fraud Center
Information and tips for avoiding fraud.
www.fraud.org

Anti-Phishing Working Group
A global law enforcement association focused on eliminating fraud and identity theft.
www.antiphishing.org

Comptroller of the Currency—Consumer Protection News
Federal agency dedicated to a safe banking system.
www.occ.treas.gov/Consumer/phishing.htm

Social Security Online—Identity Theft Fact Sheet
Helpful links assembled by the Social Security Administration.
www.ssa.gov/pubs/idtheft.htm

Fight Identity Theft
Site for raising risk awareness and presenting steps consumers can take to protect themselves.
www.fightidentitytheft.com

U.S. Postal Service Inspection—Identity Theft
Collection of helpful tips and links.
www.usps.com/postalinspectors/id_intro.htm

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Resources for Further Information and Assistance

Federal Trade Commission
Agency dedicated to preventing consumer fraud.
www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357)

Fakechecks.org
Web site sponsored by the American Bankers Association and the U.S. Postal Service.
www.fakechecks.org

ScamBusters.org
Web site dedicated to protecting consumers from scams.
www.scambusters.org

United States Department of Justice
Government site with a focus on the Internet and telemarketing.
www.usdoj.gov/criminal/fraud/internet

FDIC—Don't Be an Online Victim
Tips from the governmental agency that regulates U.S. banking.
www.fdic.gov/consumers/consumer/guard

National Consumer's League Fraud Center
Information and tips for avoiding fraud.
www.fraud.org

Anti-Phishing Working Group
A global law enforcement association focused on eliminating fraud and identity theft.
www.antiphishing.org

Comptroller of the Currency—Consumer Protection News
Federal agency dedicated to a safe banking system.
www.occ.treas.gov/Consumer/phishing.htm

Social Security Online—Identity Theft Fact Sheet
Helpful links assembled by the Social Security Administration.
www.ssa.gov/pubs/idtheft.htm

Fight Identity Theft
Site for raising risk awareness and presenting steps consumers can take to protect themselves.
www.fightidentitytheft.com

U.S. Postal Service Inspection—Identity Theft
Collection of helpful tips and links.
www.usps.com/postalinspectors/id_intro.htm

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Topic Summary

Instructor note:

Summarize this topic by reviewing these key points with your participants.

Key points from the Protect Yourself Financially topic:

- **Stay alert and aware when you're at home, on the phone, online, or using the postal service** to protect your hard-earned cash and credit record.
- **Protect your cards as if they were cash** when you shop.
- **Be sure your card is returned to you** and make sure each transaction receipt is accurate.
- **Always keep your receipts in a safe and secure location** and check them later against your statements.
- **Bank policies can help protect you from fraud, but scams, fraud and identity theft are serious problems** that can happen to anyone. And seniors are especially at risk.
- **Always guard your personal information and monitor your financial activity on a regular basis.**
- **Be careful when selecting a lender.** Remember that a responsible lender will answer all of your questions, put everything in writing, and always give you time to decide.

Additional Activities

These activities are designed to extend the new concepts presented in the Protect Yourself Financially Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Visit **www.annualcreditreport.com** to check your report for fraudulent activity.
2. Talk to your banks about online banking. Have them provide an online tour to discuss ways you can set up accounts to help protect yourself financially.
3. Check on the Federal Trade Commission's website (www.ftc.gov) for information on phony lenders or check schemes. Make sure you're up-to-date on the latest scams and frauds.
4. If you are going out of town for more than a weekend, have the post office hold your mail and stop delivery of your newspapers. Consider other steps you should take to secure your financial information while you are away.

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Protect Your Money and Identity

If criminals get your ATM, debit, or credit cards, or personal financial information such as account numbers, passwords, or Social Security number, they can drain your bank accounts or make charges to your credit cards. They may also commit a crime called identity theft by taking out loans and obtaining credits cards and even driver's licenses in your name.

There are 27 million victims of identity theft every year in the United States. Identity theft can seriously damage your credit and financial reputation, and it may take years to restore your good credit and name.

Don't let it happen to you! Here are tips to help you avoid financial fraud and safeguard your identity, bank accounts, and money:

About fraud and identity theft

- Identity fraud is usually limited to an isolated attempt to steal money from an existing account, such as a charge on a stolen credit card.
- With identity theft, a thief uses your personal information, such as your Social Security number or bank account number, to open accounts or initiate transactions your name. This may cause financial loss or damaged credit.
- If fraudulent transactions occur on your account, it does not automatically mean your identity was stolen. It may be an isolated incident of theft that can be quickly resolved. Contact your bank for more information.

Common ways ID theft happens

According to the Federal Trade Commission (FTC), skilled identity thieves use a variety of methods to steal your personal information, including:

1. Dumpster diving. They rummage through your trash looking for bills or other paper with your personal information on it.
2. Skimming. They steal credit/debit card numbers by using a special storage device when processing your card.
3. Phishing. They pretend to be financial institutions or companies and send spam or pop-up messages to get you to reveal your personal information.
4. Changing your address. They divert your billing statements to another location by completing a "change of address' form.
5. "Old-fashioned" stealing. They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records from their employers, or bribe employees who have access.

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Protect your money and identity (continued)

If you become a victim of identity theft:

- Contact your financial institution and credit card issuers immediately and alert them to the situation.
- Contact one of the three major credit bureaus and discuss whether you need to place a fraud alert on your file. This will help prevent thieves from opening a new account in your name.
- Here is the contact information for each bureau's fraud division:
  - Equifax 800-525-6285
  - Experian 888-397-3742
  - TransUnion 800-680-7289
- Close any accounts that have been tampered with or established fraudulently.
- File a report with law enforcement officials to help you with creditors who may want proof of the crime.
- Report all suspicious contacts to the Federal Trade Commission at **www.consumer.gov/idtheft** or by calling 1-877-IDTHEFT (438-4338).

General fraud prevention tips

- Carry only necessary information with you. Leave your Social Security card or unused credits cards at home in a safe and secure location.
- Protect your Social Security number. Don't write your Social Security number on a check. Give it out only if absolutely necessary or ask to use another identifier.
- Limit paper statements.
- Shred account statements or documents containing personal or financial information before discarding.
- Review your credit report at least once a year, looking for suspicious or unknown transactions.
- Limit the credit offers you receive.
- Remove your name from marketing lists.
- Never click on links sent in unsolicited emails; instead, type in a Web address you know.
- Keep your personal information in a secure place at home.

Card safety: ATM, debit and credit cards

- Report lost or stolen cards immediately to the company that issued you the card.
- To help you respond quickly in case your cards or ID are lost or stolen, make a chart like this one. Be sure to store the list in a safe place. Never carry it with you.

Credit card name	Financial institution	Account number	24-hour customer service #

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Card safety: ATM, debit and credit cards (continued)

- Sign your card on the signature panel as soon as you receive it.
- Protect your cards as if they were cash—never let them out of your possession or control.
- Do not include your card number in an email.
- Do not give out your card number over the phone unless you initiated the call.
- Be sure that you get your card back after every purchase.
- Don't leave your credit cards in your car's glove compartment. A high percentage of credit card thefts are from car glove compartments.
- Don't lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don't let your credit cards be used by others, even family and friends.
- Choose a PIN that is easy for you to remember but difficult for others to guess. Don't use any numbers or words that appear in your wallet (name, birth date, phone number, etc).
- Never tell anyone your PIN. No one from a financial institution, the police, or a merchant should ask for your PIN. You are the only person who needs to know it.
- Don't volunteer any personal information when you use your cards, other than by displaying personal identification as requested by a merchant.
- Never write down your personal identification number (PIN)—memorize it. Don't write down your account number and PIN and carry it with you. If your wallet or purse is stolen, someone else could have access to your money.
- When typing in your pin, cover the keypad so others can't see.
- When selecting a PIN, avoid picking a number that is easy for others to guess—for example, your name, telephone number, date of birth, or any simple combination of these.
- Always make sure that sales vouchers are for the correct purchase amount before you sign them.
- Always keep copies of your sales vouchers, credit card, and Automated Teller Machine (ATM) receipts.
- Always check your billing statement to make sure the purchase amounts are correct and to ensure there are no suspicious charges. Contact your service provider immediately if you see a charge you don't recognize.
- Always put disputes regarding your billing statements in writing immediately upon becoming aware of the disputed item; otherwise, you may be held legally responsible for the entire amount of the disputed item. Many credit card issuers have specific instructions for notifying them of a billing error dispute. Read your credit card agreement and billing statements carefully for information regarding dispute notification requirements. You may also contact your credit card issuer to ask about their dispute notification requirements.
- Shred or destroy your ATM receipts before you throw them away.
- Keep your cards away from magnets; these can erase the information stored on your card.
- If you receive a replacement card, destroy your old card. Destroy cards for cancelled accounts.
- Shop with merchants you know and trust. Make sure internet purchases are secured with encryption to protect your account information. Look for "secure transaction" symbols.

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Protect your money and identity (continued)

ATM security tips

- Think about your personal safety when using an ATM. Because most ATMs give out cash and many accept deposits, it makes sense to be alert and aware of your surroundings no matter where or when you use an ATM. When you're by yourself, avoid using an ATM in out-of-the-way or deserted areas. Use ATMs located inside banks or supermarkets where other people are around. Use ATMs in well-lit, public areas.
- Be aware of your surroundings when withdrawing funds. If your notice anything out of the ordinary, come back later or use another ATM.
- If it looks like someone has tampered with the ATM equipment, don't use it. (This could mean that a criminal has attached a "skimmer" to the ATM to steal your financial information.) If a suspicious person offers to help you use the ATM, refuse and leave.
- When typing in your pin, cover the keypad so others can't see.
- After completing your transaction, remember to remove your card, cash and any printed documents such as receipts or statements.
- Put your money and ATM card away before you leave the ATM. Always avoid showing your cash. Always verify that the amount you withdrew or deposited matches the amount printed on your receipt.
- Take your receipts with you so potential criminals will not know how much you withdrew or how much money is in your account.
- When using a drive-up ATM, keep your car doors locked and your engine running.

Mail precautions

- If you stop receiving mail, call the post office immediately.
- Notify the post office immediately if you change your address.
- Get a mailbox that you must unlock with a key to remove your mail.
- Remove your incoming mail promptly.
- Don't leave your mail for long periods of time in visible, unguarded areas (e.g., apartment lobbies).
- If you're out of town, put a hold on your mail delivery or have a person you trust pick it up.
- Consider enrolling in an electronic payment service to reduce the risk of theft of your outgoing checks.
- Reduce your risk of mail fraud by replacing paper invoices, statements and checks with electronic versions, if offered by your employer, bank, utility provider or merchant.
- Review your statements both in paper and online to detect suspicious activity and fraud.
- Don't put outgoing mail in your residential mailbox. It could be stolen. Put outgoing mail in a secure USPS mail box or hand it directly to a uniformed USPS mail carrier.
- If you use the red flags found on some mailboxes to alert your mail carrier of outgoing mail, you are also alerting potential thieves that outgoing mail is in the box.

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Mail precautions (continued)

- Know your billing and statement cycles. If a company's regular bills or statements stop reaching you, contact that company immediately.
- Use an electronic bill pay service to help keep your information safe.
- If you stop receiving mail, call the post office immediately. Some criminals are able to forge your signature and have your mail forwarded elsewhere for the purpose of obtaining information that will allow them to apply for credit in your name.
- If you're told of a forwarding order placed on your mail without your knowledge, go to the post office to check the signature and cancel the order. Ask the post office to track down the forwarded mail—it can remain in the postal system for up to 14 days, so it may not yet have landed in the criminal's hands.

Bank account security tips

- Report lost or stolen checks immediately
- Review account statements carefully. Ask about suspicious charges.
- Enroll in online account statements if they're offered through your bank. Review them periodically for faster fraud detection.
- Limit the amount of information on checks. Don't print your driver's license number or Social Security Number on your checks.
- Store new and cancelled checks in a safe and secure location. Shred cancelled checks when you no longer need them.

Mobile banking security tips

- Frequently delete text messages with account balance information, and especially before loaning out, discarding, or selling your mobile device.
- Never disclose via text message any personal information (account numbers, passwords, etc.).
- Use the keypad lock or phone lock function on your mobile device when it is not in use. These functions password protect your device so that nobody else can use it or view your information.
- Store your device in a secure location.
- Let your bank know as soon as possible if you lose your mobile device or change your phone number.

Telephone safety

- Don't give your account number over the phone unless you initiated the call.
- When you purchase by phone, for maximum security, use a corded, rather than cordless phone.
- If you're contacted by a telephone salesperson (or "telemarketer"), ask questions. The fewer questions a telemarketer can answer, the less likely that it's a legitimate business. Write down the name, address, and phone number of the businesses or organizations that contact you. Ask for the names of other customers who can tell you about their experience with the business or organization.

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Protect your money and identity (continued)

Online safety

- Keep your computer operating system up to date to ensure the highest level of protection.
- Use an up to date web browser.
- Install a personal firewall on your computer.
- Install, run, and keep anti-virus software updated.
- Avoid downloading programs from unknown sources.
- Never use your Social Security Number as your username to sign into online accounts.
- Never set your username to be the same as your password.
- Protect your online passwords. Don't write them down or share them with anyone.
- Use secure, encrypted web sites for transactions and shopping.
- Always log off from any banking, e-commerce or merchant web site. If you cannot log off, shut down your browser to prevent unauthorized access to your account information.
- Completely shut down your computer when you're not using it. Don't leave it in sleep mode.
- Don't send identifying personal information, such as account numbers, credit card numbers, or PINs via email. Financial institutions will never send you an email asking for this type of information.
- Select one credit card with a low credit limit to use for all your online purchases. Tell your credit card provider that you do not want them to raise the limit on this card without your prior written permission.
- Never download files or click on hyperlinks in emails from people or companies you don't know.

If someone's asking you to buy

- Unless you initiated the contact, never give out confidential information (such as account numbers, Social Security number, or mother's maiden name) to anyone.
- Be cautious when you receive offers to buy over the telephone, by mail, or on the Internet. Be especially careful about deals that sound too good to be true. Some of these offers may be illegal scams designed to cheat you. Don't respond to calls or emails requesting your account information to "award a prize" or "verify a statement."
- Beware of high-pressure sales people, especially if they tell you the sale must be made now.
- When in doubt, consult the Better Business Bureau or the U.S. Postal Inspection Service.

Home safety

- Be wary of strangers you allow into your home. Don't leave sensitive information, credit cards or checkbooks lying around.
- Store your new and cancelled checks securely.
- Keep your Social Security card in a secure place.

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Home Safety (continued)

- Photocopy your driver's license, credit cards, car registration, Social Security card and other identification, and keep the copies in a safe place.
- Shred unnecessary financial documents, old bank statements, invoices, and unwanted pre-approved credit offers. If possible, buy a shredder and mix the shredded paper thoroughly before throwing it out.

Monitor your financial activity

- Review your account statements as soon as you receive them. Notify the financial institution immediately if you notice errors or unauthorized activity.
- If your account statement is late in arriving, call your financial institution to find out why.
- Consider signing up for online banking. This will allow you to monitor your account activity at any time.
- Never tell anyone your online banking password and change it periodically.
- Check your credit report for accuracy at least twice a year. If a report lists unfamiliar accounts with large credit lines, you may be a victim of identity theft. Also review the "Inquiries" section of your reports. It tells you who has reviewed your credit history. If a car dealer in another part of the country has pulled your credit report, for example, you may be the victim of identity theft.

What is "phishing"?

- Phishing is usually a two-part scam involving email and spoof websites.
- Fraudsters, also known as phishers, send email to a wide audience that appears to come from a reputable company. This is known as a phish email.
- In the phish email are links to websites that spoof or imitate a reputable company's websites.
- Fraudsters hope to convince victims to give up their personal information by using clever and compelling language, such as an urgent need for you to update your information immediately.
- Once obtained, personal information can be used to steal money, or transfer stolen money into a different account.
- Fraudsters obtain email addresses from many places on the web. They also purchase email lists and sometimes guess email addresses.
- Fraudsters generally have no idea if people they send phish emails to are actual bank customers or not. They hope a percentage of the phish emails they send will be received by customers.
- A new form of fraudulent emails, called vishing or voicemail phishing, involves emails that contain fraudulent telephone numbers instead of links. Recipients of vishing emails are instructed to call this number and disclose personal and account information. Remember: always communicate with your bank by using a number you know to be associated with it, like the number found on the back of your debit card.

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Protect your money and identity (continued)

Email & phish security tips

- Be wary of suspicious emails. Never open attachments, click on links, or respond to emails from suspicious or unknown senders.
- If you receive a suspicious email that you think is a phish email, do not respond or provide any information. Send the email to Anti-Phishing Working Group at reportphishing@antiphishing.org. Also, follow any phish email reporting procedures established by your bank.
- If you respond to a phish email with personal information, contact your bank immediately.

What is "skimming"?

- Skimming is a form of financial fraud where criminals copy the magnetic stripe encoding from your credit card using a hand-held device called a skimmer, which resembles an ATM keyboard. Each skimmer can hold data from hundreds of different credit cards.
- Once your credit card has been swiped through the device, the thief has the information needed to make a counterfeit card.
- Thieves often sell the data to other people. The data can be downloaded into a computer and emailed anywhere around the world and is used to make counterfeit credit cards.
- Monitor your credit card statements carefully and report any unauthorized activity immediately.

About Scams

- Fraudsters try to contact and defraud potential victims using various means. Once they contact potential victims, they use compelling language and scenarios to scam them.
- If you're involved in a situation that matches one of the following descriptions, it could be a scam and you should contact your bank immediately:
    - **Job scams:** You are paid or receive a commission to facilitate money transfers through your account or apply for a job that asks you to set up a new bank account.
    - **Dating scams:** Someone you met through an online dating site or chat room asks you to send money for a variety of reasons including a need for urgent surgery or to make travel arrangements to meet in person.
    - **Lottery or sweepstakes scams:** You receive notice that you are the winner of a lottery that you did not enter, but must pay a small percentage for alleged taxes or other fees before you can receive the rest of your prize.
    - **Internet scams:** You receive a check for something you sold over the internet, but the amount of the check is more than the selling price. You are instructed to deposit the check, but send back the difference in cash.

      OR You receive a check from a business or individual different from the person buying your item or product.

      OR You are instructed to transfer money, or receive a transfer of money, as soon as possible.
- Remember, if it sounds too good to be true, it probably is.

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Scam prevention tips

- Don't accept payments for more than the amount of the service with the understanding that you send them the difference.
- Don't accept checks from people you've only met online.
- Don't accept jobs in which you are paid or receive commission for facilitating money transfers through your account.
- Be wary of job offers that require you set up a new bank account.
- You are ultimately responsible and liable for all deposits made into your account, whether they are a check, money order, transfer, etc.
- Don't accept payments for more than the amount of the service with the understanding that you send them the difference.
- Don't accept checks from people you've only met online.
- Don't accept jobs in which you are paid or receive commission for facilitating money transfers through your account.
- Be wary of job offers that require you set up a new bank account.
- You are ultimately responsible and liable for all deposits made into your account, whether they are a check, money order, transfer, etc.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Protect your money and identity (continued)

Resources to learn more

Here is a list of helpful Web sites for further information and assistance to protect yourself financially.

Federal Trade Commission
Agency dedicated to preventing consumer fraud.
www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357)

Fakechecks.org
Web site sponsored by the American Bankers Association and the U.S. Postal Service.
www.fakechecks.org

ScamBusters.org
Web site dedicated to protecting consumers from scams.
www.scambusters.org

United States Department of Justice
Government site with a focus on the Internet and telemarketing.
www.usdoj.gov/criminal/fraud/internet

FDIC—Don't Be an Online Victim
Tips from the governmental agency that regulates U.S. banking.
www.fdic.gov/consumers/consumer/guard

National Consumer's League Fraud Center
Information and tips for avoiding fraud.
www.fraud.org

Anti-Phishing Working Group
A global law enforcement association focused on eliminating fraud and identity theft.
www.antiphishing.org

Comptroller of the Currency—Consumer Protection News
Federal agency dedicated to a safe banking system.
www.occ.treas.gov/Consumer/phishing.htm

Social Security Online—Identity Theft Fact Sheet
Helpful links assembled by the Social Security Administration.
www.ssa.gov/pubs/idtheft.htm

Fight Identity Theft
Site for raising risk awareness and presenting steps consumers can take to protect themselves.
www.fightidentitytheft.com

U.S. Postal Service Inspection—Identity Theft
Collection of helpful tips and links.
www.usps.com/postalinspectors/id_intro.htm

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Suggestions for Seniors

For a variety of reasons, older people can be at increased risk of losing their money and property to family, friends, or strangers. These factors include:

- Isolation and loneliness.
- Recent losses of loved ones.
- Physical or mental disabilities.
- Lack of familiarity with financial matters.
- Having family members who are unemployed and/or have financial, substance abuse, or gambling problems.

Some examples of this criminal activity, often called elder financial abuse, include:

- Stealing an older person's money or property.
- Forging an older person's signature.
- Tricking, forcing or scaring an older person into signing a legal contract, such as a deed, will, or power of attorney.
- Using the older person's credit card, property, or possessions without permission.
- Promising lifelong care in exchange for money or property and not following through on the promise.

People who commit these crimes may:

- Claim to love the older person in order to gain access to their money ("sweetheart scams").
- Seek employment as personal care attendants, counselors, etc., to gain access.
- Drive through neighborhoods to find persons who are alone and isolated, or contact recent widows/widowers through newspaper death announcements.
- Move from community to community to avoid being caught.

Dishonest business people, or persons posing as such, may:

- Overcharge for services or products.
- Use deceptive or unfair business practices.
- Use their positions of trust or respect to gain agreement from their victim.

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Suggestions for seniors (continued)

Warning signs of elder financial abuse include:

- Unpaid bills, eviction notices, or notices to disconnect utilities.
- Bank transactions that the older person cannot explain, or unusual account activity, especially withdrawals.
- Bank statements and canceled checks stop being sent to the elder's home.
- The older person has new "best friends."
- The older person is unaware of financial arrangements that have been made for him or her, or has signed documents he or she didn't understand.
- The level of care being received by the older person is inadequate given his or her financial resources.
- A caregiver shows a high level of interest in the older person's finances.
- A caregiver gives unlikely explanations about the older person's finances.
- Some of the older person's possessions are missing.
- Suspicious signatures appear on checks or other documents.
- There is an absence of documentation for financial arrangements.

Some tips for reducing your risk

- Never allow strangers into your home. They might steal checks, jewelry, or other valuables.
- Never agree to have work done on you home without getting estimates from at least two different vendors with good reputations.
- Consider asking your bank and credit card companies to send duplicate copies of your bills to an adult child whom you trust.
- Tear up or shred unused credit card applications you receive by mail to avoid identity theft.
- Never leave mail in your mailbox for the carrier to collect. Signed checks and information about your bank accounts can easily be stolen this way.
- Ask your bank to call you if a check over a certain amount is ever presented to them for payment.
- Do not send money to people who contact you by telephone. Avoid prize offers, travel packages, and get-rich-quick schemes. Many of these are scams. Say no to requests for money from unknown charitable or religious organizations.
- When on the telephone, do not give out your account numbers or Social Security number unless you initiated the call.
- Stay in touch with relatives so that you aren't isolated, since isolation can make you an easier target for criminals.
- Perform a background check on all caregivers. Make sure they come from an agency with a good reputation.
- Document your financial arrangements: Put all financial instructions in writing. Keep up-to-date records of all financial transactions in a safe place.

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Some tips for reducing your risk (continued)

- Review your health care billing: Question bills for services that you do not understand. Never give your Medicare or other health coverage numbers to unauthorized providers or those claiming to provide "free" health care services.
- Avoid living trust seminars. Some of these are scams. Instead, seek assistance from a lawyer specializing in elder estate planning.

Safe banking for seniors

- Sign up for direct deposit with your bank. This way, deposits go directly into your accounts and can't be intercepted by others.
- Keep your checks in a safe place.
- Don't sign a blank check allowing someone else to fill in the amount.
- Review your bank statements every month.
- Check your credit history every 3-6 months.
- Never give someone your ATM, credit card, personal identification number (PIN) or Social Security number. Check your bank statements carefully for unauthorized withdrawals. Be cautious of joint accounts, as both parties have equal access to the money. When in doubt, contact the bank to stop payment on checks, to flag or to put a hold on the account, or to close an account.
- Be cautious about signing powers of attorney: Before signing a power of attorney for a bank account, general purposes, or for financial management, know and trust the person that you are naming as the agent. A power of attorney is a powerful legal document that can sometimes be used by dishonest persons to "legally steal" someone's money and assets. Consult an attorney or make an appointment with legal services before executing a power of attorney.
- If you need help writing out your bills, consider automatic bill payment services through a bank or hiring a bonded professional. If there is someone helping you with personal finances or bill paying, ask a trusted friend or professional to regularly review bank and other financial statements.
- Establish relationships with financial professionals: Get to know your banker, attorney and/or financial advisor. They can help detect changes or unusual activity that might signal problems.

About the Federal Trade Commission (FTC)

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit **www.ftc.gov** or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Using Credit to Your Advantage

Topic Overview

The Using Credit To Your Advantage topic will provide participants with all the basic information they need to understand credit—what it is and how to make it work for them. Participants will learn about their credit score and credit report and how to use credit cards and loans the smart way. Finally, participants will be coached how to deal with debt problems.

This topic includes eight lessons:

1. Your credit picture
2. What is credit?
3. Your credit score
4. Your credit report
5. Credit cards
6. Loans
7. Dealing with debt
8. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at **HOBCD@wellsfargo.com**.

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Topic 4 — Using Credit To Your Advantage

Instructor's Guide — Adults
Table of Contents

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Instructor's Guide — Adults

Table of Contents

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Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

Annual fee The fee a credit card company charges a credit card holder to use the card for a year. Or, the fee a lender charges a borrower for the use of a line of credit for a year.

Annual percentage rate (APR) A measurement used to compare different loans, the APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost borrowing.

Asset Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.

Available balance The amount of money in your account that you can use or withdraw. Your available balance may not reflect all transactions that you have made, for example checks you have written that have not yet been paid from your account.

Bad credit A situation in which lenders believe that, due to a borrower's poor history of repaying his or her debts, further loans to this person would be especially risky.

Balloon payment A final lump sum payment that is due, often at the maturity date of a balloon mortgage.

Bankruptcy To legally declare yourself unable to repay your debts. A bankruptcy remains on a person's credit history for up to seven years. Depending on the type of bankruptcy, it could stay on a person's credit history for up to ten years.

Capacity A borrower's ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower's income and debts to determine his or her capacity to repay.

Capital The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.

Cardmember agreement Are the Terms and Conditions of your credit card account.
It includes information such as the rate, fees, and other cost information associated with the account.

Character The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.

Collateral Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.

Collection agency A business that specializes in collecting past due debts.

Conditions Eligibility requirements that may be considered by a lender to secure a loan or product e.g. local economy, competition, etc.

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Glossary

Credit	When a bank or business allows its customers to purchase goods or services on the promise of future payment. Also used to describe any item that increases the balance in a bank account. Deposits and interest payments are both examples of credits.
Credit bureau	A company that gathers information on consumers who use credit. These companies send this information to lenders and other businesses in the form of a credit report. The three largest bureaus are Equifax, Experian, and TransUnion.
Credit check	A lender, landlord, employer, or insurer's inquiry at a credit bureau for the purpose of evaluating the credit history of an applicant.
Credit counselor	A professional advisor who specializes in helping people with debt and credit problems.
Credit history	A written record of a person's use of credit, including applying for credit, and using credit or loans to make purchases. Also called a credit record.
Credit insurance	When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. This credit policy protects the loan on the chance that you can't make your payments. Credit insurance usually is optional, which means you don't have to purchase it from the lender.
Credit limit	The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.
Credit rating	An evaluation of an individual's or business's financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.
Credit record	Also known as your credit history when provided by a credit bureau to a lender or other business.
Credit report	A report issued by an independent credit agency that contains information concerning a loan applicant's credit history and current credit standing.
Credit score	A numerical rating that indicates an individual's creditworthiness based on a number of criteria. Credit scores are used by lenders in the loan approval decision process. (FICO)
Creditworthiness	A lender's measure of an individual or company's ability to pay debt.
Debt	Money, goods, or services you owe to others.
Debt-to-income ratio	A percentage that is calculated by dividing a loan applicant's total debt payments by his or her gross income.
Default	Failure to repay a credit agreement according to its terms.

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Glossary

Equal Credit Opportunity Act (ECOA)	A federal law to ensure that all consumers are given an equal chance to obtain credit. This doesn't mean all consumers who apply for credit get it; factors such as income, expenses, debt, and credit history are considerations for creditworthiness.
Equity	The value of your investment above the total of your lien (debt).
Establishing credit	Giving lenders the trust and confidence to make loans to you based on a good history of paying your debts.
Fees	Charges for services by a financial institution or lender.
Finance charge	The amount of money a borrower pays to a lender for the privilege of borrowing money, including interest and other service charges.
Good credit	A situation in which lenders are willing to make loans to an individual, due to his or her good history of repaying debts.
Guarantee / Guaranty	A lender may require an additional signature on a loan to insure that this person will pay the loan if you do not.
Installment loan	A loan that is repaid to the lender in equal amounts, over a fixed period of time. Sometimes may be referred to as Installment Credit.
Installment payment	An amount of money repaid to a lender according to the terms of an installment loan.
Interest	The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Interest rate	The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).
Late fees	The charge or fee that is added to a loan or credit card payment when the payment is made after the due date.
Lenders, creditors	A business that makes money available for others to borrow.
Loan	An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.
Long-term loan	A loan that can be paid back over a period of more than one year, usually requiring interest payments.
Net income	For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.
Net worth	The value of a company or individual's assets. Including cash, less total liabilities

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Glossary

Outstanding balance	The amount still owed on a bill, loan, or credit line.
Past due	A bill that is not paid by its due date is said to be past due.
Predatory lending	When lenders conduct business in ways that are illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making payments as agreed.
Principal	The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.
Revolving credit	A type of credit allowing an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again. The most popular kind of revolving credit account is the credit card.
Secured credit card	A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.
Spending limit	The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.
Statement	A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of the checks you wrote that your bank has processed during the month. Your statement also lists other deposits, deductions, and fees, such as service charges.
Term	A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Unpaid balance	The amount that is still owed on a loan or credit card debt.

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Lesson 1: Your Credit Picture

What's Your Credit Picture? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Instruct participants to read each statement and decide whether or not it accurately describes their credit situation today.

After they are finished, ask participants to count how many true statements they have. Tell them if they have 8 or more true statements, they're on their way to using credit to their advantage. If not, there's some work to do. Advise participants to keep this sheet and refer to it often as they go about improving their credit situation.

Instructions:

Have participants read each statement in the Credit Situation column. Have them decide whether this statement accurately describes their credit picture *today*. Have them write "True" or "False" in the right column.

Defining Your Credit Situation

Your Credit Situation	True or False?
I manage my savings and checking account well and never spend more than my balance.	
I frequently monitor the activity in my accounts.	
I have one or more credit cards and pay my bill on time, every month.	
I pay as much of my credit card bill as I can each month—always at least the minimum amount.	
Less than 10% of my monthly income goes toward paying off credit card bills.	
I always comparison shop for credit cards and loans.	
I never sign loan papers unless I completely understand the terms first.	
I have built my credit by taking out a small loan and repaying it monthly—in full and on time.	
I know what my current credit score is.	
I know how I can improve my credit score and have taken steps to do so.	
I know how to order a free copy of my credit report.	
I have reviewed my credit report in the last 12 months and checked it for errors.	
If I find an error in my credit report, I know how to get it corrected.	
My total debt is less than 20% of my annual net income.	
If I'm having problems repaying a debt, I contact the lender right away to discuss what to do.	

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What's Your Credit Picture? Activity

Instructions:

Read each statement in the Credit Situation column. Decide whether this statement accurately describes your credit picture today. Write "True" or "False" in the right column.

Defining Your Credit Situation

Your Credit Situation	True or False?
I manage my savings and checking account well and never spend more than my balance.	
I frequently monitor the activity in my accounts.	
I have one or more credit cards and pay my bill on time, every month.	
I pay as much of my credit card bill as I can each month—always at least the minimum amount.	
Less than 10% of my monthly income goes toward paying off credit card bills.	
I always comparison shop for credit cards and loans.	
I never sign loan papers unless I completely understand the terms first.	
I have built my credit by taking out a small loan and repaying it monthly—in full and on time.	
I know what my current credit score is.	
I know how I can improve my credit score and have taken steps to do so.	
I know how to order a free copy of my credit report.	
I have reviewed my credit report in the last 12 months and checked it for errors.	
If I find an error in my credit report, I know how to get it corrected.	
My total debt is less than 20% of my annual net income.	
If I'm having problems repaying a debt, I contact the lender right away to discuss what to do.	

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Lesson 2: What is Credit?

This lesson provides an easy-to-understand introduction to credit, how it can benefit participants and the risks they should watch out for. Participants will learn the differences between good and bad credit, how to build credit and the "five C's"—how lenders evaluate credit worthiness.

Learning Objectives

After completing this lesson, participants will be able to:

- Define credit
- Describe how credit can benefit them
- List risks to be aware of when dealing with credit
- Explain the differences between good and bad credit
- Explain how to build good credit
- Define the 5 C's—how lenders evaluate credit worthiness

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- When did you receive your first credit card?
- Describe your first experience with credit.
- Did you understand the concept of credit at that point?
- Are there risks you take when you take out a loan or use your credit card? How can you minimize these risks?
- Do you know your "credit worthiness" as defined by your lenders?

The Basics

Credit is the ability to borrow money.

- There are lots of situations where people borrow money: car loans, credit cards, student loans, etc. In each case, you're borrowing money from a lender with a promise to pay it back.
- The money you owe is called debt.
- Earning the trust and confidence of banks and other businesses to lend you money is called establishing credit. By showing them you're trustworthy, you strengthen your ability to borrow again the next time. This is called having a good credit record or a good credit rating.
- When you borrow money, you need to make monthly loan payments and usually have other costs called interest and fees.

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The Benefits—and Risk—of Credit (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Divide the class into small groups. Ask each group to brainstorm the benefits and risks of using credit. When they're finished, discuss the key points as well as the benefits and risks listed in the chart below.

Instructions:

Have your participants list the benefits and risks of using credit in the boxes.

Key points:

- Having the ability to borrow money when you need it gives you flexibility.
- But borrowing too much money and being unable to pay it back is a serious problem in our country.
- It's important to use credit responsibly and avoid having too much debt.
- If you understand how credit works and use it wisely, it can help you to reach your goals.

Benefits and Risks of Credit

Credit Benefits	Credit Risks
• The option of buying something today and paying the money back over time, rather than having to wait. • The flexibility to act on major purchases and life opportunities that may require more money than you have on hand right now, like buying a computer, or borrowing for college. • Easier to rent an apartment and to get service from local utility companies. • Easier to buy what you want, when you want it.	• Overdoing it; borrowing more than you can afford to repay. • If you don't make your payments on time, you'll damage your credit record. • Losing money on late fees. • Having to pay additional interest. • Difficulty getting loans or credit in the future.

How much debt can you repay?

- General guideline #1: Never borrow more than 20% of your yearly net income.
- General guideline #2: Keep your credit card debt low enough so that your required payments are no more than 10% of your monthly income.

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Topic 4 — Using Credit To Your Advantage

The Benefits—and Risk—of Credit

Instructions:
List the benefits and risks of using credit in the boxes below.

Benefits and Risks of Credit

Credit Benefits	Credit Risks

Tip!

How much debt can you repay?

- General guideline #1: Never borrow more than 20% of your yearly net income.
- General guideline #2: Keep your credit card debt low enough so that your required payments are no more than 10% of your monthly income.

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Good Credit vs. Bad

Instructor note:

Ask the class:

- *What does having "good credit" mean?*
- *What does having "bad credit" mean?*

After discussing the answers to those questions, ask the class to supply good and bad credit signs and the result of each.

- *Good credit means that you make your payments in full and on time.*
- *Bad credit is just the opposite.*

Signs of Good and Bad Credit

Good Credit Signs	Bad Credit Signs
• Paying at least the minimum required payment • Paying on time • Never missing a payment • Staying within your credit limit **Result** • Easier to borrow money • No additional penalty fees • More money you'll keep in your pocket	• Paying too little • Paying too late • Missing payments • Going over your credit limit • Having too much debt **Result** • Difficult to borrow money • You lose money on late fees • More money spent on finance charges

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How to Establish Credit Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Tell your participants to read each statement and decide whether it is a good way to establish good credit. After they are finished, discuss each statement, then open the floor to discuss other tips and techniques they may have come up with.

Instructions:

Have your participants read each statement and decide whether or not it is a good idea for establishing good credit. Have them write "True" or "False" in the left column.

Establishing Good Credit

How to Establish Good Credit	True or False?
Avoid getting a credit card until you are a homeowner.	False
Open a savings account or checking account and manage it well.	True
Never spend more than you have in the account. This reflects on your ability to repay loans.	True
Get multiple credit cards at top quality stores and skip making payments on occasion.	False
Get one or two gasoline or department store credit cards and pay your bill on time, every month.	True
Only borrow money from family and friends.	False
Use cash advances from one credit card to pay of balances due on others.	False
Take out a small loan for an appliance or a computer, and repay it monthly—in full and on time.	True
Get a secured credit card by opening a savings account with a balance equal to the card's limit.	True
Overdraw your checking account for the same amount each month. This demonstrates a consistent need.	False
Put your apartment and utilities in your own name and always pay your bills on time.	True

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How to Establish Credit Activity

Instructions:

Test your knowledge of how to establish credit. Only some of these tips are correct. Read each and decide whether or not it is a good idea for establishing good credit. Write "True" or "False" in the left column.

Establishing Good Credit

How to Establish Good Credit	True or False?
Avoid getting a credit card until you are a homeowner.	
Open a savings account or checking account and manage it well.	
Never spend more than you have in the account. This reflects on your ability to repay loans.	
Get multiple credit cards at top quality stores and skip making payments on occasion.	
Get one or two gasoline or department store credit cards and pay your bill on time, every month.	
Only borrow money from family and friends.	
Use cash advances from one credit card to pay of balances due on others.	
Take out a small loan for an appliance or a computer, and repay it monthly—in full and on time.	
Get a secured credit card by opening a savings account with a balance equal to the card's limit.	
Overdraw your checking account for the same amount each month. This demonstrates a consistent need.	
Put your apartment and utilities in your own name and always pay your bills on time.	

Have any other ideas about how to establish good credit? Write them down here.

Tip!

Good credit management over time is key to building your credit and determining whether you can obtain credit for large future purchases, such as a car, a home, or college education.

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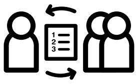

The "Five C's" of Credit Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to match each of the 5 C's with its correct description. After they are finished, walk through each "C."

How do lenders decide whether or not to loan you money? The 5 C's of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision "scorecards" using aspects of the 5 C's and other factors.

Instructions:

Have your participants read the descriptions in the right hand column of the table. Then, instruct them to write in the right "C" for each description—character, capacity, capital, collateral or conditions.

"Five C's" of Credit

Which "C"?	Description
Character	• When lenders evaluate this "C," they look at stability—for example, how long you've lived at your current address, how long you've been in your current job, and whether you have a good record of paying your bills on time and in full. • If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay.
Capacity	• Your other debts and expenses could impact your ability to repay the loan. • Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn. • The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.
Capital	• This term refers to your net worth—the value of your assets minus your liabilities. • In simple terms, how much you *own* (for example, car, real estate, cash, and investments) minus how much you *owe*.
Collateral	• This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed. • Some lenders may require a guarantee in addition to this. • A guarantee means that another person signs a document promising to repay the loan if you can't.
Conditions	• Lenders might consider a number of outside circumstances that may affect the borrower's financial situation and ability to repay, for example what's happening in the local economy. • If the borrower is a business, the lender may evaluate the financial health of the borrower's industry, their local market, and competition.

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The "Five C's" of Credit Activity

How do lenders decide whether or not to loan you money? The 5 C's of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision "scorecards" using aspects of the 5 C's and other factors.

Instructions:

Read the descriptions in the right hand column of the table. Then, write in the right "C" for each description—character, capacity, capital, collateral or conditions.

"Five C's" of Credit

Which "C"?	Description
	• When lenders evaluate this "C," they look at stability—for example, how long you've lived at your current address, how long you've been in your current job, and whether you have a good record of paying your bills on time and in full. • If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay.
	• Your other debts and expenses could impact your ability to repay the loan. • Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn. • The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.
	• This term refers to your net worth—the value of your assets minus your liabilities. • In simple terms, how much you *own* (for example, car, real estate, cash, and investments) minus how much you *owe.*
	• This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed. • Some lenders may require a guarantee in addition to this. • A guarantee means that another person signs a document promising to repay the loan if you can't.
	• Lenders might consider a number of outside circumstances that may affect the borrower's financial situation and ability to repay, for example what's happening in the local economy. • If the borrower is a business, the lender may evaluate the financial health of the borrower's industry, their local market, and competition.

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Topic 4 — Using Credit To Your Advantage

Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the "What is Credit?" lesson:

- Credit is the ability to borrow money.
- There are lots of situations where people borrow money: car loans, credit cards, student loans, etc. In each case, you're borrowing money from a lender with a promise to pay it back.
- The money you owe is called debt.
- Earning the trust and confidence of banks and other businesses to lend you money is called establishing credit. By showing them you're trustworthy, you strengthen your ability to borrow again the next time. This is called having a good credit record or a good credit rating.
- When you borrow money, you need to make monthly loan payments and usually have other costs called interest and fees.

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Lesson 3: Your Credit Score

This lesson will show participants how their credit score can affect their life and financial options. They will learn how their credit score is determined and what they can do to help improve it.

Learning Objectives

After completing this lesson, participants will be able to:

- Describe how their credit scores can affect their lives and financial options
- Understand how their credit scores are determined
- Use tips and techniques to improve their credit score

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Do you know what your credit score is?
- How can you check your credit score?
- How do you know if your credit score is excellent, very good, good, or poor?
- Which is better a low credit score or no credit history at all? Why do you think that way?
- Name some ways that you have—or could—improve your credit score.

The Basics

- A credit score is numerical rating used by lenders in the loan approval decision process.
- Lenders always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
- Credit bureaus keep track of everybody's credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you've worked there.

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Your Credit Score Quiz (Instructor Copy)

Instructor note:

Photocopy the quiz on the next page. Give your participants five to ten minutes to complete the quiz. When they are finished, give them their Hands on Banking credit score:

1 to 2 correct: 612
3 to 4 correct: 701
5 correct: 780

1. Lenders always want to know the _________ of people who ask them for credit cards and loans.
   - **a. Credit history.**
   - b. Employer's address.
   - c. Social security number.
   - d. Ring size.

2. How do lenders find your credit history?
   - a. From bank records.
   - b. From employer records.
   - **c. From credit bureaus.**
   - d. From the IRS.

3. What are the three largest credit bureaus in the United States?
   1. Equifax
   2. Experian
   3. TransUnion

4. In addition to your credit history, almost all lenders look at your:
   - a. Credit line.
   - b. Credit cards.
   - c. Credit intentions.
   - **d. Credit score.**

5. A credit score indicates:
   - a. How many credit cards you have.
   - **b. How reliable you are at paying back your debts.**
   - c. How often you are late per month.
   - d. How many times you've changed jobs.

After participants finish the quiz, lead a discussion about credit scores and provide specific information.

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Your Credit Score Quiz

Instructions:
Complete the following quiz. Then, see how well you did and reveal your Credit Score Quiz Score!

1. Lenders always want to know the _________ of people who ask them for credit cards and loans.
   a. Credit history.
   b. Employer's address.
   c. Social security number.
   d. Ring size.

2. How do lenders find your credit history?
   a. From bank records.
   b. From employer records.
   c. From credit bureaus.
   d. From the IRS.

3. What are the three largest credit bureaus in the United States?
   1. ___________________________
   2. ___________________________
   3. ___________________________

4. In addition to your credit history, almost all lenders look at your:
   a. Credit line.
   b. Credit cards.
   c. Credit intentions.
   d. Credit score.

5. A credit score indicates:
   a. How many credit cards you have.
   b. How reliable you are at paying back your debts.
   c. How often you are late per month.
   d. How many times you've changed jobs.

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Your Credit Score

Instructor note:

After the quiz, discuss these key points with your participants.

Credit history

- Lenders always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
- The three largest credit bureaus in the United States are:
  - Equifax
  - Experian
  - TransUnion
- Credit bureaus keep track of everybody's credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you've worked there.

Credit score

- In addition to your credit history, almost all lenders look at your credit score.
- This is a number that indicates how reliable you are at paying back your debts.
- A computer program analyzes your entire credit history and generates a single number or score, usually ranging from 300 to 850.
- This score helps lenders decide if you're a good credit risk or not. The higher the score, the lower the risk.
- The higher your credit score, the better the interest rate lenders are likely to offer you—which could mean more money in your pocket!

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Credit Score Impact (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Instruct your participants to read each factor and decide whether or not it can affect their credit score. When they finish, discuss each statement and discuss other factors your participants may have come up with.

Instructions

Have participants read through all the factors that can affect their credit score. Have them decide which factors can and cannot affect your credit score. Instruct them to place a check mark next to the factors that CAN affect their credit score.

Factor in Determining Your Credit Score?

Factors	Yes or No?
Your ability to get a credit card	✓
Your ability to purchase a home	✓
Your interest rate on your savings account	
Whether a landlord will rent you an apartment	✓
Whether you'll be charged a fee if you pay your bills late	
The interest rate lenders are likely to offer you	✓
The amount of your insurance premiums	✓
Whether you're allowed to participate in a company retirement plan	
Your ability to borrow money	✓
Whether you can get service from utility companies	✓

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Credit Score Impact

Instructions:

Read through all the factors that can affect your credit score. Decide which factors can and cannot affect your credit score. Place a check mark next to the factors that CAN affect your credit score.

Factor in Determining Your Credit Score?

Factors	Yes or No?
Your ability to get a credit card	
Your ability to purchase a home	
Your interest rate on your savings account	
Whether a landlord will rent you an apartment	
Whether you'll be charged a fee if you pay your bills late	
The interest rate lenders are likely to offer you	
The amount of your insurance premiums	
Whether you're allowed to participate in a company retirement plan	
Your ability to borrow money	
Whether you can get service from utility companies	

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Improve Your Credit Score Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Instruct your participants to read each action and decide whether it will improve or lower their credit score. When they finish, discuss each statement.

Instructions:

Have participants read each action and decide whether it improves or lowers their credit score. Instruct them to write "Improve" or "Lower" in the right hand column.

How Do Your Actions Affect Your Credit Score?

Your Actions	Improve or Lower Your Score?
Have a very brief credit history	Lower
Consistently pay your bills on time	Improve
Keep credit cards balances that are 70% or less of your spending limit	Improve
Apply for new credit cards frequently, whether you need them or not	Lower
Only apply for and open new credit accounts when you need them	Improve
Have high income relative to how much you owe	Improve
Exceed your credit card spending limit	Lower
Pay some bills late	Lower
Have a good credit history for a long period of time	Improve
Have a mix of revolving credit (e.g., credit cards) and installment credit (e.g., a car loan)	Improve
Have credit cards balances near your maximum spending limit	Lower

Tip!

If you never use credit cards, you're not establishing a credit history. To improve your scores, it's actually better to use credit cards in moderation, keep your balances low, and pay on time.

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Topic 4 — Using Credit To Your Advantage

Improve Your Credit Score Activity

Different formulas are used to calculate credit scores, but some of the actions on this list will improve your score and some will lower it.

Instructions:
Read each action and decide whether it improves or lowers your credit score. Write "Improve" or "Lower" in the right hand column.

How Do Your Actions Affect Your Credit Score?

Your Actions	Improve or Lower Your Score?
Have a very brief credit history	
Consistently pay your bills on time	
Keep credit cards balances that are 70% or less of your spending limit	
Apply for new credit cards frequently, whether you need them or not	
Only apply for and open new credit accounts when you need them	
Have high income relative to how much you owe	
Exceed your credit card spending limit	
Pay some bills late	
Have a good credit history for a long period of time	
Have a mix of revolving credit (e.g., credit cards) and installment credit (e.g., a car loan)	
Have credit cards balances near your maximum spending limit	

Tip!

If you never use credit cards, you're not establishing a credit history. To improve your scores, it's actually better to use credit cards in moderation, keep your balances low, and pay on time.

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Credit Scores

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 4 — Using Credit To Your Advantage

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Credit Score lesson:

- A credit score is numerical rating used by lenders in the loan approval decision process.
- Lenders almost always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
- Credit bureaus keep track of everybody's credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you've worked there.

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Topic 4 — Using Credit To Your Advantage

Lesson 4: Your Credit Report

In this lesson, participants will learn that a credit report is a document that describes their history of borrowing money and repaying what they owe. They will learn how to obtain a credit report, how to read it, and how to correct it if there is a mistake.

Learning Objectives

After completing this lesson, participants will be able to:

- Obtain their credit reports
- Read their credit reports
- Correct their credit reports if there is a mistake
- Describe who else might have access to their credit reports and why

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- When is the last time you looked at your credit report? Describe how you obtained it. Any surprises?
- Why should you check your credit report?
- Why would an employer or a landlord check your credit report?
- How many times a year should you check your credit report?

The Basics

- Your credit report is the complete written version of your credit history.
- You can review your own credit report and you give others permission to look at it when you apply for a loan or fill out a credit card application.
- Employers can also check your credit report.
- Review your credit report at least once a year to check for errors or fraud.
- If you need assistance, consider contacting a credit counselor—an experienced credit professional.

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How to Obtain Your Credit Report Discussion

Instructor note:

Use the questions below to facilitate a group discussion about obtaining the credit reports. Use the information below each question to guide the discussion.

Where can I get my credit report?

The three largest credit bureaus in the United States are Equifax, Experian, and TransUnion.

How often can I receive a copy of my credit report?

A federal law called the Fair Credit Reporting Act allows you to receive one free copy of your credit report from each of these three companies once a year.

Can I request my credit report online?

To get a free report online, go to **www.annualcreditreport.com** and follow the directions. This is the web site that provides your free annual report. It is run jointly by Equifax, Experian, and TransUnion

What about all these Web sites advertising free credit reports?

Be wary of the many Web sites that advertise free credit reports! Many consumers get tricked into paying for reports and services they don't really need.

What should I look for when I receive my credit report?

When you receive your report, check for mistakes in your name, social security number, former addresses, accounts you didn't open, and errors in your history.

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Your Credit Report

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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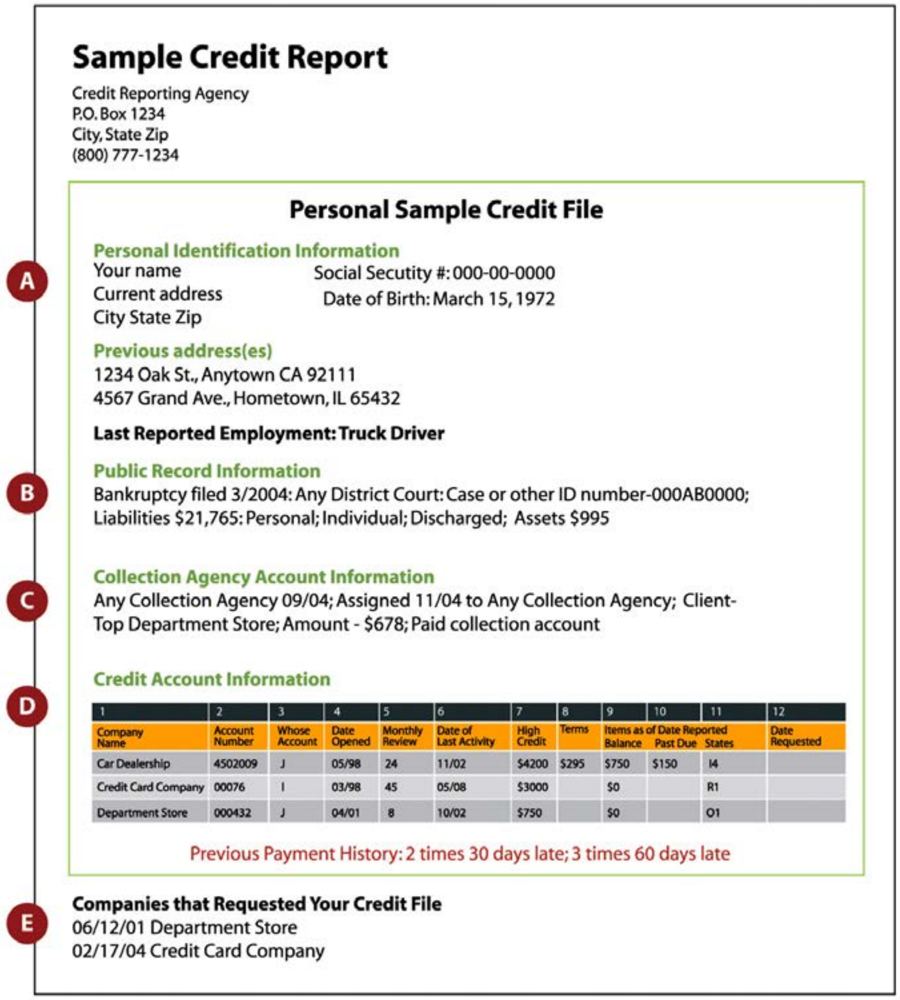
How to Read Your Credit Report

Instructor note:

Photocopy the activity handout on the next page. Discuss each section of the credit report.

This is a sample credit report.



Sample Credit Report

Credit Reporting Agency
P.O. Box 1234
City, State Zip
(800) 777-1234

Personal Sample Credit File

A

Personal Identification Information

Your name
Current address
City State Zip

Social Secutity #: 000-00-0000
Date of Birth: March 15, 1972

Previous address(es)

1234 Oak St., Anytown CA 92111
4567 Grand Ave., Hometown, IL 65432

Last Reported Employment: Truck Driver

B

Public Record Information

Bankruptcy filed 3/2004: Any District Court: Case or other ID number-000AB0000; Liabilities $21,765: Personal; Individual; Discharged; Assets $995

C

Collection Agency Account Information

Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client-Top Department Store; Amount - $678; Paid collection account

D

Credit Account Information

1	2	3	4	5	6	7	8	9	10	11	12
Company Name	Account Number	Whose Account	Date Opened	Monthly Review	Date of Last Activity	High Credit	Terms	Items as of Date Reported Balance	Past Due	States	Date Requested
Car Dealership	4502009	J	05/98	24	11/02	$4200	$295	$750	$150	I4	
Credit Card Company	00076	I	03/98	45	05/08	$3000		$0		R1	
Department Store	000432	J	04/01	8	10/02	$750		$0		O1	

Previous Payment History: 2 times 30 days late; 3 times 60 days late

E

Companies that Requested Your Credit File

06/12/01 Department Store
02/17/04 Credit Card Company

Section A shows information about *you*—your name, current and previous address, Social Security number, date of birth, and other information to identify you.

Section B is called Public Record Information. In this area, you'll see any information that is listed about you in the records of local, state, or federal courts. In this example you see a bankruptcy.

Section C shows collection agency account information. If you fail to pay back one of your creditors, they may hire a collection agency to contact you. This is a company that specializes in collecting money to pay off debts.

Section D shows your credit history. This is a list of all the places where you have credit—or *used* to have credit. These are called your accounts. The credit history section is divided into twelve columns.

Section E, the *last* section of the credit report, is called Inquiries. This is a list of the companies that have requested a copy of your credit report for their review.

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How to Read Your Credit Report

This is a sample credit report.

Sample Credit Report

Credit Reporting Agency
P.O. Box 1234
City, State Zip
(800) 777-1234

Personal Sample Credit File

A

Personal Identification Information
Your name — Social Secutity #: 000-00-0000
Current address — Date of Birth: March 15, 1972
City State Zip

Previous address(es)
1234 Oak St., Anytown CA 92111
4567 Grand Ave., Hometown, IL 65432

Last Reported Employment: Truck Driver

B

Public Record Information
Bankruptcy filed 3/2004: Any District Court: Case or other ID number-000AB0000; Liabilities $21,765: Personal; Individual; Discharged; Assets $995

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Collection Agency Account Information
Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client-Top Department Store; Amount - $678; Paid collection account

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Credit Account Information

1	2	3	4	5	6	7	8	9	10	11	12
Company Name	Account Number	Whose Account	Date Opened	Monthly Review	Date of Last Activity	High Credit	Terms	Items as of Date Reported Balance	Past Due	States	Date Requested
Car Dealership	4502009	J	05/98	24	11/02	$4200	$295	$750	$150	I4	
Credit Card Company	00076	I	03/98	45	05/08	$3000		$0		R1	
Department Store	000432	J	04/01	8	10/02	$750		$0		O1	

Previous Payment History: 2 times 30 days late; 3 times 60 days late

E

Companies that Requested Your Credit File
06/12/01 Department Store
02/17/04 Credit Card Company

Section A shows information about *you*—your name, current and previous address, Social Security number, date of birth, and other information to identify you.

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Instructor note:
Photocopy the activity handout on the next page. Discuss each column.

Details of Your History

1	2	3	4	5	6	7	8	9	10	11	12
Company Name	Account Number	Whose Account	Date Opened	Monthly Review	Date of Last Activity	High Credit	Terms	Items as of Date Reported Balance	Past Due	States	Date Requested
Car Dealership	4502009	J	05/98	24	11/02	$4200	$295	$750	$150	I4	
Credit Card Company	00076	I	03/98	45	05/08	$3000		$0		R1	
Department Store	000432	J	04/01	8	10/02	$750		$0		O1	

The credit history section of the credit report is divided into twelve columns.

Reading Your Credit History

Column Number	Description
1	The names of your lenders
2	Your account numbers.
3	Person responsible for payment. An "I" means an individual is responsible. A "J" means joint responsibility—you and another person.
4	Month and year the account was opened.
5	Number of months the payment history for the account has been reported.
6	Date that the last payment, change, or other activity was made.
7	The highest amount that has been charged to this account, or the credit limit.
8	The amount of your monthly payments— if this is an installment loan.
9	The amount you still owe as of the date of the report.
10	Any amount that is past due (money that you're late in paying to your lender).
11	The Status column contains a letter and a number. The letter describes what kind of account it is. "I" means installment (loan payment every month for a certain period). "R" means revolving credit (credit card). "O" means open (the lender decides to give you credit and then bills you for what you borrow).
12	Column 12 shows the date on which the information for this account was last updated.

Tip!

What do the numbers in Column 11 mean?

1= account paid as agreed
2 = account 30 or more days past due
3 = account 60 or more days past due
4 = account 90 or more days past due

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Details of Your History

1	2	3	4	5	6	7	8	9	10	11	12
Company Name	Account Number	Whose Account	Date Opened	Monthly Review	Date of Last Activity	High Credit	Terms	Items as of Date Reported Balance	Past Due	States	Date Requested
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Recommended Article: Your Credit Report

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Scenario: Finding an Error (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Rafael's story. Have them choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Rafael's situation.

Rafael's Story

Two months from now, Rafael plans to move out of his brother's house and rent an apartment of his own. He realizes that any potential landlord will probably review a copy of his credit report. So Rafael requests a free copy to review himself. As he studies the report, he sees that it contains a major error. It says that he's 120 days late in paying $1,275 to a national chain clothing store… where he's never shopped!

1. **Don't worry about it. The credit bureau will fix it. Meanwhile, he can explain it.**

   Consequences: Rafael thought the credit bureau would fix this on their own, but they didn't. He should have taken more responsibility because now the landlord thinks he can't pay his bills.

   Feedback: It was a good idea for Rafael to request the credit report, and it was smart to review it carefully. But when he found an error, he needed to take personal responsibility for getting the mistake corrected by contacting the credit bureau and the creditor right away.

2. **Contact the manager of the local clothing store. Ask for a letter to show potential landlords.**

   Consequences: It took Rafael two weeks to track down the local store manager in-person. Although she agreed she'd never seen Rafael shop there, a letter from her won't solve anything. Rafael could have saved time by just calling the credit bureau first.

   Feedback: Sorry, this wasn't the best advice. It was great for Rafael to take personal responsibility for correcting the error, but the best choice when you discover a mistake is to contact the credit bureau and the creditor in question. Consequently, Rafael has to track down the local store manager who said a letter from her would mean nothing. So he should just contact the credit bureau immediately.

3. **Contact the credit bureau immediately! Call the billing department of the clothing company.**

   Consequences: Rafael called the credit bureau and filled out the dispute form on their site. He called the national customer service number for the store and it turned out they had his account confused with someone else by the same name. Everything is straightened out now.

   Feedback: Great decision! Rafael took personal responsibility for correcting the error and took action right away .He solved the problem and protected his good credit history. As we explained earlier, having good credit is very helpful in many ways. If you need assistance, consider contacting a credit counselor—an experienced credit professional.

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Scenario: Finding an Error

Instructions:

Read Rafael's story. Based on his situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Rafael's situation.

Rafael's Story

Two months from now, Rafael plans to move out of his brother's house and rent an apartment of his own. He realizes that any potential landlord will probably review a copy of his credit report. So Rafael requests a free copy to review himself. As he studies the report, he sees that it contains a major error. It says that he's 120 days late in paying $1,275 to a national chain clothing store … where he's never shopped!

What should Rafael do?

1. **Don't worry about it. The credit bureau will fix it. Meanwhile, he can explain it.**
   Should he choose this option? Why or why not?

2. **Contact the manager of the local clothing store. Ask for a letter to show potential landlords.**
   Should he choose this option? Why or why not?

3. **Contact the credit bureau immediately! Call the billing department of the clothing company.**
   Should he choose this option? Why or why not?

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Credit Report lesson:

- Your credit report is the complete written version of your credit history.
- You can review your own credit report and you give others permission to look at it when you apply for a loan or fill out a credit card application.
- Employers can also check your credit report.
- Review your credit report at least once a year to check for errors or fraud.
- If you need assistance, consider contacting a credit counselor—an experienced credit professional.

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Lesson 5: Credit Cards

In this lesson, participants will learn valuable tips for using credit cards the smart, safe and responsible way. They will learn how to avoid too much credit card debt and learn steps to take if debt is already a problem.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain valuable tips for using credit cards the smart, safe and responsible way
- Understand that using a credit card is actually borrowing money, in essence taking out a loan
- Comparison shop for the credit card that is best for them
- Take steps to improve their credit if debt is already a concern

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- How many credit cards do you own? Do you think it's too many or would you like more?
- What kinds of things do you purchase with a credit card?
- What was your first credit card and why did you get it? Did you understand the concept of interest at that point?
- Do you pay the minimum payment amount or more towards your credit card balance each month? What is the consequence for minimum payment?
- When was the last time you actually read your credit card statement?

The Basics

- Lots of financial institutions offer credit cards and some will charge you an annual fee to have one.
- When you apply for a card, they'll check your credit history and decide whether or not to give you a card.
- They'll also decide how much you're allowed to borrow, or "charge." This is called your credit limit.
- If the credit card company issues you a card, they'll let you know what your credit limit will be.
- Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.
- Be sure to shop around for the best credit card offer that fits your need and with the lowest APR.

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Topic 4 — Using Credit To Your Advantage

The Basics of Credit Cards

Instructor note:
Lead a group discussion about the credit cards. Discuss how credit cards are different than cash, debit or check cards. Mention these key points.

- Credit cards can be more convenient than carrying cash, but remember, you always have to pay the money back.
- Every time you use your credit card, you're actually borrowing money from the financial institution that issued you the card.
- The financial institution pays the debt to the store for what you bought. In turn, you pay the money back to the financial institution.
- Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Credit Cards

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Choosing the Right Card For You (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Instruct your participants to fill in the blank. When they are finished, use the example below to help illustrate the concept.

Instructions:

Have your participants fill in the blanks using the words from the word bank.

Word Bank:

$10,000	Lower
A ton	Mid-level interest rate
All at once	No
Bill	Over time
Credit limit	Quickly
Higher	Remaining credit line
Letter	Slowly
Low interest rate	Unpaid balance

1. It definitely pays to get a credit card with a ______ low interest rate ______, and to pay off your bill as quickly as you can.

2. Each month, the credit card company will send you a ______ bill ______, or statement, showing the amount you have borrowed.

3. If you pay off purchases by paying your first credit card statement in full, you'll pay no interest, plus you'll have your full ______ credit limit ______ available to use again.

4. If you decide to repay ______ over time ______, you'll be charged interest on the ______ unpaid balance ______ each month (the amount you still owe).

5. With interest, the total amount you end up spending on things may be quite a bit ______ higher ______!

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Topic 4 — Using Credit To Your Advantage

Choosing the Right Card For You

Instructions:
Fill in the blanks using the words from the word bank.

Word Bank:

$10,000	Lower
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All at once	No
Bill	Over time
Credit limit	Quickly
Higher	Remaining credit line
Letter	Slowly
Low interest rate	Unpaid balance

1. It definitely pays to get a credit card with a ______________________, and to pay off your bill as quickly as you can.

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4. If you decide to repay _____________________, you'll be charged interest on the _________________________ each month (the amount you still owe).

5. With interest, the total amount you end up spending on things may be quite a bit ______________________!

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Save Money on Interest Activity (Instructor Copy)

Instructor note:

Use this example to highlight the importance of interest and repayment time. Photocopy the activity handout on the following page and instruct participants to fill in the chart as you walk through the example. Please note this content varies slightly from the online Hands on Banking program.

Instructions:

Have your participants fill in the chart as you walk through the example.

Example:

Sally bought a television for $500 with her credit card. Her credit card has 8% interest. She paid it off within six months. Bob bought the same television for $500 with his credit card. His credit card has 18% interest. He paid it off within 24 months.

Who do you think paid more in the long run? Why?

Bob ended up paying $99 in interest, while Sally only paid $10.

How Bob and Sally Paid

Description	Bob	Sally
Price of product	$500	$500
Interest rate for card	18%	8%
Time to pay off	24 months	6 months
Total interest (APR)	$99.09	$10.25
Total price	599.09	$510.25

Tip!

When comparing credit cards, look at the Annual Percentage Rate (APR). APR is a measurement that takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of borrowing.

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Save Money on Interest Activity

Instructions:
Listen to the example and fill in the chart as your instructor reveals the information.

How Bob and Sally Paid

Description	Bob	Sally
Price of product		
Interest rate for card	%	
Time to pay off		
Total interest (APR)		
Total price		

Who do you think paid more in the long run? Why?

Write down other notes and questions:

Tip!

When comparing credit cards, look at the Annual Percentage Rate (APR). APR is a measurement that takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of borrowing.

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Credit Card or Debit Card: Which to Use?

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Use Credit Cards Responsibly Quiz (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to answer the quiz questions, then lead a discussion.

Instructions:

Have your participants answer these quiz questions.

1. In general, people spend more when they use credit cards instead of cash.
   a. True
   b. False

2. Try to keep your credit card debt low enough so that your required payments are no more than what percentage of your monthly income?
   a. 40%
   b. 30%
   c. 20%
   d. 10%

3. Use cash or your debit card for everyday purchases and save your credit card for buying:
   a. Things you buy monthly, such as groceries
   b. Gasoline
   c. Larger, more lasting items
   d. All of the above

4. Unlike a debit card, where the money comes right out of your account, you're _______________ money when you use a credit card.
   a. Repaying
   b. Loaning
   c. Borrowing
   d. Saving

5. Consider having just _______________ card with a low spending limit.
   a. Four
   b. Three
   c. Two
   d. One

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Use Credit Cards Responsibly Quiz

Instructions:

Read each question and select the best possible answer.

1. In general, people spend more when they use credit cards instead of cash.
   a. True
   b. False

2. Try to keep your credit card debt low enough so that your required payments are no more than what percentage of your monthly income?
   a. 40%
   b. 30%
   c. 20%
   d. 10%

3. Use cash or your debit card for everyday purchases and save your credit card for buying:
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   c. Larger, more lasting items
   d. All of the above

4. Unlike a debit card, where the money comes right out of your account, you're _______________ money when you use a credit card.
   a. Repaying
   b. Loaning
   c. Borrowing
   d. Saving

5. Consider having just _______________ card with a low spending limit.
   a. Four
   b. Three
   c. Two
   d. One

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How to Use Credit Cards Responsibly (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Explain to your participants that you will be leading a discussion or discussion about using credit cards responsibly. Ask them to follow along with their activity handout and write in the correct word or phrase in the blanks

Instructions:

Have your participants fill in the blanks as they listen to the discussion.

Using Credit Cards Responsibly

Look for low-fee, low-interest	• Get a credit card with a low **annual fee** and low **interest rate**. • Be sure to read your cardholder agreement. It spells out all the **fees** and **finance charges**. • Call your card company's customer service number if you have questions.
Pay off as much as you can	• Always make at least the **minimum payment** each month, but pay as much as you can each month. • Pay off the **entire balance** whenever you can. This will reduce the finance charges you pay.
Be sure you can afford it	• Don't use your credit cards to buy things you really can't **afford**. • Follow your **budget**.
Keep within your limit	• If you go over your limit, you could damage your **credit rating**. • Track your credit card charges throughout the month and stay within your credit limit. • To build credit and still be prepared for emergencies, try to keep your balance below **70%** of your limit at all times.
Pay on time	• Pay your credit card bills on time. This is one of the best ways to build good credit because it shows lenders that you're **reliable**. It also helps you avoid late fees.
Avoid cash advances	• Some credit card companies may offer you a **cash advance**. • Avoid this option except in emergencies. You'll be charged a fee and the interest rate is usually much **higher**!
Get debt help early	• If you're getting into trouble with debt, get help early. Consider talking with a credit counselor, an experienced professional, who can help you get out of debt.

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Topic 4 — Using Credit To Your Advantage

How to Use Credit Cards Responsibly

Instructions:
As you listen to the instructor lead this discussion, fill in the blanks.

Using Credit Cards Responsibly

Look for low-fee, low-interest	• Get a credit card with a low ________________________ and low ________________________. • Be sure to read your cardholder agreement. It spells out all the ________________________ and ________________________. • Call your card company's customer service number if you have questions.
Pay off as much as you can	• Always make at least the ________________________ each month, but pay as much as you can each month. • Pay off the ________________________ whenever you can. This will reduce the finance charges you pay.
Be sure you can afford it	• Don't use your credit cards to buy things you really can't ______________. • Follow your ________________________.
Keep within your limit	• If you go over your limit, you could damage your ____________________. • Track your credit card charges throughout the month and stay within your credit limit. • To build credit and still be prepared for emergencies, try to keep your balance below ________________________ of your limit at all times.
Pay on time	• Pay your credit card bills on time. This is one of the best ways to build good credit because it shows lenders that you're ____________________. It also helps you avoid late fees.
Avoid cash advances	• Some credit card companies may offer you a ______________________. • Avoid this option except in emergencies. You'll be charged a fee and the interest rate is usually much ________________________!
Get debt help early	• If you're getting into trouble with debt, get help early. Consider talking with a credit counselor, an experienced professional, who can help you get out of debt.

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How to Read Your Credit Card Statement (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion about how to read a credit card statement.

Credit card statement formats vary, but take a look at this sample.

CARD ***Statement***

A	Account Number	1234 1234 1234 1234
B	Statement Closing Date	11/06/09
C	Credit Line	$2,100.00
D	Available Credit	$1,576.80

TERESA TORRES
123 ANY STREET
CITY CA 12345

F **Account Summary**

Previous Balance	$1,686.15
- Credits	$0.00
- Payments	$1,688.15
+ Purchases & Other Chgs	$523.20
+ Cash Advances	$0.00
+ FINANCE CHARGE	$0.00
= New Balance	$523.20

Payment Information

G	New Balance	$523.20
H	Scheduled Minimum Payment	$35.00
I	Scheduled Payment Due Date	12/01/09

Rate Information

YOU MAY PAY YOUR BALANCE IN FULL AT ANY TIME
YOUR RATE MAY VARY ACCORDING TO THE TERMS OF YOUR AGREEMENT
NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION ABOUT YOUR ACCOUNT

Type of Balance	Corresponding ANNUAL PERCENTAGE RATE	Daily FINANCE CHARGE RATE	Average Daily Balance
PURCHASE(S)	19.80%	.05424%	.$0.00
CASH ADVANCE(S)	21.80%	.05972%	.$0.00

Composite ANNUAL PERCENTAGE RATE 21.80% J Days in Billing Cycle 25

Transactions E

Trans	Post	Reference Number	Description	Credits	Charges
10/09	10/09	XXXXXXXXXXXXXXXXXXXX	MERCHANT NAME		523.20
10/08	10/09	XXXXXXXXXXXXXXXXXXXX	PAYMENTS	1,686.15	

Detach an mail with check so that your payment is received no later than the "Payment Due" date. See reverse for important additional information.

12/01/09

Account Number	1234 1234 1234 1234
New Balance	$523.20
Scheduled Minimum Payment	$35.00
Scheduled Payment Due Date	12/01/09
Amount Enclosed	$

K

PAYMENT ADDRESS
123 ANY STREET
LOS ANGELES, CA 90030-0086

TERESA TORRES
123 ANY STREET
CITY, CA 123456

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How to Read Your Credit Card Statement (Instructor Copy) (continued)

Reading Your Credit Statement

A.	Credit card account number—keep it a secret, or others can use your account.
B.	Closing date of the statement—the date the credit card company created this statement.
C.	Amount of your credit line—your spending limit..
D.	Available credit—amount of credit that you haven't borrowed yet, so it's still available to you.
E.	Transactions section—shows a list of each charge and payment you made in date order.
F.	Your transactions are summarized here, in the Account Summary section. You'll also see totals for fees and interest charged for this month.
G.	Payment Information—shows total amount you now owe, called your New Balance.
H.	• Minimum Payment—each month, you must pay at least this portion of what you owe. You may pay more, up to the total amount. If you want to have good credit, and reduce the amount of interest you'll pay, it's a good idea to pay more than the minimum payment each month. • Your statement shows how long it will take to pay off your balance if you make only the minimum payment due each month. • Contact information for credit counseling services is provided.
I.	• Due Date—the date the credit card company must receive your payment by. Or, they will begin charging you interest on the amount you owe and a late fee, and they could also increase your interest rate. • Your statement will also include a Late Payment Warning, explaining what may happen if you don't pay on time.
J.	Rate Information—shows how interest and fees are calculated year-to-date.
K.	Payment Coupon—repeats your current payment information. Include this coupon with your check if you pay by mail, and be sure to write in your new address if you've moved.

Tip!

Remember: With a savings account you earn interest; when you borrow you pay interest. The interest rate a lender charges you depends on how good they believe your credit is—your creditworthiness.

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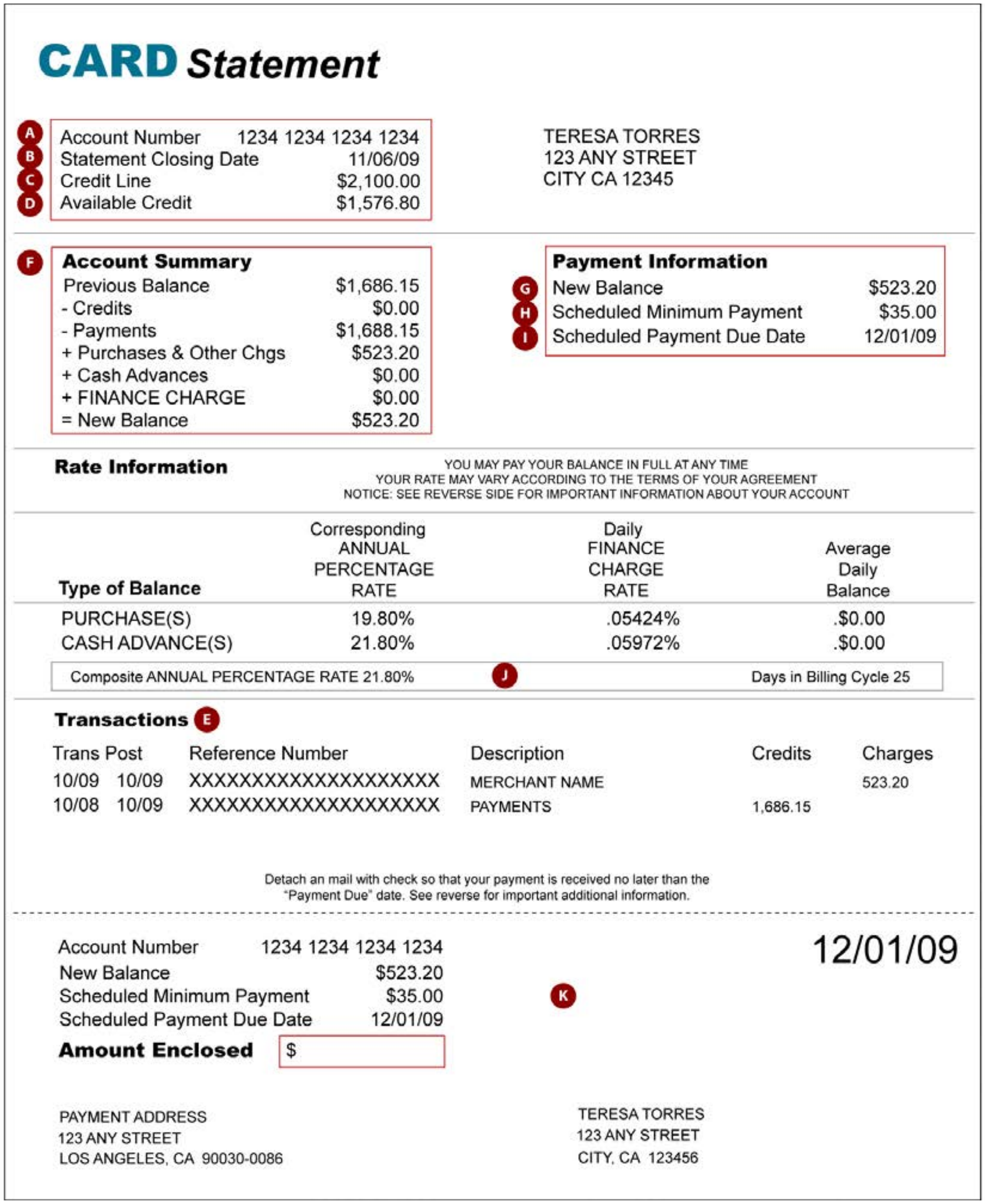
How to Read Your Credit Card Statement

Credit card statement formats vary, but take a look at this sample.



CARD ***Statement***

A	Account Number	1234 1234 1234 1234
B	Statement Closing Date	11/06/09
C	Credit Line	$2,100.00
D	Available Credit	$1,576.80

TERESA TORRES
123 ANY STREET
CITY CA 12345

F **Account Summary**

Previous Balance	$1,686.15
- Credits	$0.00
- Payments	$1,688.15
+ Purchases & Other Chgs	$523.20
+ Cash Advances	$0.00
+ FINANCE CHARGE	$0.00
= New Balance	$523.20

Payment Information

G	New Balance	$523.20
H	Scheduled Minimum Payment	$35.00
I	Scheduled Payment Due Date	12/01/09

Rate Information

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YOUR RATE MAY VARY ACCORDING TO THE TERMS OF YOUR AGREEMENT
NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION ABOUT YOUR ACCOUNT

Type of Balance	Corresponding ANNUAL PERCENTAGE RATE	Daily FINANCE CHARGE RATE	Average Daily Balance
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Composite ANNUAL PERCENTAGE RATE 21.80% J Days in Billing Cycle 25

Transactions E

Trans	Post	Reference Number	Description	Credits	Charges
10/09	10/09	XXXXXXXXXXXXXXXXXXX	MERCHANT NAME		523.20
10/08	10/09	XXXXXXXXXXXXXXXXXXX	PAYMENTS	1,686.15	

Detach an mail with check so that your payment is received no later than the "Payment Due" date. See reverse for important additional information.

Account Number	1234 1234 1234 1234
New Balance	$523.20
Scheduled Minimum Payment	$35.00
Scheduled Payment Due Date	12/01/09
Amount Enclosed	$

K

12/01/09

PAYMENT ADDRESS
123 ANY STREET
LOS ANGELES, CA 90030-0086

TERESA TORRES
123 ANY STREET
CITY, CA 123456

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How to Read Your Credit Card Statement (continued)

Reading Your Credit Statement

A.	Credit card account number—keep it a secret, or others can use your account.
B.	Closing date of the statement—the date the credit card company created this statement.
C.	Amount of your credit line—your spending limit..
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G.	Payment Information—shows total amount you now owe, called your New Balance.
H.	• Minimum Payment—each month, you must pay at least this portion of what you owe. You may pay more, up to the total amount. If you want to have good credit, and reduce the amount of interest you'll pay, it's a good idea to pay more than the minimum payment each month. • Your statement shows how long it will take to pay off your balance if you make only the minimum payment due each month. • Contact information for credit counseling services is provided.
I.	• Due Date—the date the credit card company must receive your payment by. Or, they will begin charging you interest on the amount you owe and a late fee, and they could also increase your interest rate. • Your statement will also include a Late Payment Warning, explaining what may happen if you don't pay on time.
J.	Rate Information—shows how interest and fees are calculated year-to-date.
K.	Payment Coupon—repeats your current payment information. Include this coupon with your check if you pay by mail, and be sure to write in your new address if you've moved.

Tip!

Remember: With a savings account you earn interest; when you borrow you pay interest. The interest rate a lender charges you depends on how good they believe your credit is—your creditworthiness.

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Credit Card Statement Matching Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Direct participants to match the correct credit card statement term with its definition.

Instructions:

Have your participants place the letter of the credit card statement term next to the correct definition.

Credit Card Statement Matching Activity

Term
A. Payment information
B. Due date
C. Minimum payment
D. Account summary
E. Rate information
F. Transaction
G. Available credit
H. Credit line
I. Closing date
J. Credit card account number
K. Payment coupon
L. Rate information
M. APR

Match	Definition
E	Shows how interest and fees are calculated
K	Sent with your payment
J	Identifies your account numerically
B	When your credit card company must receive your payment to avoid any late fees
I	When the credit card company created this statement
D	Summarizes your transactions
L	Shows how interest and fees are calculated.
F	Shows a list of each charge
A	Shows total amount you now owe
C	Smallest amount you must pay each month
G	Amount of credit that you haven't bor-rowed yet
H	Your spending limit
M	The annual percentage rate you will be charged for the money your borrow when you use your card

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Credit Card Statement Matching Activity

Instructions:

Place the letter of the credit card statement term next to the correct definition.

Credit Card Statement Matching Activity

Term
A. Payment information
B. Due date
C. Minimum payment
D. Account summary
E. Rate information
F. Transaction
G. Available credit
H. Credit line
I. Closing date
J. Credit card account number
K. Payment coupon
L. Rate information
M. APR

Match	Definition
	Shows how interest and fees are calculated
	Sent with your payment
	Identifies your account numerically
	When your credit card company must receive your payment to avoid any late fees
	When the credit card company created this statement
	Summarizes your transactions
	Shows how interest and fees are calculated.
	Shows a list of each charge
	Shows total amount you now owe
	Smallest amount you must pay each month
	Amount of credit that you haven't bor-rowed yet
	Your spending limit
	The annual percentage rate you will be charged for the money your borrow when you use your card

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Managing Credit Card Finance Charges

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Credit Card Safety (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Then, lead a discussion about credit card safety.

Credit Card Safety Tips

Tip	Description
Deal with loss or theft!	• Report lost or stolen credit cards immediately to the issuing card company. If your ATM card or debit card is lost or stolen, contact your bank immediately. • To help you respond quickly in case your cards or ID are lost or stolen, make a chart that lists the credit card name, the financial institution, the account number, and the 24-hour customer service number. Be sure to store the list in a safe place. Never carry it with you.
Care for your cards	• Sign your card on the signature panel as soon as you receive it. • Keep cards away from magnets (they can erase information on the cards' magnetic strip)
Treat cards like cash	• Protect your cards as if they were cash—never let them out of your possession or control. • Don't leave your credit cards in your car's glove compartment. A high percentage of credit card thefts are from car glove compartments. • Don't lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don't let your credit cards be used by others, even family and friends. • Always be sure to take your ATM card out of the ATM.
When shopping	• When shopping, be sure that you get your card back after every purchase. • Always make sure that sales vouchers are for the correct purchase amount before you sign them. • Keep copies of your sales vouchers and ATM, debit or credit card receipts in a secure place. • Don't volunteer any personal information when you use your credit card, other than by displaying personal identification as requested by a merchant. • Don't put your driver's license number on your checks. • Review your statements regularly to ensure there are no suspicious charges. • Contact your bank immediately if you see a charge you don't recognize.
Monitor your accounts	• To avoid fraud, monitor your accounts online—including when you're away traveling. • Some financial institutions offer tools and services to help you monitor and manage your accounts, such as email alerts, automatic payments, and online reports that track your spending into budget categories.

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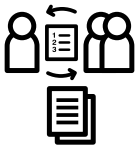

Credit Card Safety

Follow these tips and techniques to keep your credit cards safe.

Credit Card Safety Tips

Tip	Description
Deal with loss or theft!	• Report lost or stolen credit cards immediately to the issuing card company. If your ATM card or debit card is lost or stolen, contact your bank immediately. • To help you respond quickly in case your cards or ID are lost or stolen, make a chart that lists the credit card name, the financial institution, the account number, and the 24-hour customer service number. Be sure to store the list in a safe place. Never carry it with you.
Care for your cards	• Sign your card on the signature panel as soon as you receive it. • Keep cards away from magnets (they can erase information on the cards' magnetic strip)
Treat cards like cash	• Protect your cards as if they were cash—never let them out of your possession or control. • Don't leave your credit cards in your car's glove compartment. A high percentage of credit card thefts are from car glove compartments. • Don't lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don't let your credit cards be used by others, even family and friends. • Always be sure to take your ATM card out of the ATM.
When shopping	• When shopping, be sure that you get your card back after every purchase. • Always make sure that sales vouchers are for the correct purchase amount before you sign them. • Keep copies of your sales vouchers and ATM, debit or credit card receipts in a secure place. • Don't volunteer any personal information when you use your credit card, other than by displaying personal identification as requested by a merchant. • Don't put your driver's license number on your checks. • Review your statements regularly to ensure there are no suspicious charges. • Contact your bank immediately if you see a charge you don't recognize.
Monitor your accounts	• To avoid fraud, monitor your accounts online—including when you're away traveling. • Some financial institutions offer tools and services to help you monitor and manage your accounts, such as email alerts, automatic payments, and online reports that track your spending into budget categories.

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Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Card Safety Tips

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Credit Cards lesson:

- Lots of financial institutions offer credit cards and some will charge you an annual fee to have one.
- When you apply for a card, they'll check your credit history and decide whether or not to give you a card.
- They'll also decide how much you're allowed to borrow, or "charge." This is called your credit limit.
- If the credit card company issues you a card, they'll let you know what your credit limit will be.
- Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.
- Be sure to shop around for the best credit card offer that fits your need and with the lowest APR.

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Topic 4 — Using Credit To Your Advantage

Lesson 6: Loans

This lesson will teach participants the essentials of loans and the lending process. They will learn how to shop for a responsible lender and what to do if their loan is not approved and how to manage it if it is. Finally they'll learn what information they need before they sign a loan agreement.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain the essentials of loans and the lending process
- Shop for a responsible lender
- Determine their next course of action if their loan isn't approved
- Manage their loan when it is approved
- List information they'll need before they sign a loan agreement

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- If you currently have any loans, how you describe the process of finding a lender, getting approved and signing the agreement?
- If you've ever been rejected for a loan, how did that make you feel? What steps, if any, did you take to rectify the situation?
- What types of loans do you think you'll need in the future? Do you think you'll be approved right away, or are there things you need to work on?

The Basics

- Loans are a very common way to borrow money.
- Millions of people apply for loans to pay for high-priced items—cars, home improvements, education.
- With a loan, you receive all the money the lender has approved for you in one lump sum.
- To pay the lender back, you make equal monthly payments called installments, for a fixed period of time, until it is paid off.
- The lender will charge you extra money over the amount you borrow. This is called interest. Some lenders may charge you a fee for the loan.
- How much interest you'll pay for your loan depends on three things—how much you're borrowing (principal), the interest rate, and the term of the long (how long it will take you to pay it back).

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Compare the Terms Discussion (Instructor Copy)

Instructor note:

Photocopy the diagram on the next page. Then lead a discussion comparing the two types of loans. Mention the key points below the diagram.

Term Comparison

Based on 10% Annual Percentage Rate (APR)

Loan amount	**$10,000**	**$10,000**
Term	**25 months**	**49 months**
Monthly payment	**$450**	**$250**
Total cost of loan	**$11,106**	**$12,215**
Total interest paid	**$1,106**	**$2,215**

*Please note: the final month's loan payment may vary from the regular monthly payment.

Key Points:

- Note how the term affects the monthly payment and the total cost of the loan.
- The cost of a loan will depend on two things 1) how long you take to pay it back (the term) and 2) the interest rate you're being charged.
- With a longer term loan, the monthly payments are lower, but the total cost is higher because of interest.
- By repaying in 49 months vs. 25 months, this borrower would end up paying more than $1,100 more in interest!
- The final month payment may vary to match remaining balance.

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Compare the Terms Discussion

Instructions:

Follow along as your instructor discusses the differences between the two loans shown in the table. Use the space under the diagram to take notes or write questions.

Term Comparison

Based on 10% Annual Percentage Rate (APR)

Loan amount	**$10,000**	**$10,000**
Term	**25 months**	**49 months**
Monthly payment	**$450**	**$250**
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- The final month payment may vary to match remaining balance.

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Compare the Interest Rates (Instructor Copy)

Instructor note:

Photocopy the diagram on the next page. Then lead a discussion comparing the interest rates of the two loans. Mention the key points below the diagram.

Interest Rate Comparison

Loan amount	**$10,000**	**$10,000**
Term	**5 years**	**5 years**
Interest rate	**5%**	**15%**
Monthly payment	**$188.77**	**$237.90**
Total interest over 5 years	**$1,236.92**	**$4,271.08**

*Please note: the final month's loan payment may vary from the regular monthly payment.

Key Points:

- By getting a 5% interest rate vs. 15%, this borrower would save over $3,000 interest over five years!
- See how the interest rate affects the total amount of interest paid?
- As for the interest rate, it's important to shop around.
- Some lenders may give you a lower rate than others.
- In general, the shorter the term, the lower the interest rate.

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Compare the Interest Rates

Instructions:

Follow along as your instructor discusses the differences between the interest rates shown in the table. Use the space under the diagram to take notes or write questions.

Interest Rate Comparison

Loan amount	**$10,000**	**$10,000**
Term	**5 years**	**5 years**
Interest rate	**5%**	**15%**
Monthly payment	**$188.77**	**$237.90**
Total interest over 5 years	**$1,236.92**	**$4,271.08**

*Please note: the final month's loan payment may vary from the regular monthly payment.

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Topic 4 — Using Credit To Your Advantage

Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Loan Comparison Worksheet

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The Loan Process Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Explain to your participants that you will be leading a discussion or discussion about using credit cards responsibly. Ask them to follow along with their activity handout and write in the correct word or phrase in the blanks

Instructions:
Have your participants fill in the blanks as they listen to the discussion.

Key points:
- If you're planning to apply for a loan, remember to shop for your lender—and your loan. Interview lenders.
- Ask them questions about the choices they offer and what these choices will cost you.

The Loan Process

Step	Explanation
Comparison shop	• Take some time to comparison shop for your loan. When you compare loans, it can be hard to see which one will cost you the least. • To make it easier, lenders are required to tell you a loan's **annual percentage rate**, or APR. • The APR is a number that combines the **interest rate**, the term, and the fees to show you the total cost of the loan. The lower the APR, the **lower** the total cost. • Remember, the loan with the smallest monthly payment may not have the lowest **cost** overall.
Discuss the costs and options	• Discuss the costs and the options with your lender. • Carefully study the **monthly payment** and the APR. • Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.
Understand before you sign	• Before you sign any loan agreement, be sure to **read it,** including the fine print. • Make sure you understand the terms and the costs.
Unsure? Don't sign!	• It's very important to be **comfortable** with your lender and make sure you fully understand everything about your loan before you sign. • If you're unsure, **don't sign**—and seek advice.
How long before they decide?	• It often takes a few days for a decision to be made about your loan application. • However, a bank legally has up to **30** days to respond.
You have legal rights	• If you decide to apply for a loan, remember that you have legal rights as a borrower. • The U.S. government passed the Equal Credit Opportunity Act to promote the availability of credit to all applicants who qualify for credit **without regard** to race, color, religion, national origin, gender, marital status, or age.

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Topic 4 — Using Credit To Your Advantage

The Loan Process Activity

Instructions:
As you listen to the instructor lead this discussion, fill in the blanks.

The Loan Process

Step	Explanation
Comparison shop	• Take some time to comparison shop for your loan. When you compare loans, it can be hard to see which one will cost you the least. • To make it easier, lenders are required to tell you a loan's ______________ ____________________, or APR. • The APR is a number that combines the __________________________, the term, and the fees to show you the total cost of the loan. The lower the APR, the __________________________ the total cost. • Remember, the loan with the smallest monthly payment may not have the lowest ____________________ overall.
Discuss the costs and options	• Discuss the costs and the options with your lender. • Carefully study the _______________________________ and the APR. • Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.
Understand before you sign	• Before you sign any loan agreement, be sure to ______________________ including the fine print. • Make sure you understand the terms and the costs.
Unsure? Don't sign!	• It's very important to be _____________________ with your lender and make sure you fully understand everything about your loan before you sign. • If you're unsure, ____________________________ —and seek advice.
How long before they decide?	• It often takes a few days for a decision to be made about your loan application. • However, a bank legally has up to ______________ days to respond.
You have legal rights	• If you decide to apply for a loan, remember that you have legal rights as a borrower. • The U.S. government passed the Equal Credit Opportunity Act to promote the availability of credit to all applicants who qualify for credit __________ _______________ to race, color, religion, national origin, gender, marital status, or age.

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Choose a Lender the Smart Way

Instructor note:
Lead a discussion using these key discussion points.

Choosing a lender may be intimidating, but the risks can be mitigated with your planning and selection process.

Always be careful when selecting a lender.

- A responsible lender can help you gain financial flexibility and achieve your goals.
- Unfortunately, there are a few lenders you should watch out for.

Predatory lending does exist.

- Anyone can be a target.
- Know the warning signs to look for can help you to avoid being a victim.

How do you find a responsible lender?

- Look for an established company with a good reputation.
- Ask a money-savvy friend, family member, or work associate for a referral.
- Or, ask your local banker or employer.

What are the good signs of a responsible lender?

- Good lenders will put everything in writing, give you time to shop and compare costs and rates before you sign a loan agreement.
- Good lenders typically work for an established company with a good reputation.

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Potential Warning Signs to Watch For (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page and give it to participants as a take-away sheet. Then discuss each warning sign of predatory lending.

Warning Signs of Predatory Lending

Warning Sign	Description
Encouragement to include false information	• If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.
Incomplete loan documents.	• Never sign a loan document with missing information. • Don't work with a lender who asks you to sign a document that is not completely or accurately filled in.
"Bait and switch" sales tactics.	• When a lender makes promises in order to make the sale, then backs out on the promises after the sale. • To avoid this, it's critical to carefully read and understand the agreement *before* you sign. • Question anything in the document that is not consistent with what you were told. • Don't sign the agreement if anything in it is unclear, incomplete, or not as promised.
Equity stripping or skimming, also known as foreclosure rescue.	• Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property. • For example, they might bury a document in a stack of loan papers that signs over ownership of the home to the loan company, or even forge the homeowners' signatures.
Loan flipping	• Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. • This will cost you money and postpones the loan principal from being reduced.
Bi-weekly loan payments	• Some predatory lenders may charge you up to $1,000 for the "privilege" of paying your loan biweekly. • Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.
Required (or requested) deed signing	• If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.

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Potential Warning Signs to Watch For (Instructor Copy)

Warning Signs of Predatory Lending (continued)

Warning Sign	Description
Advertisements promising "No Credit? No Problem!"	• These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. • To receive the approved loan, they are told to pay money up-front for fees or services—and instead, end up losing their money—and in some cases, their homes.
Promises to refinance the loan to a better rate in the future.	• No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now.

Tip!

Balloon payments are large, lump-sum payments due at the end of the term. Before you agree to a balloon loan, make sure you fully understand and are prepared to pay the loan balance when it's due.

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Potential Warning Signs to Watch For

Warning Signs of Predatory Lending

Warning Sign	Description
Encouragement to include false information	• If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.
Incomplete loan documents.	• Never sign a loan document with missing information. • Don't work with a lender who asks you to sign a document that is not completely or accurately filled in.
"Bait and switch" sales tactics.	• When a lender makes promises in order to make the sale, then backs out on the promises after the sale. • To avoid this, it's critical to carefully read and understand the agreement *before* you sign. • Question anything in the document that is not consistent with what you were told. • Don't sign the agreement if anything in it is unclear, incomplete, or not as promised.
Equity stripping or skimming, also known as foreclosure rescue.	• Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property. • For example, they might bury a document in a stack of loan papers that signs over ownership of the home to the loan company, or even forge the homeowners' signatures.
Loan flipping	• Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. • This will cost you money and postpones the loan principal from being reduced.
Bi-weekly loan payments	• Some predatory lenders may charge you up to $1,000 for the "privilege" of paying your loan biweekly. • Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.
Required (or requested) deed signing	• If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.

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Potential Warning Signs to Watch For

Warning Signs of Predatory Lending (continued)

Warning Sign	Description
Advertisements promising "No Credit? No Problem!"	• These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. • To receive the approved loan, they are told to pay money up-front for fees or services—and instead, end up losing their money—and in some cases, their homes.
Promises to refinance the loan to a better rate in the future.	• No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now.

Tip!

Balloon payments are large, lump-sum payments due at the end of the term. Before you agree to a balloon loan, make sure you fully understand and are prepared to pay the loan balance when it's due.

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You're at Risk Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Instruct your participants to place a check mark next to the groups of people who may be at higher risk of predatory lending. Then discuss what other types of people may be at risk.

Anyone can be a victim of predatory lending, but for a variety of reasons some people are at especially high risk.

Instructions:
Have your participants place a check mark next to the five different groups of people who are at higher risk of predatory lending.

Groups at Risk of Predatory Lending

People	At higher risk?
Elderly homeowners	✓
Middle-aged apartment dwellers	
Minorities and immigrants	✓
People who have multiple loans	
People with limited English skills	✓
People with limited knowledge about finance	✓
People with substantial equity in their homes and low or fixed incomes	✓
Recent college graduates	
Single parents with several children	
Students	

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You're at Risk Activity

Anyone can be a victim of predatory lending, but for a variety of reasons some people are at especially high risk.

Instructions:

Place a check mark next to the five different groups of people who are at higher risk of predatory lending.

Groups at Risk of Predatory Lending

People	At higher risk?
Elderly homeowners	
Middle-aged apartment dwellers	
Minorities and immigrants	
People who have multiple loans	
People with limited English skills	
People with limited knowledge about finance	
People with substantial equity in their homes and low or fixed incomes	
Recent college graduates	
Single parents with several children	
Students	

Can you think of any other people who may at an especially high risk for predatory lending? Write them down here.

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Scenario Activity—Choosing a Lender (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. After participants finish the activity, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Mariana's story. Based on her situation, have them select the best possible option. Then, for each option, they will write a few sentences about why the option was right or wrong for Mariana's situation.

Mariana's Story

Mariana's roof leaks, so she needs to act fast. A local roofer has recommended a lender. He's offering the amount she needs and a very quick loan process. In fact, all she needs to do is sign his standard agreement; he'll fill in the details later. The monthly payment is higher than she hoped, but he says this can be adjusted after 90 days. Because all the roofing companies are so busy, he urges her to sign the agreement today.

1. **Sign the agreement today and avoid water damage. Then, switch later for a better deal.**
   Consequences: The lender didn't write in the things he promised me. Mariana realizes now that he was just rushing her and scaring her into signing fast. Thank goodness her state has a law that allows her to back out within three days. She should have checked before she signed.

   Feedback: Next time, tell Mariana to shop around and get all of her questions answered before she signs anything. Remember, to buy time, she can always tell the lender she has to check with someone else before making a decision.

2. **Sign the papers only if the lender will give her the low monthly payment right away.**
   Consequences: Mariana thought that if she got the low monthly payment everything would be fine. But she found out the hard way that a low payment doesn't guarantee a good deal. When the lender filled in the agreement, he added lots of extra charges they hadn't discussed. She should have insisted on getting all the terms in writing—and made sure I understood and agree—before signing.

   Feedback: Not quite. The promise of a low monthly payment doesn't make this deal a safe one. Mariana needs everything in writing, and shouldn't sign anything she doesn't like or understand, even if they cancel the loan offer.

3. **Don't sign! Shop and compare more loan offers.**
   Consequences: Mariana knew something was wrong when he rushed her to sign a blank document. Even though she was in a hurry she knew she should ask a lot of questions, shop around and compare. She ended up finding an established lender with a good reputation and satisfied customers They gave her everything in writing so she could check the numbers.

   Feedback: Congratulations! You did a good job spotting some of the warning signs of a predatory lender: a blank agreement, sales pressure, and no opportunity to shop and compare. You definitely did Mariana a huge favor by saving her from a very dangerous deal!

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Scenario Activity—Choosing a Lender

Instructions:

Read Mariana's story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Mariana's situation.

Mariana's Story

Mariana's roof leaks, so she needs to act fast. A local roofer has recommended a lender. He's offering the amount she needs and a very quick loan process. In fact, all she needs to do is sign his standard agreement; he'll fill in the details later. The monthly payment is higher than she hoped, but he says this can be adjusted after 90 days. Because all the roofing companies are so busy, he urges her to sign the agreement today.

What should Mariana do?

1. **Sign the agreement today and avoid water damage. She can switch later if she finds a better deal.**
   Should she choose this option? Why or why not?

2. **Sign the papers only if the lender will give her the low monthly payment right away.**
   Should she choose this option? Why or why not?

3. **Don't sign! Shop and compare more loan offers.**
   Should she choose this option? Why or why not?

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If the Lender Says No Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page and have participants complete the activity. When they finish, discuss each reason a lender says no or the steps they can take to have the lender reconsider.

Instructions:
Have participants place an "X" next to the items that may be a reason a lender said no. Have them place an "O" next to the steps they can take to have a lender reconsider.

Reasons Lenders May Say "No" and Steps to Take if They Do

Reason or Step to Take?	X or O
Irregular employment	X
Pay off some of your existing debt.	O
Not enough income to repay the loan	X
Offer to make a larger down payment if possible.	O
Poor credit history (slow repayment of other loans)	X
No prior credit? Apply for a credit card with a low limit, make small purchases and pay on time.	O
Lack of credit history	X
Find out if all sources of income were considered in evaluating your application.	O
Find a reliable co-signer who is acceptable to the lender.	O
Too short a time at residence	X
Insufficient down payment	X
No credit history? Find out if factors such as payment of rent or utility bills could be considered.	O
Find out if the credit bureau made any are errors in the information they provided the lender.	O

Tip!

If a lender turns you down, don't take it personally; lenders can't grant or deny credit based on personality. Also, the Equal Credit Opportunity Act promotes credit for all applicants who qualify.

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If the Lender Says No Activity

Instructions:

The list below contains 1) reasons a loan may not be granted and 2) steps you can take to have the lender reconsider.

Place an "X" next to the items that may be a reason a lender said no. Place an "O" next to the steps you can take to have a lender reconsider.

Reasons Lenders May Say "No" and Steps to Take if They Do

Reason or Step to Take?	X or O
Irregular employment	
Pay off some of your existing debt.	
Not enough income to repay the loan	
Offer to make a larger down payment if possible.	
Poor credit history (slow repayment of other loans)	
No prior credit? Apply for a credit card with a low limit, make small purchases and pay on time.	
Lack of credit history	
Find out if all sources of income were considered in evaluating your application.	
Find a reliable co-signer who is acceptable to the lender.	
Too short a time at residence	
Insufficient down payment	
No credit history? Find out if factors such as payment of rent or utility bills could be considered.	
Find out if the credit bureau made any are errors in the information they provided the lender.	

Tip!

If a lender turns you down, don't take it personally; lenders can't grant or deny credit based on personality. Also, the Equal Credit Opportunity Act promotes credit for all applicants who qualify.

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Topic 4 — Using Credit To Your Advantage

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Managing Your Credit

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Scenario Activity—Managing a Loan (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have participants read Kelly's story. Based on her situation, they should select the best possible option. Then, for each option, they will write a few sentences about why the option was right or wrong for Kelly's situation.

Kelly's Story
Kelly bought an older home two years ago. She recently got a loan from her bank for a major purchase: adding an air conditioning system. Now she's considering remodeling the attic to create an extra bedroom. She'll need another loan to do it.

1. **Before taking on any more debt, she should make sure she can handle her new expenses.**
   Consequences: Kelly is so glad she didn't borrow the money. When summer weather hit, she started to use the air conditioning—and her utility bills went higher than she thought. If she had borrowed more money, it may have been tough to afford my house payments.

   Feedback: Great decision! Kelly was smart to first make sure she could handle her new monthly expenses. She might also consider contacting her utility company about a budget billing plan. This might allow her to pay the same amount each month, making it easier to plan her monthly budget.

2. **Apply for the new loan and see if she gets approved. The remodel will add to her home's value.**
   Consequences: Between my house payments, loan payments, and higher utility bills with the air conditioning, borrowing more money was probably the last thing Kelly should've done! If she doesn't pay her bills on time, she'll have to pay late fees on top of everything. Her credit rating might go down."

   Feedback: This is poor advice. Before adding more debt, she needed to be sure she could handle her new monthly expenses. If she can't make her loan payments, Kelly should call her lender immediately to discuss the situation and what to do next.

3. **Determine the new loan payment amount. Only proceed if it fits her budget.**
   Consequences: Kelly thought she could handle the second loan, but she was wrong. She didn't figure in her higher utility bills because of the air conditioning. Now she's struggling to pay bills on time and cutting back on things I don't want to.

   Feedback: Kelly was smart to analyze her budget and how much she could afford. But she should have avoided more debt until she was sure she could handle her new expenses. If she finds she can't make her loan payments, Kelly should call her lender immediately to discuss the situation and what to do next. Remember: If you're having trouble making loan payments, contact your lender immediately to discuss your situation and how you can work with them to repay.

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Scenario Activity—Managing a Loan

Instructions:

Read Kelly's story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Kelly's situation.

Kelly's Story

Kelly bought an older home two years ago. She recently got a loan from her bank for a major purchase: adding an air conditioning system. Now she's considering remodeling the attic to create an extra bedroom. She'll need another loan to do it.

What should Kelly do?

1. **Before taking on any more debt, she should make sure she can handle her new expenses.**
   Should she choose this option? Why or why not?

2. **Apply for the new loan and see if she gets approved. The remodel will add to her home's value.**
   Should she choose this option? Why or why not?

3. **Determine the new loan payment amount. Only proceed if it fits her budget.**
   Should she choose this option? Why or why not?

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Loans lesson:

- Loans are a very common way to borrow money.
- Millions of people apply for loans to pay for high-priced items—cars, home improvements, education.
- With a loan, you receive all the money the lender has approved for you in one lump sum.
- To pay the lender back, you make equal monthly payments called installments, for a fixed period of time, until it is paid off.
- The lender will charge you extra money over the amount you borrow. This is called interest. Some lenders may charge you a fee for the loan.
- How much interest you'll pay for your loan depends on three things—how much you're borrowing (principal), the interest rate, and the term of the long (how long it will take you to pay it back).

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Lesson 7: Dealing with Debt

In this lesson, your participants will learn to recognize the signs of having too much debt and learn how to deal with debt problems. They will learn valuable advice for working with creditors. Finally, they will learn about bankruptcy, its impact, and steps to take before considering filing for bankruptcy.

Learning Objectives

After completing this lesson, participants will be able to:

- Recognize the warning signs of too much debt
- Explain how to deal with debt problems
- Use valuable tips for working with creditors
- Describe what bankruptcy is
- Understand the impact bankruptcy can have on their financial picture
- Know what steps they can take to avoid bankruptcy

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What are some signs of having too much debt?
- What steps can you take to pay down your debt?
- Why would someone declare bankruptcy?
- What are some of the benefits of declaring bankruptcy? The disadvantages?

The Basics

Borrowing money gives you financial flexibility but if you're not carefully you may buy more things and spend more than you would otherwise.

- The key to financial freedom is living within your means. That means not borrowing more than you can comfortably afford to repay.
- If the amount you owe others is at an uncomfortable level, it is important to consider how to begin eliminating some of your debt.
- Owing people more than you can repay is painful. And it can negatively affect your money situation for years.

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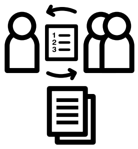

Use Credit Wisely

Instructor note:

Photocopy the next page and give to your participants as a takeaway sheet. Then discuss each tip with them.

Tips for using credit wisely

Tip	Description
Shop for credit	• Shop around for credit cards with low interest rates and low or no annual fee. • Look closely at credit card offers that use the word "free." • Avoid loans and credit cards with high interest rates. • Don't take on monthly loan payments you can't afford.
Plan your shopping	• Don't use your credit card to buy things you really can't afford. • Let your budget be your guide. • Resist impulse buying!
Set limits	• Limit your credit card use and don't have too many credit cards. Stay within your credit limit. • Avoid having monthly credit card payments that exceed 10% of your monthly net income. • Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income.
Keep track	• Track your credit card charges throughout the month. Save your receipts and check them against your statement. • If you have Internet access to your credit card balance, track the charges made on your credit card online, before you even receive the bill in the mail.
Pay on time	• Pay on time and pay off credit card balances monthly if you can. • If you can't pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time.
Get help early	• If you're getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt.

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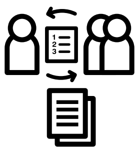

Use Credit Wisely

Tips for using credit wisely

Tip	Description
Shop for credit	• Shop around for credit cards with low interest rates and low or no annual fee. • Look closely at credit card offers that use the word "free." • Avoid loans and credit cards with high interest rates. • Don't take on monthly loan payments you can't afford.
Plan your shopping	• Don't use your credit card to buy things you really can't afford. • Let your budget be your guide. • Resist impulse buying!
Set limits	• Limit your credit card use and don't have too many credit cards. Stay within your credit limit. • Avoid having monthly credit card payments that exceed 10% of your monthly net income. • Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income.
Keep track	• Track your credit card charges throughout the month. Save your receipts and check them against your statement. • If you have Internet access to your credit card balance, track the charges made on your credit card online, before you even receive the bill in the mail.
Pay on time	• Pay on time and pay off credit card balances monthly if you can. • If you can't pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time.
Get help early	• If you're getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt.

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Warning Signs of Too Much Debt Discussion

Instructor note:

Photocopy the activity handout on the following page. Have your class brainstorm the warning signs of having too much debt. Then, pass out the activity handout and lead a discussion based on these key points.

Warning Signs of Too Much Debt

Warning Sign	Description
Paying late	• You're always late in paying your bills. • It takes you 60 or even 90 days to cover bills you once could pay monthly. • You juggle payments to keep creditors satisfied.
Bouncing checks	• Your checking account is frequently overdrawn. • You can make only minimum payments on your revolving charge accounts.
Racing to deposit	• You race to deposit your paycheck because you've already written checks that require the money in your paycheck. • A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills.
Maxing out credit	• Your credit accounts are usually at their maximum limits. • You apply for more credit cards because you have reached the limit on the ones you have. • You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage). • Your loan or credit card balances stay the same or go up each month.
Paying forever	• You're still paying off purchases you made a year ago. • You put off medical and dental visits because you cannot pay the bill.
Ignoring savings account	• You don't have a savings account, or have stopped making deposits to it.
Fighting with family	• You are always worried about your debts. • You argue with your spouse or partner over bills.
Buying on impulse	• You sometimes wonder why you made certain purchases. • You feel free to spend more after clearing up a debt.
Using credit for everyday expenses	• You use savings or credit cards to cover everyday living expenses, such as groceries.
Ignoring the phone	• You ignore the telephone or mail to avoid dealing with creditors.

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Warning Signs of Too Much Debt Discussion

These are signs that you may have too much debt.

Warning Signs of Too Much Debt

Warning Sign	Description
Paying late	• You're always late in paying your bills. • It takes you 60 or even 90 days to cover bills you once could pay monthly. • You juggle payments to keep creditors satisfied.
Bouncing checks	• Your checking account is frequently overdrawn. • You can make only minimum payments on your revolving charge accounts.
Racing to deposit	• You race to deposit your paycheck because you've already written checks that require the money in your paycheck. • A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills.
Maxing out credit	• Your credit accounts are usually at their maximum limits. • You apply for more credit cards because you have reached the limit on the ones you have. • You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage). • Your loan or credit card balances stay the same or go up each month.
Paying forever	• You're still paying off purchases you made a year ago. • You put off medical and dental visits because you cannot pay the bill.
Ignoring savings account	• You don't have a savings account, or have stopped making deposits to it.
Fighting with family	• You are always worried about your debts. • You argue with your spouse or partner over bills.
Buying on impulse	• You sometimes wonder why you made certain purchases. • You feel free to spend more after clearing up a debt.
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Ignoring the phone	• You ignore the telephone or mail to avoid dealing with creditors.

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Tips for Dealing with Debt (Instructor Copy)

Instructor note:

Consider inviting a non-profit credit counselor to come and talk with class about steps they can take to lower their debts and better manage their finances. Photocopy the activity handout on the next page. Instruct them to fill in the blanks as they listen to the discussion.

Instructions:

Have your participants fill in the blanks as they listen to the discussion.

Tips for Dealing with Debt

Tip	Description
Ask for help	• Many nonprofit debt counseling centers across the country will advise you for a **low fee** or at no charge. Some lenders will recommend debt counselors to you. • Contact a customer service representative at your lender for referrals. • Or, contact the **Consumer Credit Counseling Service** in your area. They can often help you work out a repayment plan with your creditors.
Make a written plan	• Make a list of all your **bills** and their amounts. • Figure out when each bill can be paid.
Contact your creditors	• Contact your credit card company or other creditors to try to get your rate lowered or a different **payment plan** worked out.
Pay more than the minimum	• Make more than the **minimum monthly** payment on credit cards. • You will save lots of money on interest and reduce or eliminate your debt much sooner.
Don't take on any new debt	• Stop using your **credit cards**. • Say no to offers for credit cards, debt consolidation, and second mortgages. • **Cash advances** can be trouble! Only get a cash advance when it is absolutely necessary. Higher interest rates (than you're paying for card purchases) are usually charged, and the rates are put into effect immediately, without a thirty-day grace period. • Most banks also charge a **service fee** based on how much cash you're withdrawing. The same applies to personalized "checks" some credit card companies may send you.
Minimize rates and fees	• Be aware of credit card rates and fees. Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card. • Transfer balances to cards with **lower interest rates**. Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card. • Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card.
Don't give up	• Reducing your debt is challenging, but don't stop trying. It's one of the most **important** things you can do for a better financial future.

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Tips for Dealing with Debt

Instructions:

Fill in the blanks as you listen to the discussion.

Tips for Dealing with Debt

Tip	Description
Ask for help	• Many nonprofit debt counseling centers across the country will advise you for a ______________________ or at no charge. Some lenders will recommend debt counselors to you. • Contact a customer service representative at your lender for referrals. • Or, contact the ______________________________________ in your area. They can often help you work out a repayment plan with your creditors.
Make a written plan	• Make a list of all your ____________ and their amounts. • Figure out when each bill can be paid.
Contact your creditors	• Contact your credit card company or other creditors to try to get your rate lowered or a different _________________________ worked out.
Pay more than the minimum	• Make more than the __________________________ payment on credit cards. • You will save lots of money on interest and reduce or eliminate your debt much sooner.
Don't take on any new debt	• Stop using your __________________________. • Say no to offers for credit cards, debt consolidation, and second mortgages. • __________________________ can be trouble! Only get a cash advance when it is absolutely necessary. Higher interest rates (than you're paying for card purchases) are usually charged, and the rates are put into effect immediately, without a thirty-day grace period. • Most banks also charge a __________________________ based on how much cash you're withdrawing. The same applies to personalized "checks" some credit card companies may send you.
Minimize rates and fees	• Be aware of credit card rates and fees. Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card. • Transfer balances to cards with __________________________. Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card. • Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card.
Don't give up	• Reducing your debt is challenging, but don't stop trying. It's one of the most _______________________ things you can do for a better financial future.

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Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Debt Warning Signs and Tips

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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What is Bankruptcy?

Instructor note:

Discuss these key points about bankruptcy with you participants.

Bankruptcy is an option if you owe more than you can pay.

Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or "discharge" some of your debts and get a fresh start financially. In recent years, bankruptcy filings have reached an all-time high.

Bankruptcy is a serious matter that can have significant, long-lasting consequences. While it may be an option, it's not an easy way out.

Bankruptcy law is complicated and changing. It's essential to get professional counseling about your options.

Declaring bankruptcy may eliminate some of your debts or allow you to repay just a portion of each debt you owe, depending on your personal financial situation and the federal and state laws that apply,.

The court may allow you to keep some of your assets in the process.

Bankruptcy usually does not erase child support, alimony, fines, some taxes, and most student loan obligations. If you file, you will have legal and court costs.

Tip!

Before considering the option of bankruptcy:

- Talk to your creditors to see if they'll agree to extend your payment schedule, allow you to skip a payment, or some other reasonable repayment alternative.
- Discuss any possible solutions.
- Consult with a qualified credit or debt counselor.

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Bankruptcy Fill-in-the-Blank Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Instruct your participants to fill in the blanks in the sentences.

Instructions:

Have your participants fill in the blanks using the Word Bank.

Word bank:

repay his or her debts	Chapter 13
bankruptcy judge	Chapter 7
banker	Chapter 11
creditor	10 years
save enough money to pay debts	20 years
collateral	7 years
assets	credit score
waive possession of collateral	credit history
take possession of the collateral	interest rates

1. In a typical bankruptcy scenario, a debtor claims the inability to **repay his or her debts**.
2. A **bankruptcy judge** decides whether or not a debtor may declare bankruptcy.
3. If the debtor has defaulted on a loan secured by **collateral** such as a car or house), the creditor may still be able to **take possession of the collateral** even if the debt was discharged.
4. Two of the most common types of bankruptcy are **Chapter 13** and **Chapter 7**.
5. A bankruptcy will stay on your credit history for up to **10 years**.
6. Bankruptcy may lower your **credit score** causing lenders to charge you higher interest rates in the future.

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Bankruptcy Fill-in-the-Blank Activity

Instructions:

Fill in the correct word or phrase in each sentence using the Word bank.

Word bank:

repay his or her debts
bankruptcy judge
banker
creditor
save enough money to pay debts
collateral
assets
waive possession of collateral
take possession of the collateral

Chapter 13
Chapter 7
Chapter 11
10 years
20 years
7 years
credit score
credit history
interest rates

1. In a typical bankruptcy scenario, a debtor claims the inability to ______________________________ ______________________________.
2. A ______________________________ decides whether or not a debtor may declare bankruptcy.
3. If the debtor has defaulted on a loan secured by ______________________________ such as a car or house), the creditor may still be able to ______________________________ ______________________________ even if the debt was discharged.
4. Two of the most common types of bankruptcy are ______________________________ and ______________________________.
5. A bankruptcy will stay on your credit history for up to ______________________________.
6. Bankruptcy may lower your ______________________________ causing lenders to charge you higher interest rates in the future.

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Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Bankruptcy

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Dealing with Debt lesson:

- Borrowing money gives you financial flexibility but if you're not carefully you may buy more things and spend more than you would otherwise.
- The key to financial freedom is living within your means. That means not borrowing more than you can comfortably afford to repay.
- If the amount you owe others is at an uncomfortable level, it is important to consider how to begin eliminating some of your debt.
- Owing people more than you can repay is painful. And it can negatively affect your money situation for years.

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Topic Summary

Instructor note:
Summarize this topic by reviewing these key points with your participants.

Key points from the Using Credit to Your Advantage topic:

- **Having credit means having the ability to borrow money when you need it.**
- **Credit can give you the option of buying something today** and the flexibility to act on major purchases and life opportunities that you wouldn't be able to otherwise.
- **To reduce your cost of credit, shop for a credit card with a low annual fee and a low interest rate.**
- **Pay off your purchases as quickly as you can.**
- **If you apply for a loan, remember to look for a responsible lender**—an established company with a good reputation. Comparison shop and understand the agreement *before* you sign.
- **To keep track of where you stand with your credit, it's important to know your credit score and study your credit report.** These are tools that lenders, landlords, employers and others may use to determine how reliable and trustworthy you are
- **If you want to improve your credit rating, it's up to you to take action.** One of the most important ways is to always pay your bills on time.
- **The key to financial freedom is living within your means.** Your debt should be less than 20% of your yearly net income and your credit card payments should be less than 10% of your monthly net income.
- **One of the major risks of credit is borrowing more than you can afford to repay.**
- **To avoid debt problems, use your credit wisely.**
- **If you're in trouble with debt, take action early.** If you're having problems making monthly payments, call your lender immediately and work with them to determine your next steps.

Additional Activities

These activities are designed to extend the new concepts presented in the Protect Yourself Financially Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Obtain a copy of your credit report for free from **annualcreditreport.com**. Review it for accuracy. Contact your lender immediately if you find any errors.
2. Review your current debt level and make a plan to reduce your debt.
3. If you have high interest rate credit cards, call the company to see if they can give you a better deal. Meet with your banker or contact other credit cards companies to discuss possible reduced rates and fees.
4. Make a plan to pay-off high interest credit card(s).
5. Talk with your local consumer credit counseling agency to learn more about bankruptcy.

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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About Credit Scores

A credit score is a three-digit number that's a shorthand way to express the raw data in your credit report.

Your credit score can affect your ability to get loans, including car loans and home mortgages. Future jobs and insurance premiums can also be impacted by your credit score.

The three major credit bureaus in the United States, Experian, Equifax, and TransUnion, each calculate consumer credit scores. They provide the scores to consumers for small fee, usually ranging from five to seven dollars. Because their calculation models differ somewhat, a consumer's score may vary depending on which bureau does the calculation. One common method used to calculate credit scores is called FICO, which is an abbreviation for the company that developed the model: Fair Isaac and Company.

When you apply for credit, most lenders run, or "pull," your credit report, and may obtain a credit bureau score. Scoring systems were designed to help lenders speed up their loan review process and accurately determine their risk in lending to you. Scoring systems have been used since the 1950s by retail merchants, credit card companies, insurance companies, and banks for consumer lending. For the past several years, credit scoring has also been used by mortgage lenders.

Lenders use the results of the credit bureau score to determine specific reasons for approving or not approving your loan. The scoring process only considers the information in your credit file; it does not consider your income, savings, or the amount of your down payment for a mortgage. When your credit report prints in your lender's office, your credit bureau score is displayed. Your score can be anywhere between the high 300 and the mid-800's. Research studies by lenders have shown that borrowers with scores above 680 are more likely to make their payments on time. Borrowers with scores below 600 are more likely to be higher risk.

Points are awarded or deducted based on factors such as how long you have had credit cards, whether you make your payments on time, and if your credit balances are near maximum. Some of the things that affect your credit score are:

- Delinquencies (failure to make loan payments on time)
- Too many accounts opened within the last 12 months
- Short credit history
- Balances on revolving credit near the maximum limits
- Information about you in public records, such as tax liens, judgments, or bankruptcies
- No recent credit card balances
- Too many recent credit inquiries
- Too few revolving accounts
- Too many revolving accounts

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About Credit Scores (continued)

For a higher credit score:

- Pay your bills on time
- Keep credit balances low
- Apply for and open new accounts only as needed

Since length of credit history is a factor in your score, if you're closing credit card accounts, keep the card you've had the longest. If you have a credit card you're not using, check your account occasionally to make sure there is no fraudulent activity. Use your card at least once every six months or so. Otherwise, it will be listed on your report as inactive and won't be factored into your credit score.

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Your Credit Report

What is a credit report?

A credit report is a document issued by an independent credit reporting agency that contains information concerning an individual's credit history and current credit standing.

How to obtain your credit report

The three largest credit reporting agencies in the United States are Equifax, Experian, and TransUnion. A federal law called the Fair Credit Reporting Act allows you to receive one free copy of your credit report from each of these three companies once a year.

To obtain a free credit report

Online:
www.annualcreditreport.com

Toll-free call:
(877) 322-8228

Request by mail:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

If you need more than one credit report in a year from one or more of these credit bureaus, you may be charged. To request additional credit reports, contact one of the following agencies.

To request additional credit reports

Equifax Information Services
www.equifax.com

Experian Consumer Assistance
www.experian.com

TransUnion
www.transunion.com

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Your credit report (continued)

How to Read Your Credit Report

A sample credit report appears below. Here's how to read it:

- **Section A** shows information about *you*—your name, current and previous address, Social Security number, date of birth, and other information to identify you.
- **Section B** is called Public Record Information. In this area, you'll see any information that is listed about you in the records of local, state, or federal courts. In this example you see a bankruptcy.
- **Section C** shows collection agency account information. If you fail to pay back one of your creditors, they may hire a **collection agency** to contact you. This is a company that specializes in collecting money to pay off debts.
- **Section D** shows your credit history. This is a list of all the places where you have credit—or *used* to have credit. These are called your **accounts**. The credit history section is divided into twelve columns.
    - The first column shows the names of your lenders. In this example you see a car dealership, a credit card company, and a department store.
    - The second column shows your account numbers.
    - The third column shows who is responsible for payment. On most credit reports, you'll see an "I"—meaning that an *individual* is responsible. Or you'll see a "J" for *joint*—meaning that you *and* another person are responsible for paying.
    - The fourth column shows the month and year the account was opened.
    - Column 5 shows the number of months the payment history for this account has been reported.
    - In column 6, you'll see the date that the last payment, change, or other activity was made in this account.
    - In column 7, you'll see the highest amount that has been charged to this account, or the credit limit, if there is one.
    - Column 8 shows the amount of your monthly payments—if this is an installment loan.
    - Column 9 shows the amount you *still* owe as of the date of this report.
    - Column 10 shows any amount that is **past due**. This means money that you're late in paying to your lender.
    - Column 11 is called Status. It contains a letter and a number. The letter describes what *kind* of account it is. "I" means **installment**. This means you make a loan payment every month for a certain period of months. "R" means **revolving**. Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again. "O" means open. This means that the lender decides to give you credit and then bills you for what you borrow.
    - What do the numbers mean? "1" means the account is paid as agreed; "2" means the account is 30 or more days past due; "3" means the account is 60 or more days past due. In this example, the car loan is I4. This means it's an installment loan that's 90 or more days past the payment due date. Not good!
    - Finally, column 12 shows the date on which the information for this account was last updated.

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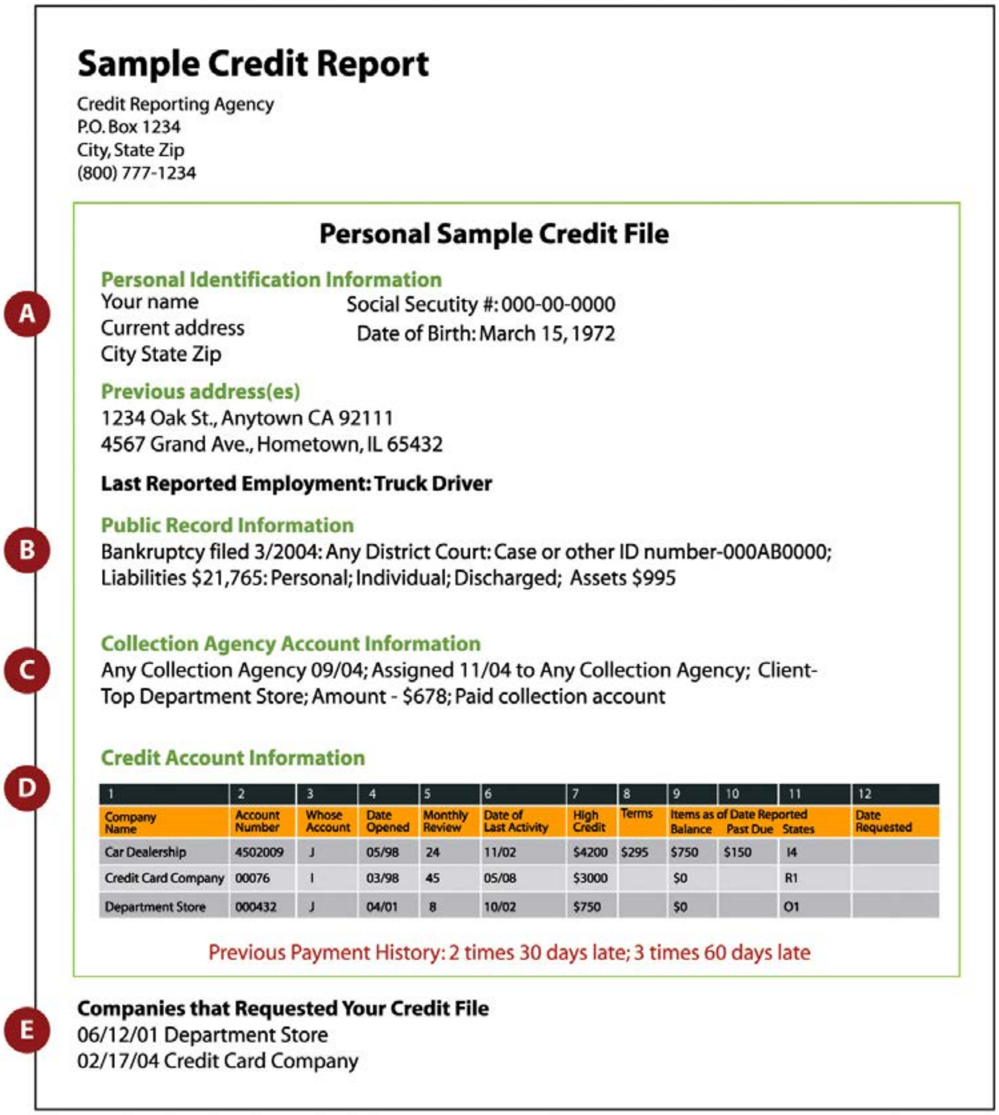
Your credit report (continued)

- **Section E**, the *last* section of the credit report, is called Inquiries. This is a list of the companies that have requested a copy of your credit report for their review.



Sample Credit Report

Credit Reporting Agency
P.O. Box 1234
City, State Zip
(800) 777-1234

Personal Sample Credit File

A

Personal Identification Information
Your name — Social Secutity #: 000-00-0000
Current address — Date of Birth: March 15, 1972
City State Zip

Previous address(es)
1234 Oak St., Anytown CA 92111
4567 Grand Ave., Hometown, IL 65432

Last Reported Employment: Truck Driver

B

Public Record Information
Bankruptcy filed 3/2004: Any District Court: Case or other ID number-000AB0000; Liabilities $21,765: Personal; Individual; Discharged; Assets $995

C

Collection Agency Account Information
Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client-Top Department Store; Amount - $678; Paid collection account

D

Credit Account Information

1	2	3	4	5	6	7	8	9	10	11	12
Company Name	Account Number	Whose Account	Date Opened	Monthly Review	Date of Last Activity	High Credit	Terms	Items as of Date Reported Balance	Past Due	States	Date Requested
Car Dealership	4502009	J	05/98	24	11/02	$4200	$295	$750	$150	I4	
Credit Card Company	00076	I	03/98	45	05/08	$3000		$0		R1	
Department Store	000432	J	04/01	8	10/02	$750		$0		O1	

Previous Payment History: 2 times 30 days late; 3 times 60 days late

E

Companies that Requested Your Credit File
06/12/01 Department Store
02/17/04 Credit Card Company

Correcting reporting errors

It's important to check your credit report for accuracy. If you think that information on your report is incorrect or out of date, contact the credit reporting agency and ask for an explanation. Requesting changes to your credit report is easy in some cases, and more difficult in others. In general, the Identification section and the Collection Accounts section are the easiest to change, while the Public Records section is the most difficult.

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Your credit report (continued)

As you check your reports for errors, keep in mind:

- Credit bureaus process millions of pieces of information every year and sometimes errors occur as a result. You may find information on your report about someone with a similar name or address to yours. If they have poor credit, it may hurt your ability to get a loan or credit.
- Late payments can hurt your credit score. If your report shows a late credit card payment and you know you pay your bills on time, contact the credit bureau to dispute it.
- The Public Records section shows tax liens, bankruptcies and default judgments against you. These kinds of items are extremely damaging to your credit score, so be sure to challenge errors right away.

What kind of errors should you check for?

Confirm everything in your report! Start by checking whether your name and social security number are correct; then review every item on every account. Be thorough because any errors could affect your rating. Pay special attention to these items:

- **Incorrect former addresses:** If the report shows an address where you never resided, contact the credit bureau. This could mean that someone at that address fraudulently claimed to be you
- **Accounts you didn't open:** If there are credit accounts listed that you didn't open, contact the credit bureau immediately. This could be a sign that you've been the victim of identity theft.
- **Mistakes in your history:** Check each credit account to see if it accurately shows your history. For example, if a credit card account is listed as having been 60 days past due, but you've always paid your bills on time, contact that creditor and request that they fix the error.

Dealing with past credit problems

If you have late payments on your credit report for reasons such as an illness or temporary unemployment, provide a written explanation to the lender explaining why your credit was poor for a period of time. A lender may not expect you to have a spotless credit history, but most expect you to have taken care of your credit problems before you ask for a loan. If you currently have credit payments that are past due, pay them now in order to improve your credit picture. Once they are paid, work on developing a record of making payments on time for at least the past year to improve your credit rating even more.

Learn more from the FTC

For further information about disputing errors and improving your credit report, visit the Federal Trade Commission (FTC) Web site at **www.ftc.gov**.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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About Credit Cards

Types of cards

There are basically three types of credit cards:

- **Bank cards** are issued by banks. Examples include Visa®, MasterCard® and Discover® Card.
- **Travel and entertainment (T&E) cards**, for example, American Express® and Diners® Club
- **House/Private Label cards** are good only in one chain of stores. Examples include national and local department stores, oil and phone companies.

No one card is right for everyone. As a general rule, the right card for you is one that's accepted where you shop and charges you the least amount of money (for example, in interest and fees) for the services you use. The terms and conditions for credit cards vary, so it's important to educate yourself about the costs for any credit card offer you're considering. Be sure to carefully read the read the terms and conditions, legal disclosures, and credit card agreement.

How bank credit card processing works
When you make a purchase using a bank credit card, the cashier usually swipes your credit card through a reader that automatically phones in the information stored on the black magnetic stripe on the back of your card. This process allows the credit card company to verify information such as:

- Merchant identification
- Valid card number
- Expiration date
- Available credit limit
- Card usage

Once the sale is approved, the bank credits the account of the merchant and records the charges to be billed to you, the cardholder, at the end of the billing period, which is typically monthly. You then pay the bank either the entire balance or in monthly installments, with interest.

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About credit cards (continued)

Shopping for credit cards

To be a smart money manager, compare credit card offers just as you would car loans or home mortgages. There can be a lot of features and fees to compare.

Here are some tips to help you get started:

Do some research. There are plenty of places, both online and offline, where you can read about credit card offers and how they compare. Since rates and plans change often, call the companies with the offers you're interested in. Confirm what they offer and ask about plans that might work for you.

Make a list. Make a list of credit card features that fit your financial needs. Rank the features according to how you plan to use the card and pay your monthly bill.

Review the plans. Review all of the information you've gathered on different plans. Pay special attention to the annual percentage rate (APR). You want a low rate, but not necessarily the lowest. This is because, depending on your lifestyle and payment habits, you might benefit more from a card that offers cash rebates, discounts, or frequent flier miles—even though it may have a slightly higher rate than another card option.

Compare plans. If you already have a credit card, be sure that you're making a good move before you swap cards. If you are a current cardholder and have a good credit rating, see if the institution that issued your card will lower your current rate.

Canceling credit cards

If you want to cancel a credit card, contact the issuer of the card directly and request their instructions for notifying them of your intent to cancel. Simply not using the card will not cause it to cancel.

Truth in Lending Act

Enacted in 1968, this federal law says that creditors have to give consumers complete and accurate information about credit costs and terms. The Truth in Lending Act requires credit card companies to provide consumers with the following information:

- Finance charges in dollars and as an annual percentage rate (APR).
- Credit issuer or company providing the credit line.
- Size of the credit line.
- Length of the grace period, if any, before payment must be made.
- Minimum payment required.
- Annual fees, if applicable.
- Fees for credit insurance (if any), which pays off your loan if you die before the debt is fully repaid.

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About credit cards (continued)

Variable vs. fixed-rate credit cards

Whether the credit card plan uses a variable- or fixed-rate in charging interest can have a significant effect on what you pay to use your card.

> **Variable-rate plans** may offer a lower interest rate than fixed, but keep in mind that the interest rate can go up or down. Credit card companies offering variable-rate plans adjust the interest rate you pay based on changing economic statistics issued by the federal government.
>
> With a **fixed-rate plan**, you have the advantage of knowing what your rate will be. The Truth in Lending Act requires lenders to provide at least 15 days notice before raising the rate, and in some states, even more notice is required.

Some financial experts argue that because a fixed-rate can be increased with only a 15-day notice, this plan is not that different from a variable-rate plan, which can change at any time. They advise looking closely at both plans. If you do choose a variable-rate card, check to see if there are limits on how high or how low your interest rate can go.

About "pre-approved" credit card offers

Be cautious about any "pre-approved" card offers you get in the mail. Sometimes the fine print will show an extremely high interest rate. Some offers may state that, by accepting the offer, you agree to transfer the entire balance of your other credit-card account to the new, high-interest account. Some offers may suggest this balance transfer, although they don't require it.
Shred any offers you don't want before you toss them into the garbage. This will help prevent someone from stealing it and trying to obtain credit in your name, which is a crime called identity theft.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Credit Card or Debit Card: Which to Use?

Both credit cards and debit cards provide a very convenient way to shop without paying by cash or check. Both are accepted at a wide variety of places worldwide. How should you decide which to use? Compare the following factors.

Credit card	Debit card
You receive a bill at the end of the month.	Money is deducted directly from your checking account.
You pay interest on any unpaid balances.	No interest payments.
May allow you to buy something today rather than having to wait. But remember, you always have to pay the money back!	You only buy what you know you can afford from the cash you have in your checking account. You may have to wait to make a purchase.
If you notice incorrect charges on your credit card statement (for example double billing or an incorrect charge) federal law limits your liability (that is, the amount you stand to lose) to $50 *if* you send in a written request for an investigation within 60 days.	If you notice fraudulent use of your debit card, federal law limits your liability (that is, the amount you stand to lose) to $50 if you notify the bank within two days. After two days, your liability increases to $500, and up to your entire account balance after 60 days. Some banks voluntarily offer their customers better liability limits, sometimes for a fee. Ask at your bank.
The items you purchase are typically insured. A good choice for very large or fragile items or objects that will be delivered to you.	The items you purchase are typically not insured.
If you pay your bills on time and in full, you build a good credit history and increase your ability to borrow in the future.	If you avoid overdrawing your account, you strengthen your reputation with the bank as a good money manager.
Consider credit cards for larger, more lasting purchases. For example, if you buy something that's going to last several years, making credit card payments over several months may make sense.	Probably makes sense for smaller, everyday purchases as a convenient substitute for cash or checks. Helps you avoid too much credit card debt!

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Managing Credit Card Finance Charges

Credit cards can be a valuable financial tool. They provide a convenient way to pay for things, feature built-in protections for your purchases, and can help you to build a good credit rating. But using credit cards can also cost you money in finance charges and fees.

The easiest way to avoid paying finance charges on credit card purchases is to pay your statement balance in full every month. That way, your account will have a zero balance and no finance charges will be assessed on it. If you're unable to pay off your entire balance, you can save on finance charges another way by paying off the debt as quickly as possible. Pay at least the minimum amount as indicated on your statement, but pay more than the minimum whenever possible.

Pay on time every time and do not exceed your credit limit. Some credit card issuers will charge a default rate (a higher rate of interest) if a cardholder misses two minimum monthly payments.

Understanding how creditors calculate interest can also help you to manage your costs. Here is information that can help:

Compare the APR

When you want to determine which credit card will likely cost you the most, the Annual Percentage Rate (APR) is a quick way to make a first comparison. The APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of the loan. So look for a credit card with the lowest APR your can find. Keep in mind that if a credit card has a variable rate, that means it can change throughout the year. Read your disclosure statement or talk to your lender to make sure you understand the details.

Understand the Fees

In addition to comparing APRs, look carefully at optional fees for items such as late payments and cash advances.

Know the Periodic Rate

The periodic rate is the interest rate described in relation to a specific period of time. For example, the monthly periodic rate is the cost of credit per month; the daily periodic rate is the cost of credit per day. If a creditor charges interest on a daily basis, the cost of credit per day is the APR divided by 365. An APR of 18% would therefore equal a Periodic Rate of about 0.05%.

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Managing credit card finance charges (continued)

How is your interest calculated?

After you know the APR and Periodic Rate, look at the method the creditor uses to calculate the interest you owe. This can make a big difference in how much interest you'll pay. Here are four common methods:

Past Due Balance

With this method, no interest is charged if you make payment in full within the grace period defined in your cardmember agreement (usually 25–28 days). If you don't pay in full, interest is charged on the unpaid amount, and then added to your next bill.

Average Daily Balance

This is the most common method used. Your credit card issuer calculates your balance every day in the billing cycle. Each day, they add new charges and subtract payments from your existing balance. They then add all daily balances together and divide by the number of days in the billing cycle to get the average daily balance. Finally, they multiply the average daily balance by the periodic rate to determine the finance charge.

Two-Cycle Average Daily Balance

With this method, the average daily balance is calculated from two billing cycles rather than one. The finance charges you pay are typically higher than with the single cycle calculation.

Adjusted Balance

Interest is charged on the opening balance of your account minus any payments made during the billing cycle. Since your new purchases are not included (which would raise your balance) and your payments are included (which lowers your balance), this means that you'll usually pay less in interest than you would with other methods.

Previous Balance

With this method, the card issuer charges interest on the opening balance of your account. They don't subtract any payments received during the billing cycle. This means that you'll pay more interest compared to the Adjusted Balance method, but less than you would with either of the Average Daily Balance methods.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm.

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Card Safety Tips

Here are some security tips for using credit, debit, and ATM cards safely:

- Report lost or stolen cards immediately to the company that issued you the card.
- To help you respond quickly in case your cards or ID are lost or stolen, make a chart like this one. Be sure to store the list in a safe place. Never carry it with you.

Credit card name	Financial institution	Account number	24-hour customer service #

- Sign your card on the signature panel as soon as you receive it.
- Protect your cards as if they were cash—never let them out of your possession or control.
- Do not include your card number in an email.
- Do not give out your card number over the phone unless you initiated the call.
- Be sure that you get your card back after every purchase.
- Don't leave your credit cards in your car's glove compartment. A high percentage of credit card thefts are from car glove compartments.
- Don't lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don't let your credit cards be used by others, even family and friends.
- Choose a PIN that is easy for you to remember but difficult for others to guess. Don't use any numbers or words that appear in your wallet (name, birth date, phone number, etc).
- Never tell anyone your PIN. No one from a financial institution, the police, or a merchant should ask for your PIN. You are the only person who needs to know it.
- Don't volunteer any personal information when you use your cards, other than by displaying personal identification as requested by a merchant.
- Never write down your personal identification number (PIN)—memorize it. Don't write down your account number and PIN and carry it with you. If your wallet or purse is stolen, someone else could have access to your money.
- When typing in your pin, cover the keypad so others can't see.
- When selecting a PIN, avoid picking a number that is easy for others to guess—for example, your name, telephone number, date of birth, or any simple combination of these.

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Card safety tips (continued)

- Think about your personal safety when using an ATM. Because most ATMs give out cash and many accept deposits, it makes sense to be alert and aware of your surroundings no matter where or when you use an ATM. When you're by yourself, avoid using an ATM in out-of-the-way or deserted areas. Use ATMs located inside banks or supermarkets where other people are around. Use ATMs in well-lit, public areas.
- If it looks like someone has tampered with the ATM equipment, don't use it. (This could mean that a criminal has attached a "skimmer" to the ATM to steal your financial information.) If a suspicious person offers to help you use the ATM, refuse and leave.
- Put your money and ATM card away before you leave the ATM. Always avoid showing your cash. Always verify that the amount you withdrew or deposited matches the amount printed on your receipt.
- Always make sure that sales vouchers are for the correct purchase amount before you sign them.
- Always keep copies of your sales vouchers, credit card, and Automated Teller Machine (ATM) receipts.
- Always check your billing statement to make sure the purchase amounts are correct and to ensure there are no suspicious charges. Contact your service provider immediately if you see a charge you don't recognize.
- Always put disputes regarding your billing statements in writing immediately upon becoming aware of the disputed item; otherwise, you may be held legally responsible for the entire amount of the disputed item. Many credit card issuers have specific instructions for notifying them of a billing error dispute. Read your credit card agreement and billing statements carefully for information regarding dispute notification requirements. You may also contact your credit card issuer to ask about their dispute notification requirements.
- Shred or destroy your ATM receipts before you throw them away.
- Keep your cards away from magnets; these can erase the information stored on your card.
- If you receive a replacement card, destroy your old card. Destroy cards for cancelled accounts.
- Shop with merchants you know and trust. Make sure internet purchases are secured with encryption to protect your account information. Look for "secure transaction" symbols.

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Loan Comparison Worksheet

If you're planning to apply for loan, remember to shop for your lender—and your loan. Take some time to comparison shop. Interview lenders. Ask them questions about the choices they offer and what they will cost you.

When you compare loans, it can be hard to see which one will cost you the least. To make it easier, lenders are required to tell you a loan's annual percentage rate, or APR. The APR is a number that combines the interest rate, the term, and the fees to show you the total cost of the loan. The lower the APR, the lower the total cost. Remember, the loan with the smallest monthly payment may not have the lowest cost overall.

Discuss the costs and the options with your lender. Carefully study the monthly payment and the APR. Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.

Use the worksheet below to compare the terms of different loans you're considering. Please note that "points" are fees charged by the lender. One point is equal to 1% of the loan amount.

	Loan 1	Loan 2	Loan 3	Loan 4
Loan amount $				
Interest rate %				
# of points				
# of monthly payments				
Monthly payment amount $				
Total interest paid $				
Cost of points $				
Total amount paid $				

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Managing Your Credit

Tips for using credit wisely

- Avoid loans and credit cards with high interest rates.
- Don't take on monthly loan payments you can't afford.
- Stay within your credit limit. Track your credit card charges throughout the month.
- If you have Internet access to your credit card account, track your account activity online, even before you receive the bill in the mail.
- Don't use your credit card to buy things you really can't afford. Let your budget be your guide.
- If you're getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt.
- Shop around for credit cards with low interest rates and low or no annual fee.
- Look closely at credit card offers that use the word "free." Usually, everything has a price.
- Resist impulse buying!
- Pay on time and pay off credit card balances monthly if you can. If you can't pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time.
- Avoid having monthly credit card payments that exceed 10% of your monthly net income.
- Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income.
- Keep track of what you buy with your credit card. Save your receipts and check them against your statement.
- Don't go wild! Limit your credit card use and don't have too many credit cards.

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Managing your credit (continued)

Be careful when selecting a lender

Predatory lenders try to cheat borrowers through fraud or deception. Watch out for these nine predatory lending practices:

1. **Encouragement to include false information.** If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.
2. **Blank loan documents.** Never sign a blank loan document or work with a lender who asks you to.
3. **"Bait and switch" sales tactics**, when a lender makes promises in order to make the sale, but then backs out on the promises after the sale. To avoid this, it's critical to carefully read and understand the agreement before you sign. Question anything in the document that is not consistent with what you were told. Don't sign the agreement if anything in it is unclear or not as promised.
4. **Equity stripping.** Let's say you don't have much monthly income but you have built up equity in your home. If a lender encourages you to inflate your income on your application form to help get the loan approved, watch out! A predatory lender doesn't care if you can't keep up with the monthly payments, because as soon as you can't, the lender will foreclose—taking your home and stripping you of the equity you have spent years building.
5. **Loan flipping.** This is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. This is not in your best interest because it costs you money and postpones the loan principal from being reduced.
6. **A high fee for bi-weekly payments.** Some lenders will offer you the option to pay your loan bi-weekly. Although this type of payment plan can reduce the finance charge and length of a loan, predatory lenders may charge you $1,000 for the "privilege" of paying biweekly. In reality, such accounts can often be set up for free or a few hundred dollars at most.
7. **Required deed signing.** If you are behind on your mortgage payments, a predatory lender may offer to help find new financing. But first you are asked to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and you no longer own your home.
8. **Advertisements promising "No Credit? No Problem!"** These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. To receive the approved loan, they are told to pay money up-front for fees or services—and instead end up losing their money.
9. **Promises to refinance the loan to a better rate in the future.** No one can make you that promise. Instead, ask what you can do now to get a better rate. If you're working with a local bank, for example, there may be a rate discount for making automatic monthly payments from your checking account.

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Managing your credit (continued)

Be careful when selecting a lender (continued)

- Don't take the first loan you are offered; shop and compare.
- Don't give in to sales pressure. Don't be rushed. Remember, you can always say you have to check with someone else before you can make a decision.
- Don't sign a blank document or anything the lender promises to "fill in later."
- Don't sign anything you don't like or understand, even if they cancel the loan offer.
- Ask a lot of questions.
- Always check the numbers!
- Remember, a low monthly payment isn't always a good deal. Look at the total cost of the loan.

If the bank says no to your loan

It often takes a few days for a decision to be made about your loan application. However, a bank legally has up to 30 days to respond. If a lender turns you down, do not take it personally; lenders cannot grant or deny credit based on personality.

Here are few possible reasons a loan may not be granted:

- Irregular employment.
- Not enough income to repay the loan.
- Poor credit history (slow repayment of other loans).
- Lack of credit history.
- Too short a time at residence.
- Insufficient down payment.

Here are steps you can take to have the bank reconsider your loan request:

- Find out if all sources of income were considered in evaluating your application.
- Pay off some of your existing debt.
- Find a reliable co-signer who is acceptable to the bank.
- Offer to make a larger down payment if possible.
- Establish credit by applying for a credit card with a low credit limit.
- If you have no credit history, find out if alternative payment history could be considered, for example, rent, or utility bills.
- Contact the credit bureau used by the bank to find out if there are any errors in the information they provided the bank.

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Managing your credit (continued)

How to repair your credit history

1. Order a copy of your credit report. To obtain a free credit report you can order online www.annualcreditreport.com. When you receive your report review it and make sure it is accurate.
2. Challenge incorrect or outdated information on your credit report. Ask the credit bureau (Equifax, Experian or TransUnion) in writing to remove the incorrect information. The bureau must then contact the creditor that reported the incorrect information. If the creditor does not verify the negative item within 30 days, the bureau must remove the item and send you a corrected report. If the creditor states that the information is correct, you have the legal right to insert a 100-word statement in your credit report explaining why you dispute this information.
3. Pay your current loans on time and as agreed.
4. Contact your creditors and ask if they're willing to arrange a new payment schedule. Stress your desire to make full payment over time.
5. If you have had past credit problems, share this information with the bank when you apply. Have a letter prepared that you can include with your application explaining any extraordinary circumstances or reasons for past credit problems.
6. Contact a credit counseling service in your area. (Check the White Pages in your phone book.) They can often help you work out a repayment plan with your creditors.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm

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Debt Warning Signs & Tips

Twenty warning signs of financial trouble

1. You're always late in paying your bills.
2. Your checking account is frequently overdrawn.
3. You race to deposit your paycheck because you've already written checks that require the money in your paycheck.
4. A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills.
5. Your credit accounts are usually at their maximum limits.
6. You apply for more credit cards because you have reached the limit on the ones you have.
7. You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage).
8. Your loan or credit card balances stay the same or go up each month.
9. You can make only minimum payments on your revolving charge accounts.
10. It takes you 60 or even 90 days to cover bills you once could pay monthly.
11. You don't have a savings account, or have stopped making deposits to it.
12. You are always worried about your debts.
13. You argue with your spouse or partner over bills.
14. You're still paying off purchases you made a year ago.
15. You use savings or credit cards to cover everyday living expenses, such as groceries.
16. You sometimes wonder why you made certain purchases.
17. You juggle payments to keep creditors satisfied.
18. You ignore the mail or telephone to avoid dealing with creditors.
19. You put off medical and dental visits because you cannot pay the bill.
20. You feel free to spend more after clearing up a debt.

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Debt warning signs & tips (continued)

Reducing your debt

If the amount you owe others is at an uncomfortable level, you're not alone. Millions of Americans have spent too much on credit and then learned—the hard way—how difficult it can be to pay it off. If you find you're having difficulty making payments, here are some tips for lowering your debt and getting your finances under control:

- **Contact your creditors.** Contact your creditors and discuss payment schedules that you can afford. Try to get your rate lowered or a different payment plan worked out. Creditors will want to work with you to find a payment solution. Follow-through on your commitment by making your payments on time, as agreed.
- **Don't take on any new debt.** Stop using your credit cards. Say no to offers for credit cards, debt consolidation, and second mortgages.
- **Make a written plan.** Make a list of all your bills and their amounts. Review your budget and determine the total amount you can afford to repay each month. Set a date when each bill can be paid. Remember, even though it pays to get out debt quickly, keep sufficient savings to cover several months of living expenses in case of an emergency.
- **Pay off your highest interest rate debts first.** To get out of debt more rapidly, first pay down the balances of loans or credit cards that charge the highest interest, while paying at least the minimum due on your other debts. Once the highest interest debt is paid off, start on the next highest, and so on.
- **Make more than the minimum monthly payment on credit cards.** You will save lots of money on interest and reduce or eliminate your debt much sooner.
- **Be aware of credit card rates and fees.** Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, late fees, penalty pricing and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card.
- **Cash advances can be trouble!** Only get a cash advance when it is absolutely necessary. Higher interest rates (than you're paying for card purchases) are usually charged, and the rates are put into effect immediately, without a 30-day grace period. Most banks also charge a service fee based on how much cash you're withdrawing. The same applies to personalized "checks" some credit card companies may send you.
- **Transfer balances to cards with lower interest rates.** Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card. Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card.
- **Ask for help.** Many nonprofit debt counseling centers across the country will advise you for a low fee or at no charge. Contact the Consumer Credit Counseling Service in your area. (Check the White Pages in your phone book.) They can often help you work out a repayment plan with your creditors.
- **Don't give up.** Reducing your debt is challenging, but don't stop trying. It's one of the most important things you can do for a better financial future.

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Debt warning signs and tips (continued)

How different debt-reduction strategies compare

Where will you find the money to pay down your debts, especially high interest credit cards? There are advantages and disadvantages to tapping different sources of funds. Here's a comparison of four possible strategies:

Stop spending

Advantages: This is the surest strategy for climbing out of debt as quickly as possible. You'll have more money available for paying off your debts and learn to live within your means.

Disadvantages: Making debt repayment your priority will probably mean postponing or doing without some other purchases.

Home equity loans

Advantages: The interest rate is usually lower than credits cards and the interest is tax-deductible. Monthly payments are much lower because the term of the loan is spread out over a long term.

Disadvantages: Remember, home equity loans are secured by your home. If you fail to make your payments, you could lose your home! Additionally, home equity loan balances reduce the amount of money you'll receive when you sell your home. Because payments are spread out over a long term, you'll be in debt for a long time, too.

Debt consolidation loans

Advantages: Debts from several credit cards are consolidated into a single payment, often at a lower interest rate. This can make it easier to keep track of monthly bills.

Disadvantages: Watch out for predatory lenders who may try to take advantage of you. Some companies that promise to negotiate with credit card companies on your behalf charge enormous fees and can't get a better interest rate than you could by simply calling the company yourself!

Transfer balance to another card

Advantages: Many credit card companies will let you transfer balances and charge no interest for six months or even a year, allowing you to save on interest charges.

Disadvantages: Before you transfer a balance, be sure to read the fine print in the disclosure statements: there could be hidden finance charges. Remember that the introductory rate your being offered is only temporary: if you can't pay off the balance before the permanent interest rate kicks in, you may end up with higher payments than you had before. Also, be sure to close your old credit card account. Otherwise, the balance transfer may tempt you to pile on even more debt in the old account.

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About Bankruptcy

If you owe more than you can repay, you may have the option of declaring bankruptcy. Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or "discharge" some of your debts and get a fresh start financially. In recent years, bankruptcy filings have reached an all-time high.

Bankruptcy is a serious matter that can have significant, long-lasting consequences. While it may be an option, it's not an "easy way out." Before considering the option of bankruptcy:

- Talk to your creditors to see if they will agree to extend your payment schedule, allow you to skip a payment, or make some other reasonable repayment alternative. Discuss any possible solutions.
- Consult with a qualified credit or debt counselor. Bankruptcy law is complicated and changing. In recent years, the U.S. Congress has been reviewing and updating bankruptcy laws and state laws that affect bankruptcy. These laws vary, so it's essential to get professional counseling about your options.

Remember, if you file:

- You will have legal and court costs.
- If you have co-signed on a loan, your co-signer will remain liable for the full amount of a co-signed debt unless you make other repayment arrangements with the court.
- You cannot claim any debts that you fraudulently took on, or incurred, knowing that you would be unable to pay them back. (Don't think that you can take an expensive trip around the world and then declare bankruptcy!)
- A bankruptcy will stay on your credit history for up to 10 years. It may lower your credit score, causing lenders to charge you higher interest rates in the future.

Depending on your personal financial situation and the federal and state laws that apply, declaring bankruptcy may eliminate some of your debts or allow you to repay just a portion of each debt you owe. The court may allow you to keep some of your assets in the process. Bankruptcy usually does not erase child support, alimony, fines, some taxes, and most student loan obligations.

In a typical bankruptcy scenario, a debtor files a Voluntary Bankruptcy claiming the inability to repay his or her debts. A bankruptcy judge then decides whether or not a debtor may declare bankruptcy. If the bankruptcy case proceeds, the judge may decide to release the debtor from the obligation to repay some of his or her debts. This is known as "discharging" debts. Once a person's bankruptcy case has been completed, none of the debtor's former creditors may pursue the debtor for his or her discharged debts.

However, if the debtor has defaulted on a secured loan—a loan in which the creditor has a legal claim, called a lien interest, in assets belonging to the borrower (such as a car, house, or other collateral) to ensure payment—the creditor may still be able to take possession of the collateral even though the debt was discharged.

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About Bankruptcy (continued)

There are several types of bankruptcy. Each is known by the chapter of the bankruptcy law that describes it. Two of the most common types are Chapter 13 and Chapter 7.

- In Chapter 13 bankruptcy, the borrower submits a repayment plan to the court and promises to make partial payments to creditors over a period of three to five years. If you have a regular income and limited debt, Chapter 13 allows you to keep your property that you otherwise might lose, provided you continue to make your payments under the repayment plan.
- In Chapter 7 bankruptcy, the debtor surrenders his or her assets to an individual called a "trustee." The trustee sells the debtor's assets and gives the money to the creditors. The debtor may be allowed to keep some assets, such as a car, work-related tools, and basic household furnishings. Under the new bankruptcy law you can receive a discharge of your debts under Chapter 7 only once every eight years.

This summary is a very simplified explanation of the bankruptcy laws and procedure. However, it is by no means all encompassing. This summary does not constitute legal advice or the views of Wells Fargo & Company and should not be relied upon as such. Should anyone reading this summary contemplate filing bankruptcy, they should consult qualified legal counsel. Each bankruptcy is unique and no summary can adequately address all possible fact situations.

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Planning Your Future

Topic Overview

If your participants are ready to start investing or would like to formulate a strategy for retirement, this topic can help. Participants will discover guidelines for smart saving and investing, the basics of building and preserving wealth, and how to create the financial future they've been dreaming of.

This topic includes nine lessons:

1. Your goals
2. Investing basics
3. How to get started with investing
4. Your portfolio
5. Retirement basics
6. Making retirement work for you
7. Wealth building
8. Preserving your wealth
9. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at **HOBCD@wellsfargo.com**.

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Topic 5 — Planning Your Future

Instructor's Guide — Adults
Table of Contents

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Topic 5 — Planning Your Future

Instructor's Guide — Adults
Table of Contents

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Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

401(k) plan	A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.
Asset allocation	The division of an investment portfolio across various types of securities, such as mutual funds, stocks and bonds, in an effort to help reduce risks.
Assets	Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
Bond	An investment offered to the public by a corporation, the U.S. Government, or a city. A bond pays interest annually and is payable in full at a specified date. Bonds are rated, and the rating indicates their probability of default.
Capital	The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.
Capital gain	The dollar amount by which an asset's selling price exceeds its initial purchase price. For example, if you buy a stock for $4 per share and sell it for $7 per share, your capital gain is $3 per share.
Capital loss	The decrease in value of an investment or asset. The opposite of capital gain.
Certificates of Deposit (CDs)	A bank account in which you agree to keep the money for a specified period of time, usually anywhere from three months to several years. As a result, this account usually offers higher rates of return than a savings account. Money removed before the agreed upon date is subject to an early withdrawal penalty. The account pays interest on the deposit and is FDIC-insured. Banks issue an actual certificate for a CD account. If no certificate is issued, the account is known instead as a "time deposit."
Defined Benefit Plan	A corporate retirement plan that pays employees a fixed retirement benefit either as a lump sum or as a pension (a lifetime payment). Payments are determined by salary earned and length of employment.
Defined contribution plan	A corporate retirement plan, such as a 401 (k) or 403 (b), where employees defer a percentage of their salaries and invest for retirement.
Diversification	An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.
Dividend	If a company does well financially, its board of directors may decide to pay a small amount of its profits, called a dividend, directly back to its shareholders. Dividends are usually cash, but may also take the form of stock or other property.

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Glossary

Dollar cost averaging	A method of accumulating assets by purchasing securities at regular intervals with a fixed dollar amount.
Equity	The value of your investment above the total of your lien (debt).
Estate	The net worth of an individual including all of their assets.
Home equity	The financial difference between what your home or other real estate is worth and the amount you still owe as debt on the home or other real estate. For example, your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.
Individual Retirement Account (IRA)	An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn't tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to $4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.
Internal Revenue Service (IRS)	U.S. Government agency responsible for tax collection and tax law enforcement.
Investing	Purchasing something of value (for example, stocks or real estate) with the goal of earning money over time if the value increases.
Liability	The amount of money an individual or business owes to someone else: a debt.
Liquidity	The ability of an asset to be converted into cash quickly.
Long term care insurance (LTC)	Some illnesses and injuries require specialized care over a period of time that may not be covered by traditional medical insurance. If you become debilitated due to such an ailment, this type of coverage generally allows you to pay for services such as in-home health care or assistance with daily activities, adult day care and assisted living.
Matching contributions	When an employee invests a dollar(s), and that investment is matched by the employer as a type of reward or compensation.
Money Market Deposit Account (MMDA)	A form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.
Mutual fund	A type of investment where an investment company sells shares to the public and then invests the money in a group of investments such as stocks and bonds.
Net worth	The value of a company or individual's assets. Including cash, less total liabilities.
Penalty fee	A fee charged for the violation of a rule in a financial agreement.
Pension	An annual yearly income paid to an employee usually after retirement. Payments will be based upon employee's age at retirement, final salary, and number of years on the job.

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Glossary

Portfolio	A collection of investments all owned by the same person or organization. For example, a portfolio might include a variety of stocks, bonds, and mutual funds.
Profit	The positive gain from an investment or a business operation after subtracting all expenses.
Rate of return	The annual rate of return is the percentage change in the value of an investment. For example: If you assume you earn a 10% annual rate of return, then you are assuming that the value of your investment has grown by that percentage.
Real property assets	Land and anything permanently affixed, including building, fences, trees, and minerals that has monetary value that is owned by a person or a company.
Rebalancing	Is bringing your portfolio back to your original asset allocation mix. This is necessary because over time some of your investments may become out of alignment with your investment goals. You'll find that some of your investments will grow faster than others. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.
Retirement plan	SEE 401(k), Defined Contribution Plan and Defined Benefits Plan.
Return on investment (ROI)	The income that an investment produces for the investor.
Roth Individual Retirement Account (IRA)	An individual retirement account with non-deductible contributions, subject to certain income limits, designed to provide tax-free distributions during retirement. Contributions may be withdrawn tax-free at anytime. Tax- and penalty-free withdrawals of earnings may begin when the account has been established for at least five years, and you're at least 59½ years old, for a first time home purchase ($10,000 lifetime limit), or in the event of disability or death. Non-qualified distributions of earnings may be subject to income tax as well as a 10% IRS penalty. Unlike Traditional IRAs, you aren't required to start taking distributions at age 70½.
Rule of 72	A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.
Safety deposit box	A secure box which you may rent at your bank to store important documents such as birth certificates, stocks, wills, etc.
Simplified Employee Pension Individual Retirement Account (SEP)	Pension plan in which both the employee and employer contribute to an IRA. Limited to small businesses with less than 25 employees. Employee participation must be at least 50%. As with an IRA, contributions are tax-deductible.
Stock	Certificate of ownership in a company.

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Glossary

Stock exchange	An organized market place in which stocks are traded by members of the exchange, such as brokers and principals.
Term	A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Traditional Individual Retirement Account (IRA)	An individual, tax-deferred retirement account for employed persons. Subject to certain limits, contributions are deductible against income earned that year. Interest and profits accumulate tax-deferred until the funds are withdrawn at age 59½ or later. Early withdrawals are subject to a 10% penalty. Withdrawals also may be subject to income tax.
Trust	A contract naming a trustee to manage the investments or property within the trust for another person or entity, the trustor, for the benefit of a named beneficiary
Will	A legal document that specifies who has rights to your assets upon your death.

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Topic 5 — Planning Your Future

Lesson 1: Your Goals

In this lesson, participants will learn how writing down their short-term and long-term goals and updating them when needed can help them move their ideas to reality.

Learning Objectives

After completing this lesson, participants will be able to:

- Understand the importance of their short term and long term goals.
- Realize the importance of writing goals down and reviewing, refreshing, and updating them over time.

Start the Discussion

To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- What are your short term and long term goals?
- What plans do you have in place to realize these goals?
- How often do your goals change?
- Why is it important to write down your goals?

The Basics

- Writing down your goals is an important step in moving toward making them come true.
- Goals will change based on time, situations or events.
- It is Important to review your goals on a regular basis to stay current as your lifestyle changes.

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What Are You Working Toward? Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to list as many answers as they can under each question. When they are finished, discuss their goals.

Instructions:
Have your participants write down as many answers as they can for each question.

What are your short term and long term goals?

- Most likely you have some short-term goals: let's say, getting a promotion at work, buying new clothes, or going on a vacation trip.
- And you probably have a few long-term goals, too—whether it's buying a home, starting a business, or paying for college education.

Why should you write your goals on paper?

- To reach your goals, it can be very helpful to write them down on paper as opposed to just thinking about them.
- Writing your goals can help you determine exactly what you want to accomplish, and by when.
- It'll help you see what's really important to you and where to focus your time and effort.
- That's why writing down your goals is a great first step for moving your ideas from dreams to reality.

What happens to your goals if you experience large life changes?

- As your personal circumstances change, your short- and long-term goals may need to change as well, so look back at your list on a regular basis.
- If there are big changes happening in your life, consider updating your goals, too.

What are some examples of life changes you may experience?
These are all examples of some changes you may experience:

- Your household income changes.
- You purchase a home.
- You or your spouse change jobs.
- You start or grow your family.
- You begin caring for elders.
- You have increased medical expenses.
- You have other major expenses.

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Topic 5 — Planning Your Future

What Are You Working Toward? Activity

Instructions:
For each question, write down as many answers as you can think of.

What are your short-term goals?

What are your long-term goals?

What life changes might impact these goals?

What is an example of how your goals have changed this past year or will be changed this coming year?

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Topic 5 — Planning Your Future

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Personal Goal Setting

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Topic 5 — Planning Your Future

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Goals lesson:

- Writing down your goals is an important step in moving toward making them come true.
- Goals will change based on time, situations or events.
- It is Important to review your goals on a regular basis to stay current as your lifestyle changes.

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Lesson 2: Investing Basics

In this lesson, participants will learn the basic concepts of investing, the common types of investing and the difference between investing and saving.

Learning Objectives

After completing this lesson, participants will be able to:

- List the basic concepts of investing.
- Define the common types of investments.
- State the difference between investing and saving.
- Describe how inflation can reduce earning power.
- Describe how compounding can make your money grow.

Start the Discussion

To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- What are some common types of investments? How do they work?
- What happens during inflation? Are we having inflation right now?
- How does compound interest work?
- What is investing and what is saving?

The Basics

- Investing is putting money you've saved into things you think will increase in value over time.
- There are lots of possible investments. Two examples are stocks and real estate.
- Buy investments when the price is low, then try to sell when the price is high. That's how you make a profit.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you'll have what's called a capital loss.
- With investing, there's always a risk of losing some or even all of your money if the investment doesn't perform well.
- The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
- Use the Rule of 72 to determine how many years it will take you to double your investment.

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Types of Investments (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to follow along as you lead a discussion about the different types of investments.

Types of Investments

Type	Description
Stocks	• When you invest in stocks, you're investing in businesses. These could be small, medium, or large companies in the U.S. or around the world. • Buying stock gives you part ownership in a company. That's why you should only buy stocks in companies you believe in—and believe can do well. • Stocks are usually bought and sold in units called shares. A share's value, or share price, rises and falls based on how much people will pay for a share. • People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value. • Sometimes the company will also pay its investors a dividend. That's when the company pays the shareholders a part of its profits. • Investing in stocks can be risky because their value can change from day to day. But stocks can also have great potential for growth and total return.
Mutual funds	• A mutual fund is a professionally managed collection of money from a group of investors. Instead of deciding for yourself what stocks or bonds to buy, a mutual fund manager makes these decisions for everyone in the group—deciding what to buy or sell, and when. • Some mutual funds will be higher risk than others, and no mutual fund is a sure thing. But because the fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.
Bonds	• Corporations, governments and municipalities issue bonds to raise funds. In return they typically repay the bond owners with interest. In this way, a bond is like a loan. • When you purchase a bond, you are lending money to a corporation or to the government for a certain period of time called a term. • The bond certificate is a promise from the corporation or government that they will repay you on a specific date, usually with a fixed rate of interest. • Bond terms can range from a few months to 30 years. The longer you hold your investment in bonds, the better the return—so consider bonds a long-term investment. • Objectives of investing in bonds: current income and potential for stability & future income. • Government bonds are low-risk because they are backed by the U.S. government. Corporate bonds, though, have a higher potential risk. You should research the company before you invest to make sure it has the ability to repay the loan.

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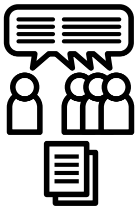

Types of Investments (Instructor Copy) (continued)

Types of Investments (continued)

Type	Description
Low-risk investments	• Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash. • The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks. • Ex: Certificates of Deposit (CDs) can be opened with an initial deposit of as little as $1,000. With CDs, you agree that you won't touch the money you deposit for a specific period of time The longer you keep your money in the account, the greater your rate of return
Real estate	• Many people invest in real estate, such as a home or property. • One positive aspect to investing in real estate is that it usually increases in value over time without the daily ups and downs that happen in the stock market. • Like stocks, you earn money when you sell real estate for more than what you paid for it. • It takes time to sell property. There are costs involved in buying, selling, owning real estate.

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Types of Investments

Type	Description
Stocks	• When you invest in stocks, you're investing in businesses. These could be small, medium, or large companies in the U.S. or around the world. • Buying stock gives you part ownership in a company. That's why you should only buy stocks in companies you believe in—and believe can do well. • Stocks are usually bought and sold in units called shares. A share's value, or share price, rises and falls based on how much people will pay for a share. • People will pay money for the stock if they think the company will be successful. If it is, its stock will increase in value. • Sometimes the company will also pay its investors a dividend. That's when the company pays the shareholders a part of its profits. • Investing in stocks can be risky because their value can change from day to day. But stocks can also have great potential for growth and total return.
Mutual funds	• A mutual fund is a professionally managed collection of money from a group of investors. Instead of deciding for yourself what stocks or bonds to buy, a mutual fund manager makes these decisions for everyone in the group—deciding what to buy or sell, and when. • Some mutual funds will be higher risk than others, and no mutual fund is a sure thing. But because the fund invests in a variety of stocks, bonds, and other products, there is usually greater potential reward than many low-risk investments, and less risk than buying individual stocks and some bonds.
Bonds	• Corporations, governments and municipalities issue bonds to raise funds. In return they typically repay the bond owners with interest. In this way, a bond is like a loan. • When you purchase a bond, you are lending money to a corporation or to the government for a certain period of time called a term. • The bond certificate is a promise from the corporation or government that they will repay you on a specific date, usually with a fixed rate of interest. • Bond terms can range from a few months to 30 years. The longer you hold your investment in bonds, the better the return—so consider bonds a long-term investment. • Objectives of investing in bonds: current income and potential for stability & future income. • Government bonds are low-risk because they are backed by the U.S. government. Corporate bonds, though, have a higher potential risk. You should research the company before you invest to make sure it has the ability to repay the loan.

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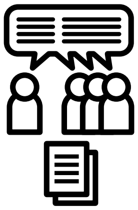

Types of Investments (continued)

Type	Description
Low-risk investments	• Low-risk investments enable you to earn interest on your money while maintaining some liquidity—flexible access to your cash. • The odds of losing your money through these investments are extremely low, but they have lower potential return compared to higher-risk investments like stocks. • Ex: Certificates of Deposit (CDs) can be opened with an initial deposit of as little as $1,000. With CDs, you agree that you won't touch the money you deposit for a specific period of time The longer you keep your money in the account, the greater your rate of return
Real estate	• Many people invest in real estate, such as a home or property. • One positive aspect to investing in real estate is that it usually increases in value over time without the daily ups and downs that happen in the stock market. • Like stocks, you earn money when you sell real estate for more than what you paid for it. • It takes time to sell property. There are costs involved in buying, selling, owning real estate.

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Saving vs. Investing Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Divide the class into small groups. Instruct them to brainstorm the differences between savings and investing. Then, use the key points below to lead the discussion.

Instructions:
Have your participants list differences and similarities between investing and saving.

Savings vs. Investing

Savings	Investing
Ready cash • Gives you ready cash; provides funds for emergencies; often used for specific purchases in the near future (usually three years or less).	**Achieve major goals** • Can help you achieve long-term, major financial goals.
Minimal risk • Minimal or no risk (if money is in a savings account).	**Always involves risk** • You may lose some or all of the money you invest.
Earn interest • You earn interest, but savings accounts generally earn a lower return than do investments.	**Potential for profit** • Investments have the potential for higher return than a regular savings account. • Your investments may appreciate (go up in value) over time. • This increases your net worth, which is the value of your assets (what you own) minus your liabilities (what you owe). • If you sell for higher price than you invested initially, you make a profit.

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Saving vs. Investing Activity

Instructions:

List differences and similarities between investing and saving.

Savings vs. Investing

Savings	Investing
Example: Provides ready cash for emergencies	*Example: Can help you achieve long-term goals.*

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Topic 5 — Planning Your Future

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Investing FAQ

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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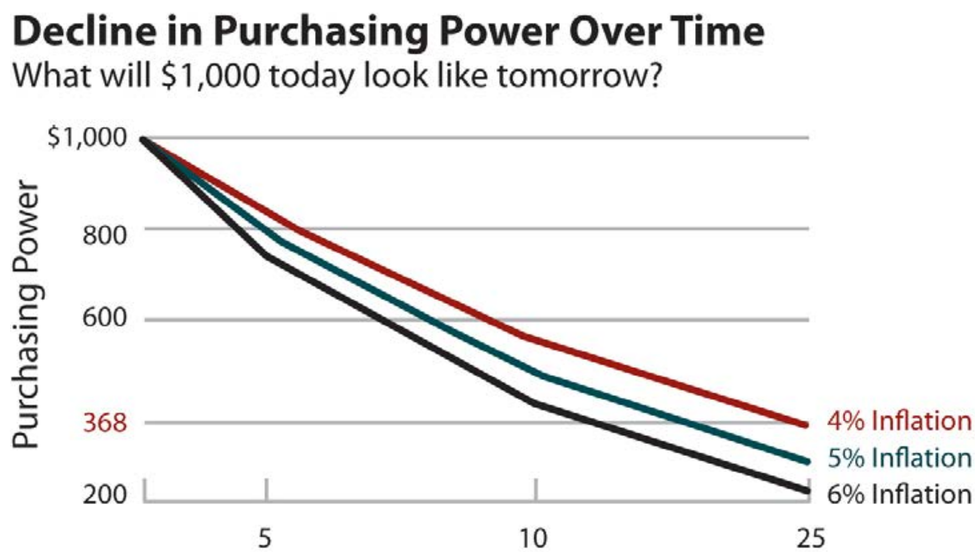
Inflation Erodes Purchasing Power

Instructor note:
Discuss the concept of inflation using these key points. You can use the graph and example to enhance inflation information.

Inflation

- Occurs when the general price level of goods and services goes up, which means the purchasing power of your dollar goes down.
- Can really consume your future purchasing power.



Example:
Let's say you stash $1,000 in a safety deposit box and leave it there for 25 years. Assuming an inflation rate of 4%, when you take the money out, your original $1,000 would only be able to purchase $368 worth of goods!

Tip!

If your money isn't growing at a rate at least equal to the rate of inflation, you're losing money. Saving and investing money can help you counteract the effects of inflation.

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Topic 5 — Planning Your Future

Compounding Grows Money

Instructor note:

Lead a discussion about the important concept of compounding, including why it pays to start investing early. At the end of the discussion, direct your participants to go online and find compounding calculators to see it in action.

What is compounding?

- Compounding occurs when your earnings on an investment are added to the amount you originally invested.
- As your total investment grows larger, your earnings have the potential to grow larger, too. (The same principle applies when you earn compound interest in a savings account.)
- How fast an investment grows over time depends on the rate of return you earn each year.

The length of time you invest is a key factor in meeting your financial goals.

- The earlier you start, the easier it will be to achieve them.
- Many investors lose out because they wait too long to get started or invest too little.
- If you don't start early, it can be difficult to catch up.
- It pays to start investing as soon as you can, and to take advantage of the power of compounding.

Find a compounding calculator.

- There are many interactive, compounding calculators online including the *Hands on Banking* site at **www.handsonbanking.com**.
- By conducting a simple web search you can find different calculators where you can type in an amount of money and see how compounding works.
- You can use them to estimate the future value of an investment based on different rates of return.

Tip!

The sooner you start investing, the more time your money has to grow and the harder your money works for you. Get started investing as early as you can!

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The Rule of 72 Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Explain the formula to the participants and say it out loud so they understand the division: "72 divided by the interest rate will show you how many years it will take to double your investment." Instruct them to complete the three math problems on the sheet.

Instructions:

Have your participants complete the math problems on the page using this formula:

72 ÷ interest rate = years it will take to double your investment

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Scenario 1:

You have an investment that's earning 8% per year. How many years will it take to double your investment?

Answer: **9 years**

Scenario 2:

You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: **7.2%**

Scenario 3:

Your investment earns 6%. How many years will it take to double that investment?

Answer: **12 years**

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The Rule of 72 Activity

Instructions:
Complete the math problems on the page using this formula:

72 ÷ interest rate = years it will take to double your investment

1. Take the interest rate of your investment.
2. Divide 72 by the interest rate.
3. The number you come up with is how many years it will take your original investment to double.

Scenario 1:
You have an investment that's earning 8% per year. How many years will it take to double your investment?

Answer: ______________________

Scenario 2:
You have 10 years to invest your money. What interest rate will you need to have to double your money in that time?

Answer: ______________________

Scenario 3:
Your investment earns 6%. How many years will it take to double that investment?

Answer: ______________________

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Investing Basics lesson:

- Investing is putting money you've saved into things you think will increase in value over time.
- There are lots of possible investments. Two examples are stocks and real estate.
- Buy investments when the price is low, then try to sell when the price is high. That's how you make a profit.
- Any time you sell an investment for a profit, your earnings are called capital gains. If you lose money when you sell your investment, you'll have what's called a capital loss.
- With investing, there's always a risk of losing some or even all of your money if the investment doesn't perform well.
- The greater the risk of a loss on an investment, the greater the potential return. The lower the risk of loss, the lower the potential return.
- Use the Rule of 72 to determine how many years it will take you to double your investment.

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Lesson 3: How to Get Started With Investing

In this lesson, participants will learn basic guidelines for smart investing and how to get started.

Learning Objectives
After completing this lesson, participants will be able to:

- Determine whether or not they're ready to invest.
- Identify the steps they should take to get started with investing.
- Follow guidelines for smart investing.

Start the Discussion
To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- How much money do you think you need before you can start investing?
- Where did you come up with that figure?
- If you are ready to invest, what is your next step?

The Basics
Remember these key points from the How to Get Started With Investing lesson:

- Before you start to invest, be sure you're prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
- There are six basic steps you should take before investing:
  1. Make an investing plan.
  2. Determine how much risk you are comfortable taking.
  3. Save enough to cover two to six months of expenses.
  4. Determine how much money you need to invest every month and make a commitment to do so.
  5. Decide on the mix of investments you want to maintain to reach your goals.
  6. Research investments before you buy.
- There are specific guidelines you can follow to invest wisely.

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Ready to Invest? Activity

Instructor note:

Pose the following question to your participants. Ask them to write down the letters of the correct answer(s). Identify the correct answers and lead discussion

Which two of the following should be in place before you start investing?

- **A. Enough savings to cover two to six months of expenses.**
- B. Debts low enough that you can comfortably pay them.
- C. Own a home with a 30-year mortgage loan.
- **D. You've repaid all of your loans on time and in full.**
- E. No more than $1,000 in credit card debt.
- F. Enough savings to cover 9 to 12 months of expenses.

Key points to make during the discussion:

- Before you start to invest:
- Be sure you're prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
- Consider working with professionals. Ask at your financial institution—many offer investment products and guidance.

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How to Get Started

Instructor note:

Lead a discussion about getting started with investing using these key points.

1. **Save enough to cover two to six months of expenses.** Make sure your expenses are low enough that you can comfortably pay them.
2. **Make an investing plan.** List your financial goals and how much time you have to reach them.
3. **Determine how much risk you are comfortable taking.**
4. **Decide on the mix of investments you want to maintain** to reach your goals.
5. **Determine how much money you need to invest** every month and make a commitment to do so.
6. **Research investments before you buy.** Base your decisions on facts, not emotions. Visit Web sites that offer investment information and news. Consider seeking guidance from investing professionals.

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Guidelines for Smart Investing Activity(Instructor Copy)

Instructor note:
Photocopy the activity handouts on the next two pages. Pass out the first activity handout and instruct your participants to match the action phrase with its correct description. When they are finished, pass out the second handout (the fully filled in chart) and lead a discussion based on these guidelines for smart investing.

Instructions:
Have your participants use the Word Bank to match the correct action phrase to its description.

Word Bank
Buy low and sell high
Diversify
Buy and hold
Decide when to sell
Pay attention to costs
Keep track
Stick with your plan

Guidelines for Smart Investing

Guideline	Description
Buy low and sell high	• Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.
Diversify	• Divide your money among different types of investments to reduce your risk. • Have a balance of different types of investments in a variety of companies and industries.
Buy and hold	• Avoid overacting to "hot tips" or trying to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. • Stay objective and focus on the long term. Be an investor, not a gambler. • Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.
Decide when to sell	• This is a key to successful investing—look at your investments that are doing poorly as well as those that have increased in value and make an educated decision. • Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now.
Pay attention to costs	• Taxes, fees, inflation can all affect your return on an investment. • It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.
Keep track	• A fast and convenient way to do this is through online account access offered by many investment brokerage companies. • This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.
Stick with your plan	• Periodically review your investing plan so that you don't lose sight of your goals. • Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

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Guidelines for Smart Investing Activity

Instructions:

Use the Word Bank to match the correct action phrase to its description.

Word Bank

Buy low and sell high
Diversify
Buy and hold
Decide when to sell
Pay attention to costs
Keep track
Stick with your plan

Guidelines for Smart Investing

Guideline	Description
	• Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.
	• Divide your money among different types of investments to reduce your risk. • Have a balance of different types of investments in a variety of companies and industries.
	• Avoid overacting to "hot tips" or trying to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. • Stay objective and focus on the long term. Be an investor, not a gambler. • Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.
	• This is a key to successful investing—look at your investments that are doing poorly as well as those that have increased in value and make an educated decision. • Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now.
	• Taxes, fees, inflation can all affect your return on an investment. • It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.
	• A fast and convenient way to do this is through online account access offered by many investment brokerage companies. • This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.
	• Periodically review your investing plan so that you don't lose sight of your goals. • Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

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Guidelines for Smart Investing

Guideline	Description
Buy low and sell high	• Selling an investment for more than you paid is how you make a profit. • The historical trend of a stock's price may help indicate what might happen in the future. • When you research possible investments, many advisors recommend that you focus on the investment's objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio. • Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn. • Use dollar cost averaging as an alternative. Invest equal amounts of money on a regular basis. Then purchase more shares when prices are low, fewer when prices are high, with the goal of reducing the average cost per share over time.
Diversify	• Divide your money among different types of investments to reduce your risk. • Have a balance of different types of investments in a variety of companies and industries.
Buy and hold	• Avoid overacting to "hot tips" or trying to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. • Stay objective and focus on the long term. Be an investor, not a gambler. • Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.
Decide when to sell	• One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. • Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell. • To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now.
Pay attention to costs	• Taxes, fees, inflation, and other costs can all affect your return on an investment. • It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.
Keep track	• Whether you invest online or through a professional, it's important to keep track of your investments. • A fast and convenient way is through online account access offered by many investment brokerage companies. • This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.
Finally, stick with your plan	• Periodically review your investing plan so that you don't lose sight of your goals. • Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

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Topic 5 — Planning Your Future

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Articles: Avoid Common Investing Mistakes and Minimize Investment Taxes

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Remember these key points from the How to Get Started With Investing lesson:

- Before you start to invest, be sure you're prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job.
- There are six basic steps you should take before investing:
  1. Make an investing plan.
  2. Determine how much risk you are comfortable taking.
  3. Save enough to cover two to six months of expenses.
  4. Determine how much money you need to invest every month and make a commitment to do so.
  5. Decide on the mix of investments you want to maintain to reach your goals.
  6. Research investments before you buy.
- There are specific guidelines you can follow to invest wisely.

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Lesson 4: Your Portfolio

This lesson will teach your participants different strategies to help reduce risk and increase investing success.

Learning Objectives

After completing this lesson, participants will be able to:

- Follow good strategies for managing their portfolios.
- Compare and contrast aggressive and conservative investment styles.

Start the Discussion

To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- What are some examples of what would be part of an investment portfolio?
- Can you define the risk vs. return principal?
- How do you determine how much risk can you handle when considering to invest?

The Basics

- Once you start investing, you need to manage your portfolio, or the collection of investments that you own.
- There are several good strategies for managing your portfolio in ways that can help reduce your risk and increase your investing success.
- In general, stocks have greater potential for growth and total return compared to bonds.
- Bonds offer greater potential for stability and income compared to stocks.

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Managing Your Portfolio Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to match the correct term from the Word Bank with the right descriptions.

Instructions:

Have your participants write in the correct investing term that matches its description.

Word Bank

Asset allocation	Inflation
Deflation	Investment mix
Diversification	Liability
Dollar cost averaging	Rebalancing

Investing Terms

Term	Definition
Diversification	• An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). • Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate. • In a portfolio of stocks, diversification means reducing the risk of any individual stock by holding stock in a variety of companies. • Mutual funds offer one way to diversify if you choose funds that represent a variety of industries and companies.
Asset allocation	• Asset allocation means investing in different broad categories (or "classes") of investments. • The three major classes in the investment markets are stocks, bonds and cash. Each of these performs differently in response to market changes. • When deciding what percentage of each to hold in your portfolio it's important to consider your financial goals, investment time frame and tolerance for market risk. • According to some financial advisors, asset allocation can account for roughly 90% of the variability in an investment portfolio's performance. • To determine the right asset allocation for you, you need to consider factors such as your financial goals, your tolerance for risk, and your investing time horizon. Discuss these factors with your investment advisor. • Adjust your asset allocation strategy annually or when your personal circumstances or financial goals change.

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Managing Your Portfolio Activity (Instructor Copy) (continued)

Investing Terms (continued)

Term	Definition
Rebalancing	• Because investment values tend to rise and fall, the percentages you have allocated to specific asset classes (stocks, bonds, cash) may not remain consistent with your original intentions over time. • Be sure to review your investments against your target asset allocation at least annually. • For example: Assume you started with an asset allocation of 50% bonds and 50% stocks. If your stocks have consistently increased in value during the last five years but the value of your bonds have remained flat, you may find that your stocks have grown to represent 70% of your portfolio. To maintain your original asset allocation, you may wish to sell some stock, and purchase additional bonds to achieve a 50% - 50% split.
Dollar cost averaging	• This is a technique that can help soften the effect of market ups and downs on your portfolio and take much of the emotion and guesswork out of investing. • You invest a set amount of money on a regular basis over a long period of time, regardless of what the price of the investment is. • When the value of the investment is up, you buy fewer shares; when the value of the investment is down, you buy more shares. • The result is that you will acquire most of the shares at a below-average cost per share.

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Managing Your Portfolio Activity

Instructions:
In the left hand column, write in the correct investing term that matches its description. Use the Word Bank, but be careful, some will not match up.

Word Bank

Asset allocation	Inflation
Deflation	Investment mix
Diversification	Liability
Dollar cost averaging	Rebalancing

Investing Terms

Term	Definition
	• An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). • Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate. • In a portfolio of stocks, diversification means reducing the risk of any individual stock by holding stock in a variety of companies. • Mutual funds offer one way to diversify if you choose funds that represent a variety of industries and companies.
	• Asset allocation means investing in different broad categories (or "classes") of investments. • The three major classes in the investment markets are stocks, bonds and cash. Each of these performs differently in response to market changes. • When deciding what percentage of each to hold in your portfolio it's important to consider your financial goals, investment time frame and tolerance for market risk. • According to some financial advisors, asset allocation can account for roughly 90% of the variability in an investment portfolio's performance. • To determine the right asset allocation for you, you need to consider factors such as your financial goals, your tolerance for risk, and your investing time horizon. Discuss these factors with your investment advisor. • Adjust your asset allocation strategy annually or when your personal circumstances or financial goals change.

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Managing Your Portfolio Activity (continued)

Investing Terms (continued)

Term	Definition
	• Because investment values tend to rise and fall, the percentages you have allocated to specific asset classes (stocks, bonds, cash) may not remain consistent with your original intentions over time. • Be sure to review your investments against your target asset allocation at least annually. • For example: Assume you started with an asset allocation of 50% bonds and 50% stocks. If your stocks have consistently increased in value during the last five years but the value of your bonds have remained flat, you may find that your stocks have grown to represent 70% of your portfolio. To maintain your original asset allocation, you may wish to sell some stock, and purchase additional bonds to achieve a 50%-50% split.
	• This is a technique that can help soften the effect of market ups and downs on your portfolio and take much of the emotion and guesswork out of investing. • You invest a set amount of money on a regular basis over a long period of time, regardless of what the price of the investment is. • When the value of the investment is up, you buy fewer shares; when the value of the investment is down, you buy more shares. • The result is that you will acquire most of the shares at a below-average cost per share.

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Matching Investments to Your Situation Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to read each scenario and then decide whether that portfolio should have a majority of stocks, bonds, or cash.

Instructions:
Have your participants read each scenario in the right column and decide whether that portfolio should have a majority of stocks, bonds, or cash. Have them write in stocks, bonds, or cash in the left column.

Matching Investments to Situations

Stock, bonds, or cash?	Scenario
STOCKS	You have a relatively long investment time frame—5 to 10 years or longer.
BONDS	Your goal is to preserve your assets.
STOCKS	You want the potential to make substantial returns on your investments to reach your goals.
BONDS	You have a mid- to long-term investment timeframe.
BONDS	You can withstand some fluctuation in asset values on the way to achieving your goals.
CASH	You don't mind a minimal return on your money.
BONDS	You need an income stream from your investments.
STOCKS	You have the risk tolerance to handle major ups and downs in the market.
CASH	You may need to access a significant portion of your money in the near term.

Tip!

A savings account or a certificate of deposit (CD), may be better suited to meet a short-term goal (buying a car). Stocks, bonds, and mutual funds are best for long-term planning and saving (retirement).

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Matching Investments to Your Situation Activity

Instructions:

Read each scenario in the right column. Decide whether that portfolio should have a majority of stocks, bonds, or cash. Write in stocks, bonds, or cash in the left column.

Matching Investments to Situations

Stock, bonds, or cash?	Scenario
	You have a relatively long investment time frame—5 to 10 years or longer.
	Your goal is to preserve your assets.
	You want the potential to make substantial returns on your investments to reach your goals.
	You have a mid- to long-term investment timeframe.
	You can withstand some fluctuation in asset values on the way to achieving your goals.
	You don't mind a minimal return on your money.
	You need an income stream from your investments.
	You have the risk tolerance to handle major ups and downs in the market.
	You may need to access a significant portion of your money in the near term.

Tip!

A savings account or a certificate of deposit (CD), may be better suited to meet a short-term goal (buying a car). Stocks, bonds, and mutual funds are best for long-term planning and saving (retirement).

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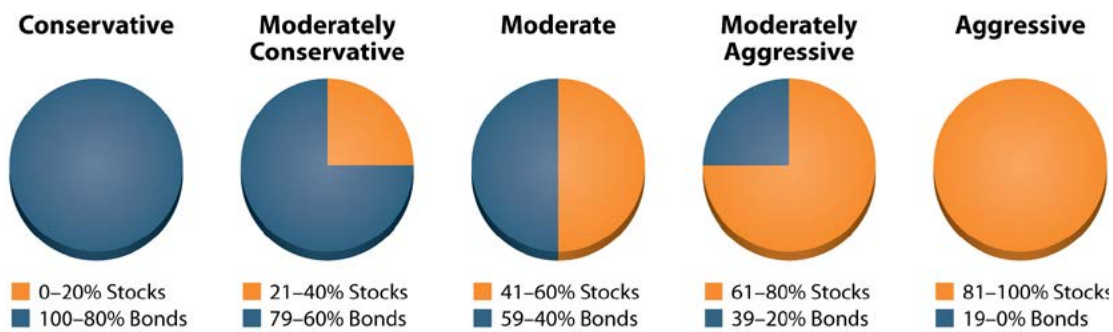
Your portfolio: Conservative or Aggressive?

Instructor note:

Lead a discussion about the differences between a conservative or aggressive investment strategy. Mention these key points and use the chart to show portfolio types.

- In general, stocks have greater potential for growth and total return compared to bonds.
- On the other hand, bonds offer greater potential for stability and income compared to stocks.
- Most financial advisors agree that a portfolio more heavily weighted with stocks is more "aggressive" and one with more bonds is more "conservative."

Have participants review these different investment mixes.



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Topic 5 — Planning Your Future

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Portfolio lesson:

- Once you start investing, you need to manage your portfolio, or the collection of investments that you own.
- There are several good strategies for managing your portfolio in ways that can help reduce your risk and increase your investing success.
- In general, stocks have greater potential for growth and total return compared to bonds.
- Bonds offer greater potential for stability and income compared to stocks.

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Topic 5 — Planning Your Future

Lesson 5: Retirement Basics

In this lesson, participants will learn basics they should know before creating their financial strategy. It also includes a helpful overview of retirement plans.

Learning Objectives

After completing this lesson, participants will be able to:

- Determine how much money they need to retire.
- List six common sources of retirement money.
- Explain the 4% rule.
- Define the different types of retirement plans.

Start the Discussion

To start a discussion with your participants, ask some open-ended. Here are some examples you could use:

- Do you have a plan or strategy for retirement?
- How much money do you think you'll need per year to retire?
- How many years do you think you'll need to work to comfortably retire?

The Basics

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you may spend quite a few years in retirement.
- When it comes to creating a retirement strategy, there's no such thing as "one size fits all."

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Retirement is as Individual As You Are

Instructor note:

Lead a discussion about retirement. Use general terms and hit the key points listed below. Invite participants to share their thoughts and questions about retirement.

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you may spend quite a few years in retirement.
- The length of your retirement may equal the number of years you were in the workforce.
- So it makes sense to create a strategy—a retirement plan—and start to implement that plan as early as you can.
- Everyone's circumstances and financial situation are a little different. With your own personal strategy, you'll know how much you can afford to spend each month and not outlive your retirement savings.
- If you're counting on the federal government's Social Security program to fully fund your retirement, don't bet on it. In December 2006, the average monthly Social Security benefit nationwide was $1,044. That's just over $12,500 a year, an amount that's not likely to give you the retirement of your dreams.
- 2006 Social Security Average benefit = $1,044 / month = $12,528 / year.*

**Source: Social Security Administration, Fast Facts, June ,2008.*

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How Much Money Will You Need To Retire? Quiz (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to answer the six quiz questions.

Instructions:

Have your participants answer each question.

1. How much money you'll need in retirement depends on three factors. What are they?
   - Where you plan to live and the cost of living there
   - How many years you'll live in retirement
   - How much your health care expenses will be during your retirement years.

2. What is the life expectancy for U.S. women?
   a. 75
   b. 77
   c. 80
   d. 85

3. What is the life expectancy for U.S. men?
   a. 75
   b. 77
   c. 80
   d. 85

4. The retirement years are when most people have their highest:
   a. Mortgage costs
   b. Health care costs
   c. Car loan costs
   d. Investment costs

5. What percentage of today's income do experts recommend you aim for in retirement?
   a. 50–60%
   b. 65–75%
   c. 75–85%

6. How much money you'll want to have for retirement depends on:
   a. Your lifestyle
   b. Your age
   c. Your city
   d. How many years of retirement you forecast

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How Much Money Will You Need To Retire?

Instructions:

Read each question. Either fill in the blank or select the best answer.

1. How much money you'll need in retirement depends on three factors. What are they?

   ____

   ____

   ____

2. What is the life expectancy for U.S. women?
   a. 75
   b. 77
   c. 80
   d. 85

3. What is the life expectancy for U.S. men?
   a. 75
   b. 77
   c. 80
   d. 85

4. The retirement years are when most people have their highest:
   a. Mortgage costs
   b. Health care costs
   c. Car loan costs
   d. Investment costs

5. What percentage of today's income do experts recommend you aim for in retirement?
   a. 50–60%
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   c. 75–85%

6. How much money you'll want to have for retirement depends on:
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   b. Your age
   c. Your city
   d. How many years of retirement you forecast

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Retirement Money: Six Common Sources Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to match the correct term from the Word Bank with the right description.

There are six common sources of money in retirement.

Instructions:

Have your participants match the correct source of money with its definition.

Word Bank

Disability check
Gifts
Home equity
Inheritance
Investments
New income
Pension
Savings
Social security

Sources of Retirement Money

Money Source	Description
Social security	The amount you receive in Social Security will vary based on how much you earn, but for many retirees today, their benefits equate to 20% to 30% of their pre-retirement income.
Savings	This is money you save. Try to earn the highest rate of compound interest you can.
Investments	Your portfolio of investments might include stocks, mutual funds, bonds, etc.
Pension	Not too many people are lucky enough to have a pension. Even when pension plans were at their peak in 1985, fewer than half of Americans working for private companies were covered. By one current estimate, only 17% of those employed outside of government agencies can expect to receive traditional pension checks in retirement.
New income	Many people—if they can—continue to earn money by working part-time, running a small business, or cycling between periods of employment and leisure. In addition to the income, continuing to work helps many people to feel connected, useful, and satisfied with life.
Home equity	If you're a homeowner, another source of retirement funds might be the home equity you have accumulated over the years.

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Retirement Money: Six Common Sources Activity

There are six common sources of money in retirement.

Instructions:

In the left hand column, write in the correct source of money that matches its definition. Use the Word Bank, but be careful, some will not match up.

Word Bank

Disability check
Gifts
Home equity
Inheritance
Investments
New income
Pension
Savings
Social security

Sources of Retirement Money

Money Source	Description
	The amount you receive in Social Security will vary based on how much you earn, but for many retirees today, their benefits equate to 20% to 30% of their pre-retirement income.
	This is money you save. Try to earn the highest rate of compound interest you can.
	Your portfolio of investments might include stocks, mutual funds, bonds, etc.
	Not too many people are lucky enough to have a pension. Even when pension plans were at their peak in 1985, fewer than half of Americans working for private companies were covered. By one current estimate, only 17% of those employed outside of government agencies can expect to receive traditional pension checks in retirement.
	Many people—if they can—continue to earn money by working part-time, running a small business, or cycling between periods of employment and leisure. In addition to the income, continuing to work helps many people to feel connected, useful, and satisfied with life.
	If you're a homeowner, another source of retirement funds might be the home equity you have accumulated over the years.

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Topic 5 — Planning Your Future

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Start Saving For Retirement

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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The 4% Rule (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. As you begin the discussion mention the four bullet points below first. Then discuss the bolded phrase. At this point, hand out the worksheet you've photocopied. Then, walk the participants through the example.

- Many studies indicate that if you want your retirement savings to last, you should withdraw no more than 4% to 6% of your savings each year.
- The exact percentage depends on many factors, including how long you live.
- If you're in good health and retire at a relatively early age, withdrawing a smaller percentage each year will help insure that your savings last.
- The amount of savings that you spend each year will also depend on how much you receive from other sources of income–part-time work, social security, etc.

Assuming a withdrawal rate of 4%, for every dollar you want to withdraw annually during retirement, you need to have $25 in assets set aside at the time you retire.

In this example:

1. The investor wants $80,000 in annual income during retirement.
2. Each year, he's going to receive $20,000 of that from Social Security and $10,000 from a pension.
3. He'll need to make up the difference between the $80,00 he'd like and the 30,000 he knows he's getting (from Social Security and his pension).
4. This difference is $50,000, which he'll take from savings.
5. To make this scenario work and have all the money he needs for retirement, the investor will have to have a portfolio of at least $1.25 million dollars set aside by the time he retires.
6. $50,000 is 4% of $1.25 million—hence the 4% rule.

The 4% Rule

Desired retirement income:	$80,000
Social security:	$20,000
Pension:	+ $10,000
Investment income needed:	$50,000
4% withdrawal rate	**x 25**
Total investment assets needed:	**$1,250,000**

If someone has $100,000 in savings and withdraws 4% a year, that's just $4,000 a year. With $1,000,000 dollars in savings (at the same 4% withdrawal rate) the amount grows to $40,000 a year…which sounds like a much nicer retirement!

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The 4% Rule

Instructions:

Use the diagram to help illustrate this example.

Assuming a withdrawal rate of 4%, for every dollar you want to withdraw annually during retirement, you need to have $25 in assets set aside at the time you retire.

In this example:

1. The investor wants $80,000 in annual income during retirement.
2. Each year, he's going to receive $20,000 of that from Social Security and $10,000 from a pension.
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4. This difference is $50,000, which he'll take from savings.
5. To make this scenario work and have all the money he needs for retirement, the investor will have to have a portfolio of at least $1.25 million dollars set aside by the time he retires.
6. $50,000 is 4% of $1.25 million—hence the 4% rule.

The 4% Rule

Desired retirement income:	$80,000
Social security:	$20,000
Pension:	+ $10,000
Investment income needed:	$50,000
4% withdrawal rate	**x 25**
Total investment assets needed:	**$1,250,000**

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Types of Retirement Plans Activity (Instructor Copy)

Instructor note:

Photocopy the activity handouts on the following pages. Instruct your participants to answer the questions in the space provided. Then lead a discussion using participants' answers and the key points below. After these activities, transition to a discussion of the different types of retirement plans.

Instructions:

Have your participants answer the following questions in the spaces provided in the handout on the next page:

1. What components do you need to consider for a retirement plan?
2. What benefits does contributing to a retirement plan offer you?
3. Give an example of a retirement plan.
4. How can your employer help with retirement plans?
5. What should you do about retirement plans if you're a non-working spouse or have a business of your own?

Key points for the Word Bank activity:

1. A retirement plan is a way to set aside money ____**for the future**____ and avoid spending it now.
2. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more ____**time to grow**____.
3. Even small amounts of savings have the ____**potential**____ to grow over time.
4. There are various types of retirement plans for both ____**individuals**____ and employers.
5. Some employers offer their employees a retirement plan which can make it simple for employees to save money for the future out of every ____**paycheck**____ they get.
6. If you're a ____**non-working spouse**____ or have a business of your own, there are other types of plans you can use.

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Types of Retirement Plans Activity

Instructions:

Answer the following questions in the spaces provided.

1. What components do you need to consider for a retirement plan?

2. How does contributing to a retirement plan benefit you?

3. Give an example of a retirement plan.

4. How can your employer help with retirement plans?

5. What should you do about retirement plans if you're a non-working spouse or have a business of your own?

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Types of Retirement Plans Activity (continued)

Instructions:

Answer the following questions in the spaces provided.

Word Bank

Double	Paycheck
For a vacation	Potential
For the future	Risk
Individuals	Tax refund
Non-working spouse	Time to grow

1. A retirement plan is a way to set aside money ______________________ and avoid spending it now.

2. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more ______________________.

3. Even small amounts of savings have the ______________________ to grow over time.

4. There are various types of retirement plans for both __________________ and employers.

5. Some employers offer their employees a retirement plan which can make it simple for employees to save money for the future out of every ______________________ they get.

6. If you're a ______________________ or have a business of your own, there are other types of plans you can use.

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Types of Retirement Plans

Traditional Individual Retirement Account (IRA)
A Traditional IRA is an account that: holds investments you've made (for example, CDs, mutual funds, or stocks) to help pay for your retirement. If you have earned income, you can contribute $5,000-$6,000 a year, potentially tax deductible, up to age 70½. The major benefit is that the government doesn't tax the interest you earn until you withdraw it, normally when you retire. This can help your account compound faster to give you more money at retirement.

Traditional IRAs are good investments for money you don't need right away and can afford to invest for a period of time. If you need it before you reach age 59½ (unless it's to buy your first home or pay education expenses) you'll pay both a penalty fee and taxes on your withdrawal.

A second type of IRA is called a Roth IRA. To understand the differences between Traditional and Roth and to set up an IRA, it's important to work with a banker, a financial advisor, or a retirement specialist.

Defined Contribution
One common type of these company-sponsored employee retirement plans is called a 401(k) plan. According to the Internal Revenue Service (IRS), for 2008 the maximum 401(k) contribution is $15,500 if you're younger than 50, $20,500 if you are 50 or older. While there are legal limits on how much you can contribute, you don't have to pay income taxes on the money you contribute until you use the money when you're retired.

If your company offers a retirement plan, study the specifics and talk with a retirement plan expert. Strongly consider investing as much as you can as soon as you can. Companies generally offer different options for you to invest the money in your 401(k). Some even offer to match your contributions. If yours does, take full advantage of it. Contribute enough to get the full match if you can. Also, take advantage of the new "catch up" provision starting at age 50 to maximize the amount of money you contribute. After all, you're investing in your own future!

SEP
A Simplified Employee Pension Individual Retirement Plan (SEP) is designed for people who are self-employed. Funds may be invested the same way as an IRA. For 2008, a SEP allows you to contribute up to 25 percent of your business compensation up to a maximum of $46,000.

Defined Benefit
A defined benefit plan provides a specific income for retired employees, either as a lump sum or as a pension (an annual lifetime payment). The pension amount usually depends on the employee's age at retirement, final salary, and the number of years on the job.

Tip!

It's never too early to start saving for retirement. Start saving as much as you can now at the best interest rate possible. Give your money time to grow! There may be different retirement plan options available to you. Be sure to consult with a retirement planning expert and tax advisor.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Retirement Basics lesson:

- Most of us would like to retire someday with the peace of mind that we can take care of ourselves financially.
- Having a financial strategy is critical because you want to have the needed resources for the length of your retirement.
- When it comes to creating a retirement strategy, there's no such thing as "one size fits all."

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Lesson 6: Making Retirement Work for You

In this lesson, participants will learn the value of starting early and creating a retirement strategy team. They'll learn how to determine how much money they'll need to retire.

Learning Objectives

After completing this lesson, participants will be able to:

- Build a retirement strategy team.
- Ask every member of the retirement strategy team targeted questions.
- List the five good action steps for any retirement strategy.
- Determine the amount of money they'll need for retirement using the 4% rule.
- Close any gaps in their retirement plan.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Who do you think would be part of a retirement strategy team? Why?
- What types of guidance do you need as you plan for retirement?
- When you think about retirement, what sorts of feelings or emotions come to mind?
- Does money figure into any of those emotions? Why or why not?
- How can you determine if you're on track to retire with the amount of money you need?

The Basics

- Creating a retirement strategy is a good first step in thinking about saving for retirement.
- It's a good idea to form a retirement strategy team that consists of your employer, your tax advisor, your business consultant, your banker and others.
- Lots of good retirement information is available for free—on the Web or at your local library.
- Use the 4% rule to determine how much money you'll need to save to retire.

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Build a Retirement Strategy Team Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into small groups and assign each group one of the questions below. When they are finished, discuss each question.

Instructions:

Have your participants read the statements and then fill in the answers for the assigned section.

1. **Creating a retirement strategy is a great first step, and there are a number of people who can help you.**

   Think of these individuals as your retirement strategy team. Take advantage of the information and advice they can offer you. These people could include (make a list):

   - Your employer
   - Tax advisor
   - Banker
   - Home mortgage consultant
   - Investment counselor
   - Insurance agent

2. **There is a lot of good information available about retirement planning at low or no-cost.**

   Where can you find this information?

   - Books
   - Magazines
   - Internet
   - Professionals—if you do pay someone to advise or assist you, be sure you understand how (and how much) you'll be charged.

3. **What role can your financial service company play?**

   - Some financial services companies will answer basic financial questions for free, or create a basic financial plan for as little as a few hundred dollars.
   - You may have to pay for some planning services, but financial advice doesn't have to be expensive.
   - And paying for that advice now can be a bargain if it helps you make smart financial choices that pay off in the long run.
   - But be sure to check the credentials of any financial advisor you use. Make sure they have a solid track record and reputation.

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Build a Retirement Strategy Team Activity

Instructions:

Read the statements below and then fill in the answers for your assigned section.

1. **Creating a retirement strategy is a great first step, and there are a number of people who can help you.**

   Think of these individuals as your retirement strategy team. Take advantage of the information and advice they can offer you. These people could include (make a list):

2. **There is a lot of good information available about retirement planning at low or no-cost.**

   Where can you find this information?

3. **What role can your financial service company play?**

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Ask Your Team for Guidance Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to list different questions they should ask each member of their retirement strategy team. Then reveal these questions and open the floor for discussion.

Be sure to ask questions of your retirement strategy team. If you work for a company, a great place to start is by talking to your employer or your union. If you're self-employed, you can seek outside professional advice.

Instructions:

Have your participants write in at least two questions for each retirement strategy team member. The questions may or not be the same for some team members.

Asking Your Team for Guidance

Team Member	Questions
Your Employer	• Does the company offer a retirement plan? • Does the company contribute to or match employee contributions to the plan? • Does the company offer an automatic payroll deduction option so I can spread my contribution throughout the year? • What retirement benefits will I receive?
Your CPA or Tax Advisor	• Which retirement income sources should I spend first in order to minimize my taxes? • At what age can I begin withdrawing money from a tax-deferred savings plan without incurring a penalty? (Currently, the answer is age 59½.)
Your Investment Counselor	• How much can I realistically expect to earn on my investments? (Remember: investing always involves risk and there are no guarantees. Some investments carry more risk, and more potential reward, than others.) • How should I allocate my assets to manage my income in retirement while seeking continued growth for my savings?

Tip!

If your employer offers a retirement savings plan, contribute to it. If your employer contributes, keep in mind that their contributions can vary year to year, so check with your employer at the beginning of each year.

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Ask Your Team for Guidance Activity

Be sure to ask questions of your retirement strategy team. If you work for a company, a great place to start is by talking to your employer or your union. If you're self-employed, you can seek outside professional advice.

Instructions:

Write in at least two questions for each retirement strategy team member. The questions may or not be the same for some team members.

Asking Your Team for Guidance

Team Member	Questions
Your Employer	*Example: What retirement benefits will I receive?*
Your CPA or Tax Advisor	*Example: At what age can I start drawing money from my retirement plan?*
Your Investment Counselor	*Example: How should I allocate my assets to manage my income in retirement?*

Tip!

If your employer offers a retirement savings plan, contribute to it. If your employer contributes, keep in mind that their contributions can vary year to year, so check with your employer at the beginning of each year.

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Getting Ready to Retire Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups. Instruct them to consider each step and describe why it is important for retirement. Then discuss their answer and share these points below with them.

Instructions:

Have your participants review each action step and write/describe why it is important for retirement.

Getting Ready to Retire

Action Step	Why Should You Follow This Step?
Reduce your debt	• Many experts recommend that you pay off major debts, such as home mortgages, college loans and other significant cash-flow drains, as quickly as you can. • By paying off your debts, you can greatly reduce the amount of money you'll need each month during retirement.
Build your savings	• Set up regular, automatic deposits to savings from your paycheck, checking account or both. By making it convenient, you'll save regularly and won't spend the money instead. • The sooner you start saving for retirement, the more time your money has the potential to grow and the harder your money works for you. • Even if you can only set aside a little each month, starting early could help you to take advantage of the potential of compounding. And even if you didn't start early, it pays to start now. Contributing regularly is key.
Contribute to a plan	• Contributing to a retirement plan can help you to save more, save more often, and start saving now to give your money more time to grow. • Consult with your employer and a retirement planning expert to discuss what retirement plan options are available to you. • If you're over 50 years of age, 401(k) plans and IRAs offer the option of investing additional catch up contributions.
Manage your investments	• As your target retirement date draws closer, you may want to reduce the percentage of stocks and increase the percentage of bonds in your portfolio. That's because the prices of stocks can go up and down quickly over the short term, while bonds are more stable and produce a steady source of income. • Also, ask your investment advisor about investments specifically designed for retirement.
Check with Social Security	• Review your annual Social Security statement to learn about your benefits and options. Make sure your personal information is up-to-date and your wage records are accurate.

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Getting Ready to Retire Activity

Instructions:

Review each action step and write/describe why it is important for retirement.

Getting Ready to Retire

Action Step	Why Should You Follow This Step?
Reduce your debt	
Build your savings	
Contribute to a plan	
Manage your investments	
Check with Social Security	

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Determine the Money You'll Need Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill out the fields according to the instructions.

Instructions:

Have your participants fill out the blank fields with their desired annual income, their expected social security benefits, expected annual pension, and the annual income they'll need from investments. Then, have them do the basic math to determine how much money they'll need to save for retirement.

The 4% Rule

Desired retirement income:	$80,000
Social security:	$20,000
Pension:	+ $10,000
Investment income needed:	$50,000
4% withdrawal rate	**x 25**
Total investment assets needed:	**$1,250,000**

Tip!

Everyone's retirement picture and goals are a little different. But hopefully this 4% rule gives you a good general guideline. To decide how much money you'll need to retire, you'll need to consider your own retirement spending needs and your own sources of income.

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Determine the Money You'll Need Activity

Instructions:
Fill out the blank fields with your desired annual income, your expected social security benefits, your expected annual pension, and the annual income you'll need from your investments. Then, do the basic math to determine how much money you'll need to save for retirement.

The 4% Rule

Desired retirement income:	
Social security:	
Pension:	
Investment income needed:	
4% withdrawal rate	**x 25**
Total investment assets needed:	

Tip!

Everyone's retirement picture and goals are a little different. But hopefully this 4% rule gives you a good general guideline. To decide how much money you'll need to retire, you'll need to consider your own retirement spending needs and your own sources of income.

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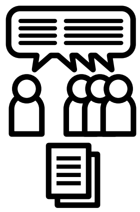

Closing the Retirement Money Gap (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Ask your participants to brainstorm several ideas that can help them close the gaps between the amount they've saved and they amount they need for retirement. Then lead a discussion using the key points from this handout listed below.

If you're trying to close the gap between the amount you've saved for retirement and the amount that you want and need here are some strategies that may definitely help:

Strategies for Closing the Retirement Gap

Strategy	Description
Cut back your spending	• Consider lowering your monthly overhead by downsizing your home and/or moving to a more affordable area. • Re-evaluate your insurance policies. If you increase your deductible from $250 to $500, you might be able to cut your premiums by 10% to 20%. • Look for other adjustments you can make some to reduce your expenses and minimize taxes.
Save more, starting now	• Even if you're getting started late, save as much as you can now.
Delay your retirement date	• You can choose to work longer, delaying the date when you'll depend on your portfolio income. A few additional years of full-time or even a part-time income can make a big difference in achieving your retirement plan. • If you own your own business, think about revising your business exit strategy in a way that generates more assets or income to support your retirement lifestyle.
Pay your taxes quarterly	• Rather than having your taxes automatically withheld from your retirement distributions, arrange to pay estimated taxes quarterly so you have access to the funds in the interim. • Consult your tax advisor for assistance with determining your quarterly payments.
Distribute $ strategically	• Consider withdrawing funds first from Social Security, then from taxable investment accounts, and last from your retirement accounts, such as IRAs and other tax-deferred accounts. • Your goal is to cover your monthly expenses, minimize your income taxes, and keep as much money as possible working tax-deferred for your future. Consult your tax advisor to determine the right decisions for your situation.

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Closing the Retirement Money Gap

If you're trying to close the gap between the amount you've saved for retirement and the amount that you want and need here are some strategies that may definitely help:

Strategies for Closing the Retirement Gap

Strategy	Description
Cut back your spending	• Consider lowering your monthly overhead by downsizing your home and/or moving to a more affordable area. • Re-evaluate your insurance policies. If you increase your deductible from \$250 to \$500, you might be able to cut your premiums by 10% to 20%. • Look for other adjustments you can make some to reduce your expenses and minimize taxes.
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Delay your retirement date	• You can choose to work longer, delaying the date when you'll depend on your portfolio income. A few additional years of full-time or even a part-time income can make a big difference in achieving your retirement plan. • If you own your own business, think about revising your business exit strategy in a way that generates more assets or income to support your retirement lifestyle.
Pay your taxes quarterly	• Rather than having your taxes automatically withheld from your retirement distributions, arrange to pay estimated taxes quarterly so you have access to the funds in the interim. • Consult your tax advisor for assistance with determining your quarterly payments.
Distribute \$ strategically	• Consider withdrawing funds first from Social Security, then from taxable investment accounts, and last from your retirement accounts, such as IRAs and other tax-deferred accounts. • Your goal is to cover your monthly expenses, minimize your income taxes, and keep as much money as possible working tax-deferred for your future. Consult your tax advisor to determine the right decisions for your situation.

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Scenario: Painting a Picture of Retirement Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Gwen's story and select the best possible option. Then for each option, have them write a few sentences about why the option was right or wrong for Gwen's situation.

Gwen's Story

Gwen owns a two-story building that houses her business, an art gallery and frame shop, on the ground floor, with an apartment above. She lives in a condominium in the suburbs. Gwen's daughter, son-in-law, and one-year old twins have just moved to the city. Gwen is 62 and would like to retire to help care for her grandchildren but doesn't have enough money saved. Her assistant would like to take over the shop. What should Gwen do?

1. **Remodel the building now so she can sell it for a higher price. Invest the money from the sale.**
   Consequences: Gwen took money from her savings and investments to pay for the remodel. That meant she had less money earning interest or profits. When the building didn't sell, she had to cut the price. After she sold it, she didn't have my regular source of income. Now she's working half-time for someone else!

   Feedback: Gwen's goal was to save, not spend. If the building had sold quickly for a very high price, maybe this idea could have worked—but there were no guarantees. Meanwhile, Gwen kept her major expense but gave up her major source of income (the business). She needed to look at the big picture.

2. **Sell her condo and move into the apartment above the store. Transition the gallery to her assistant.**
   Consequences: This worked out great for Gwen. Her housing expenses are 1/3 of what they used to be. And by moving to the city, she was able to sell her car, too. That's a huge savings in both dollars and commute time. Now she can save and invest much more and hopefully retire soon. I'm continuing to work for now but can gradually work less as I train my assistant to take over. Even after I retire, I can still make money by selling my paintings."

   Feedback: This is the correct choice. Cutting expenses, saving and investing more, delaying her retirement date, and continuing to earn income are all great strategies for closing the retirement money gap. She's been able to sell her car and save and invest more.

3. **Move all of her savings into stocks with high potential for growth. Sell as soon as their values rise 30%.**
   Consequences: Not the right choice. It wasn't smart to put all of her hard-earned savings at major risk. A few of the stocks went up, but the others went way down. It would have been smarter to cut her expenses and save more but keep her investments diversified.

   Feedback: Sorry, this advice put Gwen in a risky spot. There are no guarantees that investments will go up in value, and she could lose some or even all of her savings. To create a successful retirement strategy, she needs to consider her whole picture—income, expenses, savings, and investments.

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Scenario: Painting a Picture of Retirement Activity

Instructions:

Read Gwen's story. Based on their situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Gwen's situation.

Gwen's Story

Gwen owns a two-story building that houses her business, an art gallery and frame shop, on the ground floor, with an apartment above. She lives in a condominium in the suburbs. Gwen's daughter, son-in-law, and one-year old twins have just moved to the city. Gwen is 62 and would like to retire to help care for her grandchildren but doesn't have enough money saved. Her assistant would like to take over the shop.

What should Gwen do?

1. **Remodel the building now so she can sell it for a higher price. Invest the money from the sale.**
   Should she choose this option? Why or why not?

2. **Sell her condo and move into the apartment above the store. Transition the gallery to her assistant.**
   Should she choose this option? Why or why not?

3. **Move all of her savings into stocks with high potential for growth. Sell as soon as their values rise 30%.**
   Should she choose this option? Why or why not?

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Making Retirement Work For You lesson:

- Creating a retirement strategy is a good first step in thinking about saving for retirement.
- It's a good idea to form a retirement strategy team that consists of your employer, your tax advisor, your business consultant, your banker and others.
- Lots of good retirement information is available for free—on the Web or at your local library.
- Use the 4% rule to determine how much money you'll need to save to retire.

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Lesson 7: Wealth Building

In this lesson, participants will learn that wealth is a set of resources they can use to create and take advantage of life's opportunities.

Learning Objectives

After completing this lesson, participants will be able to:

- Define the wealth-building pyramid to help build wealth.
- Use the three pillars of wealth building to determine their wealth disbursement.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions.

- What's the difference between wealth and having a lot of money?
- What are some things you've tried to do to build wealth?
- Give an example of a person who has built wealth (not through inheritance, etc.).? What traits does this person have?
- How important is building wealth to you? Why?

The Basics

- "Having money" and "building wealth" are really two different things.
- Wealth is a set of resources you can use to create and take advantage of life's opportunities.
- Wealth building is a process of defined steps that requires discipline.

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What is Wealth-Building? (Instructor Copy)

Instructor note:

Begin a discussion about wealth. Open the floor for discussion by asking questions, such as:

- *How do you define wealth?*
- *How can you build wealth?*
- *What kind of people do you consider "wealthy?"*

Then focus on the key points listed below as you continue the discussion.

Key Points:

- "Having money" and "building wealth" are really two different things.
- When you have wealth—savings, assets and investments—you have more than just income.
- Wealth is a set of resources you can use to create and take advantage of life's opportunities.
- Wealth-building usually doesn't happen overnight, in a year, or in three years. Building wealth is a series of steps that you take over time. It's an ongoing process that requires discipline.
- If you apply that discipline, wealth-building becomes a life pattern. And as you move through each stage of life, you grow in your ability to build wealth and to pass that wealth from generation to generation.

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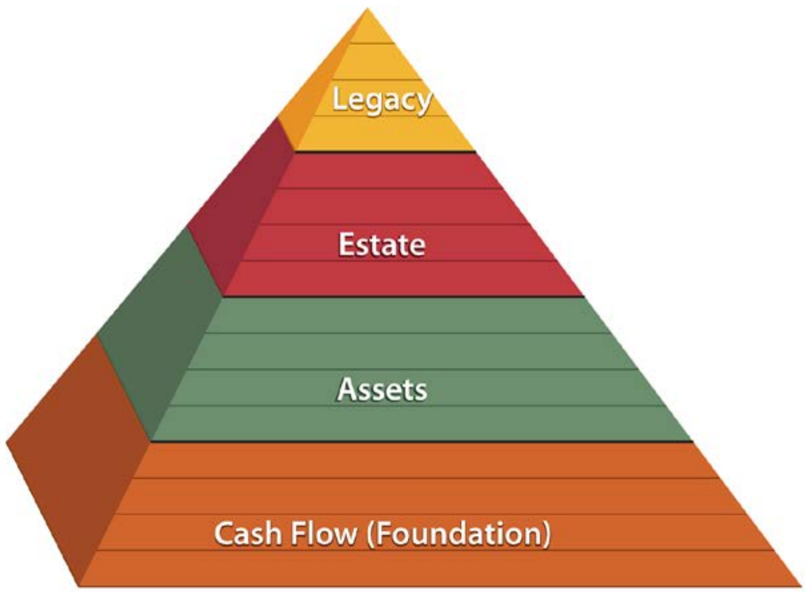
The Wealth-Building Pyramid Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to label the diagram as you walk through each stage of wealth building and take notes in the space provided.



Cash Flow (Foundation) Before you can build wealth you must consistently generate enough income to handle month-to-month expenses and have enough savings set aside to cover at least two months, and if possible three to six months of living expenses, in case of a financial emergency.
Assets Then you can begin to invest in assets—investments, such as real estate or stocks. These investments will hopefully appreciate in value over time and allow you to retire at some point in the future with a comfortable lifestyle.
Estate Your estate is the wealth you'll pass on to your family. If you're a business owner, this could include your business.
Legacy These are your legacy goals, or your philanthropic goals—the many positive ways you might share your wealth by giving back to your community.

Tip!

Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.

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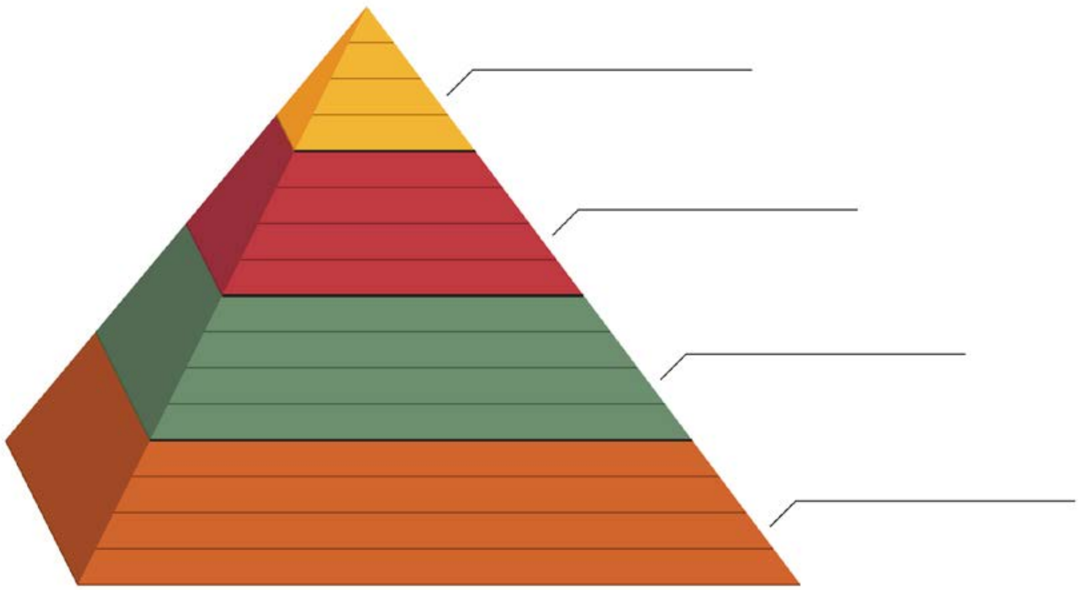
The Wealth-Building Pyramid Activity

Instructions:
Label the diagram and take notes in the space provided as you listen to the discussion.



Cash Flow (Foundation)
Assets
Estate
Legacy

Tip!

Remember that your wealth-building pyramid needs a solid foundation—a foundation you provide by being a good money manager, establishing credit, and managing your credit wisely.

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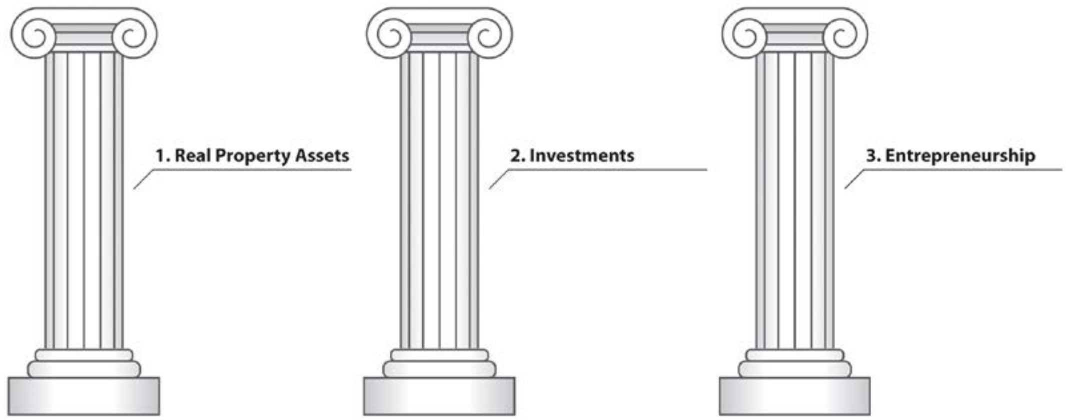
The Three Pillars of Wealth-Building (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to label the diagram and take notes as you lead the discussion.



The Three Pillars of Wealth-Building

First Pillar	Second Pillar	Third Pillar
The first pillar of wealth building is "Real Property Assets" (your personal residence and investment real estate) because in general, real estate appreciates in value. And once you own a home, you gain the potential to tap into your home equity, which means you may be able to borrow money using your home as security. Home equity gives people financial flexibility and options.	The second pillar is investments—for example, a retirement account where you have stocks and bonds.	And the third pillar, for many people, is entrepreneurship—owning a business of your own.

Tip!

For most people, ⅔ of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.

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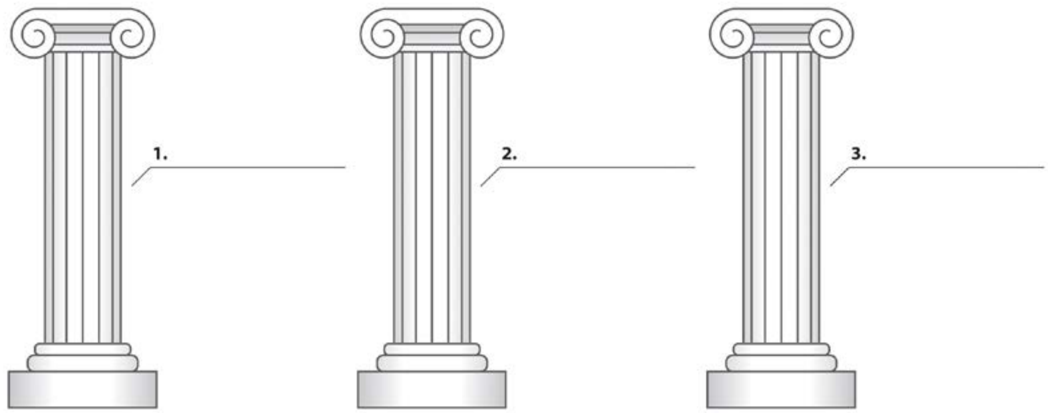
The Three Pillars of Wealth-Building

Instructions:
Label the diagram and take notes as you listen to the discussion.



The Three Pillars of Wealth-Building

First Pillar	Second Pillar	Third Pillar

Tip!

For most people, ⅔ of family wealth is in the family home. Home equity can be a source of capital for all your wealth-building goals, and a home can be a significant legacy for the next generation.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Wealth Building lesson:

- “Having money” and “building wealth” are really two different things.
- Wealth is a set of resources you can use to create and take advantage of life’s opportunities.
- Wealth building is a process of defined steps that requires discipline.

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Lesson 8: Preserving Your Wealth

This lesson will teach participants how to protect the wealth they've accumulated. They will learn valuable information about insurance and three plans that can help them secure their financial future.

Learning Objectives

After completing this lesson, participants will be able to:

- Protect their assets.
- Explain the value of insurance and define key insurance vocabulary terms.
- Understand the importance and cost of health care as they move into retirement.
- Define investing plan, financial plan and estate plan.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions.

- What types of things can help protect your financial future?

The Basics

- Once you've built a portfolio of investments and other assets, you'll want a strategy to preserve your wealth.
- You need to protect your investments against unexpected emergencies or other factors that could impact your financial future.
- Insurance can help you protect your financial future.
- Three plans—an investment plan, a financial plan, and an estate plan—can help provide you greater financial security and a legacy for the next generation.

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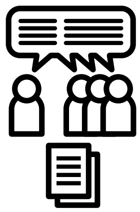

Protect Your Assets (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Lead a discussion to help your participants understand how they can protect their assets during retirement. Encourage them to write down notes and questions during the discussion.

Protecting Your Assets

Strategies	Advice
Prepare for medical emergencies	Be sure you have adequate insurance and a plan for managing your assets if you or a family member becomes seriously ill or disabled.
Consider longevity	Increase your savings so you can live comfortably in your eighties, nine-ties, or even beyond.
Manage your portfolio	Diversification and asset allocation can help reduce the impacts of high inflation and market declines on your investment accounts.
Have alternative plans	Consider best- and worst-case economic scenarios and determine how your financial plans may change if some of your assets lose value.
Keep personal assets separate	If you or your family owns a small business, consider ways to structure your business to protect your personal assets.

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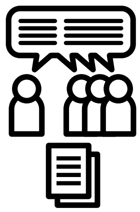

Protect Your Assets

Instructions:
Write down notes and questions as you participate in this discussion.

Protecting Your Assets

Strategies	Advice
Prepare for medical emergencies	Be sure you have adequate insurance and a plan for managing your assets if you or a family member becomes seriously ill or disabled.
Consider longevity	Increase your savings so you can live comfortably in your eighties, nineties, or even beyond.
Manage your portfolio	Diversification and asset allocation can help reduce the impacts of high inflation and market declines on your investment accounts.
Have alternative plans	Consider best- and worst-case economic scenarios and determine how your financial plans may change if some of your assets lose value.
Keep personal assets separate	If you or your family owns a small business, consider ways to structure your business to protect your personal assets.

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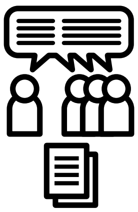

The Value of Insurance (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following pages and lead a discussion about how insurance is a critical resource for financial protection.

The value of insurance is to protect you from major expenses that you otherwise couldn't afford. For example, insurance could help you repair a car that was damaged in an accident, pay hospital bills, or repair your home after a fire.

Key Concepts of Insurance

Concept	Description
Basic insurance terminology	• Insurance policy is the document that spells out exactly what is covered and what is not. • Benefits are the items covered by your insurance. • Premium is the amount you pay for the insurance. • A claim is what you submit to your insurance company when you have costs or bills. • The deductible is the amount of a claim that you must pay before the insurance company will cover the rest. • A co-pay is the amount you pay toward each medical bill.
How deductible impacts premium	• Typically, the higher the deductible amount, the less expensive the insurance premium. • Get a policy with the highest deductible that you'd be able to comfortably afford if you had to. This will minimize the cost of your policy.
Your credit score	• Your credit score could impact how much insurance companies charge you in premiums.
"Save" on health insurance?	• If you're young and in good health, you may be tempted to "save money" by not buying health insurance. • A general rule of smart money management is to never insure something you can afford to pay for yourself. • But with today's high costs of medical care, taking your chances that you'll stay healthy is a strategy that may have serious financial consequences. • You may be able to handle the expense of minor health problems, but one serious illness has the potential to financially wipe out you—and your family. • Keep in mind that the younger and healthier you are when buying a health insurance policy, the less expensive it's likely to be.

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The Value of Insurance (Instructor Copy) (continued)

Key Concepts of Insurance (continued)

Concept	Description
Consider long term care	• Consider whether long term care insurance (LTC) is right for you. • This is coverage that, under specified conditions, provides skilled nursing, intermediate care, or custodial care for a patient (generally over age 65) in a nursing facility or his or her residence following an injury. • In some cases, adult children purchase this coverage for their parents. • When shopping for LTC, read the fine print. Work with an advisor who understands LTC. Coverage and costs may vary widely depending on your age, health, and other factors. • Also, consider that in future years you may want to adjust your living situation to suit your changing needs. Do you anticipate living with family members or on your own? Some senior communities now offer healthcare and assisted living as part of a complete package of services. Explore some of these options in advance so that you have a realistic understanding of the potential benefits and costs.
Benefits of life insurance	• Regardless of your family circumstances or your age, you should consider life insurance. • While its primary purpose is to ease the financial burden of an untimely death, it can be an effective tool for both asset protection and wealth accumulation. • Some types of life insurance can be used as a source of retirement income or to fund a child's education. • Many financial planners consider life insurance to be an important part of sound financial planning. Click on The Library icon for an article about life insurance and consult a professional to learn more.
Before you buy	• Before you buy insurance, always check the "financial strength rating" of the insurance company. • This is a measure of their financial soundness and how capable they are of handling the claims of their customers. The highest rating is AAA, followed by AA. Avoid companies without at least an A rating. • You can research these ratings on the Web. There are several companies that rate insurers, including AM Best, Moody's and Standard & Poors. The most reputable insurers receive consistently high ratings from all of these companies.

Important Note: *You will need to consult your legal or financial advisor for more specific information.*

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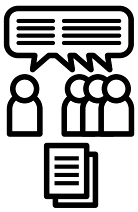
Topic 5 — Planning Your Future



The Value of Insurance

Key points:

The value of insurance is to protect you from major expenses that you otherwise couldn't afford. For example, insurance could help you repair a car that was damaged in an accident, pay hospital bills, or repair your home after a fire.

Key Concepts of Insurance

Concept	Description
Basic insurance terminology	• Insurance policy is the document that spells out exactly what is covered and what is not. • Benefits are the items covered by your insurance. • Premium is the amount you pay for the insurance. • A claim is what you submit to your insurance company when you have costs or bills. • The deductible is the amount of a claim that you must pay before the insurance company will cover the rest. • A co-pay is the amount you pay toward each medical bill.
How deductible impacts premium	• Typically, the higher the deductible amount, the less expensive the insurance premium. • Get a policy with the highest deductible that you'd be able to comfortably afford if you had to. This will minimize the cost of your policy.
Your credit score	• Your credit score could impact how much insurance companies charge you in premiums.
"Save" on health insurance?	• If you're young and in good health, you may be tempted to "save money" by not buying health insurance. • A general rule of smart money management is to never insure something you can afford to pay for yourself. • But with today's high costs of medical care, taking your chances that you'll stay healthy is a strategy that may have serious financial consequences. • You may be able to handle the expense of minor health problems, but one serious illness has the potential to financially wipe out you—and your family. • Keep in mind that the younger and healthier you are when buying a health insurance policy, the less expensive it's likely to be.

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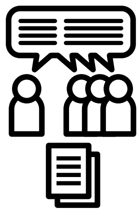

The Value of Insurance (continued)

Key Concepts of Insurance (continued)

Concept	Description
Consider long term care	• Consider whether long term care insurance (LTC) is right for you. • This is coverage that, under specified conditions, provides skilled nursing, intermediate care, or custodial care for a patient (generally over age 65) in a nursing facility or his or her residence following an injury. • In some cases, adult children purchase this coverage for their parents. • When shopping for LTC, read the fine print. Work with an advisor who understands LTC. Coverage and costs may vary widely depending on your age, health, and other factors. • Also, consider that in future years you may want to adjust your living situation to suit your changing needs. Do you anticipate living with family members or on your own? Some senior communities now offer healthcare and assisted living as part of a complete package of services. Explore some of these options in advance so that you have a realistic understanding of the potential benefits and costs.
Benefits of life insurance	• Regardless of your family circumstances or your age, you should consider life insurance. • While its primary purpose is to ease the financial burden of an untimely death, it can be an effective tool for both asset protection and wealth accumulation. • Some types of life insurance can be used as a source of retirement income or to fund a child's education. • Many financial planners consider life insurance to be an important part of sound financial planning. Click on The Library icon for an article about life insurance and consult a professional to learn more.
Before you buy	• Before you buy insurance, always check the "financial strength rating" of the insurance company. • This is a measure of their financial soundness and how capable they are of handling the claims of their customers. The highest rating is AAA, followed by AA. Avoid companies without at least an A rating. • You can research these ratings on the Web. There are several companies that rate insurers, including AM Best, Moody's and Standard & Poors. The most reputable insurers receive consistently high ratings from all of these companies.

Important Note: *You will need to consult your legal or financial advisor for more specific information.*

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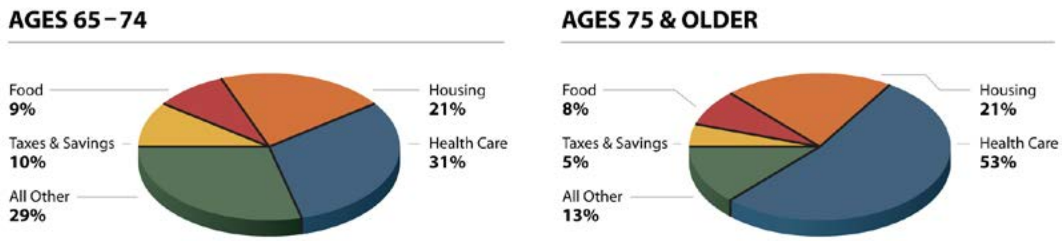
The Growing Cost of Health Care

Instructor note:

Lead a discussion about health care costs for seniors using this chart and the key points below.



As these two charts show, health care costs account for almost one third of the money spent by people between the ages of 65 and 74. After age 75, health care expenses account for more than half of all spending.

Source: National Center for Policy Analysis, "The Rising Burden of Health Spending on Seniors," February 2007.

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Topic 5 — Planning Your Future

Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Health Insurance

Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Three Plans for Your Future Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class into groups and have them fill in the chart with descriptions and definitions of each of the three plans. Then, walk them through each plan using the key points below.

There are three additional tools that we strongly suggest you develop for yourself:

1. Investing plan
2. Financial plan
3. Estate plan

Once you're familiar with these basics, it's a good idea to work with investing, financial, and estate planning professionals to learn more and to get help in creating plans that work for you.

Instructions:

Have your participants define and describe each of these three plans.

Three Plans for Your Future

Plan	Description
Investing plan	• An investing plan addresses your investment strategy: your goals, your risk tolerance, the kinds of investments you want to make, and how you plan to balance your portfolio—the group of investments you own.
Financial plan	• Financial planning means creating a long-term vision and clear goals for the financial future you want. • It means taking a look at how the major pieces of your financial world—your job or business, your spending plan, the major assets you own, and the debts you owe—all add up into one complete picture. Real estate, insurance, and investments are part of it, too. • Creating a financial plan helps you see what you're trying to achieve and how all of the parts fit together relative to your goals.
Estate plan	• An estate plan specifies how you want your property to be managed and distributed should you become totally disabled and after you die. Wills and trusts are part of an estate plan. • Creating an estate plan can also help you define your legacy—the gifts you'd like to make during your life and afterward to make a positive impact on your community. • If you don't create an estate plan, the money you leave behind will be subject to fees and may be subject to taxes of up to 60% or more! The state will control the distribution of your estate rather than your heirs. • Business owners, in particular, should be very conscious of the need to create an estate plan, because frequently much of your wealth in tied up in the business.

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Three Plans for Your Future Activity

There are three additional tools that we strongly suggest you develop for yourself:

1. Investing plan
2. Financial plan
3. Estate plan

Once you're familiar with these basics, it's a good idea to work with investing, financial, and estate planning professionals to learn more and to get help in creating plans that work for you.

Instructions:

Define and describe each of these three plans.

Three Plans for Your Future

Plan	Description
Investing plan	
Financial plan	
Estate plan	

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Preserving Your Wealth lesson:

- Once you've built a portfolio of investments and other assets, you'll want a strategy to preserve your wealth.
- You need to protect your investments against unexpected emergencies or other factors that could impact your financial future.
- Insurance can help you protect your financial future.
- Three plans—an investment plan, a financial plan, and an estate plan—can help provide you greater financial security and a legacy for the next generation.

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Topic Summary

Instructor note:
Summarize this topic by reviewing these key points with your participants.

Key points from the Planning Your Future Topic

- Think about your short- and long-term goals. Write them down, and update them when your circumstances change.
- Investing is a critical tool for helping your savings to grow over time.
- Investing involves risk, but you can help manage that risk by owning a variety of investments and following common sense investing guidelines.
- If you want to retire someday, create a retirement strategy now—and get started with saving and investing as early as you can.
- Create a retirement strategy team—include your tax advisor, banker or employer.
- Keep in mind that "having money" and "building wealth" are two different things. Wealth is a combination of savings, assets, and investments. It's a set of resources you can use to take advantage of life's opportunities. And wealth building is a series of steps you take over time.
- Protect your financial future and your family by having adequate insurance, an investing plan, a financial plan, and an estate plan.
- Take action now to plan your future, build wealth, achieve your financial goals, and design your own legacy for the next generation.

Additional Activities

These activities are designed to extend the new concepts presented in the Buying a Home Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Write down your current long and short term goals. Compare how these have changes since last year or the last five years.
2. Set-up a preliminary meeting with your banker to discuss creating your retirement team.
3. Go online and experiment with different compound interest calculators. Then, set up a savings plan that will help you save for your retirement. Talk with your banker or financial planner about options.
4. Create a sample portfolio for yourself—determine the amount of risk—and then create a pie chart that includes stocks, bonds and cash.
5. Research different investment firms to see if they can offer you any retirement investing options.

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Hands on Banking®
Money skills you need for life

Personal Goal Setting

Chances are, you're working hard to "get ahead"…but where are you headed? What kinds of things would you like to do, have, and accomplish over the next few months or years?

You probably have goals in various areas of your life, such as career, finance, education, or fitness. Some of these may be short-term goals such as getting a promotion at work, buying new clothes, or going on a vacation trip. Others may be long-term goals—whether it's buying a home, starting a business, or paying for college education.

Goals can guide you financially

Setting financial goals can help guide your approach to saving, investing, and managing your money in general. To determine your financial goals, Imagine your future:

- Where do you want to live? In what kind of home? In what sort of neighborhood?
- Will you have children (or more children)? How many?
- What career will you have?
- What will your lifestyle be like—both while you're employed and in retirement?
- In what manner would you like to provide a legacy for the next generation and give back to your community?

Write down your goals

To reach your goals, it can be very helpful to write them down on paper as opposed to just thinking about them. Writing your goals can help you determine exactly what you want to accomplish, and by when. It'll help you see what's really important to you and where to focus your time and effort. That's why writing down your goals is a great first step for moving your ideas from dreams to reality.

Use the worksheet below to describe your long-term, short-term, and immediate goals in different categories. Over time, as your personal circumstances change, your goals may change as well. Update your goals on a regular basis and during times of major change.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.

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Personal Goal Setting Worksheet

As you determine your goals, consider what action steps you'll need to take; what obstacles you may face and how you'll address them; what resources you'll need; and who can help you. Update your goals on a regular basis and during times of major change.

			Categories						
Goals	**Start Date**	**Goal Date**	**Career**	**Finance**	**Education**	**Health & Fitness**	**Community**	**Personal Development**	**Leisure**
Immediate (next 6 months–1 year)									
Short-Term (next 1–5 years)									
Long-Term (next 6–10 years+)									

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Avoid Common Investing Mistakes

Here are some common sense guidelines to help you invest successfully and avoid common mistakes.

Decide if you're ready

Most financial advisors recommend that you have enough savings on-hand to cover two to six months of expenses before starting to invest. That way, you'll be prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job. Once you've built up enough savings—and your debts are low enough that you can comfortably pay them—you're ready to consider investing.

Start investing as soon as you can

The earlier you start, the easier it will be to achieve your financial goals. Many investors lose out because they wait too long to get started or invest too little. If you don't start early, it can be difficult to catch up.

Understand the basics

Before you actually invest any money, it's important to understand the basics about different types of investments, such as stocks, bonds, and time accounts. One of the keys to success will be dividing your money among these types.

Consider your risk-tolerance

Investing involves taking some level of risk in exchange for potential reward. Consider your current financial situation and goals. Determine how much risk are you comfortable taking.

Diversify

Divide your money among different types of investments to reduce your risk. Have a balance of different types of investments in a variety of companies and industries.

Have a plan

Before you invest, create an overall plan of what you are trying to accomplish. Set financial goals and determine how much time you have to reach them. Taking your tolerance for risk into account, decide how much money you need to invest every month and the mix of investments you want to maintain.

Research before you invest

Research is critical to investing success. Always do research before investing. Most online brokerages offer research and financial news in addition to stock and mutual fund quotes. Base your decisions to invest on facts, not emotions. Be as objective as you can about the risks and potential rewards. View "hot tips" about investments with skepticism. Always do your research.

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Avoid common investing mistakes (continued)

Buy low and sell high
Selling an investment for more than you paid is how you make a profit. The idea is simple, but it's a challenge to do it consistently. The historical trend of a stock's price may help indicate what might happen in the future, but there are no guarantees. When you research possible investments, experts recommend that you focus on the investment's objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio. Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.

Buy and hold
Some investors overreact to news items they read or "hot stock tips." They start trading all the time, buying and selling investments very quickly in an attempt to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. Stay objective and focus on the long term. Be an investor, not a gambler. Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.

Decide when to sell
One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell. To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now. You may also want to consider the tax consequences of selling a particular asset at a particular time.

Pay attention to costs
Taxes, fees, inflation, and other costs can all affect your return on an investment. It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.

Keep track
Whether you trade online or invest though a professional, it's important to keep track of your investments. A fast and convenient way is through online account access offered by many investment brokerage companies. This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.

Understand market and limit orders
Unlike most things you buy, the prices of most stocks change very frequently. This means you need to tell the broker, that is the person or company handling your transaction, the price you agree to pay. Market orders are filled at the price a stock is trading when the order is received. If the stock price is volatile that day, you might pay more than you planned to. With limit orders, you set the buy or sell price, but you run the risk of not getting your order executed. Review your broker's trading guide before getting started to be sure you pick the order type that's right for you.

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Avoid common investing mistakes (continued)

Be accurate

If you trade online, make sure you type accurately. Check and double-check the order you type in. Have you entered the right stock symbol and number of shares? If you're rushed or distracted, you could make a serious mistake.

Stick with your plan

Periodically review your investing plan so that you don't lose sight of your goals. Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

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Minimize Investment Taxes

The following are some specific federal tax considerations. It's important to note that tax rates change periodically. For the most current information, visit the Internal Revenue Service Web site at www.irs.gov. In addition, state taxes may apply. Visit your state government Web site to learn more.

Taxes are complicated. The more you know about taxes related to investment activity, the better able you will be to manage your tax costs. Money you can save in taxes is money you can keep invested for your future.

As with any other type of investment, tax liability may differ from individual to individual, depending on your own personal circumstances. The following are some specific tax considerations associated with investing in stocks, mutual funds, and bonds:

Stocks
When investing in stocks, you may be able to control your tax liability by:

- delaying or accelerating an anticipated sale.
- selecting stocks with certain characteristics (such as stocks that do or do not pay dividends).
- choosing to trade stocks through a tax-advantaged account, such as an IRA or 401(k) plan.

Taxable events can work both ways. They can trigger a tax liability — in which case you owe taxes — or they may enable you to claim a tax loss — in which case you may be able to deduct all or part of that loss in the coming year or even future years.

The following are the most typical taxable events:

- **Dividend distribution**
  Periodically, usually once a quarter, corporations may pay dividends to shareholders. Regardless of whether you receive a dividend or have it automatically invested back into the stock, the distribution is reported as income. Qualified dividends are currently subject to tax at a maximum rate of 15%. Non-qualified dividends are subject to ordinary tax rates.
- **Short-term capital gains**
  A short-term capital gain is the profit from the sale of shares you've owned for one year or less. Short-term gains are currently subject to ordinary income tax rates.
- **Long-term capital gains**
  A long-term capital gain is the profit when you sell shares you've owned for more than one year. Long-term gains are currently subject to a maximum federal tax rate of 15%.

If any of these events occur with an investment you own in a tax-advantaged account, your tax liability may be postponed.

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Minimize investment taxes (continued)

Calculating gains and losses

When you sell shares, generally you incur either a gain or loss. Your gain or loss is the difference between the security's selling price and the security's cost basis. The cost basis is the purchase price plus any fees or commissions.

Gains occur when you sell shares for more than you originally paid, and are subject to capital gains taxation. Losses are incurred when your selling price is less than what you originally paid, and, in some circumstances, can be deducted from the current year or future year's capital gains liability.

Mutual Funds

Mutual funds have many advantages including professional money management and portfolio diversification. Keep in mind though, when you own mutual funds, your investment may be subject to taxable events. The following information regarding taxable events only refers to mutual funds that you own in taxable accounts, and not in tax-deferred accounts such as an IRA or 401(k) plan.

Taxable distributions

A mutual fund company generally does not pay taxes on your behalf, so it's important to monitor your account, and report all taxable distributions when you file your income taxes each year. A mutual fund company will send you a Form 1099-DIV that summarizes the taxable distributions it made to you during the year (if any).

Taxable distributions include:

- **Dividend distributions**
  Fund portfolios may hold securities that pay dividends. A fund company passes these dividends, minus fund expenses, on to the fund's shareholders. A portion of these dividends may qualify for special tax treatment (maximum rate of 15%) but other portions may not qualify. You may elect to have dividends reinvested to purchase more shares of the fund at the time of the distribution, but reinvesting dividends does not change your tax liability.

  Note: Some funds, such as municipal bond funds, invest in municipal debt securities, which may provide income that is exempt from federal income tax and, in some cases, state income tax as well. Before you invest in a municipal bond fund, you should read the prospectus carefully to see if the tax benefits from the fund may be appropriate for your situation. Please keep in mind that you may be subject to state and local taxes.
- **Capital gains distributions**
  Mutual funds purchase and sell investments on behalf of the fund's shareholders. When the fund sells investments for a long-term gain, it may treat a portion of its dividend as a capital gain distribution, taxable to you at a maximum rate of 15%. As with dividends, you may generally elect to have capital gains distributions reinvested. And, as with dividends, capital gains distributions you receive from a fund will be taxable.

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Minimize investment taxes (continued)

Capital gains from the sale of mutual fund shares

In addition to any capital gains distributions you may receive while you own a mutual fund, you may also sell shares of a fund for a capital gain or a capital loss. You will generally realize a capital gain if you sell your fund shares for more than you paid for them, taking sales charges into account. This capital gain is taxable.

Short-term and long-term capital gains are subject to different tax rates. Check the Web sites of the IRS and your state government to learn more.

To calculate your capital gains, you may choose from one of the following methods: First In First Out (FIFO); Specific Shares Method; Average Cost Per Share, Single Category Method; Average Cost Per Share, or Double Category Method. Ask your tax advisor for details.

Avoid Double Payment

If you automatically reinvest your dividends and capital gains distributions, you should keep all your statements for accurate records when it comes time to sell. That's because you have already paid taxes on your reinvested dividends, so you can subtract both your original contribution plus the total amount of reinvested money from the market value of your investment. This will reduce your capital gains tax liability. Investors who forget to do this may end up paying double taxes on their reinvested dividends, first in the year the dividend is paid and then again when they sell the mutual fund shares.

Bonds

Interest income

In general:

- The interest paid from bonds is taxed at your ordinary income tax rate.
- The interest from U.S. Treasury bonds, bills, and notes is exempt from state and local taxes.
- The interest from some Municipal Bonds is exempt from federal taxes and from state and local taxes for residents of the state where the bond was issued.

Capital gains

- Since bond prices fluctuate, you may sell your bond for more than you paid for it. If this is the case, any profit other than interest income is taxed as capital gain.
- The short-term capital gains rate is the same as your ordinary income tax rate. Profits from bond investments bought and sold within 12 months or less are taxable as short-term gains.
- The long-term capital gains rate—15% for most investors—is applied to bond investments bought and sold for a profit in a period greater than 12 months.
- If you own any kind of bond mutual fund, you may also receive capital gains distributions taxable at the long-term capital gains rate.

The information contained herein is being provided as-is and without representation or warranty. The enclosed information is not intended as legal, tax or financial planning advice. Any discussion of tax or accounting matters herein (including any attachments) should not and may not be relied on by any recipient or reader. The recipient/reader should consult his/her tax adviser, legal consultant and/or accountant for a statement of tax and accounting rules applicable to his/her particular situation and for all other tax and accounting advice.

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Start Saving for Retirement

Like most people, you probably want to retire someday. That means having enough money in savings and investments to enjoy a comfortable lifestyle without having to work. You may think it's too early to start, but financial experts agree that no one's too young to save for retirement. In fact, the key to success is to start saving as early as you can.

Starting early allows you to accumulate more savings over a gradual period of time. In addition, the power of compound interest is increased the sooner you start to save. The longer you wait, the less your savings will grow.

For example, assume that you're 22 and that you'd like to retire at 62. If you put $3,000 a year into your Individual Retirement Account (IRA) for 40 years, assuming an average annual return of 10 percent, you'd have over $1.4 million by the time you want to retire. But if you put off saving for 10 years and start when you're 32, you'd have an amount over $500,000 at retirement. By waiting those 10 years to get started, you'd end up with almost a million dollars less! (Please note that this is an illustration only. There is no guarantee that any investment will return 10 percent over time. Your actual return will depend on a variety of factors including your actual investment, market conditions, and other factors.)

When you're just starting out and have bills and loans to pay, you may find it tough to make saving for retirement a priority. Saving regularly, even if the amounts are small, can yield big balances down the road. Even if you earn an average salary, you can end up a millionaire if you start saving early.

The younger you are, the more time you have before retirement age. You may therefore be able to make some investments that have higher risk and higher potential reward compared to a person closer to retirement age who needs to be more conservative.

Some people never get started with retirement saving. Year after year, they spend their time and resources on their current needs. Then one day they realize that retirement age is approaching fast and they're totally unprepared. Don't let it happen to you!

Here are some tips for creating the retirement savings you want:

- **As soon as you start making money, start saving money!** Set-up an account to take out a certain percentage from each paycheck. It can be easy and painless to save when the money is "out of sight, out of mind."
- **Check your budget to determine how much you can save.** Consider saving from 10 to 20 percent of what's left of your monthly income after living expenses and debts are paid.
- **Make savings a habit!** Even if you're still in school and only working part-time, and can start at just $50 a month, the amount you're able to save is less important than making the commitment and sticking with it. Over time, you can always increase the amount you save, but you can't make up for lost years of compound interest.

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Start Saving for Retirement (continued)

Tips for creating the retirement savings you want (continued):

- If your employer offers a retirement plan such as a 401(k) plan, take advantage of it. Over 50 million American workers are eligible to contribute to their employers' plans, but 12.5 million are not contributing. It's a missed opportunity that will have a major impact on the amount of retirement savings they'll have.
- Remember, the dollars you contribute to a 401(k) plan are tax-deferred. This means the money is not taxed at the time you contribute it. With each contribution you make, you're saving for retirement some of the money you would have otherwise paid in taxes. If your employer matches some or all of your 401(k) contributions, take full advantage of it by funding any amount that is matched.
- Study the specifics of your company's plan. If you have a question about your 401(k) plan, be sure to ask your employer. Try to talk with a retirement plan expert if you can.
- In addition to your company-sponsored plan, you may be eligible to open your own personal retirement account, for example a Roth IRA. With a Roth IRA, your contributions aren't tax-deferred, but your withdrawals at retirement will be tax-free.
- Carefully consider tradeoffs when setting your financial priorities. For example, let's say you're trying to decide between paying off your loans on a faster schedule or putting the money into savings and investments. If you have low-interest student loans, you may earn more by giving priority to saving and investing. But if you have high-interest credit card debt, you may find it's financially advantageous to pay your debt first and then focus on saving and investing. But remember, many people carry at least some debt for most of their lives. If you continue to put off saving until all your debts are paid, you may never start saving the money you need to retire.
- Consider splitting your portfolio of investments between more conservative (lower risk, lower potential return) and more aggressive (higher risk, higher potential return).
- Over the coming years, whether you manage your investments on your own or work with an investment professional, it's important to be well-informed. Be proactive about gaining as much investing knowledge as you can from the Internet, books, magazines, and other sources.

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Top 10 Ways to Prepare for Retirement

Source: U.S. Department of Labor

1. **Know your retirement needs.**
   Retirement is expensive. Experts estimate that you'll need about 70% of your pre-retirement income—lower earners, 90% or more—to maintain your standard of living when you stop working.

2. **Find out about Social Security.**
   Social Security pays the average retiree about 40% of pre-retirement earnings. Call the Social Security Administration at 1-800-772-1213 for a free Social Security Statement and find out more about your benefits at www.socialsecurity.gov.

3. **Learn about your employer's pension or profit sharing plan.**
   If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement. Before you change jobs, find out what will happen to your pension. Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse's plan. Contact the U.S. Department of Labor for a free booklet about protecting your pension.

4. **Contribute to a tax-sheltered plan.**
   If your employer offers a tax-sheltered retirement savings plan, such as a 401(k), sign up and contribute all you can subject to the limitations of the plan. Your taxes will be lower, your company may kick in more, and automatic deductions make it easy. Over time, compound interest and tax deferrals make a big difference in the amount you will accumulate.

5. **Ask your employer to start a plan.**
   If your employer doesn't offer a retirement plan, suggest that it start one. Simplified plans can be set up by certain employers. For information on simplified employee pensions, order Internal Revenue Service Publication 590 by calling 1-800-829-3676. Or you can view a copy on the IRS Web site.

6. **Put money into an IRA.**
   You can put up to $5,000 a year into an Individual Retirement Account (IRA), up to $6,000 if you are 50 or older, and gain tax advantages. When you open an IRA, you have two options—a traditional IRA or the newer Roth IRA. The tax treatment of your contributions and withdrawals will depend on which option you select. Also, you should know that the after-tax value of your withdrawal will depend on inflation and the type of IRA you choose.

7. **Don't touch your savings.**
   Don't dip into your retirement savings. You'll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into an IRA or your new employer's retirement plan.

8. **Start now, set goals, and stick to them.**
   Start early. The sooner you start saving, the more time your money has to grow. Put time on your side. Make retirement savings a high priority. Devise a plan, stick to it, and set goals for yourself. Remember, it's never too early or too late to start saving. So start now, whatever your age!

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Top 10 Ways to Prepare for Retirement (continued)

9. **Consider basic investment principles.**
   How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you'll have saved at retirement. Know how your pension or savings plan is invested. Financial security and knowledge go hand in hand.

10. **Ask questions.**
   These tips point you in the right direction. But you'll need more information. Talk to your employer, your bank, your union, or a financial advisor. Ask questions and make sure the answers make sense to you. Get practical advice and act now.

The material provided above is for information only and is not intended to provide specific investment advice to any individual for any particular purpose. For advice related to your personal situation, you should consult an investment and tax professional.

The financial examples provided above are not based on the actual returns of a particular investment or portfolio of investments and are for illustration purposes only. Your actual returns will depend on your specific investments and their performance during the period of time you hold them.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Health Insurance: Manage the Costs of Medical Care

Nothing is more precious than your health. But unfortunately, with the rising cost of medical services, affordable health care is out of reach for many Americans. Health insurance offsets costs associated with routine care, illnesses and injuries, making medical services more affordable.

A recent poll administered by the National Federation of Independent Business (NFIB) indicated that nearly half (47 percent) of the employers surveyed offered health insurance as part of their employee benefits plan.1 While the primary source of health insurance in the United States is through employer-sponsored plans, if you are unemployed or self employed, you may need to seek private health insurance. Obtaining health insurance on your own can be difficult—especially if you have a pre-existing condition. An insurance agent who specializes in private insurance can help you find an affordable plan.

Paying for Medical Services

Without health care coverage, you risk ruining your credit history, depleting your savings and defaulting on your mortgage, rent, car payment or utilities because you've exhausted your paycheck paying for prescriptions and necessary medical care.

Cost, convenience, coverage—all of these factors come into play when choosing health insurance. Specific coverages vary from plan to plan; however, most health care plans will reimburse you for a portion of the costs associated with:

- Preventive care, such as immunizations.
- Routine office visits like annual physical exams.
- Prescription drugs.
- Hospitalization.
- Physical therapy.
- Tests to diagnose or rule out certain illnesses.
- Lab work, such as blood and urine tests.

The ABCs of Health Care

Does health insurance terminology sound like a big confusing bowl of alphabet soup? Here are some of the most common types of plans:

Consumer-driven plans (HSA/HRA)

Consumer-driven health care plans, such as health savings accounts (HSAs) and health retirement accounts (HRAs), provide tax benefits and give you the ability to earn interest on money you have set aside for qualified medical expenses.

This type of plan may be for you if you are willing to pay higher deductibles in exchange for paying lower premiums. You also have more control of where you receive your care. For example you would decide which specialist to see or where to get an x-ray, rather than letting a doctor decide for you.

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Health Insurance: Manage the Costs of Medical Care (continued)

The ABCs of Health Care (continued)

Health maintenance organization (HMO)
An HMO minimizes your out-of-pocket health care expenses provided you use pre-approved network physicians, health care professionals and facilities. To take advantage of the cost savings an HMO provides, you must choose a primary care physician. However, at your primary care doctor's discretion, you may be referred to a specialist who is also a member of your network. If you opt to see a non-network physician, your co-pay will likely be larger. Generally, your deductible is less if you are a member of an HMO.

This may be the plan for you if you are willing to sacrifice some flexibility and convenience to save money on doctor visits and deductibles.

Preferred provider organization (PPO)
The cost per visit and annual deductibles are usually higher with a PPO plan than with an HMO. PPOs generally charge slightly higher fees than HMOs would to use a non-network provider or facility; however, you do not need a referral from your primary doctor to see a specialist.

This may be the plan for you if having the freedom to choose who you want to see for medical care matters more to you than paying higher premiums.

Point of service (POS)
With the combined features of an HMO and a PPO, in this type of plan, you agree to see a primary care physician for medical care and referrals in exchange for receiving services at reduced fees. However, you also have the freedom to go to a physician outside your network for a higher fee.

This may be the plan for you if you are OK paying higher health care fees if you decide to see someone outside of your network.

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1NFIB Research Foundation. Dennis, William J., Jr. (2007). Purchasing Health Insurance, Volume 7, Issue 3. (ISSN - 1534-8326). Retrieved from NFIB Research Foundation: http://www.411sbfacts.com/files/purchasinghealth.pdf.

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Health Insurance Terminology

Here are some commonly used terms you may encounter when exploring health insurance.

Benefit
This is the amount of money an insurance company will pay toward a covered health care service.

Claim
Much like a utility bill, this is a document submitted by you or on your behalf to your health insurance provider requesting payment for services received, such as an x-ray or annual check up with your doctor.

Co-payment (co-pay)
The part of your bill for which you are responsible, often due at the time you are receiving medical service.

Deductible
The maximum amount you'll need to pay out of pocket every year toward your medical care before your insurance company will begin to pay for services.

Dependent
Someone besides the policy holder who is supported by the policy holder financially, such as a child—or the spouse or partner—who is entitled to health care coverage under the plan.

Formulary
A pre-approved list of prescribed drugs that are offered by an insurance company at lower prices.

HIPAA
An acronym for the Health Insurance Portability and Accountability Act, which was established in 1996 to help protect patients' rights to privacy—particularly when medical information is shared between insurers, health care providers or facilities.

HMO
Also known as a health maintenance organization, this group contracts with a network of physicians, health care professionals and facilities to provide medical care to members within a certain geographic area for pre-negotiated rates.

Policy
Your health care insurance contract with the insurance company.

Primary care physician
The doctor you agree to see for all of your medical services and referrals.

Network
Physicians, health care professionals and facilities with which your HMO has negotiated special reduced rates..

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Buying a Home

Topic Overview

The process of buying a home should be easy for your participants to understand once it's broken down into steps. Whether they're dreaming of buying their first home, or if they already own a home, this topic will help them master all the financial aspects of home ownership.

This topic includes seven lessons:

1. Are you ready to buy?
2. Before you shop
3. The homebuying process
4. Getting a mortgage
5. Borrowing against your equity
6. Protect your home investment
7. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online *Hands on Banking*® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants' experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit **www.handsonbanking.org** to access the program. Should you require a CD ROM to access the program you may request a free copy at **HOBCD@wellsfargo.com**.

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Topic 6 — Buying a Home

Instructor's Guide — Adults
Table of Contents

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Topic 6 — Buying a Home

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Table of Contents

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Glossary

Instructor note:

The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.

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Glossary

Adjustable-rate mortgage (ARM)	A loan that allows the lender to make changes in the interest rate, and the resulting principal and interest payments charged to the borrower. These rate changes are usually tied to the rise and fall of a financial statistic (called an index), such as the prime rate or Treasury Bill rate. The initial interest rates on ARMs are lower than rates on fixed-rate mortgages, as the borrower is taking the risk of the interest rate rising over time. The borrower is protected by a maximum interest rate, which the lender may reset annually. There may be a limit on the number and amount of increases or decreases to the interest rate at each change date or over the life of the loan.
Appraisal	A professional estimate of a property's market value.
Appreciate (in value)	To increase in value or price over time.
Asset	Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
Balloon payment	A final lump sum payment that is due, often at the maturity date of a balloon mortgage.
Capacity	A borrower's ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower's income and debts to determine his or her capacity to repay.
Capital	The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.
Character	The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.
Closing	The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.
Closing agent	Usually an attorney or title agency representative who oversees a closing and witnesses the signing of the closing documents.
Closing costs	Expenses or settlement costs, above the home sales price, charged to both the buyer and seller to complete the transfer of the property and in connection with obtaining a mortgage loan. There are also closing costs on a refinance loan.
Collateral	Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.
Conditions	Eligibility requirements that may be required by a lender to secure a loan or product.
Credit insurance	When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. This credit policy protects the loan on the chance that you can't make your payments. Credit insurance usually is optional, which means you don't have to purchase it from the lender.
Debt-to-income ratio	A percentage that is calculated by dividing a loan applicant's total debt payments by his or her gross income.

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Glossary

Deed-in-lieu of foreclosure	The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure. Also called a "voluntary conveyance".
Default	Failure to repay a credit agreement according to its terms.
Earnest money	A portion of the down payment delivered with a purchase offer by the purchaser of real estate. Delivered to the seller, or an escrow agency, by the purchaser with the purchase offer as evidence of good faith. Also known as a deposit.
Equity	The value of your investment above the total of your lien (debt).
Equity stripping, equity skimming	Also known as foreclosure rescue. Predatory investors or small companies target low-income, homeowners facing foreclosure and trick them into signing away their equity and property.
Fixed rate	An interest rate that remains the same during the entire term of the loan.
Fixed-rate mortgage	A loan with an interest rate that remains the same over the life of the loan.
Foreclosure	The legal process by which an owner's rights to a property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.
Foreclosure rescue	SEE Equity stripping, equity skimming.
Good Faith Estimate	A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality.
Guarantee / Guaranty	A lender may require an additional signature on a loan to insure that this person will pay the loan if you do not.
Home equity	The financial difference between what your home or other real estate is worth and the amount you still owe as debt on the home or other real estate. For example, your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.
Interest	The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Loan modification, restructure, assignment	Any change to the terms of a mortgage loan, including changes to the interest rate, loan balance, or loan term.
Loan servicing	The tasks a lender performs to protect the mortgage investment, including the collection of mortgage payments, escrow administration, and delinquency management.
Loan to value (LTV)	The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.
Market value	The current value of your home based on what a purchaser would pay. An appraisal is sometimes used to determine market value.

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Glossary

Mortgage	A loan to finance the purchase of a home, usually with defined payments and interest rates. The homeowner gives the bank a lien, called the "mortgage," on the home, which serves as collateral for the loan.
Net worth	The value of a company or individual's assets. Including cash, less total liabilities.
Preapproval	A written commitment from a lender, subject to a property appraisal or other stated conditions, that confirms the price of home a potential borrower can afford.
Pre-closing: loan settlement	Your mortgage consultant will work with you to secure any required title insurance and real estate documents to protect against other parties claiming ownership of the property.
Predatory lending	When lenders conduct business in ways that is illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making payments as agreed.
Prequalification	A preliminary assessment by a lender of the amount it will lend to a potential home buyer. The process of determining how much money a prospective home buyer may be eligible to borrow before he or she applies for a loan.
Prime rate	Is merely the base rate used to make loans to certain borrowers. It is not necessarily the lowest or best rate at which loans are made.
Principal	The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.
Sales contract	A legal agreement, signed by the buyer and the seller, that spells out the terms and conditions for the sale, for example, for a home or property. Also called the sales agreement.
Secured loan	A loan where the borrower provided approved collateral, such as a vehicle or investment account, to secure the loan.
Short sale, pre-foreclosure sale	Allows you to sell your home and use the proceeds to pay off the mortgage if you are unable to maintain payments, even if the home's market value is less than the total amount owed.
Survey	A precise measurement of a property which defines legal boundaries of the property and the dimensions and location of improvements.
Title agency	A company specializing in titles, the legal documents that establish who has the current right to, or ownership of, a property, plus a history of the property's ownership and transfers.
Title insurance	This provides the lender and the buyer (if you purchase owner's coverage) with coverage for losses resulting from specific title defects listed in the policy. In cases where land and property have changed hands over time, there is always the possibility an error has occurred.
Underwriting	The process of a lender reviewing the application, documentation and property prior to rendering a loan decision.
Variable rate	An interest rate that changes on a periodic basis, usually tied to movement of an outside indicator, such as the prime interest rate. Savings accounts, mortgage loans and certain other kinds of loans, for example may use a variable interest rate. Also called an adjustable rate.
Workout	Restructuring the loan with your loan servicer in a way that enables you to repay the debt.

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Lesson 1: Are You Ready to Buy?

This lesson will teach participants the benefits and realities of owning a home, the costs involved and how to decide if they're ready to buy.

Learning Objectives

After completing this lesson, participants will be able to:

- List the benefits and realities of home ownership.
- List and explain the variety of expenses involved in purchasing and maintaining a home.
- Determine if they're ready to buy a home.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What do you think are some of the pluses and minuses of renting your home or apartment?
- By comparison, what do you think are some of the pluses and minuses of owning your own home?
- How many Americans do you think own their own home (about two-thirds)?
- How would you go about deciding if you're ready—financially or otherwise—to own your own home?

The Basics

- Buying a home is one of the largest purchases you'll ever make.
- You need to really think through your decision to buy a home.
- Homeownership offers lots of benefits.
- But before you start house shopping, you need to think about whether owning a home is right for you—and what it will really take to buy and maintain a home.

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Homeownership: Benefits & Realities Activity (Instructor Copy)

Instructor note:

Photocopy the activity handouts on the following two pages. Pass out the first, blank handout. Instruct participants to write down a list of benefits of owning a home and a list of the realities of owning a home. Then, pass out the second, completed handout and lead a discussion.

Instructions:

Have your participants write a list of benefits of owning a home and a list of the realities of owning a home.

Benefits and Realities of Homeownership

Benefits of Owning a Home	Realities of Owning a Home
A place of your own • Owning a home is an opportunity to settle down and gain a sense of belonging in a community. • It can give you a sense of personal satisfaction to have a home of your own to share and enjoy with family and friends.	**Ongoing costs** • Homeownership is a large, long-term financial responsibility. • If you don't want to commit to a mortgage, taxes, insurance, utilities, and maintenance—or if your future income is uncertain—owning a home may not be practical at this time.
An investment in your future • The value of your home can increase over time, making your investment grow. • As you pay down your mortgage loan over the years, you can build ownership interest, called equity, which can offer financial flexibility under the right circumstances. • Your home is also a legacy, financial or otherwise, for the next generation.	**Less easy to move** • If you think you may need to move in the near future, buying a home may not be practical because selling it could take time. • If you buy a home and then have to move, you could end up paying for the home you already own, plus the added expense of a new home.
Manage your housing payments • In some cases, monthly mortgage payments may be lower than rental payments. • Many home loans, or mortgages, are fixed-rate. This means the amount you pay stays the same month after month, which can help you plan your spending.	**Upkeep of the home** • You'll be responsible for all utility bills, home repairs, and maintenance, some of which can be costly. • You'll also be responsible for property taxes and homeowners insurance, costs that often increase over time.
Tax benefits • Most homeowners receive tax breaks, because interest paid on a home mortgage and real estate taxes are almost always tax deductible. • Consult your tax advisor regarding the deductibility of interest.	**Increased value not guaranteed** • While most homes increase in value over time, it is possible that your home could lose some of its value. • You could lose money if you sell it for less than what you paid for it. • Even if values in your area remain steady or increase, if you don't keep your property well-maintained, it could decrease in value.
A financial stepping stone • Paying your mortgage and other expenses on time and in full will strengthen your credit rating. • Managing your finances responsibly helps to increase your financial strength and options.	**Possibility of foreclosure** • In an extreme situation, if you couldn't make your mortgage payments, the lender could foreclose. This means you would lose ownership of the property.

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Homeownership: Benefits & Realities Activity

Instructions:

In the spaces provided, write a list of the benefits of owning a home and a list of the realities of owning a home.

Benefits and Realities of Homeownership

Benefits of Owning a Home	Realities of Owning a Home
Example: a place of your own.	*Example: Repairs and maintenance.*

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Homeownership: Benefits & Realities

Benefits of Owning a Home	Realities of Owning a Home
A place of your own • Owning a home is an opportunity to settle down and gain a sense of belonging in a community. • It can give you a sense of personal satisfaction to have a home of your own to share and enjoy with family and friends.	**Ongoing costs** • Homeownership is a large, long-term financial responsibility. • If you don't want to commit to a mortgage, taxes, insurance, utilities, and maintenance—or if your future income is uncertain—owning a home may not be practical at this time.
An investment in your future • The value of your home can increase over time, making your investment grow. • As you pay down your mortgage loan over the years, you can build ownership interest, called equity, which can offer financial flexibility under the right circumstances. • Your home is also a legacy, financial or other-wise, for the next generation.	**Less easy to move** • If you think you may need to move in the near future, buying a home may not be practical because selling it could take time. • If you buy a home and then have to move, you could end up paying for the home you already own, plus the added expense of a new home.
Manage your housing payments • In some cases, monthly mortgage payments may be lower than rental payments. • Many home loans, or mortgages, are fixed-rate. This means the amount you pay stays the same month after month, which can help you plan your spending.	**Upkeep of the home** • You'll be responsible for all utility bills, home repairs, and maintenance, some of which can be costly. • You'll also be responsible for property taxes and homeowners insurance, costs that often increase over time.
Tax benefits • Most homeowners receive tax breaks, because interest paid on a home mortgage and real estate taxes are almost always tax deductible. • Consult your tax advisor regarding the deduct-ibility of interest.	**Increased value not guaranteed** • While most homes increase in value over time, it is possible that your home could lose some of its value. • You could lose money if you sell it for less than what you paid for it. • Even if values in your area remain steady or increase, if you don't keep your property well-maintained, it could decrease in value.
A financial stepping stone • Paying your mortgage and other expenses on time and in full will strengthen your credit rating. • Managing your finances responsibly helps to increase your financial strength and options.	**Possibility of foreclosure** • In an extreme situation, if you couldn't make your mortgage payments, the lender could foreclose. This means you would lose owner-ship of the property.

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The Costs of Homeownership (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participant to use the phrases from the Word Bank to match each home ownership cost with its correct description.

Instructions:

Have your participants use the phrases from the Word Bank to match each homeownership cost with its correct description.

Word Bank

Bank fees
Closing costs
Down payment
Home repairs & maintenance
Home warranty protection
Insurance
Mortgage
Overdraft charges
Property taxes

Costs of Homeownership

Cost	Description
Down payment	A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Down payments usually range from 3% to 20% of the property value. You may be required to have Private Mortgage Insurance (PMI or MI) if your down payment is less than 20%.
Closing costs	Costs paid by the borrower (and in some cases the seller) in addition to the purchase price of a home. These may include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and pre-paid items such as tax and insurance escrow payments. It's common for these costs to total between 3% and 5% of your total mortgage. You will receive an estimate of these costs from your lender after you apply for a mortgage.
Mortgage	Because houses have such a high price tag, almost everyone borrows some, if not most, of the money they need to buy one. You'll probably need a home loan, or mortgage, from a mortgage lender. You'll need to pay back the mortgage by making regular payments (usually monthly) over a period of years, with interest.
Home repairs & maintenance	The cost of maintaining your home. The amount will depend on the condition of your home, its exposure to the elements, the care with which you treat it, the number of people who live in it and the type of usage.
Property taxes	Taxes typically paid at least once a year to one or more governmental authorities. The amount is based on the market value of your property as determined by the county where the property is located.
Insurance	Homeowner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards.
Home warranty protection	A home warranty is a type of insurance that some homeowners purchase to cover repairs to major systems such as plumbing, electrical, and heating systems, as well as installed appliances.

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The Costs of Homeownership

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	Costs paid by the borrower (and in some cases the seller) in addition to the purchase price of a home. These may include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments. It's common for these costs to total between 3% and 5% of your total mortgage. You will receive an estimate of these costs from your lender after you apply for a mortgage.
	Because houses have such a high price tag, almost everyone borrows some, if not most, of the money they need to buy one. You'll probably need a home loan, or mortgage, from a mortgage lender. You'll need to pay back the mortgage by making regular payments (usually monthly) over a period of years, with interest.
	The cost of maintaining your home. The amount will depend on the condition of your home, its exposure to the elements, the care with which you treat it, the number of people who live in it and the type of usage.
	Taxes typically paid at least once a year to one or more governmental authorities. The amount is based on the market value of your property as determined by the county where the property is located.
	Homeowner's or hazard insurance protects you against financial losses on your property as a result of fire, wind, natural disasters or other hazards.
	A home warranty is a type of insurance that some homeowners purchase to cover repairs to major systems such as plumbing, electrical, and heating systems, as well as installed appliances.

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Topic 6 — Buying a Home

Your Home as an Investment (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Start a discussion by asking questions such as:

- *"How can owning a home strengthen your financial situation?"*
- *"If your home is an investment, what kind of financial benefits will you receive? Are there any disadvantages?"*

Then, distribute the activity handout and continue the discussion by emphasizing these key points.

When you buy a home, you're making an investment that can strengthen your financial future.

Benefits of Homeownership

Benefit	Description
A solid long-term investment	• Over time, homeownership builds wealth. • According to the most recently available figures from the Federal Reserve, the median net worth for homeowners was 46 times the median net worth for renters: $184,400 vs. $4,000. Homeownership is a powerful contributor to the difference.
Significant tax advantages	• Within limits, homeowners can deduct mortgage interest, mortgage insurance, and property taxes. • When you sell the home, there may be a capital gains tax exemption available for primary residences. • Check with a tax professional to see how these benefits may apply to you.
Historically, home prices rise	• While home prices have seen recent declines in some areas, home prices generally appreciate, or rise, over time. • Historically, most homeowners who own their property as a long term investment have seen the value of their investment increase.
Housing markets are local, not national	A home's value reflects local conditions, so instead of worrying about national averages, consider the prospects for economic growth, housing supply, and housing demand in your local area. Talk with real estate professionals in your community to get an assessment of local conditions.
Timing the housing market is difficult	Naturally, you'd like to buy a home when prices are at their lowest point, and then sell it years later, just as home values and prices reach some peak. But don't count on it. Successfully "timing the market" owes much more to luck than to skill. A more sound strategy is to have more time in the market. In other words, if you plan to purchase a home for the long-term, there's usually a better chance that your investment will increase in value if you buy rather than wait on the sidelines.

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Your Home as an Investment

When you buy a home, you're making an investment that can strengthen your financial future.

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Are You Ready? Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to complete the checklist. When they are finished, reveal that if they checked yes to at least six of the items, they are probably in a good situation to consider buying their first home.

This checklist will help you determine if you're ready by asking you questions about:

- Your current financial picture:
- Credit history and credit score.
- Debt-to-income ratio.
- Ability to pay monthly.

Are You Ready for Homeownership?

Yes √	No √	Situation
		I have a steady, reliable source of money coming in.
		I've been employed on a steady basis for at least the last two years.
		I pay my regular monthly bills, such as rent and utilities, on time.
		I make regular payments on my debts (credit cards, car loans, etc.).
		I can afford to continue to pay these debts plus pay a mortgage. (In general, mortgage costs should not exceed 28% of your gross income.).
		I've researched how much my other expenses are likely to be—such as homeowners insurance, taxes, association dues, utilities, repairs, and maintenance—and feel confident that I can pay them.
		I have some money saved for the purpose of buying a home.
		I understand that buying a home is a major, long-term responsibility. I'm committed to fulfilling that responsibility.
		I have time to take care of a house—including responsibilities like home repairs and yard work.
		I've recently reviewed my credit report; I know my current credit score.

Tip!

As a homeowner, your monthly house expenses may be higher than what you paid in rent, but you're investing in an asset that can help you build wealth and roots in a community.

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Topic 6 — Buying a Home

Are You Ready? Activity

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- Your current financial picture:
- Credit history and credit score.
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- Ability to pay monthly.

Are You Ready for Homeownership?

Yes √	No √	Situation
		I have a steady, reliable source of money coming in.
		I've been employed on a steady basis for at least the last two years.
		I pay my regular monthly bills, such as rent and utilities, on time.
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Scenario Activity—To Buy or Not to Buy? (Instructor Copy)

Instructor note:

Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:

Have participants read Brandon and Tracy's story. Based on their situation, choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Brandon and Tracy's situation.

Brandon and Tracy's Story

Brandon and Tracy both have demanding jobs and live in a beautiful $1,200 a month apartment. They're considering buying their first home and have found two they like. Each costs $200,000; the monthly mortgage payment will be $1,298. The house they prefer needs a lot of repairs. To buy either, they'll need most of their savings for the down payment and need to cut back on a number of things in order to pay the new monthly expenses. What should Brandon and Tracy do?

1. **Keep working, saving, and enjoying their apartment until they can buy a house they really want.**

   Consequences: They're enjoying the apartment, but are not getting anywhere financially. Their homeowner friends are starting to build home equity and have tax advantage. They have nothing to show but a cancelled check. They should have been more flexible about giving up a few things and bought a home sooner.

   Feedback: If their landlord raises their $1,200 rent by 2% a year, in 30 years they'll be paying $2,828 a month. After 30 years, they'll have paid more than $685,000 with no assets to show for it. If they're willing and able to pay somewhat more for housing now, they could start building wealth as homeowners.

2. **Buy the house that's in better condition.**

   Consequences: This was the right choice at the right time. Although it isn't their dream home, it's a great start to building home equity and getting tax advantages. They're managing their money to pay all the new expenses. They liked the other house, but didn't have the time or money to deal with all the repairs.

   Feedback: This is the best choice. Based on a 3% average annual increase in value, their$200,000 home will be worth $485,000 in 30 years. They'll also be able to save money each year on taxes.

3. **Buy the house they prefer, even though it needs repairs.**

   Consequences: They're glad to be homeowners, but living through the remodeling is a hassle. They're both so busy at work that they had to hire contractors for the repairs. That costs a lot, especially on top of all their other new home expenses. But, they are in the location they want and the house will look great. Overall, we think our investment in this fixer-upper will be worthwhile.

   Feedback: This wasn't the ideal short-term choice but could work out long-term. They should have considered the total picture of their new monthly expenses. They'll be short on funds until the remodel is done and their home could lose value if they can't complete the necessary work.

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Scenario Activity—To Buy or Not to Buy?

Instructions:
Read Brandon and Tracy's story. Based on their situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Brandon and Tracy's situation.

Brandon and Tracy's Story
Brandon and Tracy both have demanding jobs and live in a beautiful $1,200 a month apartment. They're considering buying their first home and have found two they like. Each costs $200,000; the monthly mortgage payment will be $1,298. The house they prefer needs a lot of repairs. To buy either, they'll need most of their savings for the down payment and need to cut back on a number of things in order to pay the new monthly expenses.

What should Brandon and Tracy do?

1. **Keep working, saving, and enjoying their apartment until they can buy a house they really want.**
   Should they choose this option? Why or why not?

2. **Buy the house that's in better condition.**
   Should they choose this option? Why or why not?

3. **Buy the house they prefer, even though it needs repairs.**
   Should they choose this option? Why or why not?

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Are You Ready to Buy? lesson:

- Buying a home is one of the largest purchases you'll ever make.
- You need to really think through your decision to buy a home.
- Homeownership offers lots of benefits.
- But before you start house shopping, you need to think about whether owning a home is right for you—and what it will really take to buy and maintain a home.

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Lesson 2: Before You Shop

In this lesson, participants will learn about making a game plan and setting realistic goals for what they can purchase before they go house shopping. They will learn the pros and cons of different loan types, the importance of choosing the right lender and how to get preapproved.

Learning Objectives

After completing this lesson, participants will be able to:

- Prepare a "game plan" to help them buy their first home.
- Set realistic goals for what they can afford.
- List the pros and cons of various loan types.
- Describe the importance of choosing a lender.
- Identify warning signs for predatory lending practices.
- Describe the process for getting pre-approved.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions.

- Describe your dream home. Now, describe the "must have" features you'd like to see in a home you can afford.
- What does your family think about buying a new home? Do they understand the costs and possible trade-offs that could arise?

The Basics

- There are some important steps you need to take before you go house shopping: make a game plan, evaluate how much you can pay, choose a lender, and get preapproved for a loan.
- The process of homebuying is made much easier if you shop for a mortgage first, and then shop for a house.
- Consider taking a class for first-time homebuyers. Many lenders, realtors, and homebuilders sponsor them.

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Make a Game Plan Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to read the list of action items they should do before buying a house. Instruct them to list examples of things they can do for each action item.

Having a game plan can help you buy your first home.

Instructions:

Have your participants fill in the right column of this chart by listing examples of steps they can take to complete the tasks listed in the left column.

Making a Game Plan

Action Item	Description
Determine must-have feature s	• Decide what you need in a home. • Consider square footage, number of bedrooms and bathrooms, features like a garage or fenced yard, and neighborhood.
Create a saving strategy	• Create a strategy for saving the money you'll need to buy a home. • Plan ahead for the whole year. • Review your progress once a month to see how well you're doing.
Create family teamwork	• If you have a family, the whole family is part of your financial picture. So get them involved in the planning process. • Sit down as a family to discuss the goal of owning a home. • By getting everyone working together toward the same goal, you can avoid conflicts about how money is being spent, and save the money you need even faster.
Keep good records	• Tracking what you spend will help you stick to your financial strategy. • Keep your record-keeping system as simple as possible so that it doesn't take too much time.

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Make a Game Plan Activity

Having a game plan can help you buy your first home.

Instructions:

The left column of this table lists things you should do before you buy a home. In the right column, list some examples of how you will complete these tasks.

Making a Game Plan

Action Item	Description
Determine must-have features	*Example: Determine how many bathrooms you need.*
Create a saving strategy	
Create family teamwork	
Keep good records	

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Topic 6 — Buying a Home

Evaluate How Much You Can Pay

Instructor note:
Start a discussion by asking questions such as:

- *"What are the steps you should take to determine how much you can pay for a house?"*
- *"In addition to mortgage payments, what other costs should you consider when figuring out how much you can afford?"*

Continue the discussion by listing these five steps.

To determine a housing budget that's comfortable for you, follow these five steps.

1. **Review** your monthly spending plan and identify non-essential spending.
2. **Calculate** how large a monthly mortgage payment you could make.
3. **Decide** how large a mortgage payment you are willing to make.
4. **Determine** how much money you've saved for a down payment and closing costs.
5. **Talk** to a home mortgage consultant about financing options that fit your needs.

Tip!

> To determine your homebuying power, multiply your gross annual income by 2.5 to estimate a top purchase price, or by 28% and divide by 12 to estimate the upper limit for your monthly housing expenses.

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Topic 6 — Buying a Home

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Calculating Your Costs

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Chose a Lender the Smart Way

Instructor note:

Lead a group discussion about predatory lending. Use the questions and answers below to frame the discussion.

What is predatory lending? Do you believe it exists?

- Predatory lending is when a lender will deceptively try to convince you to agree to unfair or abusive loan terms…or violate those terms in some way that will make it difficult for you to defend yourself.
- Anyone can be a target.
- Know the warning signs to look for can help you to avoid being a victim.

What does it mean to choose a lender the smart way?

- Always be careful when selecting a lender because there are a few you should watch out for.

What can a responsible lender do for your?

- A responsible lender can help you gain financial flexibility and achieve your goals.

How do you find a responsible lender?

- Look for an established company with a good reputation.
- Ask a money-savvy friend, family member, or work associate for a referral.
- Or, ask your local banker or employer.

What are the good signs of a responsible lender?

- Good lenders will put everything in writing, give you time to shop and compare costs and rates before you sign a loan agreement.
- Good lenders typically work for an established company with a good reputation.

Tip!

You'll have to live up to the terms of the loan agreement you sign, so it's critical that you understand exactly what you're signing and avoid predatory lenders. Ask your financial or legal advisor to help you.

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Predatory Lending Warning Signs Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout following these instructions. Cut the page into nine strips—each one will include a warning sign. Divide the class into nine groups (if you do not have enough students for nine groups, assign two or more warning signs to a group). Hand out a warning sign to each group. Ask them to define or explain each warning sign as well as tips to avoid these predatory lending practices. After they are finished, ask each group to share their definitions. Use the chart below to help participants explain each warning sign.

Predatory Lending Warning Signs

Warning Sign	Description
Encouragement to include false information	• If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.
Incomplete loan documents	• Never sign a loan document with missing information. • Don't work with a lender who asks you to sign a document that is not completely or accurately filled in.
"Bait and switch" sales tactics	• When a lender makes promises in order to make the sale, then backs out on the promises after the sale. • Carefully read and understand the agreement before you sign. • Question anything in the document that is not consistent with what you were told. • Don't sign the agreement if it is unclear, incomplete, or not as promised.
Equity stripping or skimming (foreclosure rescue)	• Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property. • Example: they might bury a document in a stack of loan papers that signs over home ownership to the loan company, or even forge homeowners' signatures.
Loan flipping	• Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. • This will cost you money and postpones the loan principal from being reduced.
Bi-weekly loan payments	• Some predatory lenders may charge you up to $1,000 for the "privilege" of paying your loan biweekly. • Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.

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Predatory Lending Warning Signs Activity (Instructor Copy) (continued)

Predatory Lending Warning Signs (continued)

Warning Sign	Description
Required (or requested) deed signing	• If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.
Advertisements promising "No Credit? No Problem!"	• These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. • To receive the approved loan, they are told to pay money up-front for fees or services. Instead they lose their money—and in some cases, their homes.
Promises to refinance the loan to a better rate in the future	• No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now.

Tip!

Balloon payments are large, lump-sum payments due at the end of the term. Before you agree to a balloon loan, make sure you fully understand and are prepared to pay the loan balance when it's due.

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Predatory Lending Warning Signs Activity (Instructor Copy) (continued)

Encouragement to include false information
Incomplete loan documents
"Bait and switch" sales tactics
Equity stripping or skimming (foreclosure rescue)
Loan flipping
Bi-weekly loan payments
Required (or requested) deed signing
Advertisements promising "No Credit? No Problem!"
Promises to refinance the loan to a better rate in the future

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Topic 6 — Buying a Home

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Protect Your Money and Identity

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Get Preapproved Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to follow along with the worksheet and fill in the correct terms as you discuss the key points. Then, ask your participants to come up three or four benefits of being pre-approved. Then walk through the list below.

Instructions:

Have your participants fill in the blanks as they listen to the discussion.

- Before you apply for a loan, a lender can ______**"prequalify"**______ you. This means they estimate how much ______**financing**______ you could receive.
- ______**After**______ you've filled out a ______**loan application**______ and the lender has analyzed your credit more thoroughly, they can provide you with a ______**"preapproval"**______ —a written letter confirming the ______**price of home**______ you can purchase.
- Getting preapproved lets you and others see, in writing that you ______**qualify**______ for a ______**specific home loan amount**______.
- With your preapproval in hand, you're ready to look for your new home. The lender will consider ______**final approval**______ of the loan later on in the process, after you've found the home you want to buy.

Instructions:

Have your participants list three or four benefits of being preapproved.

- Being preapproved:
- Helps you narrow your search to properties in your price range.
- Gives you confidence that you can secure a home loan for a specific amount.
- Reassures home sellers that your offer is serious because your financing is already in place; and
- Helps speed the process of getting a mortgage loan once you've found a home to purchase.

Tip!

Although you can get preapproved before or after you have found a home to buy, most buyers find that they have increased negotiating power if they're already preapproved when they begin their home search.

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Get Preapproved Activity

Instructions:
Fill in the blanks as you listen to the discussion.

- Before you apply for a loan, a lender can ____________________ you. This means they estimate how much ____________________ you could receive.
- __________ you've filled out a ____________________ and the lender has analyzed your credit more thoroughly, they can provide you with a ____________________ —a written letter confirming the ____________________ you can purchase.
- Getting preapproved lets you and others see, in writing that you ____________________for a ____.
- With your preapproval in hand, you're ready to look for your new home. The lender will consider ____________________ of the loan later on in the process, after you've found the home you want to buy.

Instructions:
List three or four benefits of being preapproved.

Tip!

> Although you can get preapproved before or after you have found a home to buy, most buyers find that they have increased negotiating power if they're already preapproved when they begin their home search.

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Topic 6 — Buying a Home

Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Before You Shop lesson:

- There are some important steps you need to take before you go house shopping: make a game plan, evaluate how much you can pay, choose a lender, and get preapproved for a loan.
- The process of homebuying is made much easier if you shop for a mortgage first, and then shop for a house.
- Consider taking a class for first-time homebuyers. Many lenders, realtors, and homebuilders sponsor them.

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Topic 6 — Buying a Home

Lesson 3: The Homebuying Process

In this lesson, participants will learn the steps of the homebuying process and how to work with a real estate agent to buy the home they want.

Learning Objectives

After completing this lesson, participants will be able to:

- Confidently select a real estate agent.
- List the next steps in the home buying process, such as making an offer and negotiating.
- Explain how you can work together with a real estate agent to buy the home you want.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Do you know any real estate agents? Have you ever talked to them about the process?
- What's important to you when selecting an agent?
- What steps do you think you need to take before buying a home?
- What do you think could be a challenge in the homebuying process? How can you prepare for these challenges in advance?

The Basics

- There are lots of steps involved in buying a home. But understanding the basics of the homebuying process can make it go smoothly.
- A good real estate agent can help you define what you want in a home, search for homes in neighborhoods that meet your needs, and provide you with data on recent home sales in the area.
- Before you begin house shopping, there are several steps we suggest you take: attend a class for first-time homebuyers, evaluate what you're looking for and how much you can pay, and get preapproved for a loan.

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Select a Real Estate Agent Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Divide the class up into groups. Instruct them to come up with three or four benefits of having a real estate agent, three or four ideas how to find a real estate agent and three or four things they should do after they find an agent. When they are finished, use the key points below to frame the discussion.

Instructions:

Have your participants list some benefits of having a real estate agent, ways to find a real estate agent, and some things they should do once they've found some real estate agent candidates.

A real estate agent can:

- Help you define what you want in a home, search for homes in neighborhoods that meet your needs, and provide you with data on recent home sales in the area.
- Answer questions about properties that interest you, for example, tax rates and building code regulations.
- Formulate an offer and act as an intermediary between you and the seller, smoothing the negotiating process, when you find a home you want, your agent can help you.

How to find an agent:

- Look for agent names on For Sale signs in neighborhoods that interest you.
- Ask your mortgage lender for suggestions.
- Visit the Web sites of local realty companies.
- Ask family, friends, or neighbors for referrals.

After you've found some candidates:

- Interview at least 2–3 agents.
- Tell them what you're interested in.
- Find out if they have experience in the area where you hope to buy.
- Ask if they can provide additional information about a property or neighborhood, then see how well and how quickly they respond to your request.

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Select a Real Estate Agent Activity

Instructions:

List some important points and benefits of having a real estate agent, list ways to find a real estate agent, and list some things you should do once you've found some real estate agent candidates.

What's important to you in looking for an agent?

List the benefits of having a real estate agent.

How can you find a real estate agent?

After you've found some real estate agent candidates, you should:

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What Are Your Next Steps? Quiz (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participant to put the steps of the home buying process in the correct order. Then, lead a discussion emphasizing the importance of this order using the Next Step activity handout that follows the Quiz page.

Instructions:

Have your participants put the steps of the home buying process in the correct order.

1. Make an offer
2. Negotiate
3. Go into contract
4. Have a home inspection
5. Get an appraisal
6. Receive loan approval
7. Finalize the sale

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What Are Your Next Steps? Quiz

Instructions:

Put the steps of the home buying process in the correct order.

______________ Finalize the sale

______________ Get an appraisal

______________ Go into contract

______________ Have a home inspection

______________ Make an offer

______________ Negotiate

______________ Receive loan approval

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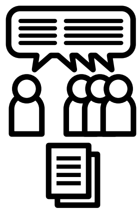

Your Next Steps in the Homebuying Process (Instructor Copy)

Instructor note:

Photocopy the handout on the following page. Lead a discussion about the homebuying process.

Next Steps in the Homebuying Process

Step	Description
1. Make an offer	• The asking price and selling price of homes are often different. • Your real estate agent will help you develop the offer and present it to the seller. • You will propose a purchase price, the time frame in which you'd like to take ownership, the amount of your down payment and any conditions that must be met prior to sale (such as required repairs). • You will be required to make a partial down payment deposit often called an "earnest money" deposit to show your offer is a serious one. Your agent will be able to advise you on how much of a deposit you may need to make.
2. Negotiate	• Sometimes an offer is accepted immediately. You may need to negotiate. • Your real estate agent is a go-between with the seller's agent during negotiations.
3. Go into contract	• After the offer is accepted, you reach a sales agreement. • This means that both you and the seller have defined the price and terms for the sale and a sales contract is drawn up. • Once you and the seller sign it, the contract is a legally binding document. • This process is referred to as "going into contract." • Have a trusted professional review the terms and conditions of the sales agreement before you sign. • Ask questions if you don't understand. Never sign a blank or incomplete contract.
4. Have a home inspection	• Arrange for a home inspection to identify any repairs the home may need. • You'll want to know as much as possible about the condition of the house. Major repairs can become a negotiating point with the seller. • Your real estate agent can provide a list of professional home inspectors who can offer you their opinion. • Your agent can also advise you about arranging any special inspections that may be needed for things like termites, lead paint, or soil contamination. Make sure your new home will be healthy and safe for your family. • Some sales agreements specify that the offer is "subject to inspection"—the buyer can back out of the deal if the inspection results are not to their satisfaction.

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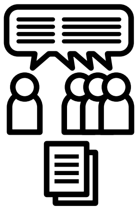

Your Next Steps in the Homebuying Process (Instructor Copy) (continued)

Next Steps in the Homebuying Process (continued)

Step	Description
5. Get an appraisal	• Your lender will have the home appraised to determine its fair market value. This is to confirm that the home is worth as much (or more) than your loan amount.
6. Receive loan approval	• You receive official notification from your lender that your home loan has been approved, including a confirmation of the amount.
7. Finalize the sale	• Finalizing the sale, also known as closing, is the last step in your home purchase. • At closing, ownership of the property is transferred from the seller to you. You'll meet formally with a closing agent, a professional who prepares the official documents related to the sale. • Depending on where you live, this individual is usually an attorney or title agency representative. Your real estate agent and the seller's agent may also attend. • When you're ready to schedule your closing date, all parties will be contacted to arrange for it to take place at a convenient time and location. • The closing procedure and associated fees vary depending on purchase location. • You will be notified of the exact amount you need in order to close and any additional documents you may need to bring.

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Your Next Steps in the Homebuying Process

Step	Description
1. Make an offer	• The asking price and selling price of homes are often different. • Your real estate agent will help you develop the offer and present it to the seller. • You will propose a purchase price, the time frame in which you'd like to take ownership, the amount of your down payment and any conditions that must be met prior to sale (such as required repairs). • You will be required to make a partial down payment deposit often called an "earnest money" deposit to show your offer is a serious one. Your agent will be able to advise you on how much of a deposit you may need to make.
2. Negotiate	• Sometimes an offer is accepted immediately. You may need to negotiate. • Your real estate agent is a go-between with the seller's agent during negotiations.
3. Go into contract	• After the offer is accepted, you reach a sales agreement. • This means that both you and the seller have defined the price and terms for the sale and a sales contract is drawn up. • Once you and the seller sign it, the contract is a legally binding document. • This process is referred to as "going into contract." • Have a trusted professional review the terms and conditions of the sales agreement before you sign. • Ask questions if you don't understand. Never sign a blank or incomplete contract.
4. Have a home inspection	• Arrange for a home inspection to identify any repairs the home may need. • You'll want to know as much as possible about the condition of the house. Major repairs can become a negotiating point with the seller. • Your real estate agent can provide a list of professional home inspectors who can offer you their opinion. • Your agent can also advise you about arranging any special inspections that may be needed for things like termites, lead paint, or soil contamination. Make sure your new home will be healthy and safe for your family. • Some sales agreements specify that the offer is "subject to inspection"—the buyer can back out of the deal if the inspection results are not to their satisfaction.

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Your Next Steps in the Homebuying Process (continued)

Step	Description
5. Get an appraisal	• Your lender will have the home appraised to determine its fair market value. This is to confirm that the home is worth as much (or more) than your loan amount.
6. Receive loan approval	• You receive official notification from your lender that your home loan has been approved, including a confirmation of the amount.
7. Finalize the sale	• Finalizing the sale, also known as closing, is the last step in your home purchase. • At closing, ownership of the property is transferred from the seller to you. You'll meet formally with a closing agent, a professional who prepares the official documents related to the sale. • Depending on where you live, this individual is usually an attorney or title agency representative. Your real estate agent and the seller's agent may also attend. • When you're ready to schedule your closing date, all parties will be contacted to arrange for it to take place at a convenient time and location. • The closing procedure and associated fees vary depending on purchase location. • You will be notified of the exact amount you need in order to close and any additional documents you may need to bring.

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Homebuying Process lesson:

- There are lots of steps involved in buying a home. But understanding the basics of the home-buying process can make it go smoothly.
- A good real estate agent can help you define what you want in a home, search for homes in neighborhoods that meet your needs, and provide you with data on recent home sales in the area.
- Before you begin house shopping, there are several steps we suggest you take: attend a class for first-time homebuyers, evaluate what you're looking for and how much you can pay, and get preapproved for a loan.

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Topic 6 — Buying a Home

Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Home Shopping Tips

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Lesson 4: Getting a Mortgage

In this lesson, participants will learn the basic vocabulary of home loans, how to apply and what happens after they do. Participants will also learn how loan decisions are made and what to do if the lender says no,.

Learning Objectives

After completing this lesson, participants will be able to:

- Define basic home loan vocabulary terms.
- Understand how to apply for a home loan.
- Describe the process after the application is received.
- Describe how lending decisions are made.
- List some reasons why a lender may say "no."

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What home loan words and phrases do you not understand?
- What types of emotions or feelings do you have when you think about home loans and mortgages?
- What things do you think are most important to lenders as they review a home loan application?

The Basics

- Buying a home is probably one of the biggest investments you'll ever make.
- Because houses have such a high price tag, almost everyone borrows some, if not most, of the money they need to buy one.
- There are many terms associated with home loans, including "mortgage," "loan to value," "APY," etc.
- Lenders look at the "Five C's" to make a decision about your home loan application.
- Don't take it personally if a lender declines your home loan. This provides you an opportunity to review and strengthen your credit worthiness.

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Topic 6 — Buying a Home

Home Loan Vocabulary Activity (Instructor Copy)

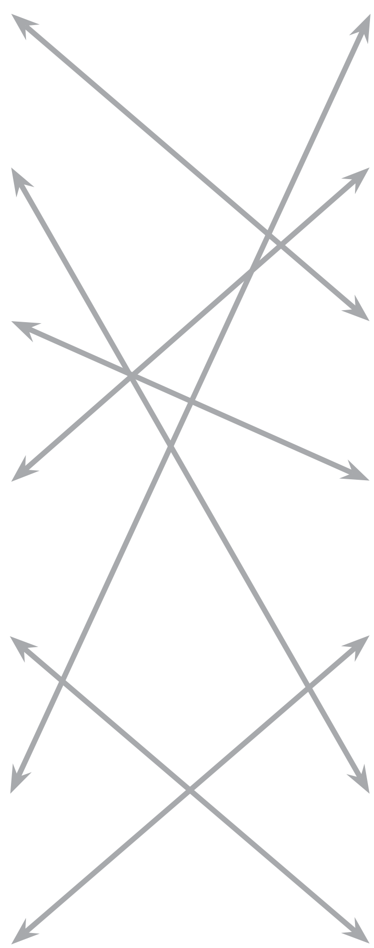
Instructor note:

Photocopy the activity handout on the following page. Instruct participants to match the homebuying term with its correct definition. Then use the Home Loan Vocabulary handout that follows this activity to lead discussion.

Instructions:

Have your participants draw a line from the homebuying term to its correct definition.

Mortgage	The process by which a lender decides whether to lend money.
Interest rate	A professional estimate of a property's market value at a certain point in time.
Term	A loan to help you purchase a home.
Appraisal	A period of time over which a loan is scheduled to be repaid.
Closing	The amount of a loan in relation to the value of the property.
Underwriting	The amount of interest paid per year divided by the principal amount (that is, the amount loaned).
Loan to value (LTV)	The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house.



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Home Loan Vocabulary Activity

Instructions:

Draw a line from the homebuying term to its correct definition.

Mortgage	The process by which a lender decides whether to lend money.
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Home Loan Vocabulary (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page and lead a discussion with your participants about these home loan terms after they have completed the Quiz on the previous page.

Being familiar with these terms will help you understand the home loan process.

Home Loan Vocabulary

Term	Description
Mortgage	• A mortgage is a loan to help you purchase a home. In return for lending you the money to purchase the home, you promise the lender to pay back the funds over a certain time period at a certain cost. • Each mortgage payment you make includes principal and interest. Principal means the amount you borrow based on the sale price of the home. Interest is the cost of borrowing money—the amount the lender is charging you for the loan. Some mortgage payments also include property taxes and insurance. • A mortgage loan is secured by the real estate being purchased. This means that the property backs up your promise to repay. Should you default, or stop repaying the loan, the lender could foreclose. • Many banks offer home loans, and some lenders specialize in mortgage lending. • Lenders must provide borrowers with a document that lists all of the estimated costs associated with getting the mortgage loan. This is called a Good Faith Estimate. Check with a mortgage financing expert for details about financing options.
Interest rate	• The amount of interest paid per year divided by the principal amount (that is, the amount loaned). • For example, if you paid $5,000 in interest per year for a loan of $100,000, the interest rate is 5,000 divided by 100,000, or five percent (5%). • A fixed-rate mortgage is a loan with an interest rate that remains the same over the life of the loan. • An adjustable-rate mortgage (ARM) is a loan where the interest rate is recalculated on pre-determined dates. Exactly how these adjustments are calculated and when they are made is specified in the loan documents.
Term	• A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Loan to value (LTV)	• The amount of a loan in relation to the value of the property. For example: an $80,000 loan on a property worth $100,000 would be 80% LTV. If there is more than one loan, this is called the "combined" loan to value.
Appraisal	• A professional estimate of a property's market value at a certain point in time. (The market value is the price a property will realistically sell for based on recent selling prices of similar properties in the same area.)
Closing	• The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.
Underwriting	• The process by which a lender decides whether to lend money based on: the value of the property, the borrower's creditworthiness and ability to pay, and the lender's lending guidelines and practices.

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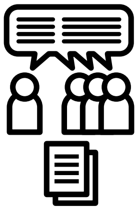
Topic 6 — Buying a Home



Home Loan Vocabulary

Being familiar with these terms will help you understand the home loan process.

Term	Description
Mortgage	• A mortgage is a loan to help you purchase a home. In return for lending you the money to purchase the home, you promise the lender to pay back the funds over a certain time period at a certain cost. • Each mortgage payment you make includes principal and interest. Principal means the amount you borrow based on the sale price of the home. Interest is the cost of borrowing money—the amount the lender is charging you for the loan. Some mortgage payments also include property taxes and insurance. • A mortgage loan is secured by the real estate being purchased. This means that the property backs up your promise to repay. Should you default, or stop repaying the loan, the lender could foreclose. • Many banks offer home loans, and some lenders specialize in mortgage lending. • Lenders must provide borrowers with a document that lists all of the estimated costs associated with getting the mortgage loan. This is called a Good Faith Estimate. Check with a mortgage financing expert for details about financing options.
Interest rate	• The amount of interest paid per year divided by the principal amount (that is, the amount loaned). • For example, if you paid \$5,000 in interest per year for a loan of \$100,000, the interest rate is 5,000 divided by 100,000, or five percent (5%). • A fixed-rate mortgage is a loan with an interest rate that remains the same over the life of the loan. • An adjustable-rate mortgage (ARM) is a loan where the interest rate is recalculated on pre-determined dates. Exactly how these adjustments are calculated and when they are made is specified in the loan documents.
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Appraisal	• A professional estimate of a property's market value at a certain point in time. (The market value is the price a property will realistically sell for based on recent selling prices of similar properties in the same area.)
Closing	• The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.
Underwriting	• The process by which a lender decides whether to lend money based on: the value of the property, the borrower's creditworthiness and ability to pay, and the lender's lending guidelines and practices.

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Steps in the Lending Process Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct participants to place the steps in the correct order. When they are finished, lead a discussion about each step.

Instructions:

Have your participants place each step of the lending process in the correct order.

1. **Complete the application**
   Your lender will assist you to fill out a loan application.
2. **Get preapproved**
   After reviewing your completed loan application, the lender can give you a preapproval letter, a written letter that confirms the price of home you can purchase.
3. **Processing**
   Your home mortgage specialist collects the necessary financial documents to process your loan. The property is appraised to determine its fair market value.
4. **Receiving approval**
   The lender will review your application and financial information to make their lending decision. If your application is declined, they may recommend steps you can take in order to obtain financing.
5. **Pre-closing**
   In this phase, sometimes referred to as "loan settlement," your home mortgage consultant will work with you to secure any required title insurance and real estate documents to protect against other parties claiming ownership of the property.
6. **Closing**
   The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.
7. **Loan Servicing**
   The steps taken to maintain a loan from the time it's closed until it's paid off, for example billing the borrower, collecting payments, and making contract changes. It's not uncommon to have loan servicing transferred between many companies during the life of a loan.

Tip!

Title insurance is a policy protecting a homebuyer and/or lender against loss due to an error or dispute related to the title, the document that proves property ownership.

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Steps in the Lending Process Activity

Instructions:

Place each step of the lending process in the correct order by writing a number in the space provided. After the activity, use the space under each step to take notes or write questions.

____________ Closing

____________ Complete the application

____________ Get preapproved

____________ Loan Servicing

____________ Pre-closing

____________ Processing

____________ Receiving approval

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Complete the Loan Application (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following pages, then lead a discussion about the sample loan application.

Residential Loan Application

A BORROWER INFORMATION

Borrower's Name	Co-Borrower's Name
Social Security Number	Social Security Number
Dependents	Dependents
Present Address (street, city, state, ZIP)	Present Address (street, city, state, ZIP)

EMPLOYMENT INFORMATION

Name & Address of Employer	Name & Address of Employer
Business Phone (incl. area code)	Business Phone (incl. area code)

B MONTHLY INCOME

Gross Monthly Income	Borrower	Co-Borrower

C ASSETS

Name and address of Bank, S&L, or Credit Union

stocks and bonds

retirement plans

D DEBTS AND OBLIGATIONS

Creditor names and outstanding balances

Real estate owned

Alimony

E CREDIT REFERENCES

loans or debts

F PROPERTY INFORMATION

Purchase price

Alterations, improvements, repairs

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Complete the Loan Application (Instructor Copy) (continued)

A.	**Personal Data** Full names, home address(es) for the previous two years, and Social Security numbers of all borrowers. Employment information for the previous two years including employer name, address, and phone number.
B.	**Income** The amount and source(s) of ongoing income (usually excluding alimony and child support) for all borrowers.
C.	**Assets** Information on all assets you'll be using to qualify for the loan (checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned) including bank name, account type, and balance. You'll also be asked to provide the source of down payment funds.
D.	**Debts and Obligations** Information on all outstanding debts and financial obligations. Creditor names and outstanding balances for all loans and notes payable; alimony; child support; and other liabilities. Real estate owned including property address, market value, outstanding liens, rental income, mortgage payments, taxes, insurance and maintenance dues.
E.	**Credit References** Information concerning loans or debts that have been paid, plus any other references to good credit use.
F.	**Property Information** Specifics on the property you wish to buy, if you've chosen one.

Tip!

In some cases, you may need to provide additional documents to verify your income and available cash, or request credit bureaus to correct items in your credit report that you believe are inaccurate.

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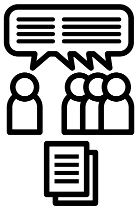

Complete the Loan Application

Residential Loan Application

A — BORROWER INFORMATION

Borrower's Name	Co-Borrower's Name
Social Security Number	Social Security Number
Dependents	Dependents
Present Address (street, city, state, ZIP)	Present Address (street, city, state, ZIP)

EMPLOYMENT INFORMATION

Name & Address of Employer	Name & Address of Employer
Business Phone (incl. area code)	Business Phone (incl. area code)

B — MONTHLY INCOME

Gross Monthly Income	Borrower	Co-Borrower

C — ASSETS

Name and address of Bank, S&L, or Credit Union

stocks and bonds

retirement plans

D — DEBTS AND OBLIGATIONS

Creditor names and outstanding balances

Real estate owned

Alimony

E — CREDIT REFERENCES

loans or debts

F — PROPERTY INFORMATION

Purchase price

Alterations, improvements, repairs

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Complete the Loan Application (continued)

A.	**Personal Data** Full names, home address(es) for the previous two years, and Social Security numbers of all borrowers. Employment information for the previous two years including employer name, address, and phone number.
B.	**Income** The amount and source(s) of ongoing income (usually excluding alimony and child support) for all borrowers.
C.	**Assets** Information on all assets you'll be using to qualify for the loan (checking and savings accounts, stocks and bonds, retirement plans, and other real estate owned) including bank name, account type, and balance. You'll also be asked to provide the source of down payment funds.
D.	**Debts and Obligations** Information on all outstanding debts and financial obligations. Creditor names and outstanding balances for all loans and notes payable; alimony; child support; and other liabilities. Real estate owned including property address, market value, outstanding liens, rental income, mortgage payments, taxes, insurance and maintenance dues.
E.	**Credit References** Information concerning loans or debts that have been paid, plus any other references to good credit use.
F.	**Property Information** Specifics on the property you wish to buy, if you've chosen one.

Tip!

In some cases, you may need to provide additional documents to verify your income and available cash, or request credit bureaus to correct items in your credit report that you believe are inaccurate.

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The "Five Cs" of Credit Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to match each of the 5 C's with its correct description. After they are finished, walk through each "C."

How do lenders decide whether or not to loan you money? The 5 C's of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision "scorecards" using aspects of the 5 C's and other factors.

Instructions:

Have your participants read the descriptions in the right hand column of the table. Then instruct them to write in the right "C" for each description—character, capacity, capital, collateral or conditions.

Which "C?"	Description
Character	• When lenders evaluate this "C," they look at stability—for example, how long you've lived at your current address, how long you've been in your current job, and whether you have a good record of paying your bills on time and in full. • If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay.
Capacity	• Your other debts and expenses could impact your ability to repay the loan. • Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn. • The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.
Capital	• This term refers to your net worth—the value of your assets minus your liabilities. • In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe.
Collateral	• This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed. • Some lenders may require a guarantee in addition to this. • A guarantee means that another person signs a document promising to repay the loan if you can't.
Conditions	• Lenders might consider a number of outside circumstances that may affect the borrower's financial situation and ability to repay, for example what's happening in the local economy. • If the borrower is a business, the lender may evaluate the financial health of the borrower's industry, their local market, and competition.

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The "Five Cs" of Credit Activity

How do lenders decide whether or not to loan you money? The 5 C's of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision "scorecards" using aspects of the 5 C's and other factors.

Instructions:

Read the descriptions in the right hand column of the table. Then, write in the right "C" for each description—character, capacity, capital, collateral or conditions.

Which "C?"	Description
	• When lenders evaluate this "C," they look at stability—for example, how long you've lived at your current address, how long you've been in your current job, and whether you have a good record of paying your bills on time and in full. • If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay.
	• Your other debts and expenses could impact your ability to repay the loan. • Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn. • The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.
	• This term refers to your net worth—the value of your assets minus your liabilities. • In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe.
	• This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed. • Some lenders may require a guarantee in addition to this. • A guarantee means that another person signs a document promising to repay the loan if you can't.
	• Lenders might consider a number of outside circumstances that may affect the borrower's financial situation and ability to repay, for example what's happening in the local economy. • If the borrower is a business, the lender may evaluate the financial health of the borrower's industry, their local market, and competition.

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Instructor note:

At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Credit Scores

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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If the Lender Says No Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. As a group, brainstorm some steps they can take to have the lender reconsider an application if it was rejected originally.

Instructions:

Have your participants look at the list of reasons why a loan may not be granted. Then in the space provided, instruct them to write a few sentences about the steps they can take to have the lender reconsider their application.

1. **Irregular employment**
    - Provide details about your employment history.
    - Lender is looking for stable/consistent employment history.
2. **Not enough income to repay the loan**
    - Find out if all sources of income were considered in evaluating your application.
    - Consider having a spouse co-sign so his or her income is included.
    - Find a reliable co-signer who is acceptable to the lender.
3. **Poor credit history (slow repayment of other loans**
    - Obtain a copy of your credit report and review it to see if it is correct or if there are possible errors you need to correct.
    - Find out if the credit bureau made any are errors in the information they provided the lender.
    - Talk to a credit counselor to see how you can improve your credit score
4. **Lack of credit history**
    - No prior credit? Apply for a credit card with a low limit, make small purchases and pay on time.
    - Find out if factors such as payment of rent or utility bills could be considered.
5. **Too short a time at residence**
    - Provide more details on where your prior residence (s) and length of time at each place
6. **Insufficient down payment**
    - Offer to make a larger down payment if possible.
    - Pay off some of your existing debt.

Tip!

If a lender turns you down, don't take it personally.

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If the Lender Says No Activity

Instructions:

Look at the list of reasons why a loan may not be granted. Then in the space provided, write a few sentences about the steps you can take to have the lender reconsider your application.

1. **Irregular employment**
   Example: Provide more details about your work history.

2. **Not enough income to repay the loan**
   Example: Consider having someone cosign the loan.

3. **Poor credit history (slow repayment of other loans)**
   Example: Talk to a credit counselor.

4. **Lack of credit history**
   Example: Apply for a credit card with a low limit.

5. **Too short a time at residence**
   Example: Provide more details about your residence history.

6. **Insufficient down payment**
   Example: Keep saving!

Tip!

If a lender turns you down, don't take it personally.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Getting a Mortgage lesson:

- Buying a home is probably one of the biggest investments you'll ever make.
- Because houses have such a high price tag, almost everyone borrows some, if not most, of the money they need to buy one.
- There are many terms associated with home loans, including "mortgage," "loan to value," "APY," etc.
- Lenders look at the "Five C's" to make a decision about your home loan application.
- Don't take it personally if a lender declines your home loan. This provides you an opportunity to review and strengthen your credit worthiness.

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Lesson 5: Borrowing Against Your Equity

In this lesson, participants will learn about home equity loans and lines of credit and how they offer financial flexibility if used carefully.

Learning Objectives

After completing this lesson, participants will be able to:

- Define home equity.
- Compare and contrast two different ways of borrowing against the equity in their home.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What do you think the difference is between a home equity loan and a line of credit?
- Which one do you think is more advantageous in your situation? Why?

The Basics

- Equity is the difference between how much your house is worth and how much you still owe for it. This means you may be able to borrow money using your home as security.
- Owning a home is an investment because homes generally increase, or appreciate, in value.
- As the years go by and you pay your mortgage down, you may have more and more home equity.
- If you do borrow against your home's equity, be sure to make your loan payments on time and in full. Otherwise, you may risk losing your home.

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Home Equity Loans & Lines (Instructor Copy)

Instructor note:

Photocopy the activity handouts on the following two pages. Divide the class into two groups and distribute the activity handout. One group will provide information for the home equity loan column and the other group will provide information for the home equity line of credit column. Then use the key points in the table below to compare and contrast the two.

Home equity loan (Second mortgage)	Home equity line of credit
Provides a lump sum of money • Your lender will provide a lump sum.	**Provides revolving credit** • A type of credit that allows an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again.
Uses your home as security • Your home guarantees the loan.	**Uses your home as security** • Your home guarantees the loan.
Must pay back by certain date • Your lender will specify a due date.	**Repayment options may vary** • Your lender will explain your repayment options.
Often used for a project • Home equity loans are often used for one specific purpose, for example, remodeling the house.	**Various uses** • Homeowners use their home equity lines of credit for a wide variety of purposes ranging from home improvements to college education.
Higher interest than first • The interest rate on a second mortgage is usually higher than on a first mortgage. • Different financial institutions may offer different rates. Shop around.	**Interest rates vary** • Different financial institutions may offer different rates. Shop around. • Some lines of credit have fixed interest rates; others have variable rates.
Tax deductible interest • Because these debts are secured by your home, part of the interest you'll pay is often tax deductible, regardless of how you spend the money. • Check with your tax advisor.	**Tax deductible interest** • Because these debts are secured by your home, part of the interest you'll pay is often tax deductible, regardless of how you spend the money. • Check with your tax advisor.

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Home Equity Loans & Lines

Instructions:
Answer each question as it pertains to home equity loans and equity lines of credit

Home equity loan (Second mortgage)	Home equity line of credit
How do you get the money? *Tip: Will you get it in one lump sum or a certain amount that you need right now?*	**How do you get the money?** *Tip: Will you get the money in one lump sum?*
What guarantees the loan? *Tip: What is collateral for the loan?*	**What guarantees the loan?** *Tip: What is collateral for the loan?*
How do you repay?	**How do you repay?**
What is it used for primarily?	**What is it used for primarily?**
What's the deal with interest rates?	**What's the deal with interest rates?**
What about interest and taxes?	**What about interest and taxes?**

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Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Borrowing Against Your Equity lesson:

- Equity is the difference between how much your house is worth and how much you still owe for it. This means you may be able to borrow money using your home as security.
- Owning a home is an investment because homes generally increase, or appreciate, in value.
- As the years go by and you pay your mortgage down, you may have more and more home equity.
- If you do borrow against your home's equity, be sure to make your loan payments on time and in full. Otherwise, you may risk losing your home.

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Lesson 6: Protect Your Home Investment

In this lesson, participants will learn how maintaining their home can save them money in the long run. They will discover how to protect their home investment if they experience financial difficulties or a life-changing event.

Learning Objectives

After completing this lesson, participants will be able to:

- Explain how maintaining your home can help save you money in the future.
- List steps to protect their home investment if they experience financial difficulties or a sudden life-changing.

Start the Discussion

To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- What are some important steps you need to take to maintain your home?
- What issues could happen to cause some one to lose their home or experience foreclosure?
- What actions do you think a homeowner could take to avoid foreclosure?

The Basics

- Once you're a homeowner, you need to protect your investment by managing your finances effectively, maintaining your home in good condition, and being prepared to handle unexpected expenses.
- If you find that you are experiencing difficulties paying your mortgage, work directly with your lender to discuss options. It is important to contact them immediately if you foresee future payment issues.

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Take Charge of Your Home Investment Activity (Instructor Copy)

Instructor note:

Photocopy the activity handout on the following page. Instruct your participants to fill in the blanks while you lead the discussion.

Instructions:

Have your participants fill in the blanks as they listen to the discussion about tips to protect their home investment.

Pay your mortgage!	• Be sure to make your payments **on time**. If you don't make your payments, you could damage your **credit rating** or lose your home. • **Automatic** mortgage payment programs ensure that your mortgage is paid on time. • Some plans allow you to pay off your loan more quickly so you pay less interest and accumulate **equity** faster. Ask your lender about the payment options they offer.
Manage your money	• Establish a **monthly schedule** for paying your bills; consider using an automatic bill pay service. • Stick to your **spending plan** so you don't overspend. • Keep careful **financial records** so you know where you stand.
Postpone new debt	• Avoid opening new **credit accounts**. • Before you make any other **major purchases** and take on additional debt, be sure you handle your new monthly housing expenses, including your new mortgage, utilities and other home-related expenses.
Keep on saving	• Set aside money for planned and unexpected expenses. • Try to have enough savings available for **six months** of mortgage payments should you need it.
Maintain your property	• Maintain your home inside and out. • Regular maintenance may help you avoid **expensive repairs**. • Maintenance may also reduce **energy costs** and keeps up the **value** of your most important investment, your home.
Have adequate insurance	• Make sure you have adequate coverage in all areas, including **homeowners' insurance**.
Use home equity carefully	• Take advantage of borrowing against your **home equity** if you need to, but manage it carefully. Always pay on time.

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Topic 6 — Buying a Home

Take Charge of Your Home Investment Activity

Instructions:

Fill in the blanks as you listen to the discussion about tips to protect your home investment.

Pay your mortgage!	• Be sure to make your payments ____________________. If you don't make your payments, you could damage your ____________________ or lose your home. • ____________________ mortgage payment programs ensure that your mortgage is paid on time. • Some plans allow you to pay off your loan more quickly so you pay less interest and accumulate ____________ faster. Ask your lender about the payment options they offer.
Manage your money	• Establish a ____________________ for paying your bills; consider using an automatic bill pay service. • Stick to your ____________________ so you don't overspend. • Keep careful ____________________ so you know where you stand.
Postpone new debt	• Avoid opening new ____________________. • Before you make any other ____________________ and take on additional debt, be sure you handle your new monthly housing expenses, including your new mortgage, utilities and other home-related expenses.
Keep on saving	• Set aside money for planned and unexpected expenses. • Try to have enough savings available for ____________________ of mortgage payments should you need it.
Maintain your property	• Maintain your home inside and out. • Regular maintenance may help you avoid ____________________ ____________________. • Maintenance may also reduce ____________________ and keeps up the ____________ of your most important investment, your home.
Have adequate insurance	• Make sure you have adequate coverage in all areas, including ____________________.
Use home equity carefully	• Take advantage of borrowing against your ____________________ if you need to, but manage it carefully. Always pay on time.

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Topic 6 — Buying a Home

Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Protect Your Investment

Remember, the online *Hands on Banking*® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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What If You Can't Make Your Mortgage Payment?

Instructor note:

Start a discussion by asking questions such as:

- *"Why is it important to make your mortgage payments on time?"*
- *"What happens if you cannot make your mortgage payments on time?"*
- *"If you know you're going to fall behind on your mortgage payment, what steps should you take?"*

Continue the discussion by focusing on the key points below and then transition into the Steps to Foreclosure handout on the following pages. Also consider inviting a mortgage banker or a credit counselor to present to your participants.

Always make your mortgage payments on time

- If you can't, you need to call your lender immediately.
- Even the most reliable borrowers sometimes fail to meet every payment on its due date.
- An unexpected crisis (long illness, job loss, marriage break-up, etc.) can negatively impact your ability to pay.
- Don't be intimidated or embarrassed to call your lender. It's essential that you call them, because they want to help you and can only do so if you contact them. (Be sure to call the company to whom you currently send your loan payment, not the company who originated your mortgage.)

The last resort generally for both the lender and the customer is foreclosure

- This which will have a major negative impact on you and your credit.
- As the result of a foreclosure, the lender becomes the owner of your home and you must move out.
- The lender might also pursue you through the courts for money you still owe on your mortgage.
- Calling your lender as soon as you have trouble paying your mortgage is the best way to avoid this.

Tip!

If you have an unexpected crisis, take action right away. Lenders have more options when you call as soon as you realize there may be an issue. Contact your lender and a housing counseling agency and cooperate fully with them. Avoid companies that charge you a high fee upfront and claim they can help you avoid foreclosure. These could be scams!

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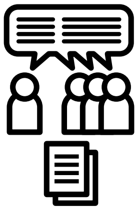

Steps to Avoid Foreclosure (Instructor copy)

Instructor note:

Begin a group discussion by asking participants to come up with ways people can save their homes and avoid foreclosure if they get in financial trouble. Then, discuss the key points below.

Contact your lender	• If you fall behind in your mortgage payments, don't hide from the situation. • Contact your lender right away. More options may be available to you sooner. • If you work directly with your lender, they can develop appropriate solutions. • A lender is motivated to help you stay in your home. • Foreclosure can be a complex process in which lenders must strictly follow state and local laws, go through legal channels, take possession, often make repairs, market the home, and successfully sell it. Because of the extensive costs and effort involved, lenders usually consider foreclosures a "last resort."
Call a housing counselor	• The U.S. Department of Housing and Urban Development (HUD) provides a list of approved housing counselors on their Web site: **www.hud.gov**. • A HUD-approved housing counseling agency can help you assess your financial situation and recommend where you can cut costs, enabling you to pay the past due amount, if possible. The counselor can also help you negotiate with your lender. • The Homeownership Preservation Foundation has a National Assistance Hotline—1-888-995-HOPE (888-995-4673)—that provides advice, assistance and support to help individuals and families who are struggling financially to stay in their homes. For additional information, visit **www.hopenow.com**.
Negotiate a workout	• If you cannot afford to pay the entire amount you owe on your loan, discuss a loan workout arrangement with your loan servicer. • This means restructuring the loan in a way that enables you to repay.
Explore options to stay in your home	• Talk to your lender about establishing a new repayment schedule. • This is known as a loan modification, or restructuring of the loan. (If you have an FHA mortgage loan, this restructuring is known as "loan assignment.") • Loan modification is a change in one or more of the mortgage loan terms in order to make the monthly payment more affordable given the borrower's present financial situation. • These changes may be made on a temporary or permanent basis and could include changing the loan's interest rate, monthly payment amount, or time available to repay.
Leaving your home	• If your financial circumstances dramatically change, you may not be able to find a way to afford your loan. • You may find that the best option is not to keep your home. • One option may be a short sale, or pre-foreclosure sale. A lender will typically want the home's sale price to repay what you owe on the mortgage, but may accept a lesser amount. Don't sell your home for less than what you owe without talking to your lender first. • Another option may be a deed-in-lieu of foreclosure. This is when you give your property back to the lender.
Research your bankruptcy options	• Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or "discharge" some of your debts and get a fresh start financially. • Bankruptcy is a serious matter that can have significant, long-lasting consequences. Bankruptcy law is complicated and changing. It's essential to get professional counseling about your options.

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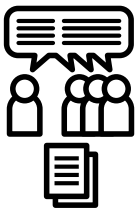

Steps to Avoid Foreclosure

Contact your lender	• If you fall behind in your mortgage payments, don't hide from the situation. • Contact your lender right away. More options may be available to you sooner. • If you work directly with your lender, they can develop appropriate solutions. • A lender is motivated to help you stay in your home. • Foreclosure can be a complex process in which lenders must strictly follow state and local laws, go through legal channels, take possession, often make repairs, market the home, and successfully sell it. Because of the extensive costs and effort involved, lenders usually consider foreclosures a "last resort."
Call a housing counselor	• The U.S. Department of Housing and Urban Development (HUD) provides a list of approved housing counselors on their Web site: **www.hud.gov**. • A HUD-approved housing counseling agency can help you assess your financial situation and recommend where you can cut costs, enabling you to pay the past due amount, if possible. The counselor can also help you negotiate with your lender. • The Homeownership Preservation Foundation has a National Assistance Hotline—1-888-995-HOPE (888-995-4673)—that provides advice, assistance and support to help individuals and families who are struggling financially to stay in their homes. For additional information, visit **www.hopenow.com**.
Negotiate a workout	• If you cannot afford to pay the entire amount you owe on your loan, discuss a loan workout arrangement with your loan servicer. • This means restructuring the loan in a way that enables you to repay.
Explore options to stay in your home	• Talk to your lender about establishing a new repayment schedule. • This is known as a loan modification, or restructuring of the loan. (If you have an FHA mortgage loan, this restructuring is known as "loan assignment.") • Loan modification is a change in one or more of the mortgage loan terms in order to make the monthly payment more affordable given the borrower's present financial situation. • These changes may be made on a temporary or permanent basis and could include changing the loan's interest rate, monthly payment amount, or time available to repay.
Leaving your home	• If your financial circumstances dramatically change, you may not be able to find a way to afford your loan. • You may find that the best option is not to keep your home. • One option may be a short sale, or pre-foreclosure sale. A lender will typically want the home's sale price to repay what you owe on the mortgage, but may accept a lesser amount. Don't sell your home for less than what you owe without talking to your lender first. • Another option may be a deed-in-lieu of foreclosure. This is when you give your property back to the lender.
Research your bankruptcy options	• Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or "discharge" some of your debts and get a fresh start financially. • Bankruptcy is a serious matter that can have significant, long-lasting consequences. Bankruptcy law is complicated and changing. It's essential to get professional counseling about your options.

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Lesson Summary

Instructor note:

Summarize this lesson by reviewing these key points with your participants.

Key points from the Protect Your Home Investment lesson:

- Once you're a homeowner, you need to protect your investment by managing your finances effectively, maintaining your home in good condition, and being prepared to handle unexpected expenses.
- If you find that you are experiencing difficulties paying your mortgage, work directly with your lender to discuss options. It is important to contact them immediately if you foresee future payment issues.

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Topic Summary

Instructor note:
Summarize this topic by reviewing these key points with your participants.

Key points from the Buying a Home Topic

- Before you start house shopping, consider whether homeownership is right for you at this time, and whether you're really ready to buy.
- If you decide you are ready, a good real estate agent can help you step-by-step through the homebuying process.
- Shop for your mortgage before you shop for a home so you know how much home you can buy.
- If you're turned down for financing, there are steps you can take to strengthen your financial picture.
- After you're a homeowner, if the value of your home goes up and you pay your mortgage loan down, you may qualify for a home equity loan or line of credit, giving you more financial flexibility.
- Protect the home you've worked so hard to get. Use your credit wisely, keep on saving, and be a smart money manager. Get adequate insurance and maintain your property inside and out.

Additional Activities

These activities are designed to extend the new concepts presented in the Buying a Home Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.

1. Collect some flyers from homes that are for sale while you're out and about. Go online and try out some mortgage calculators to see what your payment would be for these houses. Change the down payment amount and interest rate to see how the payment changes.
2. Talk with a real estate agent about your preliminary needs. Ask any questions you may have and discuss locations, pricing, the housing market, etc. Most real estate agents will love to talk to you as you can become a future client who refers more people!
3. Order your free copy of your credit report from **www.annualcredit report.com** or one of the three agencies. Identify any errors or incorrect entry and immediately contact the lender and the credit agency to repair the error(s).
4. Go to as many open houses as you can. Talk to realtors about the houses, its features and what are average prices for that specific area.
5. If you are a homeowner, review your insurance plan to ensure it covers your home and contents.
6. Talk with your banker and get more information on equity loans, lines and options for you as a homeowner.

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Appendix

Library Articles & Additional Topic Resources

Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online *Hands on Banking®* program has dozens of additional library articles that you can use and distribute for this and other topics. Visit **www.handsonbanking.org** to browse all the available articles.

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Calculating Your Homebuying Costs

How much mortgage can you afford?

Many people estimate that they can afford a mortgage of 2 or 2½ times their household income. For example, if a family's household income is $40,000, they might be able to afford a mortgage of $80,000 to $100,000. Keep in mind that just because you may be able to borrow that amount, it doesn't mean you can afford or feel comfortable with the monthly payments required. You need to consider your particular circumstances and your future financial needs and goals.

Mortgage lenders usually require your housing expenses to be less than or equal to 25-28% of your monthly pretax income. So, for example, if your monthly pretax income is $3,500, your mortgage payment should be $980 or less.

Homebuying costs

The three major costs related to buying a home are the down payment, closing costs, and moving and settling-in costs. Here is more information about each:

- **Down payment**
  Lenders generally require borrowers to make at least a small down payment. The amount depends on the price of the home and type of mortgage you get. Down payment requirements vary, usually ranging from 3% to 20% of the home purchase price. The size of the down payment you're able to make affects the amount of money you'll need to borrow. The amount that you put down affects the loan decision, the size of your monthly mortgage payments, and the amount of cash that you have available for other homebuying costs.
- **Closing costs**
  Closing costs are fees that must be paid to complete the transfer of the property from the seller to the buyer. Closing costs also include the fees for the mortgage loan. Typical closing costs may include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments. Talk to a real estate professional to gain a more detailed understanding of these fees. Prepaid closing costs are any items that must be paid before the loan closing. All these payments must be made no later than the time of settlement. Closing costs can vary, but usually run from 2% to 7% of the mortgage loan amount.
- **Moving and settling-in costs**
  You may have costs associated with moving into your new home, even if you move yourself rather than hiring a professional moving company. The amount of your moving and settling-in costs will vary, depending on how far you are moving and how much repair work needs to be done. There are likely to be expenses such as new appliances and home improvements, like painting or replacing carpets. You may also need or want to purchase furniture for your new home.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.

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Protect Your Money and Identity

If criminals get your ATM, debit, or credit cards, or personal financial information such as account numbers, passwords, or Social Security number, they can drain your bank accounts or make charges to your credit cards. They may also commit a crime called identity theft by taking out loans and obtaining credits cards and even driver's licenses in your name.

There are 27 million victims of identity theft every year in the United States. Identity theft can seriously damage your credit and financial reputation, and it may take years to restore your good credit and name.

Don't let it happen to you! Here are tips to help you avoid financial fraud and safeguard your identity, bank accounts, and money:

About fraud and identity theft

- Identity fraud is usually limited to an isolated attempt to steal money from an existing account, such as a charge on a stolen credit card.
- With identity theft, a thief uses your personal information, such as your Social Security number or bank account number, to open accounts or initiate transactions your name. This may cause financial loss or damaged credit.
- If fraudulent transactions occur on your account, it does not automatically mean your identity was stolen. It may be an isolated incident of theft that can be quickly resolved. Contact your bank for more information.

Common ways ID theft happens

According to the Federal Trade Commission (FTC), skilled identity thieves use a variety of methods to steal your personal information, including:

1. Dumpster diving. They rummage through your trash looking for bills or other paper with your personal information on it.
2. Skimming. They steal credit/debit card numbers by using a special storage device when processing your card.
3. Phishing. They pretend to be financial institutions or companies and send spam or pop-up messages to get you to reveal your personal information.
4. Changing your address. They divert your billing statements to another location by completing a "change of address' form.
5. "Old-fashioned" stealing. They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records from their employers, or bribe employees who have access.

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Protect your money and identity (continued)

If you become a victim of identity theft:

- Contact your financial institution and credit card issuers immediately and alert them to the situation.
- Contact one of the three major credit bureaus and discuss whether you need to place a fraud alert on your file. This will help prevent thieves from opening a new account in your name.
- Here is the contact information for each bureau's fraud division:
  - Equifax 800-525-6285
  - Experian 888-397-3742
  - TransUnion 800-680-7289
- Close any accounts that have been tampered with or established fraudulently.
- File a report with law enforcement officials to help you with creditors who may want proof of the crime.
- Report all suspicious contacts to the Federal Trade Commission at **www.consumer.gov/idtheft** or by calling 1-877-IDTHEFT (438-4338).

General fraud prevention tips

- Carry only necessary information with you. Leave your Social Security card or unused credits cards at home in a safe and secure location.
- Protect your Social Security number. Don't write your Social Security number on a check. Give it out only if absolutely necessary or ask to use another identifier.
- Limit paper statements.
- Shred account statements or documents containing personal or financial information before discarding.
- Review your credit report at least once a year, looking for suspicious or unknown transactions.
- Limit the credit offers you receive.
- Remove your name from marketing lists.
- Never click on links sent in unsolicited emails; instead, type in a Web address you know.
- Keep your personal information in a secure place at home.

Card safety: ATM, debit and credit cards

- Report lost or stolen cards immediately to the company that issued you the card.
- To help you respond quickly in case your cards or ID are lost or stolen, make a chart like this one. Be sure to store the list in a safe place. Never carry it with you.

Credit card name	Financial institution	Account number	24-hour customer service #

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Card safety: ATM, debit and credit cards (continued)

- Sign your card on the signature panel as soon as you receive it.
- Protect your cards as if they were cash—never let them out of your possession or control.
- Do not include your card number in an email.
- Do not give out your card number over the phone unless you initiated the call.
- Be sure that you get your card back after every purchase.
- Don't leave your credit cards in your car's glove compartment. A high percentage of credit card thefts are from car glove compartments.
- Don't lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don't let your credit cards be used by others, even family and friends.
- Choose a PIN that is easy for you to remember but difficult for others to guess. Don't use any numbers or words that appear in your wallet (name, birth date, phone number, etc).
- Never tell anyone your PIN. No one from a financial institution, the police, or a merchant should ask for your PIN. You are the only person who needs to know it.
- Don't volunteer any personal information when you use your cards, other than by displaying personal identification as requested by a merchant.
- Never write down your personal identification number (PIN)—memorize it. Don't write down your account number and PIN and carry it with you. If your wallet or purse is stolen, someone else could have access to your money.
- When typing in your pin, cover the keypad so others can't see.
- When selecting a PIN, avoid picking a number that is easy for others to guess—for example, your name, telephone number, date of birth, or any simple combination of these.
- Always make sure that sales vouchers are for the correct purchase amount before you sign them.
- Always keep copies of your sales vouchers, credit card, and Automated Teller Machine (ATM) receipts.
- Always check your billing statement to make sure the purchase amounts are correct and to ensure there are no suspicious charges. Contact your service provider immediately if you see a charge you don't recognize.
- Always put disputes regarding your billing statements in writing immediately upon becoming aware of the disputed item; otherwise, you may be held legally responsible for the entire amount of the disputed item. Many credit card issuers have specific instructions for notifying them of a billing error dispute. Read your credit card agreement and billing statements carefully for information regarding dispute notification requirements. You may also contact your credit card issuer to ask about their dispute notification requirements.
- Shred or destroy your ATM receipts before you throw them away.
- Keep your cards away from magnets; these can erase the information stored on your card.
- If you receive a replacement card, destroy your old card. Destroy cards for cancelled accounts.
- Shop with merchants you know and trust. Make sure internet purchases are secured with encryption to protect your account information. Look for "secure transaction" symbols.

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Protect your money and identity (continued)

ATM security tips

- Think about your personal safety when using an ATM. Because most ATMs give out cash and many accept deposits, it makes sense to be alert and aware of your surroundings no matter where or when you use an ATM. When you're by yourself, avoid using an ATM in out-of-the-way or deserted areas. Use ATMs located inside banks or supermarkets where other people are around. Use ATMs in well-lit, public areas.
- Be aware of your surroundings when withdrawing funds. If your notice anything out of the ordinary, come back later or use another ATM.
- If it looks like someone has tampered with the ATM equipment, don't use it. (This could mean that a criminal has attached a "skimmer" to the ATM to steal your financial information.) If a suspicious person offers to help you use the ATM, refuse and leave.
- When typing in your pin, cover the keypad so others can't see.
- After completing your transaction, remember to remove your card, cash and any printed documents such as receipts or statements.
- Put your money and ATM card away before you leave the ATM. Always avoid showing your cash. Always verify that the amount you withdrew or deposited matches the amount printed on your receipt.
- Take your receipts with you so potential criminals will not know how much you withdrew or how much money is in your account.
- When using a drive-up ATM, keep your car doors locked and your engine running.

Mail precautions

- If you stop receiving mail, call the post office immediately.
- Notify the post office immediately if you change your address.
- Get a mailbox that you must unlock with a key to remove your mail.
- Remove your incoming mail promptly.
- Don't leave your mail for long periods of time in visible, unguarded areas (e.g., apartment lobbies).
- If you're out of town, put a hold on your mail delivery or have a person you trust pick it up.
- Consider enrolling in an electronic payment service to reduce the risk of theft of your outgoing checks.
- Reduce your risk of mail fraud by replacing paper invoices, statements and checks with electronic versions, if offered by your employer, bank, utility provider or merchant.
- Review your statements both in paper and online to detect suspicious activity and fraud.
- Don't put outgoing mail in your residential mailbox. It could be stolen. Put outgoing mail in a secure USPS mail box or hand it directly to a uniformed USPS mail carrier.
- If you use the red flags found on some mailboxes to alert your mail carrier of outgoing mail, you are also alerting potential thieves that outgoing mail is in the box.

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Mail precautions (continued)

- Know your billing and statement cycles. If a company's regular bills or statements stop reaching you, contact that company immediately.
- Use an electronic bill pay service to help keep your information safe.
- If you stop receiving mail, call the post office immediately. Some criminals are able to forge your signature and have your mail forwarded elsewhere for the purpose of obtaining information that will allow them to apply for credit in your name.
- If you're told of a forwarding order placed on your mail without your knowledge, go to the post office to check the signature and cancel the order. Ask the post office to track down the forwarded mail—it can remain in the postal system for up to 14 days, so it may not yet have landed in the criminal's hands.

Bank account security tips

- Report lost or stolen checks immediately
- Review account statements carefully. Ask about suspicious charges.
- Enroll in online account statements if they're offered through your bank. Review them periodically for faster fraud detection.
- Limit the amount of information on checks. Don't print your driver's license number or Social Security Number on your checks.
- Store new and cancelled checks in a safe and secure location. Shred cancelled checks when you no longer need them.

Mobile banking security tips

- Frequently delete text messages with account balance information, and especially before loaning out, discarding, or selling your mobile device.
- Never disclose via text message any personal information (account numbers, passwords, etc.).
- Use the keypad lock or phone lock function on your mobile device when it is not in use. These functions password protect your device so that nobody else can use it or view your information.
- Store your device in a secure location.
- Let your bank know as soon as possible if you lose your mobile device or change your phone number.

Telephone safety

- Don't give your account number over the phone unless you initiated the call.
- When you purchase by phone, for maximum security, use a corded, rather than cordless phone.
- If you're contacted by a telephone salesperson (or "telemarketer"), ask questions. The fewer questions a telemarketer can answer, the less likely that it's a legitimate business. Write down the name, address, and phone number of the businesses or organizations that contact you. Ask for the names of other customers who can tell you about their experience with the business or organization.

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Protect your money and identity (continued)

Online safety

- Keep your computer operating system up to date to ensure the highest level of protection.
- Use an up to date web browser.
- Install a personal firewall on your computer.
- Install, run, and keep anti-virus software updated.
- Avoid downloading programs from unknown sources.
- Never use your Social Security Number as your username to sign into online accounts.
- Never set your username to be the same as your password.
- Protect your online passwords. Don't write them down or share them with anyone.
- Use secure, encrypted web sites for transactions and shopping.
- Always log off from any banking, e-commerce or merchant web site. If you cannot log off, shut down your browser to prevent unauthorized access to your account information.
- Completely shut down your computer when you're not using it. Don't leave it in sleep mode.
- Don't send identifying personal information, such as account numbers, credit card numbers, or PINs via email. Financial institutions will never send you an email asking for this type of information.
- Select one credit card with a low credit limit to use for all your online purchases. Tell your credit card provider that you do not want them to raise the limit on this card without your prior written permission.
- Never download files or click on hyperlinks in emails from people or companies you don't know.

If someone's asking you to buy

- Unless you initiated the contact, never give out confidential information (such as account numbers, Social Security number, or mother's maiden name) to anyone.
- Be cautious when you receive offers to buy over the telephone, by mail, or on the Internet. Be especially careful about deals that sound too good to be true. Some of these offers may be illegal scams designed to cheat you. Don't respond to calls or emails requesting your account information to "award a prize" or "verify a statement."
- Beware of high-pressure sales people, especially if they tell you the sale must be made now.
- When in doubt, consult the Better Business Bureau or the U.S. Postal Inspection Service.

Home safety

- Be wary of strangers you allow into your home. Don't leave sensitive information, credit cards or checkbooks lying around.
- Store your new and cancelled checks securely.
- Keep your Social Security card in a secure place.

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Home Safety (continued)

- Photocopy your driver's license, credit cards, car registration, Social Security card and other identification, and keep the copies in a safe place.
- Shred unnecessary financial documents, old bank statements, invoices, and unwanted pre-approved credit offers. If possible, buy a shredder and mix the shredded paper thoroughly before throwing it out.

Monitor your financial activity

- Review your account statements as soon as you receive them. Notify the financial institution immediately if you notice errors or unauthorized activity.
- If your account statement is late in arriving, call your financial institution to find out why.
- Consider signing up for online banking. This will allow you to monitor your account activity at any time.
- Never tell anyone your online banking password and change it periodically.
- Check your credit report for accuracy at least twice a year. If a report lists unfamiliar accounts with large credit lines, you may be a victim of identity theft. Also review the "Inquiries" section of your reports. It tells you who has reviewed your credit history. If a car dealer in another part of the country has pulled your credit report, for example, you may be the victim of identity theft.

What is "phishing"?

- Phishing is usually a two-part scam involving email and spoof websites.
- Fraudsters, also known as phishers, send email to a wide audience that appears to come from a reputable company. This is known as a phish email.
- In the phish email are links to websites that spoof or imitate a reputable company's websites.
- Fraudsters hope to convince victims to give up their personal information by using clever and compelling language, such as an urgent need for you to update your information immediately.
- Once obtained, personal information can be used to steal money, or transfer stolen money into a different account.
- Fraudsters obtain email addresses from many places on the web. They also purchase email lists and sometimes guess email addresses.
- Fraudsters generally have no idea if people they send phish emails to are actual bank customers or not. They hope a percentage of the phish emails they send will be received by customers.
- A new form of fraudulent emails, called vishing or voicemail phishing, involves emails that contain fraudulent telephone numbers instead of links. Recipients of vishing emails are instructed to call this number and disclose personal and account information. Remember: always communicate with your bank by using a number you know to be associated with it, like the number found on the back of your debit card.

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Protect your money and identity (continued)

Email & phish security tips

- Be wary of suspicious emails. Never open attachments, click on links, or respond to emails from suspicious or unknown senders.
- If you receive a suspicious email that you think is a phish email, do not respond or provide any information. Send the email to Anti-Phishing Working Group at reportphishing@antiphishing.org. Also, follow any phish email reporting procedures established by your bank.
- If you respond to a phish email with personal information, contact your bank immediately.

What is "skimming"?

- Skimming is a form of financial fraud where criminals copy the magnetic stripe encoding from your credit card using a hand-held device called a skimmer, which resembles an ATM keyboard. Each skimmer can hold data from hundreds of different credit cards.
- Once your credit card has been swiped through the device, the thief has the information needed to make a counterfeit card.
- Thieves often sell the data to other people. The data can be downloaded into a computer and emailed anywhere around the world and is used to make counterfeit credit cards.
- Monitor your credit card statements carefully and report any unauthorized activity immediately.

About Scams

- Fraudsters try to contact and defraud potential victims using various means. Once they contact potential victims, they use compelling language and scenarios to scam them.
- If you're involved in a situation that matches one of the following descriptions, it could be a scam and you should contact your bank immediately:
  - **Job scams:** You are paid or receive a commission to facilitate money transfers through your account or apply for a job that asks you to set up a new bank account.
  - **Dating scams:** Someone you met through an online dating site or chat room asks you to send money for a variety of reasons including a need for urgent surgery or to make travel arrangements to meet in person.
  - **Lottery or sweepstakes scams:** You receive notice that you are the winner of a lottery that you did not enter, but must pay a small percentage for alleged taxes or other fees before you can receive the rest of your prize.
  - **Internet scams:** You receive a check for something you sold over the internet, but the amount of the check is more than the selling price. You are instructed to deposit the check, but send back the difference in cash.

    OR You receive a check from a business or individual different from the person buying your item or product.

    OR You are instructed to transfer money, or receive a transfer of money, as soon as possible.
- Remember, if it sounds too good to be true, it probably is.

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Scam prevention tips

- Don't accept payments for more than the amount of the service with the understanding that you send them the difference.
- Don't accept checks from people you've only met online.
- Don't accept jobs in which you are paid or receive commission for facilitating money transfers through your account.
- Be wary of job offers that require you set up a new bank account.
- You are ultimately responsible and liable for all deposits made into your account, whether they are a check, money order, transfer, etc.
- Don't accept payments for more than the amount of the service with the understanding that you send them the difference.
- Don't accept checks from people you've only met online.
- Don't accept jobs in which you are paid or receive commission for facilitating money transfers through your account.
- Be wary of job offers that require you set up a new bank account.
- You are ultimately responsible and liable for all deposits made into your account, whether they are a check, money order, transfer, etc.

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Protect your money and identity (continued)

Resources to learn more

Here is a list of helpful Web sites for further information and assistance to protect yourself financially.

Federal Trade Commission Agency dedicated to preventing consumer fraud. www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357)
Fakechecks.org Web site sponsored by the American Bankers Association and the U.S. Postal Service. www.fakechecks.org
ScamBusters.org Web site dedicated to protecting consumers from scams. www.scambusters.org
United States Department of Justice Government site with a focus on the Internet and telemarketing. www.usdoj.gov/criminal/fraud/internet
FDIC—Don't Be an Online Victim Tips from the governmental agency that regulates U.S. banking. www.fdic.gov/consumers/consumer/guard
National Consumer's League Fraud Center Information and tips for avoiding fraud. www.fraud.org
Anti-Phishing Working Group A global law enforcement association focused on eliminating fraud and identity theft. www.antiphishing.org
Comptroller of the Currency—Consumer Protection News Federal agency dedicated to a safe banking system. www.occ.treas.gov/Consumer/phishing.htm
Social Security Online—Identity Theft Fact Sheet Helpful links assembled by the Social Security Administration. www.ssa.gov/pubs/idtheft.htm
Fight Identity Theft Site for raising risk awareness and presenting steps consumers can take to protect themselves. www.fightidentitytheft.com
U.S. Postal Service Inspection—Identity Theft Collection of helpful tips and links. www.usps.com/postalinspectors/id_intro.htm

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Home Shopping Tips

Buy a new or existing home?
In general, new houses require less repair and maintenance. They may also offer certain warranties and more energy-efficient features that can mean lower utility bills. Many first-time homebuyers purchase existing houses because they can get more for their money. The buyer of an existing house may benefit from improvements the former owner has made, such as landscaping or utility upgrades. If you are handy with tools, you may be able to get a good deal on a house that needs some remodeling or updating. Always consider the costs associated with repairs before making an offer on any home.

Location
For many people, the location of the home is the most important consideration. While looking at homes for sale, keep your specific needs in mind. Do you need to be in a particular school district, or close to a job, bus line, or daycare facility? If you are willing to travel some distance to work, you may be able to find a home for less money. Make sure the savings outweigh your commuting costs.

Size and special features
Sit down with your family and make a "wish list" of features you need and want in your new home. How many bedrooms and baths do you need? Try to estimate your requirements for at least the next five years. Do you need wheelchair accessibility? Is a garage something you definitely want? What about a basement? You may be able to find the house that fulfills every item on your wish list, but it's usually a good idea to rank the items on your list and be flexible with regard to some of the major features you require and that fall within your budget.

Take time to look
Take the necessary time and care to choose the home that best suits your needs, repair abilities, and budget. Studies have shown that the average house hunter looks at 16 to 25 homes before finding or choosing the one to buy.

How and where to look
Strongly consider working with a real estate professional. Also, talk to your family, friends and coworkers about homes they may know are for sale. Study local real estate publications. Look at real estate ads in the local newspapers and on the Web. Visit a home for sale during an "open house," which is when the seller's real estate agent holds it open to the public during certain hours.

Home inspection
When you plan to make a purchase this large, you should give serious consideration to hiring a professional home inspector. Your real estate agent or lender can recommend an inspector, but make sure the person will give you an unbiased opinion. You don't want to take the advice of someone who works for the seller's real estate agent, or someone who hopes to get your business if the home needs repairs. Ask if the inspector is certified by the National Institute of Builders and a member of the American Society of Home Inspectors. A professional with these credentials will provide an objective opinion about the condition of the home.

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Home shopping tips (continued)

Avoiding Discrimination
Federal law prohibits housing discrimination based on your race, color, national origin, religion, sex, family status, or disability. If you have been trying to buy or rent a home or apartment, and you believe your rights have been violated, you can file a fair housing complaint. You can file a complaint by contacting the U.S. Department of Housing and Urban Development via email, phone, or mail. They will ask you to provide:

- Your name and address.
- The name and address of the person your complaint is about.
- The address of the house or apartment you were trying to rent or buy.
- The date when the incident occurred.
- A short description of what happened.

U.S. Department of Housing and Urban Development (HUD)

Web site: www.hud.gov

Toll-free phone: 1-800-669-9777

Mailing address: Office of Fair Housing and Equal Opportunity
Department of Housing and Urban Development
Room 5204
451 Seventh St. SW
Washington, DC 20410-2000

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About Credit Scores

A credit score is a three-digit number that's a shorthand way to express the raw data in your credit report.

Your credit score can affect your ability to get loans, including car loans and home mortgages. Future jobs and insurance premiums can also be impacted by your credit score.

The three major credit bureaus in the United States, Experian, Equifax, and TransUnion, each calculate consumer credit scores. They provide the scores to consumers for small fee, usually ranging from five to seven dollars. Because their calculation models differ somewhat, a consumer's score may vary depending on which bureau does the calculation. One common method used to calculate credit scores is called FICO, which is an abbreviation for the company that developed the model: Fair Isaac and Company.

When you apply for credit, most lenders run, or "pull," your credit report, and may obtain a credit bureau score. Scoring systems were designed to help lenders speed up their loan review process and accurately determine their risk in lending to you. Scoring systems have been used since the 1950s by retail merchants, credit card companies, insurance companies, and banks for consumer lending. For the past several years, credit scoring has also been used by mortgage lenders.

Lenders use the results of the credit bureau score to determine specific reasons for approving or not approving your loan. The scoring process only considers the information in your credit file; it does not consider your income, savings, or the amount of your down payment for a mortgage. When your credit report prints in your lender's office, your credit bureau score is displayed. Your score can be anywhere between the high 300 and the mid-800's. Research studies by lenders have shown that borrowers with scores above 680 are more likely to make their payments on time. Borrowers with scores below 600 are more likely to be higher risk.

Points are awarded or deducted based on factors such as how long you have had credit cards, whether you make your payments on time, and if your credit balances are near maximum. Some of the things that affect your credit score are:

- Delinquencies (failure to make loan payments on time).
- Too many accounts opened within the last 12 months.
- Short credit history.
- Balances on revolving credit near the maximum limits.
- Information about you in public records, such as tax liens, judgments, or bankruptcies.
- No recent credit card balances.
- Too many recent credit inquiries.
- Too few revolving accounts.
- Too many revolving accounts.

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About Credit Scores (continued)

For a higher credit score:

- Pay your bills on time.
- Keep credit balances low.
- Apply for and open new accounts only as needed.

Since length of credit history is a factor in your score, if you're closing credit card accounts, keep the card you've had the longest. If you have a credit card you're not using, check your account occasionally to make sure there is no fraudulent activity. Use your card at least once every six months or so. Otherwise, it will be listed on your report as inactive and won't be factored into your credit score.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Protect and Manage Your Home Investment

Obtaining adequate insurance

Consult with your insurance agent regarding the types and amount of coverage you need. Here are some factors to keep in mind:

- Typically, homeowner's policies cover you for damages or losses caused by occurrences such as theft, fire, vandalism, or wind. But if you want to be covered for other disasters, such as earthquakes, you may have to purchase extended coverage. Flood insurance requires a separate policy.
- Consider whether you want replacement coverage for your home and its contents. This may cost more, but if your property is damaged or destroyed, you can make a claim for the full cost of repair or replacement.
- Consider how much liability insurance you need. If someone is injured on your property, liability insurance allows you to file a claim to cover costs such as medical expenses.
- You may be able to save money by buying homeowner's insurance from the same company that carries your car insurance.

Using your home equity

As you make mortgage payments through the years, you build home equity. Equity is the difference between how much your home is worth and how much you still owe for it. You may be able to borrow against that equity. Two ways to borrow using your home as collateral are:

- **A home equity loan (second mortgage)**, which is a loan that is secured by your home and is similar to your first mortgage. It must be paid back within a certain length of time. Borrowers often use the money for a specific purpose (for example, remodeling the house), and the interest rate is usually higher than on a first mortgage.
- **A home equity line of credit** also uses your home as security and provides a revolving credit line. You might use this credit to pay for major repairs or home improvements, or for investments in your future, like college education.

Because these debts are secured by your home, part of the interest you'll pay is often tax deductible, regardless of how you spend the money. (Check with your tax advisor.) But remember, just as with your first mortgage, if you don't repay these loans on time, you risk losing your house. So be conservative in your use of home equity loans and lines.

Refinancing your home

If interest rates fall substantially below the level of your current mortgage, you may want to think about refinancing your home. Refinancing can let you take advantage of a lower—or better—interest rate and may reduce your mortgage payment. It's also another way to turn your home equity into cash. Here's how refinancing works:

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Protect and manage your home investment (continued)

Refinancing your home (continued)

- You take out a new mortgage loan and use the funds to pay off the mortgage loan you currently have. If the interest rate on your new mortgage loan is lower, your monthly payment also could be less. Even if you refinance using the same lender that financed your original mortgage, you will go through closing and pay closing costs again. Still, if the mortgage interest rates are low enough or you need to take a lump sum of cash out of your home investment, the cost of refinancing may be worth it over the long term.
- If your goal is to get a better rate, refinancing makes sense if you stay in the home long enough to recover the costs of the new loan. The difference between your current rate and a new, lower rate doesn't have to be large for refinancing to make sense financially. Check with your home mortgage consultant or use an online refinance calculator to help you determine if refinancing would be worthwhile in your circumstances.

Avoiding foreclosure

If you're a homeowner, you have probably invested a great deal of time and money in the purchase of your home. It's most likely one of the largest financial investments you'll ever make. You must make your monthly payment on time or you'll risk losing your home and the money you have invested through foreclosure. In a foreclosure, the lender becomes the owner of your home and you must move into other housing. The lender might also pursue you through the courts for money you still owe on your mortgage loan.

Even the most reliable borrowers sometimes fail to meet every payment on its due date, and it's possible that there's a good reason for a late payment, such as a reduction of earnings or illness in the family. If you're having problems making your monthly mortgage payments, call your lender immediately. If you do, you might avoid losing your home through foreclosure.

Take immediate steps to save your home:

- Call or write your lender.
- Call a housing counseling agency and arrange an appointment.
- Call your HUD or VA office, but only after you've contacted your lender or a counseling agency and they cannot help you.
- Cooperate fully with whichever source of help you contact.
- Inquire about payment assistance.
- Pay the delinquent amount, if possible.
- Try to negotiate an agreement giving you more time to catch up on overdue payments and postpone foreclosure—known as a forbearance agreement.
- Talk to your lender about a loan modification (an agreement to establish a new repayment schedule for your mortgage) or loan assignment, if you have a Federal Housing Authority (FHA) mortgage.
- Research your bankruptcy options.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at **wellsfargo.com** or any Wells Fargo store.

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Glossary

401(k) plan	A flexible retirement plan for businesses with employees. Investors in the plan don't have to pay taxes on the income they invest until they withdraw the funds at retirement age.
529 Plan	A program set up to allow an adult to either prepay, or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution.
Account	A banking service allowing a customer's money to be handled and tracked. Common bank accounts are savings and checking accounts.
Adjustable-rate mortgage (ARM)	A loan that allows the lender to make changes in the interest rate, and the resulting principal and interest payments charged to the borrower. These rate changes are usually tied to the rise and fall of a financial statistic (called an index), such as the prime rate or Treasury Bill rate. The initial interest rates on ARMs are lower than rates on fixed-rate mortgages, as the borrower is taking the risk of the interest rate rising over time. The borrower is protected by a maximum interest rate, which the lender may reset annually. There may be a limit on the number and amount of increases or decreases to the interest rate at each change date or over the life of the loan.
Annual fee	The fee a credit card company charges a credit card holder to use the card for a year. Or, the fee a lender charges a borrower for the use of a line of credit for a year.
Annual percentage rate (APR)	A measurement used to compare different loans, the APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of the loan.
Annual percentage yield (APY)	The rate of return on an investment, such as a deposit in an interest-bearing savings account, for a one year period.
Appraisal	A professional estimate of a property's market value.
Appreciate (in value)	See Appreciation.
Appreciation	The amount of value an item such as a car, home or stock, gains over time from the original purchase price.
Asset	Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
Asset allocation	The division of an investment portfolio across various types of securities, such as mutual funds, stocks and bonds, in an effort to help reduce risks.
Assets	Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.
Automated Teller Machine (ATM)	A specialized computer used by bank customers to manage their money, for example, to get cash, make deposits, or transfer money between accounts.
Available balance	The amount of money in your account that you can use or withdraw. Your available balance may not reflect all transactions that you have made; for example, checks you have written that have not yet been paid from your account.

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Bad credit	A situation in which lenders believe that, due to a borrower's poor history of repaying his or her debts, further loans to this person would be especially risky.
Bad or bounced check	See Non-sufficient funds (NSF).
Balloon payment	A final lump sum payment that is due, often at the maturity date of a balloon mortgage.
Bank	A financial institution that handles money, including keeping it for saving or commercial purposes, and exchanging, investing, and supplying it for loans.
Bankruptcy	To legally declare yourself unable to repay your debts. A bankruptcy remains on a person's credit history for up to seven years. Depending on the type of bankruptcy, it could stay on a person's credit history for up to ten years.
Bond	An investment offered to the public by a corporation, the U.S. Government, or a city. A bond pays interest annually and is payable in full at a specified date. Bonds are rated, and the rating indicates their probability of default.
Capacity	A borrower's ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower's income and debts to determine his or her capacity to repay.
Capital	The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.
Capital gain	The dollar amount by which an asset's selling price exceeds its initial purchase price. For example, if you buy a stock for $4 per share and sell it for $7 per share, your capital gain is $3 per share.
Capital loss	The decrease in value of an investment or asset. The opposite of capital gain.
Cardmember (Cardholder) agreement	The Terms and Conditions of your credit card account. It includes information such as the rate, fees, and other cost information associated with the account.
Certificates of Deposit (CDs)	A bank account in which you agree to keep the money for a specified period of time, usually anywhere from three months to several years. As a result, this account usually offers higher rates of return than a savings account. Money removed before the agreed upon date is subject to an early withdrawal penalty. The account pays interest on the deposit and is FDIC-insured. Banks issue an actual certificate for a CD account. If no certificate is issued, the account is known instead as a "time deposit."
Character	The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.
Check	A written order instructing the bank to pay a specific amount of money to a specific person or entity. The check must contain a date, payee (person, company, or organization to be paid), amount, and an authorized signature.
Checking account	A bank account that allows a customer to deposit and withdraw money and write checks. Using a checking account can be safer and more convenient than handling cash.
Clear	When the banks pays a check you have written and then subtracts the amount from your account, your check has "cleared" the bank.

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Closing	The day and time when all final mortgage documents are signed and all necessary payments are transferred to complete the purchase of a house. Also known as the settlement date.
Closing agent	Usually an attorney or title agency representative who oversees a closing and witnesses the signing of the closing documents.
Closing costs	Expenses or settlement costs, above the home sales price, charged to both the buyer and seller to complete the transfer of the property and in connection with obtaining a mortgage loan. There are also closing costs on a refinance loan.
Collateral	Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.
Collection agency	A business that specializes in collecting past due debts.
Compound interest	When a financial institution pays you interest not only on your initial principal (the amount you originally deposited) but also on the interest your deposit has earned over time.
Conditions	Eligibility requirements that may be required by a lender to secure a loan or product.
Co-sign	A second person who signs your credit or loan application. Just like the borrower, the co-signer on a loan is equally responsible for repaying the debt. Also called a co-borrower.
Credit	When a bank or business allows its customers to purchase goods or services on the promise of future payment. Also used to describe any item that increases the balance in a bank account. Deposits and interest payments are both examples of credits.
Credit bureau	A company that gathers information on consumers who use credit. These companies send this information to lenders and other businesses in the form of a credit report. The three largest bureaus are Equifax, Experian, and TransUnion.
Credit check	A lender, landlord, employer, or insurer's inquiry at a credit bureau for the purpose of evaluating the credit history of an applicant.
Credit counselor	A professional advisor who specializes in helping people with debt and credit problems.
Credit history	A written record of a person's use of credit, including applying for credit, and using credit or loans to make purchases. Also called a credit record.
Credit insurance	When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. This credit policy protects the loan on the chance that you can't make your payments. Credit insurance usually is optional, which means you don't have to purchase it from the lender.
Credit limit	The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.
Credit rating	An evaluation of an individual's or business's financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.

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Credit record	Also known as your credit history when provided by a credit bureau to a lender or other business.
Credit report	A report issued by an independent credit agency that contains information concerning a loan applicant's credit history and current credit standing.
Credit score (FICO)	A numerical rating that indicates an individual's creditworthiness based on a number of criteria. Credit scores are used by lenders in the loan approval decision process. (FICO).
Credit Union	A non-profit financial institution that is owned and operated entirely by its members. Credit unions provide financial services for their members, including savings and lending. Large organizations may organize credit unions for their members, and some companies establish credit unions for their employees. To join a credit union, a person must ordinarily belong to a participating organization, such as a college alumni association or labor union. When a person deposits money in a credit union, he or she becomes a member of the union because the deposit is considered partial ownership in the credit union.
Creditworthiness	A lender's measure of an individual or company's ability to pay debt.
Debit card	A card linked to a checking account that can be used to withdraw money and make deposits at an ATM and to make purchases at merchants. When you use a debit card, the money will be deducted from the linked checking account.
Debt	Money, goods, or services you owe to others.
Debt-to-income ratio	A percentage that is calculated by dividing a loan applicant's total debt payments by his or her gross income.
Deed-in-lieu of foreclosure	The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure. Also called a "voluntary conveyance"
Default	Failure to repay a credit agreement according to its terms.
Defined Benefit Plan	A corporate retirement plan that pays employees a fixed retirement benefit either as a lump sum or as a pension (a lifetime payment). Payments are determined by salary earned and length of employment.
Defined contribution plan	A corporate retirement plan, such as a 401 (k) or 403 (b), where employees defer a percentage of their salaries and invest for retirement.
Deposit	To put money into your account.
Depreciation	A loss of value in real property brought about by age, physical deterioration, functional or economic obsolescence.
Direct deposit	A deposit made directly into your account by the payer without the use of a check or deposit slip. Typical direct deposits include Social Security payments and automatic payroll deposits.
Discount points	Points are used as both loan origination fees and a way to discount, or buy down, the interest rate you're charged on the loan. In other words, there's a tradeoff between your interest rate and the points you pay. For any given loan, you can usually lower the interest rate by agreeing to pay more points, or you can lower your points by accepting a higher interest rate.

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Discretionary expenses	The purchase of goods or services which are not essential to the buyer, or are more expensive than necessary. Examples include entertainment and restaurant meals.
Diversification	An investing strategy designed to reduce risk by combining a variety of investments (such as stocks, bonds, and real estate). Having a variety of investments makes it less likely that all of them will move up and down at the same time or at the same rate.
Dividend	If a company does well financially, its board of directors may decide to pay a small amount of its profits, called a dividend, directly back to its shareholders. Dividends are usually cash, but may also take the form of stock or other property.
Dollar cost averaging	A method of accumulating assets by purchasing securities at regular intervals with a fixed dollar amount.
Down payment	A portion of the sales price paid to the seller by the homebuyer to close the sales transaction. Down payments usually range from 3% to 20% of the property value.
Earnest money	A portion of the down payment delivered with a purchase offer by the purchaser of real estate. Delivered to the seller, or an escrow agency, by the purchaser with the purchase offer as evidence of good faith. Also known as a deposit.
Earning power	The amount of money a person is able to make from his or her work.
Education Savings Account	An investment account designed to assist with paying for education-related expenses. Contributions grow tax-deferred and distributions are not taxed if used for qualified expenses. Withdrawals for non-qualified educational expenses are subject to income tax and a 10% IRS penalty. Distributions may be taxable.
Elder financial abuse	The perpetration of a financial crime against elder citizens and dependent adults, who may be especially vulnerable due to physical or mental incapacity such as improper use of power of attorney, accounts or wills.
Electronic Funds Transfer (EFT)	Allows you to have funds electronically transferred into your account(s) such as deposit of your payroll check, tax refund or social security check.
Email Alerts	An online message service you can sign-up for with your financial institution to receive timely account alerts.
Endorse	To sign the back of a check, authorizing the check to be exchanged for cash or credit.
Equal Credit Opportunity Act (ECOA)	A federal law to ensure that all consumers are given an equal chance to obtain credit. This doesn't mean all consumers who apply for credit get it; factors such as income, expenses, debt, and credit history are considerations for creditworthiness.
Equity	The value of your investment above the total of your lien (debt).
Equity stripping, equity skimming	Also known as foreclosure rescue. Predatory investors or small companies target low-income, homeowners facing foreclosure and trick them into signing away their equity and property.

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Escrow	An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.
Establishing credit	Giving lenders the trust and confidence to make loans to you based on a good history of paying your debts.
Estate	The net worth of an individual including all of their assets.
FAFSA (Free Application for Federal Student Aid)	The application a student and his or her family completes in order to apply for federal student loans.
Federal Deposit Insurance Corporation (FDIC)	An independent agency of the United States government that protects customers from the loss of their deposits if an FDIC insured financial institution fails. The basic insurance amount is specified per depositor per insured financial institution. Certain retirement accounts, such as Individual Retirement Accounts, are insured up to specified amount per depositor per insured financial institution. Customers can increase the amount of money insured at any one financial institution by owning deposit accounts in different ownership categories (e.g., Individual Accounts, Retirement Accounts, Joint Accounts, Revocable Trust Accounts). Please visit www.fdic.gov for the most current deposit insurance amounts.
Fees	Charges for services by a financial institution or lender
Finance charge	The amount of money a borrower pays to a lender for the privilege of borrowing money, including interest and other service charges.
Financial aid	Financial assistance, such as a loan, grant or works study program, a student receives to enroll in an accredited educational institution.
Financial institution	Companies such as banks, credit unions, and savings institutions that provide a wide range of money management products and services to consumers. Financial institutions collect funds from the public and place them in financial assets, such as deposits, loans, and bonds.
Fixed expenses	For an individual, a fixed cost is an expense that stays the same each month, such as rent or a car payment. For a business, a fixed cost is an expense that does not vary depending on production or sales levels, such as an equipment lease or property tax.
Fixed rate	An interest rate that remains the same during the entire term of the loan.
Fixed-rate mortgage	A loan with an interest rate that remains the same over the life of the loan.
Flexible expenses	An expense that you can control or adjust, for example, how much you spend on groceries, clothes, or long distance phone calls.
Foreclose, repossess	The legal process by which an owner's right to a property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.
Foreclosure	See Foreclose, repossess.

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Glossary

Foreclosure rescue	See Equity stripping, equity skimming.
Fraud	Intentional use of deceit, a trick or some dishonest means to deprive another of his or her money, property or legal rights.
Global remittance	A form of Electronic Funds Transfer which allows you to send money to families and friends outside of the United States from your accounts.
Good credit	A situation in which lenders are willing to make loans to an individual, due to his or her good history of repaying debts.
Good faith estimate	A document that tells mortgage borrowers the approximate costs they will pay at or before closing, based on common practice in the locality
Guarantee	A lender may require an additional signature on a loan to insure that this person will pay the loan if you do not.
Home equity	The financial difference between what your home or other real estate is worth and the amount you still owe as debt on the home or other real estate. For example, your home is worth $100,000 and you owe $75,000 on your mortgage, then you have $25,000 of equity in your home.
Identity theft	A criminal activity involving stealing personal information from others and forging their signatures in order to apply for credit in their names.
Income	For an individual, income means the amount of money received during a period of time, including money received in exchange for labor or services, from the sale of goods or property, or as profit from financial investments. For a business, income is revenues (all the money brought in) minus cost of sales, operating expenses, and taxes, over a given period of time.
Individual Retirement Account (IRA)	An account that holds your investments to help pay for your retirement. The major benefit is that the government doesn't tax the interest you earn until you withdraw the money. You may have to pay a penalty if you withdraw money before age 59½. You can currently contribute up to $4,000 a year to your IRA account, up to age 70½. Beginning at age 70½ you must begin to make withdrawals. Your IRA contributions may be deductible on your tax return. Check with your tax advisor.
Installment credit	A loan that is repaid to the lender in equal amounts, over a fixed period of time.
Installment loan	A loan that is repaid to the lender in equal amounts, over a fixed period of time.
Installment payment	An amount of money repaid to a lender according to the terms of an installment loan.
Interest	The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.
Interest rate	The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).
Internal Revenue Service (IRS)	U.S. government agency responsible for tax collection and tax law enforcement.

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Glossary

International remittance	See Global remittance.
Investing	Purchasing something of value (for example, stocks or real estate) with the goal of earning money over time if the value increases.
Landlord	The owner of a property that is leased or rented.
Late fees	The charge or fee that is added to a loan or credit card payment when the payment is made after the due date.
Lease	A contract by which one party (lessor) gvies to another (lesses) the use and permission of an item, such as an automobile or apartment,f for a specified time and fixed payments.
Lender, creditors	A business that makes money available for others to borrow.
Liability	The amount of money an individual or business owes to someone else: a debt.
Line of credit	An arrangement by which a lender extends a specific amount of credit to a borrower for a certain time period. As long as the borrower repays the principal with interest, he or she can continue to borrow against the line of credit during the agreed upon time period. A line of credit can be unsecured or secured. Also called a credit line.
Liquidity	The ability of an asset to be converted into cash quickly.
Loan	An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.
Loan modification, restructure, assignment	Any change to the terms of a mortgage loan, including changes to the interest rate, loan balance, or loan term.
Loan servicing	The tasks a lender performs to protect the mortgage investment, including the collection of mortgage payments, escrow administration, and delinquency management.
Loan to value (LTV)	The ratio of the amount borrowed to the appraised value or sales price of real property expressed as a percentage.
Log off	To stop a computer that is connected to a computer system or program.
Long term care insurance (LTC)	Some illnesses and injuries require specialized care over a period of time that may not be covered by traditional medical insurance. If you become debilitated due to such an ailment, this type of coverage generally allows you to pay for services such as in-home health care or assistance with daily activities, adult day care and assisted living.
Long-term loan	A loan that can be paid back over a period of more than one year, usually requiring interest payments.
Market value	The current value of your home based on what a purchaser would pay. An appraisal is sometimes used to determine market value.
Matching contributions	When an employee invests a dollar(s), and that investment is matched by the employer as a type of reward or compensation.
Minimum balance	A specific amount of money required by a financial institution in order to open or maintain a particular account. In some cases, a financial institution may charge the account holder fees, or even close an account, if the minimum balance is not maintained.

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Mobile banking	Allows an individual to access their financial accounts through a web browser on their mobile device such as cellular phone.
Money Market Deposit Account (MMDA)	A form of savings account that requires a larger balance than CDs or regular savings accounts, usually $10,000 or more.
Money order	A document issued by a post office, bank, or convenience store ordering payment of a specific sum of money to an individual or business. There is generally a small charge for purchasing a money order.
Mortgage	A loan to finance the purchase of a home, usually with defined payments and interest rates. The homeowner gives the bank a lien, called the "mortgage," on the home, which serves as collateral for the loan.
Mutual fund	A type of investment where an investment company sells shares to the public and then invests the money in a group of investments such as stocks and bonds.
National Credit Union Administration (NCUA)	An independent federal agency that charters and supervises federal credit unions and insures savings in federal and most state-chartered credit unions.
Net income (Take home pay)	For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.
Net worth	The value of a company or individual's assets. Including cash, less total liabilities.
Non-sufficient funds (NSF)	The lack of enough money in an account to pay a particular check or payment. Also known as insufficient funds. A check with insufficient funds may be returned unpaid to the person cashing it. This has a negative impact on the check writer's history of handling his or her account, and may prevent opening of future accounts. See also Overdraft.
Origination fee	The amount collected by the lender or broker to cover the administrative costs of processing a loan application. It is generally equal to a percentage of the principal amount borrowed.
Outstanding balance	The amount still owed on a bill, loan, or credit line.
Overdraft	When there is not enough money in an account to cover a transaction and the bank pays it on your behalf, creating a negative balance in the account that you need to repay.
Overdraft Protection	Offered by many banks, overdraft protection is a service that automatically transfers money from a linked account that you select, such as a savings or credit account, when you don't have enough money in your checking account to pay your transactions.
Past due	A bill that is not paid by its due date is said to be past due.
Payee	The person, company, or organization to whom a check is written: a person or company who is to receive money.
Penalty fee	A fee charged for the violation of a rule in a financial agreement.
Pension	An annual yearly income paid to an employee usually after retirement. Payments will be based upon employee's age at retirement, final salary, and number of years on the job.
Personal identification number (PIN)	A secret combination of letters or numbers you use to gain access to your account through an electronic device such as an ATM.

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Phishing	Is usually a two-part scam involving email and spoof websites. Fraudsters, also known as phishers, send email to a wide audience that appears to come from a reputable company requesting personal information accounts numbers. This is known as a phish email.
Point-of-sale	When you use a debit card to make a purchase from a merchant at a store, by telephone, or through the internet.
Portfolio	A collection of investments all owned by the same person or organization. For example, a portfolio might include a variety of stocks, bonds, and mutual funds.
Preapproval	A written commitment from a lender, subject to a property appraisal or other stated conditions, that confirms the price of home a potential borrower can afford.
Pre-closing: loan settlement	Your mortgage consultant will work with you to secure any required title insurance and real estate documents to protect against other parties claiming ownership of the property.
Predatory lending	When lenders conduct business in ways that is illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making payments as agreed.
Prequalification	A preliminary assessment by a lender of the amount it will lend to a potential home buyer. The process of determining how much money a prospective home buyer may be eligible to borrow before he or she applies for a loan.
Prime rate	Is merely base rate used to make loans to certain borrowers. It is not necessarily the lowest or best rate at which loans are made.
Principal	The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.
Private Mortgage Insurance (PMI or MI)	An insurance policy on a mortgage that is not insured or guaranteed by a government agency. PMI protects a lender against loss if a borrower does not make payments as agreed. Mortgage insurance may be required if a borrower makes less than a 20% down payment on a home loan.
Profit	The positive gain from an investment or a business operation after subtracting all expenses.
Rate of return	The annual rate of return is the percentage change in the value of an investment. For example: If you assume you earn a 10% annual rate of return, then you are assuming that the value of your investment has grown by that percentage.
Real property assets	Land and anything permanently affixed, including building, fences, trees, and minerals that has monetary value that is owned by a person or a company.
Rebalancing	Is bringing your portfolio back to your original asset allocation mix. This is necessary because over time some of your investments may become out of alignment with your investment goals. You'll find that some of your investments will grow faster than others. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.
Reconcile	The process used to determine if the balance in your account register matches the balance reported by the bank on your account statement. Also called balancing your account.

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Repossess	When a lender or seller takes back property or collateral from the borrower or buyer, usually because the buyer has failed to make required debt payments on time, or has failed to meet other conditions of the loan agreement.
Retirement plan	See 401(k), Defined Contribution Plan, and Defined Benefits Plan
Return on investment (ROI)	The income that an investment produces for the investor.
Returned item	This is also known as "non-sufficient funds" or a "bounced check." If you spend more money than you have in your checking account, the bank may return the transaction unpaid and charge a fee.
Revolving credit	A type of credit allowing an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again. The most popular kind of revolving credit account is the credit card.
Roth Individual Retirement Account (IRA)	An individual retirement account with non-deductible contributions, subject to certain income limits, designed to provide tax-free distributions during retirement. Contributions may be withdrawn tax-free at anytime. Tax- and penalty-free withdrawals of earnings may begin when the account has been established for at least five years, and you're at least 59½ years old, for a first time home purchase ($10,000 lifetime limit), or in the event of disability or death. Non-qualified distributions of earnings may be subject to income tax as well as a 10% IRS penalty. Unlike Traditional IRAs, you aren't required to start taking distributions at age 70½.
Rule of 72	A way to estimate the time or interest rate you would need to double your money on an investment. For example, if you have an investment that's earning 8% per year, 72 divided by 8 equals 9. This means it would take about nine years for your original investment to double.
Safety deposit box	A secure box which you may rent at your bank to store important documents such as birth certificates, stocks, wills, etc.
Sales contract	A legal agreement, signed by the buyer and the seller, that spells out the terms and conditions for the sale, for example, for a home or property. Also called the sales agreement.
Savings account	A bank account that allows a customer to deposit and withdraw money and earn interest on the balance.
Savings institution	A financial Institution that accepts deposits from individuals, makes homes mortgage loans, and pay dividends.
Secure browser	Websites or web programs that use encryption to protect customer data such as your name, addresses or account information.
Secured credit card	A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.
Secured loan	A loan where the borrower provided approved collateral, such as a vehicle or investment account, to secure the loan.

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Glossary

Short sale, pre-foreclosure sale	Allows you to sell your home and use the proceeds to pay off the mortgage if you are unable to maintain payments, even if the home's market value is less than the total amount owed.
Simple interest	Interest that is calculated only on the principal sum, that is, the amount of money that was originally deposited. (By contrast, compound interest is when a financial institution pays you interest not only on your initial principal but also on the interest your deposit has earned over time.)
Simplified Employee Pension Individual Retirement Account (SEP)	Pension plan in which both the employee and employer contribute to an IRA. Limited to small businesses with less than 25 employees. Employee participation must be at least 50%. As with an IRA, contributions are tax-deductible.
Skimmer	See Skimming.
Skimming	Your debit card or credit card information is used illegally by an individual such as a store employee after you have made a purchase with your card.
Spending limit	The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.
Spending plan	Also known as a budget, a method of tracking your monthly income and expenses.
Statement	A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of the checks you wrote that your bank has processed during the month. Your statement also lists other deposits, deductions, and fees, such as service charges.
Stock	Certificate of ownership in a company.
Stock exchange	An organized market place in which stocks are traded by members of the exchange, such as brokers and principals.
Survey	A precise measurement of a property which defines legal boundaries of the property and the dimensions and location of improvements.
Tax return	Required federal and sometimes state tax forms you must complete when you earn money.
Term	A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.
Title agency	A company specializing in titles, the legal documents that establish who has the current right to, or ownership of, a property, plus a history of the property's ownership and transfers.
Title insurance	This provides the lender and the buyer (if you purchase owner's coverage) with coverage for losses resulting from specific title defects listed in the policy. In cases where land and property have changed hands over time, there is always the possibility an error has occurred.
Traditional Individual Retirement Account (IRA)	An individual, tax-deferred retirement account for employed persons. Subject to certain limits, contributions are deductible against income earned that year. Interest and profits accumulate tax-deferred until the funds are withdrawn at age 59½ or later. Early withdrawals are subject to a 10% penalty. Withdrawals also may be subject to income tax.

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Glossary

Transaction	An agreement between a buyer and seller to exchange an asset for payment. In accounting, a transaction is any event recorded in the written financial records, also called the accounting books.
Transaction register	A register that allows you to keep accurate records of your deposits and withdrawals. Use your check and/or savings register to record every deposit and withdrawal you make.
Trust	A contract naming a trustee to manage the investments or property within the trust for another person or entity, the trustor, for the benefit of a named beneficiary.
Underwriting	The process of a lender reviewing the application, documentation and property prior to rendering a loan decision.
Unpaid balance	The amount that is still owed on a loan or credit card debt.
Variable rate	An interest that changes on a periodic basis, usually tied to movement of an outside indicator, such as the prime interest rate. Savings accounts, mortgage loans and certain other kinds of loans, for example may use a variable interest rate. Also called an adjustable rate.
Will	A legal document that specifies who has rights to your assets upon your death.
Withdrawal	To take money out of an account.
Workout	Restructuring the loan with your loan servicer in a way that enables you to repay the debt.

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